

North Wales Construction Framework (NWCF)

Future of the Framework

Business Case for the renewal of the North Wales Collaborative Construction Framework

May, 2017

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INTRODUCTION

This paper presents the achievements of the existing collaborative construction framework with options of how we propose to renew the framework for the next strand of construction projects across North Wales. The paper presents the outline procurement strategy together with the resources required to fund and manage any new arrangements.

PART 1 – EXISTING FRAMEWORK

BACKGROUND

The NWCF is the first generation of Collaborative Frameworks in the region. It was instigated by the Welsh Government to aid the delivery of the 21st Century Schools Programme in North Wales and was collaboratively developed by the 6 North Wales Local Authorities (NWLA) lead by Denbighshire and Flintshire.

The NWCF is was established to deliver value for money and the benefits associated with a long term collaborative relationship. We undertook a unique approach of early engagement with clients, contractors and construction bodies via workshops that helped us to define its structure.

It was been built on an ethos of openness, transparency and flexibility achieved by continuous communication and engagement with stakeholders through our Forums and special interest groups (SIGs) These have been invaluable in ensuring that common processes and tools have been established and implemented across the framework for the benefit of the individual projects and ultimately the clients. The SIGs enable us to improve de understanding and delivery of Building Information Management (BIM), Community Benefits, Collaboration and Standardisation.

Outcomes from the SIGs include:

- Building an environment that facilitates Trust culminating in an open transparent relationship
- Delivery of Targeted Community Benefits and Social Value
- Upskilling of Clients and their regional Supply Chains,
- A better understanding of BIM processes and the development of tailored Employers Information Requirements.
- Fair payment practices form part of the framework to ensure that the supply chain members are also paid in line with these practices.
- Test new initiatives in the region and disseminate lessons learned such as Project Bank Accounts
- Performance and achievements are monitored through an established set of KPIs across the Framework projects which are regularly reviewed with the aim of improved performance.
- Case studies are part of the process of sharing good practice and knowledge.
- The Early Contractor Involvement, two stage procurement and the use of collaborative forms of contact (including NEC Option C), are actively promoted.

Current Framework lotting strategy

| Lot | Project value bands | Contractors on the NWCF1 | Type of Works |
|-----|---------------------|---|--|
| 1 | £4.348m > £7.5m | Wynne Construction Kier Construction Balfour Beatty Galliford Try Read Construction | <ul style="list-style-type: none"> • new build • re-modelling • refurbishments The above may potentially include (but not be limited to): <ul style="list-style-type: none"> • listed buildings • external works • contract design (design and build) • other construction works (e.g. structural work, asbestos removal, demolition, modular / volumetric construction etc.) |
| 2 | £7.5 > £15m | Wynne Construction Kier Construction Balfour Beatty Galliford Try Willmott Dixon | |
| 3 | £15m+ | Kier Construction Balfour Beatty Galliford Try | |

Impact of the existing framework

The Framework has significant impact on the way major projects are procured in North Wales, reducing the cost and time of the procurement exercise and introducing a more collaborative way of working with the private sector resulting in a less adverse relationship.

The framework’s biggest impact is on the delivery of Community Benefits, Targeted Recruitment and Training (TR&T), Supply Chain development and management of the environmental impact, delivering in line or above industry standard in each individual project.

It has also played a major role on the development of the Building Information Management (BIM) understanding. Through the Framework some of the first projects using BIM level 2 were delivered in the region creating a culture planning for the lifecycle of the building and supporting with the upskilling and integration of the supply chain in the region.

