



Local Government Construction Workshop

**Efficiency and collaboration
in capital programmes
through the use of e-technology**

**Manchester Town Hall
2nd July 2007**



Morning Programme

10.00 Welcome - *John Lorimer, Capital Programme Director, Manchester City Council*

10.05 Setting the scene: The status of collaboration and partnerships in local authority construction - *Neil Jarrett, CEO, Construction Excellence*

Why we need e-technology

10.45 The 30% cost savings opportunity – key messages from the new NePP Desktop Guide to e-Procurement in Local Authority Construction
- *Peter Duschinsky, The Imaginist Company*

11.00 Partnership Working Case Study: Manchester City Council - *John Lorimer*

11.30 Coffee

11.45 Highways Partnership Case Study: Cambridgeshire Highways Partnership
Chris Capps, Head of Transport Asset Management, Cambridgeshire County Council and David Cox, Contract Director - Atkins Cambridgeshire Highways

12.15 Group discussion

13.00 Lunch



Afternoon Programme

e-Technology generating efficiency savings

- 13.55 Introduction - *Peter Duschinsky*
- 14.00 Social Housing Case study: GM Procure
Mike Brogan, Harvest Housing and CEO of GMProcure
Jeff Dandridge, CEO, Valueworks
- 14.30 Kier Sheffield Mobile Data – Benefits and Efficiencies through working together
Chris Hone & Phil Oades, Service Managers at Kier Support Services
- 15.00 The role of pre-qualification within e-procurement
Matt Kearsley, Constructionline
- 15.30 Q&A
- 15.45 Summing up / what next? *Peter Duschinsky*
- 16.00 Refreshments and close



Efficiency and collaboration through the use of e-technology

The 30% Cost Savings Opportunity

Key Messages from the NePP Desktop Guide to e-Procurement In Local Authority Construction

Peter Duschinsky, The Imaginist Company



The Desktop Guide

- The Desktop Guide was initiated by NePP to:
 - accelerate local authority take-up of e-procurement in construction
 - achieve better procurement performance
 - generate efficiency and cost benefits.

- The guide:
 - defines local authority construction
 - reviews the role of e-procurement in underpinning the significant potential for efficiency and collaboration in this complex area
 - establishes the status of e-procurement systems and tools
 - proposes some actions that could move e-procurement forward and deliver price and process savings.

