



**CORPORATE SERVICES
SELECT COMMITTEE**

**PROCUREMENT
OF
CONSTRUCTION
CONTRACTS**

July 2004

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1. Introduction

Introduction to Select Committee Process

Select Committee on 'Partnering as a Tool in Sharpening Performance in Procuring Building Construction Contracts'

The Policy Overview Co-ordinating Committee agreed to establish a select committee to review the topic of partnering with building contractors.

List of Members of Select Committee

1.1 The Select Committee was established in April 2004. The membership comprised of Mr C J Law (Chairman), Mr M V Snelling, Mr F. Gibson OBE, Dr T R Robinson (for the Conservative Group), Mrs P M Stevens, Mr R G Christian (for the Labour Group), and Mr B W Copping (for the Liberal Democrat Group).

The Terms of Reference

The terms of reference were to consider whether:

- The local construction industry is able to provide sufficient capacity to satisfy the huge increase in capital expenditure contained in the three-year construction plan.
 - Partnering arrangements with building contractors throughout the supply chain will provide best value for Kent and bring holistic benefits for both contractors and clients.
 - Building contracts can enable Kent to work with local industries, benefit Kent's workforce, and ensure the development and retention of construction skills in Kent's young people.
 - These principles are compatible with the development of Kent as a centre of excellence in procurement.
- 1.2 This Select Committee Topic review drew on the targets identified in the Egan Report - 'Rethinking Construction'. Although not inclusive of all of the targets identified by the Egan Report, the following three targets are broadly descriptive of the objectives described there. These targets were also chosen for their suitability in measuring ongoing improvements in the industry, and also their capacity for measuring significant changes in the culture of the industry:-
- Improvement in construction productivity,
 - profits, and
 - defect and accident reduction.

- 1.3 'Rethinking Construction' also gave some explanation as to how to achieve these targets through the elements listed below. Once again, the main thrust of the report was that the construction industry needed to change its culture if it was to make significant improvement:-
- committed leadership;
 - a focus on the customer;
 - integrating the process and the team around the product; and
 - a quality driven agenda, and a commitment to people.
- 1.4 'Rethinking Construction' and its impact will be covered later in this report.
- 1.5 There have been 6 evidence-gathering meetings at which the Committee was presented with witnesses from businesses of varying sizes and varying professions within the construction industry. The Committee also received evidence from the post 16 learning sector, senior officers from Kent County Councils own property group, the Chief Executive and the Cabinet Member for Resources. Evidence gathering visits were made to three other local authorities with differing approaches, but all exemplars in procurement. These were Norfolk, Suffolk, and Hampshire.
- 1.6 A full list of witnesses seen, visits made and written evidence obtained is shown in Appendix 1.

Strategic Context

- 1.7 'Kent County Council's (KCC's) strategy is based on the principle that the Councils capital investment should be deployed where it can make the most impact for the benefit of the people of Kent and deliver improvements in essential services'¹.
- 1.8 KCC's capital investment programme² gives the breakdown overleaf of the projected capital spend³ up to 2007:

¹ *Capital Strategy 2003-2008*, July 2002

² *Draft Medium Term Financial Plan 2004-2007*

³ After allocation, a proportion of these funds may not be available for partnering activity.

Estimated Gross Cost Building Works

	Total	2004-05	2005-06	2006-07	2007-08 and later
Education	350,295	107,132	114,005	104,828	24,330
Community Services	54,962	17,794	23,666	13,502	
Social Care	21,589	11,299	7,283	3,007	
Environment & Trans Resources	1,243	523	535	185	
	11,512	6,107	2,693	2,712	
	439,601	142,855	148,182	124,234	24,330
Loan	219,789	84,428	64,468	61,438	9,455
Grant	106,243	36,161	35,782	34,300	
External Funding	75,796	13,377	25,677	21,867	14,875
Revenue & Renewals	9,000	3,000	3,000	3,000	
Earmarked Capital Receipts	28,773	5,889	19,255	3,629	
	439,601	142,855	148,182	124,234	24,330

NB Includes: Commitments; fees inc Property Services; schemes where purchase v new build decisions not yet made. Would include fitting out costs of new build. Excludes PFI Schemes.

- 1.9 This report has been commissioned against a background of a 'programme of unofficial reviews' of the corporate centre. It was not intended that it would be a piece of academic work, but a valuable piece of work available to the outside world⁴. It aims to assist the joining up of threads of strategy and delivery both internally and externally of KCC. Facing huge growth in building in Kent, KCC stands in a unique position to examine the complex and changing issues around construction procurement.
- 1.10 This report is intended to inform the process of establishing a successful way of addressing not only KCC's future construction needs, but in supporting Kent's future construction needs.
- 1.11 KCC's procurement strategy states that the County Council is embracing its role in promoting and implementing the 'Rethinking Construction' principles to improve efficiency and cost and timing certainty. However, the current practice, in which each directorate engages the construction industry *through* KCC's property group, rather than the Property Group as a service provider engaging the construction Industry on behalf of its clients.
- 1.12 KCC currently have a reducing commitment to support Mouchel-Parkman, a design and management consultancy set up as a result of the last revision of the Property Group. Although this relationship has been mostly successful, it engages the construction industry using the traditional procurement route, and consequently we see tenders that differ from the initial feasibility studies. We may also see some escalation in costs after the tender has been accepted due to the pressures lowest cost tendering puts on the successful contractor to create profit from unspecified or ambiguous items in the original tender.

⁴ Cabinet member for resources, 13th May 2004

Definitions Used in this Report

1.13 For clarity, here are definitions of terms used frequently within this report. Evidence presented to the Committee contained these terms frequently, and whilst there has been much consistency in the use of these terms, the definitions used and the application of these terms has been taken in the context of the evidence during which they were given to ensure consistency of meaning for the reader.

Builders:

Those companies delivering building services, including project management, and distinguished by their direct labour force. These companies are typically local and medium to small in size⁵.

Client:

The client is primarily the source of the commission of a project or job, and is therefore the person or group to which the service is ultimately provided. As such, it can include the end users of the completed works.

Contractors:

Those companies delivering project management services, including the contracting and sub contracting of other parties. This group can be identified by their lack of direct labour⁶.

Constructors:

Any organisation within the construction industry involved in the management and or delivery of building work.

Frameworks:

Agreements between the client and construction industry that typically lay down the standards required from a constructor, the amount of work allocated over a specified period of time and any review and renew criteria to ensure the agreed quality of provision is met. Several constructors may enter into a single framework agreement. Individual contracts for works may be awarded within a framework.

Greening:

The development and implementation of environmental performance measures across a number of priority areas. These include waste, water, energy and supporting the engagement of these principles with those KCC work with. This activity can have particular benefits, for example reduced running costs (whole life costs) for public buildings.

Lean Thinking:

The general philosophy of constant improvement championed and developed by Toyota that seeks to remove all from the supply chain that does not directly contribute value to the end product and client. Whilst a generically

⁵ Architect representing Clague Architects, 26th May 2004

⁶ Architect representing Clague Architects, 26th May 2004

well known concept, Lean Thinking was particularly highlighted by 'Rethinking Construction' as a methodology suitable for the continuing refinement of supply chains within the construction industry.

Open Book Accounting:

A level of access to partnering organisations accounting data that would not normally have been available under a conventional procurement method.

Partnering:

The development of client centred long term relationships with constructors and within formal agreements. Particularly involving the supply chain at the design stage but not exclusively.

Regeneration:

Major redevelopment of significant parts of the public realm, often a town centre, with an emphasis on the built environment. This work is designed to draw inward investment in and is linked with the creation of jobs and subsequent wealth.

Stakeholder:

Any party with a vested interest in the construction project, but not necessarily actively involved in the delivery of the project. For example a teacher could be a stakeholder in a project to build an extension to a school, and would have an important contribution to make towards the type of specification and practicalities of the end product. However, a teacher is unlikely to have the necessary skills or knowledge to actively manage a project or to determine and acquire precise specifications.

Sub-Contractors:

Usually small companies and individuals, occupying the various skilled trades. Traditionally, this group is highly mobile and tends to be drawn into the housing market where rates of pay, due to competition for skilled labour, are highest.

Supply Chain:

Any part of the production process, including the client, users of the end product, designers, builders, and suppliers of materials and services.

Supporting Independence:

Activities that encourage and enable the independence of the people of Kent, in keeping with Kent County Councils strategies as detailed in 'The Next Four Years', 'The Annual Plan', as drawn up in the 'Kent Partnership' and, in particular, the broad challenges laid down in the 'Vision for Kent'.

Sustainability:

The (phased and co-ordinated) provision of quality community, environmental, economic and social infrastructure. Delivered through innovative and high quality design, construction, and resource efficiency in construction and in running costs. Improving the built environment and the creation of jobs to support economic independence. It also includes the

development of appropriate infrastructures such as the provision of education, health and community facilities, and transport.

Traditional Procurement:

The engagement of the industry for individual projects. A project manager, usually an architect or a quantity surveyor, is engaged who then initiates the design process. The project is tendered on the design using a lowest cost basis. Once the tender is accepted, the successful candidate engages in the procurement of services and materials required to deliver the project.

Whole Life Costs:

The entire cost of a building from and including its design and commissioning to its decommissioning as council property.

Executive Summary

- 1.14 This Select Committee has looked at the way in which KCC currently engage in the procurement of construction work, canvassing the views of the industry itself through a cross section of businesses and professionals within it and by comparing practices with other County Councils. The background to this review has been that of the substantial capital spend planned for the next 3-4 years, and the need to strive for the best possible value in a climate that continues to reduce the amount of funding available through central government.
- 1.15 Furthermore, the Committee has identified a broad reaching willingness within the construction sector to engage with contracts that not only relate directly to the specification of the project, but of the activities of that company engaged in the delivery of the project. These stipulations can be to deliver training on an ongoing basis, or could be related to planning requirements. By utilising such measures, KCC has a powerful lever in ensuring a contribution is made to wider strategic objectives when it spends money on this scale, an opportunity currently neglected.
- 1.16 The Committee has heard gathered evidence from 3 other County Councils, each of whom have different approaches to the procurement of construction, but all of which share common traits in their approaches. These alternative models represent valuable learning for an authority wishing to maximise the impact it has on its goals through strategic application of its capital.
- 1.17 Currently, the construction industry operates within a hierarchy, with designers at the top, through to casual labour at the bottom. Within this informal structure, an adversarial engagement with the client is traditional, driven by lowest cost tendering based on a design that those tendering for have had little or no opportunity to engage with and value engineer. This process is also largely regarded as a one off process.
- 1.18 In 1998, a task force was assembled to examine the construction industry, and how it might best approach reorganising itself to overcome skills shortages, a poor record in Health and Safety, unsustainably low profit

margins, and regular failure to deliver projects on time and to cost. The report is commonly known by the surname of the chair of the task force that compiled it, Sir John Egan.

