

Local Government Task Force

Subject:

Public Sector Efficiency Review - Construction Procurement.

Summary:

This report sets out the Local Government Task Force's response to the Government's Efficiency Review in relation to Construction Procurement.

1.0 CONCLUSIONS

- 1.1 The challenges laid down within "Rethinking Construction" have prompted many local authorities to take a more radical approach to their construction related procurement activity. The picture that is emerging, is that for those who are willing to enter into new ways of working, the potential benefits are significant.
- 1.2 The change process is still, relatively, in its infancy, and it is difficult to present a coherent national picture.
- 1.3 The seductive incentive to change is that these cost efficiencies are being delivered whilst simultaneously producing a better quality product, more quickly, and in a safer environment. These are powerful drivers for change.
- 1.4 In this new environment, there is no reason why efficiency savings of up to 20% should not be delivered, across the board, on all local authority construction projects by 2009/10, with incremental progress made until this target is reached. Care does, however, need to be exercised in defining the precise nature of the 20% saving target, and indeed how it is to be calculated. The Norfolk experience clearly indicates that they have already achieved savings of 12% and believe that further savings of 2% per annum are deliverable. Clearly it would not be reasonable for authorities that have already delivered significant savings through the adoption of improved procurement techniques, to be asked to deliver a further 20% savings target.
- 1.5 Allowance also needs to be made for some of the value-added benefits outlined in the report, which may provide an enhanced facility or revenue savings many years hence. The total cost of the design, construction, commissioning process needs consideration, and not simply out-turn construction costs. The LGTF has within the Constructing Excellence regional network, been supporting local initiatives, particularly through their

regional champions. The recent launch of the ODPM's Regional Centre of Excellence provides an exciting opportunity for construction and non-construction professionals alike, to share best procurement practice.

- 1.6 Clearly there is currently no coherent way of collecting data from local authorities on their construction procurement costs, and benefits they are able to derive from new ways of working. ODPM and the Efficiency Review team may therefore wish to consider commissioning Constructing Excellence to collect such data on the behalf.
- 1.7 Reference has also been made in the report to a range of improvements delivered by more efficient procurement and construction practices. Whilst these are difficult to quantify, they do add value to the project. It is therefore proposed that Construction Excellence be commissioned to collect national data on such value added contributions.

2.0 **BACKGROUND**

- 2.1 In 1998, the Construction Task Force, which was chaired by Sir John Egan, published their report titled "Rethinking Construction".
- 2.2 The report set a number of challenges for the UK construction industry, one of which was to establish a target annual reduction in construction cost of 10%. This target cost reduction was set in the context of simultaneous improvements to quality, safety and time/cost predictability.
- 2.3 The report encouraged the industry to replace competitive tendering with long term relationships, based upon clear measurement of performance and sustained improvements in quality and efficiency. By partnering the whole supply chain, including contractors, suppliers and sub contractors, they argued that sustained incremental improvement could be achieved. Whilst not an easy option, requiring open relationships, wasteful serial tendering could be avoided.
- 2.4 The report went on to note the vital role that the public sector, as best practice clients, had to play in delivering these objectives.
- 2.5 In the wake of "Rethinking Construction" the Movement for Innovation, Housing Forum, and more recently the Local Government Task Force, were established. They introduced the Demonstration Project programme, wherein various processes, and other innovating procedures, suggested within the report, were trialled on real projects. To date some four hundred

demonstration projects have provided an invaluable source of data for examining real achievements, rather than just the targets set in the Rethinking Construction report.

- 2.6 In tandem, in 2000, the government introduced the Best Value regime for local authorities. Having swept aside the CCT regime which focused principally on lowest price, Best Value encourages local authorities to actively consider quality and whole-life cost in use in their evaluation of projects. This is a vitally important change in emphasis, and critical to the successful delivery of projects that best meet the needs of their communities. Whilst price is, of course, as important issue, it must be measured alongside quality and whole-life cost parameters. Cost reductions are to be achieved as the result of more efficient construction and procurement practices, and not to the detriment of quality and cost in use.

3.0 **ALTERNATIVE PROCUREMENT METHODS**

- 3.1 The Local Government Task Force shares the Rethinking Construction vision of tangible improvements that can be delivered to the construction process by more efficient ways of working. We believe that, whilst it does have a role to play, serial design and tendering of projects should generally be avoided, and that projects should be designed and delivered using the expertise of the entire project team.
- 3.2 Key elements of the new procurement regimes for local authorities should be:
- Partnering with shared profit/loss.
 - Strategic Partnerships and Framework agreements.
 - Integrated design and construction teams including clients, contractors, designers and suppliers.
 - Quality of service and product to be critical success factors.
 - Whole life cost appraisals to form an integral part of the process to include all future running and maintenance costs
- 3.3 Authorities should also consider the potential benefits of collective purchasing/supply arrangements and the efficiencies that consortia might deliver.
- 3.4 Local authorities cover a very wide range of construction procurement activities. They have responsibility for the construction, maintenance, repair and alteration of an enormous range of buildings, bridges, tunnels, roads & sewers. Each of these activities presents a unique challenge, but the principles of Rethinking Construction can be applied equally to each. However, given the current substantial investment in schools,

and the particular focus of the governments efficiency review on construction related to schools, they (schools) have been given a greater focus in the preparation of this report.

