

National construction category strategy

2018 Edition



Foreword

Our communities depend on the roads, schools, housing, leisure centres and wider public estate that councils, with their partners, deliver and maintain. This strategy focuses on delivering value for money in the construction and maintenance of these vital local assets.

A great deal has changed since the first edition of the strategy was published in 2015, not least the UK's decision to leave the European Union. This refreshed edition includes an updated action plan, covering the next five years, which will help councils seize opportunities and manage risks during this time.

Like the first strategy, the present one supports the National Procurement Strategy for Local Government in England (NPS) and its vision for local government procurement. The four NPS themes run through the strategy:

- demonstrating leadership to create a strategic national conversation with key contractors and other stakeholders and to increase the impact of collaboration locally and regionally including through effective framework agreements
- modernisation by improving our 'intelligent client' capability: working smarter, improving efficiency and enabling innovation including building information modelling and off-site manufactured solutions
- maximising savings through a better understanding of how whole life cost and value improvements are achieved including early contractor involvement, supply chain collaboration and innovation

- supporting local economies by facilitating employment, skills and other 'social value' initiatives; increasing the participation of local SMEs and micro businesses in construction supply chains; and promoting fair payment right along the supply chain.

It aims to equip councils to procure works contracts more efficiently, to deliver value for money, add social value and set the agenda, ensuring that the full implications of the decisions made during procurement are properly understood.

And so that councils can continue to deliver the infrastructure needed for good local public services and to boost growth, including jobs and skills, in challenging times we ask that local government uses this strategy to build long-term partnerships with its key contractors and other important stakeholders. I encourage all councils to sign up to the strategy and the 2018 action plan and to work together locally, regionally and nationally to achieve its bold vision.

Councillor Ron Woodley

Deputy Chair, LGA Improvement and Innovation Board

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Introduction and objectives

This is the second edition of the National Construction Category Strategy.

Like the first edition, published in 2015, it supports delivery of the National Procurement Strategy for Local Government in England 2014 (the NPS) and it is aligned to the major themes of the NPS: leadership, modernising procurement, making savings and supporting local economies.

Two years on, councils have made solid progress against the 2015 strategy and developments are summarised in this document.

But much has changed. In that time too. This second edition updates the strategic context and provides a refreshed strategy and action plan for 2018 onwards.

'Construction 2025' (2013) remains the overarching strategy for the UK construction industry and the Government Construction Strategy (now in its second, 2016 edition) guides central government construction clients.

We know that the central themes of the Industrial Strategy¹ are productivity and innovation, along with some grand challenges, and, as discussed below, these are among the key challenges facing the construction industry.

This 2018 strategy takes account of these wider developments. However, the strategy specifically addresses council needs and the environment in which local government is operating. It looks ahead five years, a period during which the UK will leave the European Union, and aims to guide council construction

clients through that potentially turbulent time.

We face significant and existing skills challenges. Importantly, the picture varies across and between areas, and impacts some sectors more than others.

All councils, working with local businesses and partners, want to build strong, resilient economies where residents contribute to, and benefit from, growth. Fundamental to achieving this is a steady supply of skills and jobs and construction is a central part of this, helping build foundations for inclusive economic growth, social mobility and meeting Industrial Strategy commitments.

It sets out the significant challenges for local government in managing its £18 billion of construction spend, requiring active involvement from all councils to deliver better value, greater social value and less waste from construction projects particularly relevant given the recent announcement of the collapse of Carillion, one of the public sector's biggest construction and FM contractors. The strategy is therefore essential reading for professionals working in a variety of disciplines, including procurement, construction, civil engineering, capital programme management, asset management, property management and facilities management and, given the importance of the topic, councillors and senior managers from across the sector.

While this strategy sits under the English National Procurement Strategy the aim is that colleagues in Wales should also be able to draw on it, as appropriate, in the context of the Wales Construction Procurement Strategy, the Wales Infrastructure Investment Plan and other related developments.

¹ www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future

Strategy refresh and action plan 2018

Vision

For local government to build long-term partnerships with its key contractors, and other important stakeholders, to help deliver the infrastructure needed for good local public services and to boost growth, including jobs and skills, in our local communities.

This strategy aims to equip councils to procure works contracts more efficiently, to deliver value for money, add social value and set the agenda, ensuring that the full implications of the decisions made during procurement are properly understood.

Strategic challenge

The 2015 strategy has proved its worth and solid progress has been made in just two years against all nine strands.

Following consultation, it was agreed that the action plan should be refreshed for the next five years (during which the UK will leave the European Union) to take account of developments in the local government environment and the construction marketplace. The action plan sets out what councils should be doing in each theme in order that we achieve the vision set out above.

It is clear that local government and its construction supply chain face considerable challenges.



This 2018 action plan sets out a strategic response.

The plan aims to deliver an agenda of whole life cost, value improvements (improved value for money), and drive social value from procurement activity. And, despite the constraints associated with public funding, it helps councils to work together to deliver our vision.

Procurement's role in construction includes the provision of legislative, commercial and budgetary advice, involvement in agreeing specifications and outcomes, and identifying the links to corporate objectives and potential social value.

Councils are encouraged, either individually or through regional groupings, to assess their progress against the action plan using a simple maturity model. Our recommendation is that an initial assessment is made in 2018 with a further assessment being made in 2020 when we will undertake a diagnostic exercise to identify the national picture of improvement.

Maturity levels:

1. Exploring
2. Trialling
3. Rolling out
4. Business as usual

Progression through the levels leads to value for money improvements.

Action plan 2018

Theme	Strand	Description, Procurement should be....	Maturity level			
			Exploring	Trialling	Rolling out	Business as usual
Whole life cost and value improvements	Public sector client collaboration	<ul style="list-style-type: none"> • Collaborating nationally, regionally and locally on the construction agenda including in the context of frameworks and combined authorities/LEPs. • Aligning construction procurement to corporate objectives rather than delivering in silos. Ensuring procurement has a role in joint problem solving. • Providing support to 'thin' construction clients. • Coordinating demand across the local public sector to determine when major projects and programmes are taken to the market. • Considering the appropriate use of contracts which promote collaboration (eg JCT/NEC). • Using market analysis and insight to understand sector wide strategic risks relating to main contractors and the supply chain. 				
	Effective frameworks	<ul style="list-style-type: none"> • Using framework agreements conforming to the effective frameworks standard set out in: www.nacframework.org.uk/docs/LGA%20Effective%20Construction%20Frameworks%20January%202016.pdf 				
	Cost benchmarking	<ul style="list-style-type: none"> • Collaborating with other councils on cost benchmarking including schools, highways, housing and facilities management. 				
	Forward plans	<ul style="list-style-type: none"> • Publishing a forward plan of construction spending (major projects) including steel content as published by national government. Joining with other councils either regionally or nationally to realise the synergies from strategic management of these forward plans. 				

Maturity level

Theme	Strand	Description, Procurement should be....	Exploring	Trialling	Rolling out	Business as usual
	Early contractor engagement	<ul style="list-style-type: none"> Engaging with the market early. Focusing on the outcomes not the process, identifying the impact that procurement decisions have on the project being procured. Using procurement routes that incorporate early contractor involvement. Identifying the planning role in market shaping and make-buy decisions. Using whole life costing techniques as set out in: http://constructingexcellence.org.uk/resources/whole-life-costing 				
	Supply chain collaboration	<ul style="list-style-type: none"> Using procurement routes that incorporate supply chain collaboration including established building materials manufacturer (eg steel). Working collaboratively with established supply chains (SRM). Developing supply chains that can satisfy a council's local economic growth objectives. Developing supply chains that effectively encourage SME/micro business engagement. 				
	Building information modelling	<ul style="list-style-type: none"> Using/mandating digital tools and processes to support collaborative working on major projects/programmes. 				
	Standardisation	<ul style="list-style-type: none"> Encouraging greater standardisation of designs, specifications, building materials and procurement documents. 				
	Innovation	<ul style="list-style-type: none"> Pulling through innovation including modern methods of construction, low carbon construction and smart buildings. Considering different contracting approaches (eg direct contracting with materials manufacturer to ensure material origin and quality whilst reducing material price risk (and premium). 				
	Early involvement of facilities managers	<ul style="list-style-type: none"> Involving facility managers (especially hard FM) early in the project to address operation and maintenance costs and 'maintainability'. 				