- 1.19 The primary recommendation of the Egan report was that the client should take a strong lead in partnering the construction industry. This would be the key driver in changing the way that constructors approached projects, as without client insistence, there would be little immediate incentive to change existing culture and practice.
- 1.20 Egan also strongly advocates the engagement of the supply chain at the design stage of a project as the best vehicle for delivering value. Expertise and knowledge of the market existing in the supply chain is presently unable to influence the design of the project. Inclusion of this advice can help identify problems with materials and services that lead to increases in costs to the contractor and client. These problems also lead to time overruns, which may also add cost to the project.
- 1.21 This process of identifying problems at the design stage and planning solutions for them is referred to as value engineering.
- 1.22 Further gains can be made by long-term relationships being fostered with the supply chain including the client. These relationships often exist informally already, but there is more to be gained for all parties involved, particularly when continuity of work can be provided over a period of time, as this allows for refinement not previously considered worthwhile for one off projects.
- 1.23 The Committee sought evidence from other County Councils who have chosen to pursue partnering. Norfolk, Suffolk and Hampshire were all visited, and the Warwick Manufacturing Group Collaborative Working Centre visited Kent to participate in the Committee. This latter group has extensive experience of the public sector as a consultant facilitating change to partnering approaches. The Warwick Manufacturing Group has also worked with KCC in the past. This Committee also sought evidence from the NHS, who have embarked upon a scheme called 'Procure 21'. Procure 21 is the successful setting up of partnership working to deliver NHS building projects at better value.
- 1.24 All these groups were strong advocates of setting up framework agreements, with a rigorous selection process, then to partner the successful candidates using supporting contracts for individual projects within the frameworks. They also suggested that to be successful in setting up this way of working, an organic approach to change should be adopted, as opposed to trying to acquire all the skills and knowledge required in one go. This enables tailoring to local culture, facilitated effective change, and also promoted opportunities to involve new partners, both internal and external, to participate in the changes in culture required.
- 1.25 In practice KCC currently have a fragmented approach to procurement of construction work. This is largely due to the responsibility for new works lying

with the directorate holding the budget, and KCC's Property Group placing the project as directed. The alternative would be for the Property Group having responsibility for delivery of the project by the most appropriate means, for the directorate as a client. To do this, Property need to have the power to make decisions on behalf of the client. Giving the Property Group autonomy with regard to the management of the engagement of the construction industry would enable a strategic approach.

- 1.26 To be able to ensure an appropriate level of service, KCC Property Group should audit the skills of its current staff and provide training where required. This training should be on an ongoing basis and may eventually be offered to partnering constructors to enable them to fully participate in, and benefit from, working with KCC. This training should seek to equip KCC's Property Group with the skills it needs as they are identified, as this promotes the most fluid and effective transition to framework and partnership working.
- 1.27 More work needs to be done on the consistent evaluation and benchmarking of constructors used by KCC. This should include a means of systematically evaluating on an ongoing basis all constructors who work with KCC. However, the current approved contractor list is in practice inaccurate and overly cumbersome. This has been tackled in the past, but the list is currently re-growing due to constructors approaching their representative county councillor to be put on the list. The Property Group is then required to reinstate or add names to the list, currently at the rate of 150 names per year. At the time of writing the list stands at approximately 400 names. The reality of the list is that comparatively few names are used. The perception of the constructors must therefore be incorrect, but remains uncorrected.
- 1.28 Although a number of witnesses indicated that the use of local labour could be specified within framework agreements, this is not the case where the contract value exceeds £2.5m. However, local constructors tend to be used anyway, provided that they provide the quality specified by the client. Some of the concerns expressed by those who may feel threatened by exclusion from the list can be dealt with through forums and workshops run in conjunction with local chambers of commerce, and other appropriate bodies.
- 1.29 To be able to offer constructors the value, volume and continuity of work required to maximise the benefits of this type of approach, KCC should reappraise its list of approved contractors. The resulting list, access to which can be decided by tendering for framework agreements, should be reduced and banded by price. This approach is utilised with success by NHS Estates, Norfolk County Council (NPS), Suffolk County Council, and Hampshire County Council. However, tendering should be both rigorous and evidence based, including site visits, and a willingness to work with open book accounting.
- 1.30 Frameworks should also include regular conditional reviews, by which a contractor who fails to reach or maintain sufficient standards of work can be removed from the framework agreement, without recourse to litigation. Other constructors involved in the same framework can then step in. This

arrangement keeps a competitive element in the framework, whilst offering both incentive to the constructors taken on, and protection from complacency for the client.

- 1.31 With the contingency offered by regular formal reviews of quality, frameworks could and should be for periods of time from 2 to 5 years. Further contingencies can be added through 'options to renew' clauses.
- 1.32 There are current shortages in skilled trades in the construction industry. These shortages are increasing, as the demand for new build, particularly housing, continues to grow. The housing market traditionally offers the most attractive pay, and absorbs subcontractors from the construction industry who would otherwise be available to work elsewhere. Eastern European tradesmen are filling some of these skills shortages. Although likely to be a medium term solution, these tradesmen often possess better numeracy and literacy levels than many of those currently attempting to enter the industry.
- 1.33 The scale of the problem is large and growing. Effective training is made difficult by the lack of basic literacy and numeracy in many school leavers. There is also a perception that the construction industry is not a highly paid vocation, so therefore is not seen as attractive by potential candidates for recruitment from those considering entering, or already in, higher education. This group may otherwise enter construction and be engaged in vocational training and qualification. Those qualifying this way can realistically expect higher earnings and no associated debt compared to graduates entering the job market.
- 1.34 There are a number of training schemes sponsored by the construction industry at present. A demonstrable commitment to ongoing training should be a contractual obligation for those working with KCC. This commitment would be most effectively supported by the adoption of framework agreements that give continuity of work over an extended period.
- 1.35 KCC should actively seek out and encourage innovation in the construction industry. This should emphasise the ability of the supply chain to influence construction practice through the development and supply of items and services that save time and money through the innovative use of materials and design, including modular design.

RECOMMENDATIONS OF THIS REPORT⁷

- (i) KCC Property Group should be empowered to procure building contracts using frameworks and partnering arrangements.
- (ii) KCC Property Group should undertake an audit of existing SKILLS in order to establish a team within the Property Group to manage the County Councils building programme in a cost effective manner.
- (iii) KCC's Property Group should, drawing from other County Councils experience, work with constructors in Kent to establish an appropriate benchmarking system that includes the client, for construction work.
- (iv) KCC to commit to a systematic two stage framework and partnering approach, given the willingness of the construction industry to adopt this way of working.
- (v) A standing committee to be established and to include:-
 - (a) a representative of each political party;
 - (b) Key officers in each of the Directorates

This group will monitor the Property Group in the execution of its function as and when required, and the oversight of the review, inclusion and structuring of the approved contractors list, including the financial banding of construction work.
- (vi) Members should be given a clear understanding of both the role of the Property Group within KCC and how it executes its function.
- (vii) Property Group to market their services to internal clients, and where appropriate school boards.
- (viii) The Select Committee report on Vocational Pathways should be revisited and linked to both the urgent need for effective basic numeracy and literacy provision in mainstream primary schools, and also a strategy that ensures that vocational options are available as a right to learners of all abilities.

⁷ These recommendations are consistent with, and/or contribute to the long term strategies and targets for Kent as described in:

- Vision for Kent (the nine themes)
- Supporting Independence Programme (the nine archetypes)
- What Price Growth (the four Kent Tests)
- Service specific long term plans (e.g. Structure Plan, Active Lives)

They are also consistent with the medium term strategies and objectives as described in or through the following:

- The Next Four Years
- Local Public Service Agreement
- Best Value Performance Indicators
- Comprehensive Performance Assessment 2005
- Strategic Risk Management and/or Efficiency
- Customer Care and/or Local Delivery
- Service specific medium term plans and strategies

2. Background Information to This Review

The Development of the Industry

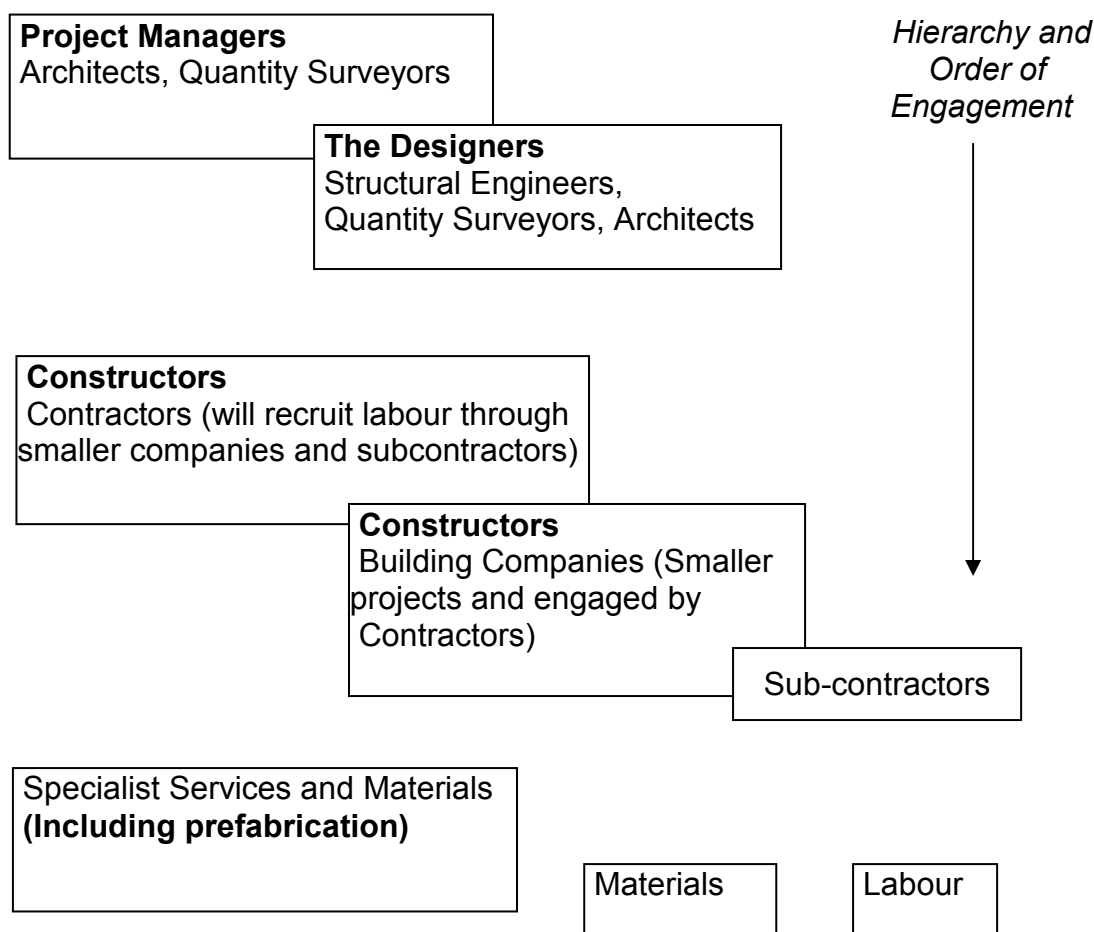
This section of the report considers background information on the construction industry, including an overview of the structure of the industry, how it operates as a whole, and some history to gain understanding on both the current standing of the industry and the advent of the Egan review.

