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Procurement of construction projects in local government

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This paper provides an evaluation of changes in procurement of capital projects in local government in recent years. These changes have been driven partly by changes in legislation regarding compulsory competitive tendering, best value and more lately prudential finance legislation. They have also been driven by developments in industry procurement practices, particularly following publication of the Latham and Egan reports. Results of research seeking to assess current practice regarding procurement of capital projects in local authorities following publication of the National Procurement Strategy in October 2003 are presented. The organisation of the procurement function, use of standard forms of contract, e-procurement, capability and arrangements for procurement-related training are discussed including use of external consultants. The overall conclusion is that local authorities are at various stages of development regarding implementation of the National Procurement Strategy. Although most of them have in place training arrangements to develop skills of technical and procurement staff, many local authorities will continue to use external consultants. Moreover, 75% of local authorities see use of external consultants to provide professional advice in various elements of project procurement as a long-term measure.

1. INTRODUCTION

Construction output in the UK accounts for approximately 10% of the country's gross domestic product (GDP). Central and local government expenditure on construction constitutes 40% of all construction output. It is estimated that the local government sector alone spends over £40 billion annually on procurement of goods, services and works from external sources.¹ This paper firstly provides an overview of recent developments in procurement of construction projects in local government. The reasons for these developments are given. Based on results of a self-completion questionnaire, the rest of the paper provides an evaluation of procurement of construction projects in local authorities following publication of the National Procurement Strategy.

2. RECENT DEVELOPMENTS IN PROCUREMENT

Over the past ten years there have been a number of changes in the procurement of capital projects and engineering services in

the public sector. The publication of the Latham report² in 1994 for example introduced the concept of benchmarking in which performance of the construction industry was compared to motor manufacturing. Other studies since then have sought to compare the performance of the construction industry with the aerospace sectors.

The Latham report also drew attention to partnering and states that partnering can bring significant benefits by improving quality, and timeliness of completion of construction projects while reducing costs. Partnering includes the concepts of teamwork between suppliers and the client and total continuous improvement. It requires openness between the parties and ready acceptance of new ideas, trust and perceived mutual benefit. The Latham report identified a 30% cost reduction target over a five-year period and suggested that clients should choose their contractors based on value for money rather than automatically accepting the lowest tender.²

Another review of UK construction culminated in the Egan report³ which recognised that the UK construction industry has the capacity to deliver the most difficult and innovative projects. The report suggests that although the industry matches the capability of any other construction industry in the developed world, it argued that as a whole, it was underachieving. The report identified a number of key performance indicators (KPIs) or measures designed for annual sustained improvement. One of the challenges for the UK construction industry was to achieve annual reductions in construction costs of 10%. This target cost reduction was set within the context of simultaneous improvements to quality, safety, and time/cost predictability.

The Egan report emphasised the need for many of the principles and production processes used in the car manufacturing industry to be taken up by the construction industry, for example total quality management techniques, 'lean' production principles, integrated supply chains, greater standardisation and prefabrication and increased use of information technology. The report encouraged the construction industry to replace competitive tendering with long-term relationships based upon clear measurement of performance and sustained improvements in quality and efficiency. By partnering the whole supply chain, including contractors, suppliers and subcontractors, the Egan report argued that sustained incremental improvement could be achieved.

The report went on to note the role the public sector had to play as a major client in delivering these changes in the construction industry. The report identified five key drivers needed to deliver cultural change in the industry

- (a) committed leadership
- (b) focus on the customer
- (c) integration of process and team around the project
- (d) a quality-driven agenda
- (e) commitment to people.

Since publication of the Latham and Egan reports, collaborative working through partnering has been embraced by many client organisations in both the public and private sectors in the construction industry. Standard forms of contract that seek to utilise the partnering concept have been developed and include the PPC2000 and the NEC Engineering and Construction Contract Option X12. New innovative procurement methods such as Early Contractor Involvement (ECI) have also been developed and are gaining widespread use for delivery of capital projects. ECI seeks to integrate the team members around a project. The contractor is appointed early in the life cycle of the project to work with the client and contribute to development of the design and secure improvements in buildability and economy.