- 3.5 Local authorities are also, increasingly examining how modern forms of construction, and particularly off-site manufacture, might assist in reducing construction costs and time, whilst enhancing product quality. Further work needs to be done to understand fully how much such forms of construction might assist in delivering a range of benefits, including reduced cost.

4.0 THE OVERALL PICTURE

- 4.1 Generally national data collection is still very much in its infancy. However a picture is beginning to emerge. For over four years now statistics have been collated annually for the results achieved by demonstration projects against a range of Key Performance Indicators (KPI's). These KPI's measure progress against the targets set within Rethinking Construction, and compare them to comparable industry projects delivered by traditional means. The headline KPI are:

- Client Satisfaction
 - Product & Service
- Defects
- Predictability
 - Cost & Time
- Construction Cost
- Construction Time
- Environmental Impact
 - Product & Process
- Profitability
- Productivity
- Safety

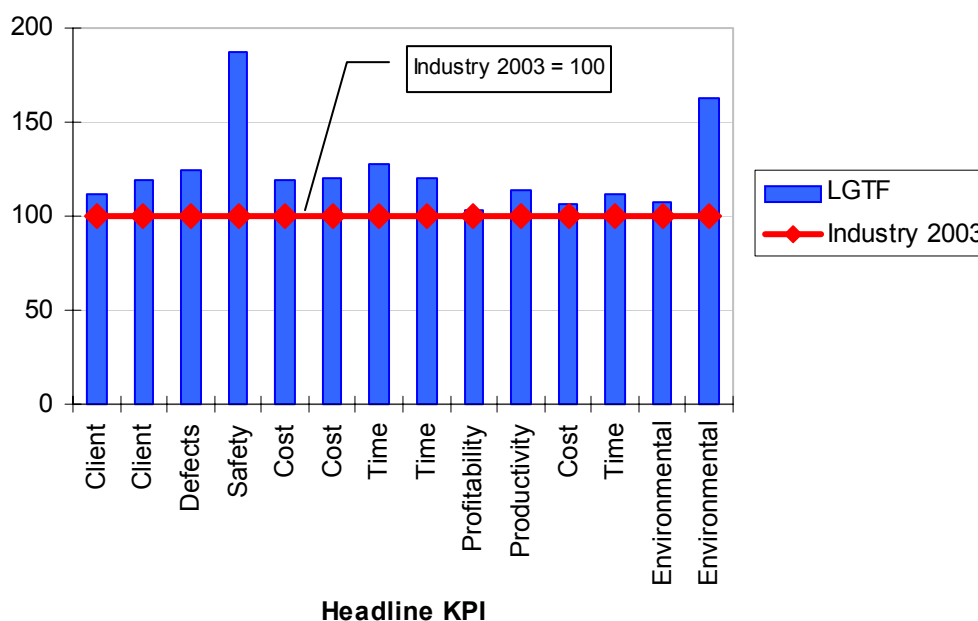
- 4.2 In 2003, a total of 88 data-sets were collated from live or recently completed projects. These were statistics from across all sectors, not just local authorities, and were compared against the national KPI's that contain many thousands of project and company results from across all sectors.

- 4.3 The average capital cost reduction for Rethinking Construction projects over this period was -3%, as compared to a cost increase of traditionally procured projects of +5%, i.e. a cost benefit of 8%. Whilst this figure falls a little short of the Rethinking Construction target of 10% per annum, it does represent significant progress. In these numbers lies an important principle, & that relates to improved efficiency reducing the effects of inflation in the construction industry, which is

running of a level significantly above that indicated on the RPI. That inflationary trend is shown in section 5 of this report.

- 4.4 However savings on capital cost should not be seen in isolation, and appreciable improvements were also recorded against the other KPI's. In most areas, the demonstration projects, have exceeded the Rethinking Construction targets. This is vitally important because of the very real benefits delivered in terms of safety, construction time, and client satisfaction. These are important achievements which supplement the simple capital cost measures. Improved safety has in particular been a remarkable achievement within the demonstration projects. They have suffered no fatalities, yet based on national averages for the value of work undertaken, a total of 14 lives might have been expected to be lost on these projects.
- 4.5 The 2003 demonstrations were twice as safe as the industry average with many demonstrations recording no reported accidents at all. It is difficult to quantify this in financial terms. However demonstrations such as Nonesuch High School, London Borough of Sutton have reported that it has led to increased productivity. There were no reported accidents on the Nonesuch project in 32,000 hours worked on site over ten months and the team believe that a well-managed safety regime contributed to an 80% productivity KPI score compared to the industry average of 50%.
- 4.6 Local Authority demonstrations out-performed the industry in all of the headline KPI results in 2003, see below. This is based on 53 of the total number of datasets of 88.

