



REPORT

To: Special Shetland Islands Council **18 February 2008**

From: Head of Capital Programme and Housing Service

Report No: CPS-05-08-F

Subject: Mid Yell Junior High School – Contractual Proposals

1. Introduction

- 1.1 This report updates Members on the current status of the Mid Yell Junior High School project, together with a recommendation to progress the project as two separate works contract packages subject to land acquisition to reduce the contract programme and provide best value to the Shetland Islands Council (SIC).

2. Link to Corporate Priorities

- 2.1 Section 2 of the Corporate Plan requires the SIC to organise its business and administration to make sure that the community and corporate plans are implemented by finances, consistent planning and action, performance, management and communication.
- 2.2 A council, which is organised efficiently run and sustainable, is one of our key priorities. Within the corporate improvement plan we have pledged that the Council's Capital Programme will be further aligned with available funds.

3. Background

- 3.1 The Service Committee initially agreed to progress the building of a new Junior High School for Mid Yell at a cost of £7.239m at 2005 prices (Min Ref. 50/05).
- 3.2 Following a report prepared by the Head of Housing and Capital Programmes the SIC approved a revised all inclusive budget of £8.5m. This budget revision was agreed at the Services Committee meeting, 30 August 2007 (Min Ref. 25/07) and the Executive Committee meeting, 4 September 2007 (Min Ref. 37/07).

- 3.3 The new build school contract has already been advertised within the OJEU. We have had interest from a number of contractors wishing to be included upon the tender list to construct the new school. We have taken advice and have been informed that carrying out the project as two separate contracts will not affect the new build contract as advertised.

4. Project Update

- 4.1 Following the approval of the new budget the school design was reviewed and further changes made to reduce costs. The latest cost plan issued 30 January 2008 confirms that the existing proposal meets the budget of £8.5M.
- 4.2 The school propose in the short term to share a heating system with the adjacent leisure centre then connect to a proposed localised community heating scheme if this becomes available. The scheme is subject to a feasibility study.
- 4.3 At this stage funding has only been made available for a feasibility study into the localised heating scheme, which can be best described as a smaller localised version of the very successful district heating scheme used within Lerwick. However, we believe together with Shetland Recreational Trust (SRT) and the local community that this is a very sensible way forward given the continuing escalating global fuel costs. Therefore SRT and ourselves have agreed to await the outcome of the study and funding permitting connect to the new scheme. Should the proposed scheme fail to gain the funding that may permit connections, SRT and the SIC will have to investigate alternative heating sources.
- 4.4 Should we continue with a single stage new build works contract we anticipate commencing on site in September 2008 with an anticipated entry date in May 2010. This commencement date allows sufficient time for the preparation of tender documents and appointment of a principal contractor.
- 4.5 In the case of Mid Yell the initial ground and site preparation works are made more difficult due to the following factors:
- Working within close proximity to the existing school and leisure centre.
 - Poor ground conditions, the ground is water logged for long periods of the year.
 - Poor access.
- 4.6 Should the construction works commence in September 2008 the ground works would be carried out in the winter months when the weather is at its worst and this can only compound the situation, which could lead to time delays and increased costs to the SIC.
- 4.7 The Project Team have reviewed the project procurement and established that the project could be tendered as two separate works contracts. The first

package would be a ground works contract to prepare the site and the second main package would be the construction of the new school.

- 4.8 The Design Team estimate the costs for the two separate works contracts as follows:

Ground Works	£0.5m
Main Contract	£6.9m
Client Costs	£1.1m
Total	£8.5m

- 4.9 It is anticipated that the ground works contract would commence in June 2008 with a completion date in August 2008. The main contract would commence in September 2008 with a completion date in January 2010.
- 4.10 The information required to prepare the ground works contract is known and the tendering process can begin immediately, this is not the case with the main contract to build the school. In the present overheated construction market it is very difficult to estimate costs, although our Design Team suggest that we are within budget they also highlighted the volatile state of the construction market as an added unknown influence to any construction cost.
- 4.11 The principal benefit of carrying out the contract as two separate contracts is the early start date. Commencing the ground works in June when the weather is less of an issue reduces the risk of delay. The ground conditions are also likely to be more favourable.
- 4.12 The early start date will also enable the SIC to commence works during the school summer holidays, therefore reduce some of the disruption to the school. This has been discussed with SRT who confirmed that the leisure centre has a summer shut down planned due to scheduled redevelopment works. They have suggested that this would be an ideal time to construct the site access road, which runs close to the centre.
- 4.13 The principal risk of carrying out the contract in two stages is the issue of commencing the works without knowing the overall cost of the project. In this case the ground works project will commence in June, however it is anticipated that the costs for building the new school will not be known until August 2008.
- 4.14 The SIC should be aware that ground works would be required to build the school irrespective of the design. Therefore as long as the SIC are committed to build a new school the ground works will always be required.

- 4.16 Discussions have been held with both Planning and Building Control regarding the proposal of the early start date. Both Departments have viewed the available information and do not have any objections to this proposal.
- 4.17 Land acquisition for the school is ongoing. We have met with all the Landowners who have verbally agreed to sell or enter into legally binding agreements. The ground works project will not commence without these agreements in place.

5. Financial Implications

- 5.1 Delivering the project as two separate works contracts should result in best value for the SIC. The initial ground works contract would not be subject to a principal contractor's overheads and profit, which would be the case if these works formed part of a single contract. Furthermore, the ground works contract would be of a size and value that we anticipate keen interest from many of the local ground works contractors. This competitiveness should ensure that the cost for the ground works is good value.
- 5.2 As discussed above there is the risk of commencing the ground works without knowing the overall project cost. Our best estimate at what the probable cost will be suggests that the project is within budget, however within today's volatile construction market it is difficult to second guess project costs. Should the main contract come back over budget and insufficient savings or design changes made there may be a requirement for a further project review.

6. Policy and Delegated Authority

- 6.1 Decisions relating to the approval or variation to the Council's Capital Programme requires approval of the SIC, in terms of Section 8.0 of the Council's Scheme of Delegations.

7. Conclusion

- 7.1 Separating the project into two contracts should allow this project to progress as quickly as possible and should result in an overall financial savings to the SIC. Furthermore, it will ensure that the ground preparation works are on site to benefit from the summer weather and be ready for the commencement of the main construction contract. There are some financial risks associated to separating the project into two contracts because of the unknown nature of future costs. The SIC must be aware of this prior to making its decision.

8. Recommendations

- 8.1 It is recommended that SIC notes the contents of this report and approves the project progression as two separate works contract packages: the initial contract to carry out the ground works in preparation for the later main contract to construct the New Mid Yell Junior High School.

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Date: 13 February 2008