Construction procurement in local government over the past ten years has also been driven by changes in legislation in addition to the developments in industry practice. The Local Government Act 1988 compelled local authorities to subject procurement of all goods and services to compulsory competitive tendering (CCT). The philosophy behind CCT was to instil commercial discipline and competitive pressures in the provision of services similar to those that exist in the private sector to achieve the most cost-effective delivery of services. The requirement to procure goods and services through CCT was however abolished in 1999 and replaced by procurement on the basis of best value.

The concept of best value, imposed through the Local Government Act 1999 requires local authorities in England and Wales to deliver goods and services to clear standards of cost and quality. Local authorities must also secure continuous improvement in the way in which their functions are exercised, having regard to combinations of economy, efficiency and effectiveness. Compliance with the Act requires that local authorities publish annual best value performance plans that report on past performance, current performance and identify forward plans and targets for improvement. There was also a requirement for review of all local authority functions over a five-year cycle although this was revoked in 2002.⁴ The requirement to achieve best value has however been retained and best value reviews are based on the concept of the 4Cs.

- (a) *Challenge*: why, how and by whom a service is being provided.
- (b) *Compare* their performance with others.
- (c) *Consult* with local stakeholders.
- (d) Use fair and open competition wherever necessary as a means of securing efficient and effective services.

In the context of construction, the CCT regime focused on procurement of capital projects principally on lowest price. Awarding construction contracts on the basis of lowest tender

price alone is very often a false economy. In terms of bidder behaviour, tenderers under a CCT regime will reduce their proposed tender prices in the hope of making up the difference by reducing quality, inflating prices for any client-initiated variations to the contract and pursuing claims. Best value on the other hand encourages local authorities to actively consider quality and whole-life costs in their evaluation of projects. While price is still an important consideration, it must however be measured alongside quality and whole-life cost parameters. Cost reductions are to be achieved as a result of more efficient construction and procurement practices, and not to the detriment of quality or cost in use.

Following publication of the Egan report, The Movement for Innovation, the Housing Forum and the Local Government Task Force (LGTf) were established. These organisations introduced a series of demonstration projects where various processes and other innovative procedures were trialled on real projects. These demonstration projects have provided important data for examining potential sources of improvements. According to the LGTF, tangible improvements can be delivered to the construction process by more efficient ways of working. In particular, the LGTF suggests that although it still has a role to play, serial design and tendering of construction projects should be generally avoided, and that projects should be designed and delivered using the expertise of fully integrated project teams.⁵

Local authorities cover a very wide range of construction procurement activities. They have responsibility for the construction, maintenance, repair and alteration of a range of buildings, bridges, tunnels, roads and drainage. Each of these activities is unique but the principles of the Egan report can be applied equally to each. The key elements of the new procurement regime for local authorities recommended by the LGTF are⁵

- (a) partnering with shared profit/loss
- (b) strategic partnerships and framework agreements
- (c) integrated design and construction teams including clients, contractors, designers and suppliers
- (d) quality of service and product to be critical success factors
- (e) whole-life cost appraisals to form an integral part of the process to include all future running and maintenance costs.

It is now recognised that central to the delivery of the best value agenda and cost-effective and efficient services in local government is the need to focus and improve the procurement function. Following background research,¹ the three-year Local Government Procurement Strategy was published in October 2003 by the Office of the Deputy Prime Minister (ODPM), to cover the period 2003–2006.⁶ This research identified a number of challenges in local government procurement in England.

First, the research found that few councils had the corporate capacity to meet the procurement challenge presented by best value. This finding was confirmed by the Audit Commission research on the procurement of services in the context of best value reviews. In 2000, the ODPM found that only 25% of English councils had a written procurement strategy in place. Council members were reported as being 'strongly involved' in the development of this strategy in only 13% of cases.¹

In March 2002, the Audit Commission found that 40% of English and Welsh authorities had a procurement strategy.⁴ However, the Commission's survey found that many procurement strategies were incomplete, untested or deficient in one or more key areas, and only a few were likely to be used to their full potential. A common weakness was to describe the procurement process itself rather than take a strategic overview of the role of procurement. According to the Commission, 80% of procurement strategies were deficient in some way, because they had not been finalised, had not been implemented, or did not address relevant issues. More than 40 councils had not even begun to prepare a strategy at that time.⁴

The overall assessment by the Audit Commission was that as of 2002, 70% of councils lacked a commitment to competitive procurement.⁴ The CCT culture was regarded perhaps as the largest and most frequent barrier encountered. The commission also listed the following as the other main barriers to competitive procurement

- (a) legal complexity
- (b) risk aversion
- (c) a restricted supply market
- (d) narrow approach
- (e) lack of client-side capacity.

