



Collaborative Procurement



**CONSTRUCTING
EXCELLENCE**
in the built environment

Foreword



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In 2007, the core members of Constructing Excellence carried out a review of futures reports to decide on priorities for new guidance for our members who remain committed to a collaborative future. Six themes emerged and task groups were established to review existing material and produce a guide to help members stay one step ahead:

- Collaborative Procurement
- Collaborative cost reduction
- Collaborative design management
- Whole life costing and facilities management
- Environmental sustainability
- Better ways of working

This guide was produced by a task group of members and others, all of whom committed time and resources to support this work, they are duly acknowledged at the end of this publication. It was also peer reviewed at meetings of the full membership to ensure maximum relevance and coherence as a set of publications.

We welcome feedback on all our publications at any time, please contact us at the address shown on the back cover.

A handwritten signature in dark ink, consisting of the letters 'V', 'B', and a stylized flourish that ends in a period.

1. Introduction

As clients, contractors, suppliers and consultants all come under ever-increasing pressure to deliver construction-based works and services more efficiently and effectively, so the drive to eliminate waste, and duplication intensifies.

This cost and value for money pressure is compounded by the fact that financial and people resources become ever more difficult to obtain, and retain. This is now driving the need for clients both in the public and private sectors to identify new ways of ensuring that their short and long term strategic objectives can be achieved.

Much has already been achieved within the industry over the last decade, in part driven by the Rethinking Construction agenda, which has seen a real drive to closer working relationships throughout the supply chain. Many clients are now partnering and using forms of contract that encourage team working, greater certainty of cost and time, dispute resolution processes together with robust schemes of performance measurement that are linked to financial schemes which reward cost reduction, continuous improvement and innovation.

The result of the successes achieved has shown that the industry achieves higher levels of success when teams 'work together', whether it be for a single contract or more importantly over a longer period where a guaranteed flow of work can be guaranteed, as with framework arrangements. These success stories are now well documented within the industry and are acting as drivers for clients in embracing Collaborative Procurement to varying levels.

Collaborative Procurement itself has within the public sector already managed to deliver considerable financial savings, improved working practices and allowed the realisation of cashable savings that have provided much needed financial resources for improving public services or works.

Most of the savings achieved have been realised through the success by the Office of Government Commerce's (OGC) 'e-buying solutions'. Since its launch in 2000 it has played a key role in achieving in excess of £8bn of efficiency savings from public procurement. However these savings tend to relate to the purchase of general goods and services and do not relate to the annual £40bn construction spend in the UK by the public sector. The Treasury has now increased the powers of the OGC to drive through its policies even further across all public

sector departments, with spend on construction to become an increasing focus.

With the current efficiency targets set by central government to all departments, both centrally and locally, clients need to consider the adoption of best practice that will deliver the targets. Current guidance from the OGC and other government agencies actively promotes clients and the industry in general to take up the challenge of Collaborative Procurement to realise the proven benefits that exist where clients and supply chain organisations have adopted this approach.

This sets a challenge to all clients within the industry to deliver significant cost savings through demand aggregation that gives due consideration to shared expertise, knowledge and information, improved planning and improved ways of working. True cost savings can be achieved in advance of any works being completed through the optimisation of available resources where the duplication of effort is minimised.

The authors of this guidance document on Collaborative Procurement have identified the key forms of collaboration that are currently taking place within the industry, which are delivering real efficiencies and cashable savings.

The guide seeks to create awareness of the options that exist for collaboration within the industry, irrespective of the market sector or organisation, and to assist in the initiation of a programme of collaboration, highlighting the key issues for consideration.

*Rethinking Construction challenged the industry
"..to commit itself to change, so that, working
together, we can create a modern industry...."*

*By extending collaborative working to encompass
Collaborative Procurement we believe that both
clients and industry can achieve efficiencies and
financial benefits beyond those envisaged within
Rethinking Construction.*

2. Evolution of Collaborative Procurement

Collaborative working or Collaborative Procurement is not new to the UK industry but within the construction industry nothing much has changed for around a hundred years or so from the system used in the 19th century where the architectural and engineering professions led the procurement process. This was the “traditional” system, where the designer led the procurement and the contractor responded to decisions in the field.

This traditional system recognised reimbursable forms of procurement and became the fore runners to the government forms and the GC Works forms.

It was not until the mid 1970s that the US system of construction management started to be considered on larger process industry projects and more generally became the vogue in the mid 1980s.

JCT modernised the out of date JCT 63 Form and introduced the role of the contract administrator and management duties in the employer designed form.

Design and Build models evolved by the late 1980s and what was originally, intended to be for simple forms of procurement, actually matured into various design, build and management systems. This was followed by guaranteed maximum price options, where visibility of package procurement was maintained under a ceiling price. Also, a plethora of warranties and novation arrangements evolved to transfer the design risk whilst at the same time maintaining employer controls of the design.

In the early 1990s the construction industry suffered from a claims culture and ultimately the government intervened with industry reports by Latham, Egan and ultimately legislation to control commercial behaviour.

A modern form of procurement emerged with the industry moving into partnering and the new NEC suite which promoted active risk management and better relationships.

Opportunity-based framework agreements were also created to facilitate serial procurement with the same suppliers. At the same time design and build moved into a new generation responding to fiscal constraints and government measures with the PFI procurement bringing about consortia and JV vehicles responsible for build and

operate. More recently, second and third generation partnering have moved towards delivery-based agreements rather than call-off arrangements.

