

# Appendix K

**EXCLUDES** information that is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972

# Regeneration and Highways Value for Money Review

September 2017

Version: 1.1

# VERSION CONTROL

Version	Date	Author and description
V0.1	17.07.17	OP, initial template and basic content for MC review
V0.2	21.07.17	OP, Content added
V0.3	28.07.17	JW edits
V0.4	03.08.17	Further revision for new market information
V0.5	03.08.17	QA and amendments made
V1.0	07.08.17	Final draft ready to share
FINAL	08.09.17	Final including feedback

This report was commissioned by London Borough of Barnet as part of the work agreed in the Letter of Engagement signed 31/05/2018, and as such is governed by the terms and conditions as set out in the aforementioned document.

# CONTENTS

#	Section	Slide
1	Introduction, Exec Summary, and Approach	4
2	Our Findings	9
3	Recommendations	14
4	Appendices	16

# Introduction, Exec Summary & Approach



# Introduction

As a part of a year four review of the ten year contract between RE Ltd and the London Borough of Barnet (LBB), the council is carrying out an exercise to ascertain whether it is receiving value for money from its Regeneration (regen) and Highway services.

The council has already undertaken some investigation into the day rates charged by RE Ltd and has benchmarked the day rates and costs per unit of measure, and have found both to be competitive. However the council is not clear about whether the amount of overall effort allocated, resource mix, and effort per grade is providing value for money for the special projects (SPIRs), which are commissioned in addition to the standard contract services. LBB has tried to engage alternative suppliers in the market to establish value for money however have received no response to the questions posed.

As per signed letter of engagement (31/05/17), iMPOWER has been commissioned by LBB to:

- Make contact with suppliers in the regen and highways market places (a list of 10 companies was provided by LBB)
- Provide the suppliers with four SPIRs documents (provided by LBB)
- Meet with the suppliers, and through structured discussion capture their feedback on how they would resource the four projects, focusing on overall effort, resource mix, and effort per grade
- Document all findings from the meetings and investigations with suppliers into a consolidated report
- Provide an assessment on whether the RE Ltd contract is providing value for money for the regen and highways service SPIRs

# Executive Summary

iMPOWER was asked to ascertain whether LBB is receiving value for money for its special projects in the regen and highway areas, based on four project SPIRs provided by the council. Out of 13 companies we contacted we were able to meet and receive estimates from three companies working in these areas. The level of response from the market has been disappointing despite considerable efforts and therefore the level of data we have to build our findings on is limited.

Our key findings from the comparative analysis are:

- Whilst it is not possible to reach a firm conclusion due to limited data points, RE's pricing is broadly in line with the market, although this information does suggest potential to achieve more competitive pricing on some projects
- One supplier provided a significantly lower estimate for the Upper and Lower Fosters regen project than all other suppliers and RE - even following further investigation they remain confident in their pricing
- The difficulty in engaging the highways providers suggests that it is a busy market place and may therefore be more of a sellers' market than one in which buyers can drive keen deals
- Two (of the three) providers, plus RE, took a down a top down percentage pricing approach, as described later in this report. Our assessment has needed to take this approach into account, and we have provided a comparison of the suppliers and RE on this percentage basis. This shows that RE's percentage pricing is average compared to these two suppliers

Based on the data we have, indications are that LBB is receiving an 'on market' deal, and we do not draw the conclusion that it should seek to market test these services formally at this stage, although we note that LBB's is to be better than the market so this may add strength to discussions with RE Ltd. However, we would recommend that LBB's own regeneration lead engage in a direct conversation with the supplier who has provided the low estimate to understand if LBB can drive better deals in some of its special projects.

# Our approach

In order to provide an assessment on whether LBB is receiving value for money for its highways and regen SPIRs from RE Ltd, we carried out the following activities:

- Contacted suppliers**
  - Leveraged personal contacts across the company and approached four companies to take part in the exercise
  - Cold approached nine companies using LinkedIn InMail and front door contact forms
  - 13 companies approached in total
- Sent SPIRs**
  - Shared SPIRs with five companies, removing all confidential data
- Met with suppliers**
  - Held meetings with senior (Director level) employees of three suppliers and captured their feedback, focusing on per SPIR:
    - Resource mix
    - Number of days per grade / % of time on project
    - Total project fees
- Documented findings**
  - Captured all feedback from suppliers in a consolidated report
  - Mapped the grade levels across companies to ensure consistency
  - Provided an assessment of whether LBB is receiving value for money

# Our approach

When we set out to establish value for money we intended to compare supplier estimates for the SPIRs by a bottom up build of price based on effort and grade mix. However, through our initial meetings it became apparent that the industry standard for the pricing of such works is to take a top down approach based applying a percentage of total construction costs for the overall project fee.

