

## Highways Agency Procurement Strategy

Published November 2001

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### Foreword



The Highways Agency is responsible for the management and development of England's motorway and trunk road network. The network has a value of £60 billion. The Government's Transport 2010: the 10 Year Plan, published in 2000, made clear that the maintenance and further development of that asset was a vital component of the country's economy and social fabric. £21 billion is being invested in the network over the next 10 years - each year alone the Agency spends some £¼ billion in maintaining the strategic road network; substantial investment is being and will continue to be made both in developing the capacity of the network and in schemes to improve the safety, reliability and environmental impact of the network.

The Agency delivers the overwhelming majority of its services through third parties - in particular through contractors, maintaining agents and consultants. Procurement, therefore, is at the heart of the Agency's business - good procurement practice and good relationships with our supply chains are essential to the effective delivery of high quality services to road users.

The procurement strategy set out in this document covers the full range of the Agency's activities, including how we invest in information systems, research and development, and training and development. Inevitably, though, there is a predominant focus on our central role of delivering services to road users as the network operator.

The Agency has made considerable progress in developing improved procurement practices since it published its first procurement strategy in 1997. We have embraced the challenges set out in a series of reports on problems in the construction industry and its relationship with clients, in particular moving towards partnership rather than confrontational relationships with contractors. I am delighted that our progress has been recognised with the Agency receiving the Client of the Year Award in the 2001 Contract Journal Construction Industry Awards. However much remains to be done, and the Agency is committed to being at the forefront of best procurement practice. This will include a commitment to achieving the standards set out in Sir John Egan's report on "Rethinking Construction", the targets set out in the Government's "Revitalising Health and Safety" initiative and the principles of high quality design set out by the Government in its strategy for better public buildings.

This document sets out the principles and approaches on which the Agency's procurement is now based, and the contribution it makes to delivering a better public service.

**Tim Matthews**  
**Chief Executive**

November 2001

## Endorsement from Deryk Eke

I am pleased to endorse and support the principles set out by the Highways Agency in this forward thinking procurement strategy document. It is very much in line with the best practice promoted by the Office of Government Commerce and the Government Construction Clients' Panel, through the Achieving Excellence initiative. This strategy demonstrates the Highways Agency's commitment to the achievement of efficiency, effectiveness and value for money through continuous improvement of the Agency's procurement policy and practice.

## Introduction

This document sets out a new procurement strategy for the Highways Agency (HA). It has been developed in support of the HA's Corporate Plan which provides a strategic framework to modernise the HA over the next three to five years to deliver its role as the operator of England's network of motorway and trunk roads. It will also provide the procurement framework to deliver the spending plans and the outcomes included in Transport 2010: the 10 Year Plan which was published by the Government in 2000. It applies to all areas of procurement carried out by the HA but it focuses mainly on the purchase of roads related activities as this covers the bulk of the HA's expenditure.



The HA currently has an annual expenditure of over £1.5 billion and it purchases 95% of its work from external suppliers. The 10 Year Plan increases the level of investment in the trunk road and motorway network to over £21 billion over the 10 year period. Under the traditional asset management role, procurement in the HA has focused on buying an output such as a new length of road. In future, the HA will have to purchase a level of service from its suppliers to deliver both asset management and the management of traffic to fulfil the new network operator role.

The HA will continue to deliver the overwhelming proportion of its services through third parties. Contracting-out puts a premium on the HA developing its intelligent client role to focus on service outcomes and to set the right technical and performance standards in contracts. This means being at the forefront of best procurement practice, developing better and more effective ways of working in partnership with suppliers.

The HA has made significant progress since it launched its first procurement strategy in 1997 which introduced the partnership approach to project delivery. The new strategy sets out how the HA will develop longer-term partnering arrangements to achieve best value in the delivery of the 10 Year Plan. It also sets out how best procurement practice will contribute to improved health and safety performance, the achievement of sustainable development and working practices and also how potential skills shortages in the construction industry will be addressed.

## Drivers for Change in Procurement Practice

A succession of major studies during the 1990s highlighted the inefficiencies of traditional methods of procuring and managing major projects. In particular the problems created by awarding contracts solely on the basis of lowest price. Experience has shown that this does not provide value for money in either the final cost of construction or the through life and operational costs. Relations over this period between the construction industry and government departments were also often typically characterised by conflict and distrust which contributed to poor performance particularly in the control of costs.

The most significant reviews have been:

- Constructing the Team -Sir Michael Latham (1994)
- The Levene Efficiency Scrutiny into Construction Procurement by Government (1995)
- Rethinking Construction -Sir John Egan (1998)
- Efficiency in Civil Government Procurement - the Gershon Report (1999)

- Modernising Construction -the National Audit Office (2001)

In the Constructing the Team report Sir Michael Latham concluded that the industry's traditional methods of procurement and contract management and its adversarial culture caused inefficiency and ineffectiveness. He concluded that addressing these issues had the potential for saving 30% over five years.

The Levene Efficiency Scrutiny made a number of recommendations to improve the procurement and management of construction projects. These included better communication with the construction industry to reduce conflict; adoption of a more commercial approach; negotiation of deals justified on value for money grounds; and increased training of civil servants on procurement and risk management.

