



procurement

at a
Crossroads...



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headline figures

62%

of respondents reported difficulties with the pre-qualification process

40%

of respondent firms spend at least one month each year filling out forms

46%

of respondents reported exploring new markets as a result of the effects of public procurement policies

foreword



We appear to be at a crossroads with public sector procurement.

As an industry, construction has traditionally relied on the public sector for around 40% of its work. Public spending cuts and an unprecedented, prolonged period of challenging trading conditions have resulted in greater competition among contractors and a need among buyers to cut costs and ensure they receive value for money. Builders and contractors are seeing their workload decrease across all areas of the public sector whether it is housing, schools or NHS work and their costs are increasing.

Companies are having to compete for work while facing pressure to keep skills sharp and take on apprentices to ensure skills are not lost; building information modelling will usher in a new way of working for many companies but which, right now, represents an added cost for a promising practice that is not yet widespread.

While there are some in the industry who will pit national contractors against SMEs and frameworks against traditional tendering, the choices are not that clear cut. The promise of frameworks was that of a mechanism that would deliver maximum benefits when managed by those companies that could exploit economies of scale.

When frameworks are well specified and managed, they can deliver benefits. But when every project is bespoke, how do you exploit economies of scale? Simply being of a particular size of company is not enough.

It is also worth bearing in mind that there are companies that are classed as SMEs that have built up quite substantial businesses and while they excel when tendering traditionally or regionally, they still come up against artificial barriers when competing for larger contracts. The government's rhetoric with regard to SMEs has been clear and consistent: SMEs will drive the growth that will help the economy. Whether that rhetoric is being translated to tangible benefits that can be felt through less regulation and a more level playing field still remains to be seen.

This report seeks to present a snapshot of the current procurement landscape. How are SMEs finding their way through the complexities of frameworks? And what are framework owners and operators themselves doing to ensure the contribution of the SME?

Clients now have to decide whether they chase short-term savings that will erode the industry over time or go for value and the longer-term benefits of local, sustainable growth.

A handwritten signature in black ink that reads "Julia Evans". The signature is written in a cursive, flowing style.

Julia Evans, Chief Executive

executive summary

The purpose of this report is to set out the findings of a survey carried out in early 2012 by the National Federation of Builders (NFB) combined with qualitative research carried out with framework operators, city councils and county councils.

The NFB has been undertaking research in this area since 2005 and each iteration of this research provides a better understanding of the effects of the implementation of public procurement policy on SMEs.

A major issue for companies competing for public sector work continues to be the time, cost and other resources required to complete the pre-qualification process. Pre-qualification was supposed to simplify the process for clients and contractors, but with almost 40% of respondents spending over four weeks each year completing pre-qualification questionnaires (PQQs) and 4% spending over £30,000 annually on the process as well as the administration and audit requirements, simplification still appears to be a pipe dream. Mutual recognition among schemes in the Safety Schemes in Procurement forum as well as PAS 91, a publicly available specification that provides a standard set of pre-qualification questions, have high awareness among the survey's respondents (62%), but unless they are adopted by clients, the cost and simplification benefits will not be fully realised.

Pre-qualification requirements and the increasing size of contracts are only two of the issues contractors face when bidding for work. Those respondents facing difficulty in staffing or preparing bids remained largely unchanged at 42% in 2010 versus 43% in 2012. There has, however, been a steep decline in the percentage of respondents reporting a lack of awareness of tendering opportunities: 42% in 2010 versus 21% in 2012 which points to signposting and listing services such as Contracts Finder as well as, for example, supplier engagement events having a positive effect.

As with pre-qualification, the promise of frameworks was one of simplification for clients as well as cost savings. Shrinking in-house procurement departments at local authorities as well as the promise of transferred risk and reduced costs appear to be working in the favour of local authorities and national contractors. The unintended consequence of this shift towards frameworks has been that SMEs that could previously bid for contracts now find similar contracts priced out of their reach, bundled as part of a larger programme of works.

Those contractors could become part of a larger contractor's supply chain, form a consortium or explore work away from frameworks. Many are choosing to do so with 90% of those doing public sector work reporting that they work outside frameworks and 79% saying they do not undertake work as a subcontractor on a framework.

The attraction of frameworks is that of an efficient procurement mechanism. Used intelligently, frameworks have the potential to drive down costs by achieving economies of scale while also developing the workforce and local economies and also reducing waste. However, when frameworks are not well run or when they routinely bundle smaller contracts into larger programmes of work, they can restrict opportunities available to SMEs, force post-contract cost cutting on the supply chain and deprive the local economy of the benefits of spending locally.

The old way of multiple tendering for every job with armies of local government officers administering contracts does not represent value for the taxpayer and is unsustainable in a climate of austerity and low economic growth, but the current way needs improvement.

The industry needs to work with its major clients in central and local government to more consistently realise the potential of frameworks and to recognise where it is more appropriate to use traditional tendering.

context

In economic terms, 2012 marked a watershed. The UK re-entered recession and the government renewed its attempts to boost the construction industry with another lending scheme, more housing initiatives and a multi-billion pound boost for infrastructure.

It was the year that construction moved up the political agenda as it finally became apparent to those outside the industry how much effect construction activity has on economic activity. It was also the year when the perception of the downturn shifted from being something that could be measured in mere quarters of the year with a possible end in sight towards an appreciation of the harsher environment in which companies would be trading for what was likely to be the foreseeable future.

Public sector procurement and winning work are sometimes characterised in black and white terms: frameworks are good or they are bad; SMEs are a part of the supply chain, not managing it; bigger is better because, supposedly, you can take advantage of economies of scale. In practice, things are not that simple.

The definition¹ of the SME company is very broad and covers a lot of ground in terms of company size, turnover and composition. They account for around 99% of the companies in the construction industry and they can range from small firms with few employees to more substantial ones turning over tens of millions of pounds in revenue. To characterise them as uniformly unable to manage a supply chain does them a disservice and denies the client opportunities.

Frameworks, which were supposed to simplify procurement by offering a one-off round of bidding, often have that one-off round but that round is then followed by mini competitions for those who have made it through the previous hurdles. Bidders must bear the cost of competing for a place on a framework, but winning a place is no guarantee of any work.

Defining a good or bad framework depends on the measure and assessment processes being used. Some frameworks crudely bundle smaller programmes of work into larger value programmes of work to save putting multiple lots out to tender on the assumption this saves money. Other frameworks insist on training and mentoring and ensuring that health and safety capabilities filter out to all those collaborating on the project which, in themselves are no bad thing, but can replicate existing work and drive up costs. For example, apprenticeship quotas do not always take into consideration that the winning bidder will already be employing apprentices, forcing companies to take on additional apprentices they cannot afford or to jump through administrative hoops to account for the ones they do employ.

