

**Strategic Asset Management and Capital Delivery
Corporate Client Group**

Draft Report

Construction Procurement Report

Introduction

This paper looks at the current status of the various arrangements, options and opportunities for the future procurement of various construction related contracts throughout the council and the possible synergies between these.

Range of Construction Related Contracts

The Strategic Asset Management and Capital Delivery Division have let a number of construction related maintenance and facilities management contracts.

In addition, the Corporate Client team administers the Council's Construction Framework Agreements. These three frameworks were procured to meet the majority of the council's capital works requirements and are split into three distinct framework agreements, one for Housing, another for Highways and Civil Engineering work and the third for Education and other projects.

These frameworks are essentially "agreements to agree" and individual capital works contracts are let through the arrangements as and when required. These Frameworks were put in place in 2007 and expire in August 2011.

There are also a number of other significant construction related maintenance contracts managed by Customer Services; principally the Housing Repairs and Maintenance Term Contract currently let to Enterprise plc and the Highways Planned Maintenance and Reactive Maintenance contracts both let to Bardon Contracting. The Enterprise contract is a ten year agreement that expires in April 2013; the Highways planned maintenance contract expires in July 2011 and the reactive maintenance a year later.

The diagram below illustrates the range of current contracts that are in place.

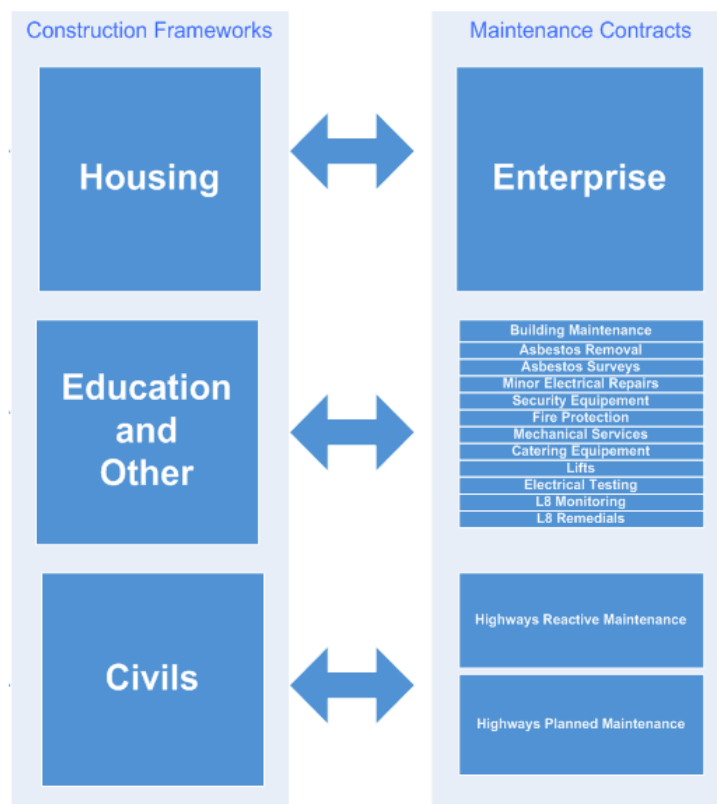


Figure 1 – Current arrangements

Options and the way forward

There are various options available to us. For example some of the current contracts could be amalgamated in order to form, for example, a hybrid maintenance contract covering a range of

areas from Housing, to education and public buildings as well as highways maintenance. There are also other options, for example to combine the current housing maintenance and planned works areas. As well as these options, there are also a number of others available, which are discussed further on in this report.