Theme	Strand	Description, Procurement should be....	Exploring	Trialling	Rolling out	Business as usual
	Planned preventative maintenance	<ul style="list-style-type: none"> Shifting, where appropriate, from revenue-funded reactive repairs to capital-funded planned preventative maintenance. 				
Social value	Employment and skills	<ul style="list-style-type: none"> Influencing alignment of local education and training provision to demand for construction skills. Ensure there is a place focus to the national retraining scheme which will initially focus on construction (and digital skills). Identify how young people across a local area can make choices based on the range of post 16 routes including apprenticeships and the introduction of technical levels. Supporting shared apprenticeship schemes. Partnering with contractors, schools and colleges to promote construction careers. Incorporating employment and skills provisions in frameworks plus plans for individual projects/programmes. Considering skills required for modern methods of construction. Requiring contractors/suppliers to demonstrate their skills investments as part of the bidding process. 				
	Standardisation of SQs	<ul style="list-style-type: none"> Using of PAS91:2017 to simplify and standardise the procurement process particularly for smaller contractors: https://shop.bsigroup.com/ProductDetail?pid=000000000030336960 				
	Local supply chain opportunities	<ul style="list-style-type: none"> Working with Tier 1 contractors to create supply chain opportunities for local and regional SMEs and micro businesses including building materials manufacturers. Working to upskill SME/micro businesses to enable them to bid for future opportunities. 				

Maturity level

Theme	Strand	Description, Procurement should be....	Exploring	Trialling	Rolling out	Business as usual
	Fair payment	<ul style="list-style-type: none"> • Promoting fair payment (within 30 days) right along the supply chain (SME sub-contractors and micro businesses) including charters and project bank accounts for larger projects using contractual clauses with main contractors. • Enforcing the contractual obligation with main contractors when subcontractors are not being paid promptly. • Reporting annually per PCR2015 s113 (7) the level of actual compliance of payment within 30 days. 				
	Wider social value	<ul style="list-style-type: none"> • Identifying what social value can be achieved from each construction contract. • Where cost-effective, delivering wider community benefits through construction procurement. 				

The majority of strands represent continuity with the 2015 strategy. Additional strands have been added in the light of the progress review, developments in the marketplace and wider consultation.

Leadership and support to delivery

The Local Government Association (LGA) will provide national leadership to this agenda by:

- providing a single voice for local government on construction including through engagement with the Construction Leadership Council (CLC) and Government Construction Board (GCB)
- engaging with key contractors to the sector and trade bodies representing SMEs and suppliers including social enterprises and the voluntary and community sector (NPS LG Representative model)
- facilitating further collaboration between councils and the wider public sector
- working with key contractors and other stakeholders on the skills agenda
- publishing a good practice standard for effective construction frameworks
- promoting good practice through our website:
www.local.gov.uk/national-procurement-strategy
- promoting a whole life costing approach, access for SME's and encouraging innovation through the construction procurement process
- providing a periodic market update for the construction industry on our website.

To deliver this the LGA will work through the Construction Steering Group reporting to the National Advisory Group (NAG) for the National Procurement Strategy.

The strategy looks to councils and groupings of councils to provide local and regional leadership of this agenda.

Appendix 1: Construction market

Local authority demand for construction

Councils in England build and maintain important economic infrastructure, including public transport networks, highways and bridges, and the 'social infrastructure' which underpins local public services: schools, housing, leisure centres, social care accommodation and the like.

Austerity has had a severe impact on council budgets. Between Budget 2010 and the end of the last parliament councils saw core funding from central government reduce in real terms by some 40 per cent and the LGA is predicting a £5.8 billion funding gap by 2020.

Councils are working hard to protect critical public services and to keep local finances stable. They are identifying that they need to be more strategic about future spend to meet their community priorities. This is taking place against a background of rising demand for services and other cost pressures (particularly in children's and adult social care and homelessness) which have put an enormous strain on revenue budgets.

Capital spending differs from revenue expenditure in that councils can borrow long-term for capital purposes provided that debt servicing is affordable.¹ So far the local government sector has succeeded in broadly maintaining overall capital expenditure levels over the period since 2010 (with variations between councils and between services).²

In response to austerity, capital strategies have often pursued innovative 'invest to save' initiatives designed to reduce revenue spending, schemes which generate

additional income and projects which support local growth.

Over the coming years councils will want to seize the opportunities presented by leaving the EU and manage the risks.³ That includes any impact on revenues⁴ and the cost of borrowing. There is concern about the potential loss of funding going into local areas to support local growth⁵ and about the effect Brexit may have on supply chains including those in construction.

Construction is the single largest category of procurement expenditure in local government.

In 2015/16 the sector's total capital expenditure on 'new construction, conversion and renovation' was in the order of £13.2 billion.⁶ The main sub-categories are shown below. It is estimated that there is a further £5 billion expenditure from revenue budgets.

English local authority capital expenditure on construction 2015/16 (£billion)	
Highways and transport ⁷	4.0
Housing	3.5
Education ⁸	2.7
Culture and related services	0.9
Central services	0.6
Planning and development ⁹	0.6
Environmental services	0.5
Trading services ¹⁰	0.2
Social services	0.1

On top of this, there is significant revenue expenditure on repairs and maintenance. The table indicates the major sub-categories of spend.

English local authority revenue expenditure on repairs and maintenance 2015/16 (£billion)

Housing ¹¹	1.8
Highways and transport ¹²	1.6
Education ¹³	0.6

See p.17 for other expenditure on facilities management, including 'soft' services.

The local landscape is evolving as more powers and funding are devolved through devolution deals. There are currently seven combined authorities in operation¹⁴ alongside the Greater London Authority (GLA) in London.

While the scope of the deals varies between areas (and not all involve combined authorities), they share a focus on infrastructure¹⁵ and on employment and skills¹⁶ initiatives to support local growth. The devolution deals generally cover public transport¹⁷ (and sometimes highways) and a number extend to housing.

Brexit and the demand for construction

There is a close relationship between the demand for construction and the economic cycle. The construction industry is particularly sensitive to changes in market confidence.

If the wider economy slows down as the UK leaves the EU the effects are likely to be amplified in construction.

The Markit/CIPS July 2016 survey showed construction output falling at the fastest rate since 2009 following the referendum result as confidence dipped. Output has fluctuated since in line with changes in market sentiment.

Supply side structure and trends

The construction industry is a key sector of the national economy and it plays a crucial role in regional and local economies and indirectly supporting other economic sectors such as manufacturing.

The construction workforce in Great Britain totals some 2.2 million¹⁸ and the sector's total output is more than £151 billion.¹⁹

The table shows the regional breakdown for England.

Construction activity by English region, 2016

Region	Output (£billion) ²⁰	Jobs ('000) ²¹
London	33.5	282
South east	20.6	342
East of England	15.3	260
North west	14.7	214
South west	11.2	206
West Midlands	11.2	190
Yorkshire and The Humber	10.6	182
East Midlands	8.9	164
North east	5.1	79
All England	131.1	1,920

London is clearly the main centre of construction activity followed by the 'Northern Powerhouse' (combined NW, NE and YH regions), the south east and the 'Midlands Engine' regions.

