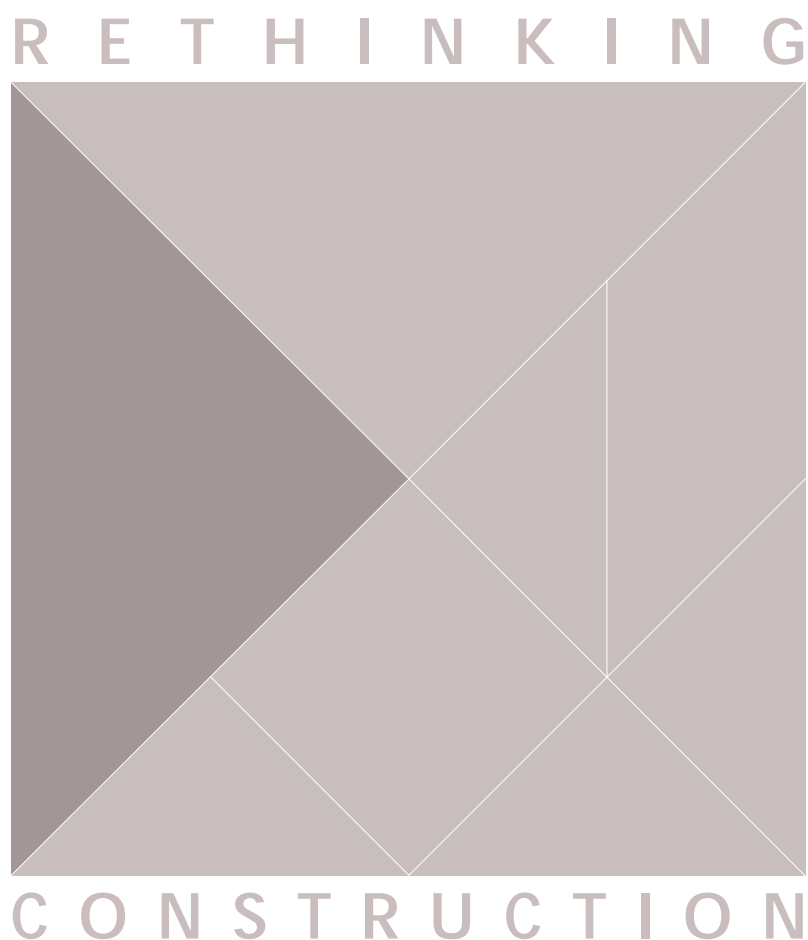


RETHINKING CONSTRUCTION

Local Government Task Force – Working Group Reports:

- Integrating Rethinking Construction with Best Value
 - Partnership Approaches to Procurement



clients, industry and government working together to improve UK construction

April 2001

Dear Colleague

The Local Government Task Force (LGTF) was formally launched at a major conference in March 2000 in Nottingham when the Construction Minister, Beverley Hughes MP, addressed local authorities and stressed the need to reconsider their construction procurement strategies. In particular they needed to assess construction projects against quality standards, whole-life costs and best value. She added

“Rethinking Construction is central to the delivery of Best Value across a wide range of local authority services. The effectiveness of your authority in delivering Best Value for decades to come will depend crucially on how well you manage your construction procurement, how thoroughly you “Rethink Construction” in your authority”.

The LGTF has established a number of working groups to consider issues core to the Rethinking Construction message. Two such groups have considered issues relating to Best Value, and Partnering approaches to Procurement. Their reports were considered at the last meeting of the LGTF Board, which was attended by Beverley Hughes.

These working party papers are just that - critical examination of the key issues, drawing conclusions that are intended to be of practical benefit to construction procurement practitioners in local authorities. The Board hope that, in publishing these papers, they will help you and your colleagues face the challenges set by Rethinking Construction.

Performance indicators are a vexed issued for most authorities. The paper on Best Value suggests a new indicator, designed to assist authorities in moving the Rethinking Construction issue forward, which you may wish to consider adopting on a “ permissive” basis.

The LGTF works to promote the Rethinking Construction agenda within local authorities, developing the recommendations contained within the 1998 report of the Construction

Task Force, chaired by Sir John Egan. It has the support of the Local Government Association (LGA), and works with the Movement for Innovation (M4I), which promotes good practice and demonstration projects throughout the non-housing construction sector in both public and private sectors; the Housing Forum which carries out a similar role in the housing sector, involving social housing providers, house-builders and other key players in the housing field; the Construction Best Practice Programme (CBPP), the Central Government Task Force (CGTF) and the Government Construction Clients' Panel.

We hope you find these papers of assistance in developing your own authorities thinking.

Yours sincerely

Ted Cattle
Chairman

LOCAL GOVERNMENT TASK FORCE – WORKING GROUP REPORTS

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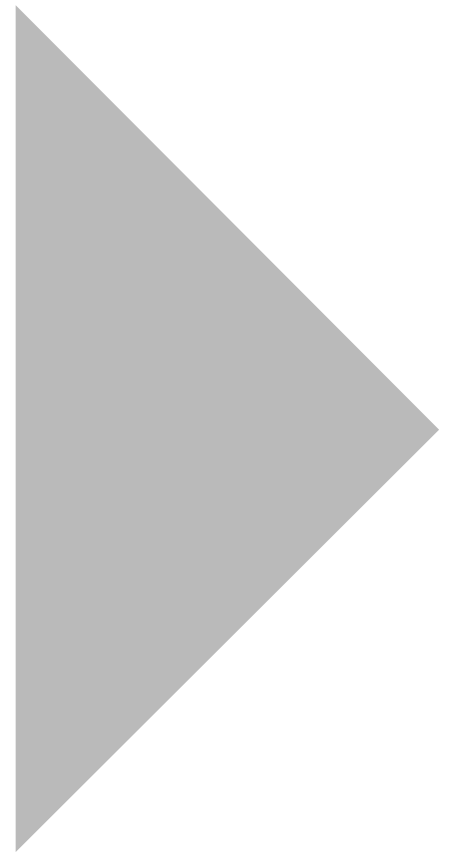
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Integrating
Rethinking
Construction
with Best Value



Integrating Rethinking Construction with Best Value

EXECUTIVE SUMMARY

1.1 Purpose

The purpose of this report is to identify methodologies for the integration of Rethinking Construction and Best Value.

1.2 The Role of the Client

Client-side staff in local government have a key role to play in applying the principles of Best Value to construction solutions to improve service delivery and in fulfilling a leadership role on the implementation of a Rethinking Construction approach.

1.3 Tools for the Appointment of Partners

A rigorous process for the selection of partners is key to the realisation of the objectives of the Rethinking Construction report that traditional tendering be replaced with an arrangement which provides for services to be delivered on a continuing cost-effective basis and through the forging of long-term alliances. Tools should be applied which facilitates the selection of partners based upon:

- Best overall value for money and not just lowest price
- An ability to create a single integrated team approach
- Organisations with a partnering culture and commitment
- Evidence of innovation, added value and measured improvement
- Evidence of customer and people care

1.4 Performance Measures

When construction partners have been selected, continuous improvement should be measured against key performance indicators, which are also shared by a broad range of organisations in the public and private sectors and will facilitate the collection of comparative performance data. Current Construction Industry Key Performance Indicators should be developed further to measure the contribution of Rethinking Construction to the quality of design, to life-cycle costing and sustainability and, in the meantime, the government should consider the adoption of an additional Rethinking Construction Best Value Performance Indicator. In the short-term local authorities could trial the methodology for data collection by adopting this as a local indicator.

1.5 Monitoring

If traditional methods for the selection and appointment of deliverers of construction services are to be replaced, in such a way that the local government sector can make a major contribution to the achievement of Rethinking Construction objectives, then a more rigorous and accountable monitoring system will need to be in place. These monitoring processes include:

- Open book accounting arrangements and a comparison of the total cost of traditional procurement against the total cost of partnering
- Benchmarking of performance measures
- The use of new and emerging political arrangements to monitor performance
- The application of Best Value Review, Audit and Inspection processes and the established Rethinking Construction Monitoring processes

1.6 Potential Obstacles to Change

Local Authorities may consider there to be a number of barriers to change inherent in the structure and culture of local government which will require the following remedies:

- Reform of Standing Orders and the establishment of clear written policies on procurement which incorporate the principles of Best Value and Rethinking Construction
- The establishment of robust selection procedures with all construction partners, the integration with Best Value and Performance Management processes of local authorities and independent monitoring of performance
- The implementation of methods for the application of Rethinking Construction principles to small and medium sized construction organisations in the local economy
- Opportunities to deliver continuous improvement through collaborative partnerships between the private sector and in-house workforces should be considered where the private sector adds value to in-house resources

1.7 Proposed Reforms

Local and Central Government should consider a range of proposed reforms to integrate Best Value and Rethinking Construction principles, remove the obstacles to change and encourage closer partnership working between central and local government and the Construction Industry.

Integrating Rethinking Construction with Best Value

1 INTRODUCTION

1.1 The purpose of this report is to identify

- The role of local authority clients in securing a framework for the adoption of the Clients' Charter in local government construction services and the impact of Best Value and Rethinking Construction on the process
- A framework for the adoption of the Clients Charter in local government
- Tools for the appointment of construction and related service partners
- Key performance indicators designed to measure the implementation of rethinking construction principles and the wider best value agenda
- A monitoring methodology to oversee progress in the achievement of targets and the demonstration of continuous improvement
- Suggestions to overcome obstacles to change
- Best practice on the integration of Rethinking Construction and Best Value and sources of further information

2 BACKGROUND

2.1 In July 1998 the report of the Construction Taskforce, chaired by Sir John Egan and entitled Rethinking Construction reported to the DETR on the scope for improving the quality and efficiency of UK Construction. This report identified five key drivers of change which could influence the agenda for the construction industry:

- Committed leadership
- A focus on the customer
- Integrated processes and teams
- A quality driven agenda
- Commitment to people

2.2 The report set a number of challenging targets, including:

- Annual reduction of 10% in construction cost and construction time
- Reduction in defects by 20% per annum

2.3 The report also recommended that the industry should create an integrated project process around the four key elements of product development, project implementation, partnering the supply chain and production of components.

2.4 The Task Force identified the construction supply chain as being critical to the drive for innovation and recommended the implementation of supply chain partnering as a key means for the achievement of continuous improvement.

- 2.5 The Taskforce acknowledged that partnering was not an easy option and in many respects was more demanding than conventional tendering, requiring recognition of inter-dependence, open relationships, effective measurement of performance and an ongoing commitment to improvement. The following conclusions were particularly significant:
- The most immediately accessible savings from alliances and partnering come from a reduced requirement for tendering and its replacement by comparisons between suppliers, rigorous measurement of their performance and sustained improvements in quality and efficiency
 - Value for money can be adequately demonstrated and properly audited with quantitative performance targets, open book accounting and demanding arrangements for selecting partners.
- 2.6 The Taskforce recognised, however, that the replacement of tendering would be particularly difficult for the public sector.
- 2.7 The Government is committed to modernising Local Government in pursuit of its vision for public services which is:
- Ensuring that public services are responsible to the needs of citizens, not the convenience of providers
 - Ensuring that public services are efficient and of a high quality
 - Ensuring that policy making is more joined-up and strategic, forward looking and not reactive to short-term pressures
 - Using information technology to tailor services to the needs of users
 - Valuing public service and tackling the under-representation of minority groups
- 2.8 There is a close alignment between the first, second and fourth of this vision and Rethinking Construction principles.
- 2.9 The Local Government Act 1999 places a duty on local authorities to deliver Best Value for local people and DETR Circular 10/99 gives statutory guidance to local authorities on its implementation. Many of the principles of Best Value are aligned to the outcomes of the Rethinking Construction report:
- Continuous improvement
 - The 3 'E's of service delivery (economy, efficiency, and effectiveness)
 - The setting of national and local performance indicators and targets for driving and monitoring improvement.
 - A focus on equity and sustainability in service delivery
- 2.10 Best Value is a much wider concept than Rethinking Construction as it applies to all of the functions of an authority. It requires authorities to conduct searching Best Value Reviews of all functions within consecutive five year periods and each Best Value Review must address the 4 'C's:

- Challenge - whether the particular service is needed, how and by whom it should be provided
 - Compare - performance with other providers across a range of Best Value Performance Indicators including user satisfaction
 - Consult - with local taxpayers, service users and the business community on options for service delivery and the setting of new performance targets.
 - Compete - use fair and open competition where practicable as a means of securing efficient and effective services
- 2.11 Good procurement lies at the heart of both Best Value and Rethinking Construction. The move towards the Rethinking Construction method of procuring and managing contractors for new build, maintenance and renovation of local authority assets will make an important contribution to the delivery of best value overall. Local authorities may, therefore, wish to consider construction as a cross-cutting theme in their five-year review programmes.
- 2.12 Both approaches emphasise the need to break away from traditional tendering and stress the importance of innovation, through partnership in the delivery of improved outcomes, for example. Both will encourage an increase in relationships based on clear measurement of performance and sustained improvements in quality and efficiency. Rethinking Construction places an emphasis on fewer tenders for longer term contracts in the context of developing longer term partnerships. Although Best Value seeks a plurality of service providers across the full range of local authority functions, there is a similar emphasis on the importance of partnership working where this is the most effective approach.
- 2.13 Best Value extends the basic principles of Rethinking Construction to the evaluation of overall service delivery to the end user. It requires a more rigorous challenge of the need for specific capital projects and its contribution to service delivery outcomes. Important principles of life cycle costing, sustainability and asset management take on greater importance when Best Value and Rethinking Construction principles are integrated.

