



NIEP for the Built Environment

The benefits of collaborative procurement

July 2010



In today's uncertain economic climate, councils are searching for opportunities to drive efficiencies and make savings without compromising the quality or accessibility of local services. At the same time the construction industry is under pressure to stay afloat.

Fortunately, an important tool has been forging a link between better construction and improved public services and particularly in today's economy, has proven to be mutually beneficial to councils and the construction industry.

Around the country, collaborative procurement, whereby councils work together to jointly purchase goods and services, is saving money, achieving more programme certainty, and lowering risk.

Formed in 2009, the National Improvement Efficiency Partnership (NIEP) for the Built Environment is playing a unique role in leading the ongoing adoption of local government best practice. Building on the successes to date of nine Improvement Efficiency Partnerships (IEPs), the NIEP is working to shape the future of intelligent local government asset management and procurement of building and highway projects.

The following report provides evidence of the benefits to date of collaborative procurement and the potential of the NIEP to maximise future benefits.

The following IEPs, which contributed to this report, are recognised for leading best practice in local public authorities across the nine regions:



The right time

In 1998, the Construction Task Force report, “Rethinking Construction” cited low profitability, low investment in research, inadequate training and low client satisfaction as areas of concern for the construction industry. Several years later, the National Audit Office report, “Modernising Construction” (2001), stated: “Experience has shown that acceptance of lowest price does not provide value for money in either the final cost of construction or the through-life and operational cost.”

Today, the downturn has reduced the projects taken to market; order books are diminishing; and firms are under pressure to maintain cash flow. Many construction firms will be unable to bear the pressure of low bidding, and according to the CBI report “Procuring in the Downturn” (2010), collapse is often only one or two contracts away if they don’t yield returns.

But there is a silver lining. Both reports in the first paragraph cite problems with the construction industry – and both were written in a strong economy. In fact, a more recent Constructing Excellence report, “Never Waste a Good Crisis,” (2009) suggests that the previously strong economy is to blame for an industry that prospered without ever having to innovate. No question: The current recession is a perfect opportunity for us to think again.

“The public sector has made significant moves in the right direction with Birmingham City Council, Manchester City Council and Hampshire County Council as examples of best practice for collaborative working in integrated teams.”

Constructing Excellence

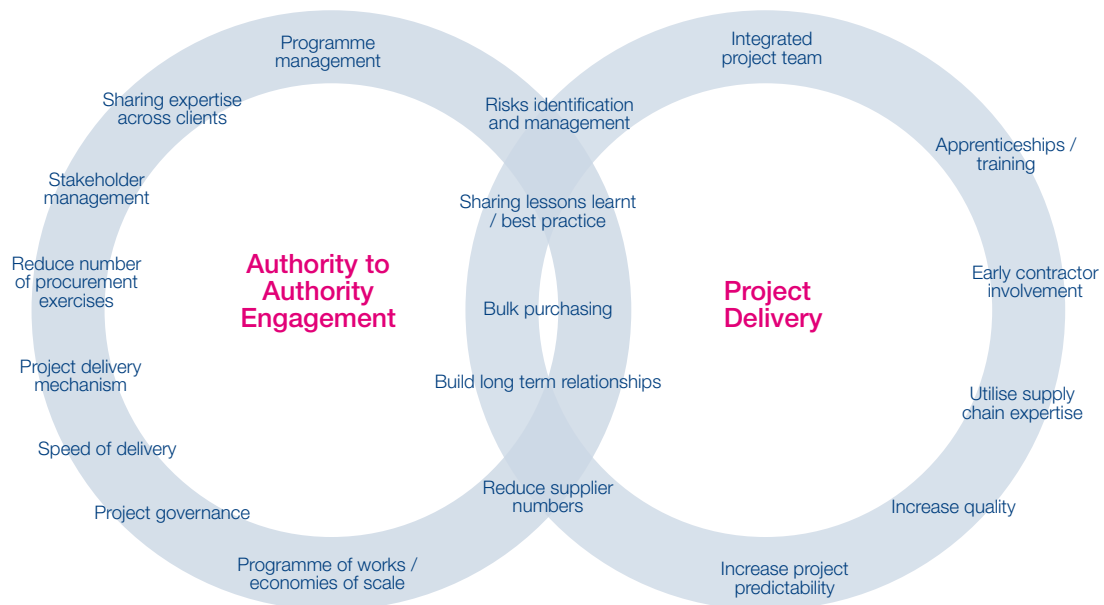
The right solution

The term “collaborative procurement” covers a range of arrangements where clients share expertise and work together to jointly purchase goods and services. In general, collaborative procurement occurs on two levels:

- Inter-client through use of construction frameworks
- Through the supply chain by early contractor involvement at design phase

Joining forces enables local authorities to achieve economies of scale and get better deals from suppliers, as well as offering suppliers a more attractive and sustainable contract. Since the introduction of IEPs, each region has worked individually to identify areas where efficiency improvements have been made by working with local partners to streamline procurement methods and promoting best practice.