Output by sub-sector is shown below.²²

Construction output by sector, Great Britain, 2016 New work (£billion)

New housing	Public sector ²³	4.7
	Private sector	30.5
	Total housing new work	35.1
Other new work	Infrastructure	19.1
	Other public	11.2
	Other private industrial	4.5
	Other private commercial	29.8
	Total other new work	64.6
All new work		99.7

Construction output by sector, Great Britain, 2016 Repairs and maintenance (R&M) (£billion)		
Housing R&M	Public housing	7.4
	Private housing	19.7
	Total housing R&M	27.1
Other R&M	Infrastructure	8.0
	Other public	4.8
	Other private	11.6
	Total other R&M	24.5
All repairs and maintenance		51.5

The 2008 recession had a marked impact on the industry. Construction output fell faster than the whole economy in 2008 and the industry's recovery has been slower. Further contractions took place in 2012 and following the summer 2016 vote to leave the EU.

Private sector housebuilding and commercial property (offices) were particularly badly affected. Public non-housing (which includes schools) was hit by cuts to public funding and declined from 2010.

Infrastructure (public and private sector projects) fared better. Output continued to grow after the recession (but with a sharp dip in 2012 and a fall-off in 2016) and the pipeline of infrastructure projects is relatively strong.²⁴ Private sector housebuilding and, to a lesser extent, private commercial have been recovering.

Despite the impact of the recession the UK construction industry remains one of the largest in Europe. The construction contracting industry²⁵ comprises:

- construction of buildings
- civil engineering
- specialised construction activities.

The wider industry includes construction-related professional services and the manufacturers and suppliers that supply equipment, building materials and components.²⁶

Firms are classified according to their place in the supply chain. Tier 1 contractors are those that interface directly with the client. Tier 2 comprises sub-contractors and suppliers to Tier 1. There are contractors and suppliers at Tiers 3, 4 and beyond. Major building material suppliers (such as steel, bricks, cement) usually contract with the lower tiers, rather than interface directly with the client.

Contractors can also be classified according to the geographies they cover: international, national, regional or local contractors.

The British construction industry is more fragmented than in many other countries (ie there is little vertical integration). It relies on sub-contracting and self-employment is prevalent (over 40 per cent of jobs). There are some 274,000 construction businesses in Great Britain.²⁷ While there are some large companies, the vast majority of firms are SMEs (99 per cent). Around 96 per cent are micro-businesses and, within that category, 54 per cent are sole traders or employ only one person.

Research suggests that in a typical large (£20-£25m) building project the Tier 1 contractor may directly manage 70 sub-contracts, a large proportion of those being small (£50,000 or less). In regional projects, the sub-contract size may be even smaller (70 per cent of sub-contracts below £10,000 in some examples).²⁸

It is not unusual for sub-contractors and suppliers in the lower tiers to have to wait long periods (up to 90 days) to receive payment.

The construction industry supply chain is located predominantly in the UK. However, imported building materials and components play a role (imports totalled £15.4 billion in 2016; 62 per cent came from the EU).²⁹ Structural steel imports represent over half of the UK's consumption, with imports dominated by Spain and Germany, despite available UK capacity to fulfil these needs, representing a possible missed opportunity to support local economies.

Analysts are predicting a new wave of consolidation in response to the challenges faced by the industry including the scale required to deliver national infrastructure projects. This could involve mergers and acquisitions powered, at the top end, by overseas investors and/or joint ventures with foreign-owned firms newly entering the market.

Looking ahead, the construction industry faces a number of challenges (see table over the page). The Farmer Review for the Construction Leadership Council ('Modernise or Die', 2016), in particular, has drawn attention to construction's low productivity and lack of innovation compared to other sectors.

Key construction industry challenges	
Productivity	<p>Productivity growth in the construction sector has been slow for a long time (20 years). An anomalous sharp spike in 2011 is explained by the more intensive use of the retained workforce after the shedding of labour to cut costs during the recession.</p> <p>The industry's productivity problem is attributed to a variety of factors including workforce skill levels and a lack of innovation.</p>
Profitability	<p>The recession reduced the industry's profitability sharply.</p> <p>From 2010 price competition intensified and for a period tenders were being submitted close to or below cost ('suicide bidding') leading to a fall in profit margins. Combined with a reduced workload, this had a major impact on industry profitability.</p> <p>The recovery has shifted the balance of power back in favour of contractors and prices have increased. However, profitability has not returned across the board. In fact, there was a further narrowing of margins in 2015.</p> <p>'Problem' legacy contracts are a factor for some contractors but this does not provide the whole explanation.</p> <p>Rising labour costs driven by the upturn in activity are a significant factor. Labour costs per hour have risen by some 25 per cent over 10 years (and probably faster for the self-employed). In the year to December 2016 construction had the highest growth in labour costs per hour of any sector of the economy (7 per cent) driven mainly by wage increases.³⁰ The Apprenticeship Levy will be an additional cost for large employers.</p> <p>Other costs, including materials costs, have also been increasing and the effects of the Brexit vote are being felt. The fall in the value of the pound over the past year (around 15 per cent against the euro and 20 per cent against the dollar), which includes a sharp drop following the June 2016 vote to leave the EU, has begun driving up prices of imported materials and components. As oil is priced in dollars energy-intensive products are particularly vulnerable to falls in the exchange rate for that currency.</p> <p>Narrow margins (together with declining cash reserves) constrain the industry's ability to invest in skills and innovation.</p> <p>In 2010 there were 3,983 insolvencies in construction caused by contractors' inability to pay debts. By 2016 this had reduced to 2,441 but that is still the highest level of any sector of the economy.³¹ Late payment contributing to cash flow problems is a contributory factor here.</p>

Key construction industry challenges

Skills

Due to the nature of work on site contractors face a problem recruiting and retaining a workforce (an image problem).

This is particularly true for young people (under 24s), women and black and minority ethnic communities. Women currently make up 13 per cent of the construction workforce.³² However, women's employment tends to be concentrated in managerial roles and in the professions. The estimate for black and minority ethnic representation in the construction workforce is 4 per cent.³³

A construction skills crisis is looming. There is a shortage of skilled workers to replace an ageing workforce and a growing demand for higher levels skills in the workforce.

The economy's recovery from recession has tightened the labour market. Infrastructure and housebuilding are driving demand for more labour. Shortages are already evident in skilled trades and in the professions (which in turn impacts on innovation and the ability to deploy new technologies).

The domestic workforce necessary to support a return to pre-recession levels of output is not there. This growth path requires either a major investment in skills and innovation or an influx of new workers.

Labour shortages lead to increased costs (wage inflation), inefficiency and delayed projects.

Among other things, local and regional projects are being forced to compete with other private and public sector projects, including national infrastructure projects, for increasingly scarce labour resources. Some 40 per cent of the Government's published £500 billion+ pipeline of public and private sector infrastructure and construction projects must be delivered within the next five years.

The labour shortage would be worse now if the industry (particularly in London) had not been able to draw on migrant labour, including Eastern Europeans, as the economy picked up. The Mayor of London's 'Housing in London 2017' report records that people born abroad account for 45 per cent of London's construction workforce. This includes 27 per cent who come from EU countries and here Eastern Europeans are the largest group.³⁴ This compares with the UK construction workforce figure of 13.2 per cent born overseas (7.6 per cent EU).³⁵

Leaving the EU has created uncertainty about the rights of EU citizens living in the UK and will mean new controls on immigration. It is not yet clear how the new controls will impact on the industry's continuing ability to recruit skilled and unskilled workers from EU countries. There is anecdotal evidence that Eastern Europeans are already beginning to leave the industry.