- 2.1 The construction industry has grown out of the guilds formed by the various crafts over several hundred years. As such it is a multi tiered entity, with each tier occupied by specific groups of professions, and those tiers traditionally engaged by those directly above them.
- 2.2 In the nineteen eighties, the building industry, which has tended to reflect the economy, was booming. Although there was plenty of work, there was also plenty of competition, with lots of emergent and expanding businesses. In 1988 the UK economy suffered a major setback. Consequently, the construction industry suffered, and though many companies managed to survive, the competition for what work was available was fierce. In the early to mid nineties however, there was a recession that finally threw the industry into crisis. Many tradesmen, approximately 500,000 left the industry⁸. A large number of those skilled tradesmen that remain are now ageing and are likely to retire in the next ten years. One outcome of this already beginning to impact on those engaging the construction industry is that the reduction in skilled tradesmen is driving out competition for work. With fewer individuals to provide the services required by the client, some constructors, particular subcontractors, simply go where the pay is highest, in turn raising costs for anyone who does not employ their own labour. This movement of tradesmen to the highest paid work, often house building, is a threat to productivity through the interruption of delivery of services.
- 2.3 Another outcome of the economic crisis in the eighties and subsequent problems in the early nineties was that the industry was no longer able to sustain apprenticeships, which also fell out of favour across many industries at that time. In order to survive the recession many constructors reduced their workforce in an attempt to cut costs. The burden of training was effectively passed to smaller companies who had retained tradesmen but who were then competing with constructors who had lower overheads and consequently more flexibility to win work on price. As the construction industry continued to advocate lowest cost tendering, companies who supported training found it increasingly difficult to survive on lower profits whilst trying to maintain continuity of workload required to support themselves. With the second crisis and the loss of so many skilled people, the problem largely sorted itself out with an existing honed down and skilled up work force, with fewer competitors in the (reduced) market place.

⁸ Director and Development Manager, Wallis Builders (Kier Group), 26th May 2004

2.4 We still see a similar situation, with the industry actively engaged in training candidates who have already actively engaged in construction. However, those engaged in delivering or sponsoring training are restricted by the need to forecast workload to pay the additional costs involved. Furthermore, the basic educational attainment of candidates entering the industry continues to inhibit both the timely attainment of the required standards, and the training industry's ability to deliver appropriate training effectively. An additional pressure on constructors who engage in training activity is competition for work from others that do not support training, and therefore do not have the additional costs to factor into their calculations when tendering⁹.

Illustration of the tiered structure of the construction industry and how it is engaged by the client and subsequent tiers



2.5 Particularly at the top of this tiered structure, competition exists for the role of project manager. Either an Architect or a Quantity Surveyor fills this role. Both will employ the other as a necessary part of the design team, but equally both have traditionally conflicting views on the suitability of the other for the job, no doubt partly fuelled by being direct competitors for the same work. Architects see quantity surveyors as overly pragmatic with no concern for design, whilst quantity surveyors see architects as overly concerned with

⁹ Director and Development Manager of Wallis Builders, (Kier Group), 26th May 2004

design, with insufficient attention to pragmatism. Both engage a structural engineer to ensure that the design can be built.

- 2.6 The design group, comprising the industry 'professionals', namely the architect, quantity surveyor and structural engineer primarily, then produce a document that is submitted for tendering. At this point in the process the project design is non-negotiable. This is the first contact with the supply chain, and initially goes to contractors and/or builders depending on the size of the project. (Broadly speaking, contractors do not employ direct labour, whereas builders do.) Constructors interested in taking the project will put forward tenders based on the scheme as submitted for tender, and will have little means to influence the design.
- 2.7 Having tendered for the job, the successful constructor then approaches their supply chain to secure the best possible prices for the materials and services required to complete the job to the design team specification.

Adversarial Nature of the Industry and How this Drives Costs

- 2.8 This structure has been in place for several hundred years but has also developed an adversarial element whereby the cost of a job is outlined in a feasibility study, which in turn is often undermined by a number of factors. These are outlined below¹⁰.
- 2.9 Firstly, due to the way that a client hands over the design of a project to a design team, but realistically only engages with the project manager, additional design requests from the client continue to add to the initial costing without that cost being shown before the next stage of the execution of the contract, namely tendering.
- 2.10 Secondly, costings based on this initial design process have not yet included the supply chain, which may well have knowledge in providing more cost-effective solutions. Any savings made here are entirely for the benefit of the constructor, and are not passed onto the client.
- 2.11 Thirdly, an important part of both tendering and design is the development of a scheme that is as inclusive as possible to ensure that there are as few as possible unspecified areas that could be billed in such a way as to 'recover' profit. This area is one that is traditionally utilised by the industry as a means of recouping the voluntary erosion of margin required at the tendering stage to win the work. Furthermore, there is no incentive to eliminate this aspect of construction procurement, as the project manager draws income for the life of the project, even when that is as an arbitrator sorting out any disagreement about the billing for a job. This has led to a legal trade resulting from the ensuing litigation and also serves to extend the cost of a project as well as the lifespan.

¹⁰ Professional Services Manager, KCC Property Group presenting the RIBA plan of work, 4th May 2004

- 2.12 Fourthly, whenever delay or additional costs occur in the supply chain, it is the client who pays, directly or indirectly.

The Role of the Project Manager

- 2.13 The role of the project manager is to liaise with the client and design team. It is also the role of the project manager to negotiate, arbitrate and litigate to resolve issues for the client. As previously mentioned, these issues arise from those contracted to build looking specifically for unspecified items that can be charged at rates to offset the low margin generated by the competitive tendering process.
- 2.14 The project manager is also responsible for ensuring that the works he or she is commissioned to provide are profitable for his or her own employer. Although priding itself on its professionalism, there will always be a fundamental conflict of interest in this area for the building industry's 'professional' trades.

The Role of the Client

- 2.15 The role of the client in the traditional procurement route is to select the project manager, liaise with the designer, although in practice this often means discussing a brief with the architect rather than simply selecting from those submitted the scheme to be built. On larger projects, a number of architects can compete for the work by offering a design scheme to the client whom, by selecting the scheme they prefer, select the architect and therefore project managers. This completely negates any input from the rest of the supply chain.
- 2.16 The role of the client can therefore be summed up as the initiator of the supply chain, but with very little contribution to it after some initial discussion at the feasibility stage. The client has largely ceased to input by the time the project reaches the tender stage.
- 2.17 The client also pays for the project, including any miscellaneous costs arising from delays, inefficient use of labour, any items or services not specified on the tender documents, as well as litigation, and of course the lack of use of the building if the delivery of the project is delayed.

Supply Chains

- 2.18 Supply chains in construction have been subject to the same commercial pressures as the construction industry, and have seen many of their clients disappear due to competition. Consequently, they have refined their operations and have the capacity to offer reductions in costs if engaged in a project early on.
- 2.19 Dealing with the supply chain using the traditional procurement route and looking for lowest cost on specified items simply encourages the supply chain to hold onto any advantages they can already achieve from the effective

management of their stock and supplies. Their early engagement can encourage the discussion of the use of alternative materials, and resources to deliver a comparable design specification at a reduced cost.

- 2.20 By involving the supply chain in a partnering arrangement, the further refinement available through continuity of relationship and work can achieve not only lower costs on goods, but also fewer delays, with less risk to the constructor and the client.

3. Skills Issues

The Role of 14-16 Education and Perception of Industry as 'Manual'

3.1 This growing skills shortage is being tackled by a number of schemes from within the building industry itself, but this needs qualification as there are underlying issues affecting not only the recruitment of suitable candidates for training, but also the delivery of that training. Currently, the industry needs a large number of new people each year to meet demand in the UK. This can be broken down for the southeast as follows¹¹: -

- 1700 Carpenters
- 1300 Brick layers
- 1500 Electricians
- 1800 Managers

Although no figure was given for plumbers, of a sample of 470 companies surveyed nationally in 2003, 54% were experiencing shortages in this skill area.¹²

3.2 The building industry is not seen as a 'profession' for those with a good standard of education seeking to enter a professional environment. The industry is traditionally seen as one occupied by those engaged in the more physical aspects of the working environment. Whilst difficult to quantify, it can also be said that the industry suffers from a perception that either its workforce are in some way dishonest, or simply not as clever as they could be. Both these views are consistently portrayed in the media, and have been for a number of years. As an example of this, Anglia television made a 'World in Action' documentary on timber framed housing construction in 1983, which condemned that particular method of construction. The impact of the programme had a 'cataclysmic'¹³ effect on the industry, which took years to recover. As a measure of the impact of this highly criticised programme, transcripts are still easily found on the Internet. The same programme made another documentary on 'cowboy' builders, which was aired just after National Construction Week. On its website a trade magazine, the Contract Journal, draws the comparison between cowboy builders and constructors who have benefited from spurious claims on multi-million pound contracts, asking the question, 'What's the difference between the two?' No doubt a consequence of the adversarial culture of lowest cost tendering.

3.3 In 'Rethinking Construction', the ease with which cowboy builders enter into and operate within the construction industry is identified as sufficiently troublesome for the construction industry to need to address.

3.4 At the other end of the scale, those occupations that the industry regards as professional, particularly architects, are frequently seen as disconnected from

¹¹ Director and Development Manager, Wallis Builders, (Kier Group), 26th May 2004

¹² www.CITB.org.uk/research

¹³ www.contractualjournal.com

the reality and functionality of the buildings they design. Particularly in high profile projects where forecast versus actual costs, due to the adversarial nature of the industry, give the appearance of poor initial design causing unanticipated increases. General ignorance of the other elements of construction professionals' roles contributes to these stereotypical and critical views.

- 3.5 The current government target for 50% of students to go on into higher education has a negative impact on vocational training opportunities. Those candidates not immediately attracted by university are drawn in by degrees on less traditional subjects, and are therefore dissuaded from entering employment and training within the industry itself. These candidates are particularly important because they are of a higher academic calibre and could fulfil the industry need for future managers¹⁴.
- 3.6 There is a growing glut of graduates, creating competition for employment and adversely affecting the earnings potential for this group on leaving colleges and universities. The earnings potential at 22 years of age may well be greater with appropriate training in the construction industry than for a graduate leaving higher education¹⁵.
- 3.7 This group may also be swayed by the general perception of construction as outdoors and dirty work, particularly in the winter, and are unaware of the improvements in working conditions in construction over the last decade.
- 3.8 Although driven by market forces, the training industry currently does not provide sufficient places to meet demand for vocational skills training. Demand is on the increase though due to the rising perception of high potential earnings for such trades as plumbing¹⁶. It can also be observed that the training industry in Kent is fragmented. Some of this fragmentation is driven by competition for particular types of training which attract funding¹⁷ and a general short-term approach¹⁸.
- 3.9 The view that the construction industry does not require much intelligence to enter into successfully is also perpetrated by schemes that, however laudable, and however intelligent the candidates may be despite the nature of their entry to such schemes, recruit young people who are on the verge of exclusion from school.
- 3.10 There is a view that the failure of the education system to provide young people with an opportunity to experience manual skills denies some not only an opportunity to engage in education in the first place, but also devalues the worth of such skills, whilst failing to prepare them for life in the 'real' world.

¹⁴ Managing Director, Baxall Construction Ltd, President NFB West Kent Assoc., 26th May 2004

¹⁵ Director of Business Development, LSC, 22nd June 2004

¹⁶ LSC *Strategic Area Reviews, 2003-4 Assessment*.