Collaboration



Better quality projects for less

Many IEPs have set up construction frameworks for a range of project values from minor works up to major works of £50m+. The following quotation explains the key reasons behind the establishment of these frameworks:

“Framework Arrangements eliminate costly procurement exercises for individual projects whilst also providing benefits of early contractor involvement and effective working with the supply chains, all having a positive impact on delivering better quality projects for less.

Frameworks provide a commercial arrangement which can facilitate the delivery of ‘added value’ to works and services delivered through them. Basically, the long term ‘collaborative working’ nature of a framework allows a trusting relationship to grow and develop between clients and supplier(s), where it is possible to ‘re-invest’ lessons learned and best practice from one project or commission to another.”

John Lorimer

Manchester City Council
Capital Programme Division

Total savings in excess of £78m

To date, managers of the local government frameworks have recorded the savings they have helped authorities generate as a result of creating procurement efficiencies and avoiding bureaucratic procurement processes like OJEU (typically wasting £150k per major project). They have also documented “Added Value” savings, which are identified as savings that occur as a direct result of collaborative working (aggregating purchasing, early contract advice etc).

Although some of the frameworks are at an early stage, initial savings have been identified of £78m on £1.9bn or 4.1%.

Councils have recorded the project outcomes (i.e. outturn verses entry cost) of the framework against those of industry comparators with the following results:

- Improvement and Efficiency South East: major project framework identified an 8% saving
- Manchester City Council: framework One identified a 6% saving
- Manchester City Council: framework Two identified a 10% saving
- YoRbuild: frameworks identifies a 4% saving

In addition, the OGC have reviewed the outcome of projects procured through a number of the IEPs and have compared them against the public sector benchmark data. A 9% saving (£55m on £637m of work) was identified for IEP projects analysed in 2009-2010. According to the OGC, the average IEP framework project generated a 9% saving, on the total value of work, when compared against the public sector benchmark.

According to the OGC, IEP framework projects cost

9%

less than industry comparators.

Continuous improvement through partnership

In addition to significant savings, collaborative working helps to achieve better outcomes. For example, teams accustomed to working together can function more independently and thereby require less investment of time by management; contractors and supply chains who know the standards and quality required by their partners achieve a higher quality product with fewer defects; and right-first-time delivery reduces costs for all partnership members and their supply chains.

Collaborative working also enables teams to more easily transfer knowledge from project to project, ensuring continuous improvement. The Smarte East Construction Framework, notes that their frameworks’ shared learning from scheme to scheme produces impressive programme predictability indicators, good quality workmanship and early contractor involvement, which in turn generates value engineering, buildability and earlier cost certainty.

Frameworks are actively performance managed with supplier ratings shared across projects, effectively raising the market leverage of individual clients. Results have shown that this collaborative process improves client satisfaction. North Tyneside Council measured their client satisfaction at 40% pre-partnership. Post-partnership, the satisfaction levels increased to 95%. The Key Performance Indicator (KPI) scores from Improvement and Efficiency South East (IESE) evaluate contractor performance on a variety of issues such as health and safety, cost management and customer satisfaction. IESE reports that scores are 16.5% higher for framework projects.

The collaborative environment also ensures that issues are identified and managed at an early stage. Although claims have risen industry-wide due to tough market conditions, IESE reports that it has not had a single claim in four years of framework operation.