Progress in achieving improvement following the Latham report was perceived to be slow and as a result the Construction Task Force was established, led by Sir John Egan. The task force's report, "Rethinking Construction", saw a need for a change of style, culture and process. To this end, it identified five "drivers" which needed to be in place to secure improvement in construction industry; four key processes which had to be significantly enhanced; and set seven quantified targets for the level of improvements to be achieved.



In January 2001 the National Audit Office published its report "Modernising Construction" about how the procurement and delivery of construction projects in the UK can be modernised with benefits for all involved in the industry. The report highlighted best practice being adopted by government departments and industry, including initiatives implemented by the HA, which if applied more widely could achieve sustainable improvements in construction performance achieving better value for money for taxpayers. Recommendations were made to four key groups in the industry including the need for government departments to develop more sophisticated performance measures and to actively measure improvements in construction performance.

It is clear that change needs to be led by clients and they must demand better value and improved performance from suppliers. In return, clients must demonstrate that they will act as good employers and will procure work in a way that allows best value to be delivered and provides fair rewards for good performance. The Clients' Charter scheme operated by the Confederation of Construction Clients will be an important tool for clients to demonstrate their commitment to best practice.

#### **Drivers, processes and targets from 'Rethinking Construction'**

##### **Five key drivers**

Committed leadership  
Focus on the customer  
Integration of process and team around the project  
A quality driven agenda  
Commitment to people

##### **Four key processes**

Partnering the supply chain  
Components and parts  
Focus on end products  
Construction process (elimination of waste)

##### **Seven annual targets**

Reduce capital costs by 10%  
Reduce construction time by 10%  
Reduce defects by 20%  
Reduce accidents by 20%  
Improve cost and time predictability by 10%  
Increase productivity by 10%  
Increase profitability by 10%

#### **Achievements to date**

The HA has made considerable progress since its first strategy document was launched in 1997. The new strategy will build on the successful initiatives and pilots which have been implemented since then and which include:

- Design and build contracts used for all major improvement schemes. The ECC contract now used for nearly all other works contracts;
- The first "early design and build" contract awarded on the A500 Stoke pathfinder project;
- Project partnering arrangements applied to major contracts;
- Improved dispute resolution procedures and reduced numbers of disputes;
- Most new contracts awarded on the basis of quality and price;
- New forms of maintenance contract implemented including the first single point supply Managing Agent Contractor (MAC) contract;
- Framework contracts introduced for regional works projects and design services;
- New payment mechanisms linked to the level of service to road users introduced into new private finance DBFO contracts;
- A Construction Management framework successfully piloted to assess the benefits of an integrated supply chain and the measurement of actual costs;
- A new supplier database implemented together with improvements to supplier performance reporting procedures.



## Overlying Principles for Future Procurement

In addition to the need to comply with legislation and government policy there are a number of basic principles which can be applied to all categories of work to achieve best value. To be fully effective all of the principles need to be applied as a package when procuring a product or a service. Each of the principles could be adopted in isolation but in total they provide suppliers the structure within which to identify optimal solutions and the incentives to deliver continual improvement over long-term periods. The principles are set out below:

### Early creation of the delivery team

Under traditional forms of procurement used in the construction industry, the contractor was not involved at all in the design and development of the end product, they simply constructed what had been designed by an engineer employed by the client. Since the mid 1990s the HA has used design and build for some categories of work, but even with this the contractor has not been involved until after planning approval has been obtained. At this stage it has been estimated that the design is at least 80% constrained and there is little scope for innovation and consideration of buildability, including health and safety planning.

The earlier involvement of the contractor and the supply chain allows more scope for innovation, improved risk management, better forward planning of resource requirements, better ability to recruit and retain staff, improved consideration of buildability and health and safety, shorter construction periods and reduced impacts during construction. Overall, the early creation of delivery teams clearly offers the opportunity for better value and improved performance.

### An integrated and incentivised supply chain

The parties normally involved in the delivery of a project or a service under a contract are the client, the designer, the contractor and the supply chain. In the past under traditional forms of procurement, the contractual arrangements have driven a wedge between the client and the contractor. It has also been common practice for the supply chain to be appointed only after the award of the main contract. This has contributed to undesirable practices such as "Dutch auctions" to get the lowest prices from the supply chain without considering the consequences on quality, performance or the sustainability of the supply chain.

It is often the case that it is now specialist sub-contractors and suppliers who possess the detailed knowledge of products and solutions. In order to provide maximum scope for innovation and the identification of optimal solutions this detailed knowledge

needs to be fed into the development of the project as early as possible. The whole supply chain needs to be integrated in a seamless manner and incentivised to contribute innovative ideas which lead to better value and to be rewarded appropriately.

## Maintaining a competitive and sustainable supply chain

The HA needs to establish and maintain a supplier base that is motivated and incentivised to continue to seek work opportunities with the HA and to seek to improve the service it delivers. To achieve this, the HA must identify future work programmes and delivery requirements. It must also recognise the need for the supply chain to make a fair and reasonable profit for the delivery of the required performance. The move to longer-term relationships based on continual improvement targets will lead over time to the HA working with fewer but better suppliers. Those suppliers will need to demonstrate that they have the ability to deliver the required resources either in-house or through good supply chain management arrangements. The HA will seek to be recognised as a best practice client in all respects and, in demanding high standards and good performance from its suppliers and their supply chain partners, it will make fair rewards.