On average, construction firms (particularly SMEs) provide less training than those in other sectors. Training among the self-employed, in particular, is low. 'Earn or learn' is the dilemma for micro businesses.

The construction industry has always been an important provider of apprenticeships. However, there was a significant reduction in apprenticeship completions after 2008. There is widespread agreement on the need to increase the number of good quality apprenticeships but it remains to be seen whether the new Apprenticeship Levy (in place from April 2017) will reverse the trend in a significant way.³⁶

The ways that we procure construction is changing, procurers themselves need to keep updated in modern methods of construction procurement such as those outlined in the next chapter.

Key construction industry challenges

Innovation

It is widely believed that the productivity of the construction industry is held back by a low level of innovation. This includes investment in R&D which is low relative to other sectors and has been declining.

The 'Construction 2025' strategy points to a number of areas in which innovation can deliver major benefits:

- new methods of construction (such as off-site manufactured solutions: prefabrication, modularisation and standardisation of construction processes within controlled factory environments)
- low carbon construction (continued reduction in energy consumption of buildings including through new construction techniques and retrofit of existing buildings driven by regulatory requirements and societal demands)
- smart buildings/cities (new technologies in sensors and data management that are embedded in assets which enable central monitoring and thereby savings in asset and facilities management plus related developments in the smart cities agenda regarding integrated city systems)
- building information modelling (see p.15).

The industry is looking for greater certainty about demand for innovation to justify further investment. It may be necessary to look overseas to fund this investment.

The Industrial Strategy White Paper published in November 2017 outlines how the government will support businesses to stimulate and facilitate innovation, both through regulation and by providing funding for projects (for example through Innovate UK, and a new innovation prize from the National Infrastructure Commission for future roadbuilding projects).

www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future

Appendix 2: Construction procurement

Construction procurement routes

Councils, in common with other construction clients, use a variety of procurement routes. The nature, scale and complexity of the project, and the timeframe for its completion, all play a role in deciding on the best route.³⁷

Construction project procurement routes	
Traditional (design, bid, build)	The client prepares or commissions the design and a separate contract is awarded for construction.
Design and build (D&B)	The contractor takes responsibility for both design and construction to the client's brief.
Construction management	The client contracts directly with separate trade contractors who carry out the construction work. The construction manager (an appointed agent) manages the trade contractors for the client.
Management contracting	The management contractor is paid a fee to manage the construction work. They do not carry out any of the work directly, they let sub-contracts to works contractors.

Beyond these 'classic' procurement routes, councils have recent experience of models which integrate long-term provision of services (public-private partnerships – PPP).

PPP project procurement routes	
Design, build, operate and maintain (DBOM)	In addition to assuming design and construction responsibility, the contractor (or a special purpose vehicle) is tasked with maintaining and operating the asset (eg a leisure centre).
Design, build, finance and operate (DBFO)	PFI now replaced by PF2. In this model the client contracts with a special purpose vehicle whose responsibilities also include arranging third party finance for the project. In PF2 soft facilities management is excluded from the operational phase.

In large and complex projects and programmes councils have increasingly looked to routes which enable early contractor involvement and supply chain collaboration. These are considered next.

Early contractor involvement and supply chain collaboration

National reports dating back to the 1960s have pointed to deficiencies in the way that the UK construction industry works, including its fragmentation and the inefficiency inherent in its processes.

Traditionally contractors and their supply chains have little involvement with the client during the critical early stages of a project when it can be de-risked. Further, there is a lack of integration within the supply chain itself which comprises multiple layers of sub-contracting (see p.7).

The Latham Report (Constructing the Team, 1994) and the Egan Report (Rethinking Construction, 1998) were particularly influential and many of the themes highlighted there continue to be reflected in the current 'Construction 2025' strategy (industry-wide) and in the Government Construction Strategy³⁸ (for government clients). Key themes:

- collaboration between clients and contractors (early contractor involvement) and between members of the supply chain can result in savings in whole life costs and value improvements for the client
- clients should base decisions on whole life costs and value rather than on lowest price.

The term 'project partnering' came into use to describe the application of this approach to individual projects, while a longer-term relationship spanning multiple projects (a framework) was referred to as 'strategic partnering'.

Since 2013, under the Government Construction Strategy, three 'new models of construction procurement' have been trialled with substantial input from local government. Essentially, these trials are exploring alternative approaches to early contractor involvement and supply chain collaboration.

In these models, early contractor involvement creates an opportunity for value engineering and risk management activities that enable the contractor and prospective subcontractors and suppliers to address inappropriate costs or unaffordable/unbuildable designs. Early input reduces the likelihood of disputes and problems arising during construction. Early engineering input can also ensure design takes account of building material availability and lead time (during construction phases) in addition to material optimisation at design stage. Moreover it can maximise the opportunities for local businesses and supplier involvement in projects, with opportunities advertised/communicated as soon as possible.

While there are substantial benefits to be obtained through approaches such as these there are also pitfalls to be avoided. The use of appropriate contracts, terms and conditions, together with a capable client is a prerequisite for success.

In brief the models are:

New models of construction procurement	
Two-stage open book (2SOB)	<p>In the first, competitive stage an integrated team (Tier 1 contractor and consultants) is conditionally appointed. The appointments may or may not be via frameworks.</p> <p>In the second stage the client works with the team to develop a detailed proposal on an open book basis against the client’s cost benchmark. Tier 2/3 sub-contractors and suppliers are involved according to a defined timetable. Innovations leading to savings or value improvements can be introduced at this point. The client then authorises construction.</p> <p>The guidance uses the term ‘supply chain collaboration’ to refer to collaboration between clients and Tier 1 contractors to identify opportunities for further savings and improved value in works/supply packages delivered by other members of the supply chain (‘reengineering of the supply chain’).</p> <p>This can be done inside or outside the procurement process (ie it can also be an ongoing Supplier Relationship Management (SRM) programme).</p>
Cost-led procurement (CLP)	<p>This is also a two stage process. In the first stage integrated teams are competitively selected from frameworks. In the second stage, still in competition, each of the teams works with the client to develop a proposal for project delivery below a cost ceiling established by the client. The highest scoring proposal wins the contract.</p> <p>Projects which cannot be delivered within budget (including by inviting proposals from teams not on frameworks) should not proceed and the client should reconsider the budget and/or specification.</p> <p>Following the first project, any further projects should be delivered at lower cost.</p>
Integrated project insurance (IPI)	<p>As the name suggests, the distinguishing feature of this model is a new type of insurance policy rather than a new procurement route as such (the guidance foresees a procedure similar to two stage open book with an alliance contract and pain/gain share arrangement).</p> <p>The aim is to foster collaboration and joint ‘ownership’ of the project by removing the prospect of disputes about who is at fault for things that go wrong (‘no blame/no claim’ environment).</p> <p>A single, third party assured, insurance policy covers risks associated with delivery of the project. The policy includes cover for cost overruns above an excess (which is divided according to a pain share agreement). The client, however, bears any costs beyond the insurer’s cap.</p>
Innovation partnerships	<p>Innovation partnerships were introduced as part of the PCR 2015 reforms. They are intended to overcome the current discontinuity between ideas developed in a PCP contract, based on a research and development procurement, and full scale deployment of the developed solution with a commercial contract.</p> <p>In theory innovation partnerships appear to offer a promising opportunity for encouraging innovative procurement. In practice they remain relatively untested, although some councils are clearly considering this route.</p>

Two-stage tendering (as such) is not particularly new. Variants of it have been used for many years. Integrated project insurance is new to the UK (the insurance products were not previously available) but arrangements of a similar kind are well-established in other European countries.