The government published its construction strategy² in 2011, designed to help it achieve its target of 20% cost savings in public sector construction projects.

¹ Companies Act definition requires that two out of three characteristics be met: turnover is less than £25 million, there are fewer than 250 employees, gross assets are below £12.5 million.

² *Government construction strategy*, published by the Cabinet Office, May 2011.

The strategy marked a shift in government procurement practices and signalled a move towards a more collaborative working partnership between government and the industry. Key elements of the strategy include:

Frameworks and new procurement models: the strategy will test and roll out new procurement models. This will include the setting of cost benchmarks for framework contractors which, if they are not met, will go to tender with those within the framework excluded from further bidding. At the heart of all these models is a drive to bring about a higher degree of integrated working. The Cabinet Office's Efficiency and Reform Group believes that the establishment of more collaborative working practices, such as building information modelling, could lead to up to 30% savings on the cost of construction projects. The government has also been investigating the effectiveness of frameworks³, their efficiency and the barriers they create for SMEs.

Cost benchmarking: all central government departments will introduce a system of strict cost benchmarking involving clear criteria for establishing whole life value. Public and private sector comparisons will be used to establish a market price for each project. Clear criteria for value will be turned into standards and specifications, which will be passed on to suppliers as part of their brief.

Building information modelling (BIM): the spread of the use of BIM has been hampered by incompatible systems. The Cabinet Office will drive the work to develop standards that allow the whole supply chain to work collaboratively through BIM. The government will require fully collaborative BIM by 2016.

PAS 91: this is the standard pre-qualification form for construction-related tendering. The government has promised a continued effort to spread the use of PAS 91 throughout the public sector, i.e. to local authorities.

Visible forward planning: plans to publish a rolling two-year projects pipeline with details of all agreed public sector construction work, one of the key components of the strategy, was announced in the *Plan for growth* published alongside the March 2012 Budget statement and came into effect in November 2011.

The NFB is in favour of making the industry more efficient, but when clients talk of cost savings, that usually means that the cost to them is reduced even though the overall cost may remain the same, or even increase, and is simply being pushed down the supply chain. Rather than simply focusing on the cost of the projects there should be as concerted an effort in reducing the cost of the process so everyone in the supply chain can benefit.

³ *The effectiveness of frameworks*, a report by the Government Construction Strategy Framework Working Group, March 2012.

methodology

This survey is based on a sample of 100 contractors, surveyed between February and April 2012.

Additionally, interviews were conducted with:

- two framework operators;
- the lead contractor on a framework;
- eight county councils;
- three city councils.

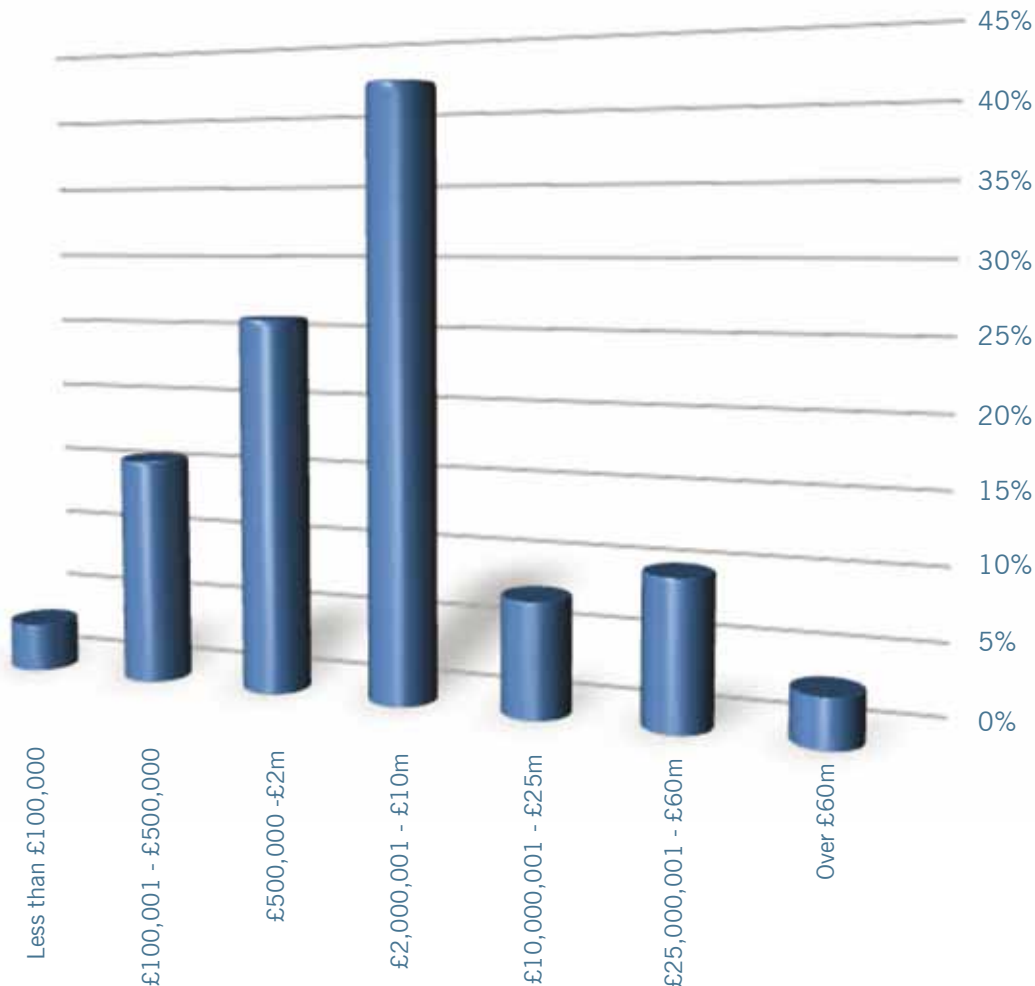
findings

Respondent profile

The initial set of questions was designed to develop a short profile of the participating organisations. Because some of the information being requested later in the survey might be considered commercially sensitive, respondents completed the survey anonymously.