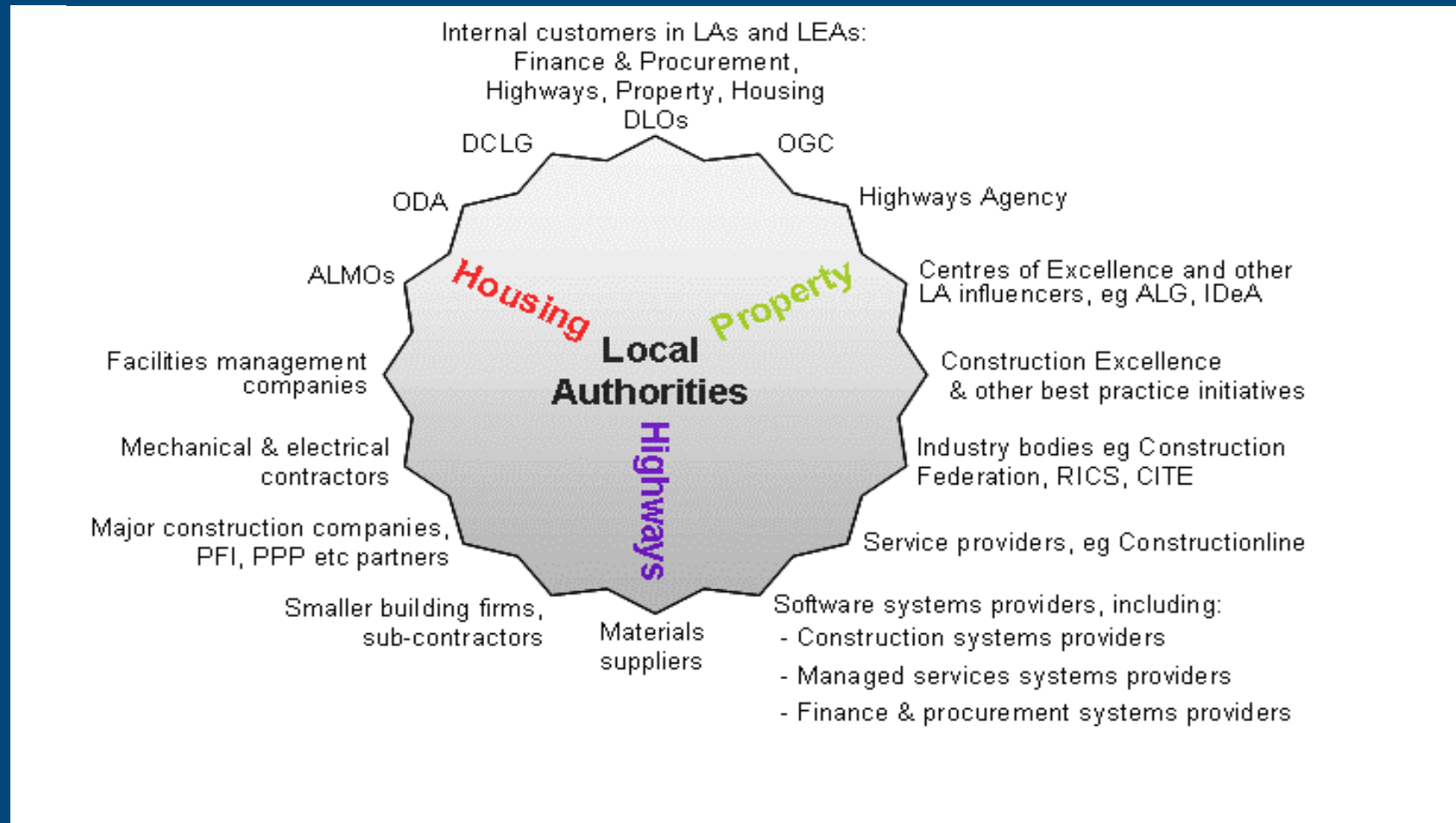


The local authority construction sector

- The sector encompasses a wide range of activities across Housing, Property (which includes schools) and Highways
- It poses some of Corporate Procurement's greatest challenges, due to:
 - **The value** – over £14bn. That's a third of all local authority external expenditure and includes an authority's biggest contracts and lowest value transactions
 - **The breadth** of activity - new build, refurbishment, scheduled & reactive maintenance), each requiring different processes and expertise
 - **The complexity** of the supply chain - over 20 stakeholder groups
 - **The variety** of approaches to managing construction across authorities
 - **The lack of influence** by procurement managers on specialist construction functions



Stakeholders





The opportunity

- The potential opportunity for cost and efficiency savings in this sector is significant
 - 30% is being saved in best practice examples
 - achieving these savings is of critical importance (CSR07)
- Collaborative and partnership working models are becoming accepted as best practice in this sector
- Very few of these initiatives are using e-technology
- The opportunity now is for the adoption of e-procurement and associated e-tools to enable further efficiencies and cost savings

And that's what we are here to discuss today



Current status of e-procurement in local authority construction

- ❑ Modernisation of procurement in the local authority construction sector is patchy
- ❑ Surveys found that much work remained to be done internally to overcome cultural resistance and externally to engage with the supplier community
- ❑ LA corporate procurement managers report very little involvement in construction
- ❑ Industry is overtaking its local authority customers in introducing e-technology to bring efficiencies



Some examples of what is happening

- Cambridgeshire Highways Partnership is using **e-Procurement** to order and, shortly, to pay for work worth £24m pa
- Fusion21 and GM Procure are two examples of groups of social housing organisations working together, enabled by a vendor-neutral supply chain **e-technology** provider specialising in construction.
 - Fusion21 is achieving 11% cashable efficiencies worth £5m pa and is training hundreds of unemployed Merseyside people
 - GMProcure, which went live in 2006, has already achieved 31% cost savings and cost predictability of over 99%.
- Many councils eg Sheffield, North Tyneside, are using **e-Auctions** to achieve market benchmark prices; North Tyneside Council recently cut over £6m (30%) off the cost of building materials.



Some examples of what is happening

- ODA is using **e-Tendering** to place all contracts for the 2012 Olympics.
- The West London Alliance identified potential savings of 15% if they invested in an **e-Contract Management System** for housing and highways maintenance.
- London Borough of Camden has **integrated** their specialist works ordering system with their procurement and financial management system.
- Wirral Council is using an online **supplier pre-qualification** service to save time and money – and it is playing a role in helping the council support local businesses.