Alliances and integrated teams started to attract supply chain management with the first standard form in PPC 2000. Additionally, thereafter ICE and JCT modernised to reflect the proactive management function, reflected in some NEC mechanisms coinciding with the government endorsement of the NEC itself. On larger projects and programs of work, there was increased recognition that clients needed to augment their own management and create a programme management office, without transferring financial risk. The buoyant economic climate also saw the straining of two-stage negotiated appointments and the closing of deals under PFI arrangements.

Generally, history has seen a shift towards the role of management distinct from design and the client role.

Procurement is now more complex with various procurement routes depending on the client, the scale and the sector, the stage of maturity and their attitude to risk. We are now at a stage where learning has developed the industry choices and the appropriate risk model with clients in or out of the supply chain.

Relationships must now create value, improvement, alignment and the most cost effective solution.

Certainly frameworks are here to stay and meaningful relationships will start to build more connectivity around workload and capacity, and financial reward linked to performance. Risk and margins may tighten with the credit crunch and clients will need to be properly advised by consultants conversant with the various methods to enable clients to make informed choices.

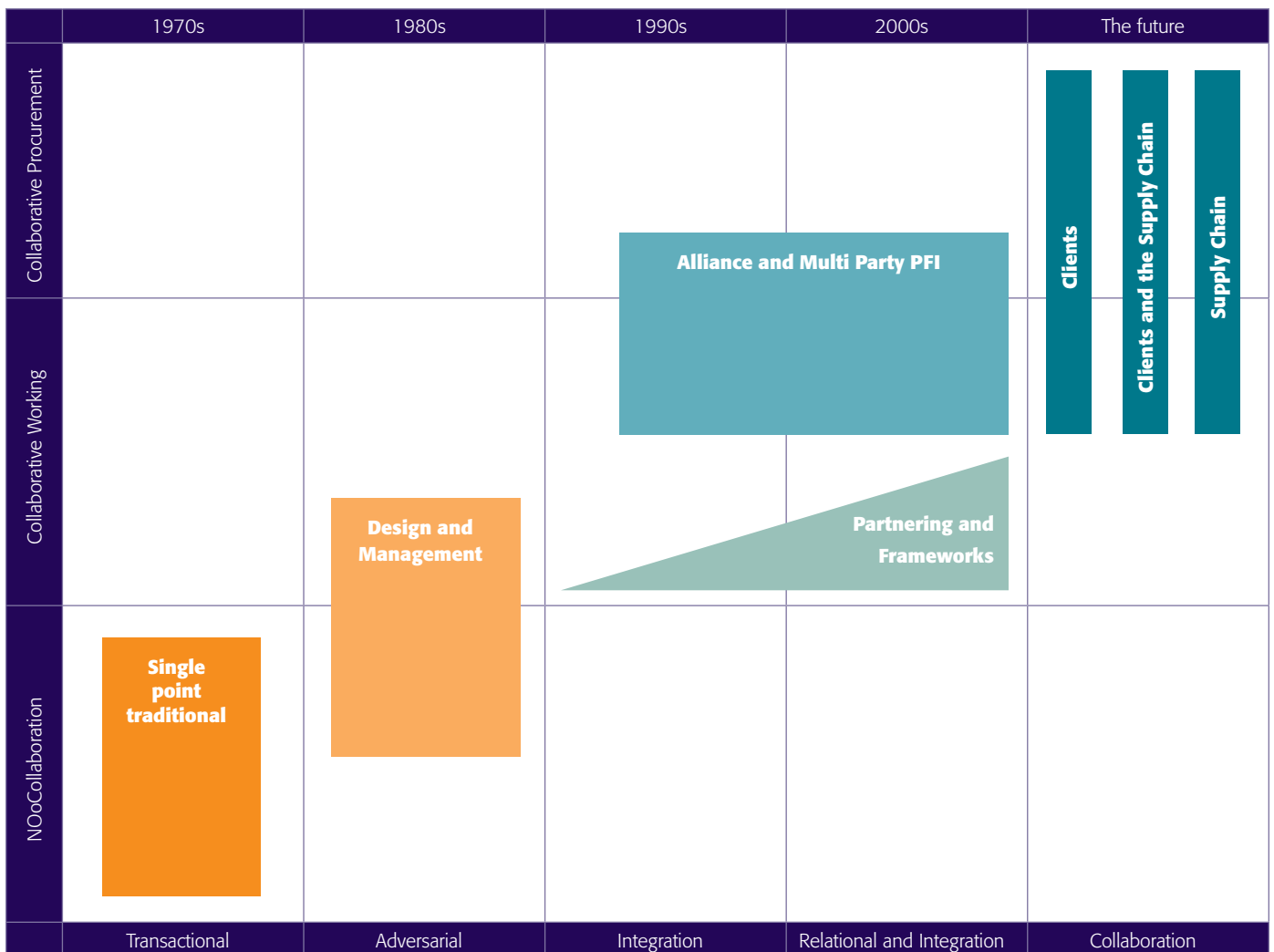
The take up within the construction industry has historically been met with scepticism and reluctance to undertake change that breaks away from well-established work practices and procedures representative of lowest price and an adversarial approach to relationships. Honesty, openness and trust are relational attributes that represent a cultural change in the industry but can only be achieved through a programme of collaborative working.

However, since the publication of Sir Michael Latham's report *Constructing The Team* (1994) and the subsequent *Rethinking Construction* report from Sir John Egan (1998) there has been an ever-increasing move towards closer working relationships with the adoption of integrated teamworking, partnering and associated proactive management practices that create sustainable relationships, manage risk, eliminate duplication, stimulate continuous improvement and innovation that ultimately deliver cost and efficiency benefits.