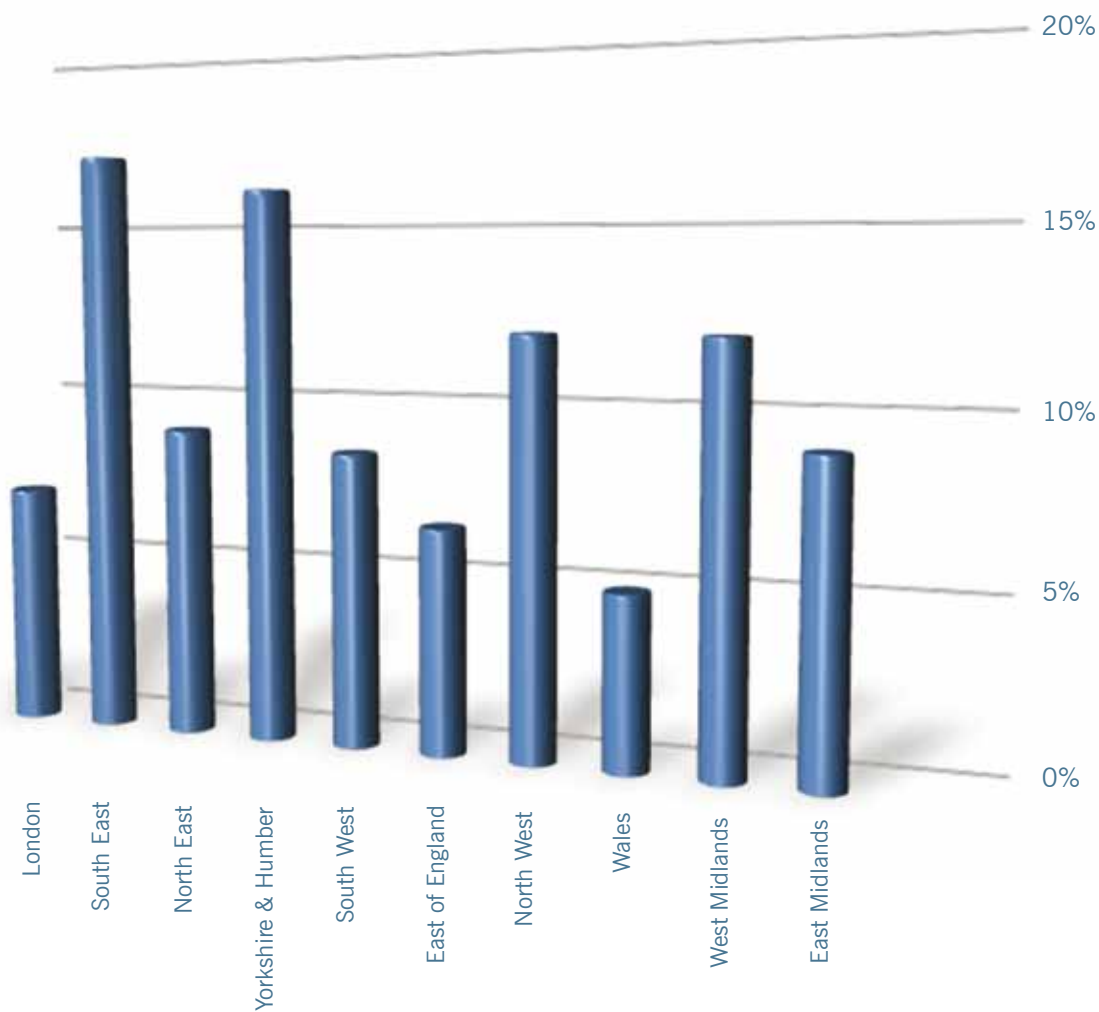
Annual turnover

Chart 1: respondents by annual turnover



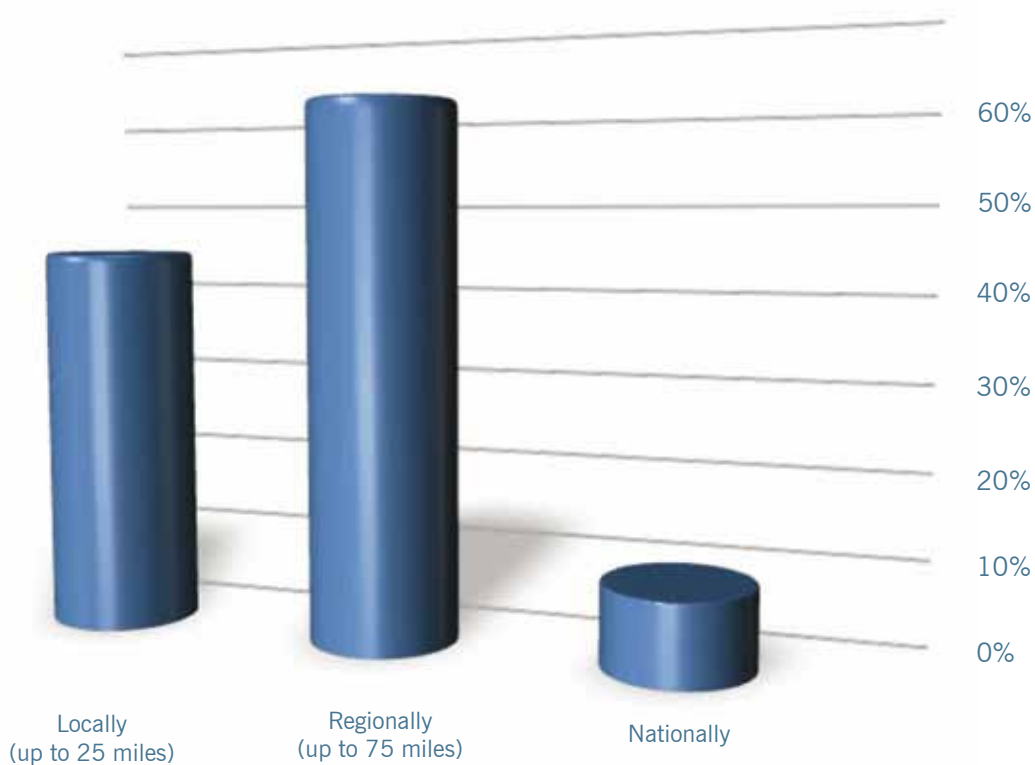
Main location of business

Chart 2: respondents by region



In which location do you compete for contracts?

Chart 3: in which location do you compete for contracts?