3 THE ROLE OF THE CLIENT AND THE CONSTRUCTION CLIENTS' CHARTER

- 3.1 Defining the client role is not as straightforward in Local Authorities as it is in many construction projects. Individual users of a building and those who deliver the services may not necessarily be the ones to commission the work or even the ones holding the budget. They are frequently represented by client departments that are subject to political direction both at national and local level, and restricted by financial constraints and other processes. Client departments may hold accountability for capital expenditure but in many cases are required to undertake extensive consultations with a variety of stakeholders who have little or no direct financial input themselves. Local government is also subject to legal and other financial constraints which are often perceived as restricting or at best prolonging procurement processes. These may be specified in Standing Orders and Financial Regulations which should be reviewed in any event as part of the development of Best Value Procurement Strategies.
- 3.2 Clients will also have a leading role in promoting good design. The recent Government report 'Better Public Building' seeks to improve towns and cities through good design to deliver a step change in the quality of buildings and to produce buildings of the same high quality as those built by the Victorians. (The Victorians have been recognised as having been architecturally innovative and particularly proud of their public projects and municipal works.)
- 3.3 Best Value requires, however, that clients must be able to demonstrate added value to their local authority. The principle of continuous improvement in Rethinking Construction should therefore be driven by the client and not applied in spite of them. The Construction Clients' Charter has been launched to provide a commitment to effecting continuous improvement with measurement as its basis against the nationally adopted Key Performance Indicators (KPIs) for
- time and time predictability
 - cost and cost predictability
 - quality
 - client satisfaction
 - change orders - client and supplier
 - health and safety and respect for people
- 3.4 The Charter provides for clients to generate their own performance data, pooling this with other clients. Through accepting chartered status, clients may access this pool of data to benchmark where they stand, and by exchanging experience and expertise improve their own performance.
- 3.5 Client side culture change is fundamental to the achievement of continuous improvement and the Charter identifies the key cultural aspects against which clients will need to assess their progress within the framework of the Charter as:
- Leadership and focus on the customer
 - Product team integration

- Quality
- People

- 3.6 The Charter specifies the benefits from culture change being measured against the nationally adopted Construction Industry Key Performance Indicators (KPIs).
- 3.7 The Best Value regime in local government provides clear opportunities to reinforce the culture change objectives of the Clients' Charter. The Best Value 4 C's process should not just be limited to the Best Value Review Process, it also has the potential to be applied to specific projects as follows.

3.8 Challenge

- 3.8.1 The Client is faced with fundamental first step in Best Value which is not addressed in the Rethinking Construction report; essentially:
- Is the capital project needed?
 - Is there another approach to delivering the outcomes.
- 3.8.2 There is frequently an assumption that capital investment is required to deliver improvements in service without the rigour of a business case appraisal linked to outcomes to support it. Local authorities will need to review all capital projects as part of both the integrated capital strategy for the authority and their Asset Management Plan.
- 3.8.3 Best Value requires authorities to consider all alternatives to their existing providers of work. Partnerships with other agencies and the private sector could reduce the need for major capital investment, though this should never be the sole reason for pursuing this route. Local authority clients will need to develop flexibility in order to adjust to other procurement regimes as partnerships develop and their role will need to be less prescriptive as risk is transferred and the shared benefits of the investment become apparent.
- 3.8.4 Whilst local authorities are required to demonstrate Best Value, some current Central Government funding arrangements tend to compartmentalise capital spending. Individual government departments require separate bidding for capital resources using different criteria and then look to "passport" grant for specific projects. The effect of this can be seen in the percentage of capital available through the "Single Capital Pot" initiative. This can bring an added complexity to the corporate approach to prioritising capital investment based on Local Authority's Best Value Performance Plans and Asset Management Plans. The client role will, therefore, also include the requirement to adopt different strategies to access capital resources. The Local Government Finance Green Paper sets out several options to replace current capital funding arrangements with one which will:
- Encourage a cross-cutting approach to use of capital assets, both across services and working with partners;
 - Provide a means of consulting partners and the local community in developing a longer term approach to capital investment;

- Provide a joined up approach by Government to decisions on allocations of capital resources;
- Promote effective procurement and maintenance of capital assets, including partnerships and outsourcing where appropriate; and
- Provide an element of performance incentive for local authorities, while ensuring that end users in poorly performing authorities are not penalised for their council's shortcomings.

3.8.5 Assuming that a capital project is the only reasonable way forward, the challenge for the client is not to “design” the solution but to prepare a brief that can be used by the construction team to offer a range of innovative solutions to the problem. For the briefing process to be successful the Client should:

- understand its positive and vital role in the whole process and not seek to employ contractual relationships to protect its interests
- have the knowledge to compile the brief and define the outcomes
- use the brief to appraise options available, test alternative strategies and determine the cost and feasibility of the project

3.8.6 Other elements necessary for a successful project will involve the client in:

- Project management - the continued role of the client within the project.
- Risk management - assessing how much risk should be transferred and how it will be managed.
- Revenue implications - how much will the project impact on revenue expenditure and how will capital expenditure be balanced against life-cycle costings?

3.9 Compare

3.9.1 Rethinking Construction recommends that local authorities collect data against nationally agreed Key Performance Indicators and compare performance with other local authorities and the private sector for various categories of capital projects. The traditional drive to push down net construction costs by reducing quality and increasing long-term maintenance costs clearly does not demonstrate Best Value. The development of life cycle cost indicators therefore becomes increasingly important. The development of such indicators and the monitoring of continuous improvements through the collection of comparative performance data will be essential for local government clients. The Clients' Charter will provide access to comparative data and opportunities to benchmark processes and operations.

3.9.2 There is currently little evidence of data available which relates capital or project costs to outcomes. Evidence from Best Value Reviews and the identification of user satisfaction performance indicator trends should help to provide a more detailed analysis of outcomes. The requirement to produce Asset Management Plans could also enable authorities to compare the efficiency of the assets and the methods of procurement with a focus on the medium to long-term rather than the current pre-occupation with short-term costs.

3.10 Consult

- 3.10.1 Consultation is one of the key elements of Best Value both in individual Best Value Reviews and as part of the more general duty. Extensive consultations with all relevant stakeholders and in particular, the public and/or users are essential to the success of a construction project. Unnecessary delays can be avoided if this consultation is carried out as part of the wider consultation strategy that authorities should have in place as a result of Best Value. Local Authorities may apportion capital budgets either through Service Plans or through a corporate process which takes account of competing requirements and the delivery of corporate and national priorities and targets set in relation to national Best Value Performance Indicators and other locally set indicators. These objectives and priorities are likely to be outlined in Best Value Performance Plans. The outcomes of an authorities priority setting process may result in projects being scaled down to fit available resources and national criteria. This may lead to tension between frontline service providers such as schools and client side construction staff. Care should be taken, therefore, not to raise unreasonable expectations during the consultation process.
- 3.10.2 The implementation of Partnering arrangements for the delivery of the capital project can provide opportunities for the ongoing engagement of key stakeholders in design and construction decisions. This involvement can help to avoid possible conflicts and enhance ownership with the final construction solution.
- 3.10.3 Suitability and sufficiency are elements of the Asset Management Plan on which the user of the facility will be consulted and there needs to be a clear standard against which these elements are measured.
- 3.10.4 The client also has an essential role in any subsequent review process that assesses the impact of the project and whether the outcomes have been delivered. This will inevitably involve consultation with building users on the:
- Performance of the construction team - essential to develop the partnership and deliver continuous improvement
 - Delivery of the project against the brief and specification
 - Delivery of the service - has the project enabled a measurable improvement in the service to be delivered?

3.11 Compete

- 3.11.1 The client will need to develop the options available to fund capital projects and/or find alternative methods of service delivery, such as:
- Direct funding - using borrowing approvals or capital receipts
 - Government grants - ie., New Deal for Schools, but only available for Government priorities
 - Lottery funding - available for certain types of project
 - Transfer of assets - ownership of buildings could be transferred to the private or voluntary sectors

- Delivery of service by a third party - buying in the service without the need for direct capital investment
 - PFI
 - Public/Private partnership - whereby the private sector adds value to in-house resources.
- 3.11.2 Circular 10/99 states that “ fair and open competition will, in the Government’s view, most often be the best way of demonstrating that a function is being carried out competitively” . However, traditional competitive tendering may not deliver Best Value unless it can address issues of:
- Continued improvement throughout the life of the contract
 - Quality as well as cost
 - Equity and sustainability service delivery issues
 - Maximising the expertise from supplying organisations
- 3.11.3 But a key issue for local authority clients remains - to be able to demonstrate the competitiveness of partnership arrangements rather than relying on competitive tendering to demonstrate that they have achieved the best solution. The Government is looking for local authorities to embrace competition. Guidance on the implementation of Best Value does, however, put forward the formation of a joint venture or partnership, following a competition for an external partner, as one form of competition. Best Value, therefore, encourages and opens the way to more innovative forms of procurement, which will also help the advantages of Rethinking Construction to be gained. Such advantages are based principally around working together in a non-adversarial approach through:

Partnering

- Project Partnering with key partners in the supply chain for a single project.
- The Grouping of a number of small value contracts (minor works) and/or maintenance work to produce long-term contracts.
- A framework agreement with a number of contractors could provide an improvement in quality and Health and Safety standards as well as a reduction in tendering costs.
- Public/Private partnering whereby the private sector adds value to in-house local authority resources either through a Memorandum of Understanding or the establishment of a Public Enterprise.
- Strategic partnering with key partners in the construction supply chain for more than one project or for programmes of work.

Term Contracts

- Developing a long-term relationship with a number of contractors to improve the performance on major capital projects and retain the team ethos built up on individual projects.

Combined Consultant/Contractor Package

- A refinement of the Design and Build concept.

Traditional Competitive Tendering

- A streamlined process using IT/IS.

Management Contracting

- This enables clients to influence both the quality and cost of works let in separate packages whilst retaining the contractor's expertise.

- 3.11.4 The client should retain flexibility to employ the most appropriate form of procurement dependent on the funding source, timescale and partners involved. Whichever method is chosen, however, the client must be able to demonstrate that the Best Value solution has been selected.