For those clients and members of the supply chain that have already made significant progress towards the *Rethinking Construction* targets, they are now looking for new means by which to achieve efficiencies that can be delivered through the process of Collaborative Procurement.

EVOLUTION OF PROCUREMENT

The chart below provides a simple overview on how procurement of construction contracts has evolved over the course of the last three decades, representing a gradual move towards more collaborative ways of working.



3. Definition of Collaborative Procurement

Frameworks

Framework arrangements are now widely operated within the public sector with variable levels of success.

Benefits of a Framework

- Frameworks establish longer term working arrangements between clients and contractors and/or consultants with the potential to improve value for money through lessons learnt
- Greater levels of investment from contractors due to potentially increased workload within defined work areas and/or locations.
- Greater level of involvement of the supply chain bringing benefits to the design and delivery processes.
- Improvements in cost, time and innovation.

Difficulties or disadvantages of Frameworks

- Requires a greater level of staff input and management of the framework if the benefits are to be realised.
- Can only operate for 4 years under the EU regulations for public sector contracts, which restricts potential to realise ongoing continuous improvement.
- Contractors do not achieve the certainty in turnover anticipated and lose interest.
- Can exclude local SME businesses that utilise local resources

What next?

The Collaborative Procurement of Frameworks

The potential exists for the establishment of Collaborative Procurement of frameworks by local clients that will allow for:

- Work programmes to be aggregated that would give the greater certainty of work that contractors or consultants seek
- Development of common standards
- Elimination of duplicated processes
- One procurement team
- Reduced shared tender costs

The term 'Collaborative Procurement' can mean something very different to both individuals and organisations depending on experiences and knowledge gained.

From our own research it is considered that confusion exists between the terms 'Collaborative Working' and 'Collaborative Procurement', which do have different characteristics, but can deliver similar objectives and benefits.

Given that this guidance is seeking to be applicable to all market sectors, plus all clients (buy side) and members of the supply chain (sell side) we have adopted a definition that can be applied to all, based upon the following principles:

Collaborative Procurement

Two or more organisations (buy side or sell side) that agree to work together having identified the benefits that can be achieved by aligning their purchasing power and resources to deliver financial savings, efficiencies and effectiveness without any detriment to the project(s) and/or service objectives.

It is the best use of procurement expertise and resources that eliminates duplicated effort. It should also lead to a collaborative working environment which brings about additional benefits not directly related to the procurement benefits.

Collaborative Working

Two or more organisations that work together in a collaborative team-based environment to deliver contract or service objectives efficiently and effectively that demonstrate value for money. This is reflective of the 'partnering' culture and associated processes that are now being widely adopted throughout the industry. Collaborative Procurement can be, and in many instances is, undertaken as part of a either new or existing collaborative relationships.

We therefore provide below a generic definition that captures the essence of the current markets as they exist:

"Collaborative Procurement is an effective way for more than one client, contractor, consultant or supplier to join together to procure works, services, materials or goods, share expertise, promote efficiency and deliver value for money savings in the delivery of a project (or series of projects) or service objectives."

The Collaborative Procurement markets

To apply such a definition across the construction industry as a whole requires consideration to be given to the different market sectors.

Essentially the construction industry has three potential market sectors where the drivers for Collaborative Procurement have distinct relationships and objectives, the market sectors are:

1. Client Collaboration (Buy Side)

Where two or more clients decide that benefits can be achieved by aligning their purchasing power and resources to deliver financial savings, efficiencies and effectiveness without any detriment to the contract or service objectives.

Where the client organisation is of a substantial size and has very different operating units, divisions, departments or subsidiary organisations, the first level of 'client collaboration' may well be collaboration across the wider organisational group where no centralised procurement group exists. It is not uncommon for local budget holders to protect their own perceived purchasing power when in reality real financial efficiencies and improvements could be achieved by a more 'joined-up' approach being adopted internally.

This market is already well established across the country with public sector clients for the purchase of general supplies of consumable products and general goods. This has been driven by the Office of Government Commerce (OGC) which was established in 2000 and up to the end of September 2006 had assisted government departments in achieving £13.3bn of annual efficiency gains, of which £5.5bn was attributed to procurement (See HM Treasury "Transforming Government Procurement" Report).

Further details on the OGC's procurement guidance can be found at: www.ogc.gov.uk/documents/CP0066AEGuide6.pdf.

Other examples of client collaboration are included within the case studies later in this document.

2. Client and Supply Chain Collaboration (Buy and Sell side)

This market is normally driven by the client with the objective of maximising savings and/or discounts achievable from volume buying, forward commitment of works, or framework arrangements that have the intent to allocate works, services or materials purchase.

This may occur between:

- Client and main contractors
- Client and specialist contractors
- Client and consultants
- Client and suppliers

3. Supply Chain Collaboration (Sell side)

This market has started to evolve over the last few years as contractors, specialist and suppliers awaken to the reality that by working together better contract solutions can be offered to clients with the achievement of improved value for money. To an extent a number of these arrangements have existed in the past where organisations have acted as consortia to provide a 'total service' to a client where no single organisation met the tender requirements.

Collaborative Procurement is a market opportunity for the supply side to join together to reduce costs and offer improved value for money to clients (the buy side), and with these objectives in mind the 'sell side' can in fact become the 'buy side'.