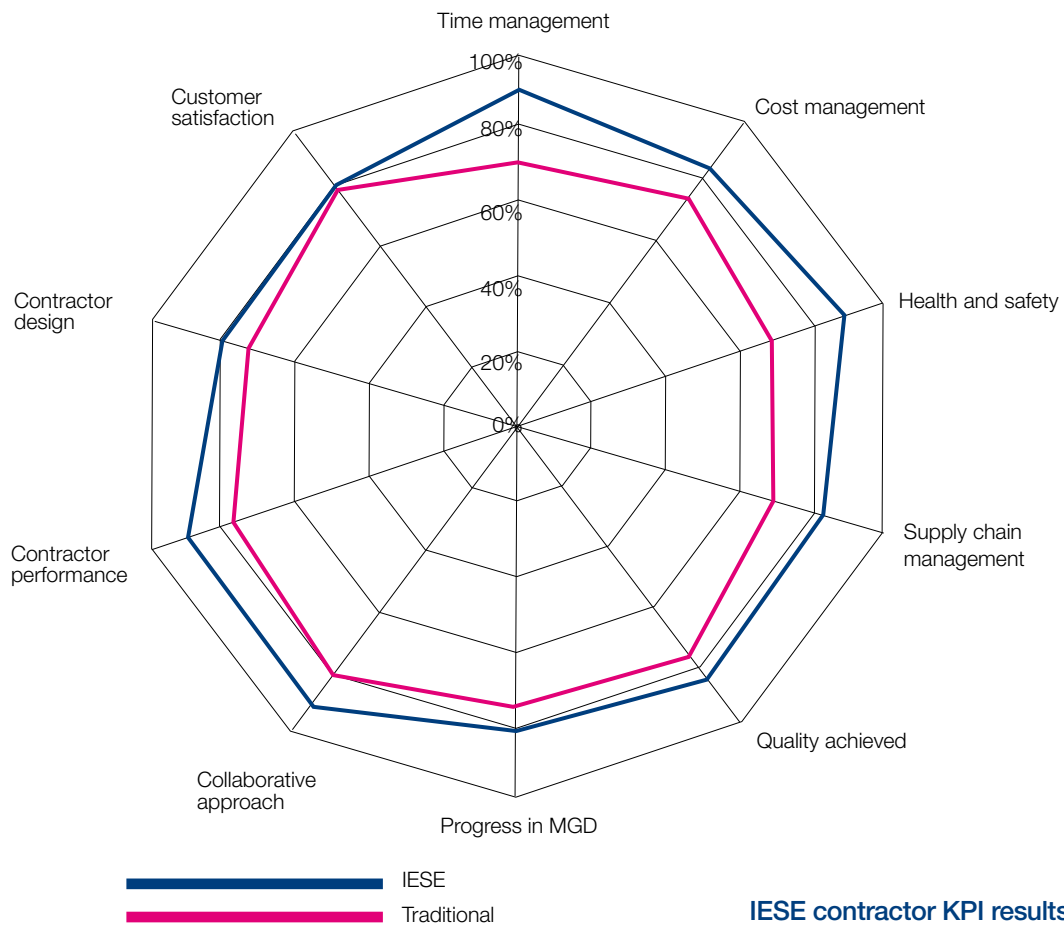


Savings on

£100m

of work equate to the cost of
a new primary school.

Comparison of adjudication appointments and construction output





“In six years of working through framework partnerships we have not had to deal with a single claim.”

Manchester City Council

Framework projects achieve

16.5%

higher KPI scores



“From the end of briefing stage

to the start of construction stage now takes an average 40 weeks. Prior to the BCP, the average was 80 weeks.”

Birmingham Construction Partnership

Economies of scale in the supply chain

Collaborative procurement goes beyond frameworks to include direct initiatives across the supply chain. IESE have implemented the SAVE initiative, a procurement aggregation project that promotes design commonality and exploits volume leverage across project programmes for key construction commodities, such as doors and light fittings.

To date, this effort has included nine secondary schools and the programme is on track to save £2.5m (3.6%) and is now being applied to the remaining IESE workload.

Similarly, Birmingham Construction Partnership has implemented an initiative that employs reverse e-auctions to purchase standardised materials and components for programmes of work. As an example, the purchasing of security doors saved £750k on an order value of £5m.

“Long term relationships allow lessons learned initiatives to give added value.”

Manchester City Council

Smarte East improved cost predictability by

36%

Predictability and collective risk management

Another benefit of collaborative procurement is collective risk management, a highly desirable form of problem solving. Each risk is identified and either jointly managed or allocated to the person best placed to manage it. Hampshire County Council states: "It should be stressed that the whole project team is involved with ongoing risk management, irrespective of who 'owns' the particular risk."