4 TOOLS FOR THE APPOINTMENT OF PARTNERS

4.1 If the recommendations of the Rethinking Construction report that “ the industry replace competitive tendering with long term relationships based on clear measurement of performance and sustained improvements in quality and efficiency” are to deliver the improvements anticipated, then the selection of partners through a robust and competitive process is critical. The selection of partners will require consideration of a number of potential partners on a competitive basis taking into account:

- Best overall value for money and not just lowest price
- An ability to create a single integrated team approach
- Organisations with a partnering culture and commitment
- Evidence of innovation, added value and measured improvement
- Evidence of customer and people care

4.2 Also potential partners should be able to demonstrate their commitment to:

- Developing shared partnership objectives
- Continuous improvement
- Developing openness and trust through teamwork
- Non adversarial approaches based on achieving appropriate solutions
- Supply chain management systems and procedures
- A flexible approach sharing both successes and set backs
- Assessment of sustainability aspects including whole life costing

4.3 The following factors are considered critical to successful outcomes:

- Realisation that partnering calls for full commitment from all parties
- Early involvement of key parties is vital
- A single integrated team approach is essential
- Outcomes must be based on genuine user needs
- Performance measurement and monitoring against benchmarks is important to ensure continuous improvement

4.4 The Treasury Procurement Guidelines 1-6 offers best practice examples of achieving value for money and partner selection on the basis of quality. Best practice in selecting and appointing key partners has many similarities with best practice in recruiting and selecting staff. In the case of construction partners this could include the following:

- Appointment of an independent advisor to establish the criteria framework and selection process
- Regard to EC procurement rules and their applicability

- Amendment of standing orders to enable partnering, quality criteria and not just the lowest price to be taken into account
- Devising quality selection criteria and publishing weightings to be applied to scoring for all respondents

4.5 The ECI publication “Partnering in the Social Housing Sector” offers advice on quality selection. The following quality criteria may be applied:

- Previous relevant experience
- Capability and track record
- Partnering experience and supply chain management
- H & S record
- Quality methods and systems
- Financial data
- Key personnel and proposed structure for project
- Equalities considerations related to the contract For example, equal opportunity employment policies, track record in helping to address social exclusion and innovative approaches to improving access.
- Evidence of continuous improvement
- Innovation and areas in which value can be added
- Overhead and profit margin expectations
- Project specific areas (may include local training)
- Community development, employment, resident involvement, management, etc.)
- Environmental considerations

The finalisation process may then involve:

- Interview of top scoring potential partners
- Use of residents, service users, front-line departmental clients or proposed project team in interview process
- Final scoring from quality submission and interview leading to preferred partner or partners
- Pricing exercise with one/two partners, based on sample units or on agreed guaranteed maximum price.

Partner appointment should be followed by:

- Project planning process
- Value engineering exercises
- Partnering workshops and team agreement to incentivised arrangements for sharing of risks and rewards
- Working up of final specification and price together on an open book basis

4.6 Partnering principles can be applied to individual projects and there is a growing number of successful project partnering initiatives. However, to maintain momentum and build on the learning and culture change that take place, it is increasingly important to extend these partnering principles to more strategic alliances covering:

- Programmes or phases of work
- Work which is more difficult to define precisely in advance such as building or highway maintenance
- Initiatives whose priorities will develop over time requiring flexible structures
- Projects where a solution has yet to be defined such as a regeneration or redevelopment project
- Initiatives where construction is only a part of the solution and the partnership may extend into the operation of a facility or series of facilities, for example the Private Finance Initiative.

4.7 PFI has certainly provided the incentive for many authorities to adopt new procurement techniques and, in many ways, the principles behind Rethinking Construction and PFI already share a common set of aims. They both encourage local authorities to adopt an innovative approach to procurement and construction projects; they both provide a focus on long term strategy and costs; they both place emphasis on benchmarking; they both involve new working arrangements between the private and public sector; and they can both be a critical tool in helping deliver Best Value.

4.8 PFI is an alternative that seeks to relate directly to the client specification of outcomes. There is also a direct incentive for the project to be considered on a life-cycle cost basis, as responsibility for the maintenance of the building(s), will lie with the PFI contractor. The locking in of revenue expenditure for the duration of the contract could, however, be an issue for the future. As such flexibility in the contractual arrangements is essential to allow a responsive forward-looking service to be provided. It should be noted that the long-term benefits of PFI may not accrue to the local authority.

4.9 Current PFI criteria do not formally include Rethinking Construction objectives and can involve bidders in considerable up-front costs which are abortive for the majority who are unsuccessful. The Government should consider, therefore, incorporating Rethinking Construction principles in PFI criteria including less costly processes for the selection of PFI partners. Local authorities can adopt these principles and link them to performance requirements in the contract.

4.10 Alternatively, the involvement of partners may take the form of a series of phases. One example of this is The Public Sector PLC Network (PSP), one of the Government's pilot Best Value Public Private Partnership Networks who have developed the following four 'E's process of involvement.

- The exploration phase enables both public and private sector potential partners to understand each others requirements and objectives and to determine those factors which are of primary interest
- The examination phase enables the private sector to develop a range of business propositions which will maximise the use of the authority's resources. These resources could be assets or finance in the narrower sense or extend to employees and/or knowledge or skills base
- The evaluation phase will assist local authorities in determining the value of the private sector contribution and to compare partnership options with other methods of service delivery including the status quo. This phase will also assist local authorities in complying with the best value four c requirements of challenge, consult, compare and compete
- The engagement phase will enable potential public and private sector partners to develop the optimum partnership solution which best accommodates each others needs. It will be this final phase where the formal engagement of partners by the local authority will take place. Potential partners will be asked to express an interest and it will be open to the local authority to decide whether the long-term partners were those organisations involved in the development phases up this point or whether new partners should be appointed.

4.11 This approach involves potential partners in the planning process at an earlier stage and can be integrated with the challenge methodology of the client as outlined in paragraph 3.5.1 above. The advantage of such early involvement could be to identify innovative service delivery options from the outset and uncover ways in which the partners could add value to overall service delivery objectives.

4.12 When construction partners have been selected, key performance indicators should be established to measure continuous improvement:

- Over the construction period in order to demonstrate continuous improvement
- Against Construction Industry Key Performance Indicators.

5 PERFORMANCE MEASURES

- 5.1 In 1998 the construction industry through the Construction Best Practice Programme (CBPP) developed a series of 10 Key Performance Indicators which are designed to assess an organisation's performance and encourage improvement throughout the industry. Adoption of these KPIs also helps to indicate whether an organisation is on the way to achieve the targets set for the construction industry within the report 'Rethinking Construction'.
- 5.2 At the same time the 'core cities *' group of authorities, who had come together to benchmark their design and construction activities were looking for a series of KPIs that would be applicable to local government. (* The core Cities Group currently consists of - Birmingham, Bristol, Glasgow, Liverpool, Leeds, Manchester, Newcastle and Sheffield)
- 5.3 The Core Cities with advice from District Audit, and in conjunction with a number of professional societies examined the CBPP indicators. They agreed that only six of the indicators would be sufficiently relevant for Local Authority use, but in addition agreed a further two indicators that could be utilised for other areas of concern.
- 5.4 The final eight indicators are set out below (full definitions and associated questionnaires are included as Appendix 1 to this report).
1. Customer Satisfaction - Service*
 2. Customer Satisfaction - Product*
 3. Cost Predictability*
 4. Time Predictability*
 5. Number of defects/snagging items*
 6. Safety on site*
 7. Number/Level of disputes/claims
 8. Period for settlement of final account
- (* Indicates CBPP Key Performance Indicator)
- The remaining two are:
9. Construction Time* (year on year)
 10. Construction Cost* (year on year)
- 5.5 However, they are considered to be of limited use for design services and whilst geared primarily to construction phases, the methodology for calculation is complex and could potentially lead to misleading results. (For completeness, definitions are also included in Appendix 1).
- 5.6 It is also worthy of note that an additional KPI "Contractors Satisfaction" is being considered in some demonstration projects. The traditional view of a client/consultant/contractor relationship may not see this as relevant, but any contractor depends greatly upon the accuracy and prompt supply of necessary information and on non-adversarial actions and behaviours. The contractors feedback is, therefore, an

important factor in accessing the progress of partnering arrangements, particularly if it is a long term strategic approach.

- 5.7 To contribute to improving customer satisfaction KPIs the Considerate Contractors Scheme has been in operation nationally for several years. The scheme encourages best practices in areas such as respect for people and health and safety; key areas of concern for the Government.
- 5.8 The core cities' indicators have now been adopted by the National Best Value Benchmarking Scheme, which has over 100 Local Authority Members. In addition the indicators have been incorporated within the DETR suggested property performance indicators as part of the Asset Management Planning initiative. They have also now gained full support from SCALA (Society of Chief Architects in Local Authorities), SCQS (Society of Chief Quantity Surveyors) and FPS (Federation of Property Societies).
- 5.9 Whilst it is felt that the above indicators cover most aspects of construction, there are three important areas that are currently not addressed. The areas concerned are - Quality of Design, Life Cycle Costs and Environmental/ Sustainability Issues.

Quality of Design

- 5.10 The core cities looked at this area in detail and concluded that a quality of design indicator would not be practical at this stage. They concluded that aspects of this issue were already incorporated within the customer satisfaction indicators. It was also felt that definition and measurement of 'quality' would be impossible. The Construction Industry Council has recently received a grant to look at this area and the CIC DQI Toolkit is currently being trialled. Progress of this initiative is currently being monitored. . An additional useful reference, , for housing is the Housing Corporations Standard Design Schemes which sets out quality standards for good design criteria. Work is also underway jointly with CABI to provide design quality guidance.

Life Cycle Costs/Sustainability Issues

- 5.11 The Government's strategy for more sustainable construction - " Building A Better Quality of Life" set out the areas to be addressed in achieving a sustainable built environment, with suggested good practice guidance and performance indicators. Ongoing research by BRE and others is developing simple guidance on sustainable planning and evaluation. In the meantime, certain aspects are covered by the National Best Value Benchmarking Scheme's customer satisfaction performance indicator.
- 5.12 The core cities set up a working sub-group to look at sustainability. The sub-group concluded that whilst performance indicators were not realistic at this stage, a good practice guide/checklist would be useful in promoting environmental awareness during the construction process. The core cities are currently exploring the various issues that will need to be incorporated in such a guide and further work should be carried out to measure performance in this area. In the meantime, the Housing Forum will be publishing early next year a sustainability guide/checklist for housing and the Housing Corporations' 'Housing Quality Indicators' set out a basis for taking sustainability into account.

Additional Rethinking Construction Best Value Performance Indicator

- 5.13 Construction and property services account for around 10% of local government expenditure, but there are no current Best Value Performance Indicators for these services. It will be a matter for local decision as to whether Councils include some or all of the Construction Industry Key Performance Indicators in Best Value Performance Plans. Unfortunately, no single indicator from these KPI's represent the application of Rethinking Construction principles. Furthermore, no current indicator exists which measures the contribution that the Rethinking Construction process can make to design excellence as an overall outcome.
- 5.14 In the joint invitation to local government to participate in the Rethinking Construction Initiative, the Deputy Prime Minister and Sir Jeremy Beecham set targets for the proportion by value of local authority construction projects to which the Rethinking construction approach will be applied. It is suggested, therefore, that until such time as a more output or outcome orientated indicator has been developed, the Government consider the adoption of this as a new Best Value Performance Indicator (BVPI) to be measured by the achievement of a minimum standard against a Rethinking Construction checklist, as follows:
- Value of construction services meeting Rethinking Construction checklist standard ÷
Value of total construction services as a %.
- 5.15 Even if accepted, the earliest it could be adopted as a BVPI would be 2002/03. Local Authorities may, therefore, in the short-term wish to adopt this as a local indicator and trial the methodology for data collection.

6 MONITORING

6.1 If traditional methods for the selection and appointment of deliverers of construction services are to be replaced, in such a way that a major contribution can be made by the local government sector to the achievement of Rethinking Construction objectives, a more rigorous and accountable monitoring system will need to be in place to monitor the performance of partners against the measures identified in section 5 above.