Local Government Demonstrations Compared with the Industry, 2003



Added Value

- 4.7 It should be emphasised that an increased predictability of construction cost and lower construction costs are not the only benefits being seen by the demonstrations. Many local authority schools projects have ploughed savings back into the project. For example Durham County Council and the partnering team renovating Tanfield Comprehensive School managed to cut 20% off the target cost through value engineering and as a result another four classrooms, a staff room and the library were renovated and the efficiency of the heating system was improved.
- 4.8 Local Authorities involved in partnering arrangements have also noticed an increase in end user satisfaction. Through partnering on the Budehaven Community School, Cornwall County Council were able to overlap the design and construction to allow adequate time for customer consultation. The result was very satisfied teachers and governors. The Head Teacher said, “Pride in the school is an important factor - it was in our mission statement... I was sceptical initially - was partnering another fad? But partnership has been real and has delivered. We have had an excellent team throughout and there have been no complaints from school staff - which is rather exceptional!”

4.9 Generally data collection of this type on a national scale is still in its infancy, but pictures are beginning to emerge. It would be dangerous to take a few examples of projects where real gains have been made and extrapolate these to give projected achievements nationally. For this reason we have looked at one particular authority, Norfolk County Council, a Rethinking Construction Beacon Council, to see what benefits they have derived from the new methods of procurement.

4.10 With its stock of 450 schools, the picture presented by such a large authority does allow us to consider whether their achievements might, realistically be delivered on a national scale.

5.0 THE NORFOLK COUNTY COUNCIL EXPERIENCE

5.1 Baseline Position and Methods of Improving Efficiency

Capital Works

The table below sets out the DfES national guideline figures for the net construction costs for schools compared with Norfolk County Council's current partnering projects and the last of the traditionally procured projects.

Type of Building	DfES Guideline Costs (per sq m)	Partnered Projects (per sq m)	Traditional Procurement (per sq m)
Secondary Schools	£1,085	£895	£1,071
Primary Schools	£1,105	£927	£961
Nursery Schools	£1,205	£1,060	

Table 1

The Eastern region would expect to build at 95% of the national figure due to the location factor and average project value.

The adoption of Rethinking Construction in Norfolk has already yielded savings in excess of 12% with a target of 1-2% per annum over the next three years.

Many of the projects are adding value such as increased community usage, which are not separately funded but are affordable through the partnering route.

There are a number of factors which will determine Norfolk County Council's ability to deliver further savings. These are set out below

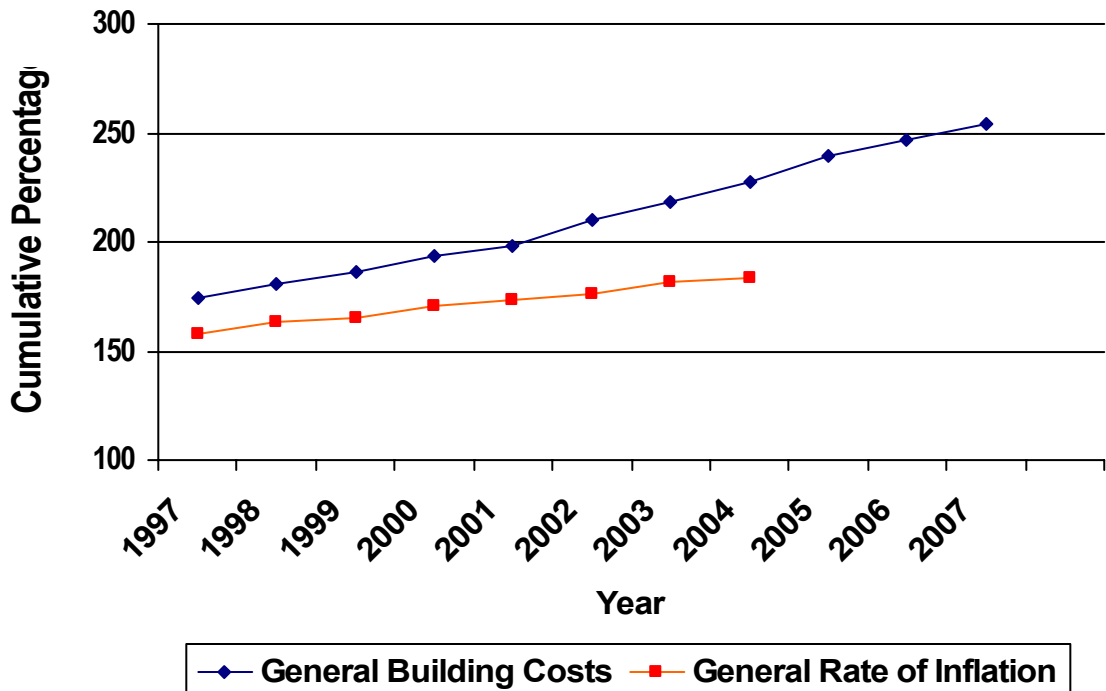
i) Construction Inflation

The annual rate of inflation in the construction industry has exceeded the general rate of inflation over the past seven years and this trend is predicted to continue for the next three years at least. The following graph indicates the general building costs since 1997 and includes the predicted figures for 2005-2007.