Where a member, or members, of the supply side enter into framework arrangements or forward purchase agreements with the buy side then consideration can be given to developing strategic collaborative relationships with other supply chain members with a view to improving their own collective purchasing power that could contribute to the overall value for money offering to the buy side and also to security of future workload.

Collaborative arrangements may occur between:

- Contractor and contractor
- Contractor and specialist contractor
- Contractor and suppliers
- Contractor and consultants
- Consultants and consultants
- Specialist contractor and specialist contractor
- Specialist contractor and supplier
- Supplier and supplier (to purchase raw materials or manufactured goods)

The Three Levels of Collaboration

	Examples	What is it?	Basic principles
Level 1 Collaboration	Partnering		
	Team based working	A structured management approach to facilitate collaborative teamworking and improved stakeholder involvement	<ul style="list-style-type: none"> ▪ Mutual objectives ▪ Openness and honesty leading to trust ▪ Problem resolution ▪ Risk and value management ▪ Better allocation of risk ▪ Improved certainty of time and cost ▪ Involvement of supply chain ▪ Zero defects ▪ Change of culture – no blame
	Frameworks		
	Strategic relationships	Longer term bespoke strategic contract to provide for allocation to one or more contractors, consultants or suppliers.	
	Consortia		
	Collaboration of supply chain organisations	Strategic agreement between organisations to tender for and deliver works and/or services; supply of materials	<ul style="list-style-type: none"> ▪ Organisations can make single offering to clients for contract or project delivery ▪ Single point or joint responsibility

Examples	What is it?	Basic principles
Strategic Partnering	Combination of the Level 1 collaboration of frameworks and partnering	As level 1 Partnering plus: <ul style="list-style-type: none"> ▪ Creation of sustainable relationships and change of culture ▪ Adoption of open book approach to costs. ▪ Introduction of schemes of incentivisation ▪ Pain/gain share scheme
Strategic Partnering / Alliancing	Partnering as Level 1 but reflects longer term client plus single party relationships	<ul style="list-style-type: none"> ▪ Shared objectives ▪ Increased commitment from client stakeholders ▪ Shared risks and rewards ▪ Co-location ▪ Open-book
	Outsourcing of operations and/or services to third party organisation, mainly applicable to public sector organisations	<ul style="list-style-type: none"> ▪ Long term performance driven contracts ▪ Focus on improved service delivery
	Framework style relationships between contractors and specialists	<ul style="list-style-type: none"> ▪ Arrangement typically led by the contractor to:: <ul style="list-style-type: none"> ▪ Reduce supply chain tendering process and costs ▪ Development of longer term relationships ▪ Development of pre-agreed costs and pricing schedules ▪ Offer clients an established integrated supply chain ▪ Improve design process ▪ Improve lead in times ▪ Secures availability of resources ▪ Improve certainty of performance, time and cost ▪ Reduce supply chain risks

Examples	What is it?	Basic principles
<p>Collaborative Client Procurement</p>	<p>Clients working collaboratively to procure works, services, materials or goods.</p>	<ul style="list-style-type: none"> ▪ Maximisation of value for money through collective buying power to secure lowest and/or consistent purchase costs ▪ Shared knowledge, expertise and experiences ▪ Improved certainty of delivery to time and cost ▪ Adoption of common values provides for improved standardisation and quality control ▪ Stimulus for supply chain investment in process and product improvement ▪ Improved supplier warranties ▪ Promotes development of best practice and improved process management ▪ Better match to market capacity ▪ Ability to influence the market to develop their capacity to meet the known demand ▪ Existing examples demonstrate significant procurement efficiencies and cashable financial savings
<p>Client and Supply Chain Collaboration</p> <ul style="list-style-type: none"> ▪ Client/contractor ▪ Client/consultant ▪ Client/specialist ▪ Client/supplier 	<p>Organisations working collaboratively to:</p> <ul style="list-style-type: none"> ▪ Create sustainable added value relationships ▪ Supply goods or professional services ▪ Design, manufacture and install specialist works 	<ul style="list-style-type: none"> ▪ Adoption of 'Partnering' principles ▪ Development of a culture of 'right first time' ▪ Agreed allocation of risks ▪ Improved design process ▪ Avoidance of a blame culture ▪ Reduction/elimination of defects ▪ Pooling of resources during peak times of demand ▪ Programme supplier capacity ▪ Elimination of financial disputes ▪ Joint training initiatives ▪ Share health and safety best practice ▪ Benchmarking performance ▪ Attractive to clients ▪ Improves industry image

	Examples	What is it?	Basic principles
	<p>Purchasing consortia</p>	<p>Buying Clubs</p>	<ul style="list-style-type: none"> ▪ Maximisation of value for money through collective buying power to secure lowest and/or consistent purchase costs ▪ Shared knowledge, expertise and experiences ▪ Improved certainty of delivery to time and cost ▪ Adoption of common values provides for improved standardisation and quality control ▪ Stimulus for supply chain investment in process and product improvement ▪ Improved supplier warranties ▪ Promotes development of best practice and improved process management ▪ Better match to market capacity ▪ Ability to influence the market to develop their capacity to meet the known demand ▪ Existing examples demonstrate significant procurement efficiencies and cashable financial savings

Quotations from Government and Clients on Collaboration

What the OGC say (1):

Collaborative Procurement – the collective purchase by several Departments or organisations of commonly used goods and services – is one of the most dynamic means by which we can free up public sector funds.