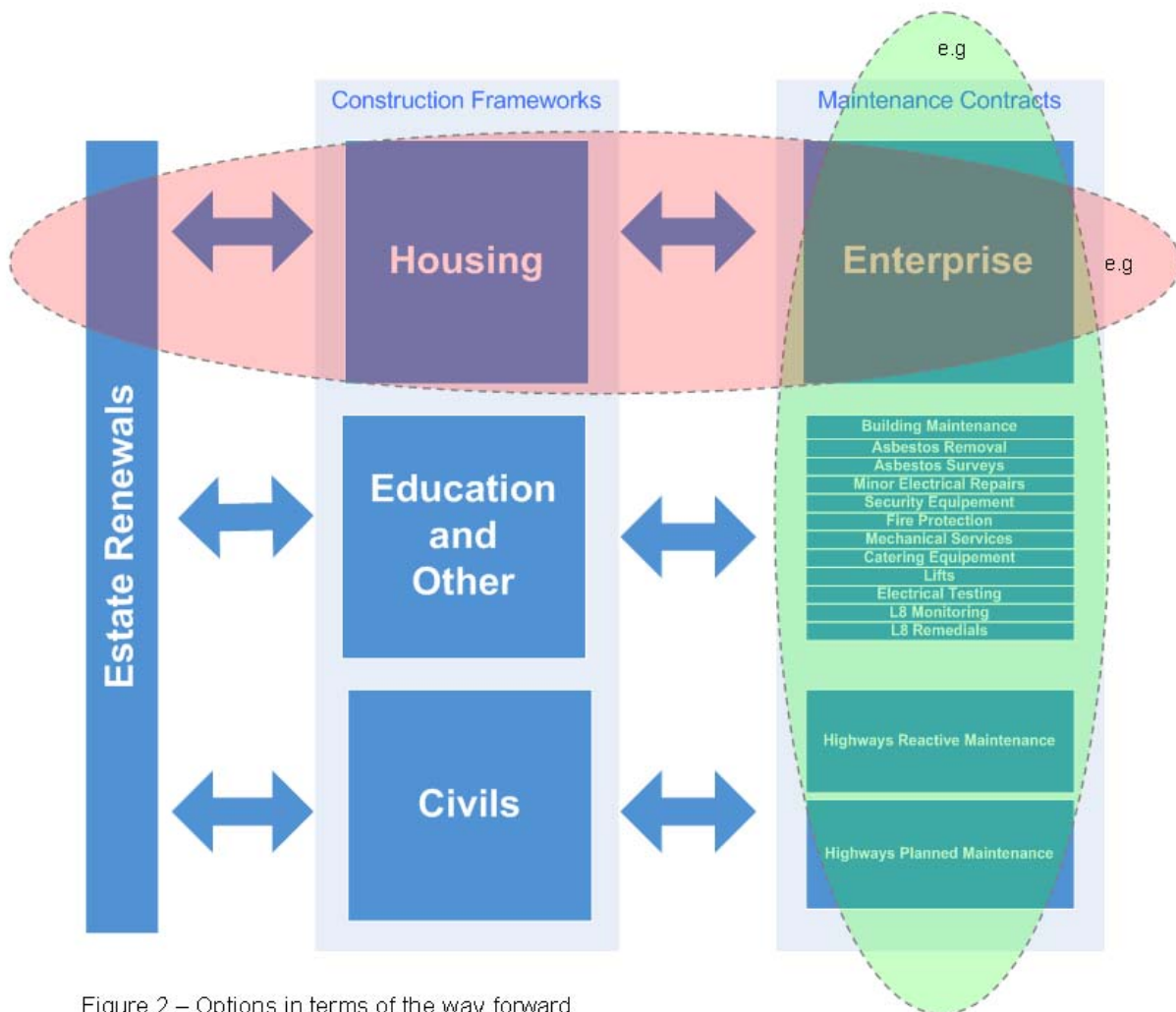


Figure 2 – Options in terms of the way forward

Timescales

Any rationalisation of contract arrangements would require an alignment of contract dates for those contracts affected. The end dates of the current arrangements vary greatly with some requiring urgent re-procurement. It could well be that the best course of action is to use the re-provision of the Housing Maintenance Term Contract in 2013, as a key date and ensure that other maintenance contracts let in the interim terminate on or around this date, if it is likely that they could be included in a larger holistic approach.