Comprehensive Performance Assessments (CPAs) were introduced by the Government in 2001 as part of a national framework for setting clear performance standards which can be independently monitored.⁷ The first CPAs were carried out over the period 2002–2003 and were effectively independent assessments of the overall performance of service delivery in local authorities. Local authorities were given a rating of excellent, good, poor and weak. In 2003, the Audit Commission published the *Patterns for Improvement* report,⁸ in which its findings of the CPAs for the year 2002 are discussed. The Commission concluded that one of the reasons for high performance was a robust approach to procurement based on a well-developed mixed economy. The 2002 CPA also revealed the following facts.⁴

- (a) Some 49 councils were responding well to the challenge of procurement.
- (b) In 48 councils, the procurement strategy was working reasonably well but more development would enhance capacity.
- (c) In 42 councils, experience was patchy. Often the procurement strategy was new and not yet working. Of these, 39 councils either had no procurement strategy, were not applying it properly or were not sourcing it.
- (d) In 16 councils, there was a political or historical attachment to keeping services in-house. This was preventing the development of a mixed economy and consideration of other options for service provision and delivery of capital projects.

The policy context of procurement will also be taken forward with the enactment of the Local Government Act 2003. The new Act, which became effective from 1 April 2004, introduces freedoms and flexibilities in relation to procurement and these include the following.

- (a) A prudential capital finance system, which will enable councils to borrow for capital investment without central

government consent, as long as they can afford to service the debt.

- (b) Power for the Government to authorise councils in the fair, good or excellent categories to trade in relation to any of their ordinary functions.
- (c) New powers for all councils to charge for discretionary services.

Prudential borrowing has the potential to give new funding options for local authorities undertaking capital projects. Local authorities under the new system can borrow provided it is affordable, prudent, sustainable and value for money is demonstrated. Borrowings and commitments must be undertaken on the basis that it does not unduly affect the future administration of a local authority.

3. FUTURE OF LOCAL GOVERNMENT PROCUREMENT

All local authorities in England must implement the Local Government Procurement Strategy published in October 2003, over the period 2003–2006 by adopting world-class practices in procurement and the management of contracts and supplier relationships. More specifically, by 2006 all councils are expected to be achieving the following goals.⁶

- (a) Delivering significantly better-quality public services through sustainable partnerships forged with a range of public, private, social enterprise and voluntary-sector organisations.
- (b) Confidently operating a mixed economy of service provision, with ready access to a diverse, competitive range of suppliers providing quality services, including small firms, social enterprises, minority businesses and voluntary- and community-sector groups.
- (c) Achieving continuous improvement from all categories of procurement expenditure, by putting in place an appropriate procurement strategy and the necessary resources for implementation.
- (d) Obtaining greater value for money by collaborating with partners at local, regional, national and European levels.
- (e) Realising economic, social and environmental benefits for their communities through their procurement activities.
- (f) Demonstrating improvement in equality and opportunity for businesses, service users and council staff.
- (g) Stimulating markets and using their buying power creatively to drive innovation in the design, construction and delivery of services.

4. RESEARCH OBJECTIVES AND METHODOLOGY

The aim of this study was to collate information on procurement activity in relation to building and engineering works, private finance initiative/public–private partnerships (PFI/PPP), contracting and consultancy services. The study was therefore designed to gather information on the procurement function in local authorities specifically from a technical services perspective considering the changes introduced in recent years through the initiatives outlined above. To collect primary data, a postal survey utilising self-completion questionnaires (SCQ) was utilised. The SCQ is an impersonal survey method and

has a number of advantages and disadvantages that are well discussed in the literature.⁸

Advantages of SCQ include the following.