cost of procurement

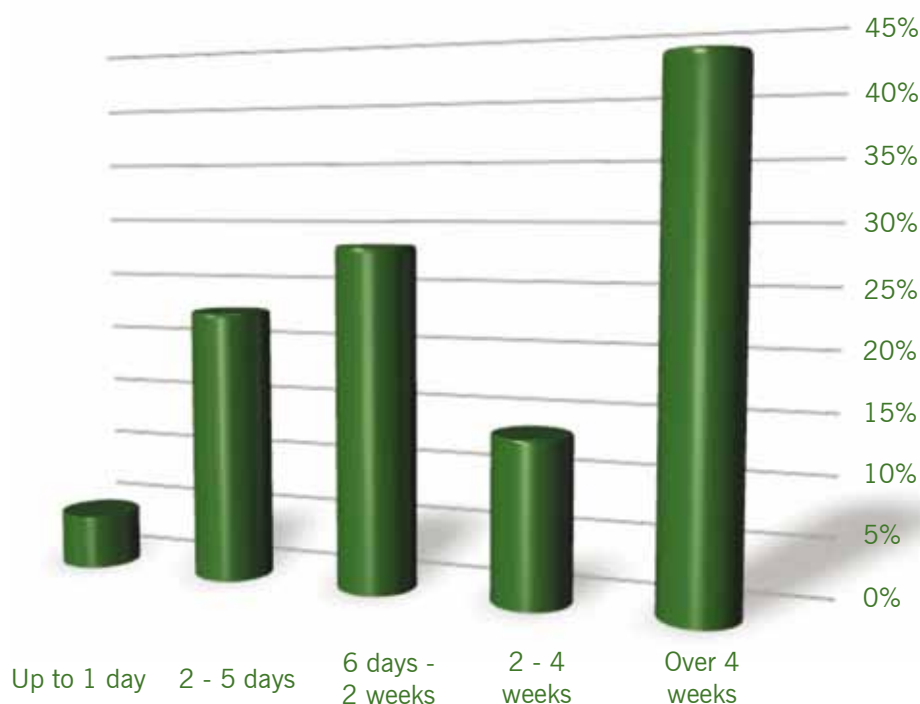
A major issue for companies competing for public sector work continues to be the time-consuming and costly nature of the pre-qualification process. Every company applying, whether larger or smaller, goes through the same process, but larger firms are better able to staff and fund bids, so the process itself can act as a barrier to SMEs.

Pre-qualification was supposed to simplify the choice for buyers and reduce overheads for suppliers. However, over time, a market for pre-qualification schemes has burgeoned as clients each demand different qualifying criteria. While the client may have the information it needs, contractors bear the increased cost of competing as each scheme comes with a cost, both financial and in terms of the time and resources required to satisfy those demands.

The Safety Schemes in Procurement (SSIP) forum goes some way to reducing this burden. SSIP acts as an umbrella for pre-qualification accreditation schemes and offers mutual recognition for health and safety between its member companies. This means that if clients use one SSIP member, such as ConstructionLine, and you as a contractor have signed up with another SSIP member, you are still covered. However, given that over 25% of respondents to the survey are paying between £1,000 and £5,000 annually for pre-qualification scheme registration SSIP, while it is making progress, still has some way to go.

How much time does your business spend each year completing pre-qualification questionnaires?

Chart 4: time spent on PQQs

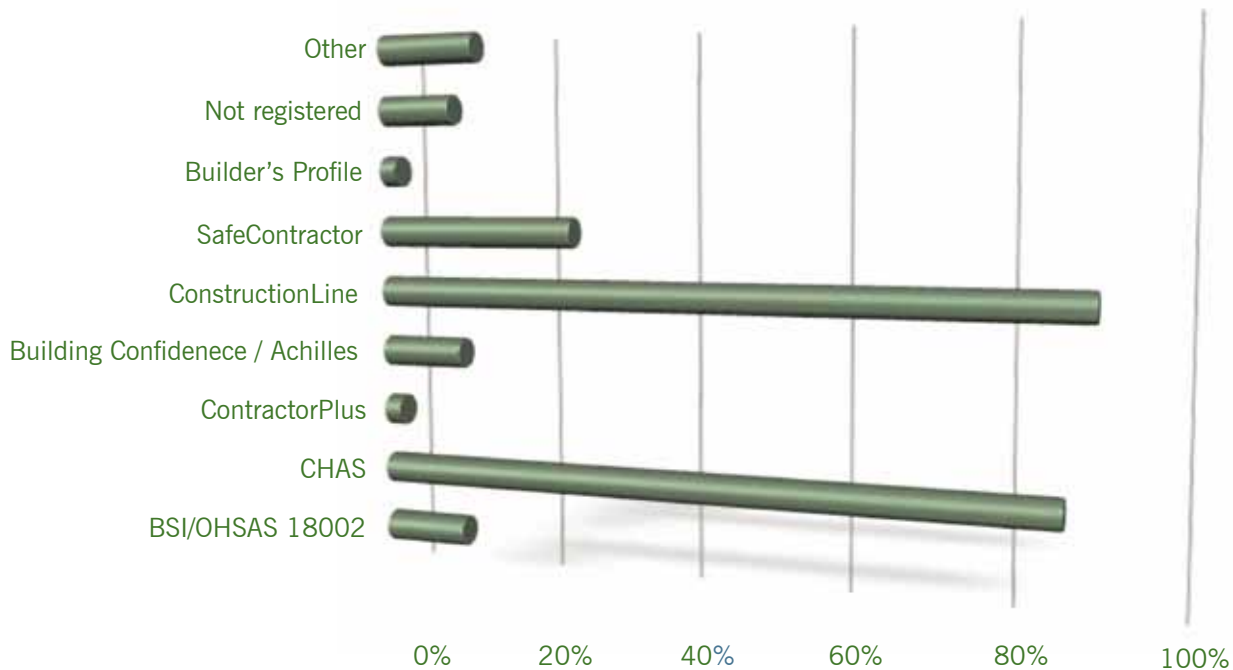


The percentage of respondents spending over four weeks each year has increased since the survey was run in 2010. Then, 22% of respondents reported spending at least that much time on PQQs compared with 40% in 2012.

There is an increase in the amount of money being spent on pre-qualification as well as the administration and audit requirements of the process. In 2010, 4% of respondents reported spending more than £30,000. In the 2012 survey, that increased to 12%.

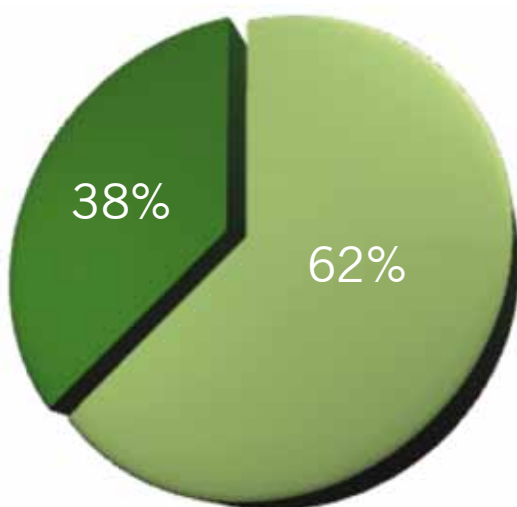
Which pre-qualification schemes are you registered with?

Chart 5: pre-qualification scheme registrations



SSIP reduces the number of accreditation schemes a supplier may have to register with, but it does not simplify the pre-qualification process itself. PAS 91, a standard set of pre-qualification questions for construction-related procurement, does simplify the process and was published in October 2010. It is a requirement on central government construction projects and has been used by the Ministry of Justice and the Ministry of Defence. Use at the local authority level, however, is so low as to not be measurable.

Are you aware of PAS 91?