6.2 These monitoring processes include:

- Open book accounting arrangements
- The comparison between the total cost of the traditional procurement (ie tender plus claims plus variations plus client time cost) against total cost of partnering
- Benchmarking performance measures both internally by clients and externally through Rethinking Construction support organisations (M4i etc)
- The new and emerging political arrangements in local government could be used to monitor performance. Member scrutiny arrangements and the establishment of scrutiny groups or committees would seem particularly appropriate as would user groups to include other stakeholders
- The performance of the partners would be subject to best value review and performance management processes of the authority
- Local scrutiny could be undertaken by service users, peer groups or consultants.
- The outcomes of Partnering arrangements being open to inspection by the Best Value Inspectorate, Ofsted or Social Services Inspectorate depending upon the construction service being delivered
- The established Rethinking Construction monitoring process administered by the M4I and the Housing Forum could provide external validation if required by individual councils
- If the project were pursued using the pilot public/private partnership networks, such as the PSP Network or the Institution of Civil Engineers Taskforce, then monitoring would also take place by DETR appointed consultants

7 POTENTIAL OBSTACLES TO CHANGE

7.1 There are a number of potential barriers to change put forward by LA's. Some are real; some can be overcome with relative ease. The table, which follows summarises the position currently.

Potential Barrier	Barrier Removal
L.A. Standing Orders - in many cases developed within the context of tendering with an overriding emphasis on cost.	DETR Circular 10/99 stated that authorities should revisit their standing orders to ensure they are consistent with the 1999 Act and to have a clear written policy on procurement, following the introduction of best value. Authorities may need to revise standing orders to encourage partnership arrangements and appointments of partners on the basis of best overall value, attitude to team working and ability to innovate.
Opposition from some internal auditors, finance and legal staff and perceived opposition of District Auditors.	Early involvement of colleagues from these services is essential. Corporate procurement strategies should set out the importance of adopting Rethinking Construction principle and the role of audit, finance and legal services in facilitating Best Value procurement.
Public/Member concerns of cosy relationships developing between officers and construction partners.	<p>Countered by:</p> <ul style="list-style-type: none"> • Robust selection procedure and through Best Value Reviews • Independent monitoring of performance by external organisations, eg., District Audit or Best Value Inspectorates • Resident/Member involvement in selection • Measurement and monitoring • Performance Improvement • Incentivised arrangements • Guaranteed Maximum Price • Open book costing and accounting
Potential exclusion, damage to local suppliers, small, medium in size, This could be the unintentional consequence of partnering with large companies in sectors which may traditionally support small construction companies eg buildings repair and maintenance and small local firms of consultants.	Most contractors will use small, medium subcontractors. As part of the selection process their use of local suppliers and/or contribution to the local economy can be sought and most will readily comply. Local training and employment can and should be robustly requested. Local authorities could encourage small/medium-size contractors to collaborate or form alliances and could help facilitate the application of Rethinking Construction principles through active client side management.

* SEE FOOTNOTE 1

Potential Barrier

Perception that EC Procurement guidelines, Treasury, DETR, etc. require lowest bid from formal process

Protection of DSO/legacy of compulsory competitive tendering

Continuity of work difficult to make any commitment over a number of years due to DETR funding regime

Landlord and Tenant Act 1985
Leaseholders must receive two estimates before a decision is made

Council Member reluctance to change or public sector culture

Barrier Removal

Treasury procurement guidelines specifically say “ procurement should be on the basis of value for money not lowest price alone” . DETR rule do not require lowest cost. EU Procurement guidelines apply but the quality selection criteria outlined will justify competence, quality and overhead and profit award criteria.

*SEE FOOTNOTE 2

Best Value opens up opportunities to deliver continuous improvement through collaborative partnerships where the private sector adds value to in-house resources. Best Value places a clear duty on local authorities to rigorously appraise all available options through Best Value Review, and then to always select the option most likely to deliver best value
Best value places a duty on Local Government to secure continuous improvement in service delivery, taking into account economy, efficiency and effectiveness.

Switch to resource accounting provides L.A.'s with greater scope to manage their MRA's over a number of years and plan their asset portfolio in line with their agreed strategic plan.

Potential “ Solutions” :

- have two partnering arrangements
- reciprocal partnering arrangements with a neighbouring landlord
- reduce leaseholder charge
- Cost without leaseholder contributions to repairs if savings sufficient
- The new Common hold and Leaseholders Bill and associated regulations may provide Government with the opportunity to address any restrictions on partnering

Ministerial commitment and support for Rethinking Construction initiatives help to engender member commitment.
Best value guidance makes clear that successful Reviews need to bring outside people in and involve members in the process. There is a need to radically rethink in order to deliver better services and ensure more future funding.

Potential Barrier

Barrier Removal

Adversarial Contractors that will not deliver and revert back to contractual mode

Need to carefully consider evidence in quality selection criteria and interview process, can they show evidence of partnering culture? Need to carefully consider contract behind Partnering agreement, new Partnering contract PPC 2000 and NEC Contract Option C have already been tried and used by authorities. Their use should be considered.

Scepticism over exaggerated claims of partnering (which means all things to all people)

Partnering is not a magic solution and should never be relied upon as such. To work it needs people to work together effectively in the true spirit of partnering and the difference is a step change which can be demonstrated through objective measured improvements. In many cases a different attitude and culture is essential.

Adequacy of measurement and monitoring for continuous improvement

There is a need to review KPI's carefully for each project and ensure those chosen are both relevant and useful to the project team in delivering continuous improvement.

FOOTNOTES

1. DETR advice set out in Circular 2/01 dated 15 March 2001 is that best value authorities scope to use local labour clauses is limited by the EC Treaty and the European Public Procurement legislation. To bring labour considerations into the contracting process needs careful consideration in the context of these wider requirements.

2. DETR Circular 2/01 also points out that the contract award criteria can also selected on the basis of either " most economically advantageous tender" or " lowest price" , but advises that for most contracts awarding on lowest price is unlikely to be satisfactory.

8 BEST PRACTICE

- 8.1 Case studies of best practice in Best Value and the implementation of Rethinking Construction principles are included in Appendix 2. The M4i Website is also a useful source of information on demonstration projects.

9 PROPOSED REFORMS

- 9.1 It is estimated that the construction industry in Britain accounts for 10% of Gross Domestic Product (GDP). It is also a significant proportion of local government turnover and if local authorities are to play their part in helping to drive the modernisation of the construction industry as advocated in the Rethinking Construction report, then the following reforms should be considered by local authorities:

9.1.1 Best Value Reviews

- Inclusion of construction as a cross-cutting theme in local authority Best Value Review Programmes

9.1.2 The role of local authority clients and the Clients' Charter

- Local authority client services should implement the necessary cultural change to develop their role to:
- Relate capital investment to project outcomes including the consideration of life cycle costings and be involved in post implementation reviews to establish areas for improvement and develop best practice
- Provide client project management, risk management and business case appraisal expertise
- Make full use of the requirement to produce Asset Management Plans to ensure medium to long-term efficiency of assets
- Promote good design
- Apply the principles of Best Value 4 C's to construction projects
- Provide leadership in the implementation of Best Value and Rethinking Construction principles
- Adopt the Clients Charter in Local Government
- Local Authority clients need to establish common definitions of suitability and sufficiency for front-line services to provide benchmark information

9.1.3 Tools for the appointment of partners

- Reduction in the use of traditional tendering and its replacement by partnering approaches to procurement
- In order to effect this culture change, local authorities should:
- Reform their Standing Orders and Financial Regulations

- Integrate the modernisation of construction with their Performance Management and Best Value Review processes and changes to political structures

9.1.4 Key Performance Indicators

- Adoption of a number of Key Performance Indicators based upon those outlined in this report to assist in driving the Best Value and Rethinking Construction processes forward and to monitor continuous improvement.
- Adoption in the short-term of the Rethinking Construction Best Value Performance Indicators as a local indicator to trial data collection methodology
- Incorporation of Rethinking Construction principles in the performance requirements of PFI contracts

9.1.5 Monitoring

- Implementation of rigorous and accountable monitoring systems to include:
- Open book accounting arrangements
- Comparison of the costs of traditional procurement against the costs of partnering and benchmarking of performance
- Making full use of modernised political structures to scrutinise arrangements
- External audit and inspection

9.1.6 Overcoming Obstacles to Change

- Corporate Procurement Strategies should set out the importance of adopting Rethinking Construction principles and the facilitating role of audit, finance and legal services in achieving Best Value procurement
- Policies should be developed to increase awareness and encourage the application of Rethinking Construction contractors and consultancies by small and medium sized construction

9.2 The modernisation of the construction industry is the primary objective of the Rethinking Construction initiative. Central Government should, therefore, consider the following actions to encourage and support the implementation of Rethinking Construction principles by local authorities:

- Incorporation of Rethinking Construction principles into Government funding guidance and PFI criteria and in particular improved processes for the selection of PFI contractors
- The development of the target setting principles of Public Service Agreements to provide Government funding incentives to authorities able to embrace reform and demonstrate the benefits of integrating the principles of Rethinking Construction into their best value solutions.
- The adoption of an additional Rethinking Construction Best Value Performance Indicator developed from the proposal in this report.

9.3 Best Value and Rethinking Construction initiatives are dynamic processes and the partnership between Central and Local Government and the Construction Industry should jointly carry out the following further work:

- Invite applications for demonstration projects to pilot the integration of Rethinking Construction principles with PFI criteria
- The development of Key Performance Indicators to measure the contribution that the Rethinking Construction process can make to:
 - Life Cycle Costs and the achievement of sustainability objectives
 - Equity in service delivery
 - Design excellence

10 CONCLUSIONS

- 10.1 Finally, this exercise in looking at the implications for the Best Value of the Rethinking Construction approach has produced a number of points which the group would like to identify in order to ensure the process is successful.
- 10.2 Firstly, the importance of delivering sustained ministerial support to the leaders and chief executives of local government in order to raise the profile and ensure the continuing progress of this issue throughout local government world.
- 10.3 Secondly, the importance of a continued process of dissemination of key messages to construction professionals in local government of the principles, with practical examples of the approach.
- 10.4 Thirdly, there is a need for a change of culture within local government in order to fully embrace the partnership approach as identified by Rethinking Construction. There are particular issues for elected members in ensuring that there is recognition at member level of the value of partnership rather than of developing what may seem to be an unwanted 'cosy' relationship with a small number of developers.
- 10.5 Lastly, it will be important for central government to further develop a joined up approach within departments so that projects can more easily gain access to funding streams when using the Rethinking Construction approach.

APPENDIX 1

CONSTRUCTION AND PROPERTY SERVICES (DESIGN) KEY PERFORMANCE INDICATORS

Indicator	Client Satisfaction - service
Purpose	To determine the clients overall level of satisfaction with the service during the project.
Description	Project questionnaire and annual surveys are used to arrive at an overall score between 1 to 10 of client satisfaction with the service.
Definition	<ul style="list-style-type: none"> • Individual project questionnaires to be completed by commissioning client - results to be averaged on an annual basis (using standard questionnaires attached) • Annual survey questionnaires to be completed by client(s) where more than one client is surveyed - results to be averaged (using standard questionnaires attached) • Results of project questionnaires and annual surveys to be averaged to get an overall score. • Results can be plotted on Construction Best Practice Programme Chart.
Reasoning	An across the range exercise on both questionnaires will give a good broad indicator to client satisfaction.
Stakeholder Interest	Commissioning clients, members, end users, contractors, consultants, corporate/policy officers
Practical Issues	Need to collect project questionnaires at <ol style="list-style-type: none"> 1. end of design stage 2. on practical completion
Supporting Indicators	Other surveys, feedback process.