We were able to obtain information on resources and grade breakdown which we have set out on page 12 and have compared this with the equivalent information provided by RE.



# Our findings



# Market engagement

The suppliers who provided responses to the project SPIRs took two main approaches to estimating the cost of the work and project fees. The most common was a ‘top down approach’ where a total construction cost was assumed and a percentage fee apportioned based on industry standards and norms. However, in the case of the Upper and Lower Fosters regen project one supplier has provided an estimate based on the cost for the number of units. It is notable that the company that took this approach is more of an architecture and urban planning focused firm, whilst the other two are more engineering and construction focused.

All suppliers stated that the figures provided are estimates based on the information provided in the SPIRs, and they have needed to make some assumptions. All of the individuals who worked on these estimates are senior experienced employees, and all conferred with other colleagues before finalising their answer. In a real life tender process they would request further clarification of a number of items before submitting their responses. For the purpose of this exercise we have documented any assumptions or exclusions they have made in order to provide a response in the Appendices, pages 17-22.

All suppliers we met with agreed that the only pure regen project is the Upper and Lower Fosters project. The other three were classed as highways projects. Unfortunately were not able to engage as many of the highways departments as regen so have fewer findings to present in the highways area.

All suppliers were large multi-national organisations, B is a very large built asset design and consultancy business (global turnover £3bn+), supplier D is a large architectural practice (global turnover £80m+), and supplier F is very large engineering and development consultancy (global turnover £1.4bn+).

Most (ten) of the organisations contacted declined to take part in this exercise, despite several approaches.

The table below summarises the responses we received from the suppliers by SPIR:

Supplier	Upper and Lower Fosters	W Hendon Colindale Regeneration	W Hendon Colindale Major Development	Moving Traffic Contraventions
B	✓	x	x	x
D	✓	✓	✓	x
F	✓	x	x	x

# Are RE's total project fees in line with the market response?

The table below captures the total project fees estimated by each of the suppliers per project, as well as a comparison with the actual figures provided by RE.

Supplier	Upper and Lower Fosters		W Hendon Colindale Regeneration	W Hendon Colindale Major Development	Moving Traffic Contraventions
	Raw	Adjusted*			
RE Actual	£1,349k	£1,349k	£50k	£235k	£58k
B	£2,540k	£1,800k	x	x	x
D	£450k	N/A	£60k	£140k	x
F	£1,450k	£960k	x	x	x

*\*Adjusted based on an assumed total construction value of £xxx through applying the given % fees*

- The estimates provided for the West Hendon and Colindale Regen project are similar, with RE coming in as slightly cheaper (noting the comparator is supplier D, who is significantly less expensive on U & L Fosters)
- The estimates provided for W Hendon Colindale Major Dev by Supplier D is 40% lower than the RE pricing
- The adjusted rate for U & L Fosters demonstrates that compared with the suppliers that used a top down pricing approach, RE's actual price comes out as averaging between the two others
- Supplier D, who took a unit cost approach, provided an estimate which is far lower than RE's and the others' actuals - this was cross-validated with Supplier D and F, however both remained confident in their pricing
- In comparing the % fee applied for the regen project RE's actual fee sits in the middle compared with the two suppliers who used the top down approach, with RE applying xxx% of the total construction cost for RIBA stages 0-3, compared with Supplier B applying xxx% and Supplier F applying xxx% (this is reflected in the adjusted price)

Overall compared with other responses which used the same pricing approach, RE's fees and % of fee applied sit between the other suppliers. Supplier D has returned estimates which are significantly lower, which could be investigated further.

# Comparison of resource blend per supplier

The chart below captures how suppliers stated they typically staff their projects in the regen and highways areas, by % of time spent on project. The chart contains the key project team, and does not include specialist resources required for projects i.e. community engagement consultant, or daylight surveyor, who would be required for discrete areas of work.

*\*Please note all suppliers, inc RE, provided us this information in different formats, so we have brought it together in this comparable format for analysis*

- Supplier director time is broadly similar, spending between xxx% of time on the projects – RE directors only spend x% across projects
- Supplier D and F provided very similar responses only differing by 5% assigned differently across the graduate resource and associate grade levels
- Supplier B is the only supplier not to include an associate level resource - the majority of project work would be completed by a senior chartered resource (noting that supplier B is the most expensive in their responses)
- Notably, RE's resourcing is very bottom heavy and they use a significant amount of junior resource which could potentially impact quality (though this is only based on the resourcing details of one project)

It does not appear that RE is charging the council for expensive senior resources, since the resource blend provided uses significantly higher proportion of junior resources compared to other suppliers

# What does this tell us about the market?

Whilst tangential to our main findings we believe that this exercise tells us some things about the highways and regen markets that LBB should consider in its future plans.