Key findings and recommendations

□ **Use suitable tools**

- construction services don't lend themselves to simple one-size-fits-all solutions
- implementation of new systems and processes needs to take the complexity into account - tailored and bespoke solutions may be needed
- but don't overlook the fact that materials procurement is an important part of construction - there's a lot of scope for aggregation and online catalogue purchasing



Key findings and recommendations

□ Use e-Procurement to collaborate

- e-Procurement, and especially e-Contact Management, can bring real benefits in collaboration, sharing data and forward planning
- just having access to an online central contract and project database will start this process
- industry tells us that forward planning is the key to their being able to reduce prices
- although industry partners have similar non-compliance cultures to overcome, partnering will drive change on both sides and deliver incremental service delivery improvement and cost savings



Key findings and recommendations

□ Integrate

- if your authority has retained its direct labour force, give priority to overcoming any incompatibility between legacy works order systems and newer financial and e-procurement systems

□ Use supplier pre-qualification

- one of the simple things all councils can do immediately is to take advantage of standardised pre-qualification documents and processes to reduce buyer and supplier costs

□ Improve skills and ensure take-up

- Focus on upskilling staff and changing embedded culture before transforming processes and adopting new systems and tools – or they won't get used



Key findings and recommendations

- ❑ **Forward planning reduces supplier costs**
 - Substantial cost savings are potentially available to an LA that can move towards greater transparency at the planning and design stages of a programme
 - LAs' requirements are not always well articulated - the real drivers, e.g. political influences and concerns, are often not clear until well into the programme

- ❑ **Use e-technology as part of a partnering approach to supplier relationships to improve transparency**



Key findings and recommendations

- ❑ **Develop opportunities for supplier performance improvement**
 - There is often discontinuity on both sides of the supply chain between the tendering process and delivery of the contract, leading to poor standards of communication and supplier relationship management
 - At best, it means little opportunity for year-on-year cost improvement - at worst, it can lead to service delivery failure
 - In the LAs, this can be improved with the introduction of e-contract management systems
 - Suppliers also need to reorganise their customer-facing processes to address the issue

- ❑ **Doing something about this together would be a powerful stimulus for improvement**



Key findings and recommendations

- **Focus on raising the level of skills on both sides - many LAs and construction companies do not have the skills to:**
 - implement partnering or manage supplier relationships
 - develop transparent cost-based pricing
 - implement the e-technology infrastructure that brings standardisation and streamlined processes
 - make use of the improved visibility of data available from e-technology
...with the result that they don't get the cost transparency or cost predictability they are looking for



Key findings and recommendations

- ❑ **Deal with the significant non-compliance culture on both sides of the supply chain**
 - The problem exists for similar reasons: the highly devolved structure and the culture of local decision-making in LAs is matched by a similar situation in the construction industry
- ❑ **Recognise that there is pressure on both sides to change:**
 - LAs are under ever-increasing pressure to become more efficient they are complex, devolved organisations
 - Construction companies are currently enjoying a period of high demand and reasonable profits, so there is little motivation for them to change
- ❑ **...but the prevailing management culture in LAs and across the supply chain won't change until it is forced to**



Key findings and recommendations

□ Commercial partners:

- Its only when there is pressure on profitability that commercial organisations bring in culture changes
- We can see this clearly in the ALMO sector, where change is now happening
- Capped rents and rising prices meant that the social housing landlords couldn't deliver on the promises they had made when taking over their housing commitments, without changing the way they operated
- That was the incentive for the 12 GMProcure partners to get together to aggregate their £440m spend and generate the efficiencies from collaboration
- Savings of 31% and cost predictability of 99% are now being realised



Key findings and recommendations

□ **Local authorities:**

- In theory, LAs should be under increasing pressure to change
- Gershon, Comparative Spending Review 07 etc has focused attention on efficiency and is driving change across the sector
- Most LAs are using mid-sized companies, not the biggest in the sector, so they have some leverage – they just need to use it
- But the complexity of the task and the skills required may mean that LAs will find it very difficult - if not impossible - to achieve results on a widespread basis



Key findings and recommendations

- **There is case for adoption of radical change model across the sector**
 - There may be big benefits in the adoption of a collaborative strategic e-procurement model, along the lines of GMProcure
 - This kind of model of sophisticated and properly managed spend aggregation would address some of the requirements of the large contractors for continuity of work, programme smoothing and visibility of supply chain demand
 - It would also cope with the sustainability issues: use of local suppliers and training of a local workforce
 - This could ultimately lead to a win-win for all parties