**CONSTRUCTION AND PROPERTY SERVICES (DESIGN)
KEY PERFORMANCE INDICATORS**

Indicator	Client Satisfaction - product
Purpose	To determine the end users satisfaction with the completed facility.
Description	A project questionnaire is used to arrive at a score of between 1 to 10, which can be averaged to give an annual score of client satisfaction with the product.
Definition	<ul style="list-style-type: none"> • How satisfied is the end user with the physical product i.e. building. • Individual project questionnaires to be completed by end user using standard questionnaires (attached). • Results to be averaged to give an overall score of between 1 to 10. • Results can then be plotted on Construction Best Practice Programme Chart.
Reasoning	To measure the satisfaction of the end users of the facility or product.
Stakeholder Interest	Commissioning clients, end users, members, contractors, and consultants.
Practical Issues	<ul style="list-style-type: none"> • Defining end users can be difficult • Exercise needs to be done in conjunction with commissioning client. • Timing of exercise i.e. practical completion or end of defects period.
Supporting Indicators	-

**CONSTRUCTION AND PROPERTY SERVICES (DESIGN)
KEY PERFORMANCE INDICATORS**

Indicator	Period for settlement of final accounts
Purpose	To measure and reduce time in settlement of final accounts. And to provide more effective control over capital and revenue programmes.
Description	The percentage of final certificates issued within 18 months of practical completion.
Definition	-
Reasoning	Drive towards speedier settlement and better project working, improvement in procurement, financial implications for contractors and Local Authorities.
Stakeholder Interest	Clients, contractors, sub-contractors, professionals, community politicians, and other funding bodies
Practical Issues	Existing information available but will need central co-ordination to measure and manage performance levels.
Supporting Indicators	None.

**CONSTRUCTION AND PROPERTY SERVICES (DESIGN)
KEY PERFORMANCE INDICATORS**

Indicator	Disputes/Claims
Purpose	To measure and reduce/eliminate the number of disputes/claims as a result of building contracts and provide greater certainty of financial outturns.
Description	The settled value of claims as a percentage of the total construction costs. (Sub Indicator number of such claims) Total Value of claims/Total Construction Cost of Schemes
Definition	A claim is a contractual entitlement.
Reasoning	Drive towards reduction of claims and better working relationships with contractors.
Stakeholder Interest	Client, contractors, sub-contractors, professionals, community politicians.
Practical Issues	Existing information available but will need central co-ordination to measure and manage performance levels.
Supporting Indicators	Number of claims (see above)

**CONSTRUCTION AND PROPERTY SERVICES (DESIGN)
KEY PERFORMANCE INDICATORS**

Indicator	Number of Defects/Snagging Items
Purpose	To measure the built quality of the finished product. Construction Best Practice Definition - To assess the degree to which the handover of a project to the client was delayed by defects which affected the ability of the client to put the facility to use.
Description	The number of defects/snagging items outstanding at practical completion. Construction Best Practice - On completion of each project carry out a survey with the client to determine whether handover of the facility was affected by defects. Use the following 1 to 10 scale to allow flexibility in scoring where: 1 = Totally defective 3 = Major defects with major impact on client 5 = Some defects with some impact on clients 8 = Some defects and no significant impact on client 10 = Defect free
Definition	A defect is a fault, which prevents the full-intended operation or function of the facility. A snag is a fault, which affects the appearance of a facility but not necessarily the function. The Contract Administrator or representative at practical completion will record all defects/snagging items in writing. Practical Completion as defined in RIBA Workstage K.
Reasoning	At Practical Completion there should be no significant defects, any reserved snagging items must be satisfactorily resolved within one month.
Stakeholder Interest	Client/end user, potential users, contractors, environmental considerations, community politicians.
Practical Issues	Existing contractual requirement under handover procedure. Requires administration to manage performance levels.
Supporting Indicators	None.

**CONSTRUCTION AND PROPERTY SERVICES (DESIGN)
KEY PERFORMANCE INDICATORS**

Indicator	Safety on Site
Purpose	To measure and reduce/eliminate the number of accidents/hazards on site.
Description	As construction Best Practice Programme Indicator for Safety on Site
Definition	The number of reportable accidents/number of operative hours on site. (A reportable accident as defined in Health and Safety Statistics 1997/98 published by the Health and Safety Commission as fatalities, major injuries and over 3 day injuries to employees, self employed people and members of the public).
Reasoning	Drive towards elimination of hazards/accidents.
Stakeholder Interest	Client/end user, potential users, contractors, environmental considerations, community politicians, other departments (approved lists).
Practical Issues	Existing information already available within the industry but we will require administration to manage performance levels.
Supporting Indicators	None.

**CONSTRUCTION AND PROPERTY SERVICES (DESIGN)
KEY PERFORMANCE INDICATORS**

Indicator	Cost Predictability
Purpose	To measure the capability of achieving actual outturn costs within estimated costs.
Description	Comparison of estimated outturn project costs at “ Commit to Invest” with actual outturn cost at expiry of defects liability period. Change expressed as percentage of estimated outturn cost at “ Commit to Invest” .
Definition	<p>“ Outturn project Costs” = final cost of construction work (including value of contractual claims, inflation etc.) + cost of professional fees + statutory costs “ Commit to Invest” = as Construction Best Practice definition: “ “ The point at which the client decides in principle to invest in a project, sets out the requirements in business terms and authorises the project team to proceed with the design” (Commencement of RIBA work stage C?)</p>
Reasoning	Need to identify and strive to eliminate factors influencing significant cost variation - to improve overall efficiency and value for money, to minimise incidence of unforeseen expenditure enabling funding bodies to utilise available resources with optimum effectiveness.
Stakeholder Interest	Elected members; Client Officers; Design Consultants, External funding agencies; end-users; public
Practical Issues	Standardised pro-forma for data collection.
Supporting Indicators	<ul style="list-style-type: none"> • Change between estimated outturn cost at commit to invest compared with estimated outturn cost at tender acceptance. • Change between tender price and contract price. • Change between estimated outturn cost at tender acceptance compared with actual/estimated final cost at expiry of defects liability period • Change between estimated cost of professional fees at commit to invest compared with anticipated final professional fee charges at expiry of defects liability period • Sub indicator to show effects of client generated cost variations

**CONSTRUCTION AND PROPERTY SERVICES (DESIGN)
KEY PERFORMANCE INDICATORS**

Indicator	Time Predictability
Purpose	To measure reliability of time estimates for construction projects (similar to Construction Best Practice KPI)
Description	Comparison of estimated timescales against actual timescales for project design and construction.
Definition	Measure percentage between "A" and "B" where, "A" = Duration from "Commit to Invest" to Practical Completion on site as estimated at "Commit to Invest" "B" = Actual Duration from "Commit to Invest" to date of Practical Completion on site. "Commit to Invest" see COST PREDICTABILITY
Reasoning	Significant time variation impacts on overall project costs (design and construction) and causes uncertainty with fundholders budget cashflows and value for money. Need to identify and minimise impact of factors associated with poor time forecasting.
Stakeholder Interest	Elected members; Client Officers; Design Consultants, External Funding agencies; End-users; Contractors, Public
Practical Issues	Standardised pro-forma for data collection. Key stages for data recording.
Supporting Indicators	<ul style="list-style-type: none"> • change between estimated and actual timescales from "Commit to Invest" to contractual start on site • change between estimated and actual timescales from contractual start on site to practical completion • measurement of time variations generated by client changes

**CONSTRUCTION AND PROPERTY SERVICES (DESIGN)
KEY PERFORMANCE INDICATORS**

Indicator	Construction Time (As Construction Best Practice KPI)
Purpose	To measure the change in construction time from one year to next.
Description	Comparison of construction time indicators for similar projects on annual basis.
Definition	'Construction time indicators' - calculated per "Method 2" identified in Construction Best Practice KPI handbook.
Reasoning	To identify extent of year on year improvements in Construction Time being obtained by each authority (to accord with industry target identified in DETR Report ("Re-thinking Construction").
Stakeholder Interest	Elected members; Client Officers; Design Consultants, External Funding agencies; End-users; Public; Contractors
Practical Issues	Agree methodology for adjustments for location, market conditions etc, Data to be collected for projects achieving expiry of defects liability period during currency of financial year in question.
Supporting Indicators	Cross Authority: <ul style="list-style-type: none">• comparative construction time for similar project types• comparison of design and construction time for similar project types (time from "commit to invest" to practical completion on site)• sub-indicator to illustrate effect of client generated changes

**CONSTRUCTION AND PROPERTY SERVICES (DESIGN)
KEY PERFORMANCE INDICATORS**

Indicator	Construction Costs (As Construction Best Practice KPI)
Purpose	To measure the change in real cost of construction from one year to next.
Description	Comparison of normalised outturn project costs on annual basis.
Definition	<p>" Normalised" = after adjustment for inflation, location, market factors etc. (calculated per " Method 2" identified in Construction Best Practice KPI handbook)</p> <p>" outturn project costs" = final cost of construction work (including value of contractual claims) + cost of professional fees + statutory costs (+ client costs)*</p>
Reasoning	To identify extent of year-on-year cost efficiencies being gained by each authority (to accord with industry target identified in DETR Report " Rethinking Construction").
Stakeholder Interest	Elected members; Client Officers; Design Consultants, External Funding agencies; End-users; Public.
Practical Issues	<p>Agree methodology for adjustments for location, market conditions etc, Data to be collected from projects achieving expiry of defects liability period during currency of financial year in question. * Difficult (at least in short term) to identify client costs?</p>
Supporting Indicators	<p>Cross Authority:</p> <ul style="list-style-type: none"> • comparative costs of specific project types • comparative costs of professional fees • comparative client costs • sub-indicator to illustrate effect of client generated changes

PERFORMANCE QUESTIONNAIRE – ANNUAL SURVEY

Name of organisation: _____

Date: _____

Client: _____

Client Development Group: _____

(In order to help us improve the quality of our service to you it would be very helpful if you would fill in the questionnaire below. Thank you for your assistance.)

Please indicate how satisfied you are with project/building, using a scale of 1-10 where

10 = Totally satisfied

5 = Neither satisfied/dissatisfied

1 = Totally dissatisfied

1. Overall how do you rate the quality of service provided ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

2. Overall do you feel the service represents value for money ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

3. How satisfied are you with the level of Customer Care provided

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

4. Overall were you satisfied with the level of responsiveness provided ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

5. Overall were you satisfied with the level of reliability of the service ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

6. Overall how would you rate the creativity and capability of the organisation to come up with innovative solutions ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

7. Overall how satisfied were the end users of the project/buildings ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

8. How satisfied were you that projects were delivered within the timescales agreed ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

9. How satisfied were you that projects were well managed within budget ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

10. Overall how satisfied are you with your level of involvement in the projects ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

For office use	
Question	Score
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
Total	Overall average

PERFORMANCE QUESTIONNAIRE – CLIENTS

Name of Organisation: _____

Project Title: _____ Project Number: _____

Date: _____ Client: _____

Client Development Group: _____

(In order to help us improve the quality of our service to you it would be very helpful if you would fill in the questionnaire below. Thank you for your assistance.)

Please indicate how satisfied you are with project/building, using a scale of 1-10 where

10 = Totally satisfied

5 = Neither satisfied/dissatisfied

1 = Totally dissatisfied

1. How do you rate our understanding and awareness of your needs ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

2. How well did we adhere to the brief in terms of design and specification of the project ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

3. How well were you kept informed of progress and expenditure ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

4. How well were alternative design solutions and their implications on cost and maintenance explained to you

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

5. How satisfied are you that ease and cost of maintenance have been considered in the design ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

6. How satisfied are you that the building/project is energy efficient

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

7. How satisfied were you that (Name) were approachable and your concerns accommodated ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

8. Were you satisfied with the level and quality of resources allocated to the project ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

9. How do you feel the project was managed on site by the consultant (Name)?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

10. How closely was the project delivered to the agreed programme ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

11. Delivery of project within budget

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

12. How satisfied were you that the level of service represented value for money in terms of fees ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

Any other comments :

For office use	
Question	Score
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
Total	Overall average

PERFORMANCE QUESTIONNAIRE – END USER

Name of Organisation: _____

Project Title: _____ **Project Number:** _____

Date: _____ **Client:** _____

Client Development Group: _____

(In order to help us improve the quality of our service to you it would be very helpful if you would fill in the questionnaire below. Thank you for your assistance.)

