



CONTRACT OR CO-OPERATION? A PRACTICAL CASE STUDY OF A STRATEGIC FRAMEWORK

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Introduction

At CityWest Homes we have now completed our strategic procurement for major works and repairs and are currently implementing the arrangements. The project relates to housing in particular but can be applied to services generally. Set out below is our implementation strategy as a case study. I give my personal view of the key points and issues and also briefly run through the company's proposals for the future. The first key point is that there is no one solution, no set guide lines, just some base principles which need to be moulded and developed over the whole period of the relationship to suit the organisations involved, at a rate of change they can sustain.

CityWest Homes

CityWest Homes Ltd is the Arms Length Management Organisation recently formed by Westminster City Council. We have 22,000 dwellings. In 2001, this equated to an asset value of £1.9 billion. When we commenced the process in 2001/2002 our annual contracts were valued at £50 million. This was divided up as follows:

- Five management contractors providing housing management and technical consultancy (whom we call 'providers');
- Nineteen repairs and planned preventative maintenance (PPM) contractors;
- Eight contractors providing estate services; and
- In all, approximately 300 contracts delivering £21 million of major works, which increased to £45 million in 2002/2003, rising to £50 million in 2003/2004.

Our stock condition survey and asset management plan in 2001 identified a funding gap in the region of £62 million over the following ten years if we were to achieve the Government's decent homes standards and complete our outstanding catch up repairs. To overcome this gap, we looked at several options including full stock transfer, partial transfers, PFI etc. None of them, in themselves, provided the answer. We therefore adopted a mixed economy approach to resolve our funding gap, by –

- Repackaging our contracts and moving to strategic partnering to reduce costs;

- Using these contracts as a vehicle for investment, with long contract periods and potential for using the rental stream;
- Some small scale stock transfer;
- Potential smaller scale, component based PFI contracts, for example for lifts, communal heating etc.

Finally we bid successfully to become an Arms Length Management Organisation (ALMO) and were accepted by the government as a round one transfer and on 1st April 2002, became CityWest Homes Ltd. This has meant an additional £60 million of government funding, having achieved our 3* rating last year. However, at the time the government was stating that this additional funding was subject to a requirement to spend it within three years.

So in summary, we needed to deliver strategic partnering to:

- Deliver hugely increased expenditure;
- Reduce lead in times;
- Reduce the number of contracts and contractors and develop closer relationships so that we learnt by our mistakes;
- Achieve certainty of cost and delivery;
- Improve quality and introduce whole life costing;
- Reduce costs;
- Reduce claims;
- And at the same time increase meaningful resident input and participation.

To achieve all this we sought to change our contractual arrangements and communication strategies for major works, from some 300 individual long linear structures with no contractual relationship between the various contractors and consultants, to a multi-party umbrella contract with individual projects based on tri-partite partnering contracts.

The contractual framework

I believe that a contract is essential. We are expecting to achieve major cultural, operational and managerial changes in delivery. We are seeking integration of designers, clients and constructors and beyond, down the supply chain and indeed down to the operatives and residents. With the right contract these aspirations can be translated into clear roles and responsibilities, goals and targets, and provide a framework for development. For this purpose we selected the PPC 2000 contract as the base document, because it most closely suited the way our organisation operates. The contract chosen must fit the way you deliver your programmes and should not be left to the preferences or the conservative nature of your legal department.

Project partnering or strategic partnering?

CityWest Homes took the view that if this was to be successful and achieve our long-term goals, we would need to fully embrace the challenge and therefore strategic partnering in its fullest sense was the way forward. In these terms we were not only transferring our major works programme but all our procurement and services to a partnering basis. Project partnering would only be used as a pilot study or if there were statutory requirements such as section 20 or other blockers preventing a strategic alliance.

A decision needs to be made about why you are partnering and where it is to lead. Is it on a project basis to deliver a large or complex scheme or is it 'strategic' to achieve a cultural change in delivery? It does not work to just separate out a few odd schemes and a few nice guys and sit them in a corner as a token partnering team so that you can tick a box, while the rest of the outfit carries on as normal.