¹⁷ *Transforming Swale, A learning and Skills Strategy*

¹⁸ Chief Inspector of Schools, Financial Times 5th May 2004

- 3.11 It should be pointed out at this stage that there is already a Select Committee report on Vocational Skills, which is available for further information on this particular facet.
- 3.12 This approach to providing training to meet the needs of the nations construction demands in the coming years also highlights a significant problem faced by the construction industry, namely that those seeking to enter it do so at the lowest level in the industry, and frequently have insufficient basic skills (numeracy and literacy, both essential to read plans and instructions), to be trained effectively. The training resource is taken up by tutoring basic numeracy and literacy. This is a significant problem for those in both further education and the delivery of training.¹⁹
- 3.13 The Government has applied a target of 28% of young people aged 22 or under to be entering into apprenticeships by the end of 2004. However, a significant barrier to the success of this target is the large number of Small and Medium sized Enterprises (SME's) that make up the industry. In Kent, the number of businesses is approximately 59,000 of which 25% employ 5 people or fewer. These SME's have little or no infrastructure to support training, and in a buoyant market place pick and choose jobs for maximum profitability²⁰.

Industry Provision

- 3.14 Industry provision takes three basic forms. All three approaches are to be found in those constructors with direct labour forces. It is worth noting however that not all constructors are engaged with training activity. As a consequence, some constructors feel that they are not competing for work, generally following the traditional route, on a 'level playing field' due to the extra costs that training incurs.
- 3.15 The three main ways of engaging with the skills issue are:-
- (a) In-house sponsored training. This can take the form of actively seeking to recruit students and may include helping to pay for tuition.²¹
 - (b) Existing sponsorship for constructors who are members of the National Federation of Builders. This scheme levies a 1% charge on members of the Federation, which is then paid back to employers to help with developing staff.
 - (c) National initiatives such as On Site Assessment and Training (OSAT) which is a fast track to NVQ qualifications and enables access to the Construction Skills Certification Scheme (CSCS). The OSAT scheme makes grants available to the employer to help pay for the individual

¹⁹ Director of Business Development, Learning Skills Council, 22nd June 2004

²⁰ Director of Business Development, Learning Skills Council, 22nd June 2004

²¹ Partners of Lee Evans Partnership, Architects, 26th May 2004

accessing the provision, and has the advantage of allowing someone to train 'on the job'.²²

- 3.16 Constructors who have supported training initiatives have experienced newly qualified staff leaving for more lucratively paid jobs with other companies. The draw of higher salaries in London is a problem, as is the skills shortage causing subcontractors to charge more for their services²³.

Basic Skills Impacting on Training

- 3.17 Schemes are aimed at those in school, typically 14–16, and those after school, are targeted at predominantly young men who see no benefit to academic training. This group is either at risk of leaving school early²⁴, or who are likely to have underachieved academically. This means that basic numeracy and literacy levels are low on entering training resulting in training resource being spent on bringing those basic skills up to a standard that is acceptable.
- 3.18 If those people being successfully recruited to the scheme see little benefit in academia, it seems logical to conclude that not only will they have lower levels of attainment than average to start with, but that their very presence on the scheme indicates they do not believe that the construction industry requires those skills.

Supporting Industry Training

- 3.19 For a constructor, usually a builder, to make its training initiatives viable on any scale it needs to have continuity of work to ensure that there is sufficient income and activity to provide for the employees' development. Although a willingness to enter into contractual obligations to be involved in training has been expressed by the industry²⁵, a suggestion was made to hold a forum whereby the views of local constructors could be canvassed²⁶ by KCC's Property Group.
- 3.20 The ideal vehicle for engaging with and supporting the construction industry skills agenda would be through framework agreements, whereby guaranteed work would be tendered for based on evidential criteria, one of which should be training activity.

²² www.citb.org.uk/training_qualifications/osat/support.asp

²³ Architect, Clague Architects, 26th May 2004

²⁴ Political Editor, The Observer, 9th May 2004

²⁵ Director and Development Manager, Wallis Builders (Kier Group) 26th May 2004

²⁶ Architect, representing Clague Architects, 26th May 2004

4. The Egan Intervention

Why Egan

‘Rethinking Construction’ and ‘Accelerating Change’ by the Construction Task Force chaired by Sir John Egan

4.1 The review of the construction industry was set up by the Deputy Prime Minister under the heading Construction Task Force in 1997 against a background of deepening dissatisfaction both within the building industry and amongst its clients. The Task Force used as a starting point, and broadly agreed with, an earlier report by Sir Michael Latham in 1994. Membership of this taskforce is detailed below: -

Sir John Egan	Chief Executive, BAA plc
Ian Gibson	Managing Director, Nissan UK Ltd
David Gye	Director, Morgan Stanley and Co Ltd
Prof. Daniel Jones	Director, Lean Enterprise Centre, Cardiff Business School
Anthony Mayer,	Chief Executive, Housing Corporation
Sir Nigel Mobbs	Chairman, Slough Estates and Chief Executive, Bovis Homes
Sir Brian Moffatt	Chief Executive, British Steel plc
Alan Parker	Managing Director, Whitbread Hotels
Mike Raycraft	Property Services Director, Tesco Stores Ltd
David Warburton	GMB Union

4.2 The members were chosen for their expertise as construction clients, and also for their extensive experience of other industries that have improved their performance through the implementation of dramatic changes over the preceding two to three decades driven by the customer and the need to simply survive the competition. To help clarify the scope of Egan’s review the terms of reference for the Task Force are included below: -

The Terms of Reference of the Construction Task Force

To advise the Deputy Prime Minister from the clients’ perspective on the opportunities to improve the efficiency and quality of delivery of UK construction, to reinforce the impetus for change and to make the industry more responsive to customer needs.

This would be achieved by:-

- Quantifying the scope for improving construction efficiency and deriving relevant quality and efficiency targets and performance measures that might be adopted by UK construction.
- Examining current practice and the scope for improving it by innovation in products and processes.

- Identifying specific actions and good practice which would help achieve more efficient construction in terms of quality and customer satisfaction, timeliness in delivery and value for money;

Identifying projects to help demonstrate the improvements that can be achieved through the application of best practice.

The Deputy Prime Minister expressed a wish to be advised especially about improving the quality of house building

Egan's Findings

- 4.3 The task force clarified the state of the construction industry at the time, and identified measures by which improvement could be made and measured. It also looked at the perception of the industry as a whole, both internally and externally.
- 4.4 The review determined that the construction industry was operating on very low margins, around 2%, driven primarily by the need to tender for work on a lowest price basis, and the profit coming from the constructors ability to find savings elsewhere, or to bill for items not specified or ambiguously described in the contract.
- 4.5 These low margins directly related to unsustainable levels of investment in the industry. Trainees were falling, there was little or no career structure to develop supervisory and management grades, and little or no training to ensure staff were gaining the skills required to get the full value from new techniques and technologies. In in-house research and development investment had fallen by 80% since 1981. The combination of which was that there were a declining number of managers within the business able to understand and make use of new methods and materials in construction.
- 4.6 Client satisfaction was minimal, with lowest price often being equated to lowest cost. This was seen as a strong culprit for preventing change within the construction industry, particularly within the public sector where accountability was being interpreted in this very narrow way. The public sector also provided the UK construction industry with around 40% of its entire work load, so had and indeed has a great deal of influence with the construction industry.
- 4.7 Surveys commissioned by the British Property Foundation and the Design Build Foundation in 1997 indicated that over one third of major clients were dissatisfied with contractors falling behind schedule, resolving defects, keeping to price, constructing buildings that failed to meet their functional business needs, and whose whole life costs were excessive.

- 4.8 The size of the construction industry in 1997, albeit a diverse and multi-faceted industry, made it one of the pillars of the economy, employing at that time 1.4 million people, with an output of approximately £58 billion.
- 4.9 The UK construction industry was also recognised as, at its best, ingenious and innovative, able to deliver world class projects both at home and overseas. Its workforce willing and adaptable, giving flexibility to the industry on a par with anywhere else in the world.
- 4.10 The view that Investors in the City of London had of construction was that it was unpredictable, couldn't compete on quality, which negated its ability to compete on price, and had too few barriers to prevent entry to the market place by poor performers. These factors meant a lack of confidence in investment terms from the City, whilst this cycle was promoted by the clients of and investors in the industry having too few names that could be trusted to deliver quality at the required standard and therefore could not be considered for investment.
- 4.11 At this point it is helpful to recall that Egan's review primarily gave a single voice to the concerns already being aired by the industry itself. Indeed, the measures proposed by the task force to help the industry recover were already being utilised by a number of companies. The key to improvement was, in the view of the task force, the client taking a strong lead in the relationship with the constructor. In other words, the industry needed to be focussed on the client, and not on its own internal interests that were and still are a direct product of the traditional adversarial approach.

The Alternative to Traditional Procurement

- 4.12 The Task Force suggested a plan of action that would offer sustainable improvement for the industry. It centred on improving the project process. Egan's view still has critics today, though they mostly come from those who would be directly involved in the traditional design roles and who are therefore advocating the adversarial approach:-
- Repeated processes.
 - Integrated project process.
 - Focus on the end product through the following areas:-
 - Product development
 - Project implementation
 - Partnering the supply chain
 - Production of components
 - A methodology for sustained improvement, namely 'lean thinking'.
- 4.13 The task force then went on to discuss ways that improvement could be enabled. These suggestions centred on a sustained commitment to change the culture and therefore the negative perceptions of the industry by both those seeking to utilise it, and those who could be recruited to it.

- Decent working conditions, leading to reductions in accidents and costs.
- More and better training.
- Design for construction and use.
- Standardisation of components.
- Use of technology as a tool.
- Better regulation.
- Long-term relationships or alliances throughout the supply chain, using performance management in favour of contracts.
- Reduced reliance on tendering. In the public sector, this would likely mean the adoption of framework agreements to meet competition obligations.

4.14 In the summing up of the report, the task force drew particular attention to the role of the public sector as leaders in driving the construction industry to change, as the industry's major client.

The Industry and the Will to Change

4.15 Whilst this Select Committee heard evidence from various witnesses, the subject of Egan met with a variety of initial responses. Those actively engaged in partnering, for instance Wallis' and those representing the National Federation of Builders, were all very positive about the benefits to them as a business. (It should be stated that the context for their comments was related to an understanding of partnering within framework agreements.)

4.16 Although occasionally cynical of Egan's review and subsequent findings, witnesses went on to describe the benefits of long term relationships and also partnering with the supply chain to eke out cost reductions. Those offering the most negative response to Egan were those whose trades are traditionally top of the construction 'food chain' and who benefit most from the traditional methods of engagement on behalf of the client.

4.17 The industry has a will to enter into this new way of designing and delivering projects. Though there are pockets of resistance, everyone who attended the Select Committee as witnesses spoke about the benefits of working within long term relationships. Most companies can see the benefits individually and for the entire industry. There remain some questions about the terminology of 'frameworks' and 'partnering' that needs clarification in some cases, but provided constructors have the opportunity to be involved, they are supportive.

4.18 Representatives of the industry not only expressed support for the principles at the Task Force's recommendations, but also suggested that KCC goes out to the industry through appropriate bodies to canvass opinion about how best to go forward into framework and partnering agreements.

4.19 Those constructors not willing to be involved would automatically exclude themselves from the tendering process for frameworks or from the partnering arrangements with the project management group.