- (a) *Low cost.* Economy is one of the most obvious appeals of SCQ. All they entail is the cost of planning, sampling, duplicating, mailing and providing stamped, self-addressed envelopes for the returns. Processing and analysis are also simpler and cheaper than other survey methods.
- (b) *Reduction in biasing error.* There is no direct interaction between the interviewer and the respondent in SCQ. This reduces biasing error that might arise from personal characteristics of interviewers and variability in their skills.
- (c) *Greater anonymity.* The absence of an interviewer also provides anonymity. The assurance of anonymity with SCQ is especially helpful when dealing with sensitive issues. On such issues, SCQ can elicit higher response rates than personal interviews.
- (d) *Considered answers and consultations.* SCQ are also preferable when questions demand a considered (rather than immediate) answer requiring consulting documents or other people.
- (e) *Accessibility.* SCQ permit wide geographic coverage at minimum cost. For example, when a survey requires wide coverage and addresses a population that is dispersed geographically, interviewing would involve high travel costs and time investments.

Disadvantages of SCQ include the following.

- (a) *Requires simple questions.* The SCQ can be used as an instrument of data collection only when questions are straightforward enough to be comprehended solely on the basis of printed instructions and definitions.
- (b) *No opportunity for probing.* The answers have to be accepted as final. There is no opportunity to probe beyond the given answer to clarify ambiguous answers or to appraise the non-verbal behaviour.
- (c) *No control over who fills out the questionnaire.* With an SCQ, researchers have no control over the respondent's environment, hence they cannot be sure that the appropriate person completes the questionnaire—that is, an individual other than the intended respondent may complete it.
- (d) *Low response rate.* It is often difficult to get an adequate response rate for SCQ. Reported response rates tend to be lower than personal interviews. A researcher using SCQ therefore faces the problem of how to estimate the effect of non-respondents on the research findings.

5. RESEARCH RESULTS AND DISCUSSION

An SCQ was designed, addressed to directors of technical services/environment departments and sent by post to 400 local authorities in England and Wales. A total of 101 completed questionnaires were returned, giving a response rate of 25.25%. Typical response rates for a mail survey without follow-up is between 20% and 40%.⁹ Respondents to most of the questionnaires were directors of technical services and procurement managers. All questionnaires were, however, answered by senior managers. This is evident from the job titles of the respondents which in most cases included the

term 'manager' or 'director'. Furthermore, approximately 84% of all the respondents were over 40 years of age and 98.8% had over 15 years' working experience. Of those who responded to the survey, 74% indicated that they were interested in receiving a copy of the survey results. This marked interest in the findings can be explained by the fact that procurement is now a topical issue in local government. In the following paragraphs the research findings are discussed under a number of subheadings. The percentages quoted are based on the 101 local authorities that responded. No attempt has been made to analyse the differences or potential differences in responses between unitary authorities, district councils, county councils, London boroughs or metropolitan boroughs.

5.1. Organisation of the procurement function

The requirement on local authorities to draw up and implement a procurement strategy has raised the profile of procurement from being an operational function to a strategic one. From our survey, 67% of the local authorities indicated that they have a formal written procurement strategy drawn up and owned by the chief executive, council members and senior officers. A further 27% of the local authorities were in the process of drawing up such a strategy. Development of a corporate procurement strategy in a local authority assists in promoting consistency and common standards in procurement across all service departments.

The involvement of council members in procurement seems to vary from local authority to local authority. In most local authorities, member involvement in procurement is limited to reviewing and monitoring final decisions made by senior officers. In our survey, 56.8% of the respondents indicated that their local authorities have effective executive and scrutiny member involvement in procurement and that it is council policy and practice to award contracts on best value rather than lowest price. Furthermore, 29.6% of the councils indicated that member involvement depends on the value of the contract in question.

Many local authorities now have a corporate procurement unit (CPU). Such units let and manage corporate contracts and also procure common user items such as stationery, photocopiers, cleaning materials, fuel and information and communications technology. In our survey, 64% of local authorities have such a unit. Because of the specialist nature of procurement of capital construction projects, this function is devolved to the technical departments in most local authorities although the CPU may have a contribution to make.

The Local Authorities (Goods and Services) Act 1970 empowers local authorities to trade with other local authorities and public bodies. In our survey, only 18.3% of the councils have a procurement strategy that sets out their council's approach to joint procurement with other public bodies such as the NHS Trusts, police, Benefits Agency and fire authorities. A further 35.4% of the councils replied that the policy of joint procurement was under development. One council responded that it is their policy to support joint procurement with local public-sector partners where possible. A lack of skills and experience, and the need to exercise controls to meet requirements of best value are possible obstacles to joint procurement. In construction works, local authorities could for example go through the pre-

qualification process and develop approved tender lists in collaboration with each other.