## Clear points of responsibility with no unnecessary layers of supervision

Traditional forms of procurement involve different parties having responsibility for different aspects of the project. For example, in contracts where the solution is designed by an independent engineer that is then constructed by a contractor, and if any problems are found in the design then the contractor has to wait for new instructions. That form of procurement also requires the engineer to supervise the construction to ensure compliance with the design.

The clarification of roles and responsibilities helps to avoid problems at contractual interfaces. It improves the scope for partnership working and reduces the wastage of valuable resources through the different layers of unnecessary supervision. It requires the development of quality systems which do require the industry to change culture but which will over time contribute better value by encouraging a "right first time" attitude.

## E-procurement

The HA will introduce E-procurement systems to make tendering processes more efficient, to improve the quality of communications, to help make financial controls and reporting more efficient, and to support performance measuring and reporting. They will be compatible and integrated with the HA's new "System for Managing" (SfM) business framework which will support electronic purchase ordering and payment. (Also see separate section on E-procurement.)

## Selection of suppliers on the basis of best value, ie. the optimal combination of quality and price

The HA has moved away from the use of lowest price to award contracts. The key to the assessment of best value is to identify what aspects of quality add real, affordable value to the delivery of the service. This is discussed elsewhere in this document in the section on selecting the supplier. With forms of procurement such as early design and build, the objective is not to identify the optimal solution during the tender period but to identify the best team who are most likely to be able to identify the optimal solution and to deliver it efficiently to the required standards. Assessment procedures will be improved to achieve greater transparency of requirements and consistency of the assessments. Reality checks will be introduced to validate tender submissions and to audit the quality of service delivery.

Price and affordability needs to play a part in the overall assessment of best value. The focus however, needs to be on a supplier's commitment to working in partnership to manage risk and remove wastage and unnecessary cost. This is best achieved by incentivisation through target cost arrangements. The HA will require reliable and robust systems for establishing fair and reasonable target costs that provide real incentives to deliver best value and continual improvement.

## Fair allocation of risks

The HA has sought to improve the certainty of out-turn prices on certain contracts by the transfer of most risks to the contractor. This has been successful in improving certainty of price and time but it may not necessarily deliver best value as it comes at the price of a risk premium. A fair allocation of risks requires that risks are identified prior to the establishment of a contract. In addition, tenderers need to be able to assess the potential consequence of a risk and to be able to include an appropriate risk allowance in the price bid. It is unlikely that a client will get best value if tenderers have had to rely on guesswork if they have had inadequate information or if they will not be in a position to manage the risk. The outcome will be that the tenderers will either guess too high or too low, neither of which scenarios will result in best value. The client will either pay too much or the quality of the product or service may be threatened by commercial pressure.

In theory, best value is achieved by the client paying for appropriate risk management measures together with the costs of dealing with the consequences of only those risks that actually occur. However, the contractor and the supply chain are more likely to



contribute to the effective and efficient management of risks if they have fair and reasonable incentives. The judgement required by a client is how much to pay for the transfer of a risk, and at what level it is judged better value to retain the risk and to pay any consequential costs. The HA will accept risks where suppliers are prepared to work in partnership to manage the risks and control the consequences.

## High quality design

The HA will seek to deliver sustainable and safe solutions that deliver best whole-life value. Procurement processes will incorporate incentives to bring forward innovative ideas to provide added value and life cycle cost reductions. Projects will be assessed at key stages by value engineering and management reviews integrated with the Office of Government Commerce gateway review processes. The HA is committed to achieving the principles of high quality design set out by the Government in its strategy for better public buildings.

## Partnership approach based on long-term relationships

The HA has entered project partnering arrangements with its suppliers on major projects for a number of years. These have been successful and beneficial through the agreement of cooperative working arrangements to deliver mutually agreed common objectives. The HA is now seeking to develop longer-term partnerships with suppliers which allow successful teams to be retained and maximum use made of developed skills and invested knowledge.

Long-term relationships allow the supply chain to be involved in the development and planning of work programmes and to deliver them more efficiently and safely. They also facilitate the recruitment and retention of the skilled resources needed to deliver the programmes.

## Performance measurement with continual improvement targets

Measuring performance, learning the lessons and delivering continual improvement are vital to the achievement of best value. It is even more important in the context of longer-term relationships. The HA will use the Clients' Charter operated by the Confederation of Construction Clients as the basis for establishing a programme of improvement and measuring its performance. It will require its suppliers to implement measurement indicators and develop benchmarks to support the Clients' Charter process. The key performance indicators used by the Charter scheme are consistent with those that are in use generally throughout industry, although it is likely that the HA will also adopt additional sustainability indicators and targets.

The development of measurement processes to support the identification of best practice, continual improvement and the delivery of best value will require the HA to develop its knowledge and understanding of actual costs. Traditionally, reimbursement has been based on rates or prices that may or may not reflect actual costs that need to be known if real and sustainable improvements are to be achieved. This will require the adoption of open-book accounting techniques together with methods of reimbursement based on actual costs. Incentives based on target costs will be used to deliver best value solutions and efficient implementation.