All of the above working practices are embedded within the Framework working processes

ACHIEVEMENTS

The existing Framework has delivered to Dec 2016 a number of benefits as below

- Over 900 hrs work experience
- 9 graduates recruited
- 320 NVQ/Apprenticeship weeks
- 17 permanent new jobs created for unemployed people
- Engagement events reaching over 4000 pupils

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- 35 events to upskill the supply chain
- 70 Community Engagement Events – 900 stakeholder attendees
- 3 local SMS's have reported that they have grown on the back of projects procured through the Framework
- The contractors who have delivered works confirm that the programme has both created and sustained employment both directly and indirectly
- 80% of the supply chain comes from within 30 miles radius on average
- 4 Case studies have been developed to date
- Recognised with awards as a framework and for projects.
- 2 of the NWCF1 projects have achieved “exemplar” status
- Standardisation of Employer Information Requirements for BIM in the region
- 2 (30 persons) cohorts of the Princess Trust Community Programme are planned to give work placement to individuals “Not in Employment Education or Training (NEET)”
- Cultural change to a partnership approach to delivering construction projects
- 2 Regional meet the buyer event – with over 150 SME suppliers in attendance
- 2 additional events to engage with the smaller supply chain through the Contractors and Sub consultants are planned for June.
- Training hours exceeding 1000 hours
- The framework hosts a Construction skills Academy on behalf of the LA customers and stakeholders.
- At least 98% of waste is being diverted from landfill on each project

Awards

- Winner of the Integration and Collaborative Working Award from CEW
- Finalist for Integration and Collaborative Working Award from CE (UK)
- Framework exemplar project wins national BIM award 2016

Income and Savings

- Income generation of £24,000 to offset against the Framework management cost for attracting new clients to use the Framework.
- Reduced cost to running the Framework from £90K estimated to £70K due to savings on marketing and Framework management team. NWCF2 will be seeking other fund avenues to deliver regional engagement and training.
- Free sharing portal provided by Read Construction as part of their collaborative programme.
- A competitive procurement process following a full EU procedure costs an average of £45,200 a significant reduction to this cost has been achieved by both clients and contractors by avoiding individual procurement.

Appendix 1 – ‘Organisations supporting the delivery of Community Benefits’

Appendix 1a – ‘Operation and Best Practice’

In order to realise the full benefits of having a regional Framework in place we joined the National Association of Construction Frameworks becoming the first welsh partner. This has enabled us to exchange knowledge with our counterparts nationally.

PART 2 – PROPOSAL GOING FORWARD

PROCUREMENT STRATEGY AND PROPOSED CHANGES

We proposed to reprocure a NWCF2 Framework applying the lessons learnt and addressing its shortcomings to improve its operation and delivery and enhance Value and increase beneficial outputs from the framework activities. For Denbighshire County Council to continue to be the lead authority and host the Framework Management Team.

See appendix 2 – ‘Initiation of Project for the Procurement of NWCF2’ for details.

The five options were considered were:

1. Let Framework expire and authorities to choose the way they want to move forward
 - a. LA have now acquired a consistent approach to delivering major projects, the expertise created will be lost, the use other options could be more costly and time consuming.
2. Renew the Framework exactly as it is now
 - a. We would fail to incorporate the lessons learned and improvements generated by the first iteration, however we will have more certainty on cost and use expertise acquired. It may not be sufficient to deliver the type of projects that the 21st Century School Programme Band B will require.
3. Let another authority take the lead
 - a. Willingness of another LA to take the Lead against backdrop of efficiency savings.
4. Consider the National Procurement Service (NPS)
 - a. NPS may be looking at setting up a major projects national Framework
 - b. Timeline is unknown. This option would impact on local SME involvement at a Tier 1 level.
5. Tap into other existing Frameworks
 - a. Cost and locality agenda may not be met, we wouldn't have control over the mini tender process and management of the Framework. Inconsistent CB and SVA activity and not aligned to WG policy and drivers.

High Level Strategy of NWCF2

A Collaborative and integrated framework, building on the foundations of a successful NWCF 1 harvesting benefits and savings from use of technology, improved processes, collaborative working, supply savings and efficiencies through fairness, transparency and competitive collaboration on projects.

- Maximising local community impact through SME engagement and intelligent quality based selection and clearly defined targets and benchmarked performance.
- A strong commitment to supporting and developing the local supply chain through training and best practice sharing

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- Finding market gaps and encouraging companies to backfill those gaps.
- Working alongside supporting agencies and education establishments providing avenues for training, development and directing them to funding available to upskill Local SMEs
- We will align our outputs to the Well Being of Future Generations Act measuring the Framework and project performance in line with the Act.
- Fair payment practices are and will continue to be built into the Framework as well as the commitment to train and develop future generations and promoting sustainable development.

