

# Procurement Frameworks

Frameworks are increasingly prevalent in UK construction, but what should clients consider when building long-term relationships? And what should suppliers consider before signing up?

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## 01 Introduction

Frameworks are a very significant part of the contracting and consulting landscape, having a widening impact on how work is secured, how capacity is allocated and how appetite for new work might vary.

As opportunities associated with frameworks grow and as many contractors and consultants secure a greater proportion of their revenue from long-term relationships, the position of both the occasional client and the smaller-scale consultant or contractor could be at a disadvantage. That said, many clients have taken steps to tailor frameworks to their workload, accessing a wider and more varied supply chain as required.

A framework can be defined in the simplest terms as a supplier agreement, under which goods and services can be obtained on the basis of pre-agreed terms and conditions, price and quality levels. While many clients and their supply chains enjoy long-term commercial relationships, the critical difference between conventional best practice and framework-based practice is that most of the terms of engagement, often including aspects of price, will have been dealt with at the outset of the programme.

Suppliers to frameworks are appointed on the basis of capability and their capacity to do the work. This can result in the much criticised “one size fits all” approach, where larger suppliers get the lion’s share of the work. The duration of the framework will be dependent on the client and sector. In the public sector, procurement rules normally limit framework periods to four years.

An important distinction in frameworks relates to the extent of the clients’ obligation. Agreements involve a contractual commitment to the purchase of a defined extent of goods or services. Framework arrangements differ in that, while the basis of appointment is known, there is usually no binding commitment from the client to purchase the services.

Credibility of the prospects for future workload is critical to an effective framework and clients must take steps to ensure quality and reliability of their own programme, which may require reorganisation of internal project planning and approval processes. Nuffield Hospitals has re-engineered its procurement process to enable the establishment of consultant and contractor frameworks, centralising their procurement

process and, as a by-product, putting in place a rigorous business case and change management model, preventing abortive work and focusing capital investment on priority projects. Planning for the end of a framework is also important if the client is to maintain progress on their capital programme.

Frameworks have been used extensively in the public sector to broaden the partnering agenda from a single project to wider portfolios. While a private sector client might view their framework as a strategy to secure capacity, public sector organisations have a broader agenda related to improvement of service delivery and efficiency savings driven by Gershon Review targets. These total £6.45bn up to the end of the 2007/2008 financial year.

At their most ambitious, clients are seeking to transform the way in which work is delivered and supply chains are organised. The South East Centre for Excellence, an open-access framework for local authorities covering most of southern England and promoted by Hampshire council, illustrates how sophisticated and far-reaching in their impact frameworks have become.

## 02 Objectives

Frameworks take significant time and resources to establish and will change the way in which clients operate, as well as their supply chain. Hence, clients need to have a clear understanding of the objectives of the framework ahead of commencement. Typical objectives are set out below:

- Establishment of collaborative working based on secure long-term workload
- Securing of performance improvement through shared objectives, target setting and output measurement
- Integration of supply chains, together with enhancements to client access to specialist expertise and influence over

supplier performance

- Creation of strong relationships, which secure resources and continuing supplier interest in rising markets
- Capture of knowledge, experience and best practice to benefit the wider programme
- Securing of cash savings through simplified procurement, greater efficiency or value engineering.

In meeting these objectives, and in addition to the basis of the agreement, factors which will help to determine whether a framework is successful include:

- The client’s ability to deliver a continuous workload that is aligned with the capability

of the contractor framework

- Contractual arrangements, which reflect the nature of the partnership that is being promoted
- Behaviour on both sides which supports the partnership approach
- A shared commitment to performance improvement
- Willingness and investment in training, organisational change, and so on.

A good example of changes in practice is in estimating and project cost control, where the shift to an open-book approach may require significant change to a contractor’s standard pricing and accounting procedures.

### 03 Benefits of frameworks

Frameworks emerged from the post-Latham and Egan agendas as a means of extending the project-partnering ethos to a wider portfolio of projects. It is estimated by the National Federation of Builders that £14bn of work has been taken out of the scope of conventional tendering by SMEs in the public sector. This has reduced transaction costs and enabling investment by client and supply chain in processes, project improvement, training, etc, but also affected the access of some contractors to clients.

Public sector clients have, particularly in the housing and local government sectors, the advantage of a widespread and well-diversified workload, on which an attractive and valuable opportunity can be based. The principal benefits secured from the adoption of frameworks include:

- Reduced overall procurement cost, including internal resources used to administer OJEU processes
- Alignment of procurement practice with government efficiency agendas and

expectations of auditing bodies

- Capture of knowledge and best practice
- Ability to commence projects early on the basis of limited information
- Encouragement of investment in project and relationship development
- Team focus on value engineering.

In addition, frameworks provide the opportunity to develop experience and best practice in collaborative working required under contractual arrangements, such as NEC. Frameworks also facilitate the capture of valuable KPI and performance data.