The differences are due to the following:

- Labour shortage - especially skilled tradesmen (see Table 3 for details of rises in the last three years).
- Increases in labour costs exacerbated as construction is a labour- intensive process – over 50% of costs are attributable to labour.
- Increases in waste disposal costs – the impact of the Landfill Tax and the high cost of disposal of hazardous waste are significant factors. The industry has a poor record with regard to control of waste.
- Increases in legislative requirements.
- Significant public investment.
- Housing boom – will distort the market in a locality, particularly in key trades such as bricklaying, electrical and plumbing.

Comparative Inflation Rates



(Based on RPI figures as supplied by the Office for National Statistics and the BCIS General Building Cost Indices)

The other significant driver in determining construction costs is the design of the building. Better design can lead to lower construction costs especially if consideration is given to standardisation, build ability and choice of materials. Pressure on construction costs is coming from:

- New legislation.
- High user expectations – buildings need to be more flexible and meet the demands of the users to a much greater extent. The use of schools and other public buildings by the local community has led to increased design challenges.
- Increase in use of technology - high use of IT has put up costs, especially in networking and the provision of dedicated specs for equipment. The next generation of wireless technology may be a balancing factor.
- Sustainability – the need to use renewable resources, ensuring that current stocks of materials and fuels are available to future generations, does in some instances impact on initial cost.
- Whole life cost assessments. As part of Norfolk County Council's successfully completed Classrooms of the Future

projects we undertook whole life assessments of the sustainable features to justify their inclusion. The additional capital put into the project allowed the consideration of whole life costs and the net cost per square metre was considerably higher than for a conventional project. Norfolk has also undertaken a whole life cost analysis on the provision of temporary/mobile classrooms versus permanent build. The overriding factor against permanent build was the cost of finance and the additional rate liability. However, the analysis could not take into account the educational benefits of the improved environment provided by a permanent build solution as opposed to mobile provision.

- Whole life cost assessments are a vitally important part of the design process. Whilst they might, initially, result in an increased construction cost, the benefits in relation to reduced maintenance and running cost over the life of the building can be considerable. “Invest to Save” type schemes, particularly when applied to services installations, can achieve significant benefits in the short to medium, as well as long term.

From the above list, new legislation has the greatest influence and is the one factor over which we have least control.

The following legislation has/will have impact on building costs:

- i. Building Regulations Part L2
- ii. Energy White Paper
- iii. Building Regulations 2005
- iv. EU Directive – Performance of Buildings Jan 2006
- v. Energy Labels for Buildings
- vi. EU and UK Environmental Water Policies – Waste Treatment
- vii. Management of Asbestos Regulations 2002
- viii. Re-cycling of Waste
- ix. Acoustic- Transfer of Noise Part E
- x. Part M – DDA compliance
- xi. Air tightness
- xii. Natural light and Ventilation
- xiii. Water Hygiene – ACOP L8

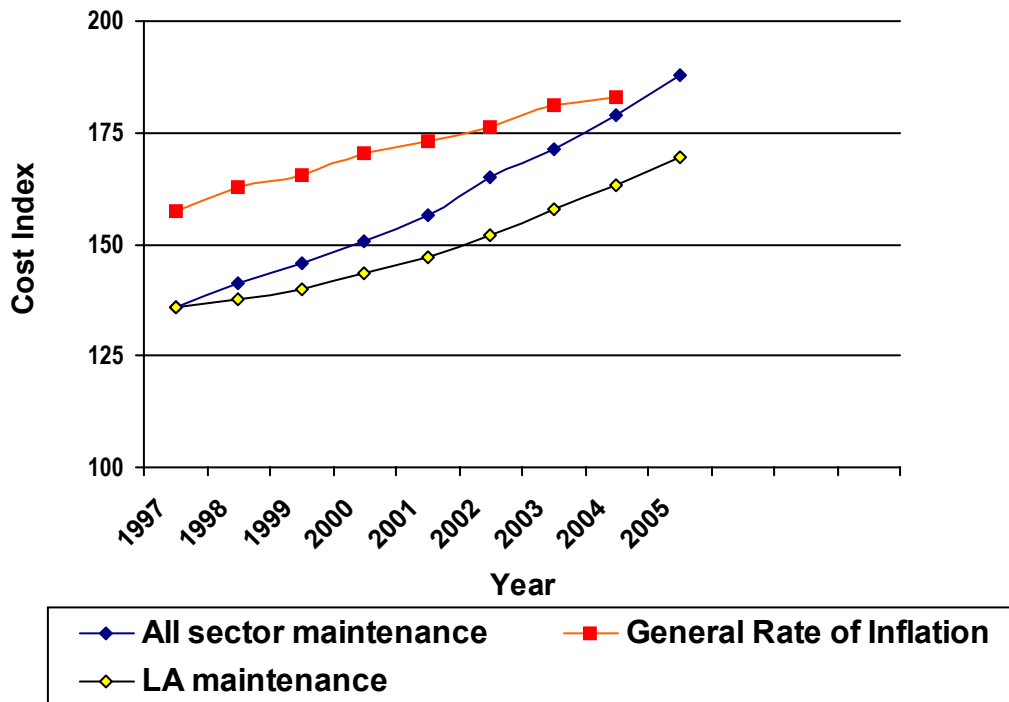
Building Schools for the Future (BSF) is an initiative launched by the Government which seeks to use exemplar designs to reduce costs. Whilst many of the designs are radical and exciting they are unproven in cost terms and many include additional area over the minimum space standards set by the DfES. The opportunity nevertheless remains for development of these designs and the possible off-site fabrication of more of the construction.