## Application of Procurement Principles to Specific Categories of Work

For procurement purposes, the HA's work can be split into four categories. Firstly, maintenance contracts for the strategic road network which also include works projects up to a value of £500k. Secondly, works contracts for maintenance, improvement and technology projects that have a value above the threshold in the maintenance contracts, up to a value of £5 million and are referred to as regional projects. Thirdly, works contracts valued at over £5 million and are referred to as major projects. The final category covers all other remaining areas of the HA's activities.

### Maintenance and small works projects

#### Issue

Maintenance of the motorway and trunk road network in England is the HA's top priority. Timely and appropriate maintenance is required to ensure the safety of road users and to preserve the value of the asset which is estimated at around £60 billion. The procurement of maintenance requirements needs to support the objectives and targets set out in the HA's Strategic Plan for Maintenance.

#### Objectives

To maintain a competitive supply base and to employ incentivised suppliers who can deliver best value services and solutions which achieve the objectives of maintaining the network in a safe condition and so as to minimise:

- Expenditure over time



- Disruption to users and others affected
- Adverse impact on the environment.

## Background and Future Actions

### New Forms of Contract

The HA has developed a new form of maintenance contract, the Managing Agent Contractor (MAC) contract, which combines the roles previously undertaken by separate Managing Agents (MA) and Term Maintenance Contractors (TMC). The MAC contract achieves single-point responsibility and is a form of prime contract, which is favoured by the Office of Government Commerce. The first MAC contract came into operation in Maintenance Area eight in Northamptonshire in September 2001.

The MAC form of contract incorporates many of the desirable features of the optimal procurement arrangements set out above. The contract relies on Quality Management Systems and uses self-certification procedures to remove unnecessary supervision and duplication of effort. The quality system approach allows flexibility and encourages innovation to deliver a value added service. The contract is based on a strong partnership approach with an integrated supply chain and the contract duration, of up to seven years, is a significantly longer period than traditional maintenance contracts. The contract allows the MAC organisation to design and undertake all projects up to a value of £500k. It also incorporates elements of performance specifications for routine and winter maintenance and includes the requirement to set annual targets, to measure and benchmark performance, and to achieve continuous improvement.

The HA currently has 20 maintenance areas covering the whole of the trunk road and motorway network in England (excluding London which is managed by TfL). This number has reduced from over 90 areas in the mid-1990s when maintenance was undertaken by local authorities on the HA's behalf. The effect of the current detrunking proposals and an associated review of operational factors is expected to result in a further reduction to 14 areas.

It is likely that this number of areas will provide work opportunities for between six and eight MAC companies given that some firms may well be successful in bidding for work in more than one area. The phasing of the start dates of contracts into different tranches will provide regular opportunities to bid for work and it is expected that about 10 MAC organisations will be interested in such opportunities. While detrunking is implemented it may be necessary in some areas to continue with enhanced versions of the separate MA and TMC contracts. These will be used to confirm, via benchmarking, the improved performance of the MAC form of contract.

**Action** - The use of MAC contracts will be extended to cover the whole of the trunk road and motorway network in England over the next five years except on those parts of the network covered by private finance contracts.

### PRIDe

In association with the new forms of maintenance contracts the HA has established a new group known as PRIDe, "Performance Review Improvement Delivery". This group will support the operational delivery teams in the development of robust quality systems which provide measurement of performance, compliance audit processes, identification of best practice, and the setting of continual improvement targets. This will require the development of audit and review techniques that cater for organisations and contracts that are run using quality management systems. Initially, PRIDe will utilise consultant services to undertake detailed audit/ review work and they will also draw on internal specialist support. Over time it is intended that the necessary audit/review skills will be brought in-house. PRIDe audits will involve a critical examination of the operation and effectiveness of suppliers' quality systems and procedures.

**Action** - The PRIDe team will be developed to ensure that the desired outputs and outcomes are being achieved, that propriety is being maintained, and that longer-term improvements are realised. The PRIDe role may be extended to other areas of procurement practice such as frameworks and private finance contracts.

## Regional Road and Bridge Works and Technology Projects (frameworks)

### Issue

Regional projects are defined for this purpose as those projects valued above the works threshold in the maintenance contracts (eg £500k for MAC contracts) and below £5 million, which is the figure used to define major projects. For these projects the HA now has the benefit of three year spending plans, which within the context of the 10 Year Plan, allow firm forward programmes of work to be produced. The projects make important contributions to the HA's targets for improving safety, reducing congestion and improving the environment.

### Objectives

To make the most effective use of the forward programmes of work to deliver best value solutions as efficiently as possible by working in long term partnerships with good quality suppliers.

## Background and Future Actions

### Frameworks

The improved forward planning over a three-year period allows work to be packaged together and procured through framework arrangements. Frameworks provide better value for money compared with the procurement on an individual project basis. They allow long-term relationships to be developed which allow better programming of work and planning of resources. It allows firms to develop the skills and competence of the workforce and to make use of their experience on successive projects.

The frameworks make provision for contractors, and the supply chain, to be involved in the early planning and development of projects which allows more innovation and consideration of buildability. The firms will also have a greater understanding of the risks, and more time to develop health and safety plans and to mobilise for the construction of the project. The early involvement of the delivery team will also help to ensure that solutions and methods of working are developed which minimise disruption to road users.