This principal could also be adopted in relation to the current Construction Framework Agreements, which are due to expire in August of next year and are urgently needed to be re-procured in order that the council can efficiently deliver on its future capital commitments.

London Position/Shared Services

We are currently in dialogue with East London Shared Services (ELS) and the North London Strategic Alliance (NLSA) in relation to construction procurement. Although the dialogue is currently in the early stages, there is the likelihood that we will be able to work together with a

number of neighbouring boroughs in order to develop joint procurement strategies, such as the development of regional London construction framework agreements.

LBBB are in an excellent position to capitalise on this, as they are in a much more advanced position than almost all of the other London Boroughs in relation to construction procurement and project delivery through the use of framework agreements and the construction Corporate Client model. This means that LBBB are in a position to lead of these initiatives going forward with the possibility of providing these services to others.

Permutations and Combinations

When considering the most appropriate way forward, there are a number of options. There is also the possibility to combine some of these into a hybrid model, which could have different aspects of each. This is as illustrated in the diagram below:

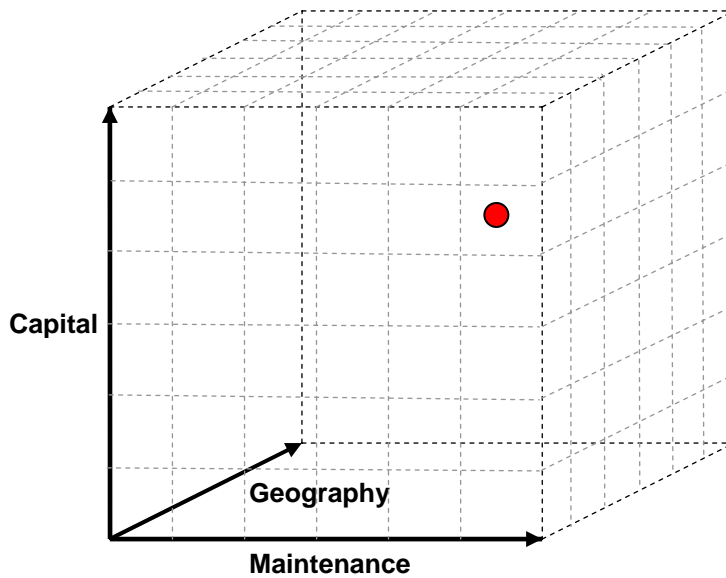


Figure 3 – Options in terms of the way forward

These various combinations will influence the proposed way forward and each have their own advantages and disadvantages, some of which are as detailed further on in this report.

Possible Options

In terms of the way forward there are a number of possible options, some of which, along with the pros and cons of each option are set out below:

1. Re-procure existing Framework Agreements for capital works only (Possibly a London regional framework)
2. Combine capital and FM/Repair arrangement
3. Use other existing external Framework Agreement
4. Combine Capital and FM/Repair asset management arrangements

Re-procure existing arrangements – Frameworks for Capital Works Only (Possibly a London Regional Framework)	
Pros	Cons
Existing documentation only requires “refreshment”	Cost of re-procurement
Can be procured in time to replace existing	

framework	
Savings on the procurement costs of contracts let under the frameworks; particularly those over the OJEU limit.	Limited to planned and capital works
Can be adjusted to reflect current council requirements e.g. value banding	
Added benefits. Frameworks have used smaller regional builders; that have supported local training/education initiatives (LBBD now accredited as National Skills Academy for Construction status).	
Smaller regional builders – greater use of local sub-contractors and supply chain leading to inward investment into the local economy	
Collaborative approach and early engagement of framework – led to savings through innovation (modern methods of construction at Cannington Road)	
Non-adversarial approach with contractors based on having a long term regular relationship with a limited number of suppliers	
Simple to use and non-bureaucratic; understood by staff	
The council is important to the framework contractors, especially for medium sized firms. Therefore they are prepared to go the extra mile.	
Flexibility in terms of procurement routes and contractual form depending upon the project specifics.	
Flexible to changing circumstances; no commitment to let any contracts through framework – no upper or lower limits of value	
Possible collaboration with other boroughs and wider sharing of costs/resources or income generation through the use of our framework agreements	