ii) Building Maintenance

Maintenance costs have also risen faster than the rate of inflation although slightly less in the public sector than elsewhere. (The graph overleaf indicates the relative trends.)

Norfolk County Council is seeking partner contractors to undertake this work rather than rely on the 800+ contractors currently approved for maintenance work. It is hoped to achieve a 1-2% annual saving as well as improvements in service delivery and customer satisfaction.

Comparative Inflation Rates



(Based on RPI figures as supplied by the Office for National Statistics and the BCIS General Building Cost Indices)

The amount Norfolk County Council spends on building maintenance is indicated below.

Year	Total	Increase (1999-2000)
1999 - 00	£2,626,410	n/a
2000 - 01	£2,750,975	+4.7%
2001 - 02	£2,068,609	-21.2%
2002 - 03	£2,493,747	-5%
2003 - 04	£2,645,440	+0.72%

Table 2

From the above there has been a significant decrease in expenditure in real terms over the last five years. The gross floor area of the property stock has not diminished over the same period.

Building maintenance cannot be carried out off-site and therefore is very dependent on market conditions and the availability of labour.

The balance of spend has also shifted noticeably in the last few years with the proportion spent on mechanical and electrical engineering increasing from 35% to 45%.

Costs could fall in the medium-term as better materials with longer life spans are increasingly employed e.g. felt roofs with a life expectancy of over 20 years. The need to consider whole life costs is paramount if these long-term savings are to be achieved.

It is now impossible for Local Authorities to determine what is being spent on maintenance in schools due to delegation of funding. There is no requirement for the delegated monies to be used purely for maintenance or for the figures to be separately monitored. Many schools are under such budget pressure that they “cannot afford” to undertake anything but statutory testing, which will lead to significant failures in the future. In Norfolk additional NDS monies and the creation of a Building Maintenance Partnership Pool have prevented the backlog increasing.

iii) Labour Costs

All rates over the last three years have increased significantly, especially in 2003/04 when the changes in National Insurance came into effect. The effect of the lack of skilled tradesmen, in particular plumbers and service engineers, can be seen from the table below.

Tradesman	Yr on Yr change	2001/02	2002/03	2003/04
Plumber		£15.17	£16.08	£19.75
	Increase		+6%	+23%
Electrician		£15.95	£18.00	£19.80
	Increase		+13%	+10%
Bricklayer		£13.73	£15.80	£17.13
	Increase		10%	14%
Labourer		£11.75	£12.70	£14.45
	Increase		8%	14%
Service Eng		£28.75	£32.48	£35.64
	Increase		13%	10%

Table 3

iv) Energy Costs

If consumption remains the same, the overall energy costs for Norfolk County Council are anticipated to increase 20% from £5,270,947 to £6,185,466, an increase of nearly £1M. The relatively cheap cost of energy due to competition in the market has reduced the incentive to invest in energy saving. The payback for this capital investment exceeds the design life of the equipment and therefore is not cost effective.

There are a number of possible methods of reducing this cost:

- Conversion of oil boilers to gas
- Good housekeeping and energy management
- Technical improvements

Norfolk was able to invest sufficiently in the new technology, they could reduce consumption by 23% with a net reduction of 3% over five years.

The downside of converting all the Authority's boilers to gas is the vulnerability in the event of a loss of supply. Whilst this can be mitigated to some extent by the use of dual fuel burners, the time taken to switch fuels is significant.

The delegation to schools of responsibility for energy management has meant that the monitoring of consumption and tariffs is only possible for schools that wish to supply details, which reduces the possible savings by consortia purchasing.

Water costs are expected to increase by 15% over the next five years unless we are able to introduce further technical measures to reduce consumption.

v) Service Contracts

Norfolk County Council spends approximately £900,000 on engineering service contracts per annum. The majority of the work is undertaken via fixed-term service contracts, which are due to end in March 2005.

It is anticipated that service contract costs will increase in the order of 25% for the following reasons:

- Skill shortages
- Legislation
- Increased training to ensure competencies are met
- Increased sophistication of equipment

If the savings on energy are to be achieved, more resources will be needed to ensure that all equipment is maintained to optimum performance levels.

vi) Consortium structure

NPS Property Consultants Ltd is a good example of how a partnership/consortium structure can assist in delivering efficiency savings. Many of the partnerships include efficiency targets of 1-2% reductions per annum. The other significant advantage offered by partnership working is the sharing of knowledge and best practice within the public sector. Only improvements in the whole process from procurement through to construction will deliver the hoped for reductions in cost.