5.2. Procurement options and standardised contracts

There are a number of procurement options that can be adopted for delivery of capital projects. Each option has its inherent characteristics, advantages and disadvantages. The options available include: in-house provision, traditional procurement, partnering contracts, PFI/DBFO (design, build, finance, operate) contracts, concessions and franchises and service outsourcing.

The selection of a particular procurement option will be dependent on a number of factors. The main difference between the procurement options is the risk transferred to the various project participants.

The use of standard industry model forms of contract for project delivery has a number of advantages. Although it can be argued that use of standard forms of contract can promote inflexibility and discourage innovative methods of procurement, risk allocation in such contracts has been negotiated and standardised by representatives of employer organisations, contractors' associations and the professional institutions. Standard forms of contract used in project procurement in local authorities vary depending on the type and complexity of the project. Our survey revealed that the main forms of standard contract used in project procurement include

- (a) Institution of Civil Engineers (ICE) Conditions of Contract 5/6/7th Editions
- (b) Joint Contract Tribunal (JCT) family of contract for property services
- (c) GC/Works for building and civil engineering
- (d) New Engineering Contract (NEC) Engineering and Construction Contract.

One council reiterated that most services are now delivered through strategic service delivery partnerships, which have an NEC contract base. Another council stated that use of ICE Conditions of Contract 5th Edition is being phased out. The JCT80 Conditions of Contract although now superseded by the JCT98 versions are still in use in some local authorities. The results of the survey show that adoption of the NEC Engineering and Construction Contract is on the increase.

Local authorities also appear to be adopting an approach to procurement management based on the core principles of effective project management. The survey shows that 54% of the councils apply risk management techniques to projects and programmes and a further 26% stated that adoption of risk management techniques in project management in their departments is under development. One council stated that projects are always managed effectively, with risk management techniques being incorporated when appropriate. Another council stated that corporate risk management methodology is in place and is used only on major projects. Building of continuous improvement into contracts for procurement of capital projects, including linking of payment to performance against Key Performance Indicators (KPIs) is an area that is still in its infancy. Only 13% of

the councils stated that they always do so, with a further 28% stating that KPIs are under development.

Another question posed in the survey was whether local authorities measure their procurement performance. Only 26% agreed that they do in fact do so, with a further 26% of respondents indicating that this is under development. Respondents were further asked to state how often this assessment is done and the methods that are employed. In some local authorities, this is based on a series of KPIs which are reviewed annually. Any cash and non-cash procurement savings are assessed and reported to council members. Savings are fed into the annual budgeting process and new targets of procurement savings are set to facilitate monitoring of future savings. In other local authorities, achievement of agreed KPIs is monitored and reported to directors of service areas annually. One local authority stated that performance of contractors, consultants, suppliers, and subcontractors is monitored quarterly and reported to the council. Furthermore, payments of invoices are monitored including value-for-money checks in procurement. Post-project reviews are also carried out and one authority stated it adheres as closely as possible to project budgets and programmes set. Only one local authority indicated that it is developing a basket of KPIs in line with the National Procurement Strategy to facilitate such measurement.

5.3. Electronic procurement

In response to our survey, 41% of the local authorities indicated that their procurement strategy includes e-procurement. A further 45% indicated that their e-procurement is still under development. In the context of procurement of capital projects, a number of e-procurement systems appear to be currently in use. Examples of e-procurement techniques and approaches that local authorities are using or intend to use in relation to construction projects include

- (a) website advertising of contract opportunities
- (b) BACS (bank automated clearing system) payments to contractors
- (c) purchasing cards for supply of materials
- (d) on-line purchasing of goods, materials and services
- (e) electronic invoicing
- (f) e-tendering for land disposals
- (g) electronic transfer of drawings and tender documentation
- (h) electronic reverse auctions
- (i) electronic catalogues for stationery, furniture and consumables
- (j) website for electronic data exchange between design teams, consultants and contractors.