We are committed to exceeding the performance and outputs from NWCF1, with enhanced value for the Customers, Stakeholders and communities.

Being the “go to” procurement solution for public bodies in north Wales.

Project Pipeline

Whilst the exact detail of the anticipated spend is unconfirmed, Government spend projections and extrapolation of the performance of the NWCF1 indicate that a likely spend of some £400m is anticipated.

Partners such as Glyndwr University and Coleg Cambria have confirmed a potential pipeline of over £70m Adjusting for growth from the planned Business Development activity the OJEU will be issued with a ceiling value of £550m to £600m.

Proposed Changes

Tender

- Use a restricted procedure to undertake the procurement exercise
 - Two stage tender process (PQQ followed by ITT).
 - Improve the evaluation mechanism to speed to which the Framework is evaluated and encourage SME to bid for it.
- Simplifying the tender documents and rationalise the quality questions (tailored set of questions for lower value bands proportional to the value)
- Proposed lotting strategy agreed by Operational Management Board (this may alter when Band B projects are known)
- To include projects below the OJEU threshold from £250K
 - give smaller local contractors the opportunity to be part of the Framework
 - reduce the time it takes to appoint a contractor to a major project
 - split smaller lots in regions to increase opportunities to local SMEs
- Consider having contractors on a reserved list
 - With a busy market in the region give us the opportunity to ensure we always have a minimum number of bids
 - Gives companies that were close to the mark the opportunity to be part of the Framework Need to check the legalities of operating a reserve list in the event of continued failure of contractors to submit bids or in the event of withdrawal.
 - Ensure a minimum number of bids in each mini tender taking into account the conditions of the market.

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- Consider an effective strategy to manage this set of contractors to keep them engaged for four years.
- Price / Quality Split during mini competitions should be at the discretion of the authority within the established range and in accordance with their individual CPR’s initial proposal is 70/30 to 30/70 Q/P range.
- Aggregation – we need a mechanism to limit the number of projects that any one supplier can win i.e. no more than 3 times the maximum limit of the lot, for example, Lot 3 max number of project up to a total value of £7.5m (£2.5m x 3). (Need to check the legalities of doing this).
 - Help limit LA exposure by not appointing one contractor to too many projects.
- Restrictions – We will use the principles of restriction to ensure,
 - Have a more balanced spread of projects between contractors to limit LA exposure.
 - Keep contractors interested in the Framework and encourage competition
 - Increase the number of contractors bidding in the Framework as they can concentrate on the lots that they are genuinely interested on.
- Pricing – consideration to the detail of the pricing documents. Direct call off unlikely therefore do we need a detailed Bill of Quantities
 - Avoid asking information that we will not use.
 - Use average pricing methodology
- Monitor contractor performance regularly through a set of relevant KPIs, using the knowledge acquired on NWCF1 to inform targets.
- Two sets of ITT one for lower value lots and another one for higher value lots
 - Ensuring that the financial criteria on which contractors are evaluated is proportional to the value of the works and lot that they are applying for.

Table 1 Suggested Lotting Strategy

| | Value Bands | | | | | Number of Contractors per Lot |
|----------|-------------|-------------|---------------|--------------|-----------|-------------------------------|
| | £250k > £1m | £1m > £2.5m | £2.5m > £5.5m | £5.5m > £10m | Over £10m | |
| West | Lot 1 | | | | | 10 |
| East | Lot 2 | | | | | 10 |
| Regional | | Lot 3 | | | | 10 |
| Regional | | | Lot 4 | | | 6 |
| Regional | | | | Lot 5 | | 6 |
| Regional | | | | | Lot 6 | 4 |

There we will have a minimum of 16 and up to 46 contractors in NWCF2, a well-resourced Framework management team is paramount to its success.

In comparison NWCF1 has 6 contractors over three lots.