For the private sector, frameworks create similar opportunities for improved performance, together with the expectation that, in rising markets, clients with established relationships are more likely to secure the resources they need. For example, in the current highly competitive London office market, developers with well developed relationships with specialists in trades including groundworks, structural steel, curtain wall, building services and lifts are

better able to appoint the best teams. Where frameworks extend down to the second tier, clients can achieve greater continuity between projects and should enjoy greater influence over the performance and development of key members of the project team.

Contractors are also major beneficiaries of frameworks, and their upside should include:

- Greater continuity of workload
- Ability to plan for retention of project teams
- Greater certainty in tendering
- Reduced cost of tenders, assuming that the framework delivers the promised workload, enabling management resource to be focused on value-adding rather than work-getting
- Access to opportunities to influence project outcomes due to an earlier appointment
- Active risk allocation.

While clients will seek to limit the total proportion of turnover to 20-25%, contractors are free to secure positions with a number of clients. If the workload is appropriate, frameworks can provide a secure platform to develop a business and its workforce.

### 04 Key aspects of framework management

For all clients embarking on the establishment of a framework, one of the most important issues relates to the upfront investment required to identify the purpose and scope of the framework and, following that, implementation of changes to practice required to secure the client's objectives. In the case of larger, multiple-agency frameworks, the internal consultation process can last over a year. Once the brief has been established, the main issues which need to be dealt with include:

#### The tender process

The selection processes are much more complex than for a single-project appointment, as the objective is to identify contractors who are "fit to supply", rather than the single most economically advantageous bid. Challenges at the appointment stage include:

- Securing interest from contractors who have capacity to respond to framework opportunities at any point during the life of the agreement
- Defining the scope of the framework, in order to attract the right contractors with respect to parcel size and to accommodate the likely scope of work that will be let



Penoyre & Prasad's Green Wrythe Lane primary care centre in Carshalton, Surrey, was completed under the NHS' LIFT framework

under the arrangement. Defining the “model of usage” represents a large potential risk for the client. In the public sector, as clients’ advisers become more sensitive to the close interpretation of the scope of work let under an OJEU notice, incorrect drafting of the scope may limit the client’s ability to offer work via the framework. Sources of potential inflexibility include the scope of work, terms and conditions, definition of roles, and so on.

- Getting the timing of the selection process right. Although the assessment of framework submissions should be heavily weighted towards the quality aspect of a contractor’s proposal, in reality submissions are often a little generic. Without KPIs based on prior performance, the financial element is often a

powerful differentiator between candidates, and price levels in the submission may end up being more significant than intended. The timing of the financial submission and the benefit secured by both sides of the bargain will be critical as to whether the framework will deliver value – either by delivering work at an appropriate cost level, or by attracting supply chain members to undertake the work over the full duration of the agreement

- Establishing a workable pricing mechanism. If the initial qualification competition is to yield market-tested price information, the client should seek to confirm that the scope of work used for schedules is matched to predicted workload. Simpler systems based on the initial assessment of on-costs, including overhead,

profit and preliminaries, together with the use of “mini-competitions” for each project, can get around this problem. This approach also needs to be defined in the initial pre-qualification questionnaire (PQQ).

#### Project agreements

At the point of the allocation of work to a specific contract, key actions include:

- Early appointment so that the contractor can contribute to value engineering and other cost-reduction initiatives
- Agreeing project-specific and market-related adjustments to pre-defined rates, retaining competitive pressure
- Avoiding abortive work associated with early contractor involvement in poorly defined projects, scope creep and affordability challenges

- Securing interest and capacity from framework members, once initial workload has been allocated.

For smaller public sector clients, such as universities, and many private-sector organisations, the challenge of generating sufficient workload, in appropriate parcels, to create a compelling opportunity, is a significant barrier to securing the full benefits of a framework. Furthermore, clients with smaller-scale work may be more vulnerable to the effects of market movement, finding it harder to obtain genuine interest from their framework members in rising markets and potentially locked into unattractive commercial terms when demand is lower.