Please indicate how satisfied you are with project/building, using a scale of 1-10 where

- 10 = Totally satisfied
- 5 = Neither satisfied/dissatisfied
- 1 = Totally dissatisfied

1. How satisfied are you with the internal and external designs of the building

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

2. How satisfied are you that the project/building is fit for the purpose it was intended

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

3. How satisfied are you with the ease and operation of the building in daily use

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

4. How satisfied are you that ease and cost of maintenance have been considered in the design ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

5. How satisfied are you that the building/project is energy efficient ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

6. How satisfied are you that the project/building will contribute to the local community/built environment ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

7. How satisfied are you that the design solution offers present and future flexibility ?

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

8. How satisfied are you that a solution has been achieved that takes into account security considerations

Scoring please circle: 1 2 3 4 5 6 7 8 9 10

Comments:

Other comments :

For office use	
Question	Score
1	
2	
3	
4	
5	
6	
7	
8	
Total	Overall average

APPENDIX 2 – CASE STUDIES

Dorset County Council and Gosport Borough Council

Dorset County Council

In 1998, Dorset County Council submitted a best value proposal for its environmental services seeking CCT exemption for construction and property related services and vehicle maintenance. One of the key aspects of this proposal was to develop best value alternatives to CCT involving partnering options with the private sector through the national Public Sector PLC (PSP) Network and the Institution of Civil Engineers Network. These two public private partnership networks became pilot initiatives and the County Council obtained its CCT exemption.

Dorset County Council subsequently responded to the invitation from Sir Jeremy Beecham and the Deputy Prime Minister to apply to be a Re-thinking Construction Demonstration Authority. The County Council's construction partnering strategy involves three re-thinking construction demonstration projects.

Dorset Engineering Consultancy Buro Happold Partnering

This initiative is also a PSP pathfinder project. A Memorandum of Understanding has been signed and witnessed by the Minister, Nick Raynsford, setting out the strategic partnering arrangements, some of the key features of which are as follows:

- Shared objectives
- A link between Best Value and Re-thinking Construction initiatives
- The development of key performance indicators for engineering design services
- A non-adversarial approach
- Open book accounting
- A waiver of the County Council's standing orders
- Work is exchanged between both partners on an agreed basis but there is no guaranteed workload
- The partners are committed to innovative approaches to engineering design
- The MoU incorporates the four Cs of best value
- Processes for performance measurement and monitoring are specified

The benefits to Dorset Engineering Consultancy are:

- It helps to maintain the viability of specialist services
- The agreement helps to even out peaks and troughs of workload
- The skills diversity of the organisation is maintained
- It provides an opportunity to broaden skills and work on more prestigious projects
- Prepares the service well for best value review, particularly in relation to the compare and compete Cs
- Income is generated for the cost centre which would not be available under any other conventional contractual arrangement

The benefits to the County Council as a whole are:

- The arrangement provides a cost-effective flexible solution able to respond to changes in transport policies
- The in-house market regulator for this service is maintained
- Overall best value can be demonstrated through:
 - Continuous improvement and innovation
 - Performance measurement

- More efficient and effective alternatives to project tendering
- It helps to develop a partnering strategy for the authority

The benefits to Buro Happold are:

- It provides access to services and skills not available in-house
- Buro Happold are well-positioned to pick up additional work from growth arising from Local Transport Plan awards
- Interest has been generated from other local authorities
- Buro Happold are better prepared to help deliver best value and re-thinking construction principles

Christchurch Junior School Project Partnering

This project is the provision of a replacement junior school, costing some £2.3m and it has been developed and is currently in construction using project partnering principles. The preferred contractor is Alfred McAlpine and some of the principles adopted have been:

- Guaranteed maximum price
- Partnering contract using the NEC contract option C
- Incentivised contractual arrangements were put in place
- Selection was on the basis of quality and price and commitment to partnering
- The partners have been involved in value engineering workshops

Some of the benefits from the initiative include:

- Savings arising from the value engineering exercise which were shared between the Authority and the Contractor on a 50-50 basis, the savings to the authority being re-invested in sustainable construction initiatives as part of the building construction.
- The planned construction period was reduced from an original estimate of 72 weeks to 56 weeks.

Highway Maintenance Term Contract Partnering

This partnering arrangement is between the County Council's Dorset Works Organisation and the DSOs of Weymouth and Portland Borough Council and Christchurch Borough Council. The three organisations, working in partnership, successfully competed for the highway term maintenance contract as part of the CCT regime and were successful on both quality and price. This initiative converted previously adversarial arrangements between the three authorities into closer partnership working. This includes:

- Partnering between the three authorities extending beyond the DSOs to include consultancy and client staff
- The sharing of computer systems and procedures between the three authorities, streamlining communication and reducing bureaucracy
- More flexible deployment of the workforce across local authority boundaries
- Regular workshops and meetings between the partners to drive continuous improvement

More information on these projects can be obtained from DEC/Buro Happold Partnering - Mike Winter (01305) 225304, email m.w.winter@dorset-cc.gov.uk, Martin Duffy, Buro Happold (01225) 320 600, email martin.duffy@burohappold.com for the Christchurch Junior School partnering initiative, Perwina Whitmore (01305) 221904, email p.whitmore@dorset-cc.gov.uk, and for the Highway Maintenance Term Contract, Peter Croad (01305) 224237, email p.r.croad@dorset-cc.gov.uk and Andrew Martin (01305) 250920, email a.j.martin@dorset-cc.gov.uk .

Gosport Borough Council

Introduction

Gosport Borough Council was a Best Value Pilot Authority and in 1998 completed a review of its repairs and maintenance services. One of the key areas of concern, for tenants, Members and officers, was the way in which planned maintenance and improvement contracts were being carried out.

Like many other organisations, Gosport was experiencing problems with traditional forms of contract procurement. Service to tenants was poor, each contract became more and more adversarial and there were difficulties in providing the right quality at the right price.

The timing of the Best Value review coincided with the publication of the Construction Taskforce study “Rethinking Construction”. As many of the principles in this study appeared to address the issues raised by the review, it was decided to undertake a partnering trial within the Borough for planned maintenance and improvements works.

The £300,000 trial project encompassed a programme of external improvements to a series of homes, including replacement windows and doors, renewal of guttering, fascias and soffits, chimney and brickwork repairs, upgrading insulation and external decoration.

All works are carried out with the tenants in residence and therefore consultation was of a paramount importance.

In order to fully test whether any clear benefits would come from using a “partnering” approach, a second contract, of the same size, value and work type was set up to run alongside the partnering trial. By setting some clear performance targets, detailed comparisons could be made as to the benefits that could be achieved.

These are set out in the **Annex to this Appendix**

In addition, Gosport Borough Council set three clear objectives that they wanted to achieve from the trial. These were:

1. Reduced defects
2. Improved Quality
3. Improved customer satisfaction

From the performance indicators, it can be seen that these objectives were achieved.

The key Innovations with the Trial

In order to test out the potential of “partnering” a number of key innovations were incorporated into the trial:

1. A selection process that did not include tenders
2. Costs established through benchmarking
3. Joint specification and scheduling
4. A bespoke form of contract
5. Jointly agreeing key performance indicators to monitor the contract
6. Focus on the customer with tenant packs, high levels of communication and tenants involved in final satisfaction surveys
7. Using partnering for maintenance and improvement works rather than new build

Selection of a Partner

In selecting a partner, Gosport moved away from the traditional tendering approach and instead focused on a selection process that concentrated on the company rather than the price. Costs were not even considered until the partner had been appointed.

Gosport started looking at companies already on their approved list of contractors, which had already vetted them for technical ability, competitiveness, quality and service capabilities, health and safety, etc.

Their next stage was to try and find a company whose culture matched their own, in terms of values, ethos, customer focus and innovation. In order to achieve this a detailed questionnaire was specifically drawn up, with the assistance of independent Consultants, Vsi Ltd.

Once the questionnaires were completed, in-depth interviews were held, which were structured to focus upon evaluating levels of understanding of the partnering philosophy, a commitment to innovation and delivering high quality, customer focused services.

The interviews were carried out by a cross cutting party of officers, from legal, finance, housing and internal audit, members, from all parties, and tenant representatives. This wide spectrum ensured that full and balanced views, from a variety of perspectives, were taken into account when selecting the potential partner.

After considerable debate, the interview panel unanimously selected Connaught to become the partner

For the partnering arrangement to succeed, all parties needed to be aware of, and fully committed to, achieving some key objectives. To achieve this, two workshops were held and the team set its objectives from which the partnering arrangement and performance could be measured.

It was vital that each party to the agreement knew what the other parties wanted out of the trial, and the workshops helped to develop a sense of honesty and openness. It made sure that there were no hidden issues, no secret grievances and no one-upmanship.

Taking these principles even further, Connaught ensured that suppliers and sub-contractors shared similar values and signed up to an agreed code of conduct.

Costing the Works

Whilst it was felt that the attitude and ethos of the selected partner was the prime concern, value for money was a close second. Being a Best Value pilot, Gosport was not looking for the cheapest, but wanted to ensure that they were paying a "fair price".

Like most other Authorities, Gosport has a huge amount of financial information gained from historical contracts. This data was collated to develop a series of unit rates, which became the benchmark costs.

These benchmark costs were supplied to Connaught for them to price against, with a target of 95% of Connaught's prices being less than the benchmark costs.

This they achieved, and to date have demonstrated savings of around 11% on these historical costs.

Gosport Borough Council wanted to be completely fair and open with Connaught on the issue of costs. Whilst the option of a full "open book" accounting system was used only in a limited way, Gosport had full access to all of Connaught's accounts and both parties worked together to minimise them.

The potential cost savings are not finished, and will not be fully established until final account stage. This is because of an ongoing review on the individual unit costs of each work item. As the work progresses, any review on methods or material, which leads to a saving, will involve the individual unit rate being reduced.

Any savings on the £300,000 budget would have been shared between Gosport and Connaught and it therefore becomes worthwhile for Connaught to work in partnership with us to drive down costs.

However, as this was a one off trial, no savings on these budgets were identified, but it is anticipated that a longer term or “strategic” alliance would better create the framework to achieve these sorts of savings.

Joint Scheduling and Specification

In order to take advantage of the contractor’s wide range of knowledge and experience and to try to provide them with some “ownership” of the project all works to each individual dwelling were jointly identified.

These joint inspections to schedule and record the works enabled both parties to discuss materials to be used and methods to be employed. It also ensured that Connaught had full knowledge, right from the very beginning, as to what needed to be done.

These joint inspections led to the full specification for the works and saved Gosport considerable time over traditional approaches.

Linked to this joint approach, each individual works operative completed their own self-checking form, which was again jointly developed, to ensure that the operatives had covered every item of work required. This approach reduced the need for constant client checking and helped to reduce defects.

Tenant Liaison

Prior to the commencement of the project, the partnering team set to work “building bridges” with the local community, meeting with local tenants representatives and holding an open day to introduce the intended works and on-site team.

Following this, there were also joint visits to each home to explain in greater depth what work was to be done, seek the tenant’s choices for their new windows and doors and outline the proposed contract programme.

Each tenant was presented with a “tenants pack”, which included an occupant’s charter, a list of useful contacts, together with photographs and some background on each member of the team. These packs were jointly funded and produced by both parties

High levels of communications have been seen as the key to any successful contract. To achieve this, the Connaught site manager visited each tenant to explain what was happening and when each stage of work was proposed to their home. In addition, notice boards were set up and weekly tenant’s forums were held.

Tenant satisfaction was one of the three priority aims of the trial, the others being reducing defects and improving quality. In order to measure satisfaction levels, surveys were conducted at critical times of the project.

Within one week of the works being completed to any individual home, the tenants were surveyed to see how well they felt the works were completed. By staggering the surveys in this

way, any perceived problems could be fed back into the system so that tenants further down the programme could benefit.

In addition, tenant representatives from other parts of the Borough carried out these satisfaction surveys independently from Gosport and Connaught. Overall, when asked, "how would you rate the standard of service you have received for these works", 89.1% of respondents said excellent and 10.9% said good.

As a further demonstration to the community of the partnership's recognition that they come first, the project has been registered under the "considerate constructors" scheme.