Framework Operation

- Governance – simplify governance arrangements and decision making
 - Opting for a Client Management Board with co-opt appointed members with particular expertise as when required (*similar to company board of directors with non-executive members requires shared sense of purpose and commitment from all involved*)
 - Simplified terms of reference with clear accountability matrix.
 - Reduction in the number of meetings with the decision making process more concise.
 - Targeted themes for improvement to be delivered through SIG's

- Mini Tender competitions
 - Standardise further the mini tender competitions set core questions
 - Q/P split

- Actively Marketing and promotion of the Framework
 - Establish a clause within the Framework agreement where the Contractors will bring work to the Framework.
 - Framework Contractors to support financially the establishment of a dynamic KPI tool
 - Get new clients for the Framework to become self-sustaining.

RESOURCES AND FUNDING

Framework Management Team

1 Framework Manager

1 Innovation and Development Manager

1 Administration Assistant

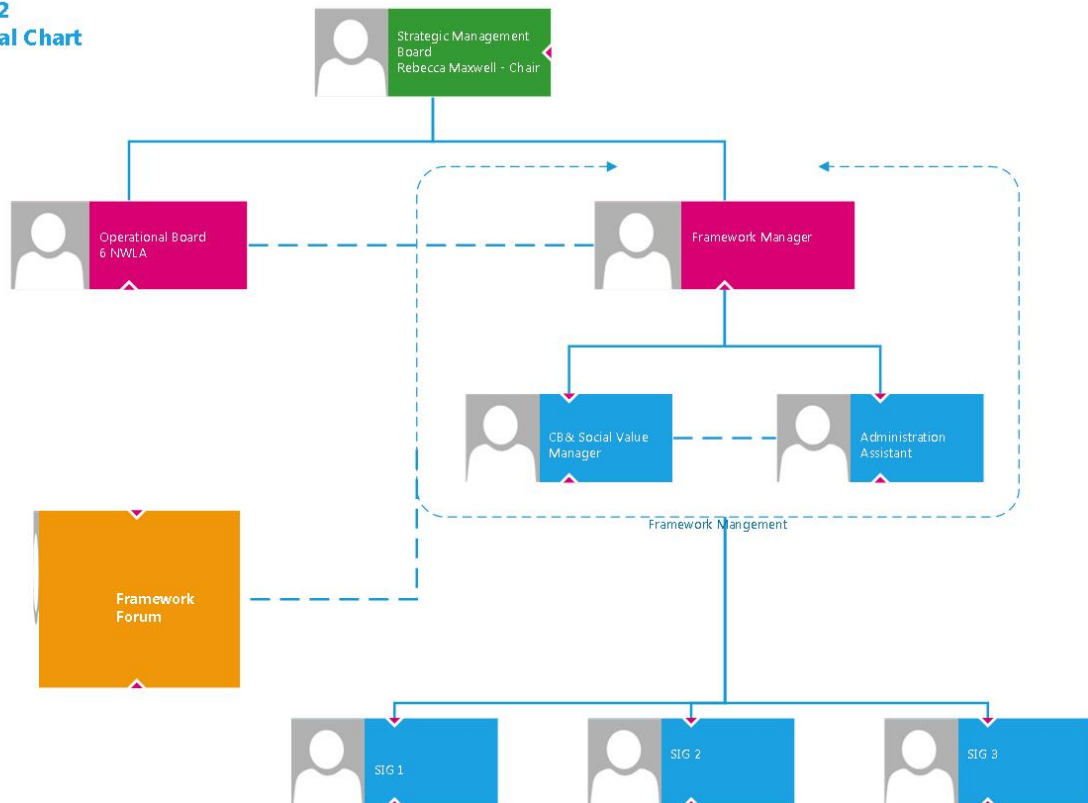
The **Innovation and Development Manager** is a new post created to continue developing best practice at Framework level and disseminating them across the six authorities some of the themes this post will be developing are

- Support incorporating Supplier Past Performance in Construction Contracts
- Implementing Practices against Modern Day Slavery
- Promoting Life cycle costing
- Fair payment
- Contract Management
- Feedback on the Financing Models in Construction (Mutual Investment Model)??
- And other initiatives as needed.

This post is paramount to the success of the above initiatives and the overall management of the increased number of contractors in the Framework and the increase volume of potential work procured through it.