- 4.20 The construction task force work built upon an earlier report carried out by Sir Michael Latham in 1994, and was itself the subject of further expansion in a report by the Strategic Forum For Construction in 2002, again by Sir John Egan, called 'Accelerating Change'. This report tackled the barriers to change, but the messages are the same. Teams consisting of the client, those who would occupy and use the completed building, designers and supply chain working across several projects, to deliver better buildings, with fewer defects and fewer accidents for the workforce. It also reiterates the need for a client led project, and identifies the need for the client to have a procurement strategy.
- 4.21 'Rethinking Construction' and 'Accelerating Change' are the foundation documents for the construction industry, and those working with it and through it, to understand and implement changes to the traditional adversarial approach.
- 4.22 This approach brings sustainable benefits to all prepared to enter into long term, integrated, and client focussed and led project delivery. A significant part of the construction industry now appears to recognise this as the way forward, particularly when dealing with large organisations, including the public sector.
- 4.23 Accepting that commercial pressure is a factor in the willingness of constructors to engage in this way, it is important to recognise that the benefits of working this way are mutual and inclusive of client and constructor alike. In fact, getting away from 'cheapest price' is the only way to dramatically improve construction in this country²⁷. It can be argued this development is merely an outcome of market forces, and that it also represents a significant and proven opportunity for the public sector.

²⁷ Director and Development Manager, Wallis Builders (Kier Group), 26th May 2004

5. The Public Sector and Construction

Kent County Council's Current Strategy and Construction Work

- 5.1 Kent County Council's current strategy and targets for construction work appears to be coherent. The capital strategy quite clearly ties construction to KCC's overarching goals. However, as these plans get broken down to the directorates, and further still to business units, these overarching 'principles' are lost amongst the apparently more immediate concerns of day-to-day business. Spending money to further strategic objectives is left entirely as a by-product of building works that are commissioned by the various directorates. Construction work is seen as a means to an end, and not a valid activity in it's own right by KCC. By empowering KCC's property Group to determine and implement the most effective way to procure construction work, the capital available could be spent both more effectively and strategically.
- 5.2 Although much good work has already taken place, KCC's Property Group should be re-evaluated to ensure that it is most appropriately structured to take full advantage of partnering through frameworks to the benefit of KCC, the construction industry, and the people of Kent. This evaluation should also include the skills²⁸ required for this particular approach, and be revisited informally and regularly as a more effective working practice develops.
- 5.3 Whilst the property department would like to engage more effectively with the construction industry, it struggles to do so because of the current way that each directorate, who each exercise considerable influence over the Property Group, engages with projects. Because several different approaches are all being utilised by different areas of KCC at any given time, a co-ordinated attempt to drive more effective working arrangements is undermined. It also makes such tasks as benchmarking performance and effective evaluation and monitoring more difficult.
- 5.4 Kent County Council's engagement with construction is currently looking for opportunities to group projects together. In fact, other than this grouping of work for KCC's convenience, the outcome will not be different from the current method of engagement. It concentrates more on the reduction of unnecessary and costly tasks. An example of this is the refinement of the approved contractors list that currently features over 400 names, and appears to be increasing at the rate of 150 contractors a year. That the list needs regular maintenance and checking is obvious, yet despite this, relatively few contractors are used from the list.
- 5.5 Although there was initial political support for a reduction of the approved contractors list from 700 to 250 names, County Councillors appear to be supporting the re-admission of excluded names. The list is currently growing at approximately 150 names per year despite evidence that whatever the

²⁸ Warwick Manufacturing Group Collaborative Working Centre, 22nd June 2004

perceived loss of opportunity that being dropped from the list may appear to represent, the reality is very different.

- 5.6 Yet another example of the difficulty faced when trying to implement an improved approach to the engagement of the construction industry for capital projects is the limited grouping of projects for the Education directorate. This appears to be decided by negotiation with the directorate, and is driven by a desire to achieve lowest unit costs, rather than best value. 'Rethinking Construction' stated most clearly that getting away from cheapest price is the only way to improve construction in this country. Evidence is not hard to find to support partnership, with not only building projects with fewer defects being delivered on time, but also with noticeably reduced costs. The NHS Procure 21 scheme has seen costs for day care hospitals go from £2300m² to £1800m².²⁹
- 5.7 Elsewhere using successful partnering approaches, such as the 'Procure 21' scheme run by NHS estates, contractors are invited to apply to be on the list provided that they meet certain quality based criteria. These criteria may include such things as evidence of the support of or subscription to a training scheme, the employment of local people, a reduction in accidents on site and even production of evidence of the quality of projects undertaken. This open application to be on the list ensures both quality for the client and that the market place for work for the council as a client is open to all.
- 5.8 This approach has the advantage of making involvement with the scale of work available through the public sector possible for the construction industry, by putting the onus on those who wish to apply to do so. It also gives a clear mandate about the quality of service required by the public sector. To set up this type of working requires two key elements. Firstly, an audit of skills to ensure that the organisation delivering this approach is equipped to make the most of the opportunity. Secondly, the setting up of appropriate client led and inclusive groups to manage and drive the relationship with constructors.

The role of construction in the ODPM's plans

- 5.9 As issues of whole life costs, including 'greening' construction, sustainable skills and urban regeneration and better building converge, the government continue to move towards encouraging local government to meet these issues through the imposition of targets. Sir John Egan has once again been commissioned by the government to examine closely the skills issues facing the development of sustainable communities³⁰ and how to address them. Whilst construction is not the only industry that needs to pay close attention³¹ to the development of its skills base. In the same report, Egan identifies the role of Local Authorities in the delivery of sustainable communities.

²⁹ Senior Construction Manager, NHS Estates, 22nd June 2004

³⁰ *Skills For Sustainable Communities*, ODPM and RIBA Enterprises, April 2004

³¹ *Delivering Stability: Securing Our Future Housing Needs 2004*, a review of housing supply

Opportunity or Essential? Delivering Wider Objectives as a Local Authority

5.10 Here in KCC, the Strategic Planning directorate is working to pull the threads of a cohesive strategy together through the Regeneration and Projects division. Current activity includes the following³²: -

- KCC's Property Group to support development of a sustainable construction checklist for KCC new build and refurbishment, and the impact it may have on whole life assessments.
- There is an INTERREG IIIa project that will encourage a better supply chain to construction projects through the development of service directories.
- The Kent Sustainable Business Partnership is also leading an initiative that involves construction skills training that promote eco-enterprise as a part of the construction process through the use of recycled materials.
- There is work to encompass building in environmentally sound practices with partners through offering schemes that enable participants to work toward accreditation³³.
- The Kent Design Initiative which seeks to promote excellence in design and showcase design talent in Kent's construction industry.
- The development of KCC led Beacon demonstration projects in north Kent, supported by the ODPM.
- KCC is looking at S106 agreements to supply 'value added' specifications.

5.11 These initiatives are undermined by the way in which the construction sector is engaged by this authority. There is little or no pooling of knowledge or experience. This remains a reflection of the way in which the construction industry itself operates historically.

5.12 Again the suggestion has been made that KCC need to identify within the property group the skills³⁴ required to support a stronger relationship with, and therefore influence over, constructors through stronger project design and contractual specifications. Some work has already been completed on this subject. KCC also has an opportunity to work with other authorities who have already gained much experience in this field, such as Hampshire County Council, and who are members of the South East Centre of Procurement Excellence.

³² Sustainable Business Co-Ordinator, Economic Development Division, Strategic Planning.

³³ ISO 14001 through BS8555

³⁴ Warwick Manufacturing Group Collaborative Working Centre, 22nd June 2004

- 5.13 Local authorities are beginning to realise the value of the built environment as a tool in re-building and re-energising run down urban areas, and frequently we see articles giving details of such schemes. Given this developing scene, it must be seen as important to engage in practices that support the delivery of targets that reflect these developing priorities. It could be that funding for certain areas becomes dependent on performance in these areas.
- 5.14 It should be noted as well that PFI schemes have suffered consistent criticism both from the private³⁵ and public sectors³⁶. Having other ways of delivering large projects, whilst being able to benefit from long term relationships and refinement in the supply chain appears to deliver more than PFI can on its own. Indeed, partnering arrangements can and do encompass PFI schemes elsewhere. By entering into framework agreements, the element of risk involved in PFI schemes can be more effectively managed. A number of projects can be grouped into one framework offering reduced risk through improved supply chain management. This method may also attract different funding sources in the future.

Sustainability

- 5.15 The focus for capital spend is clearly on driving down unit costs via engagement with the construction industry using the traditional methodology in most cases. This philosophy does not take into account whole life costs and can adversely affect this aspect, as it is in the interest of the constructor to deliver the cheapest possible product, based on cheapest tender price. Compounding this approach is the traditional role of the client in specifying a solution to a problem, often seen as a compromise in the delivery of the design in an attempt to rein in increasing costs.
- 5.16 In Bradford, a partnership with JobcentrePlus, Yorkshire Forward and the Learning Skills Council is currently tackling supply of the construction labour force required to deliver its estimated £1b spend on construction over the next 5 to 7 years, starting with a £300m construction project linked with regeneration of the area. Bradford has also made the provision of training and jobs a core objective of the contract³⁷.
- 5.17 By ensuring that local colleges and training schemes can work with and feed into construction projects, not only can skills be developed locally, but job creation and the subsequent creation of wealth, all of which goes full circle to help regenerate and develop a given area. This a key factor in this strategy is working with partners in construction who are prepared to engage over time in the delivery of not only the project, but to support local authority objectives. This can and should be supported as a part of framework agreements into which constructors are clearly happy to enter.
- 5.18 The problem of basic numeracy and literacy taking up valuable time and provision currently encountered by colleges and other training organisations can be eased by a proportion of the training taking place 'on the job' where

³⁵ *The Independent*, 12th July 2004

³⁶ Article in *MJ*, May 2004 and www.ippr.org/articles/index.php?article=103

³⁷ Article in *MJ*, June 2004

clients also seem to learn quicker. If a constructor can have continuity of work, it is more likely that there will be sustainable employment too, with the additional benefit of a more loyal workforce.

- 5.19 This approach is entirely consistent with, and could make a significant contribution to, Kent's 'Supporting Independence' agenda, whilst offering reduced costs on projects through the delivery of better buildings that are finished and available closer to their delivery deadlines, with fewer defects and lower whole life costs. This also means, with effective partnering practices, that the buildings would be closer to the clients requirements, rather than the frequent examples we currently have of building design that compromises the function which it is supposed to serve.
- 5.20 This is also entirely in keeping with the indicators that the industry as a whole is moving forward. The Construction Clients Forum has established a 'project pact' for good practice that includes the statement, 'Clients on the CCF will look for consultants, contractors and other suppliers willing to help clients to save money over the life of the building rather than delivering a one off product.' This clearly demonstrates a recognition of more demanding and actively involved clients, as well as the industry's willingness to not only engage with these clients, but to encourage this type of relationship.

Regeneration and Independence

- 5.21 As elsewhere, KCC could also benefit from the potentially significant contribution to the creation of wealth in the local community and therefore economy, whilst effectively driving forward regeneration and sustainable growth³⁸. This contrasts with the perception that to engage in the wider strategic issues through the procurement of construction, such as regeneration, actually drives up costs and therefore does not represent good value for public money.
- 5.22 Broader opportunities exist within KCC's capital programme. For instance, with so much work scheduled in schools a constructor using the 'Considerate Constructors Scheme'³⁹ guidelines, students may become interested in construction through being able to see construction work first hand. Constructors could also be utilised to give a demonstration or presentation of construction skills to pupils whilst actively engaged in a project. Although this raises the question of Health and Safety, it could be a useful device to engage those at the 14-16 threshold and perhaps younger.
- 5.23 Elsewhere, the benefits of a holistic approach and recognition of the wider strategic goals that can be achieved have seen successes in not only saving money through reduced running costs, but the enhancement of the built environment has restored local pride in the area resulting in a reduction in crime, increased attainment at school and a decrease in Asthma⁴⁰.