Building information modelling

The objective is that collaboration will be supported by Building Information Modelling (BIM). In BIM a multi-dimensional computer model of the asset is created containing not only the design but also data and documents relating to the properties of its components, its construction and its operation and maintenance. The standards governing the sharing of data among participants (ie collaboration) are as important as the model itself.

BIM maturity levels	
Level 1	Paper-based process with computer-aided design (CAD) drawings.
Level 2	Separate disciplines create their own models but all project data is shared electronically in a common environment.
Level 3	Fully open and integrated process with models shared between the project team on a web-enabled BIM hub.

BIM is still evolving. The Government's decision to mandate BIM Level 2 in central government projects from April 2016 is helping to drive change in the construction process. The 'Digital Built Britain' (2015) target for Level 3 is 2025.

The vision for BIM is not limited to the design stage. It is envisaged that it will continue to be used in the construction phase, enabling contactors to contribute 'as built' data and add documents such as product warranties, and that it will go on to be a tool for asset managers, facilities managers and maintenance engineers during the operational phase.³⁹ BIM should therefore facilitate early involvement of facilities managers to address lifetime operation and maintenance costs and 'maintainability'.

BIM is also seen as key to more effective design for manufacture and assembly and therefore as a way to make off-site manufactured solutions more readily available (see p.11).

Standard form construction contracts and collaboration

For many years local government relied chiefly on the Joint Contracts Tribunal (JCT) standard forms for building contracts and on the Institution of Civil Engineering (ICE) forms for civil engineering works. Today councils can choose from a much wider range of standard forms for their projects, term maintenance requirements and framework agreements.

The ICE first published the New Engineering Contract (NEC) in 1993 and it was soon being promoted for use on both civil engineering and construction projects. The Engineering and Construction Contract (ECC), and other NEC3 forms, are now in widespread use in local government alongside the large JCT family of agreements.

In 2013 the Highways Maintenance Efficiency Programme (HMEP) published its standard Form of Contract for Highway Maintenance Services.

Following the Latham and Egan reports, standard form contracts were developed specifically to support partnering. These include the multi-party PPC 2000 (TPC 2005 for term partnering) and the bilateral JCT-Constructing Excellence (JCT-CE, first published in 2006) plus optional project team agreement. There is a JCT pre-construction services agreement for early involvement in two stage procedures. In the ECC case there are target cost options C and D, which aim to incentive collaboration, partnering option X12 (2001) and an additional early contractor involvement clause for use in two stage contracting.

Drawing on the experience of the 'new models' trial projects, including Surrey County Council's highways maintenance alliance (Project Horizon), the Framework Alliance Contract (FAC-1, 2016) is a new standard form, multi-party framework contract for the members of an 'alliance' (an integrated team including the client and any combination of consultants, contractors and suppliers). The contract enables further alliance members to be added. Call-offs for individual projects can be based on any of the standard form contracts. TAC-1 (a development of TPC 2005) is the corresponding Term Alliance Contract.

The Construction Industry Council (CIC) BIM Protocol is intended for use with any standard form contract. In 2016 BIM provisions (formerly in the public sector supplement) were incorporated into the JCT suite. There is also NEC guidance on the treatment of BIM.

Case study

Procurement thoughts on Carillion

We are just beginning to understand how the high profile failure of the second largest construction company in the UK will impact the sector.

Numerous projects, including hospitals and HS2 will be significantly delayed whilst the public sector retenders. It is likely 20,000 people will lose their jobs and the public sector will need to find alternative suppliers quickly in order to just maintain business as usual, keeping buildings clean and in order. Apprentices may not now have the permanent jobs they need to complete their training. And the effect on the supply chain could be significant as the remaining suppliers compete for new contracts, with some likely to be owed significant sums.

If you have procured your contract properly, you will have all sorts of protections. It is therefore important that you know your contracts well and understand what action you can take. For example, if you have outsourced a refuse collection service, make sure that you jointly lease the vehicles so that you have rights to those vehicles and are able to continue to run the service if the company goes into administration/liquidation.

Public Finance Initiative (PFI) contracts have been carefully crafted over many years to always protect a bank's investment. Therefore the customer (the public sector) has step in rights so they can continue to run contracts in the event of failure. Payment terms will vary, however it is likely that the unitary charge will be paid quarterly.

This means the customer's maximum financial risk is one quarter's payment, which may have already been paid to the failing contractor who can no longer provide that service.

Staff would TUPE across to the customer, or a Teckal company could be set up by the customer and the money the customer would have paid to the contractor used to continue to run those services. Obviously there would be a time delay if you were to set up a Teckal company however you may be able to amend the Memorandum and Articles of an existing Teckal company to cover the contracts. The customer would need to consider how to deal with pensions and staff terms and conditions to avoid inadvertently increasing the cost of the service before it can be re-tendered.

On construction contracts you may find that the prime contractor has failed but all of the work was to be carried out by sub-contractors. It would be worth investigating if you could continue to deliver the project through the sub-contractors. One problem you may have is that where stage payments have been made to the prime contractor and not passed on to the sub-contractors, this would leave you in the position of having to make payments twice.

In this situation you could offer the sub-contractor an advance on the next stage payment to ensure that they can afford to continue to work or, in some cases, avoid going to the wall themselves. Again, if you have used good procurement practices, like project bank accounts or simply refused to pay prime contractors before they can prove that they have paid their sub-contractors, you will not find yourself in this situation.

Where service contractors fail there are several options:

- direct award against an existing framework such as those outlined at www.nacframework.org.uk/
- find a temporary provider under the extreme urgency rules of the Public Contract Regulations 2015 (PCR's 2015), giving you time to retender properly
- check if you have a bond or parent company guarantee that will cover the cost of retendering or, with a parent company guarantee, that they will continue to run the service to honour the original contract
- novate the existing contract to a new provider, an option that the administrator/ liquidator may like as it may give them a one off payment
- if from a framework, go to the other framework providers and ask if they would be willing to pick up the existing contract
- check your tender criteria or contract notice if you have tendered recently – you may be able to go to the second bidder and ask if they would be willing to honour their original tender
- if the contract is a joint venture, with joint and several liability, the company can simply continue to run services.

There continues to be concerns that there is not enough capacity or the right skills to cope with the volume of construction work projected, with largescale projects such as HS2, plus increased house building and supporting infrastructure to be delivered. This means that although the second largest construction company is no longer there, apprentices, skilled workers and supply chains are likely to be engaged by the remaining construction companies as they win new business. This may take time – it is important for the larger companies to act quickly before ex-employees are lost to the industry.

This may prove to be more difficult if significant parts of the supply chain lose their businesses due to non-payment by Carillion. The financial crash of 2008 led to a significant reduction in construction which in turn caused the brick making industry to contract. It has taken years for the supply chain to recover.

The assessment of company financial stability when bidding for work has always been an integral part of the procurement process. However, there is a question around the timeliness of the information relied upon as banks can decide at any time they are no longer going to offer credit. Checking financial stability throughout the life of a contract could give an early warning of the need for contingency plans. Checking that you have paid promptly so you are not exacerbating the situation could also help, although there is little that can be done if credit lines dry up. The question arises whether it is better to keep awarding contracts to a company that has issued profit warnings, so that the banks are comfortable that there is a pipeline of work resulting in the continuation of credit offered, or whether it is just too risky.

PCR's 2015 is clear that selection criteria in tenders can relate to financial standing, but the selection criteria must be clearly stated, appropriate and proportionate.

When a company fails the official receiver may agree to continue providing your service, however, they are not bound by the original terms of the contract and may increase the price significantly. It is good practice to break the contract quickly.

The above are immediate reflections on the impact of the collapse of Carillion. There may well be other significant impacts of this failure that are not obvious at the time of writing, but if this is the case, further guidance will be published.