The Contract

As a result of the innovations introduced as part of the trial, it was not felt by any of the parties, that a traditional form of contract would be appropriate. Considerable work followed, on both sides, to introduce a bespoke form of contract.

This contract reflects all of the innovations of the scheme, such as joint scheduling and specification of the works, no retention's and improved payment terms, as well as the benchmarked costs, tenant consultation and the commitment to the partnering principles.

Other Initiatives

In order to attempt to measure the success of the trial, some specific performance indicators have been agreed. These indicators are set out in appendix A.

The partnership was committed to creating opportunities for local companies and local residents of Gosport. As a result, performance indicators have been put in place to measure the percentage of tendering opportunities sent out to local companies and the number of local residents employed within the project.

In addition, Connaught linked up with the local college, St Vincent, to provide work placement opportunities for the college's NVQ2 students studying building related skills, such as carpentry, bricklaying and plastering.

The partnership operated an 'open book' accounting system on the project, whereby Connaught's profit margin has been predetermined and any surplus profit is ploughed back into the partnering agreement.

Confidence in the partnership culture and the ability of the performance indicators to highlight any areas of redress, led to one of the first innovations to be introduced - no retentions were held. The removal of retention's helped to motivate sub-contractors to 'get it right first time' and eliminate the unnecessary list of 'snags' or defects that were previously encountered.

Conclusion

The Partnering trial between Gosport Borough Council and Connaught plc has demonstrated that this approach gives value for money, has demonstrated significantly higher levels of customer satisfaction and a higher quality of work. Overall, the trial was considered to be highly successful.

As a result of the trial, Gosport will now be entering into a 5 year partnering arrangement for its external improvement programme, due to start in April 2001.

ANNEX TO APPENDIX 2

KEY PERFORMANCE INDICATORS

Indicator	Connaught "Partnering" Performance	Comparative "Traditionally tendered" performance
<p>Reduction in Defects Target maximum of 3 defects per dwelling</p>	<p>Total of 13 defects reported for 65 dwellings Average 0.2 defects per dwelling</p>	<p>Total of 107 defects reported for 56 dwellings Average 1.91 defects per dwelling</p>
<p>Customer Satisfaction Target 100% satisfaction</p>	<p>Customer satisfaction survey carried out. When asked: " Overall, how would you rate the standard of service you received for these works" Customer satisfaction survey carried out. When asked: " Overall, how would you rate the standard of service you received for these works"</p> <p>89% - excellent 11% - good 0% - satisfactory 0% - not very good 0% - poor</p>	<p>Customer satisfaction survey carried out. When asked: " Overall, how would you rate the standard of service you received for these works" Customer satisfaction survey carried out. When asked: " Overall, how would you rate the standard of service you received for these works"</p> <p>24% - excellent 28% - good 32% - satisfactory 8% - not very good 8% - poor</p>
<p>Costs Target 95% of schedule of rate items to be below benchmark schedule of rates</p>	<p>87.5% of SOR's below benchmark</p> <p>Total benchmark costs = £301,667.21 Total Partnering costs = £266,645.98 Partnering costs 11.6 % lower than benchmark costs</p>	<p>Comparative tendered Costs = £255,737.43 Partnering costs 4% higher than traditionally tendered costs</p>
<p>Improve communications with customers</p>	<p>From customer satisfaction survey when asked: " How would you rate the standard of communication you received" 72.7% - excellent 27.3% - good 0% - satisfactory 0% - not very good 0% - poor</p>	<p>From customer satisfaction survey when asked: " How would you rate the standard of communication you received" 16% - excellent 28% - good 32% - satisfactory 20% - not very good 4% - poor</p>

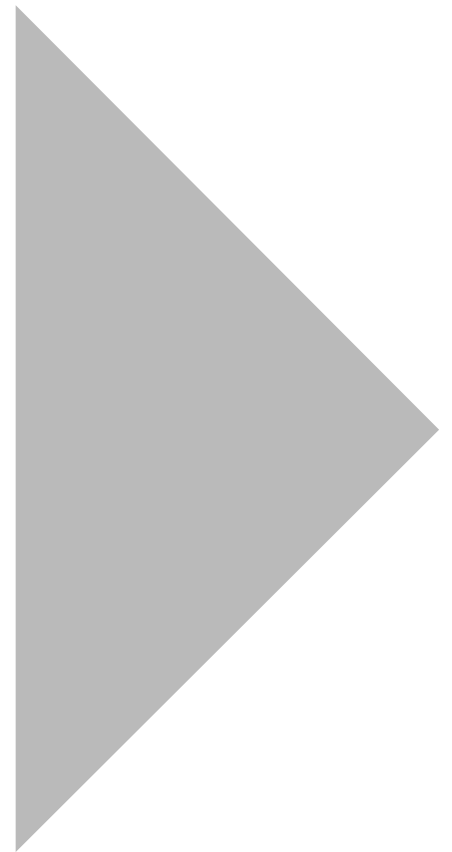
Indicator	Connaught "Partnering" Performance	Comparative "Traditionally tendered" performance
<p>Joint Specification Target at least one innovation on how work is traditionally carried out</p>	The normal contractual 'retention' was waived dependent upon contractors performance	No innovations
<p>Use of Local Labour Target - minimum of 50% of tendering enquiries to be sent to local companies</p>	16 out of 30 enquiries sent to local companies = 53%	Gosport Borough Council have no influence on these areas where traditionally tendered
Target - new deal or local in construction initiatives to be used	2 trainees from St Vincent college used for Four-week periods, working with window fitters, fascia installers and painters. In addition, 2 local residents employed for the duration of the contract	None used
<p>Supply Chain Management Target - 100% of sub - contractors agree to work within the principles of partnering</p>	100% achieved	N/A
<p>Payment Target - all payments made within 14 days</p>	Gosport - 75% within 14 days Connaught - 85% within 14 days	N/A
<p>Partnership Working Target dispute resolution process works effectively on 100% of occasions</p>	Dispute Resolution Process not used	No such process set up
Target - all common goals achieved	To be reviewed by project team in March	No goals established outside contractual terms

APPENDIX 3

Members of the Best Value Working Group

David Ayre	Dorset County Council
David Bentley	Institute of Public Finance Ltd
Mike Britch	Norfolk County Council
Tim Byles (Chair)	Norfolk County Council
Lee Digings	I&DeA
Melvin Hughes	DETR
Angus Groom	Carillion Housing
Paul Nichols	The Housing Forum
Paul Reader	The Housing Forum
David Taylor	Local Government Task Force

Partnership Approaches to Procurement



Partnership Approaches to Procurement

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Partnership Approaches to Procurement

INTRODUCTION

1 The Terms of Reference for the Working Group were agreed as:

“ To identify legal and cultural barriers and current poor practices in local government construction procurement and seek ways of overcoming them.”

To consider the changing roles of the key groups involved in the Rethinking Construction process:

- Procurement practitioners including technical staff;
- Senior client officers;
- Auditors and legal advisors;
- Local authority members;

To oversee the review of official guidelines and legal framework for procurement for local authorities and make recommendations for change to encourage innovative procurement.

To identify resources local authorities can draw on and instances of best practice in construction demonstrating value for money and financial accountability, transparency and probity. To identify further financial incentives to the Rethinking Construction approach.

To develop links with other bodies (LGA, IDeA and others) to ensure that they develop consistent and supportive programmes and messages.”

2 The Sub Group confined their discussion and investigative work to the area defined above and tried not to stray into issues covered by other sub-group remits.

FINANCIAL, LEGAL AND CULTURAL

3 Potential obstacles to implementation of partnering approaches in procurement of construction projects were identified for review.

It was found that an increasing amount of guidance is being developed and issued that is helpful to promulgation of “ Rethinking Construction” principles.

4 The sub group has reviewed the advice being given and the latest developments in financial and legislative regulation to meet the modernising government agenda, to test for compatibility with the introduction of “ Rethinking Construction” principles.

5 The principal barriers were cultural with the stronger emphasis on the new governance structure and how it affects officers and members. The member issues are less well-addressed in the guidance. Consideration of required expertise leads to identification of skills shortages in procurement.

6 The new culture encourages authorities to

- seek more effective ways of service delivery, and
- achieve best value.

- 7 There is evidence being submitted by CJC, LGA and others to the Local Government Procurement Task Force substantiating the skill issues relating to construction procurement.

PARTNERING ARRANGEMENTS

- 8 Partnering is the term used to describe a collaborative relationship between purchasers and providers. It is aimed at achieving specific common objectives of the parties involved by optimising performance through closer working ties.

Partnering involves the use of a proactive management methodology, which generates a work ethos through which overall performance can be maximised. There have been many management tools and techniques developed for use in partnering arrangements and appropriate ones must be carefully chosen in each circumstance for their ability to best meet the objectives of the project and the parties. One of these choices will be whether, and in what form, to utilise a form of contract in the arrangement.

Generally speaking, partnering arrangements fall into two broad categories. Firstly, there is project partnering, which is project specific, and secondly, there is strategic or long-term partnering, which is often referred to as alliancing, where the parties envisage undertaking a series of projects.

- 9 The framework for partnering arrangements whether agreements or contracts is wider than construction. The CJC is about to issue “Partnerships” guidance that has been reviewed in draft by members of the sub-group. This guidance sets out the following definitions of “Partnering”, similar to IPF’s “Partnerships Directory”.

- **project team partnering contracts**, in which contractors help clients to find the best design and construction methods, as commended in Rethinking Construction
- **agreements to work together**, in which clients tell all prospective tenderers that they will, if successful, be invited to join them in signing undertakings to work as partners, rather than as adversaries, to further the long term interests of both
- contracts which stimulate interaction between clients and contractors in various ways, for example by providing for
 - the contractor, and sometimes both parties, to seek **continuous improvement and innovation**
 - the parties to negotiate the **minimum changes in specifications, conditions, methods and prices** which are needed to maintain continuous improvement
 - **innovative pricing mechanisms**
 - **open book accounting**
 - **periodic review meetings** (sometimes called stakeholder board meetings) to foster the smooth running of contracts
- **strategic contracting**, in which the parties agree, pre-contract, what sort of work would best serve the clients’ purposes or agree, from time to time post contract, which

work should be done in house, which by contractors, and which jointly; and whether on contractors' or clients' premises

- **strategic sub-contracting**, in which groups of employees who have competed successfully for their employers' work in the course of competitive market testing (who we refer to as internal trading organisations, or InTOs) subcontract some or all of their own management to firms with the right expertise, in order to improve their own competitiveness, or to maximise their contribution to their clients' business

- **joint contracts**, between either

- a single contractor and **two or more clients**

- or **two organisations** (usually an InTO and a private contractor or consultant) and a single client

- **partnership sourcing** (as urged by the DTI-CBI Partnership Sourcing Initiative) is a long-term non-binding relationship in which trading partners (usually a manufacturer and a supplier) work together for their collective long term advantage, and negotiate prices and specifications as and when necessary

- the many types of **framework arrangement**.

public-private partnerships have a precise Treasury definition but, for local government, this definition covers PFI contracts, LACos, contracts to provide other public bodies with goods and services, franchises, and concession contracts. Few statements about procurement apply to all of these, so it is always better to specify which.

It is acknowledged that standard forms of contract such as PPC 2000 deal with the first three definitions, and there remains to be developed suitable forms of contract to deal with strategic partnering relationships and framework agreements.

- 10 The "Rethinking Construction" approach encourages negotiation and collaboration during development of the scheme. Construction contracts are generally expected to follow the "Restricted Procedure" under EU Legislation, not the negotiated route. The wider forms of strategic partnering arrangements are directed towards establishing long term management of client/supply chain relationships. These longer term strategic partnering agreements are often known as framework contracts. Under these arrangements, the specification of individual construction works and the process will require careful deliberation and clear mapping. Care is needed to comply with the applicability of EU Directives where the aggregation of the contracts will generally rise above the thresholds, whereas similar smaller individual "partnering" contracts may not.
- 11 Central Government departments have addressed framework contracts through Prime Contracting in the case of MoD and other cost based models for the NHS. A number of other arrangements have been entered into, in the Public Private Partnerships formed under the PFI initiative. These are largely project specific and include purpose made corporate entities and joint ventures.