Transforming Government Procurement 2007

What the OGC say (2):

All of us in the public sector face the challenge of making scarce resources go further by achieving efficiency savings. With ambitious targets of £21.5 billion annual savings by 2008, including over £6.5 billion from local government, there is no doubt that the challenge is tough. For those of us involved in procurement, which is expected to make the single largest contribution to efficiency savings, the challenge is even more urgent.

The first step in meeting these challenges is collaboration. We need to work together to secure better deals, by aggregating demand where appropriate and competing more effectively in the marketplace.

What the ODPM had to say:

The strategic objective of collaboration is to obtain better value by bringing councils and other public bodies together at local, regional and national levels to combine their buying power and create shared services.

ODPM 2003 page 33

4. Benefits of Collaborative Procurement

Why collaborate?

Collaborative Procurement is an opportunity to work differently. It is about parties attaining success through coming together to procure works, services, materials or goods and through shared expertise achieving win-win relationships.

No single client has sufficient sustained workload to make change happen on a widescale or national basis. Collaborative Procurement can deliver efficiencies, improved working practices and real savings for both clients and the supply chain. It is the opportunity for multiple clients to procure a supply chain under one strategic umbrella.

Procuring collaboratively means organisations will need a different model for working together. The new model will bring about real benefits around People, Process, Product and Price through reviewing who does what; how the process is delivered; what is it that is being bought or sold and to what quality and standard; what is the price to buy or sell?



Benefits

The range or extent of benefits to be realised by any organisation undertaking a programme of Collaborative Procurement will depend on whether the process is being undertaken by a client or part of the supply chain.

The following sections indicate a sample range of benefits that can be realised and enables the reader to make their own assessment as to the benefits it is seeking to achieve by embarking on a path of Collaborative Procurement.

The tables also allow organisations to gain a perspective on the potential benefits to be achieved by other organisations that are being considered to work with collaboratively.

People

- Collaboration encourages the establishment and development of high-quality supply chains.
- All team members are encouraged to express their views up front and to contribute their core skills. In this way, through brainstorming sessions and open discussions, creative solutions can come to light early in the relationships.
- Working with the same team helps to further develop relationships, and as each party becomes more comfortable with each other, they produce better overall results. If the collaborators stay together on a long term basis, the process becomes more familiar, all parties know what to expect, and both the process and the end results can be continuously improved.

Benefits	Public sector clients	Private sector clients	Main contractors	Specialist contractors	Consultants	Suppliers	CE KPIs
Shared knowledge and experience	✓	✓	✓	✓	✓	✓	
Accelerated learning	✓	✓	✓	✓	✓	✓	
Greater 'team' satisfaction	✓	✓	✓	✓	✓	✓	
Improved project team relationships	✓	✓	✓	✓	✓	✓	
Development of trust	✓	✓	✓	✓	✓	✓	
Creation of sustainable relationships	✓	✓	✓	✓	✓	✓	

Process

- Collaboration provides a more integrated approach to delivering procurement solutions
- Collaborative Procurement encourages the sharing of risks and rewards.
- It also promotes the adoption of the most efficient procedures and processes.
- Considerable emphasis is placed on the elimination of duplication and waste, plus continuous improvement and benchmarking that when combined deliver ways of promoting long term performance improvement and improved value for money.

Benefits	Public sector clients	Private sector clients	Main contractors	Specialist contractors	Consultants	Suppliers	CE KPIs
Improved operational efficiencies	✓	✓	✓	✓	✓	✓	
Adoption of best practice	✓	✓	✓	✓	✓	✓	
Integrated supply chain	✓	✓	✓	✓	✓	✓	
Improved design processes			✓	✓	✓		
Reduction in project changes	✓	✓	✓	✓	✓		
Economies of scale – reduced repetitive processes	✓	✓	✓	✓	✓	✓	
Shorter time frames	✓	✓			▶		

Product

- Collaborative Procurement by members of the supply chain is the one that can delivery significant benefits to the 'Product' and the offering to clients.
- Collaboration encourages innovation and value engineering solutions; hence the team is more likely to refrain from incorporating design items that do not add value to the project.
- Stronger bids will result with improved buildability, cost savings and guarantees on delivery

Benefits	Public sector clients	Private sector clients	Main contractors	Specialist contractors	Consultants	Suppliers	CE KPIs
Improved investment opportunity				✓		✓	
Improved client satisfaction			✓	✓	✓	✓	
Improved buildability	✓	✓	✓	✓			
Improved certainty of future workload			✓	✓	✓	✓	
Certainty of future supply for specialist goods or materials	✓	✓					
Improved development opportunity	✓	✓					
Improved stronger bids – mature supply chain			✓	✓		✓	
Greater interest in innovative solutions			✓	✓	✓	✓	
Continuous improvement from lessons learnt	✓	✓	✓	✓			
Improved quality standards	✓	✓					
Improved reputation			✓	✓	✓	✓	

Price

- Price will always be the key driver for Collaborative Procurement for clients due to the commercial approach the supply chain will adopt to securing increased volumes of works, forward commitment and improved levels of standardisation.

Benefits	Public sector clients	Private sector clients	Main contractors	Specialist contractors	Consultants	Suppliers	CE KPIs
Lower design and build costs	✓	✓	✓	✓	✓	✓	
Improved profitability			✓	✓	✓	✓	
Volume discounts (greater buying power)	✓	✓	✓				
Reduced procurement costs	✓	✓					
Reduced bid costs							
Reduction in or elimination of disputes and claims	✓	✓	✓	✓	✓	✓	
Improved value for money	✓	✓					
Improved whole life costs	✓	✓					
Reduction in risks to budget (underspend or overspend)	✓	✓					

BENCHMARKING

Collaboration at a procurement level will allow comparative benchmarking that is otherwise difficult to assess both for clients and members of the supply chain.

