

<b>Committee:</b>	<b>Date:</b>
Projects Sub-Committee Finance Committee	14 March 2018 10 April 2018
<b>Subject:</b> City of London Major Works Strategy Stage 1	<b>Public</b>
<b>Report of:</b> Chamberlain <b>Report Author:</b> Mona Lewis, Assistant Director Category Management and Sourcing, Chamberlain's	<b>For Decision</b>

### **Summary**

The purpose of this report is to set out the strategy for procuring Major Works for the City of London between £1m and £15m and to seek Member approval for the recommended strategy and evaluation criteria to be used in the selection of a preferred supplier(s). This is required as the estimated contract value exceeds £2,000,000 as per Section 16.3 of the Procurement Code Part One.

This report also gives you the background, strategy development process and implementation on how City of London will procure its major works above £15m and construction and property professional services to improve level of competition, attractiveness to the market and deliver value for money for the City of London, along with best practice approaches.

### **Recommendations**

Members are asked to:

- Approve the strategy, implementation and procurement route for Major Works between £1m and £15m, which is to develop 4 strategic frameworks for works within an estimated total annual value range £130m to £245m. These will be procured as follows:
  - Framework 1 – £1m-£4.6m/ OJEU threshold (IPG, CPG, Open Space, Police, Markets and Barbican)
  - Framework 2 –£1m to £4.6m/OJEU threshold (Housing)
  - Framework 3 - £4.6m/OJEU to £15million (IPG, CPG, Open Space, Police, Markets and Barbican)
  - Framework 4 - £4.6m/OJEU to £15million (Housing)
- Approve the evaluation criteria; the proposed evaluation criteria of 60% quality 40% price is in line with the Procurement Code. The proposed weighting towards quality reflects the priority and focus of getting the quality of the service element right.
- Approve undertaking of soft market testing in May 2018 and look to procure a strategic solution in September 2018 with a potential award date in March 2019.

### **Background**

- City Procurement has been working with the Construction and Professional services Category Board analysing challenges faced with procuring contractors on our major works and professional services.
- The category board instigated a working group in March 2017 chaired by Assistant Director Major Projects and supported by officers from City Procurement, CSD and departmental representatives to: understand the City's challenges and drivers; develop our contracting strategy; get feedback from the open market; and get a better understanding from the market to ensure we are aligned with current market appetite.
- The main objective of this review group was to develop strategic options and recommendations on how the Corporation could procure major construction projects as well as the professional services that complement the work and needs of the organisation.

### **Soft Market Testing Exercise - January 2018 (Major Works only)**

- We undertook a soft market test to openly engage with contractors to gain feedback and understand how we do business and what would be attractive to the market.

- 18 contractors responded; 5 of which are SMEs and 9 of which had never done business to date with the Corporation.
- The working group considered the results of the soft market testing and the recommendation below:

- The market suggested changes to our property portfolio grouping; suppliers recommended we reduce the grouping from 7 to 3 which the working group agreed.
- **Recommendation below**

Group 1	Investment property Corporate and public buildings Open spaces Schools (including GSMD) City of London police Markets Barbican Centre
Group 2	Housing (section 20)
Group 3	Civils, Infrastructure and environmental protection

- Develop a Corporation multi-contractor framework that would enable us to retain an approved list of contractors as the primary strategic solution for City's annual programme of major works.
- Allow provision within the framework to award a single contractor for a batched and defined programme of works following a competition under the framework.
- Have a minimum of 3 and maximum of 6 contractors on each framework
- Commit to share our pipeline of projects with contractors as part of early engagement.
- To note; City of London already has a strategic term contract for group 3 with the formerly known Riney (now Tarmac). This solution has proved very successful and is periodically benchmarked against LOHAC. Hence a new solution is not required at this present time.

#### **Recommended Lots and Value banding of new frameworks (Major Works only)**

- Feedback and analysis demonstrated that we needed to attract the appropriate level and type of contractors for projects. The working group produced the value bandings as a **recommendation below:**

<b>Values Bandings</b>	<b>Range</b>
Value Banding 1	<b>£1million - £4.6million / OJEU limit- City Framework</b> ➤ Framework 1 - for Group 1 ➤ Framework 2 - for Group 2
Value Banding 2	<b>£4.6million - £15million – City Framework</b> ➤ Framework 3 - for Group 1 ➤ Framework 4 - for Group 2
Value Banding 3	<b>£15million and above options (framework 5 )</b> ➤ <i>Use external frameworks</i> ➤ <i>Look at developing our own framework through collaboration</i> ➤ <i>Run tenders as and when</i>

- The above framework banding and values are caveated in that we will ensure the same contractors do not appear on all the framework lots. In addition, costs will be benchmarked periodically.
- The working group recommended prioritising immediate work to start on developing solutions for value banding 1 and 2 due to volumes and demand and to look to start developing the above £15m strategy as a second phase to the project.
- Members should note that works of below £1m are currently being reviewed as part of the Minor Works strategic solution. An initial stage 1 strategy paper was approved by Finance Committee in May 2017 and is listed in the related papers section.