Over the last eight years NPS hourly rates (after adjustment for inflation) have fallen by over 20%, an annual efficiency improvement of 2.5% per annum.

The Fair Funding arrangement, with the subsequent delegation of funding to schools, has reduced the efficiency of the building maintenance spend. Not only can the monies be used by schools for non-property related expenditure but also there are no economies of scale. This is particularly noticeable in day-to-day repairs and minor improvement projects where small builders dominate the market and the schools demonstrate little or no expertise in procurement. The process of delegation also results in a reduction in the standardisation of components and materials used which impacts on the long-term maintenance costs.

Service contracts would benefit from a consortium structure given the shortage of suitable contractors and the common requirement from the public sector.

Another potential reduction could be achieved if building insurance was secured on behalf of a consortium of schools and authorities. The insurance market has risen sharply in response to September 11 and the increase in claims for compensation from members of the public.

vii) Potential Difficulties

Centralising procurement would have an impact on the local economy and could reduce the range of suppliers. By consolidating contracts, small and medium business concerns would be excluded from the market and this could lead to a monopoly by several large suppliers. Initial savings due to economies of scale could be reversed as the lack of competition becomes evident.

Increasing the accessibility of buildings to the public will result in higher running costs. Targets for reduction in energy use etc are usually based on cost per square metre rather than related to building usage.

viii) Incentives to Improve

- Funding of capital projects to allow whole life investment. The mandatory inclusion of whole life cost analysis would be a positive step in ensuring that the lowest capital option is not the only solution considered.
- Re-consideration of the Fair Funding regime to allow economies of scale and standardisation of components and equipment. If this is not possible, allocation of funding based on need rather than per pupil basis.
- Strengthening of energy reduction targets based on consumption not cost.
- Targets based on output rather than input to encourage better use of resources.
- The new Centres of Excellence for Procurement should be used to champion the further extension of Partnering for construction works in the public sector.

5.2 Questions

Are the target savings before or after adjustment for inflation? This is a vital point given that construction inflation is running far in excess of the RPI.

Many of the factors affecting costs such as employment costs, legislation etc are determined by Central Government. How will imposed costs be dealt with?

5.3 Realistic Targets for NCC

i) Capital Construction

As a result of partnering we have already seen a 12% reduction in construction costs and an achievable target could be to see further annual reductions of 1-2% below the construction rate of inflation. This would mean by 2009/2010 costs would have fallen by 17% from 2003/04, in line with the targets.

ii) Design Costs

As a result of partnering, design fees have fallen by 15%. As fees are based on a percentage of construction costs the reductions above will be matched.

iii) Maintenance Work

There is an anticipated rise in costs as more of the legislation detailed in this report applies to maintenance work. A realistic target would be to hold costs at current rates after adjustment for inflation. Better value could be gained by aggregation of schools' maintenance budgets.

Reduced costs could also be achieved by the specification of higher quality materials via the whole life costing assessment and by standardisation of mechanical and electrical equipment.

iv) **Energy**

Without significant investment, costs will rise by 20% over the next five years but could be reduced by 3% overall if the necessary good housekeeping measures and technical changes are made.

v) **Property Management**

NPS has demonstrated that year-on-year savings can be achieved by partnership working with other public bodies. The target is 1-2% below the annual pay award and greater savings could be made if business growth is maintained. Savings of 12-15% by 2009/2010 could be a realistic target, particularly if the Rethinking Construction agenda is fully adopted in the public sector and further efficiencies in the briefing of projects can be made.

Integrated facility management of the property stock will also achieve savings, especially if linked to increased use of technology.

6.0 **THE NATIONAL PICTURE**

6.1 Caution was expressed earlier in this report about simple extrapolation of an individual or single source results in order to present a potential national picture. Clearly, whilst they still see some obstacles to improvement, Norfolk County Council has achieved a great deal in recent years, and they are confident of future improvements being secured.

6.2 Whilst statistics on a national scale continue to be somewhat patchy we will, for the time being, need to continue to measure project improvements on individual examples of achievement.

6.3 Building and Civil Engineering maintenance generally need special consideration in a local authority context. For very many years local authorities have had insufficient funds to properly maintain their buildings and structures. The Norfolk picture is reasonably typical with it's general decline in the funds available for maintenance. Planned maintenance programmes are delayed, backlogs develop, and inevitable failures mean that money is spent less efficiently in reactive repair works. Given the ever ageing profile of the built environment in England, serious consideration should be given to encouraging authorities to reinvest efficiency savings in an attempt to hold this decline.

6.4 The Norfolk example of achievement set out earlier in this report, and indeed some of the challenges they face, are not unique. However in order to test the robustness of our case, we have also asked St Helen's, another Beacon Council, to share their experiences

7.0 THE ST HELENS COUNCIL EXPERIENCE

This section follows the format of, and comments on, that provided by Norfolk County Council.