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NWCF2 Organisational Chart



FUNDING

The funding arrangements will change under the new framework arrangements. Under the existing framework, each partner authority contributes £15,000 per annum to support the framework management costs, with additional income generated from a framework access fee paid by other public sector organisations who use the framework.

Partner Authorities and Contractors

Under the new framework, contractors on the framework will pay a fee per project won on the basis of the rates detailed in the tables below.

It is also proposed that each partner authority will continue to allocate £15,000 per annum, payable at the end of the financial year for the year just gone.

Fee rate for partner local authorities

| LOT | Fee |
|-----|----------------------------------|
| 1 | 0.35% |
| 2 | 0.35% |
| 3 | 0.25% |
| 4 | 0.15% |
| 5 | 0.12% |
| 6 | 0.10% Up to £15m 0.08% £15m + |

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The income derived through this mechanism in a financial year will be allocated on an equal basis between the six partner authorities, and this sum deducted from the £15,000 annual contribution (i.e. each authority will be invoiced for £15,000 less their share of the income derived from the framework). The decision on the use or reallocation of any surplus income in the situation where the full £15,000 per authority has been recovered in a financial year will be subject to decision by the Strategic Management Board.

Over time the income generated should significantly reduce or even remove the requirement for the annual £15,000 contribution, but to ensure continuity between the new and old framework arrangements and to guarantee that the framework management costs can continue to be supported throughout the lifetime of the framework, the annual contribution will remain a requirement for partner authorities (subject to the “refund” arrangements detailed in the preceding paragraph).

Non-Partner public sector organisations

In the case where other non-partner public sector organisations access the framework, the following charging rate will apply:

Fee rate for non-partner public sector organisations

| LOT | Fee |
|-----|----------------------------------|
| 1 | 0.40% |
| 2 | 0.40% |
| 3 | 0.30% |
| 4 | 0.20% |
| 5 | 0.15% |
| 6 | 0.12% Up to £15m 0.10% £15m + |

Unlike the partner authorities, the non-partner organisation will not be required to contribute t £15,000 per annum, but equally will not be entitled to any future share of the income.

General arrangements

For both partner and non-partner organisations, the fee for a programme of work which is subject of a single client mini competition will be based on the aggregated programme value and not on the separate project values. If the programme of work is split into separate contractual arrangements for each project within it then the charge will be based on the relevant fee applicable to each project within that programme, and payable as soon as any contractual arrangement (including a pre-construction contract) is entered into for a project.

In all circumstances, in the event of a project stopping at the pre-construction contract (i.e. not progressing into a building contract) NWCH can recover the fee based on the value of a pre-construction contract on the basis of the fees set out below:

Fee rate for pre-construction charging

| Value (£) of the Pre Construction | Fee |
|-----------------------------------|-----|
|-----------------------------------|-----|

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| Contract | |
|-------------|-------|
| 1 - 250K | 0.70% |
| 251K - 500K | 0.60% |

This funding mechanism will fully resource the team to provide Framework management and support to meet the needs of the current strategy. This model will enable NWCF2 to operate efficiently and will make provisions to set up new procurement vehicles at the end of the cycle.

Forecast income

On the basis of the charges detailed above the following income is forecast for NWCF2 (as of May 2017):

| Potential work subject to BC approval | Income Average charge of 0.12% of Construction Cost |
|--|--|
| NWLA | |
| <u>21st C school programme</u> | |
| £70m x 6 = £420m (Full programme) | £504K |
| £45m x 6 = £210m (Part programme) | £252K |
| Glyndwr University | |
| Project 1 £5m Project 2 £5m Project 3 £20m | £36K |
| Sub-Total £30m | |
| Coleg Cambria | |
| project 1 £12.0m project 2 £4.2m project 3 £5.2m project 4 £4.8m project 5 £1.6m project 6 £6.2m project 7 £3.85m project 8 £3.5m | £50K |
| Sub-Total £41.35m | |
| Part Programme total £252.35m | £338K |
| Full Programme total £481.35m | £590K |

Additional projects identified and using the framework over its lifetime will increase income.