**Actions on frameworks:** Frameworks will be used to deliver projects in this work category where there is an adequate workload of a consistent and continuous nature and this will be done on an area or regional basis;

- Framework suppliers and their supply chain partners will be involved in the planning, design and development of projects;
- Contractors will be required to support the HA in the development of performance indicators and in the identification of best practice. Regular performance assessments will be required to ensure that contractors are achieving required standards and delivering continual improvement;
- Frameworks will be managed by a nominated framework manager to develop a partnership across the whole community of framework suppliers and there will regular meetings to review overall performance and to consider forward planning;
- Incentivised target cost arrangements will be the preferred form of contract with reimbursement based on actual costs;
- Some work will be procured outside of the frameworks, where it is desirable to give other firms an opportunity to demonstrate their capability and to compare value and performance with work delivered through frameworks;
- Major maintenance projects costing in excess of £5 million will for the time being continue to be procured individually although opportunities will be sought to package projects together and to find other ways of providing continuity of work to make the most effective use of resources.

## Construction Management

The HA has undertaken successful Construction Management pilots which have involved the Agency in entering into direct contractual arrangements with specialist trade contractors and suppliers. The overall management and coordination of the projects has been carried out by construction managers from the HA's managing agents. The pilots have enabled the HA to develop its understanding of issues affecting the supply chain and to learn more about how the supply chain can contribute to the delivery of best value using other forms of procurement. There have also been important lessons learnt about performance indicators and the measurement of actual costs.

**Actions on CM:** - Construction Management for the delivery of road and bridge renewal projects will be used in new areas nine and 10 to continue to improve our knowledge of supply chain management and performance measurement. The lessons learnt will be applied where appropriate to other forms of procurement. The HA and contractors worked together to bring the A43 Silverstone TPI scheme back on track following foot and mouth restrictions.

## Major Projects - Targeted Programme of Improvements (TPI Schemes)

### Issue

The Targeted Programme of Improvements announced in a New Deal for Trunk Roads comprised 37 schemes costing an estimated £1.4 billion. The intention is to start construction of these by 2005, subject to the completion of statutory processes. Five schemes were added to the TPI in 2000. In addition, seven schemes were identified which were not sufficiently advanced for the TPI at that time but they will be progressed through the statutory stages if they pass assessment through the appraisal stages. In 2001, eight schemes were added to the TPI.

The 10 Year Plan provides additional resources to implement decisions on the need for further major road improvements identified through the current multi-modal studies being undertaken by the Government Offices. The 10 Year Plan allows for 25% of the new capital investment to be provided by private finance. New schemes therefore, have to be assessed for their suitability to be delivered by private finance. (Also see separate section on private finance.)



The 10 Year Plan also identified the need to speed up the delivery of major improvement projects to support the targets for improving transport including reducing congestion and improving safety. In the past it has taken 10 years on average for schemes to progress from programme entry to start of works. The measures announced as part of the 10 Year Plan aim to reduce this period by between three to five years for non-controversial schemes without reducing public participation. Improved procurement procedures will contribute significantly towards that target.

## Objectives

To support the delivery of the existing schemes in the TPI and new additions to the programme funded by the 10 Year Plan, to the required timetable.

To develop best value solutions for each individual project by establishing integrated delivery teams as early as possible and to create incentivised partnerships to deliver the schemes as safely and efficiently as possible.

## Background and Future Actions

### Design and build - early contractor involvement

The HA has undertaken most major projects since the mid-1990s using design and build (D&B) contracts with most risks transferred to achieve greater certainty of spend. The scope for contractor innovation has been limited because they have not been appointed until after the statutory planning stages that establish many constraints. In addition, improved price certainty has been sought by transferring risks, without giving full recognition to a contractor's ability to assess and manage the risks. This approach does not always support partnership working if commercial pressures come to the fore. Improved value for money can be achieved by allocating risks appropriately, and price certainty delivered by managing the risks in partnership, supported by incentives.

The earlier appointment of a contractor offers considerable scope for better value, but it is important to get the right timing. The earlier it is, the more scope there is for the contractor to contribute expertise and innovation, but the time period to construction should not be too long. There would be a risk that if a contractor were appointed too early they would not be motivated to contribute their best staff. The long period before construction could also make it difficult to maintain enthusiasm and to retain key staff.

The use of project partnering arrangements on the HA's major projects in recent years has been beneficial in achieving mutual objectives for the particular projects. However, the procurement of major projects on an individual scheme basis means that the partnerships and the invested knowledge and experience of team members, can be lost to the client if there is no continuity of work. The lack of continuity also makes it difficult for suppliers to plan their resources and does not encourage the training and development of the workforce. This could be resolved by applying long-term relationships to the delivery of major projects.

### Actions on Design and Build:

- For publicly funded major projects the HA will normally use a new form of D&B contract, known as "early D&B", where the contractor is involved much earlier in the planning process. The contractor will be appointed as soon as possible after identification of the preferred route and well before the statutory stages which normally involve a public inquiry;
- The contractor selection process will be based largely on quality, with the HA seeking to identify a supplier that has all of the right skills and who is considered most capable of working in partnership, to identify the optimal solution and to deliver it as efficiently and safely as possible;
- Suppliers will need to demonstrate good supply chain management practices as set out in this document. In particular, the relationship between the contractor and their designer will be very important and the HA will require designers to be adequately incentivised to deliver optimal solutions;
- The burden of tendering will be kept to a minimum by avoiding the need, as far as possible, for detailed design work during the tender stage;
- Pricing will be based on key cost components and a process to establish a target cost when the design is finalised. Target costs will be incentivised in a way that encourages continual improvement throughout the development of the project;
- Risk schedules will be developed with tenderers as part of the quality assessment process and also to identify a fair allocation of risks to the parties best able to manage them;
- The HA will develop ways of entering into longer-term relationships with contractors on the delivery of major projects to achieve the benefits which are being achieved on new maintenance contracts and framework arrangements. Options that will be examined will include frameworks and the packaging of projects into long-term programmes.