■ No ■ Yes

Awareness among contractors is growing. The time and cost benefits of PAS 91 result from being able to complete questions for the first stage of pre-qualification once only and for answers to be re-used on future bids because the questions assessing a company's capabilities at stage one of the process will not change from one PQQ to the next. Until more clients starts using PAS 91, those benefits will not be realised fully.

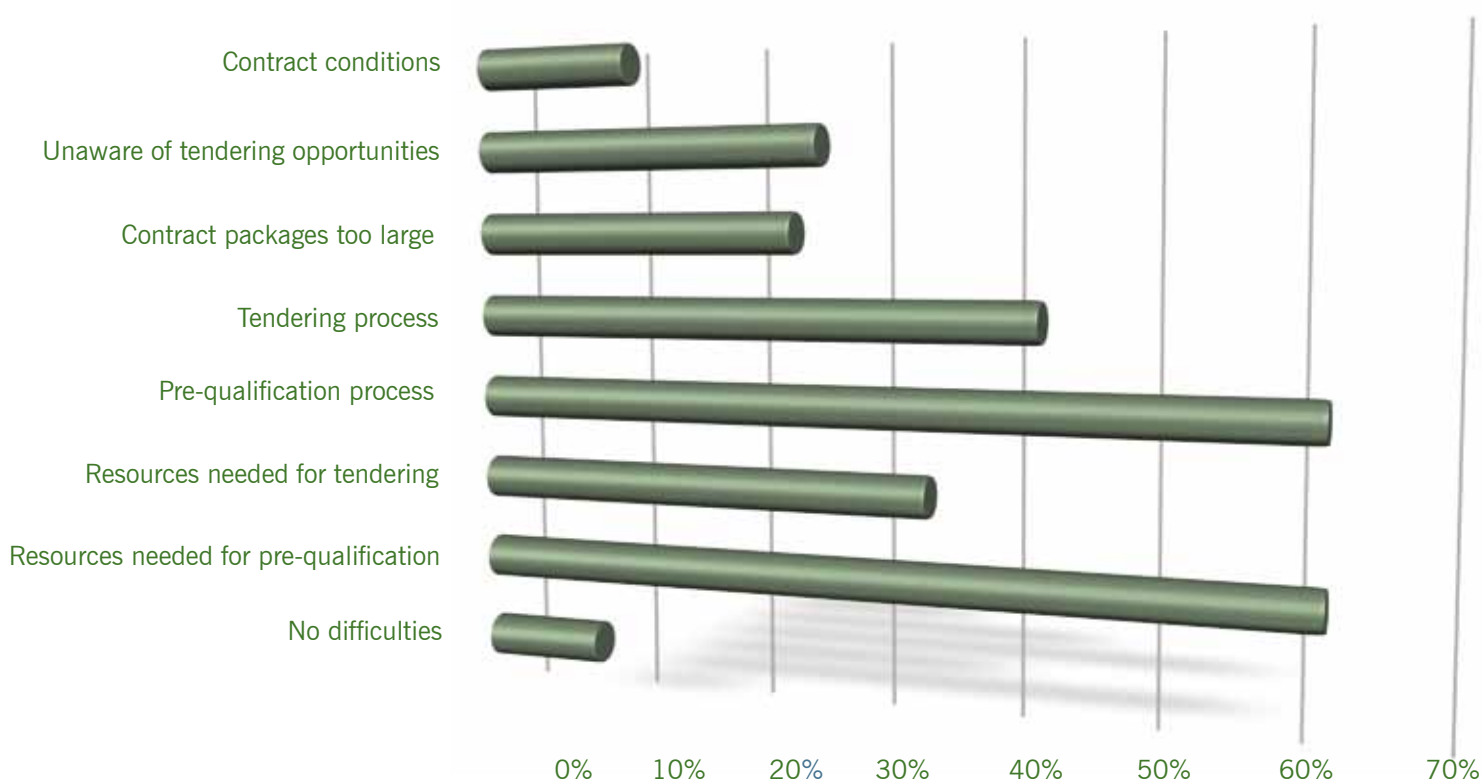
Chart 6: members who have heard of PAS 91

Difficulties when bidding for public work

One worrying trend is the increasing difficulty that firms face when competing for work. In 2007, 34% of survey respondents reported difficulties with the pre-qualification process. This rose to 49% in 2010 and now stands at 61%. Dealing with the pre-qualification process was, by far, the area that caused the most difficulty.

Difficulties when bidding for public work?

Chart 7: difficulties when bidding for public work



One promising statistic is the lower percentage of respondents who are unaware of tendering opportunities. From 21% in 2007 to 42% in 2010, this has fallen back to 27% in 2012. There has been a concerted move towards electronic tendering with sites such as Contracts Finder and clients holding supplier engagement events so it is becoming easier to stay informed of opportunities.

Have you seen a change in the success rate of your bids to gain public sector work between 2010 and 2012?

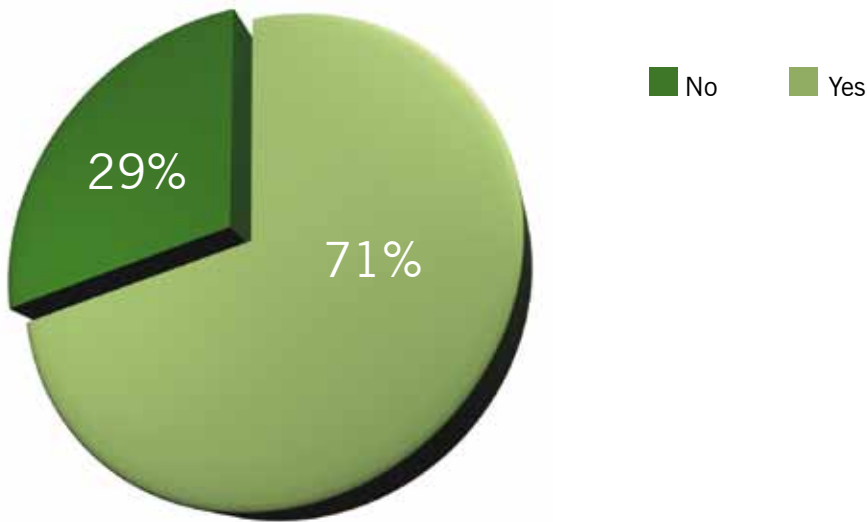


Chart 8: have you seen a change in the success rate?