Our key market findings are:

- **A sellers' market:** the difficulty experienced in obtaining input to this exercise, with ten suppliers deciding not to engage suggests that they are busy and as such this may be more of a sellers' than a buyers' market, leading to less competition and less keen pricing
- **Highways less engaged than regen:** possibly as these services are more specialised, and possibly as a result of it being a busy time for transport infrastructure
- **Lack of outsourcing market maturity:** for the suppliers we met with the inclusion of these services within a ten year outsourcing arrangement did not appear to be the norm, with more of their work being through spot contracts
- **Top down pricing:** the approach to pricing based on a top down approach related to total construction costs could lead to inflated pricing in some projects where a high construction cost does not necessarily equate to complexity and effort in work. If engaging with the market, and indeed RE (who have also taken this approach) in the future LBB may wish to structure tenders to counter this approach

# Recommendations



## What should the council do next?

Analysis of the total project fees and resource blend demonstrates that RE is in line with the market from a totality of costs or grade blend perspective. RE's pricing sits in the middle of the other suppliers' estimates when excluding the outlier, with some charging more and some charging less.

Therefore we believe that LBB is receiving a broadly 'on market' deal, and cannot draw the conclusion that it should seek to market test these services formally at this stage.

However due to the one significant outlier who provided much lower estimates for two projects, in particular Upper and Lower Fosters, we recommend the council engages directly with this supplier to understand its approach to pricing and development. It may be following this that LBB feels better able to challenge SPIR pricing and achieve more competitively priced special projects, or indeed it could choose then to formally market test.

We have been able to provide a comparison between the breakdown of resources and time spent on project with RE, however this has only been based on the Colindale Highways project and none of the other project SPIRs. The regen data provided by RE does not allow direct grade breakdown comparison with the market information obtained. If the council wanted more evidence of how RE applies its resource grades across projects, in particular regen projects, then we recommend further information is sought from RE to support this analysis.

# Appendices





# Appendix 1: Supplier B – Upper and Lower Fosters, approach and assumptions

## Approach & Assumptions:

- Supplier B assumed a **‘top-down’ approach** in forming an opinion of required resource.
- This approach assumes a total construction value of the proposed scheme and applying a percentage rate for the professional team. This total amount is then apportioned over the proposed phases of the subject project according to industry norms and standard practice.

## Fee calculation assumptions:

- The maximum number of new infill homes of 200
- Made up 90 sq m flats, costed at £3,000 per square metre for construction

## This equates to a total construction cost of circa £54m

In calculating a fee for a full professional design team a fee basis of 10% of the total construction value is applied. It is assumed that the three phases of the project brief align with the RIBA Stages 0/1, 2 and 3. For RIBA Stages 0-3, 45% of the total fee is applied.

Additional costs = £30k for financial modelling of the business case and £12k for EIA

## This equates to a total project team fee of £2.45m (RIBA Stages 0-3).

### The fee for the professional team includes:

- Partner, senior regen resource, junior regen resource, engineering consultant, planning consultant, stakeholder engagement consultant, and a daylight surveyor.

Role	% of time of project
Partner	10%
Senior regen resource	80%
Junior regen resource	80%

# Appendix 2: Supplier D – Upper and Lower Fosters, approach and resourcing

Supplier D has taken a different approach to Supplier B and F and has **calculated project fees based on the number of units and the cost of design per unit**, which is an approach commonly used within the residential property development market.

### **Fee calculation assumptions:**

- The maximum number of new infill homes of 200
- Cost of design up to full planning £1000 per unit, therefore £200k in total of design work
- Fees of £200k to cover additional professions, including:
  - Planning consultant
  - Viability consultant
  - Landscape architecture input
  - Transport consultant
  - Cost consultant
  - Community consultation
  - Engineer advisory
  - Engagement consultant
- Additional surveys £50k
- Excludes: Environment impact assessment
- **This equates to a total project team fee of £450k**

As well as the list to the left, the fee for the professional team includes:

- Project Director, Associate, Senior project manager, graduate project manager, **The blended daily rate is £450-£500.**

Grade	% time on the project	Daily rate (£)
Director	15	900-1000
Associate	20	650
Senior (chartered)	25	450
Graduate (non-chartered)	35	300

# Appendix 3: Supplier D - West Hendon and Colindale Regeneration, approach and resourcing

## Approach & Assumptions:

- Supplier D assumed a **'top-down' approach** in forming an opinion of required resource.
- This approach assumes a total construction value of the proposed scheme and applying a percentage rate for the professional team.