Appendix 3: Facilities management

Facilities management and lifetime costs

The cost of operating and maintaining an asset (which includes facilities management) throughout its life can be around 80 per cent of the whole life cost (depending on the type of asset).⁴⁰

A large part of that cost must be found from local authority revenue budgets (including budgets delegated to schools) and those budgets are under increasing pressure. This makes it imperative to pursue asset management strategies which enable revenue savings to be realised.

The Royal Academy of Engineering suggest a ratio of 1:5:200 representing construction costs: maintenance and building operating costs: business operating costs should be used when considering whole life costs.

The National Category Strategy for Energy sets out a sector-wide approach to energy and water management:
www.local.gov.uk/energising-procurement-national-energy-procurement-category-strategy

A model for calculating whole life costs is available on our website:
www.local.gov.uk/construction-procurement

Facilities management market

Local government spending on facilities management (FM) is significant. It is illustrated below for selected sub-categories:⁴¹

Local authority running costs 2014/15 (£billion)	
Building repairs, alterations and maintenance	1.6
Energy	1.0
Catering	0.8
Cleaning	0.5
Grounds maintenance	0.4
Water	0.2

'Hard FM' includes repair and maintenance (including electrical and mechanical), grounds maintenance and energy management services. Security, cleaning, catering and similar services which support the operation of the facility tend to be classified as 'soft FM' services.

The UK facilities management industry is large. The total market has been predicted to be worth as much £117 billion by 2017.⁴² The public sector is thought to be the largest segment after offices.

Even during the recession demand for FM continued to expand driven primarily by the private sector's push to cut costs by outsourcing non-core activities. Following a flat period growth has resumed with the private sector still the driving force.

While in-house delivery continues to be an option, several FM procurement models are available on the market and are in use by local authorities.

FM procurement models	
Specialists	<p>Separate contracts for individual services are placed with 'best in class' suppliers.</p> <p>May be limited to hard FM or soft FM services.</p>
Bundled	<p>A single supplier provides two or more services. The supplier may 'self-deliver' or sub-contract (elements of) service delivery.</p>
Integrator/ managing agent	<p>A supplier is engaged as an agent to manage the client's portfolio of contracts (and integrate delivery).</p> <p>May involve letting the contracts for the client.</p>
Total facilities management (TFM)	<p>All FM services are contracted out to a single supplier. The supplier may 'self-deliver' or sub-contract (elements of) service delivery.</p> <p>May be further extended to include asset/property management and other professional services.</p>
PPP	<p>See DBOM and DBFO procurement routes above.</p> <p>Joint venture companies may also be used for delivery of FM.</p>

Single services procurement is probably still the bulk of the market overall. However, there has been a trend in both private and public sectors towards bundled, TFM and integrator models. The public sector is believed to make up around a quarter of the TFM market.⁴³

There is also a trend towards longer term contracts and output/outcome based contracts. Term partnering agreements (see box p.15) are in use in Hard FM (and elsewhere).

Price competition is intense and profit margins are generally narrow. FM, particularly soft services, is a labour-intensive, low wage sector which is very exposed to labour cost pressures. Current pressures include the National Living Wage, pension auto-enrolment and the Apprenticeship Levy.

There is a low level of apprenticeships in the FM sector. Like construction, FM is experiencing skill shortages and the Brexit vote has cast uncertainty over the continued use of migrant labour.

The industry has witnessed a wave of consolidation and suppliers are seeking to differentiate themselves through added value propositions (such as the integrator model or self-delivery, ie delivery through direct employees as opposed to sub-contractors). Energy management and smart technology (building management systems) are among current areas of interest.

Through acquisitions, companies rooted in hard FM (including large construction companies) have moved into soft services, and vice versa, in order to offer bundled services or TFM. Companies in adjacent sectors have also moved into the field (property management, utilities).

The result is that large companies now dominate the sector with SMEs at the other end of the spectrum generally acting as sub-contractors.

Appendix 4: Progress under the 2015 strategy

Nine strands

There were nine strands to the 2015 National Construction Category Strategy mapped to the strategic themes in the overarching National Procurement Strategy for Local Government.

Councils have made good progress in implementing the recommendations from the original category strategy. Key achievements include:

- championing new models of construction procurement
- playing a key role in developing the new PAS 91:2017 standard questionnaire for the construction industry
- annual benchmarking the cost of school places covering a combined projects capital value of £3.6 billion:
www.local.gov.uk/sites/default/files/documents/national-school-delivery--af4.pdf
- implementing the recommendations in the 'Effective Frameworks' document published in 2016:
www.local.gov.uk/sites/default/files/documents/effective-construction-fr-b55.pdf

The following table summarises progress against each of the strands two years on.

Strand	Progress to end 2016
<p>New models of construction procurement (two stage open book, cost-led procurement, integrated project insurance)</p>	<p>Local government figures have been instrumental in championing models such as two stage open book and cost-led procurement across the whole public sector including to government. The two stage model (or variants of it) has been in use in local government for many years.</p> <p>Councils in Liverpool, Surrey, Hampshire, Reading, West Sussex, Haringey, and Hackney have participated in the trial projects programme. Their experience has been published in case studies and significant savings and value improvements have been reported.</p> <p>For example, a trial project being conducted by the Property Services Cluster (four collaborating South East councils) is targeting 14 per cent savings on the second tranche of its education basic needs programme with 7 per cent already reported.</p> <p>Two stage open book is now the standard approach for call offs/mini competitions under a number of frameworks (eg Southern Construction Framework) and it is available as an option, with support to clients, almost everywhere.</p> <p>In some cases council clients have chosen to pursue the cost-led model. Councils in the East Riding of Yorkshire and Leeds, for example, have gained valuable experience of that particular model.</p> <p>The general view is that integrated project insurance (not really a procurement model as such), which has only featured in one non-local government trial project, will not be widely adopted across the public sector. Apart from anything else, this form of insurance is not generally available on the market.</p> <p>Austerity has led to a thinning out of council construction client teams. This has impacted on their ability to embrace innovation and new ways of working. Due to their size, district councils have always had limited in-house capability. The guidance and support offered by framework managers is one way councils can enhance their 'intelligent client' capability in this regard.</p> <p>In some parts of the country regional contractors lack the capability to respond to new models and this is a further hindrance.</p>
<p>PAS 91 pre-qualification questionnaire</p>	<p>The PAS 91: 2013 standard construction pre-qualification questionnaire has been widely adopted across local government.</p> <p>Among other things, PAS 91 is seen as playing a key role in the simplification of procurement processes to the benefit of the small businesses which play such an important role in local economies.</p> <p>Local government has played a central role in driving forward amendments to align the questionnaire with the new CDM Regulations and the Public Contracts Regulations 2015.</p> <p>Engaged with government in developing and implementing Procurement Policy Note (PPN) 11/16 on procuring steel in major projects.</p>

Strand	Progress to end 2016
Building information modelling (BIM)	<p>Councils are enthusiastic about the potential of BIM and a significant number are deploying it either in house and/or via their procurements.</p> <p>Manchester's £100 million central library restoration and town hall extension project is a well-known early example. BIM helped the council deliver this prestigious project, completed in March 2014, on time and under budget. Sandwell came to prominence as another early adopter with its plans to mandate BIM Level 2 on a Homes and Communities Agency (HCA) (now Homes England) funded programme of building 2,000 new homes plus leisure centres, care homes and other public buildings. This includes inviting bids through virtual public viewing models in BIM.</p> <p>However, as in so many respects, austerity has been an impediment to wider adoption. Investment in software tools and hardware upgrades plus change management, training and ongoing maintenance is required for in-house deployment (ie where the council has its own design practice). If BIM is mandated via procurement the concern is that this will be reflected in higher fees/prices.</p> <p>As mentioned above in connection with new procurement models, council construction client teams are frequently very thin these days and this also impacts on their ability to adopt innovations such as BIM. On the supply side, regional and local contractors may also lack capacity.</p>