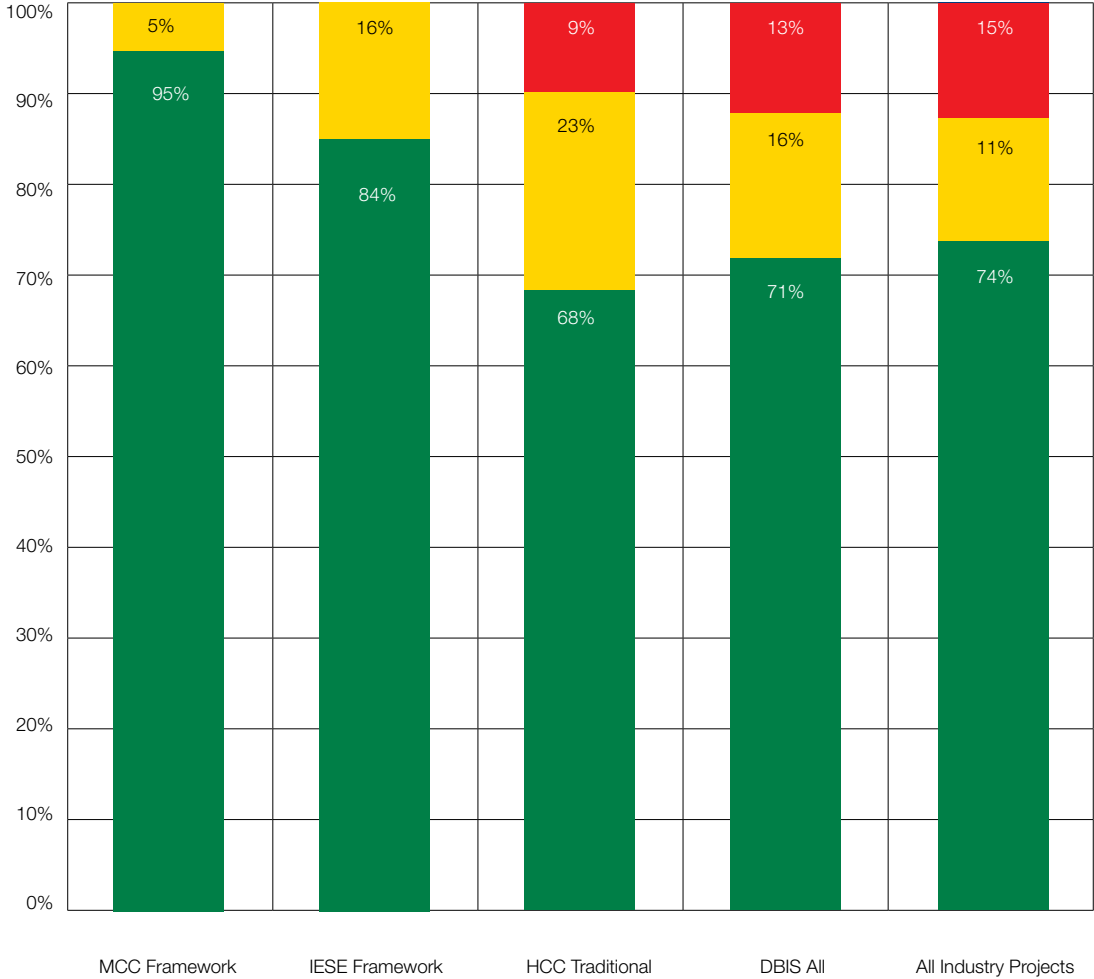
Collaboration and particularly early contractor engagement ensures that experiences and innovation are shared across the team. Issues dealt with in a collaborative environment achieve quicker, better and more innovative results. Traditional procurement does not encourage contractor / team involvement.

Risk management and collaborative procurement also improves predictability. IESE and Manchester City Council Framework cost outcomes have been compared to traditional projects procured by Hampshire County Council, All Public Project (data issued by DBIS) and All Industry Projects. The data identified 95% and 84% of framework projects being completed within 5% of target cost.

"The data identified 95% and 84% of framework projects being completed within 5% of target cost."

MCC and HCC Frameworks - Data issued by DBIS

Cost Percentage change from contract formation to final account including all project / client change orders



- Projects completed over 10% contract sum
- Projects completed between 6% – 10% contract sum
- Projects completed under contract sum and 5% above contract sum

Quicker – and smarter – delivery

Another key benefit of collaborative procurement is speed. Manchester City Council says that the speed of procurement using a framework can mean an appointment within a day of the project being identified, resulting in a potential saving of around 15% of the programme.

Directing resource early in the programme improves outcomes. Birmingham Construction Partnership identified a 280-day saving on the pre-construction period for projects on its framework. Collaborative working drives the programme, particularly in terms of contractors' knowledge base of lead times for materials.

The following results compare with the national benchmark for time predictability on public projects:

- IESE: 31% improvement on time predictability
- Manchester CC: 12% improvement on time predictability
- Birmingham Partnership: 7% improvement on time predictability

National Benchmark provided by the Department of Business, Innovation and Skills

Asset management advice

IESE have also been supporting local authorities with asset management advice, including strategic property reviews, office rationalisation and utilisation assessments resulting in £4million delivery of cashable savings to date.