One local authority stated that all its tender documents are available to potential bidders in electronic format. However, submission or return of tenders in the same format is welcome but not compulsory. Another local authority stated that it is looking at the Improvement and Development Agency's (IDEA's) marketplace. IDEA's marketplace will act as a secure, self-service, internet-based system that provides a one-stop shopping mall for all goods and services local authorities buy, with ordering, invoicing and payments all made on-line.

5.4. Market development

In general, local authorities do not find it difficult to attract contractors to provide construction and maintenance services. Of those responding to our survey, 57% agreed that they encourage a diverse and competitive supply market including small enterprises, ethnic minority businesses and voluntary- and community-sector suppliers. A further 21% indicated that such stimulation of the supply market is under development. Some local authorities advertise contract requirements in the local press, local business link and the local chamber of commerce. Others are moving away from use of approved lists to encourage open tendering for contracts. Electronic databases may also be used to match small and medium-sized enterprises (SMEs) to projects/contracts. Some contracts may also be packaged to make them attractive to SMEs where appropriate. For example, small contractors may not have the capacity to take on large contracts. Local authorities may in such circumstances break up the contract and invite tenders for the individual parts separately. Alternatively, if a contract is considered too small, it may not be attractive to large contractors. Combining such contracts within an authority or in conjunction with other local authorities or government departments can help create a more profitable bidding opportunity.

Other methods employed by local authorities to develop the supplier market include

- (a) simplification of bidding procedures and paperwork
- (b) matching value of work to size of supplier firms
- (c) holding 'selling to the council' business events
- (d) encouragement of formation of voluntary- and community-sector supplier partnerships
- (e) promotion of a local supplier strategy
- (f) running training courses to develop SMEs into competitive enterprises
- (g) improving SMEs' understanding and ability to bid and win council business
- (h) engagement with local business groups
- (i) encouraging SMEs to apply to join approved tender lists.

One local authority stated that although positive discrimination is not allowed and that procurement is based on performance specifications and standards, the ethos of promoting the cause of local SMEs is generally understood by council members and officers.

5.5. Environmental considerations in procurement

The study also sought to establish whether environmental considerations play an important role in project procurement. Of those who responded to our survey, 72% stated that their council has an environmental policy and that environmental impacts are considered when evaluating tenders and awarding construction contracts. Councils with environmental policies disseminate them through both formal and informal communication mechanisms. These include staff circulars and through the intranet. In some local authorities, they may be referred to in the procurement strategy or set out in the local authority's standing orders on project procurement. Legislative requirements for assessing environmental impacts of major construction projects are well established in the UK. One local

authority stated that for some projects, environmental aspects are considered as part of the quality/price assessments when awarding contracts.

5.6. Technical capacity and training

Procurement of capital projects requires technical expertise. The necessary procurement training is normally received as part of specialist qualifications in architecture, engineering or surveying. Most local authorities indicated that they employ a number of staff in technical services departments and that some of them spend more than 50% of their time on procurement of capital projects and technical services. The precise numbers of staff vary from one local authority to another depending on its size. Most staff involved in procurement of capital projects hold relevant professional qualifications of the ICE, Royal Institute of British Architects, Royal Institution of Chartered Surveyors or the Chartered Institute of Building. Some local authorities in response to our survey indicated that they employ staff with the Chartered Institute of Purchasing and Supply (CIPS) qualifications although these are likely to be located in CPUs.

Local authorities have in place a number of mechanisms to facilitate procurement training. It may take the form of courses, shadowing or mentoring. Local authorities also place reliance on continuing professional development (CPD) requirements of the professional institutions to foster skills development of individuals. The various arrangements which local authority technical departments have in place relating to procurement training include

- (a) seminar attendance on an ad hoc basis on specific topics
- (b) workshops and briefings on procurement issues
- (c) short courses from biannual performance reviews
- (d) attendance on university short courses
- (e) short courses provided by private training companies
- (f) part-time study or day release as part of university academic qualifications.

It would appear that decisions relating to procurement training are to a large extent made on an individual and ad hoc basis and not from a corporate perspective. Despite the arrangements for training described above, technical services departments still rely on external consultants to deliver capital projects. In response to our survey, 76% of local authorities indicated that they employ external consultants. Consultants are employed on an individual project-by-project basis by 87% of the local authorities whereas 13% employ consultants as a resource for the whole department or local authority.