Strand	Progress to end 2016
Effective frameworks	<p>There are framework agreements for construction projects covering all regions of England and some which operate nationally (Scape, Fusion 21).</p> <p>Key regional frameworks come together as the National Association of Construction Frameworks (NACF). The English members are:</p> <ul style="list-style-type: none"> • North West Construction Hub • North East Procurement Organisation • YORhub • Constructing West Midlands • East Midlands Property Alliance • Smarte East • Southern Construction Framework (incorporating SE7, Construction Framework SW and the London Construction Programme). <p>As a contribution to the 2015 Strategy the NACF published a report defining the characteristics of effective frameworks. This is a standard to which the framework managers are all working.</p> <p>The Education Funding Agency has endorsed use of the NACF frameworks for school capital projects.</p> <p>Members of the Association cooperate to benchmark the cost of schools projects and to publish market intelligence heat maps.</p> <p>The NACF is one of the channels through which local government has a voice 'at the top table' with government.</p> <p>The Homes and Communities Agency (HCA) (now Homes England) supported the development of around a dozen social housing procurement consortia. Originally established to support delivery of the Decent Homes programme, consortia continue to operate offering framework agreements spanning planned and responsive repairs and maintenance and increasingly new construction.</p> <p>Consortium members include stock-retaining local authorities and arm's length management organisations as well as housing associations.</p> <p>The London Housing Consortium (a joint committee of local authorities) is longer-established and has operated separately. Similarly Procurement for Housing, whose backers include the Chartered Institute of Housing and National Housing Federation.</p> <p>Highways alliances have been established in most English regions. They come under the banner of the Highways Maintenance Efficiency Programme (HMEP). The alliances facilitate collaborative procurement and manage a number of regional framework agreements for highway maintenance.</p> <p>The Midlands Highways Alliance (MHA) was the first and is perhaps the best known. However, there are similar alliances in the North East, East of England, South East, London and the South West.</p> <p>Through engagement with Highways England the alliances enable public authorities to coordinate highways procurement in the region.</p>

Strand	Progress to end 2016
Fair payment	<p>Councils have a commitment to fair payment (many have committed to payment in 10 days) and a number have adopted fair payment charters or codes of practice.</p> <p>This has been reinforced through the Public Contracts Regulations 2015, in force since February 2015, which require provisions to be included in public contracts obliging the contracting authority to pay undisputed invoices within 30 days and obliging the contractor to include similar provisions in any sub-contracts in such a way that the obligation is passed all along the supply chain. Contracting authorities must publish their performance each year.</p> <p>Since March 2013 businesses have been under a legal duty to pay within 60 days (which can be contractually extended if not grossly unfair) and from April 2017 large businesses will be under a new duty to report on their payment practices and performance.</p> <p>NACF contracts achieved a 91 per cent of payment made within statutory timescales against a national average of 79 per cent through two stage open book contracts (2016).</p> <p>Nonetheless, the view is that there is still more to do to ensure fair payment throughout the whole supply chain.</p> <p>East Riding has made pioneering use of a project bank account (PBA) on its £10 million scheme for the A164. There is wide interest in PBAs but not a great deal of experience to date.</p>
Early contractor engagement	<p>Early contractor involvement is an important feature of the two stage open book procurement model and its use is growing as that model is more widely adopted. There is experience of using it in connection with other procurement routes too.</p> <p>It tends to be favoured for larger, more complex projects and programmes.</p> <p>The importance of market engagement before a formal procurement process is launched (pre-OJEU) is also widely recognised.</p> <p>This includes market sounding exercises prior to major projects and programmes.</p>
Local opportunities	<p>Internet portals and local intermediaries are being used to bring supply chain opportunities to the attention of local SMEs and micro businesses and to 'match make' with Tier 1 contractors.</p> <p>'Meet the Buyer' type events are hosted by framework managers and individual councils.</p>

Strand	Progress to end 2016
<p>Employment and skills</p>	<p>Employment and skills provisions are included in framework agreements and employment and skills plans (ESPs) are normal for larger local government construction projects and programmes. They form an important part of the sector's response to the Public Services (Social Value) Act 2012.</p> <p>Framework managers generally provide support to the development of plans for major project call offs run via the framework.</p> <p>In several parts of the country councils have worked with the local chamber of commerce or the CITB to establish a shared apprenticeship scheme which enables apprentices to develop their skills by working on a number of council projects (individual projects are too short in duration).</p> <p>The Construction GTA in Greater Manchester, launched in 2012, is one well known example. A chamber of commerce delivery partner employs the apprentices and facilitates cooperation among employers working on council projects and programmes to provide sustained on-the-job training for the apprentices. YORfuture is similar. It was set up in 2013 through a partnership between YORhub and the CITB and covers the Yorkshire and The Humber region.</p> <p>The Greater Manchester and London chambers of commerce have both carried out research into the demand for construction skills generated by the pipeline of projects (public and private) in the region. A number of LEPs have commissioned similar studies from the CITB and others to inform their local skills strategies. The CITB undertook research for Sheffield City Region, for example.</p> <p>There are some good examples of council contractors working with local schools to 'market' the construction industry as a positive career choice. For example, Constructing Excellence South West and the Southern Construction Framework will relaunch their 'Adopt a School' campaign in Spring 2017. But clearly more of this needs to be done.</p>
<p>Collaboration</p>	<p>Learning has been shared across public sector bodies in a variety of ways including through participation in trial projects, collaboration in the highways alliances and via the work of framework managers including reports and other publications.</p> <p>The LGA Construction Steering Group contributes to this process. The fourth national construction conference took place on 9 February 2017 providing a major opportunity for sharing of learning and networking across regions.</p> <p>This strategy is supported by case studies and other resources on the LGA website and the intention is to continue to build that online resource.</p>

Appendix 5:

What do councils mean by ‘social value’?

When councils use procurement to pursue ‘social value’ (sometimes called ‘community benefits’) they are looking for benefits which society or the local community values above and beyond the benefits of the project itself. In its widest sense social value is anything which recognises the importance of social, environmental and economic wellbeing across communities.

It may or may not be possible to put a monetary value on all benefits which deliver social value but the LGA have worked with the Social Value Portal to produce a set of national ‘themes, outcomes and measures’ (TOMs) which can be used to provide a minimum reporting standard for measuring social value:

<https://socialvalueportal.com/social-value-taskforce>

Examples include:

- **Jobs, apprenticeships, training and work experience**

Particular groups who face disadvantages in the labour market may be targeted (eg young people not in education, employment or training, women, black, Asian and ethnic minority communities, ex-offenders, etc).

Councils could also consider opportunities for these beyond those directly involved in the construction project, the right procurement practices can also help support jobs, skills, apprenticeships right through to tier five suppliers/manufacturers of building materials in the UK.

- **Supply chain opportunities**

Works and supply packages for SMEs and microbusinesses.

- **Volunteering and community projects**

Again, opportunities to support local and UK businesses extend beyond tier one or two suppliers, the best procurement practices will look to maximise local opportunities throughout the project supply chain.

Hours of volunteering and work on community projects (more common on larger programmes, FM contracts, etc).