Costs and resource of the Framework management structure

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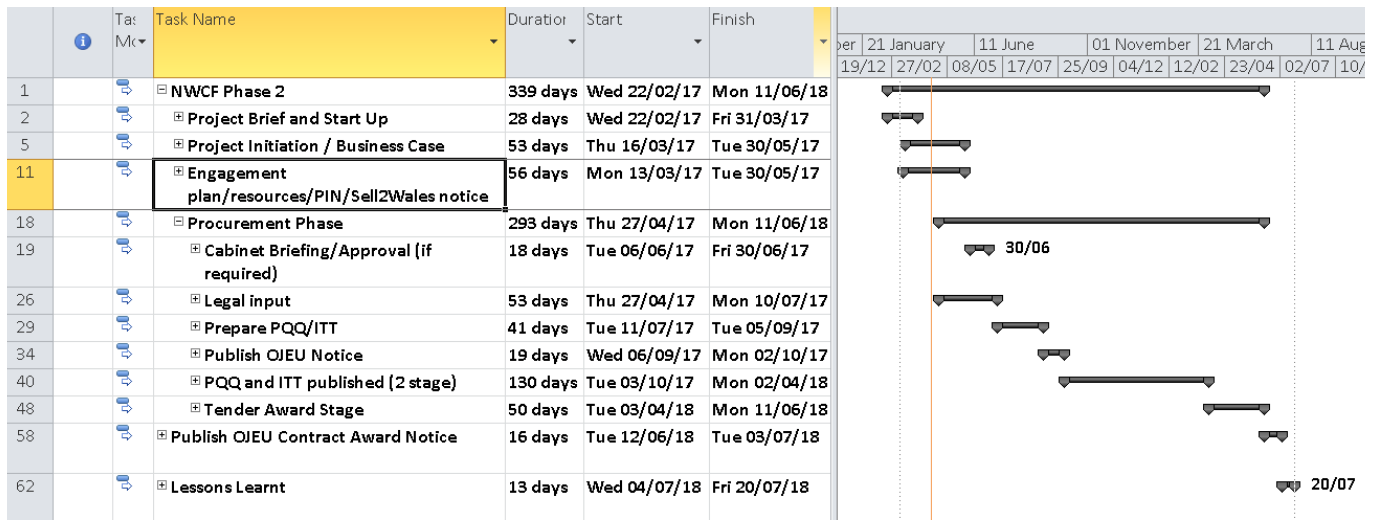
The new Framework will be twice the size in value than the current Framework, the number of individual projects using will significantly increase and the number of contractors involved could be up to 46 contractors with a minimum of 16.

The below proposal seeks to ensure that the Framework is resourced adequately to manage the significant increase in the volume of works.

| Core Structure | Annual Cost |
|---|--------------------|
| Framework Manager | £57,000.00 |
| Part fund - Innovation and Development Manager | £33,000.00 |
| | |
| Sub total | £90,000.00 |
| | |
| Funded by Framework Income | |
| Part fund - Innovation and Development Manager | £13,000.00 |
| Admin Support | £16,000.00 |
| Travel expenses | £ 3,000.00 |
| Events and Marketing (request contribution from contractors when tendering the Framework) | £ 3,000.00 |
| KPI tool (to be funded by the contractors) | £ 5,000.00 |
| Allocation for setting up next Framework | £20,000.00 |
| | |
| Sub total | £60,000.00 |
| | |
| TOTAL | £150,000.00 |

PART 3 – DELIVERY ARRANGEMENTS

TIMESCALE FOR DELIVERING NWCF2



COST FOR DELIVERING NWCF2

| Cost of delivering the 2nd Phase of NWCF | | |
|--|----------------|---|
| Area | Fees | Detail |
| Project Management | £20,000 | PM support one day extra a week (arrange reviews with OMB, chair/organise supply chain and potential clients engagement meetings, ensure information is on time for approval, cabinets, etc.) |
| Construction Advice | £10,000 | External procurement advice on Framework specific matters. |
| Procurement | £30,000 | OJEU and PID notices, review of PQQ&ITT documentation, advice and review of the tender returns |
| Legal | £25,000 | Preparation of legal documents Framework agreement, IAA, etc. |
| Events +Engament | £2,000 | Events, engagement with supply chain |
| TOTAL | £87,000 | Capped |