## Fee calculation assumptions:

- Assume the capital value of the project is £2.5 million
- Apply 12.5% fee rate for the professional team
- The supplier assumes the project brief aligns to RIBA stage 2
- Include additional £20k for extra engineering

**This equates to a total project team fee of £60k.**

### The fee for the professional team includes:

- Project Director, Associate, Senior project manager, graduate project manager, Transport consultant,
- Highways engineer, Landscape architect, Cost consultant, Viability consultant
- Exclusions: surveys and the business case from the estimate

Grade	% time on the project	Daily rate (£)
Director	15	900-1000
Associate	20	650
Senior (chartered)	25	450
Graduate (non-chartered)	35	300

**The blended daily rate is £450-500.**

# Appendix 4: Supplier D – Colindale Highways, approach and resourcing

## Approach & Assumptions:

- Supplier D assumed a **'top-down' approach** in forming an opinion of required resource.
- This approach assumes a total construction value of the proposed scheme and applying a percentage rate for the professional team.

## Fee calculation assumptions:

- Assume the capital value of the project is £1.5 million
- Apply 12.5% fee rate for the professional team

The total estimate for the project spec is **£140k of fees**, covering three elements:

1. Highway Design = £50k
  - Assume the project brief aligns to RIBA stage 3
  - Excluding any surveys
2. Public Realm Improvements = £45k
  - Assume the project brief aligns to RIBA Stage 3
3. Parking = £45k
  - Assume this stage requires a survey – include up to £15k of surveys
  - £10k consultant
  - £5k review
  - £15k report and recommendations

### The fee for the professional team includes:

- Project Director, Associate, Senior project manager, Graduate project manager, Transport consultant, Highways engineer, and Cost consultant

Grade	% time on the project	Daily rate (£)
Director	15	900-1000
Associate	20	650
Senior (chartered)	25	450
Graduate (non-chartered)	35	300

The blended daily rate is **£450-500**.

# Appendix 5: Supplier F – Upper and Lower Fosters, approach and assumptions

## Approach & Assumptions:

- Supplier F assumed a **‘top-down’ approach** in forming an opinion of required resource.
- This approach assumes a total construction value of the proposed scheme and applying a percentage rate for the professional team. This total amount is then apportioned over the proposed phases of the subject project according to industry norms and standard practice.

## Fee calculation assumptions:

- The maximum number of new infill homes of 200
- Unit construction cost of £270,000
- A 2% construction cost inflation rate over an 18-month period (based on a 1-2 year construction period)
- Construction contingency of 10%

**This equates to a total construction cost of circa £60.5 million.**

In calculating a fee for a full professional design team a fee basis of 8% of the total construction value is applied. It is assumed that the three phases of the project brief align with the RIBA Stages 0/1, 2 and 3. For RIBA Stages 0-3, 30% of the total fee is applied.

**This equates to a total project team fee of £1.45 million (RIBA Stages 0-3),** see breakdown overleaf.

# Supplier F - Upper and Lower Fosters, team and resource mix

The percentage breakdown of the fee into the project milestone phases has been allocated based on the company’s experience and in line with industry norms and standard practice:

- Phase 1 (3-month programme period) at 15% of the fee equates to £218,000
- Phase 2 (7-month programme period) at 40% of the fee equates to £580,000
- Phase 3 (8-month programme period) at 45% of the fee equates to £655,000

The fee for the professional team includes:

- Project Director, Project Manager, Development Manager, Architect, Landscape architect, Planning consultant, Cost consultant, Engineer (traffic, structural, M&E), Property consultant, Communication officer, Financial/viability consultant, and other minor consultants (E.g. Heritage, Arboricultural)
- Exclusions: the legal team, and the Barnet Homes role.

Staff Grade	Rate (Hourly)	No. of Staff	% on Project
Project Director	£135	1	25%
Associate: Senior Development / Project Manager	£105	1	75%
Consultant: Development / Project Manager	£70	1	100%
Technical Specialist	£70	2	100%
Graduate / Trainee	£60	1	100%
		FTE	5

This breakdown is in line with how Supplier F is currently allocating the various grades of staff on a similar, if not larger (circa 500 residential units), project and their corresponding rates.

These rates are based on the company’s Homes and Communities Agency (HCA) Framework rates. **The blended hourly rate equates to circa £79 per FTE.**

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