At a client level Collaborative Procurement will allow benchmarking for performance on such items as:

- Specification standards and details
- Scope of works
- Levels of quality
- Capital investment strategy and asset management plans
- Time (projects)
- Client satisfaction
- In-house systems and processes
- Staff skills
- Bid costs
- Outturn costs of capital projects (% variance)
- Sustainability

For the supply chain Collaborative Procurement will allow benchmarking for performance on such items as:

- Time taken on design
- In-house systems and processes
- Bid costs
- Build and manufacture cost base
- Terms and Conditions
- Defects performance
- Specification
- Work methodologies
- Health and safety
- Completion predictability and accuracy
- Sustainability

Case studies

Getting started

By developing this guidance we have not attempted to produce a toolkit that covers all the market sectors to which Collaborative Procurement can apply, it should however allow organisations to consider some of the issues that will need to be face when embarking upon a path of Collaborative Procurement.

The Strategic Forum for Construction has developed a free 'Integration Toolkit' available at <http://www.strategicforum.org.uk/toolkit.shtml>, this toolkit offers clear guidance on:

- Development of an 'Integrated Supply Chain'
- Development of an 'Integrated Project Team'

This guidance can also be used by multiple clients considering the Collaborative Procurement of an integrated supply chain.

National Change Agent (NCA) - housing programme

The NCA was established by the government to work with all social housing landlords that wish to improve the procurement and deliver efficiencies of their capital works programmes. Further information can be found at: www.ncahousing.org.uk. Three case studies of the achievements to date are provided below.

Efficiency North (EN) Consortium	
Membership:	11 members; 6 Councils and 5 associated ALMOS
Stock under management	180,000 properties
Planned expenditure	£2,000m for Decent Homes refurbishment of kitchens, bathrooms, central heating installation, rewiring and roof repairs
Target Savings	Business Plan target of £58m savings on the original spend of £1,400m to 2010/11. (This is currently expected to rise to £72m).
Contracting arrangements	Each Landlord has let its own framework contracts using Tier 1 main contractors on a supply and fit basis
NE Collaborative Procurement Strategy	The consortium's focus is to lead and facilitate the membership in working together. The prime focus has been alignment of specifications, creation of materials sourcing frameworks, knowledge and process sharing, benchmarking models, creation of vocational training places through Construction JobMatch programme.
Savings and Benefits to date	£30m cashable savings achieved. 380 trainees recruited of which 107 trainees have achieved NVQ Level 2.

GM Procure Ltd	
Membership	12 RSLs and an ALMO spread across the NE region
Stock under management	171,000 homes
Planned Expenditure	£270m to 2009/10 for the Decent Homes refurbishment of kitchens, bathrooms, central heating, windows and doors replacement.
Target savings	Business Plan target of £78m savings by 2009/10. The target for the first year was 26% against the baseline costs.
Contracting arrangements	Joint framework contracts let and managed centrally by GMP with members providing client category management support.
GMP Collaborative Procurement Strategy	Direct supply chain management procurement model with separate materials supply and labour frameworks. Aggregation of members volumes for materials purchase and extensive use of local SMEs on the labour only Frameworks. Use of Valueworks IT platform as procurement integrator to manage the transactions centrally.
Savings and Benefits to date	In the first year 2006/07, GMP saved £4.04m or 29% against its baseline costs. Providing support in developing 2 local SMEs, business skills.

London Area Procurement Network (LAPN) Ltd	
Membership:	10 Greater London based ALMOS (Arms Length Management Organisations)
Stock under management	163,044 homes
Planned expenditure	£479m to 2010/11 for Decent Homes work and also servicing contracts (kitchens, bathrooms, windows, central heating, Asbestos removal, adaptations and gas servicing).
Target Savings	Business Plan target of £48m by 2010/11
Contracting arrangements	Joint Framework contracts let and managed centrally with call off for packages of work and delivery by members own client teams.
NE Collaborative Procurement Strategy	Joint Framework contracts for specific work streams. Convergence of individual members existing contracts to incentivised target cost basis intended to achieve further savings. Performance improvement through supply chain integration and process improvements.
Savings and Benefits to date	LAPN has so far achieved efficiency savings of £9.05m from a programme spend of £75.9m (including convergence contracts). This represents an overall saving 12% against the baseline costs.

Nationwide Case Study

Nationwide use a segmentation model to determine how best to approach the various constituents of its supply chain. From the model they have identified a number of areas where they wish to establish long term strategic partnerships.

Nationwide's approach has allowed them to be successful in their endeavours through;

- Providing a structured, repeatable delivery process.
- Ensuring continuity of work is provided for its supply chain by involving them in the project prioritisation and allocation process.
- Establishing a robust cost control system that provides a mechanism for evaluating the supplier performance and comparing costs.
- Uses periodic supplier benchmarking to measure performance externally without the need to competitively tender on a regular basis. Nationwide are participating in a banking sector initiative to benchmark construction costs.

Where it has not been particularly effective has been:

- The time taken to develop it project scopes (this is due to a poor stakeholder engagement approach)
- Effectively managing the impact of change on the programme.