| Cost of managing the current NWCF | | |
|-----------------------------------|----------------|--|
| Cost of Framework Mgt 2017-18 | £3,686 | As per 160727 construction Framework Cash Flow 2016-17 plus £1200 PT and LGA |
| Cost of Framework Mgt 2016-18 | £72,703 | As per 160727 construction Framework Cash Flow 2016-17 |
| TOTAL | £76,389 | |

| TOTAL Cost delivering both | | |
|------------------------------|-----------------|--|
| Cost of Framework Management | £76,389 | As per 160727 construction Framework Cash Flow 2016-17 |
| Cost of 2nd Phase | £87,000 | |
| Total Cost | £163,389 | |

| Billing Proposal | | |
|----------------------------|---------|---|
| Total Cost per LA 2016 -17 | £13,616 | The cost of setting up the new Framework and Managing the Current one is included within the agreed contribution from LA in the Inter Authority Agreement and not in addition to. |
| Total Cost per LA 2017 -18 | £13,616 | |

PROJECT MANAGEMENT ARRANGEMENTS

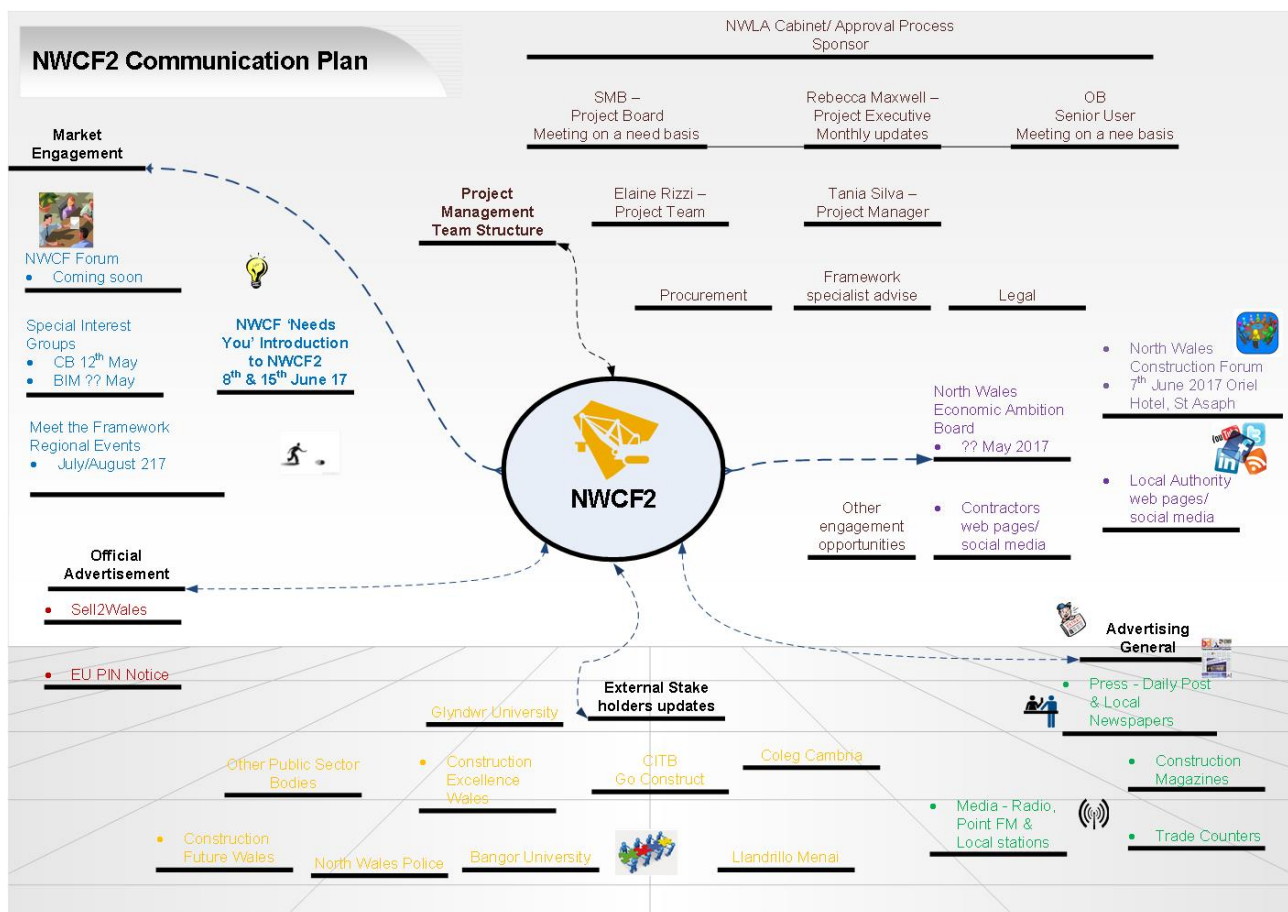
Appendix 1

The delivery of the new Framework Agreement will be managed by the Framework management team this will be the best way to ensure that the lessons learned are applied appropriately to the next reiteration. The FM team will project manage the delivery of the new Framework and continue to managing current Frameworks.

Additional support and review of the JD's is required.

- 50% Framework Manager will be dedicated to project manage the new Framework
- Framework support time will increase and take on some of the Framework Management role continuing giving support to the current Frameworks.
- Additional support is needed for administrative tasks such as booking rooms arranging meetings, raising orders, etc.
- External advice may be required at pre procurement stage and/or during implementation

Communication Plan



RISKS

Appendix 1

The second reiteration North Wales Construction Framework will be different in size and value. The landscape of the programme of works will change (refurbishments & extension projects) and proposed sub OJEU lots ranging from £250k to OJEU (currently £4.22m) and potentially reviewing the geographical split of the lots below OJEU.

No clarity on the value of Band B, percentage contribution from WG or the impact of benchmark costs.

Unless changes are properly controlled, the time, cost and quality goals of the framework may never be achieved and our customer NWLA may not maximise their demonstrable delivery to Policy drivers such as, Social Value act, Well being agenda, BIM and delivering the Wales we Want.