- 12 This review has matched forms of agreement and contracts to promote the “ Rethinking Construction” initiative in the context of Local Government and determined that examples and demonstration projects are available to show with professional guidance what may be appropriate for any given situation.
- 13 There are now **standard forms of contract** available to support authorities in applying the principles of partnering.
- PPC 2000 has been endorsed by professional and government bodies and organisations, and provides the first standard form of a Project Partnering Contract. The form of contract has been piloted on Local Government demonstration projects at both a strategic and project level.
 - Others exist or are being developed as umbrella partnering arrangements to standard forms of contract, e.g.
 - the Engineering and Construction Contract (formerly the New Engineering Contract) has drafted a covering partnering agreement to suit their suite of contracts.
- An adapted form of PPC 2000 is under preparation with some clients in local authorities for Measured Term Contracts and Strategic Alliances.

FINANCIAL REGULATIONS AND STANDING ORDERS

- 14 Local Government Financial Regulations and Standing Orders have to be revised as part of the modernisation of local government and to fit changes in constitutional arrangements. At present existing regulations, whilst not preventing “ Rethinking Construction” principles being applied in procurement of construction works, are written for a different environment and are being circumvented by exception in each specific case where partnering arrangements offer better value.
- 15 The LGA/DETR discussions on model constitutions for the new executive arrangements enable Authorities to insert their own financial and contract rules, appropriate to the model adopted. The mandatory impositions are expected to be contracts evidenced above a threshold and signature of these larger contracts by two officers (or one officer plus the common seal).
- 16 CIPFA have drafted a revised model form of the Financial Regulations with the support and understanding of Directors of Finance that
- allows Partnering approaches to procurement,
 - follows CIPFA review and recommendations,
 - supported by CIPFA Guidance
 - Incorporates Good Stewardship and Nolan Principles, and
 - Includes Member responsibilities
- 17 The proposed model form will be published shortly, incorporating the advice and views of all interested parties including DETR and the Audit Commission. Authorities’ revised Standing Orders may indicate approved forms of contract. Supporting procedures and

guidance to the Standing Orders will be necessary to assist officers in matching an appropriate form to a particular application.

- 18 This review accepted that this work was in hand and that the opportunity remains open to ensure the “Rethinking Construction” principles are incorporated in expected revisions. Under the modernisation and best value agendas, Authorities are expected to be more open in their approach to procurement and receptive to working arrangements that include other bodies such as forming partnerships under the Health Act. The key objective is to deliver the most effective public services.

LEGAL RESTRICTIONS

- 19 A list of obstacles and difficulties was reviewed, the majority were considered to be wider than the remit of the construction sector in Local Government. Those discussed included for example,
- Local Authorities (Goods and Services) Act 1970; the categorisation restricts the ability of public bodies and Local Authorities to trade and enter innovative partnership arrangements where novation to the private sector is necessary.
 - ESEWEB powers may not go far enough to free the legal ability of Authorities to enter into companies.
 - Section 20 of the Landlord and Tenant Act, 1985. The requirement for competitive quotes is intended to protect leaseholders from excessive costs run up by an unscrupulous landlord, and this is a right that needs to be preserved. But the requirement for detailed specification of works to be undertaken is a barrier to local authorities entering into maintenance contracts of a “design and build” nature for properties containing leaseholders. If a partnered project involves work in properties containing leaseholders, the application of Section 20 need not mean that partnering should be abandoned or will be ineffective. The difficulties involved in ensuring that leaseholders are consulted regarding the works affecting their properties, service charge payments and in structuring specialist contracts that can be tendered in such a way as to comply with Section 20, is a significant barrier to partnering.
- 20 Draft revision of the **EU Procurement Directive** appears to be moving in the right direction.
- LGA and IDeA are on the case and advising authorities and DETR on the implications for local government.
 - As stated above at paragraph 10, Construction contracts are expected to follow the “Restricted procedure” whereas at a more general level the “Negotiated” route may be preferred for strategic partnering. Specific planning and documentation of arrangements and criteria will be required.

SKILLS AND EXPERTISE AVAILABLE FOR INNOVATIVE FORMS OF CONTRACT

- 21 There is a large amount of guidance being produced by CIB, CIPFA, HM Treasury, LGA, CJC and other professional bodies in the construction industry to aid officers and members in procurement of works. The guidance defines criteria and outlines the contractual arrangements that are available to introduce innovative and collaborative partnering frameworks.
- 22 The sub-group has contributed to drafting and consultation on a number of these documents and ensured that the “Rethinking Construction” principles are included where appropriate.
- 23 An issue is the availability of the appropriate procurement skills and advice within authorities to initiate and take forward partnering projects:
- Members knowledge and understanding is an issue,
 - LGA, CIPFA and IPF provide substantial training, advisory services, help-lines and documentation to help through the process.
 - IDeA has developed a programme for Member Training and will include procurement practice and responsibilities within new local government structures
- 24 The CIC and PPC2000 approach and guidance suggest a Partnering Adviser may be necessary:
- Guiding and documenting relations
 - Resolving problems and disputes
- 25 A further identified issue coming out of the guidance is that the risk distribution and sharing in the contractual arrangements has to be clearly understood and evaluated. This indicates an important area to be addressed between the framework of contracts and the professional risk management skills required.
- 26 The big challenge is to fund the additional training necessary to ensure practitioners are provided with the appropriate skills to implement Construction Best Practice in a meaningful and effective time-scale. The dispersed client base in Local Government and the variety of projects suggests that a substantial effort is required.
- 27 Local Government procurement skills have become recognised and regarded as more central to delivery of best value and there is therefore an overlap of this Task Force’s remit with that of the Procurement Task Force. A common issue will be to establish suitable longer term training compatible with Local Government and Construction Industry requirements. The LGA construction forum is recognised as a group that might be able to take this forward.

AUDITORS AND INSPECTORS

- 28 Support and Understanding from Auditors and Inspectors has been reviewed and comments made where appropriate.
- NAO report on “Modernising Construction “ recently published highlights
 - Fallacy of awarding contracts on lowest price only
 - Potential of major savings for industry and its clients by adoption of a more collaborative approach, strongly founded on a competitive process with appropriate risk sharing, in which value for money is obtained for all parties through a clear understanding of the project’s requirements, transparency as to costs and profits, underpinned by clearly understood rights and obligations and appropriate incentives.
 - significant contributory factor (to poor construction performance) is the tendency for an adversarial relationship to exist between construction firms, consultants and their clients and between contractors, sub-contractors and suppliers.
 - Project management skills need to be improved and performance management systems developed further.
 - Public Management Foundation study with Audit Commission is in progress looking at case studies and obstacles.
 - “ A Briefing Paper for Auditors and Inspectors: Local Government Procurement in a Best Value Framework” is likely to be issued shortly to auditors.
- This last document shows sympathy and compatibility with the principles being promulgated by the LG Task Force.

INCENTIVES AND DISINCENTIVES IN FUNDING SOURCES AND REGIMES

- 29 Housing Associations and Registered Social Landlords (RSLs) will be required to be “Rethinking Construction” compliant as a condition for obtaining a corporation grant, by financial year 2003/2004. The current target is 30% for 2001/2002. The introduction of partnering has become a way of working to keep costs down and achieve target development costs.
- 30 Other funding schemes outside of central government DETR control were not visible. There remains a requirement for the main LG Task Force to identify all sources of Local Government construction project funding to ensure the opportunities and incentives for introducing “Rethinking Construction” principles are fully explored and utilised.

RECOMMENDATIONS FOR CHANGE

- 31 Section 20 of the Landlord and Tenant Act 1985 is seen by The Working Group as an issue to be addressed and resolved by Government. Although it may be feasible to construct arrangements that comply with Section 20, the protection of leaseholders should be provided for in a different way.
- 32 LGCTF should collate a comprehensive list of all the guidance available from CIB, CIPFA, HM Treasury, LGA, CJC and other professional bodies in the construction industry to aid officers and members in procurement of works. Initial lists were provided by the Working Group.
- 33 LGCTF will need to continue to review constitutional and financial regulation models to maintain compatibility with “ Rethinking Construction” principles.
- 34 The new model constitution will affect member and officer responsibilities in procurement of works. The working group recommends continuing endorsement and support by LGCTF to LGA and CIPFA who through IDeA and IPF are developing appropriate procurement skills and membership awareness training.
- 35 Action is required to identify all the funding and credit support schemes used by Local Government in which there are opportunities for including “ Rethinking Construction” incentives in scheme approvals. The Working Group understood LGCTF will pursue this issue further.

MEMBERS OF WORKING GROUP

Steve Bundred, Chairman	London Borough of Camden
John Thornton	IPF
John Hesp	Southampton City Council
David Taylor	LGTF
Keith Hilton	Barnsley MBC
Mirza Ahmad	Birmingham City Council
Bridghe Forde	Property Organisation
Chris Durkin	Willmot Dixon
David Mosey	Trowers & Hamlins
Lee Digings	IDeA
Iain Richardson	Audit Commission
Noel Foley	London Borough of Hackney
Paul Reader	Housing Forum
Ted Welding	NWL
Abena Nsia	National Housing Federation
John Plumb	IPF

FEEDBACK

In order to ensure that you get up to date information on Rethinking Construction please e-mail us with your contact details to:

team@lgtf.org.uk

For more information on these papers, or the work of the Local Government Task Force please contact:

Peter Bishop

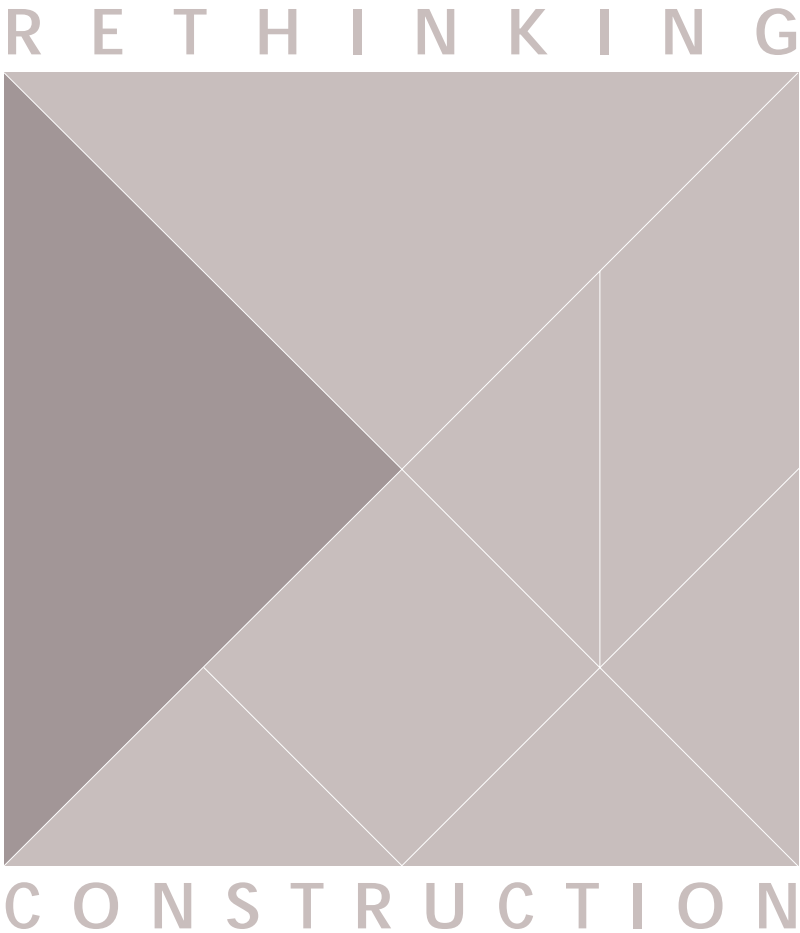
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RETHINKING CONSTRUCTION



clients, industry and government working together to improve UK construction