This support also extends to provide local authorities with client management and strategic advice, which includes support in developing the project strategy and central governance guidance. These services leverage IESE's experience delivering a number of property review and construction projects.

In addition, the West Midlands IEP have developed a strategic outline business case which illustrates a regional savings opportunity of £640million.

Improving local social outcomes through procurement

Small medium enterprises (SME's)

Recognised by framework agreements, small and medium enterprises are involved in schemes with all IEPs. The South West IEP have facilitated the creation of an SME Consortium to act collectively and foster local business growth. Manchester City Council and its partners actively hold open days to attract preferred suppliers. The supplier database is searchable by skills and postcode so that local suppliers can be identified. In addition, Manchester has created a small works framework for projects up to £500k. IESE has created a sub-regional small works framework for projects up to £1m and between £1m and £3m to ensure SME engagement. In addition, IESE have reviewed the SME activity

with the major frameworks; initial findings show that 61% of the project value is spent within the local SME market.

61%

of construction spend on major projects is spent within the local SME market

Apprenticeships

Apprenticeships are critical to maintaining a supply of skilled craftsmen and reducing the number of young people without work. Manchester City Council offers construction apprenticeships for residents aged 16–24, targeting those that are not in education or employment. The “Young People into Construction” programme is run in conjunction with Manchester’s construction partners. Twenty six young people are currently in apprenticeships placements, 15 of whom have secured full-time permanent work with contractors.

IESE has created a programme in collaboration with its construction framework partners to promote work experience, traineeships and apprenticeships. 80 full-time roles have been created in 2009–2010 alone.

YORbuild have developed an Employment and Skills Plan (ESP), which applies to all projects placed by the framework. Framework contractors have to develop project-specific plans and commit to working with their supply chains to deliver the plans. It is estimated that through the Initial projects procured using the

framework, 38 new jobs would be created, including 12 new apprenticeships. In addition, 20 under 18-year-olds will be given work experience placements.

Targeted Recruitment and Training Project (TRT)

North East Improvement and Efficiency Partnership (NE IEP) have a Targeted Recruitment and Training Project (TRT) which provides Local Authorities with a tool that will maximise the realisation of sustainability and well being benefits including helping long term workless people to move into sustainable jobs. The project provides Authorities with tailored processes, procurement and legal advice, contract clauses, model for skills forecasting, monitoring system, all of which is managed through a tailored web based software – TRT workflow.

Carbon Reduction

NE IEP Carbon Management Project provides Local Authorities with a greater understanding of the carbon emissions associated with their estate and operations and shares best practice on tried and tested measures to sign post the key activities for Authorities to concentrate on to maximise the impact of their efforts.

The project includes supporting the collection of information from each Authority, identifying

climate change best practice technologies with a particularly focus on retrofit measures, identify and piloting new technologies/solutions and advising on the most appropriate solutions for Authorities to implement. As part of the implementation stage NE IEP will co-ordinate authorities responses to ensure sharing of tools, training and expertise.

Highways

Improvement and Efficiency West Midlands (IEWM) have piloted a partnership programme to implement a new way of resurfacing the road carriageway which will result in improved reduction in CO2 emissions, whole life costs and potential aggregated procurement savings. The pilot reduced CO2 emissions equivalent to taking 2 cars off the road and should the pilot be extended to 30% of the resurfacing works across the region this would equate to a reduction in CO2 emissions created by 2000 cars.

Further, IEWM have implemented a new minor carriageway repairs project. The Project Patch Team have reported on the identification of defects, common material and repair techniques, programming and scheduling of the work across the region. Historically, local area highways offices have managed work on a reactive basis with an array of techniques and working practices. This project has developed the management of finding defects, identification of the appropriate repair, prioritising work, creation of work programmes. The project achieved a 50% reduction in

labour and plant costs for hand lay repairs and identified total savings of between £150,000 and £500,000 per annum.

Cashable saving of

£700k

based on a three year contract

In addition, IEWM and East Midlands Improvement and Efficiency Partnership worked in partnership with a private sector partner to run a pilot programme on highway salt procurement. The programme looked at aggregated purchasing and long term programmes across 24 highway authorities. As a result of these benefits and the saving in procurement, savings of between 6-17% were identified for each authority with an overall cashable saving of £700,000 likely to be realised on the three year contract.



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IEP West Midlands

Highways Project achieved

50%

reduction in labour and plant costs

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