³⁸ 'A better quality of life-a strategy for sustainable development for the United Kingdom' DETR May 1999

³⁹ www.thecc.co.uk

⁴⁰ The Beacon and Old Hill housing estates, Cornwall. From article in MJ, May 2004

6. How Does KCC Want to Procure New Build?

What Stops Us Historically and How We Could Do It Better

- 6.1 KCC has a clear remit to the people of Kent, now and particularly in the future, as pressures on the built environment and its relationship with the natural environment increase. However, these pressures are in danger of being superseded by the increasingly pressing demands to deliver quality services at reduced costs for increasing numbers of people.
- 6.2 This is further aggravated by a failure to recognise that whilst end users of construction projects have an important role to play in shaping the end product, they rarely have expertise in the construction industry, and are therefore not the best equipped people to determine how a project is delivered. That should be the role of the Property Group.
- 6.3 Traditionally within KCC, there has been strong member support for senior officers in each directorate retaining significant influence in the delivery of capital projects through the construction industry. To move significantly forward, this support must be given to the Property Group to determine and manage this engagement of the construction industry in the wider context of KCC as a whole.

What Needs to Change and How to Enable This

- 6.4 First and foremost, KCC's Property Group need to be given the authority and autonomy to engage the construction industry in the most appropriate way to achieve construction excellence for its clients. The Property Group also need to be recognised as the experts in the engagement of the construction industry, whilst they themselves need to fully recognise and involve stakeholders in the design process of new build, whilst retaining authority. It is essential that this role be fully supported by both senior officers and members.
- 6.5 The Property Group need to market themselves internally, ensuring that all their clients are aware of the potential to deliver significant value over time, particularly their role as experts in the field of construction and maintenance. Workshops could be a part of this, as well as the development of an induction programme for new officers whose remit includes financial responsibility for the procurement of work or services related to KCC's property portfolio.
- 6.6 If culture is to change, then it needs to happen in Property too, and an 'induction' programme for new and existing staff should be developed and run at regular intervals. This would form part of a long-term (culture) change management programme.
- 6.7 KCC's Property Group need to engage in an audit of current skills⁴¹ to ensure that it is able to make the most of the opportunity that Partnering within

⁴¹ Dr. Neil Jarrett, Warwick Manufacturing Group Collaborative Working Centre, 22nd June 2004

frameworks presents. Skills required, both by the industry and internally, can be addressed, as in Hampshire and Norfolk, by facilitated training workshops run internally by Property representatives.

- 6.8 KCC's Property Group should also review all programmed and forecast work to enable the most appropriate means of structuring frameworks for suitable contractors to tender for, using evidenced based criteria.
- 6.9 Given the necessity of member support advocated in other successful models of engagement⁴² it would be appropriate to run seminars or workshops for members, to ensure understanding of the need, and benefits, of this change in culture and approach.
- 6.10 A group should be set up that recognises the importance of KCC's property portfolio, inclusively, and is representative of all the major internal stakeholder groups. This group should comprise senior members and officers, and have a role in ensuring that the property group is supported in the delivery of its contribution to KCC's strategic objectives.
- 6.11 The group described in the preceding paragraph is different to stakeholder groups which should also be set up for framework agreements to enable effective and appropriate levels of contribution to the design process. This can then utilise client side and end user experience in value engineering and ensure that design is functional and fit for the purpose from the outset.
- 6.12 However, whilst we remain fragmented in Kent County Council's approach to construction and to the value of Kent County Council's property portfolio, we are unlikely to achieve much. To help overcome this, KCC's overarching strategies should be cascaded down through all strategic documents, so that they do not become 'lost' in business unit plan delivery.
- 6.13 Whilst we continue to fail to recognise the potential that Kent County Council's capital programmes have to contribute towards KCC's strategic objectives, and pursue lowest cost tendering as a response to the financial pressures on each directorate, we will incur continuing and escalating costs as we try to drive those objectives by other means.
- 6.14 Having a workforce equipped to build excellent buildings and to be able to get them right first time could assist greatly in 'branding' Kent as an exemplar in the built environment, and consequently in construction. It could be seen as an opportunity that KCC's initiative through the Strategic Planning Directorate to make Kent a centre of design excellence is so timely. It could support the attraction of potential construction managers, through the traditional route of architects, whilst actively seeking to support those constructors who are looking to provide both a quality service, and a commitment to the future of Kent's construction industry.

⁴² Head of Property Operations, Hampshire County Council, 25th June 2004

Partnering and Frameworks

- 6.15 KCC's Property Group is at the beginning of grouping together work although this currently does not constitute partnering as described in this report. This is because it offers no structured opportunity to develop an ongoing relationship over a predetermined period. Constructors, particularly builders, are keen to enter into these agreements with KCC as they can offer committed partners significant benefits, provided that sufficient work is offered through a control vehicle such as a framework. It is clear from evidence given during this select committee that 'partnering' is only effective over an extended period of time⁴³.
- 6.16 To ensure the success of Framework agreements the number of contractors engaged must be of a sufficiently small number to ensure that there is adequate work available to provide a continuity of relationship with all the partners involved, throughout the supply chain. A competitive tendering process for inclusion in the appropriate framework agreement is successfully utilised in the public sector organisations KCC looked to for evidence to resolve this reduction in contractor listings. The competition is likely to be vigorous and so the criteria should reflect this, being qualitative, and evidence based.
- 6.17 The skills required to ensure that a successful client led partnership is achieved tend to be softer skills than those normally associated with construction. Good negotiation and communication skills are paramount to ensure that the directorate (the Client), the constructor and the local authority work together throughout the process. Clients have to be educated for their roles and responsibilities, and they should understand the benefits of this approach to construction through a thorough understanding of the cost/benefits of the different elements of their contracts. This requires engaging the partnership from the outset. A crucial understanding is that all the partners are managing risk, so they are sharing, not paying for the risk. In Hampshire, Norfolk and Suffolk County Councils it can be demonstrated how the level of risk diminishes as the design phase goes on.
- 6.18 From a local authority perspective, this approach also requires strong client side leadership, with cross party support.
- 6.19 Although not immune from problems, partnering can, by engaging with the entire supply chain, engineer out some issues before they arise. For instance, at the design stage, shortages in building materials can be designed around. If there is a shortage of brick layers, the building can be designed with a different structure and cladding, to negate the otherwise unavoidable delays. In effect, by utilising a more thorough planning process, time and cost is saved elsewhere on the job⁴⁴.

⁴³ Partner, Gardiner and Theobald, Quantity Surveyors, 29th June 2004

⁴⁴ Visit to NPS, Norfolk County Council, 23rd June, 2004

- 6.20 The client can offer, through a framework agreement, enough continuity of work to ensure that trainee craftsmen can be employed and skills developed.
- 6.21 Open book accounting means that the supply chain isn't 'screwed down' to the benefit of some and the detriment of others. Everyone can work to the same terms and conditions. This is clearly better for all involved.

Examples of Alternative Arrangements that Work (Norfolk, Hampshire and Suffolk)

Norfolk County Council, Norfolk Property Services (NPS)

- 6.22 In the process of gathering evidence, a number of other public sector bodies were visited or visited us. The committee has heard from 3 County Councils, each embarked on partnering constructors through framework agreements. The committee has also heard evidence from a consultant who has worked with both Latham and Egan's offices and who has experience working with the Isle of Wight, and Portsmouth. Finally, National Health Service Estates who have an extensive and well-publicised programme of partnering and frameworks have also contributed to this report.
- 6.23 Norfolk County Council, who have been awarded the role of host of the Eastern Region Centre of Procurement Excellence, have a unique approach to construction work. The following is taken from notes taken by the Select Committee research officer and colleague during an interview in Norfolk with the Managing Director of NPS (previously Norfolk Property Services), and the Business Projects Manager of NPS, held on 23rd June 2004.
- 6.24 Against a background of competitive tendering legislation, Norfolk County Council set up its own direct labour organisation in 1992. They began to develop service level agreements with strategic clients and soon began to win work from farther a field. Key factors in the success of this step change in approach were member support and good staff with transferable skills. In 1998 they won a contract to supply surveying services to a large part of Essex, which facilitated a move from County Hall to separate premises. At this point they took on their own HR and Finance functions, retaining terms and conditions for staff, and the County Treasurers control. Because of the unique status of NPS it continues to win work from the public sector, and has grown its turnover from £3m to a £35m with 650 staff, many of whom are on TUPE transfers. Everywhere that staff have been transferred new jobs have been 'grown'.
- 6.25 In 2002 NPS began trading as a private company with Norfolk County Council as the main stakeholder. This means that apart from the £750k saving already delivered to Norfolk, and a £500K dividend, they continue to expand as a part of Norfolk County Council, thereby by passing OJEC rules as the money they generate stays with the public sector.
- 6.26 At every stage, all three parties have supported the development of NPS to its current position and status.

- 6.27 NPS now have an integrated project team which calculates risk management using key performance indicators (KPIs) on their own team, and the client officers.
- 6.28 In the end it is the end user that is important – what was the service like? This is early days for this model, and they have mixed experience of the usefulness of KPIs – for instance they have a huge range to complete for Essex – but which ones are important? To answer this question, and to ensure that best value is always delivered, NPS are continuously developing their system of measurement for performance management, and have decided to use scores and narrative. All their contractors did two jobs each before they collected evidence of how they performed.
- 6.29 They are now building up a competition on quality between the contractors. Norfolk wanted to make it quite clear that whilst every effort is made to ensure that their approach is of benefit to all the partners involved, it is not a cosy club.
- 6.30 The contractors are happy to share best practice with others, but of course maintain their capability to compete for all of the available contracts, according to the criteria laid down by NPS.

The changes

- Some of the biggest risks are within the Mechanical and Electrical sectors, where designers now work with the constructors and focus on the big wins.
- NPS are also able to negotiate deals on doors and carpet, for instance, because they have the combined buying power of their contractors.
- They have also looked at off-site fabrication.
- If they need specialist steel for a particular job, they know about this up front at the design level.
- They spend more time in designing, but less time in the process.
- There is less drawing once the project gets going with a partnered contract. For instance, the door schedule is built in at the beginning so saves time during construction.
- This approach has challenged the design team, and the architectural team that works with the client.
- There are no direct labour organisations (DLOs) involved, 90% of the work is done by private industry.

- Most contracts are carried out by local labour, and the contractors are chosen by the client. One of their main contractors is Mansells because they know and understand public sector work and have a national approach.
- When there is a partnered relationship with the contractor, there are no lawyers involved.

What Happens When Something Goes Wrong?