London Borough of Hackney and Hackney Homes

By joint working with Strategic Alliance partners and supply chain partners, Hackney Homes has reduced the original tendered rates by 35% in the first year of its Decent Homes phase 2 programme and saved 10% over Decent Homes Phase 1. This has been achieved through volume related framework contracts with contractors and suppliers.

Primary Innovation

Strategic partnering with five contractors on fully integrated contract terms that expressly provide for:-

- A single procurement forum
- Development of a common supply chain
- Joint measurement of performance
- Continuous improvement.

Secondary Innovations

Facilitation of all of the above innovations through a programmed series of meetings and workshops between the client, contractors, key sub-contractors, suppliers and stakeholders including:-

- Strategic workshops to extract maximum value and establish close working relationships;
- Project-based workshops to ensure predictability of individual projects and a clear understanding as to mutual commitments.
- The Collaborative Procurement and collaborative project implementation processes undertaken have resulted in Hackney Homes becoming a multi award winning organisation:
- CCG – Construction Client Charter status – first authority to receive this status.
- Society of Procurement Officers in Local Government – National award for outstanding achievement in procurement.
- Constructing Excellence – Exemplar demonstration status.

Local Government Chronicle Awards 2006 – Highly commended in the procurement awards.

Lincolnshire's Local Authorities

The National Procurement Strategy sets Collaborative Procurement as an objective for all councils. However, many councils struggle to convert this objective into reality. North Kesteven District Council, the lead partner for the Lincolnshire Public Sector Working Group (PSWG), has developed a number of techniques and strategies to overcome some of the challenges.

The partnership is currently in the early stages of a project to implement procurement cards (p-cards) across the county. P-cards have been notoriously difficult to introduce in the past, and the partnership is focusing on trying to avoid some of the mistakes previously made by others.

Summary of benefits

- Improved service to the public through the provision of seamless services among the partner agencies.
- Increased variety of experience is brought to discussions, and partners can learn from each other.
- Collaborations can serve as a vehicle for receiving greater funding from central government.
- Better understanding of the workings of other local authorities and public sector agencies.
- Greater chance of improved future efficiencies as a result of building on existing collaboration relationships and structures.

Midlands Highway Alliance

This is the UK's first regional collaboration set up across 10 local authority highway departments and the Highways Agency to deliver savings and shared best practice. They have appointed four main contractors and one consultant to the Midlands Highway Alliance to carry out the work of the partnering authorities. The works that are commissioned through this arrangement include capital and maintenance for roads, bridges, pavements, cyclepaths, car parks, environmental works, commodities and transportation.

They state:

'The collaboration will improve efficiency in both the procurement and delivery of the four strands of their highway services: major capital highway schemes; capitalised maintenance and medium schemes; professional services; highway term maintenance. It shall also allow for savings by regional collaboration in commodities procurement.'

Other advantages of the arrangements include establishing best practice through Alliance members; promoting continuous improvement through the Alliance; identifying savings and sharing the skills regionally.

The benefits of the Alliance include:

- procurement and contract efficiencies through frameworks;
- reduction of supply chain tendering;
- to secure efficiency savings of 10% off tendered rates through waste removal from the conversion process;
- reduction in cost of supply through bulk ordering

ProCure 21 (NHS)

ProCure 21 was designed to achieve a number of the objectives set out in the NHS plan. The business drivers behind its development included:

- The development of a Partnering Programme using pre accredited supply chains engaged (with Principal Supply Chain Partners) in a long-term framework agreement.
- An auditable process and value for money agenda;
- Enabling Trusts to have confidence in the financial control of their expenditure on capital assets; and
- The Government target to achieve sustainable development thereby improving quality in buildings, good relations with stakeholders and protecting the environment, both during the construction process and in the operation of the finished building.

More specifically, the main objective of the programme is to promote improved capital procurement in the NHS by:

- Developing a partnering programme using pre accredited supply chains engaged in a long-term framework agreement. The aim of which is to cut out waste and duplication of effort in the tendering process, but also to bring the best of the construction industry together to deliver better value for money and in the end better clinical facilities for patients.
- Enabling the NHS to be 'Best Client'. Training of NHS delivery personnel to manage an NHS ProCure21 scheme effectively thereby maximising the benefits of the process.
- Achieving excellence in design. The promotion of design as the key to VFM and 'best fit' solutions.
- Using Benchmarking and continuous improvement to ensure long term benefits

Why Do You Want To Collaborate

To embark on a path of Collaborative Procurement the need exists to understand why an organisation wants to do this and to have a clear understanding of the benefits challenges and constraints that it will face, so there is a need for to address the following issues and questions as part of building the business case for Collaborative Procurement:

- What do you want to collaborate on?
- Why do you consider there are benefits to embarking on such a path?
- What is wrong with the way you do it now?
- What are the potential benefits of the collaboration?

Key Issues to Consider

Enter initial discussions with the other organisation(s) and agree the joint objectives.

- Be open and honest about any current internal barriers with the other organisation(s).
- Agree how the barriers will be managed and by who.
- Agree the management structure with defined roles and responsibilities.
- Identify the comparative levels of competency and workload capacity.
- Does the process require a dedicated office, staff and IT equipment?
- Agree how any costs will be shared.
- Agreement on Terms of Reference and the Legal Agreement between the partners.
- Be aware of the strengths and weaknesses in your own organisation – be prepared to let go if the other organisation can do it better.
- Share, review and agree on essential tender documents, specifications and quality standards, procedures and best practice.
- Establish any required performance targets and baseline data.
- Agree the tendering process to be adopted, form of contract etc and also the detailed evaluation process.
- Agree the payment structure, with a potential joint contract bank account.
- Agree the buy/sell price.
- Develop a plan of implementation with realistic time scales.
- Be prepared to share information.
- Report problems early.