## Professional Services Strategy

### Background (Professional Services)

- The working group has considered the current position on professional services and found that:
  - In 16/17 we appointed 128 professional services contractors at a value of £9m.
  - £5.3m of this spend was awarded on 109 individual contracts that were each below £100k.
  - Only 19 out of the 128 contracts were awarded via an external framework due to value range.
  - City of London receives a high volume of interest in tenders for professional services.
  - The highest value professional fees paid were on architects; project managers and cost consultants.

### Challenges perceived (Professional Services)

- Professional services have a high-volume demand and is very repetitive; one of the key questions was whether we get value for money; whether we attract the right level of specialist.
- The working group will look at modelling future demand and potential strategic solutions.
- At present additional time is required to undertake more detailed analysis of historical spend, common issues and desired outcomes that consider fee vs level of specialist.
- The working group agreed that the major works strategy on conducting a soft market testing proved invaluable; and it would be prudent that we conduct a separate exercise for professional services that will enlighten our approach on any future strategy to be recommended.

### Proposed Next Steps (Professional Services)

- Create a detailed analysis of spend for professional services to be completed by April 2018, developing an outline procurement strategy to be presented to this Committee in July 2018.
- Undertake soft market testing in May 2018 and look to procure a strategic solution in September 2018 with a potential award date in March 2019.

### Conclusion

- The Construction and Professional Services Category Board has developed a Strategic Solution to improve the organisation's contracting and project delivery. This paper seeks to gain approval to proceed with the recommended procurement strategy to deliver 4 new frameworks to service projects in the range of £1m-£15m for Major Works. The paper also advises on ongoing reviews and proposed market testing of future strategies for Major Works above £15m and a property professional services strategy to be presented at this Committee in July 2018.

## Appendices

<b>Appendix 1</b>	Role of Category Boards
<b>Appendix 2</b>	Additional background on work undertaken so far
<b>Appendix 3</b>	Minor Works Strategic Solution

## Contact

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## **Appendix 1 – The Role of the Procurement Category Boards**

Procurement Category Boards have been established as part of the new City Procurement Governance structure. The Boards are chaired by a Chief Officer or Director and facilitated by a Category Manager from City Procurement and has representation from Comptrollers to ensure legal compliance in all board decisions. Each Board has relevant membership from across the City's departments for areas of spend that could benefit from strategic decision making, due to synergies of spend, a large number of current suppliers or potential for increased efficiency in the supply or management of goods, works or services.

The Construction and Property Services Category Board has been chaired by the City Surveyor's Investment Property Director and has permanent members from the departments of City Surveyors, The Barbican, Built Environment, Chamberlain's, Comptrollers, Open Spaces, The Schools, City of London Police, Barbican Estates and Town clerks. Other departments are represented by working groups focused on specific goods, works or services that report to the Category Board.

## **Appendix 2**

### **Internal challenges identified ( Major Works only )**

Feedback from internal project managers, and officers and historic tenders concluded that some key challenges we face are:

- a. Lack of suppliers bidding for our work leading to poor competition
- b. Overpricing of bids due to lack of interest/competition
- c. Our speed to market is prohibitive to securing best value
- d. Cost Vs time – driving cost down to achieve value for money is not always achievable with project timescales for delivery;
- e. Wrong size and type of contractors bidding for our work; that don't perceive our work as a key account.
- f. The current external frameworks we use have either reached their maximum financial limit. Every framework has a maximum value of work that can be put through. As these frameworks are open to all authorities; we find ourselves trying to access frameworks that have reached their financial limits on works to be awarded.
- g. We are typically going to the market too late in the project lifecycle; not giving suppliers enough of a forward view, market is typically working on one-year advanced pipeline

The working group reviewed the property portfolio and grouped these by associated nature of works and historic volumes and value; with a view to a future strategy that could result in procurement solutions based on our intelligence of where the market would sit and what would look attractive. The working group initially compiled 7 groups and sought market consultation

### **Value for Money (Major works only)**

The working group and category board agree that the above recommendations will demonstrate value for money and drive efficiencies; with justification below:

- a. Time and resource efficiency - Running full OJEU procurements takes approximately 172 days Vs a mini competition on a framework which would be approximately 41 days.
- b. Mini competitions on a specifically procured framework for City of London will continue to drive competition
- c. Avoid costs charged to use using external frameworks (typically 1-3%)
- d. Create an opportunity for batching of multiple projects to drive contractor and City savings
- e. Deliver savings in contractor's price arising from avoidance of bidding and mobilisation costs.
- f. Attract SME's on framework 1 and 3 due to lower value bandings; which fulfils local government and City's objectives.
- g. Allow contract management to be further development at a strategic relationship level, therefore allowing us to leverage relationships built.
- h. Attract contractors with appropriate capacity, capability and interest in our works
- i. Gives us provision for step in of a different contractor to mitigate failure of delivery or financial health issues with contractors