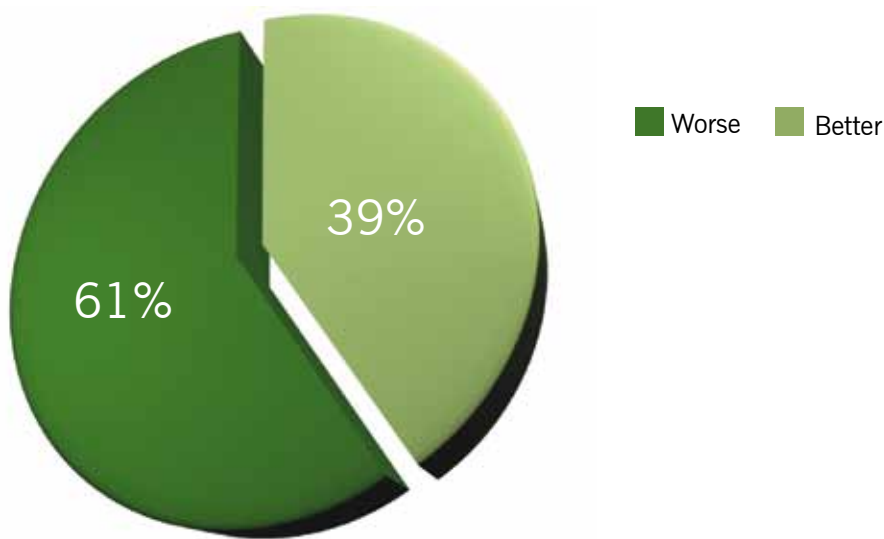


Chart 9: has your success rate been better or worse?

There has been an improvement in the percentage of respondents reporting worse success rates: 79% reported worse success rates in the NFB's 2010 procurement survey.

Discussion: exploring frameworks

The attraction of a framework is that of an efficient procurement mechanism that drives down costs by achieving economies of scale while also developing the workforce and local economies. However, when frameworks are not well run or when they routinely bundle smaller contracts into larger programmes of work, they restrict opportunities available to SMEs.

Local government procurement has objectives⁴ which must:

- 1 improve performance and cut overall cost, i.e. deliver value for public money;
- 2 meet a political imperative to support local enterprise;

“ Provided core workload with good margins. Enabled strong client relationships to develop. Enabled improvements to processes/procedures which led to improved delivery and service. ”

The first aim is about quality, cost and certainty.

- Quality is improved by ensuring lessons learned are transferred from job to job, i.e. contracts for similar buildings are repeatedly offered to the same supply chain which gains experience but which also excludes new entrants.

- Cost is reduced through
 - economies of scale and standardisation;
 - ensuring early involvement of contractors in design when they can engineer cost out;
 - transferring management costs to the (allegedly more efficient) private sector;
 - reducing duplication in systems.
- Certainty is increased by
 - basing procurement decisions on evidence of capability gained on previous jobs rather than on statements of credibility presented in a bid;
 - early involvement which ensures the estimated programme of works is based on a complete understanding of the work required.

However, from the perspective of this study, the issue of risk seems to be omitted. Despite claims of cost savings, the increased use of frameworks appears to be about the transfer of risk and not about value. For a risk-averse local authority facing cuts to its estates department and concerns about its ability to manage risk, using a major contractor with its perceived stability, comprehensive management resources and overall size is appealing. A major contractor has, by virtue of its size, the ability to dictate purchasing style and can operate in ways that may be politically unacceptable for a local authority, such as sourcing and spending outside the region where the work has been won.

⁴ *Procurement pledge for local government*, published by the Local Government Association, July 2012.

Take the cases of two small contractors. The first is in favour of frameworks and has a strong reputation in the area, so much so that clients asked that they be included on the framework.

“Provided safe client and secure payment. Provided good opportunity to train and develop staff. Gave better visibility of future work. Reduced amount of time and cost on claims and contractual issues”

The company found the procurement process time-consuming even though it had the right documentation. It submitted details to ConstructionLine, CHAS (Contractors' Health and Safety) and Exor as part of the pre-qualification process. The company receives sufficient work from the framework to justify the effort.

The second contractor is not in favour of frameworks. This small, busy contractor has worked for the local authority directly, but never made this work the majority of his business. Since the authority introduced a framework, enquiries from the local authority have fallen. However, the contractor attracts a large amount of work directly from local schools, much of which is repeat work from external funding, such as the local Diocese. These projects are not directly controlled by the county and, therefore, not governed by the local authority framework.

The contractor is on the approved list of contractors, is accredited with Exor and registered with ConstructionLine and CHAS as well as a number of trade associations. It took a decision to register with these as it felt it might give it an advantage over other contractors who were not registered.

“No great benefit to frameworks. More work gained by tenders”

The contractor views frameworks with suspicion and feels that a lot of time and effort could be spent on gaining a place on a framework that does not guarantee work. Sufficient work at the right size is available locally in the public and private sectors outside of frameworks. The contractor would rather have ten £50,000 projects than one £500,000 contract. Its business is built upon recommendations and repeat business and this is more likely to be generated from a larger number of smaller projects.

While the use of frameworks is increasing, they are not a universal solution. The following points came out of interviews held with contractors and local authorities.

Traditional tendering is alive and well. Estimates about the amount of work that is still tendered vary from 50% to as high as 75%.

Frameworks can be expensive to set up. One county council put the cost of re-advertising and selecting at £10,000 which makes this approach prohibitively expensive for smaller authorities. This perhaps explains the growth of regional frameworks where many authorities work together and share costs, taking advantage of larger purchasing powers and the centralisation of skills.

Frameworks can be expensive to run. Three of the people we interviewed estimated that the principal contractor added between 8% and 12% to contract costs. All recognised that this covered an element of risk and profit. For larger contracts, they believed this to be good value, particularly when outrun costs on framework projects were generally lower than tendered contracts. However, one county council reviewed each project to determine if this management premium was justified and on some smaller contracts took a conventional tender route.

Frameworks are not compulsory for end users or contractors. Someone, such as a headmaster, managing a devolved budget can choose not to purchase through a framework. Two local authorities said they purchased outside the framework when a particular specialism was required. This could be for listed buildings or stone masonry.

Frameworks are not automatically quicker. One local authority reported that frameworks are not always quicker than traditional tendering as involving the contractor at the design stage can slow the process.

Frameworks can be hugely beneficial for contractors, delivering profitable work and a continuity of business that allows successful firms to invest in their business and in their people.

Frameworks are only tendered every few years. If you are unsuccessful, it will be years before you have another opportunity.

Some local authorities set conditions that exclude SMEs. Two examples provided were: can you give evidence of schools you have built in the region in the previous two years, or does your company operate across the entire south east? Many SMEs may have built one school in the region or four schools in different regions, but few will have built four schools in one region.

The implications of the shift towards frameworks depend on where SMEs see themselves in the supply chain. The main opportunities are to:

- become a prime contractor named on the framework and working directly for local government;
- join a consortium that will itself become a prime contractor in a framework;
- become a leading part of the supply chain and manage local trade suppliers;
- become a trade supplier.