Be sure, confident and positive once you have made the decision to take this route. If you are still saying 'I can't because.....', you will never make it. You need to be saying and thinking, 'We are going to do this, now what is the problem?'

Partnering in practice

So what did we actually do and how far have we got?

We commenced the process during 1999/2000, when a special section on partnering was added to the specification and tender documentation for our single source provider contracts. This section detailed our proposals for the introduction of strategic partnering, its development and the possible roles and structures to support it. These contracts, which are initially for a period of five years, also have potential extensions to 10 and 15 years, with one of the primary factors being the successful introduction of the partnering arrangements. These contracts commenced on 1st April 2001.

Training

It was clear from the earliest stages that the training and development of a common understanding of what we meant by partnering was to be a key and fundamental part of the process. Recognising that culture change and long term strategy was the key, we commenced with our own senior managers, followed by providing training for our internal and external auditors and solicitors, our corporate finance and policy groups and other associated departments. This facilitated a common understanding of our proposed strategies, backed by the reasoning and potential gains. This has proved to be a vital piece of preparatory work; we have received real support and pro-active involvement in reducing bureaucracy, finding innovative ways of procurement and forms of contract.

We then trained and continue to provide training for all our departments' remaining staff (whether they have a direct operational involvement, a support

role or even no direct link at all) so that everyone understands what we are trying to achieve and why. This was then extended to the senior managers of our new providers.

Alliancing agreement

This led, in March 2001 (before the commencement of the new contracts), to the signing of an alliancing agreement. The key here was to remove perceived commercial sensitivities by allowing each contractor the opportunity to develop its own strategies for the introduction of strategic partnering, according to the individual company culture and policies rather than as a result of a client edict. They were therefore able to share experiences and the resolution of problems without losing any commercial edge. This of course has a further side benefit to us in terms of benchmarking the various methods, although on the downside it meant developing and co-ordinating five different strategies at the same time.

We have subsequently provided training to all the provider's operational and backroom staff as well as joint client/provider workshops. Subsequently we have also trained the core residents group who added their signatures and commitment to the alliancing agreement. The signatories of this agreement formed the strategic partnering group to steer the project through the procurement process.

With regard to the building and other contractors, we have provided workshops and training to the managers and supervisors where appropriate. We are also now seeking to develop a site certification scheme for all operatives to ensure that the understanding and culture is devolved to all levels.

Communication

A simple and clear communications strategy was also identified as a key component. We attempted to tackle this at a number of levels. From restructuring our client-side to align with the new providers, to reviewing our reporting, monitoring and meetings to reduce duplication and unnecessary content. This is an ongoing process.

Pilot projects

In practical terms, in 2001/2002, we set aside £5 million for fast track pilot projects to identify methodology, best practice and trial various contract terms. Also we ran a pilot repair scheme using an existing contractor in a joint venture with a sister company to provide a single combined repairs and PPM service. All were very encouraging in terms of the approach being adopted by providers and contractors and their commitment to working together by identifying areas of improvement, including waste and risk reduction.

Fast track schemes

Last year, in parallel with the EU procurement for the strategic constructors, we carried out a large number of 'fast track' partnering schemes and increased our major works programme from £21 million to £46 million from an almost standing start.

With the support of our auditors and solicitors, we were able to secure firstly £15 million and subsequently a further £30 million worth of waivers to our standing orders to negotiate the works packages. This enabled us to deliver 2,140 decent homes last year. These contracts were let on the PPC 2000 contract and all were completed on time. Returns of resident satisfaction surveys has increased to 80%, showing average satisfaction up to 95% and in some cases 100%. Few variations were issued on the projects and snagging and defects items showed continuous improvement through each project and from one project to another. Most importantly of all, there were no contractual disputes whatsoever. Obviously there have been some problems, albeit comparatively minor.

Identifying the strategic constructors

While these fast track schemes were being delivered, we commenced the procurement process to identify and engage our strategic constructors. We considered it important that the smaller contractors were also actively encouraged to enter the tender and that the documents and strategy did not disadvantage them. The tender was based on a number of strategic documents and represented the largest single procurement exercise undertaken by the City of Westminster, with an anticipated value of around £700 million.