- 6.31 This does happen, but adversarial contracts are not better when relationships break down. The advantage of a partnered contract is that from the start you can plan contingencies – for example at the time of writing there is a shortage of steel.
- 6.32 The supply of craftsmen has also been a problem, and constructors, supported by framework agreements, now employ their own craftsmen because of this. However, it is possible to ‘design out’ shortages. For instance you could design buildings with less bricks if there was a shortage in skills or materials. The open book nature and regular exchanges of information enable NPS to encourage and participate in the sharing of best practice. This has been noticeable with the construction industry making better use of IT.
- 6.33 Norfolk use a variety of constructors which adds depth and flexibility to their supply chain strength. Everyone in the supply chain works on the same terms and conditions; there is no ‘screwing down the supply chain’ because of the open book of accounting system. To ensure that this happens, NPS see every invoice at first, then one in 10 and then one in 50 – the partnering has to be based on trust, but they can go in at any time and look at invoices.

Skills Needed for Partnering

- They have discovered they need ‘softer’ skills for partnering contracts. As well as the obvious ones of negotiation and communication, they need to liaise with the core team – the Directorate (the client), the contractor, and the local authority (their partners) must work together.
- Managing is what partnering is all about. They will give a presentation to each party, and get people engaged – for instance in Education and museums.
- For smaller pieces of work they have a smaller working group, but it is important the client feels ownership of the job.
- Norfolk CC members are driven by outputs – and they have grown NPS because they have believed in it.
- To be successful, it needs client side leadership. This has been cross party – there is now a conservative majority, but there has been a Lib/Lab majority for 8 years before this. All parties can see the benefits from the financial returns.

- If they were go totally into the private sector they would be one of many; currently they are unique.

Risk Management

- 6.34 Risk management skills were developed when they reduced the numbers of contractors. It was a challenge for members that they accepted.
- 6.35 To achieve these changes NPS developed a vision for how their business would look, but they have also built up the process and written procedures because they wanted everyone to own the way the business worked. To this end the NPS Managing Director wanted to facilitate rather than lead, and consequently has *involved* staff and clients alike in this approach to engagement. Because contractors already had well developed project management skills it was easier working with them to engage in this approach. However, to ensure that there is a universal understanding, NPS has undertaken risk management training for all - the client, the contractors and the team.
- 6.36 A strategy of integrated project management has been developed.
- 6.37 Clients are sent five measures, and grade them on a standard form using a traffic light system. This model was created in a workshop set up specifically for this purpose. The focus of these measures is on ensuring their service gives added value. That is why they prefer to share with the public sector to show a 'joined up' approach to building construction. As an example of this, NPS are partners to the fire service and the health authority.
- 6.38 NPS also engage in some PFI contracts but there is a large amount of risk, and are more interested in Local Economic Partnerships.
- 6.39 Rather than working with Capita/Hyder or Mouchel who represent the traditional route to and through construction work, NPS have found their clients prefer working with other local authorities and sharing best practice.

Engaging the Supply Chain

- NPS do this by 'value engineering' from the outset.
- NPS have applied the 'Rethinking Construction' process and the benefits were that the capital works shot up.
- They had the same quality, but included improved health and safety, Projects finished on time, and inflation of costs reduced.
- Originally Norfolk CC had 800 contractors. Their aim was to reduce this figure. They achieved this by setting up a workshop with the eastern region of the National Federation of Builders, and studied how they could put a framework together.

- They now have only 8 contractors in total. These are divided into 3 bands:-

£100k – £1/2m	8 contractors
£1/2m - £1m	6 contractors
£1m +	2 contractors

6.40 This spread suits Norfolk's profile. Most contractors get 5 to 6 jobs each a year.

- The bigger contracts have fixed profit and overheads. They work on open book accounting, where there is a defined profit and overhead figure, which is dictated to them.
- They have strictly defined what constitutes profit and overhead so there is no argument and the partner buys into it.
- They also have 'pain and gain' contracts where they reinvest in more work for the County Council.
- Their original costings appear high, but that is because they contain from the outset proper health and safety and welfare benefits. This is still a challenge to overcome to sell the system to the client.
- However they had watched their bench mark figures and the DfES benchmarks, and their prices are well below. They are 12% below the traditional costs, more than allowing for enhanced preliminary costs.

Capacity and Supplying Skilled Staff

6.41 NPS capacity is limited only by the staff skills. To ensure they are able to continue to grow their business they are developing managerial skills from different sectors.

6.42 To ensure that they are able to meet the demands of the future themselves, NPS has a programme of succession planning, sponsoring students, and taking year out students. Sponsored students work with them for 12 months after graduating or pay the money back (£2k per year).

6.43 NPS recruitment strategy targets newly qualified trainees and graduates. They have enough business to develop these people and are consequently not short of career opportunities.

Suffolk County Council

Notes from visit to Suffolk County Council visit – 23 June 2004

- 6.44 Interview with Labour Member and Chair of Procurement Board, Chair of Moving People project (transport) and Portfolio holder for Economic and Social Regeneration.
- 6.45 Whilst noting that Suffolk County Council is has a smaller work load than Kent County Council, it should be recognised that they are 'champions' of the practice of member driven change. It should also be noted that Suffolk have applied this approach to their entire procurement practice, and not just construction work. The changes that they have initiated have followed the same paths as other local authorities engaging in the change of their procurement practices, including culture change across the entire organisation. They have also adopted a culture of continuous improvement as recommended by Sir John Egan's report on construction.
- 6.46 A Best Value Review 18 months ago reported in July 2003 on procurement.
- 6.47 The outcome of the review was that a Procurement Board was set up chaired by a senior member. This is now responsible for all procurement over all the local authority. The review showed that out of expenditure of £260m, only £110m was going through county council procurement. Whilst professionals in their field, those responsible for buying goods and services were not experts in procurement. They also discovered that the public sector tended to be weak in its negotiations with the market place, paying what the market was prepared to accept rather than what it could bear.
- 6.48 To change this, Suffolk strengthened their regulations. They moved procurement into the Environmental and Transport Directorate as this was responsible for the main contracts. No individual buying is now done in Directorates. A part of their procurement strategy is to be able to identify all spend on a daily basis, which will coincide with EU compliance.
- 6.49 To begin the review, they mapped all spending. They have promised a saving of 10% over 5 years. They signed off the first £1.5m savings – the first 6 months – last month. These reforms have both been structural and in their buying methods, but they will be continuously reviewed and modified as necessary over the next five years.
- 6.50 The Procurement Board is made up of:-
- A senior member form the Leaders Group (Chairman)
 - Two opposition members
 - The Portfolio holder
 - A liberal member (5 members altogether)
 - And assistant directors of:
 - Environment & Transport
 - Social Care

- Education
- Libraries & Heritage
- Chief Executives
- Property

6.51 The fundamental principles follow the national strategy for procurement.

Mapping of Expenditure

6.52 As part of the review process one person was seconded from the procurement division to a small commissioning team with the aim of reporting to the procurement board. The mapping took one person seven months. All invoices were identified and placed into categories within the Directorates. In the process they discovered shortcomings in the financial records.

The Review Process

6.53 The members performed the best value review of procurement starting in May 2002. Meeting three times each month it was completed by May 2003. They also visited Somerset County Council and the private sector. One of the problems with this method was that it required significant commitment from members, but they have the ability to ask direct questions which get to the basic issues. The review teams political decisions on savings were then based on realistic targets because they had been very hands on, rather than merely strategic. It also meant that they had all-party commitment and significant time commitment. A major driver in the political commitment to the process was because the previous year they had had to impose an 18.5% council tax increase. This clearly created financial pressure to improve.

6.54 Therefore the timing was perfect to introduce something radical, and there were other efficiency reviews continuing in the County Council at the same time. They saved 4% over all last year. (2003-4).

6.55 The advantage of improving procurement was that they were selling more service for the same amount of money. They also looked at comparisons in the health authority. They studied how savings had been made in the South West Health Trust:-

- For instance, they could save £26m on their drugs spend by improving procurement.
- Cornish ice cream in SW hospitals had proved very popular with the patients and reduced distribution costs.

6.56 The Procurement Board reports to the executive, but has to have total authority to enable it to deliver savings.

Outcomes of the Review Process

- They have agreed a five-year improvement plan.

- This has incorporated the whole of the construction programme, which has been reviewed by Keele University for:-
 - Sustainability
 - Changed approach
- They have set up contracts on an open book basis, but with no specific parameters.
- Contractors are expected to make a 'reasonable profit' which is guaranteed.
- The rest are costs which need to be examined. Then they go into the costs in detail.
- One element they have pioneered is the manufacturing of components – e.g. school windows. They considered giving the manufacturers a three year contract and came to a specific arrangement for the supply of these components
- They also guaranteed:
 - Employment
 - Guaranteed supply and specification
 - Long term work
- They will look at further opportunities for direct manufacturing, and are developing a flexible approach.

(In Ipswich they have the lowest employment in the region, which has led to deprivation – they aim to increase local employment)

- They had developed design contracts to include sustainability.

How Does the New System Work?

- Contractual teams specify what it is they want – e.g. cheaper paper may not work in the machines
- They have had to make key changes in the departments – everything has to conform.
- Staff still wanted to 'go out and buy things', but now everything goes through the Procurement Board.
- There was initial resistance at officer level. Two weeks before the report went to County Council, it was already cleared with the chief executive and the Chief Officer's management team and had the support of all Directorates.
- They had less political resistance because they were promising in all a £26m saving.
- The officers were unhappy, but the whole review would have been seen as a paper exercise without the back up of the new practices.
- The best value review team was member led and conducted, but had senior officers on it – for instance the assistant director of Education.

- There were meetings with Directorates and with middle ranking officers, so the review team had the information. They felt involved and the staff were taken forward with them to overcome resistance.
- The members were:-
 - Deputy leader of the Conservatives
 - Leader of the Liberal Democrats
 - Senior Member from Labour, so it was difficult for the senior directors to resist.
- Most officers took it seriously. They have 25 people in their procurement division, but have already made over £1m profit.
- Professionals did not have the time or resources for procurement, however they did fear losing their 'empire'.
- The procurement division expanded by only two posts. The rest of the procurement division was already an efficient division.

Change in Culture

- After the review it was difficult for the Directorates to claim they were doing a good job in procurement, and they accepted its findings.
- The commissioning team have identified better ways of contracting. They have set up contracts and developed market capacity.
- The Procurement Board have introduced a reporting mechanism to check they can deliver 2% savings for 5 years. Their first target was £750k and was originally thought to be impossible.
- They smartened up their negotiation of contracts. For instance, some contracts went up 7.5% per year, and they have now negotiated this rise down to 5-6% trying to discover what the market would bear.

6.57 They now report to the Procurement Board and there is pressure on the Directorates for in-house work to beat outside pressure from other suppliers. For instance, a £20m supporting contract did not go out to tender, but the Directorate had to justify that it remain in house.

Construction contracts

6.58 Suffolk does not have a lot of new buildings, with only one or two new schools. Before the procurement board was set up, they would go to open tender. However, they want to look at new materials and sustainable buildings. Suffolk's building programme is mostly refurbishment of schools. Most are commissioned through the traditional procurement route but they have started to look at open book and partnership contracts.

6.59 An example of this is highways maintenance, where they have built in a provision to use local contractors. They will sub contract to local suppliers. They may only have 6, 9 or 10 contractors, but they have encouraged them to subcontract. This provides a large number of maintenance contracts with local arrangements, a guaranteed service, and partnership. They are working on straightforward framework agreements with 6/7 companies. There are clear parameters including training and sustainability clauses. They have

applied their control over the supply chain to the 'front end' of the contracts, thus dealing with only a small number of contractors.