## Use of design consultants on major projects

In summer 2001 the HA established four regional design consultancy frameworks which allow work to commence on schemes much more quickly, compared with separate procurement processes to appoint individual scheme consultants. The frameworks are based on the development of long-term partnerships to allow more efficient use and better planning of resources.

Duties of the framework consultants include the early assessment, planning and design of projects and taking schemes forward through consultation procedures to the identification of the preferred route. Following this, duties include the organisation of further survey and preparation work leading up to the appointment of an early D&B contractor. The consultant will normally continue as employer's agent playing an important role in supporting the partnership approach and using their invested knowledge to maintain progress while the contractor and the new designer become familiar with the project. One benefit of a new designer, employed by the contractor, being involved in the project is that they will bring a fresh look and can challenge initial concepts and be incentivised to find improvements. This will help to address one of the problems of traditional procurement where professional pride in the ownership of designs was a barrier to innovation and ideas for improvement.

**Action** - the HA will use these consultancy frameworks to take forward new schemes that emerge from the multi-modal studies. Work packages instructed under the framework will be aimed at achieving the most efficient use of resources by having a mix of schemes and tasks to balance out the peaks and troughs that occur in the planning processes.

## Speeding-up delivery of major projects

The design consultancy frameworks will allow a much faster start on new schemes, saving up to a year when they enter the programme. In addition, the early appointment of contractors has the potential for saving over two years by allowing a more rapid start on site after statutory approval decisions have been made. These savings are additional to those that will be obtained by other means, including earlier public consultation and parallel working on appropriate activities.

**Action** - further time-savings and more effective use of resources will be sought by the consideration of framework arrangements for survey work such as ground investigations, topographical and environmental.

## Other Areas of Procurement

The remaining areas of the HA's procurement activities include the acquisition and management of its land holdings, investment in information systems and technology requirements, research and development, estate requirements as well as training and development. It also covers telephones, supply of temporary staff, provision of utilities, and low value purchases covering items such as office equipment, services and supplies, catering, travel and accommodation. Wherever appropriate, the HA will enter into collaborative arrangements with DTLR or other government departments, and also to make best use of contract facilities established by the Office of Government Commerce.

## Private Finance - Public Private Partnership

### Issue

The spending plans included in the 10 Year Plan allow for 25% of the additional capital investment in the trunk road and motorway network coming from private finance.

### Actions on private finance:

- Proposals for major road improvements, which emerge from multi-modal studies, will be assessed for their suitability for delivery by private finance. This will take account of the value of the scheme, the size of the associated network, the impact on the strategic network operation, the nature of risks associated with the project and overall best value;
- The current form of private finance contract, known as Design Build Finance and Operate (DBFO), will be kept under review to ensure that it continues to provide the best method of delivering privately funded major improvements. Payment mechanisms will be examined and developed to find better ways of incentivising the delivery of good levels of service. Ways of involving contractors earlier will also be investigated;
- A private finance version of the MAC form of maintenance contract, a PFMAC, will be developed. Consideration will be given as to whether the scope of this form of contract should include network communications and control equipment and also any elements of network operation. In addition it could be extended to provide a means of delivering major improvements either through public or private funding.

## Selecting and Working with Suppliers

### Issue

The new procurement strategy will result in a tendency towards fewer, better quality suppliers appointed on a long-term basis. It will be vital that the best suppliers are employed. There needs to be a clear understanding of what aspects of quality add real value to the service delivery and the requirements and procedures need to be consistent and transparent to suppliers.

## Objectives

To ensure that the HA identifies and employs suppliers that can work in partnership to deliver best value services and solutions, and to incentivise good performance by fair rewards.

To select suppliers on the basis of the optimal combination of quality and price which for any particular service or project will achieve the delivery of best value.

To maintain a supplier base that is competitive and sustainable, and which is motivated to seek work from the HA and to achieve continual improvement.

## Actions

### Eligibility and Suitability Criteria

There will normally be a two-stage approach to selecting suppliers. The first stage will be pre-qualification where the main criteria will be related to eligibility. Use will be made of ConstructionLine to assist the process of producing a shortlist.

At tender stage, quality criteria used for selection purposes will look at suitability and focus on those aspects of quality that contribute most to added value. The criteria and the weightings will vary depending on the nature of the work but the intention will be to ensure that requirements are transparent and that assessments are consistent. For most services and projects there will be high emphasis placed on:

- People policies
- Health and safety
- Supply chain management
- Environmental performance
- Partnering culture
- Price, cost management and control.