The evidence from the survey points to members not wanting to be in a national contractor's supply chain with 90% of those doing public sector work reporting that they work outside frameworks and 79% saying they do not undertake work as a subcontractor on a framework.

The majority of local government procurers in England now have access to some form of framework through which they can purchase construction projects. Some of these frameworks are operated across a wide area whilst others are restricted to specific authorities. Legal complexities can get in the way. One city council we spoke with suggested they could not use the county council's framework due to the wording of the framework agreement.

Those people that we interviewed believed that frameworks offer a number of advantages including:

- the ability to place contracts with companies that have a proven track record and known price;
- the ability to place contracts with local suppliers;
- the opportunity for supplier development and joint rationalisation of systems and approaches;
- the potential to create an on-going work stream for contractors which provides sufficient certainty for them to invest in training and innovation;
- better risk management – with open book costing, it is easier for the client to hold all the risk and only pay for that which materialises rather than paying the contractor to hold all the risk and allowing them to keep the money for that risk which does not materialise.

Frameworks and smaller works

Frameworks are being extended to smaller works. For example:

- Warwickshire County Council has three frameworks for minor works, electrical and heating; the threshold is £150,000.
- Staffordshire County Council has four banded frameworks: less than £250,000, £250 - £500,000, £500,000 - £1.5 million and greater than £1.5 million.
- In the North West, four frameworks will be let in each of the five regions. These will be split by value (£0 - £250,000 and £15,000 - £50,000) and by type of contract (build or design and build). This is a conscious effort by the North West to create opportunities for smaller, local contractors. A similar approach is used by Staffordshire.

Selling a framework

Step 1

pre-qualification

The first step is to demonstrate the organisation has potential. This is usually done on a check of basic systems and procedures and required evidence of size and other company information.

None of the interviewees used PAS 91. Two accepted this could help streamline PQQs and reduce procurement costs and another saw barriers to PAS 91 from the procurement executives within local government who used the uniqueness of the PQQ process as a way of justifying their job.

Step 2

selection within a framework

There is a degree of selection within the contractors on a framework.

It would appear that of the major frameworks, around half adopt mini competitions among contractors. Some allocate work directly to contractors and their supply chains without competition and the others adopt a mixed approach. Discussions suggest that mini

competitions within framework providers may become more common. This does not fully open up the market but does require contractors who are on frameworks to retain their ability to competitively bid for work.

“We became reliant on the framework. Staff’s combative skills became rusty”

There may be several reasons why smaller local contractors are not on a framework.

Perhaps the contractors did not submit a strong enough bid, in which case they need to develop new skills. Perhaps they no longer meet the requirements of the local authority and it would not have made sense to bid, in which case they need to adapt to their market if they wish to continue to compete.

Perhaps they chose not to bid for a place on the framework because of the resources required, which is a commercial decision.

In each of those cases, contractors could say that the local authority or framework operator should change its practices in order to be more accessible. Conversely, framework operators could say that potential suppliers need to adapt to the market. The truth is probably somewhere in the middle of those two divergent opinions.

For smaller works not subject to procurement legislation, the potential to save is less and the contracts are only likely to be of interest to local suppliers, so one-off tendering continues to achieve all three procurement objectives. This explains why frameworks are not ubiquitous. However, the interviews with framework operators suggest that the threshold of what is defined as ‘large’ is falling and local government increasingly seeks other advantages of frameworks.

Frameworks and fair pay

A review of the major frameworks conducted by the National Improvement and Efficiency Partnership suggests that all have targets for, or guidance on, fair payment within the supply chain.

The clients interviewed are aware that the first tier contractors may not pass on the partnership ethic to their supply chain and we are concerned, for example, about payment terms and the early involvement of the supply chain at the design phase. One client surveyed their supply chain to check for fair treatment.

Most recognised that a first tier contractor not working in partnership with the supply chain on pay or other issues would be unlikely to sustain improvements in performance and so, ultimately, lose its place on the framework.

Frameworks and training

Of the eight major frameworks operating in the UK, seven have specific mention of apprenticeships. Their actions to drive training include:

- targets for the number of training days, monitored through a performance management system;
- creating a national skills academy with other training partners;
- an exchange of apprentices to ensure a balanced training programme;
- a target to achieve twice the national average of construction apprentices on framework contracts.

Frameworks and localisation

While some of the larger main contractors are national organisations, we found significant efforts to ensure local firms continued to benefit from local government spend. These included:

- the use of frameworks as a procurement vehicle which allows local government to encourage local suppliers. While the original framework is always open to any qualifying UK and European contractor, once let, the framework partners, i.e. the tier one suppliers, take control of procurement and often include locality as a factor when selecting supply chain partners. We found examples of clients asking contractors to measure the quantity of local labour. This is in contrast to conventional procurement where the law prevents discrimination by location and size.
- supply chain development. We found many examples of supply chain development where the framework owner took responsibility for smaller contractors:
 - Yorbuild, in partnership with Leeds College of Building, runs briefings and training events. These include employment and training planning, waste reduction (delivered with WRAP), site waste management and safety. These are available to between 400 and 600 smaller suppliers.
 - Manchester City Council debriefed all 45 unsuccessful bidders for one of its framework contracts. This was a detailed meeting, explaining what they needed to change to be successful in

future bids. Those that proved themselves great builders, but did not pass the test required to be a framework supplier, were directed towards that supply chain.

- Manchester City Council, in partnership with the Centre for Innovation in the North West, runs events that help develop appropriate skills in contractors.
- Manchester, Warwick and others run meet the buyer events to explain the type of opportunity and the quality of supplier required.
- adherence to standards. BREEAM, a standard operated by many local authorities, gives points to schemes that use local contractors as a result of the reduced environmental impact of their journeys to work.

Frameworks and the environment

Almost all the framework owners we interviewed have targets for waste and use the WRAP scheme. Analysis of the eight major English frameworks shows the majority have specific targets for:

- waste and the proportion of waste directed to landfill;
- energy used in both products and the build process;
- carbon reduction.

The framework in the West Midlands appears to be the most ambitious and extends the above to include water use, commercial vehicle movement and the areas of habitat created.

Frameworks – the operator view

The key findings of the interviews presented the following views:

- 1 There is a continued move towards partnership working executed through framework and other long-term supply contracts.
- 2 The need for contractors to change their approach from confrontational tendering of one-off contracts to a provider of building services.
- 3 Frameworks are driving up the amount of training and innovation.

Additionally, the interviews revealed that:

- 1 The move to procurement through frameworks is driven by local government's need to improve performance, support local enterprise and meet procurement legislation.
- 2 There is a strong conviction among those using frameworks that they are the answer to lower costs and higher performance.
- 3 Frameworks are applied to lower value contracts.
- 4 The more advanced frameworks have measures in place to ensure prompt payment, drive training and deliver environmental benefits.