7.1 St.Helens Portfolio of Projects

St. Helens has over the past five years taken the opportunity to apply the 'Rethinking Construction' agenda in the form of project partnering to the procurement of capital projects within its building programmes. Three of these projects have been new-build Education type projects - the detail of which is provided below.

Type of Building	DfES Guidelines/ Approvals £/m ²	St. Helens Partnering Project Data - EXC FEES	Difference (Saving)	Traditional Proc/ment	Difference (Saving)	Client Satisfaction
Bleak Hill Primary School	1,105	948	14.2%	1,134	16.4%	Product 86% Service 93%
School for Special Educational Needs School	1,271	1,047	17.6%	Direct Comparison not available	N/A	
City Learning Centres (specialist IT suites)	1,481	1,214	18%	1,261	3.8%	Product 84% Service 98%

7.2 Additional Information

The savings generated on Bleak Hill Primary School through partnering enabled an additional 240m² - 11% - to be added to the floor area of the building within the fixed, original budget. The Special Educational Needs School (SEN) is currently being constructed at an Agreed Maximum Price of £6,275,000 against a DfES approved scheme cost of £7,621,000 - a saving in the order of 18% whilst delivering the full brief to a high specification and design. In addition the final scheme includes a full size Sports Hall (with swimming and hydrotherapy pools) for community use

to Sport England Standards. The community sports facility being added into the brief with an additional £500,000 of Lottery (NOF) grant - the partnering process allowing for the integration and the best use of both funding streams to maximise results.

Merseyside was allocated funding for six City Learning Centres for the 21st Century (CLC's) but with a budget provision equivalent to that previously allowed for five such centres.

St. Helens Council was however able to construct its two CLC's for £700,000 works costs against a national budget for each of £900,000 - a saving of 18%.

At present the BCIS states the North West Region as being 96% of the national average for building costs.

7.3 Construction Inflation

We would concur with the observations made by Norfolk and add the following factors affecting the St. Helens region:

- The Merseyside area is currently benefiting from an economic boom with many constructors having full order books and turning down the opportunity to tender.
- Particular areas of difficulty are roofing and mechanical and electrical services where most constructors / specialists are declining tenders.
- The well publicised skills shortages apply in this area and advice from major constructors suggests the most difficult areas include bricklayers and head office staff such as quantity surveyors and contracts managers.
- New house building in St. Helens is thriving. House prices have risen 55% (3rd in UK) in the past twelve months according to the local chamber of Commerce / R.I.C.S. Data.
- Commercial activity increasing with St. Helens Council's selection as one of four pilots for the Government's City Growth Strategy.

7.4 Tackling the Skills Shortages

- In part the progression of the new procurement methods and the development of long term relationships with particular firms (with whom there has been proven records of successful outcomes) - has been driven by the upsurge in construction activity nationally. In the North West in particular there will be continued growth in the construction market brought about by the release of funding sources relating to the Stock Transfer of Housing, City of Culture

Status in Liverpool, schools for the 21st Century, NHS Lift programme, New Hospital PFI projects, City Growth, Sure start and the New Opportunities funded projects to name but a few. Skill shortages are seen as being an inevitable consequence of such unprecedented investment.

- As a result of the above the construction industry and strategic procurement activity is facing unprecedented change with the result that there is increased demand for the services of both professional personnel and contractors with a proven record of success (through KPI's) and are in tune with the modern procurement agenda. The emphasis is moving away from repetitive tendering on a project by project basis with the likelihood of changes of contractor providers, to one of securing value and securing service delivery by longer term mutual commitments around strategic frameworks with those firms of proven ability to deliver.
- St Helens Council has in the light of the above atmosphere of change and its own continuous improvement objectives, looked to review its methods of internal operation and procurement methods, to challenge through a management review based on best value principles (4c's approach) its four key areas of operation - day to day responsive repairs, planned maintenance and alterations, facilities management of engineering services and capital type projects generally exceeding £100K in value. 'Accelerating Change' is the theme of this review, looking to bring about changes to each of the four areas of service operation that will deliver more certainty, value, quality and efficiency to the service; with continuous improvement in client satisfaction.

7.5 Whole Life Cost Considerations

St. Helens Council has undertaken whole life cost exercises on all their partnered projects it has not been possible however to fully incorporate all identified features due to initial limited budget allocation and competing demands in meeting the client / end user's aspirations within the budget. The additionality generated through the savings listed above as a direct outcome of the partnering process contributed to both the incorporation of limited whole life cost considerations and the exceptional client satisfaction obtained on all completed projects.

7.6 Building Maintenance

St. Helens Council, as an outcome of its management review of construction procurement, is actively preparing a new procurement strategy to enter in to a partnering arrangement for its building maintenance work.

The ambition is to achieve the maximum economies of scale, avoidance of duplication and best value from this service. The Council is also considering the potential benefits of a joined up service provision shared with a neighbouring Authority. It is envisaged that such an approach would bring about economies of scale in works costs and IT investment in making service improvements.