Notes

- 1 This borrowing is in addition to capital grants and capital receipts from the sale of land and property. In housing there continues to be a cap on Housing Revenue Account (HRA) borrowing.
- 2 Local authority schools capital expenditure has followed a distinct path. While Building Schools for the Future (BSF) funding was routed through councils the Priority School Building Programme (PSBP) is centrally funded and Academy funding has also been centralised.
- 3 The LGA has launched a project on the place-based impact of Brexit and has called for information on the potential opportunities and risks which can inform discussions with government departments.
- 4 The Government intends to abolish Revenue Support Grant by 2020 allowing councils to retain 100 per cent of business rates revenue. One consequence is that local government will have greater exposure to risk from a fall in local tax take in the event of an economic downturn.
- 5 The Government has stated that European Structural and Investment Fund (ESIF) projects signed, or with funding agreements in place before the 2016 Autumn Statement, will be fully funded, even when those projects continue beyond the date the UK leaves the EU. For projects signed after the Autumn Statement and which continue after the UK has left the EU, funding will be maintained if the projects provide strong value for money and are in line with domestic priorities. Over £5 billion has been allocated to Local Economic Partnership (LEP) areas in the 2014-2020 ESIF programme. The LGA is opposed to any reduction in the funding going into local growth including both domestic and EU sources.
- 6 Table 5 accompanying Department for Communities and Local Government (DCLG), Local Authority Capital Expenditure and Receipts England: 2015/16 Final Outturn. The total stated includes fire and rescue capital expenditure but excludes police expenditure. Fire and rescue expenditure (£90 million) and public health expenditure (£4 million) have been omitted from the detailed breakdown.
- 7 The GLA group (Transport for London) accounts for a large part of this expenditure.
- 8 See note 2 above.
- 9 Includes direct expenditure on conservation, environmental improvements, conversion and commercial development and derelict land reclamation.
- 10 Includes, among other things, expenditure in respect of industrial estates and expenditure associated with Direct Labour Organisations.
- 11 DCLG. Revenue Outturn (RO) 2015/16: Housing Services (RO4) data for England.
- 12 DCLG. Revenue Outturn (RO) 2015/16: Highways and Transport Services (R02) data for England. £0.6billion expenditure on 'street lighting (including energy costs)' has been excluded.
- 13 Department for Education (DFE). Main tables accompanying Expenditure by Local Authorities and Schools on Education, Children's and Young People's Services in England, 2015/16 (SFR63/2016). Table 3: Detailed school income and expenditure statistics for local authority maintained schools in England by phase of education. The most recent detailed statistics are for the year 2014/15.
- 14 At December 2016: Greater Manchester, Sheffield City Region, West Yorkshire, Liverpool City Region, North East, Tees Valley and West Midlands. Some devolution deals do not involve the establishment of combined authorities (eg Cornwall). Budget 2017 announced a new devolution deal for London.
- 15 Combined authorities are funded by a variety of mechanisms. In the 2016 Autumn Statement it was announced that mayoral combined authorities will be granted additional borrowing powers (subject to a borrowing cap) enabling them to borrow for all purposes including infrastructure investment (ie not limited to transport as now).
- 16 The reshaping of further education (16-19 and 19+ skills), including technical education, which is taking place in the context of DFE-sponsored area reviews, and plans to devolve the adult skills budget to devolution deal areas (2018/19) and London (2019/20) are important to the construction skills agenda (see p.9). This should provide a better opportunity to align the offer of local education and training providers to the pattern of demand for construction skills in the locality.
- 17 The implementing legislation recasts the passenger transport authority/passenger transport executive roles usually retaining a separate delivery body as part of the combined authority set up.
- 18 Office for National Statistics (ONS). Dataset JOBS05. Workforce Jobs by Region and Industry. Seasonally-Adjusted. Great Britain. December 2016. (Construction: Standard Industrial Classification 2007, Divisions 41-43. Note that 'workforce jobs' includes both employed and self-employed. Provisional figures for December 2016).
- 19 ONS. Output in the Construction Industry. Reference Tables. February 2017. Table 6: Construction Output: Value Non-Seasonally Adjusted Current Prices by Region. Great Britain. (Q1 to Q4 2016).
- 20 ONS. Output in the Construction Industry. Reference Tables. February 2017. Table 6. See above.

- 21 ONS. Dataset JOBS05. See above.
- 22 ONS. Output in the Construction Industry. Reference Tables. January 2017. Table 4. Construction Output: Value Non-Seasonally Adjusted Current Prices by Sector. Great Britain. (Q1 to Q4 2016).
- 23 Note that housebuilding by housing associations is classified to the public sector in ONS construction statistics.
- 24 The National Infrastructure Plan was published in 2011 and information on the pipeline began to be published from that date. Initially, information on other public sector construction projects was published separately but the information is now consolidated.
- 25 Standard Industrial Classification 2007, Divisions 41-43.
- 26 See Department for Business, Innovation and Skills (BIS) (2013), UK Construction: An Economic Analysis of the Sector on the wider industry.
- 27 ONS. Output in the Construction Industry. No.17. 2016 Edition. Table 3.1a. Private Contractors: Number of Firms by Size of Firm. Great Britain.
- 28 EC Harris for BIS (2013), Supply Chain Analysis into the UK Construction Sector.
- 29 BIS. Monthly Bulletin of Building Materials and Components. No.504. February 2017. Table 15. Value of EU and non-EU Trade in Selected Materials and Components for Constructional Use. Current Prices.
- 30 ONS. Index of Labour Costs per Hour (ILCH) October to December 2016.
- 31 The Insolvency Service, Insolvency Statistics - October to December 2016 (Q4 2016).
- 32 ONS. Emp13. All in Employment by Industry: Women. Not Seasonally-Adjusted. February 2017. (Construction: Standard Industrial Classification 2007, Divisions 41-43).
- 33 Glenigan, Constructing Excellence and others (2016) UK Industry Performance Report 2016. (Survey data for 2015).
- 34 Analysis of Labour Force Survey data 2014-16 for the Mayor of London's Housing in London 2017 report.
- 35 ONS. Annual Population Survey. Number and Proportion of People in Employment: by Country of Birth and Industry, Ages 16 and Over, April 2015 to March 2016
- 36 The construction industry operates its own training levy which provides grants to fund apprenticeships and other training provision. This is administered by the Construction Industry Training Board (CITB), which, in common with other industry training boards, is currently under review. From April 2017 all large employers (which includes councils as well as construction firms and professional practices) must pay a new national Apprenticeship Levy and are able in turn to draw on their account to fund apprenticeships. From the following April the money can be used to fund apprenticeships for organisations in the supply chain. As noted above, the adult skills budget is due to be transferred to devolution deal areas and the GLA but the adult apprenticeships budget has been excluded from this.
- 37 Procurements must currently be carried out in accordance with the EU procurement rules contained in the Public Contracts Regulations 2015 (and Concession Contracts Regulations 2016 where appropriate) using one of the permitted procurement procedures: open or restricted procedure, competitive procedure with negotiation, competitive dialogue or innovation partnership. The Great Repeal Bill will 'domesticate' EU legislation, including the procurement rules, with effect from the UK's exit date. The withdrawal agreement and trade deal negotiated with the EU will determine what changes can be made to the procurement rules and when (ie after a further transitional period or not).
- 38 First published in 2011 and now in its second edition (2016).
- 39 A core element of 'Government Soft Landings' (mandated for centrally-funded projects from 2016) is the use of BIM to ensure that value is delivered in the operational phase of an asset's lifecycle.
- 40 Clearly the proportion varies according to the type of asset and the basis on which the calculation is carried out. In the NHS, for example, it has been estimated that the ratio of initial capital cost to lifetime operation and maintenance costs is around 1:4.5 (undiscounted).
- 41 DCLG. Subjective Analysis Return (SAR) 2013-14. Annex A11. Part B: Running Expenses. Police expenditure has been excluded. This is an estimate for 2013/14 based on data from a sample of local authorities.
- 42 Market and Customer Insight (2014) UK Facilities Management Market Research Report 2014.
- 43 IBISWorld (2016) Combined Facilities Support Activities Market Research Report.



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