### People Policies - selection criteria

The HA will look for evidence from suppliers that they have a commitment to their staff, such as Investors in People accreditation or procedures based on the Movement for Innovation's (M4i) Respect for People toolkits. This will help to give comfort that staff are being developed in terms of culture, skills and competencies. It is also an important consideration in assessing a firm's ability to recruit and retain the skilled resources needed to deliver the programmes of work.

### Health and Safety - selection criteria

Health and safety policies and performance will be a very important factor in the selection of suppliers. Firms will need to demonstrate a strong corporate commitment which is supported by a robust health and safety structure and a good safety record. This is discussed in more detail in the section on health and safety.

### Supply Chain Management - selection criteria

The integration and incentivisation of the whole of the supply chain will be given high importance in the selection of suppliers as this is a major factor in the delivery of best value. The supply chain needs to be incentivised and rewarded for effective risk management and contributing to added value. This will require that the allocation of risks is applied fairly and consistently throughout the supply chain.

The supply chain management policies and performance of main suppliers will be scrutinised to ensure that the benefits of integrated teams are delivered. The HA will look for evidence of good practice such as the use by main suppliers of the Construction Industry Board's guidance on the "Selection of Sub-contractors".

The relationship between contractors and their designers on design and build contracts will be particularly important. The HA will require arrangements that incentivise the development of best value solutions and not solutions that are simply the cheapest to design.

### Environmental Performance - selection criteria

The HA will seek to improve the overall performance of its suppliers by requiring them to be in possession of an accredited Environmental Management System (EMS) or meet the requirements of an HA EMS. Sustainability will be integrated into procurement decisions ensuring that contributions to sustainability are taken forward within the framework of best value.

## Partnering Culture - selection criteria

The HA will require evidence that firms have developed a partnering culture throughout their organisation and with their supply chain. Suppliers will need to demonstrate a senior level commitment to support project teams in a partnership approach to deliver mutually agreed common objectives.

## Price, Cost Management and Control

The emphasis in the selection process will be on quality aspects, seeking to select the firms best able to identify optimal solutions and to deliver them efficiently and safely. Price will be taken into account in terms of affordability and how much the HA will pay for added value. This, together with the quality/price ratio, will be determined on an individual project basis and will take account of the specific circumstances and requirements.

The HA will assess the attitude and ability of firms to manage risks, remove wastage, improve efficiency and to control costs.

The HA will use risk schedules to help ensure that potential risks are identified during the tender period and are allocated clearly and fairly under the contract.

The HA will accept risks where appropriate provided that suppliers play a full part in effective risk management to minimise cost consequences.

The HA will place more importance on the ability of suppliers to estimate project costs, including risks, and to forecast expenditure accurately. The success of long-term relationships depends on reliable and robust cost estimates to develop affordable forward programmes.

Payment profiles will be used in contracts where necessary to provide greater certainty of expenditure. Arrangements may also be introduced to recover penalties incurred by the HA as a result of poor forecasting by a supplier.

The HA will continue to work to the high standards of its prompt payment initiative which sets demanding targets for the payment of invoices within 30 days. The HA will require its main suppliers to treat the supply chain in the same way and performance monitoring in this respect will be carried out.

## Minimise the burden of Tendering on Industry

The HA recognises the high cost of tendering and that these costs do ultimately find their way back to clients. Procedures will be introduced to keep tendering costs to a minimum. This will include the continuing use of ConstructionLine and in addition the HA will invite firms to submit certain general information on an annual basis to avoid the repetitive submission of data for individual tenders. The number of tenderers will be in line with the minimum required by procurement legislation that is aimed at ensuring fair competition. The need for detailed design submissions and technical approvals during the design period will be kept to a minimum.

It will be normal practice to hold meetings or clinics with tenderers during the tender period. This will be aimed at ensuring that tenderers understand requirements and the scope for alternative proposals. This will help to avoid any abortive effort and help to ensure that compliant bids of an appropriate quality are submitted.

## The Structure of Suppliers

Suppliers will have the option of developing 'one-stop shop' service delivery with all necessary resources in-house, or establishing consortia or joint ventures with appropriate supply chain arrangements. With joint ventures, or similar, it will be important to demonstrate how all of the necessary services will be delivered and how the different elements will be brought within appropriate quality systems. In the case of joint ventures the HA will have a preference for arrangements which show a commitment to a long-term relationship.

## Small and Medium Size Firms

The HA's programme of work, together with that of other clients, is increasing and it will be important to ensure that there are adequate resources available to deliver the programmes. It will mean that the HA will continue to make use, where appropriate, of good quality, small or medium size firms either directly or through the supply chain.

The HA will put much emphasis on the need for main suppliers to adopt supply chain management policies and practices which integrate, incentivise and reward good performance throughout the supply chain. This will need to include an equitable allocation of risks throughout the supply chain. Where this operates effectively, there should be no difference for firms in the supply chain, between working directly for the client and working for a main contractor.

## Supplier Performance Assessment and Reporting

The HA will work with its suppliers to establish consistent indicators which can be used to identify best practice and measure performance of all those involved in project or service delivery. The need to demonstrate continual improvement will be the basis of longer-term partnerships.

The HA will introduce 360-degree reporting throughout the supply chain, including suppliers reporting on clients, to ensure that partnerships are operating effectively. Performance reports will be required for all projects or on a regular basis for the delivery of ongoing services. Regular performance reviews will be undertaken and the HA will require proposals for addressing inadequate performance.