- 5 Most clients running frameworks are engaged in supply chain development including meet the buyer events, briefings, and training.
- 6 Letting contracts through formal tenders is still common practice owing to the cost and complexity of establishing a framework.
- 7 The 'good old days' before frameworks did not necessarily deliver for the industry nor for high quality local contractors.
- 8 The contractors' view of frameworks changes between those who are successful and those who are not. Contractors on frameworks recognise the potential for improvement and confirm the growing popularity. Those not on frameworks cite the bureaucracy as the principal barrier.
- 9 To benefit from frameworks, contractors have to be able and willing to understand local government priorities, take part in design discussions and value engineering, offer open book accounting and collaborate with clients.
- 10 To be competitive, either as a framework contractor or as part of a joint venture, the contractor has to have a credible improvement plan and evidence that this has worked. Contractors are selected on their ability to improve delivery performance over the life of the framework.
- 11 Joint ventures must deliver more than capacity – they need proven procedures and credible plans for collectively improving.
- 12 To keep winning conventionally tendered contracts will require contractors to seek opportunities and not just register with local government databases and hope for work to arrive.

Frameworks - the contractor view

Large contractor

We interviewed a large contractor who is the lead on a number of frameworks. This contractor's experience is that:

- 1 Frameworks are here to stay as a major route to procuring large construction works.
- 2 Performance improvement is a result of repeat business and being able to learn from one job to the next.
- 3 Frameworks and negotiated contracts protect contractors from the dangers of fixed price tendering. The low, and falling, margins of contractors mean that any fluctuations in materials prices or labour costs can quickly turn a fixed price job into a loss-making project.
- 4 Frameworks support the local economy as the approach drives localisation and training.

Existing frameworks have cut costs by around 9%. Future frameworks will focus on adding value to the local economy through, for example, developing the workforce, keeping spend local and seeking innovative build solutions that give lower running costs and greater client benefits.

The contractor is seeing many frameworks being re-let and new ones emerging. The pattern in its market for larger construction projects is to get onto a framework and then compete on how much value it can add over the three or four other companies on the framework.

The opportunities for smaller contractors through the supply chain are better for trade contractors supplying specialist labour than for a management contractor. Trade contractors are in demand, whatever the procurement route. Small management contractors are hardest hit as their management fee, which is in addition to the management fee of the main contractor, makes them uncompetitive. There is no incentive to pass even smaller contracts to smaller contractors as the larger contractor still carries the risk, so has to charge for it and is therefore uncompetitive.

The concern this contractor has with small contractors is the generally lower standards of safety, quality and environmental procedures. This does not imply they are unsafe or poor builders, just that their systems are not to the required standards.

Alliances and joint ventures are difficult for the large contractor as they are jointly and severally liable for all companies within the joint venture. They are only as good as the weakest member of the joint venture. The contractor could find that it is carrying a risk for which

it is not being paid, nor one that it can control. This is not attractive to larger contractors.

Medium-sized contractor

We also interviewed a medium-sized contractor. Even though this contractor was the top-rated framework contractor in the region, it may not bid for the next framework, as it is too large. It would not seek to be part of the supply chain.

Frameworks are definitely the favoured procurement approach of local government and the parts of the business not on frameworks have seen a fall in sales.

Frameworks offer both risks and opportunities for small and medium-sized contractors. The significant time taken to get onto the framework reduces the time available to bid for other contracts. However, once established, the opportunities are worth it.

The key things contractors should think about are:

- The initial PQQ is challenging but essential. It is important to follow the form closely.
- Unsuccessful contractors need to take advantage of feedback sessions.
- Smaller contractors may benefit from becoming more specialised.
- It is not just about capacity and size – demonstrating leadership, systems compliance and delivery excellence will make you more attractive to potential clients.
- Identify (and share) cost savings in the design - constructive participation of the supply chain is critical to the success of any framework.

conclusion

Winning work presents challenges. Being successful is about more than just being a great builder. There needs to be an understanding of local policy and where construction fits into that policy.

While traditional tendering is alive and well, frameworks represent a tempting option for those clients looking to simplify supply, reduce costs, reduce risk or any combination of those. Observations from contractors about what works well on frameworks include:

- collaboration within the supply chain;
- continuous improvement, demonstrating that it is possible to achieve more for less;
- early contractor involvement and involvement of the supply chain results in fewer claims;
- the inclusion of local suppliers which lowers carbon;
- the training of apprentices;
- improved waste management;
- clients saving money and outperforming their key performance indicators.

Conversely, what does not work so well includes:

- the complicated selection process that often excludes SMEs;
- the increased use of mini tenders;
- the spending of money earned outside the region where the work was procured;
- the lack of early involvement of the people who do the work;
- the lack of clear evidence on performance.

The Cabinet Office publication, *A better return: setting the foundations for intelligent commissioning to achieve value for money* recommended that those concerned with spending public money should be more outcome-focused and look beyond the immediate cost of procurement. It is not just about achieving value for money, but broadens the concept of value to include the benefits of job creation, training and economic growth within a community.

These aspirations play to the strengths of local contractors and potentially deliver on the government's rhetoric of placing SMEs at the heart the recovery in an industry that is pivotal to the nation's growth prospects.

recommendations

Extend the use of PAS 91

PAS 91, the standard pre-qualification for construction-related tendering, has the broad support of the industry. PAS 91 has been adopted by central government. However, central government cannot mandate the use of the standard at a local level which is a greater source of public sector work for SMEs. Central government can, however, demonstrate good practice and the cost benefits of PAS 91, making it more difficult for other public sector clients to ignore the efficiency and cost savings of a more standardised approach. Local government needs to embrace this opportunity to reduce the cost of procurement for both clients and contractors.

Report factual, unbiased framework performance data that are easily comparable

There is a significant amount of information supporting the use of frameworks. What is missing is sufficient data on those frameworks that are inefficient and do not meet the goals set, whether they were to achieve cost savings through economies of scale, continuous improvement over time or local spend and employment.

Use frameworks for small works

The use of small works frameworks would see small and medium-sized contractors delivering small and medium-sized contracts. They should have a shorter duration, for example, of no more than three years so that unsuccessful bidders are not completely frozen out of local opportunities.

Look at the whole project costs, not just those of the procurement process

A fair approach to supply chain management is based on contracting the best company to do the job and allowing the intelligence and skills of small, local contractors to contribute to local jobs. Bringing in contractors early and fostering collaboration reduces costs and claims. There should also be an end to larger contractors demanding post-completion discounts on agreed prices.

Recognise the skills on your doorstep

Local builders are specialists with a particular expertise or local knowledge that can benefit the local authority. Allowing them early involvement in design and to manage jobs at which they are expert will increase value.

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notes



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