Engaging external consultants enables local authorities to access external expertise and reduces the necessity and costs to develop such skills in-house. In response to the survey, 75% of the local authorities stated that they see use of external consultants to provide procurement advice as a long-term measure. Specific parts of the procurement process where external consultants are normally employed include

- (a) feasibility studies
- (b) options appraisal
- (c) project costing
- (d) risk analysis and management
- (e) design

- (f) developing specifications
- (g) pre-qualification and contractor selection
- (h) tender evaluation
- (i) project management
- (j) contract management
- (k) surveying
- (l) performance measurement and improvement
- (m) disputes resolution
- (n) training.

Other areas cited by the respondents where external consultants are employed are contract negotiation, preparation of bills of quantities, planning supervision, mechanical and electrical services. One local authority stated that most of the above services are undertaken internally although all are sometimes provided externally when resource constraints dictate. Another authority indicated that on very large PFI/PPP-type projects with a capital value of £50 million or more, external consultants are normally employed. A number of local authorities are developing framework agreements with consultants to deliver services and provide advice as demand dictates.

6. CONCLUSIONS

An evaluation of changes in procurement of construction projects in local authorities in recent years has been presented. These changes have been driven by legislative requirements and developments in best practice in the construction industry. Local authorities across the UK are at different stages of improving the procurement function. This study has revealed that although over 70% of councils lacked a commitment to procurement in 2002, over 94% now have a clear commitment to procurement. It has moved from being an operational function to a strategic imperative. The survey reveals that 67% of local authorities have a formal written procurement strategy with a further 27% indicating that a formal procurement strategy is under preparation.

Because of their complex nature, procurement of construction projects and technical services is devolved to technical services/environment departments. For a variety of reasons including the need to exercise control, joint procurement of construction projects and services with other local authorities or public-sector bodies is still relatively undeveloped. Local authorities could for example, coordinate the pre-qualification process and develop approved tender lists in collaboration.

Most local authorities use standard forms of contract for construction procurement. Although it can be argued that use of such standard forms stifles innovation and creativity, it also brings a number of attractions including standardised risk allocation. Some old standard forms of contract such as the ICE Conditions of Contract 5th Edition and variants of JCT80 Conditions of Building contract are still in use. Adoption of the NEC Engineering and Construction Contract is on the increase. The use of modern project management principles including risk management techniques to improve project delivery is increasingly being adopted in local authorities. However, the building of continuous improvement in the construction procurement process by linking payments to achievement of KPIs is still an evolving area. Only a few local authorities measure

procurement performance. Those that do employ a variety of techniques ranging from an evaluation of procurement savings, monitoring achievement of KPIs or straightforward assessment of contractor performance. The frequency of assessment is either on a quarterly or an annual basis depending on the method of assessment employed.

A range of e-procurement techniques are under development in local authorities. They range from the widely used methods for payment of contractors using BACS to website advertising of contract opportunities, electronic data interchange between contractors, designers and consultants. Electronic transfer of drawings and tender documents is also widely used although receipt of tenders electronically, while encouraged, is not mandatory in most local authorities. Other novel methods of e-procurement such as use of reverse auctions appear to be still in their infancy. Widespread adoption of e-procurement has the potential to improve communication and efficiency although IT systems must be sufficiently developed to impose relevant controls and reduce risks of fraud and error.

In general, local authorities are able to attract a sufficient number of competitors to provide goods and services including construction. A substantial number of local authorities nevertheless have in place mechanisms to stimulate a diverse and competitive supply market to ensure value for money. Most of them also have in place measures designed to encourage SMEs to bid and win council contracts. This study has revealed that well over 70% of local authorities have an environmental policy and that environmental considerations are taken into account in project procurement alongside other considerations such as price/quality.

In most local authorities, project procurement is undertaken by qualified staff who are members of the various engineering, surveying and building professional institutions. Local authorities also have in place training mechanisms to develop and improve the skills of those involved in construction procurement. External consultants are however still widely employed to provide procurement advice and three-quarters of local authorities see this as a long-term measure. Overall, most local authorities are working towards implementation of the National Procurement Strategy although they are at various stages of development.

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