

construction projects.

In total, local authorities collectively spend around £16.2 billion each year on the procurement of construction goods and services. Councils involved with capital programmes from the smallest to the largest, such as **Building Schools for the Future**, need to ensure they are getting value for money. **Saving just 1% on this could release £162 million to help cut council tax or invest in other services.**

What are the opportunities?

Hampshire County Council identified that 80% of construction procurement by county and unitary councils in the South East was procured on a lump sum basis via competitive tender and that some 150 projects were being let each year, worth £400 million. A target was set to procure 50% of these through the South East Construction Framework, led by Hampshire County Council on behalf of Improvement and Efficiency South East (IESE). This has resulted in one of the largest and most successful framework procurement arrangements in the public sector, capable of delivering up to £3 billion of high quality construction work and generating potential efficiency savings of over £40 million.

Similar collaborative frameworks are available in other regions including the South West, the East of England, Yorkshire and Humber and the East Midlands.

The Midlands Highways Alliance was formally launched in July 2007 and is led by the East Midlands Improvement and Efficiency Partnership. The Midlands Highways Alliance comprises twelve councils (nine East Midlands councils, and three councils from other regions) and the Highways Agency. These organisations are working collaboratively to meet their joint interests in improving the design and delivery of highways projects and to achieve projected efficiency savings of £22 million by 2011 through collaborative procurement and early contractor involvement. Leicestershire County Council acts as the lead authority for the Midlands Highways Alliance.

Peterborough City Council compared the rates under the Midlands Highways Alliance framework with those of a scheme procured independently and calculated the framework could yield savings of up to 29%.

Through such frameworks, local authorities and public sector agencies can benefit by sharing resources, expertise and buying power to bring construction projects in on time and within budget.

What is the member's role?

As with all procurement categories, making change in this area requires strong member leadership. The member's role is to ask fundamental questions about spend on construction, whether there is a co-ordinated approach to procuring and managing construction contracts, whether the council is collaborating with others regionally and nationally to get the best value, and whether staff are appropriately trained.

Depending on the answers to these questions, it may be appropriate for members to **scrutinise** further the procurement and contract management process, get the facts, and follow up. Apart from the formal process of overview and scrutiny, the Leader and Cabinet may wish to make this an area for particular focus and visit other councils to **benchmark performance**. In exercising their scrutiny role in this area members will quite properly wish to assess the impact of construction projects on local employment and the opportunities for SMEs. Identifying opportunities for improving workforce skills through **apprenticeships and training schemes** will also be important considerations in improving procurement practice.

In summary, the member role is to **demonstrate leadership**, and be ready sometimes to **make difficult decisions on construction procurement**.

Six Questions to ask on Construction Procurement and Management

1. Have we got the right organisation structure and the right staff for effective procurement and delivery of construction projects?
2. Have we got the right contract strategy and incentives required for long term improvement in construction performance?
3. What project management, cost management and other partnering skills have we got?
4. How well will the delivery teams of the council and contractors be integrated?
5. Have we got a real focus on reducing project costs and improving project delivery?
6. Have we got performance management systems in place and a 'continuous improvement' culture?

What is best practice in this area?

Best practice in construction procurement means identifying the best procurement method for the job in hand. It may be design and build, or use of the Private Finance Initiative, or another form of public private partnership. Framework contracts offer councils the benefits of aggregation, learning and supply. They can avoid the need to go through the complicated and time consuming Official Journal of the European Union (OJEU) process. By providing the benefits of procuring projects effectively in programmes, they can result in significant cost savings, and the prospect of fewer claims and disputes, more predictable costs and timescales, improved performance through an integrated team between council and contractor, and better management of sub-contractors in the supply chain. A number of framework providers have now gathered benchmarking data on comparative costs which enable councils to gauge whether they are being offered value for money.

But good construction procurement is about a lot more than procurement: it is about construction management. The cost of maintaining a building often outweighs the initial capital cost. Studies have shown that for every £100 of capital cost, £500 is spent on maintenance over the life of the building. Whole life costing takes this into account when deciding on the initial procurement, design and specification of the building.

The principles of lean construction, whilst providing a way of managing construction activity rather than procurement, are also important because they focus on providing value for the council and then remove processes that add cost but not value.

Early contractor involvement is a way of alleviating many of the main construction project risks, and can provide benefits in design, pricing, and managing risk and sustainability. However it is important to avoid the pitfalls of early contractor involvement - if poorly managed it may leave the council open to a potential legal challenge from an unsuccessful bidder later in the procurement process.

Checklist - Questions members can ask to assess the capacity of their authority to procure and manage construction procurement professionally and efficiently:

- ✓ **Are** we considering the full range of procurement options, not just lowest price and fixed cost tenders?
- ✓ **Are** we using framework construction contracts?
- ✓ **Are** we focused on 'whole life' costing?
- ✓ **Are** our procurement policies sustainable?
- ✓ **Are** we managing the contracts for the best service outcomes?
- ✓ **Are** we engaged in working collaboratively with other authorities including through the Regional Improvement and Efficiency Partnership (RIEP) and wider public sector partners?
- ✓ **Is** the information exchange between partners open and transparent?
- ✓ **Is** our procurement of construction contracts based on a lowest price only approach or does it take into account quality, trust and whole life cost and value?
- ✓ **Has** the procurement been well executed in terms of EU and UK procurement standards?
- ✓ **Does** the contract provide clear and measurable value for money throughout its duration?
- ✓ **If** we are procuring through a framework, are we confident that our participation in it meets the requirements of EU procurement legislation?
- ✓ **Is** there strong governance including senior management/director sponsorship, robust contract and supplier management and accessible relevant management information?

✓ **For** the procurement of large projects particularly, are we gaining the benefits of collaborative working, early engagement of the project team, extensive “design for build” planning, and use of offsite manufacturing?

✓ **Are** we considering and securing sustainable options from the procurement of our contracts?

* Source: Regional Centres of Excellence review of local authority spend on suppliers 2007

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L09-817
Produced by Liberata Design and Print Studio



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