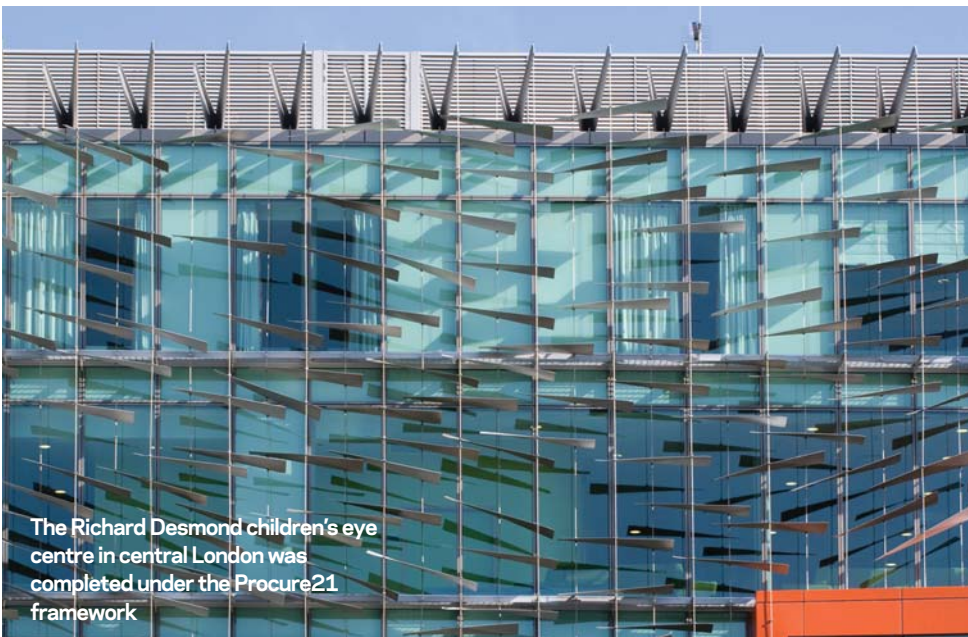
#### Framework management

Long-term actions to keep relationships healthy and mutually beneficial:

- Framework procedures. Documentation and agreement of ways of working, so that framework practice is consistent
- Performance measurement and continuous improvement. Regular principals’ meetings and capture of KPIs help to keep all participants aware of performance levels and of the needs of other framework members. Pressure to improve and develop skills should include the client organisation
- Maintaining competitive pressure.

Reserving workload for organisations outside the framework has a number of benefits, including providing the opportunity to “develop” new suppliers who emerge during the framework period, alongside access to competitive price benchmarks

- Effective programme management. Key issues are allocating the right contractor to the right workload, avoiding scope creep and abortive work, and maintaining affordability
- Managing disputes and performance improvement issues, so that the client retains sufficient access to capacity within their panel, while meeting improvement targets.



The Richard Desmond children's eye centre in central London was completed under the Procure21 framework

## 05 Case study: public sector client

A client in the education sector let a framework for £800m of capital works on the basis of a public procurement process. Much of the work involved small-scale alterations and refurbishment works, with major projects being kept out of the framework. Lack of clarity in early-stage design of the PQQ process resulted in mismatch between the size of the work parcels and the objectives of the contractors appointed. Furthermore, the commercial basis on which the framework was based – a detailed schedule of rates used for pricing notional jobs in competition – was not consistent with the scope of work.

Following an agreed readjustment of the mechanisms used in the framework, a pricing process for medium-value projects up to £5m was agreed, based on mini competitions commencing at stage C. The

revised process secured value for money, reduced the burden of competition on the contractors and secured early contractor buy-in and input into design. In subsequent framework competitions, the client used the OJEU process primarily to appoint a panel of contractors for whom the client was an important source of workload. Furthermore, the framework extended into the second tier of subcontractors to ensure that key trades, such as M&E, adopted framework behaviours.

The principal lesson from the first framework agreement was that the initial design of the assessment needed to be more sophisticated in order to identify and secure the right contractors and that, due to the nature of the client’s workload, detailed pricing was best undertaken as a mini competition on a project-by-project basis.

On Heathrow Terminal 5, BAA introduced the T5 agreement, a non-adversarial contract that fosters supply-chain collaboration



## 06 Case study: private sector developer

A commercial developer with an annual expenditure well in excess of £200m allocates all of its work to its tier 2 framework, well in advance of actual procurement. The pricing of jobs is based on a schedule of rates, which is re-negotiated on a regular basis. The agreed rates are used in the cost-planning process and are adjusted to suit the specific characteristics of the project.

The client is very committed to the framework and will not undertake work outside of it. Financial discipline is provided by benchmarking, rather than by use of competitive pricing. In return, the developer has access to a historic suite of relationships, as well as knowledge and experience which

can be brought to bear on particular project problems. The informal framework also gives the client a much greater access to the supply chain, complete with a licence to be very closely involved in the management of their performance.

In current market conditions, the benefit of the framework has been in achieving certainty of delivery and in keeping teams together over an extended period of time. These upsides are considered to outweigh constraints that the client might have on identifying contractors outside of the framework with spare capacity, together with an absence of direct market testing of project costs.

## 07 Conclusion

For clients with a dependable and valuable portfolio, frameworks can make a huge difference in setting improvement agendas and generating cash savings. For frameworks to be successful, there has to be enough work to justify the initial costs of qualification, the client must secure the right contractor panel to suit the workload and should also ensure that demand management is consistent.

As workload and capacity under a framework is not guaranteed, clients need to be sensitive to maintaining contractor commitment, managing their performance and, where contractors have access to many frameworks, monitoring their workload to avoid the risk of over-trading.

Where clients have a less regular workload and use frameworks as a means of simplifying procurement, rather than implementing full-scale programme partnering, wider benefits related to working methods and relationships may be secured from a successful arrangement. However, the design of the framework will still have to be carefully considered to accommodate both the potential scope of work going forward and to secure continuing interest and value from the supply chain.

## 08 Acknowledgments

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### Previously ...

- 2 Nov Market forecast
- 9 Nov Mini cost model: extra care homes Tracker;
- 16 Nov Country focus

### Coming up ...

- 30 Nov Cost model
- 7 Dec Cost update

## Data toolkit

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