- Welsh Government not funding projects, higher percentage claw back on grant conditions of those funded
- IAA not agreed by the 6 North Wales Local Authorities. (Governance structure, roles & responsibilities, accountability)
- Framework not being used by other public bodies
- Partners not commissioning due to economic climate
- Contractors not tendering for work
- Legal challenges on setting up next generation framework from Contractors as to procurement process followed
- Legal challenge from unsuccessful contractors
- Continuous improvement not meeting expectations due to number of contractors on lots and driving efficiencies
- Not achieving Value for Money
- Failure to measure & incorporate social value (community benefits) into framework commissioning & procurement processes
- Framework Management not properly resourced
- Clients and Contractors not fully engaged in Framework ethos
- Lack of practical application of Whole Life Cost (WLC) & Life Cycle Cost (LCC) into framework projects
- Lack of standard approach to construction procurement
- Increased framework management due to revised lotting arrangements and number of contractors involved

NWCF2 builds on NWCF1 successes and allows us to develop a more sustainable model into the future whilst reducing costs and driving value.

NWCF2 will embed lessons learned from NWCF1 and provide a collaborative vehicle harvesting benefits of scale and integration, whilst enabling local Customer aspirations and policies. The framework provides a vehicle to work in an All Together better way – reducing duplication and enabling common standards to be applied and efficiencies to be harvested.

The increased phasing in off user charging will reduce the framework cost to the stakeholders and enhance the value for the Client led activity whilst protecting the obligations attaching to transparent competitive procurement.

RECOMMENDATION

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To establish a new collaborative framework that considers the proposed changes highlighted in Part 2 which will be funded by a contribution of £15k from each of the six authorities with any remaining costs to be funded via the contractor percentage payment mechanism presented in Part 2 (b). The cost of setting up the framework has been covered by the final year subscription of the 6 Local Authorities, with the annual running cost of the framework estimated at £150k per annum. Any shortcomings would need to be underwritten by the collective Authorities