- 6.60 In Suffolk there is a severe shortage of skills. But they will not open up their approved contractors list to further companies because they believe this does not work and certainly does not support the development of capacity in Suffolk. The local companies they contract with need guaranteed work and they are hoping to develop partnership arrangements.
- 6.61 An example of this approach is where Suffolk has signed a 10-year contract with McAlpine and has developed their quality of performance standards. The McAlpine contract has a break clause after 4 and half years and after the third contract in the framework. They sub-contract $\frac{3}{4}$ of the contracts. They also have an agency agreement with Waveney District and Ipswich Borough Councils, and all provide break clauses. They are currently looking at two-year partnership contracts for building.

Monitoring performance

- 6.62 The Procurement board is just starting to look at monitoring performance.
- 6.63 They will monitor their in-house contracts using benchmarking tools. However these are not sufficiently sophisticated. They will need to look outside at the market and see what is paid elsewhere, so benchmarking will have to become intelligence led.

Resistance to the Reduction in the Number of Contractors

- 6.64 Suffolk County Council worked with the Chambers of commerce to spell out the procurement opportunities. There was a perception that contractors should have a contract with Suffolk, even when there was only a 1 or 2 man operation with no computer.
- 6.65 The reality had to be brought to the perception; it was only the loss of potential contracts, not actual. This mirrors the current situation in Kent. There was not as much resistance as they might have expected and they encouraged contractors to be involved as sub contractors. Due to longer term financial contracts on maintenance work Suffolk County Council feels that it has got to work with the private sector on increasing skills in the highways maintenance sector.
- 6.66 Suffolk sees that as their job, as they can offer continuity of work, and will move towards a 10-year commitment, with a 2% per year savings target. They will measure and monitor performance on contract renewal.
- 6.67 Suffolk feels that contractors will now accept open book contracts because there is not a lot of competition in the area; they are one of the biggest purchasers in the area.

The McAlpine Contract

6.68 Although a contract for highways maintenance, it is a good example of a thorough entry into a new and culturally different approach to working. Suffolk has a smaller work programme than Kent, which makes it all the more significant that they were prepared to enter into a 10-year agreement worth £20m with one contractor.

- This was recommended in the Best Value review of highways maintenance. There were lots of individual maintenance contracts
- They have developed the service, made it innovative, and improved working practices.
- They have looked at added value in contracts and can develop service user groups of people who are affected by the work as an opportunity to report on its strengths and weaknesses.
- The opportunity to benchmark with other similar agreements and they are in a benchmarking club, which also gives corporate advice on managing contracts.
- They have DSOs and also operate three agencies, and allocate across all partners. They can locate resources immediately from their partners to enable them to get work done.
- Their contracts are not the traditional Civil Engineering 5th Edition contract, and are not adversarial.
- They are working with partners and looking at joined up working.
- They are cutting out areas of duplication, and joined up team working to achieve value for money during the life of the contracts. They have separated different types of contracts out to check value for money – e.g. resurfacing prices.
- When they get to the second and third contracts in the 10-year period the price mechanism needs to be sure that value for money still compares to the market place. The contract has been going since 1/10/03.
- The contract was let to McAlpine because it had the best quality statement and also led on price, so the decision was easy and the benefits demonstrable.
- They have followed the LA21 strategy, which shows a commitment to local labour and environmental management.
- There have been teething problems dealing with one contract over a prolonged period. Most of their results have been top notch – except for

grass cutting which is one of the most visible areas and has not been so good.

- Members felt this was not good enough, so after a discussion with McAlpine they have moved on to local labour and there should be an improvement for the second round
- The Procurement Board wants specific permanent performance measures to be added to the contract and this is to be developed.
- The sub contractors are specified within the main contracts, and there is a range of ways of inspection and testing. In an ideal world there would be confidence in contractors and the time of checking should reduce.
- The main subcontractors for civil engineering work are Tarmac for surfacing and also a local firm – there is motivation to support the local economy.
- Suffolk also has the problem of attracting local suppliers. There is an ongoing relationship with the Chamber of Commerce – for instance Education Directorate held a sounding session with contractors. There is a mechanism to feed in a percentage of small building forms.

Hampshire County Council

- 6.69 The following is taken from notes made during an interview with Hampshire County Councils Head of Property on 25 June 2004 at Winchester.
- 6.70 Hampshire County Council began its current approach to construction with a historically strong design team. Having confidence in their ability to deliver this design service they produced 60 to 70% of design work in house. However, it was felt that the approach was very insular and a decision followed to simplify the view the council had of the property function and in doing so to become much more businesslike. This meant a culture change for not just property, but the whole county council.
- 6.71 To achieve the culture change, recognition of the impact of property was established, namely that approximately 300,000 people were using Hampshire County Council built estate. It is clear this fact alone engenders a need for a political will to be established to support a single point of reference and contact for a function that has the potential for such a significant impact on council provided services. By ensuring that the right people with the right skills were in position within their property group, Hampshire were able to make incremental progress towards a property service that provided a direct improvement to strategic and political goals for the members and for the County Council. This translates into a direct improvement in service provision through property.
- 6.72 It has taken a marked change in the way members have empowered their property group in Hampshire to run and deliver its service. To help drive this,

Hampshire have a 'Building, Land and Procurement Panel', the membership of which comprises the Leader as chair, (a position described as 'sacrosanct' by the current head of Hampshire's property group), the Deputy Leader, Leaders of all the opposition parties and a selection of senior elected members. It also has senior Education officers and other property users represented on the group. These people are encouraged to state their needs of property through this group so that they can be planned into business plans and targets in a meaningful way and delivered on. This panel meets every 7 to 8 weeks.

- 6.73 Hampshire County Council have explored and engaged in Partnering and frameworks as a response to the growing concern around the capacity of the construction industry. Informal benchmarking also gave indications that some constructors engaged by Hampshire could have performed better. To engage with change, Hampshire used the overlap between design and planning functions to adopt an incremental approach, choosing demonstration projects to look at the advantages.
- 6.74 By moving to allow constructors into the design process, previously in house, Hampshire forced an epiphany on themselves, uncomfortable in parts, but realising real benefits to this new approach to engagement of the industry. This approach engaged constructors in discussion to identify constraints to the effective delivery of projects and their removal before talking about price. Substantial savings have been made, giving Hampshire the enviable benefit of current savings of £200m² under the national average on construction procured through framework agreements. Constructors have even responded by setting up some specific teams on regional and even national levels.
- 6.75 Hampshire currently have Framework Consultants who work with constructors across a banded structure for the allocation of projects:-
- There are 5 principal constructors for works of up to £20m,
 - 12 'preferred bidders' for packages of £2m to £3m
 - 160 approved contractors dealing with maintenance works although only 60 are actually used.
 - There are 4 to 5 Term Contractors engaged on packages over 5 years, for example Mechanical and Electrical work. Typically these packages are around £7m so offer £35m guaranteed over 5 years to successful bidders.
- 6.76 To facilitate effective relationships with partnering constructors, Hampshire now run workshops for both internal and external parties on what is expected from the new relationship and on the requirement for information sharing. They have also appointed a full time quality assurance officer. This helps to ensure that effective benchmarking is in place. The benchmarking used by Hampshire has been developed over a period time with evaluation of its measures taking place over a 2-year period. Although appearing risky to take

this amount of time, Hampshire County Council was keen to point out that compared with the previous traditional route to construction procurement, and the way in which local authorities pursue that route, this was actually a comfortably low risk strategy.

- 6.77 Hampshire have realised benefits from this approach including a reduced construction time, better risk management, reduction in supply chain costs, and a reduction in defects leading to a 'right first time' delivery of works.
- 6.78 This business like approach to property and its management has been fed by a culture of mutual respect for members and officers alike, encouraged by a straight talking approach. The head of Hampshire's property group made it clear that a contributory factor in the success of their approach was a cultural attitude that they were the 'paid help', and it was their job to deliver and implement 'prizes for the members, not themselves'.
- 6.79 In summary, Hampshire stated the following criteria for success, all of which mirrored how others that had engaged in this approach successfully:-
- There needs to be one vision
 - Members must give cross party support
 - There must be officer understanding of the benefits for politicians
 - It must be approached incrementally
 - It must be given time to mature
 - The Property Group must be empowered to get on with it.

How the Procurement of Construction Fits with Kent County Council's Overall Procurement Strategy

- 6.80 KCC's current strategy for the procurement of construction work through capital spend indicates an approach that seeks to reduce our revenue spend by more effective engagement with whole life costs through the embracing of the principles of 'Rethinking Construction'.⁴⁵ However, there is still a prevalent drive to reduce unit costs first and foremost, which limits or disables Property Groups ability to engage effectively with the construction Industry. As has already been stated elsewhere in this report, strategy is already in place, and consistent with KCC's published goals and concerns. It is the implementation of that strategy that is lacking.

⁴⁵ KCC Capital Strategy 2003-2008, July 2002

How the Procurement of Construction fits with Kent County Council's Overall Aims and Objectives

- 6.81 The reality is that directorate priorities appear to override these broader strategies, particularly in the current climate with escalating costs, and the spectre of unavoidable increases in council tax.
- 6.82 As stated elsewhere in this document, KCC's Property Group is not currently empowered to provide the level of service and contribution to KCC's overall strategic goals that it is positioned to. It is disempowered by its position as subservient to the demands of its clients, rather than as a professional service delivered by 'experts' in their field of operation.
- 6.83 Suffolk County Council presented the medical profession in the West Country as an example to KCC. Doctors had traditionally controlled the purchase of medication, being seen as the experts. However, when the purchasing was removed from their control amongst much resistance, and given to those who had expertise in procurement, a saving of £26m was made. The doctors still dictate what is bought, but not how it is bought.
- 6.84 Some of the additional benefits to KCC of giving the procurement of construction to our in house experts are that we can benchmark and monitor more consistently.
- 6.85 By grouping projects together to offer constructors more continuity KCC can drive up quality, and drive down costs. Further reductions can be attained through lower revenue costs of buildings, itself a target, and contribute to solutions for issues to be faced by Kent's and the south-east's construction industry as it struggles to cope with the housing demands of the ODPM over the next 15-20 years⁴⁶.

How the Procurement of Construction Fits with Kent County Council's Role as Centre of Excellence for Procurement

- 6.86 Given the application of our existing strategy, and that we share the region with an exemplar in the procurement of construction work, namely Hampshire, we have an opportunity to assert KCC's presence as an authority prepared to learn from and work with others. This is in keeping with the view expressed to us by KCC's own head of procurement⁴⁷. This sentiment was also shared by KCC's Chief Executive at the first meeting of the Southeast Centre of Procurement Excellence. Given the opportunity that KCC have to work with other County Councils is paramount, it is under pressure to use its great weight in shaping the future of procurement, not only in Kent, but in the Southeast⁴⁸.
- 6.87 A key difference in embarking on this route is the statement of commitment to provide better services for better value Kent County Council would be making.

⁴⁶ *What Price Growth*, June 2003

⁴⁷ KCC's Head of Procurement, 2nd July 2004

⁴⁸ Cabinet Member for Resources, 13th May 2004

Other county councils may have already tried this route and found it beneficial, but all have done so through some motivation usually financial, other than a desire to improve. This alone marks Kent out as a leader among its peers, particularly in the environment created by hosting the south-east Centre of Procurement Excellence.