The annual building maintenance costs for St Helens Council are identified as:

Year	Total Expenditure	Increase
2001/02	4,691,960	N/A
2002/03	4,417,515	-5.85%
2003/04	N/A until out-turn	N/A

It should be noted that the gross floor area of property maintained has reduced in this period due to some transfer and disposal of assets.

7.7 Labour Costs

St. Helens has found that the cost of staff has increased well above inflation in the past 2 / 3 years.

7.8 Energy Costs

If consumption remains the same, the overall energy costs for the Council are anticipated to increase by 17.5%, of which approximately 13.5% is due to an increase in gas prices. This will increase the expenditure on fuel from £2,176,923 to £2,557,884 per annum. Water costs are expected to increase by approximately 2.53% to approximately £540,000.

A number of recent surveys have been undertaken, and have identified measures that can be introduced at no initial cost. These proposals have been forwarded to the managers of the highest energy using buildings.

Methods to reduce consumption and hence minimise the increase in costs have been identified as follows for implementation in 2004/05.

1. Upgrading of controls within main public buildings such as the Town Hall and Gamble Institute Library.
2. Replacement of ageing boiler plant at various schools.
3. Installation of low energy lighting on all electrical rewires and refurbishment schemes.

The implementation of these schemes is expected to reduce the Council's energy consumption on those particular sites by 5%.

7.9 Service Contracts

Like Norfolk County, St. Helens Council spends a considerable sum on servicing its engineering installations and is looking to reduce this whilst improving the service itself.

The Council is currently in the process of appointing a single partnering 'constructor' for a Facilities Management contract for the service and maintenance of the engineering installations, plant and machinery within the Councils property stock. It is intended that this partnering arrangement will be for an initial five year period, with a possible extension of two further years. The OJEC notice for this has been published.

The Council believes that working with a single constructor partner rather than many disparate companies will stimulate innovation, avoid duplication, minimise administration, ensure reliability of service records.

7.10 Consortium Structure

- In addition to the Norfolk comments, St. Helens Council has maintained the hourly rates within its Service Level Agreements unchanged for three financial years, thus absorbing inflation.
- The experience of Fair Funding in St. Helens is that all schools have continued to
- Take up the SLA's offered through LEA for access to the Council's Design / Asset Management staff for both their building maintenance and alteration works funded from delegated budgets.

7.11 Incentives to Improve

- St. Helens would concur with Norfolk's comments.

7.12 Realistic Targets

- In addition to the Norfolk comments, St. Helens would add:
 - Reducing Design / Pre-construction costs and time on partnered projects.

8.0 FURTHER EXEMPLARS

8.1 Set out in the following paragraphs are some further examples of local authority projects gathered from around the country where some very real benefits have been delivered

8.2 **Manchester City Council Schools Modernisation Programme Ravensbury Primary School**

- Design and construction of 420 place primary school, with 60 place nursery and associated community facilities.
- Produced under a design and build arrangement, which set out basic requirements in respect of design, cost, quality and timescales, to encourage the development of a holistic solution responding to the Client's needs.
- To ensure Best Value, tenders were evaluated under a number of criteria including design solution, quality, price and approach / methodology.

Benchill Primary School - Traditional	Comparison with traditional	Ravensbury Primary School - Partnered
£2,598,500	Outturn	£2,620,000
1886m ²	Floor area	2514m ²
£1378/m ²	Outturn cost / m²	£1042/m ²
61 weeks	Construction time	32 weeks
Traditional	Procurement method	Develop and construct
High quality / few defects	Product quality issues	Medium quality / few defects
High	End-user satisfaction	High

8.3 **Dorset County Council Christchurch Junior School Replacement**

- The construction of a new two storey 480 place Junior School on the site of the existing school playing fields. Followed by the demolition of the old school and the construction of new playing fields on this area. Budget of £2.25million.
- Partnering agreement included incentivisation and involvement in value engineering and facilitated workshops, workmanship and product guarantees negotiated with the whole team, ensuring the sub-contractors and the suppliers benefited in the same way as the main contractor.

Reported Benefits:

Typical Cost/m² floor area comparisons to four other schools procured by traditional means:

Dorset Comparison	£ Per m²
School A	919
School B	960
School C	954
School D	909
Christchurch Junior 'projected F/A'	850

8.4 Durham County Council

A689 Sedgfield to Wynyard Road

- Original design estimate = £9.0M
- Insufficient funds available
- Partner contractor appointed on 70/30 Quality/Price basis
- Integrated team – whole team input to design
- Target price agreed £7.1M
- Final cost £6.6million

8.5 North Tyneside Council

- Serial tendering of major capital projects
- Typical £1M school extension, completed at an out-turn cost of £1.2M
- Entered into strategic partnering with two companies to establish North Tyneside Partnering Agreement, and used Northumbria University to assist and validate successes.
- Identified weaknesses in traditional regimes
 - Fragmentation of designs process
 - Fragmentation of construction process
- 38% savings delivered on measured works costs
- 29% savings delivered on schools capital programme costs.