Combined Capital and FM/Repair arrangements	
Pros	Cons
Combined management of maintenance and capital investment could provide an integrated asset management approach with efficiencies.	Construction firms not structured to operate on a “combined” repairs and capital works basis. Although branded under one name, divisions operate separately and there are rarely synergies between them. Any combined arrangement would require a robust business plan and market analysis (i.e. what is required, what will it cost and who can provide it) before a procurement route could be determined.
	Current Housing Repair arrangements do not expire until April 2013; negotiations to determine earlier (incl. TUPE etc.) still likely to take the procurement process beyond the expiry date of the current framework arrangements.

	Current housing repairs provided by one contractor; one provider of capital works unlikely to provide value for money available under a competitive framework arrangement, although this could be dealt with by introducing a geographical split.
	Time to procure would take the process beyond the expiry date of the current capital framework arrangement.
Splitting repairs/works contracts between more than one contractor (To reflect Framework competitive arrangements) could improve services provided.	Having more than one service provider could lengthen procurement process (issues around transfer of existing staff etc.)
	Cost of procurement, although this would be offset by only having one procurement process to go through.
	Repair pricing based upon a predicted through put of orders; how easy will this be to predict on the education stock given the Governments proposed plans for schools?

Use other existing external Framework Agreement	
Pros	Cons
No re-procurement cost	Most frameworks have either a one-off joining fee or an ongoing usage cost. CityWest and SmartEast charge a £25,000 per framework usage fee.
Savings on OJEU procurement costs	Management and procurement outsourced to another organisation that will not have an understanding of the Council's business drivers;
Use of large national contractors could bring benefits on purchasing if standardisation possible	The contractors' primary client is not LBBD and given that these large contractors work over a wide area it is unlikely that they will develop locally based supply chains, nor will they have the same interest in developing a local workforce.
	Cooperating with the Council's employment and training initiatives is written into the LBBD framework; it is not written into other external frameworks.
	Use of national companies that tend to have higher operating costs reflected in tender prices.
	Management processes of external frameworks duplicate the council's own programme and performance management processes. Most require cooperation from clients resulting in an increased bureaucratic burden for the Council
	Council does not have a direct relationship with framework contractors and cannot develop the regular contact/shared knowledge that has led to innovation and efficiencies.
	External frameworks can include firms that

	have previously been rejected by LBBD.
	Most framework agreements tend to offer prescribed procurement routes, which means that they are less flexible and in some cases impose unsuitable procurement and contract solutions.

Combined Capital and FM/Repair – Asset Management arrangement.	
Pros	Cons
Arrangement with provider to deliver repairs and improvements up to a defined standard for a defined fee could eliminate overlap of expenditure between repairs and capital works functions	Would require accurate information regarding the current condition of the asset (e.g. housing stock condition), acceptable repairs standards and expenditure, clearly agreed standard to be achieved to ensure that the council received value for money and to attract bidders.
Asset management planning and delivery combined in one function with the provider	Questions regarding the maturity of the market to provide this service at the current time particularly in housing market.
Possible variation of Design/Build/Maintain arrangement for new capital funded asset (e.g. new schools)	Loss of control over investment decision making. Outputs would need to be set at the outset and any changes of requirements during term could be expensive.
Could also include funding options in order to support estate renewals	Little flexibility for council to influence delivery, quality, outputs during term of arrangement
	Unpredictability of asset base at current time (e.g. central government proposals for local authority control of schools could affect arrangements for repair etc.
	“Eggs in one basket”. Questions of over reliance on one provider in a time of economic uncertainty although the contract could potentially be split on a geographical or workstream basis.
	Cost of procurement
	Time taken to procure (Negotiation?) would take the process beyond the timetable for the renewal of current capital arrangements