The main document was the strategic alliancing agreement, an umbrella contract developed from PPC 2000. The contract sets up the strategic partnering team but does not in itself allocate or guarantee any work. Each project let under individual PPC contracts is dependent upon the contractor's past performance and continued improvement and partnering development. The contract period was set at 13 years and 4 months to make it co-terminus with the provider contracts.

To attempt to prepare sample or model specifications to cover all possible works for this period was not a practical option, therefore we decided to base the works on the complete national schedule of rates. Tenderers were given the option to price for one, all or any combination of provider packages of villages (contract areas or estates) but limited to the number of villages they would ultimately be awarded. The constructors were provided with a detailed stock profile, one, five and 30 year programme for each of our 15 villages and a copy of our stock condition survey.

The main document also sets out the strategic key performance indicators (KPIs). Other documents included model project contract documents, methods and procedure maps, proposals for incentive schemes, apprenticeships and the site certification of operatives.

The EU advert inviting expressions of interest was placed in December 2001. We received 120 expressions of interest and sent out 79 pre-qualification questionnaires of which 52 were returned. Following detailed evaluation, 24 contractors met the threshold limit we had set and were invited to tender; of these 21 were returned.

At this point the pricing documents were separated and underwent separate assessment from the quality evaluation, the criteria being a 60:40 split in favour of quality. This exercise led to a shortlist of preferred bidders for each provider area to be called forward to interview by a joint panel of providers and residents. These final contractors were then called to post tender clarification to resolve some pricing anomalies.

Finally, eight contractors representing a cross section of companies from national to the smallest company with a turnover of approximately £7 million. They are Keir London, Wates, United House, Makers UK, Apollo London, Linbrook Services, Hill Partnership and Thomas Sinden. With comparatively little discussion or amendment the Strategic Alliances Agreement was signed by all 14 Partners on the 12th December 2002.

As I said the basis of the tender was the national schedule of rates, and the bidders were asked to price four sets of matrices providing a percentage adjustment for net cost works, site based work, central overheads and profit; all based on contract sum ranges. The central overhead and profit percentages are ring fenced and will be used for future projects but the schedule of rates, works and site overheads percentage adjustments are used for benchmark and section 20 purposes only. (Section 20 of the Landlord and Tenant Act 1985 sets out the requirement on landlords to notify leaseholders of major works intended to their properties.)

For each project, historic costs, approximate quantities and unit rate pricing is used to build up feasibility costs. The partnering team (constructor, provider, client and residents) then design the full scheme including any necessary opening up works and pilots. An integral part of this process is risk assessment, method tested and value engineering to develop the best value specification and thus the net works cost and scheme specific site overheads. To this end the ring fenced profit and overhead is applied to produce the agreed maximum price for the scheme.

To complete the picture, we have not only changed our contractual arrangements for the delivery of major works but are in the process of converting our repairs and PPM delivery to the same strategic partnering basis. The repairs contracts were re-negotiated in 2002 and let to three constructors who are also part of the major works framework. The PPM contracts are being transferred during 2003/2004 as existing traditional contracts reach the end of their term. All the new contracts are let on the TPC 2001 form (the term contract version of PPC 2000).

The next steps

Obviously we are in the early stages of implementing the strategy and the whole basis of the framework is continuous improvement and evolving management. The next areas to be tackled therefore are:

- Review programme – the way in which we package and allocate works programmes to provide cost effective and efficient delivery;
- Risk assessment – further development both at strategic and operational level to assist in identifying and eliminating waste, and appropriate allocation of risk management;
- Strategic core group needs to evolve and develop away from operational implementation;
- Standard specifications;
- Improved and more effective benchmarking;
- Further development and involvement of the supply chain;
- Continued waste identification and elimination;
- Investment in the future and in our communities through training and apprenticeships;
- Potential for expansion of the framework to other ALMO Groups and possible joint ventures with our partners on other projects outside the alliance.

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