A new HA Supply Chain Management Team will be established to manage supply chain relationships. Particular attention will be given to the development of business relationships with its key suppliers including the agreement of strategic management objectives to improve standards of business delivery. The team will be responsible for performance reviews and will maintain regular contact and carry out site and office visits to assist in the "reality checking" of quality promises and submissions. The assessment of performance will be fed back into the supplier selection process to help judge capability and suitability of firms.

## Procurement's Contribution to Improved Health and Safety Performance

### Issue

To respond to the Government's Revitalising Health and Safety initiative.

### Objective

To bring about a substantial reduction in the number of accidents on construction and maintenance sites and to provide better working conditions for the workforce.

### Actions

Improved health and safety performance will be delivered by the following improvements to the HA's procurement procedures:

- Closer scrutiny of suppliers' corporate commitment to continual improvement in health and safety and of their record of performance;
- Regular monitoring and reporting of performance on a wider scope, including near misses;
- Targets for continual improvement;
- Earlier involvement of the contractor and the supply chain in the planning and design of work;
- Greater scrutiny of designers' performance in producing designs which are safe to build, maintain and operate;
- Longer familiarisation and mobilisation periods for the contractor and the supply chain;
- Demanding targets for the training of operatives and the policing of the registration scheme;
- Requirement on firms to produce action plans following accidents;
- More comprehensive post-project reviews;
- Ongoing work opportunities linked to good performance on health and safety.

## Addressing Possible Future Skills Shortages

### Issue

The HA's increasing programme of work needs to be delivered at a time when the work programmes of other major clients are also increasing. There are concerns within the industry that the increasing workloads will lead to a shortage of skilled resources across all aspects of work, including design, construction and management skills.

### Objective

To work together with the industry to make the most effective and efficient use of the current resources and to ensure that they are not being wasted on unnecessary activities.

## Actions

There are a number of aspects of the HA's new procurement strategy that are aimed at helping to address this potential problem.

These include:

- Co-operative partnership working to avoid wasting resources on disputes;
- Reduced design requirements at tender stage to avoid wasted design effort;
- Elimination of unnecessary layers of supervision and checking with the use of robust quality systems;
- Development of workforce skills and quality systems to support a "right first time" culture and avoid unnecessary remedial or corrective work;
- Reduction in accidents on site and their adverse impact on project delivery caused by the diversion of resource to deal with the consequences;
- Improved forward planning to allow programming of work to be matched to the availability of resources;
- Longer-term contractual relationships to give suppliers confidence and ability to recruit, develop and retain staff;
- Contractual arrangements that provide greater flexibility to address problems caused by peaks and troughs in activity during scheme development;

The need for additional resources will be assessed in the light of improvements that can be made by making more effective use of current resources. The HA will support initiatives to assess future requirements and to find ways of attracting new recruits into the industry.



## E-procurement

### Issue

To support government targets for carrying out procurement and business electronically.

### Objectives

To ease the burden and cost of tendering on industry, to improve communications and document control, to help make financial controls and reporting more efficient and to support performance measurement and reporting.

### Actions

Work opportunities with the HA will continue to be advertised on the HA's website and new procedures will be introduced to make the information more reliable and comprehensive.

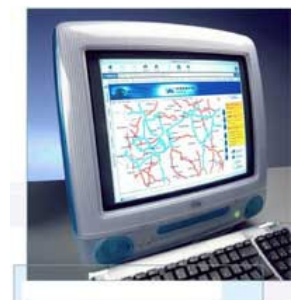
E-tendering systems will be introduced to achieve efficiencies in purchasing low value goods. Opportunities will be sought to enter into collaborative arrangements with other government departments to obtain better value for money through increased purchasing power. The use of electronic catalogues and the Government Procurement Card will be extended.

On construction and other highway-related procurement, e-tendering systems will be piloted using packages specifically developed for civil engineering projects. This will provide greater control of communications during the tender period.

Electronic project collaboration tools will be used to improve communications during project implementation and also to support the development of partnering throughout the supply chain. The use of these tools to support performance measurement and benchmarking will also be explored.

The HA's recently acquired electronic supplier database will be used to maintain records on firms and to support the selection of tenderers. It will be linked with the information available through ConstructionLine to ensure that the amount of information that needs to be submitted with individual tenders is kept to a minimum.

Information on best practice and lessons learnt from individual projects will be made available electronically in the form of post-project reviews, project experience notes and HA advice notes.





## Office of Government Commerce

The HA plays an active role in supporting the work of the Office of Government Commerce (OGC) and the Government Construction Clients Panel (GCCP). The HA will continue to work closely with these organisations to help the achievement of objectives and targets set out in the Achieving Excellence plan and also the Joint Action Plan agreed between the OGC and government departments. This will include the application of the OGC Gateway Review procedures to the HA's programme of works.



## Measurement of the Client's Performance

The HA will use the Clients' Charter scheme operated by the Confederation of Construction Clients as the basis for measuring its performance. The HA has registered with the scheme and a five year programme of improvement is currently being prepared by the HA to allow it to achieve Chartered Client status.

Measurement processes will be developed to demonstrate achievement of the relevant cultural and key performance indicators. The HA will require the support of its suppliers in the establishment of these processes.

For more information contact:

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