Managing the Constraints

Essentially the constraints or barriers within any existing organisation to the implementation of a programme of Collaborative Procurement will fall into three categories, these are:

- The legal framework
- Established operations and processes
- People.

The Legal Framework

Public Sector

For public sector clients there is a legislative framework which underpins the collaboration between either similar public sector clients or any supply chain organisation, the principal areas of legislation that have to be considered are:

- Local Government (Goods and Services) Act 1970;
- Local Government Act 1972 and delegation;
- Local Government Act 2000 section 2 (well-being) and section 19;
- Local Government Act 2003 and trading and charging;
- Local Authorities (Goods and Services) Act 1970;
- EU procurement legislation

Not all the above legislation will be applicable and it is recommended that professional legal advice is sought, however, further more detailed information can be found in the guidance paper issued by the Department for Communities and Local Government in 2006 on 'Structures for Collaboration and Shared Services' 1.

This paper provides a technical aid that covers the legal, financial, employee and commercial issues for various alternate collaborative structures between public sector organisations and also with a private sector organisation.

Whilst much of the document relates to the models for joint venture procurement and delivery of services it also offers considerable direction and advice on Collaborative Procurement. The document can be viewed at: (<http://www.communities.gov.uk/documents/localgovernment/pdf/151702.pdf>).

In addition to the above there may well be constraints set through the procurement rules reflected in Contract Standing Orders (CSO), Financial Regulations and Codes of Procurement which restrict or prevent a client embarking on a path of collaboration with any other public sector client (such as two or more local authorities or departments) and also with private sector organisations.

These constraints were the subject of the study 'Developing a Collaboration Strategy' carried out by the London Centre of Excellence which provides a practical guide on 'How To Make It Happen' (section 5) and it is recommended that public sector clients should review this section and consider the application of the guidance detailed at 5.1 for 'Getting the Enablers in Place'.

In summary the study found that the rules and financial thresholds applicable to procurement varied widely across local authorities and that it may require CSO and/or other rules to be amended to create the alignment between the authorities that would allow the collaboration to take place.

EU Procurement Regulations

With the statutory requirement for all public sector clients to advertise in the Official Journal of the EU (OJEU), where the procurement is above the relevant threshold, the need exists for all contracts to be procured in accordance with the relevant set of Public Procurement Regulations. Clients may wish to obtain external specialist advice but generally the OJEU Notices should be prepared as normal with consideration being given to the following issues:

- state the one authority that will act as the agent for the partners
- ensure that only one single procurement exercise is undertaken
- give acknowledgement of the agency role of the lead partner
- state that the service contract is to be provided to all of the named partners.

Private Sector

For private sector clients amendments to any established corporate or group governance should be considered and amended or waivers applied, to allow the collaboration to take place.

Where the collaboration is to involve a public sector client then consideration and a level of understanding should be established on the legislative environment in which the public sector operates as outlined above.

Established Operations and Processes

Most, if not all, organisations will have established processes that may be linked and form an integral part of any approved quality assurance rating such as ISO 9001 or ISO 14001. It will therefore be necessary to identify which systems within the two (or more) organisations will be the most efficient and appropriate for management of the procurement process together with the ongoing day to day operation and reporting of the collaborative arrangements.

People

The actual success of any integrated Collaborative Procurement process will only be successful if there is total buy-in by all stakeholders (i.e. councillors; senior executives and department heads), managers and staff that will be responsible for the implementation and ongoing management of the relationships.

Organisations that already operate within an integrated environment with no internal barriers and are open to learning from others, will find the transition to working with outside organisations more straightforward than those organisations that currently work in silos and do not collaborate at a departmental level.

The issues to be considered are:

- Integrating people from different organisations
- Cultural barriers
- Development of trust
- Being open and honest
- Sharing knowledge
- Fear of change
- Workload capacity
- Leadership
- Managing conflict of views.

Above all else there needs to be a clear commitment by both organisations to specific resources to adequately manage the collaborative project or contract.

General Issues

The 'Developing a Collaboration Strategy' study highlighted the main areas of concern in achieving implementation as being:

- Agreeing what you are going to collaborate on
- Agreeing who you will collaborate with
- Developing a robust business case for each collaboration project
- Defining the governance structure and project team
- Developing a realistic plan of implementation
- Communication project progress and managing stakeholders successfully
- Defining the right operational and joint commissioning model.

The study offers outline solutions to these issues, but public sector organisations may require additional external specialist consultancy support to ensure the required success is achieved.

There are other additional key issues to be considered that are crucial to any collaboration being successfully implemented:

- Agreeing the contractual arrangements, plus if it is considered necessary, establishing a special purpose partnership vehicle that will operate the proposed procurement and any subsequent contract arrangements.
- Agreeing either: (a) which client will lead on the procurement, based upon who has sufficiently skilled staff and available resources, or; (b) establishing a team comprising individuals with specific appropriate skills from each organisation.
- Ensuring compliance with the EU Regulations (Public Sector).
- Financial arrangements and controls.

These issues are also covered within the above referenced study

Role of the Procurement Professional

It is important that any Collaborative Procurement process receives experienced professional procurement, legal and commercial support, where such experience does not exist in-house it is recommended that external advice is obtained.



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