

Meeting:	Board
Date:	25 <sup>th</sup> January 2008
Contact:	John Sparkes
Board Action:	For Information
Sensitivity:	Public

**Subject: Calcutt Report – Construction Procurement and links to BNG (Item 9)**

**Link to BNG Vision and Objectives:**

To create great places to live by 2018 and to meet the strategic objective to provide an improved choice of good quality, well designed homes through new development and investment in sustainable homes whilst replacing obsolete housing.

**Recommendation:**

That the board notes the content of the report.

**Executive Summary:**

The purpose of this report is to review the contents of the Calcutt Review (November 2007) and to identify what BNG may need to action in terms of construction procurement in line with the Chair's request from the previous meeting.

<b>Implications</b>	
Financial:	Not Applicable
Equality:	Not Applicable
Sustainability:	To be accounted for in procurement
Freedom of Information:	Not subject to FOI restrictions
Report Status:	Open

<b>Risk:</b>			
Risk Map Element	Brief description of any material risks, including of not proceeding.	Impact	Probability
Strategic:	Failure to deliver comprehensive regeneration in the manner recommended in the Calcutt Review	Low	Low
Financial:	Potential waste of fees should the LABV	Medium	Medium

	not be adopted in Gateshead. Failure to maximise potential for efficiency gains. Failure to receiver a return on investment in LABV.	Medium Low	Medium High
Development:	Non Specific		
Operational:	Non Specific		
Reputational:	Should the proposed LABVs fail to deliver the wider regeneration objectives it will undermine private sector confidence in the Pathfinder and its partners.		

**Report to:**

BNG Board - 25<sup>th</sup> January 2007

**Subject:**

Calcutt Report – Construction Procurement and links to BNG

## 1. INTRODUCTION

The Calcutt Review (November 2007) was commissioned in December 2006 by the Sec of State for Communities and Local Government with the purpose of examining how the supply of new housing is influenced by the nature and structure of the housebuilding industry, its business models and supply chains including land, materials and skills. The review also considered how these factors influence the delivery of new homes to achieve the Government's targets (200,000 homes per annum), meeting housebuyers' requirements and aspirations, achieving high standards of energy efficiency and sustainability as set out in the Code for Sustainable Homes, and progressing to carbon zero standards. The purpose of the report was also to make recommendations in respect of the terms of reference outlined above.

The review built upon earlier documents including The Housing Green Paper (July 2007) and The Barker Review of Housing Supply.

At the meeting of the BNG Board of 23<sup>rd</sup> November 2007, the Chair suggested **'examining the document to see what BNG might need to implement in terms of construction procurement outcomes required.'**

This report seeks to address those issues raised by The Chair and to focus on the procurement of development partners in order to meet BNG's stated vision and strategic objectives.

## 2. BODY OF REPORT

The Calcutt Review acknowledges that in order to deliver the Government's targets for new homes then there needs to be a substantial increase in the supply of land for housebuilding and that this is achievable in light of PPS3 and the Housing Green Paper. However, there is an acknowledgement that these new measures may prejudice the continued achievement of a 60% build rate on brownfield sites given that Greenfield sites will need to be brought forward in order to meet the Governments global housing targets.

Traditionally, brownfield developments generally offer poorer returns to housebuilders than Greenfield sites due to ownership issues, the quality of land and subsequent remediation costs and the relocation of existing commercial (and sometimes domestic) uses. As such the viability of brownfield sites can be marginal, especially when affordable housing and S.106 obligations are taken into consideration, with the consequence that they are not brought forward through traditional procurement routes. This clearly impacts upon the BNG Pathfinder where the vast majority of sites are brownfield and in public ownership.

The Calcutt Review acknowledges these difficulties and suggests a change of approach by both local authorities and developers is required. It suggests that local authorities

seeking to maximise the use of brownfield land in its 5-year housing land supply should seek to enter into a partnership with a developer (or more than one) for the development sites in its area.

In a recent report to Ministers from the Pathfinder Chairs, it was noted that the importance of attracting private sector development is central to delivering high quality new homes and that the appointment of development partners for neighbourhoods is now common. Ministers were further advised that long term relationships are now being established involving developers from masterplanning through to physical completion. As a consequence of this approach, the developers secure comfort from the scale and timing of activity allowing trust and constructive partnering relationships to be built within the Pathfinders while introducing developers to neighbourhoods and districts they have traditionally avoided.

In light of this, the Calcutt Review recommends that all local authorities should review the scope for forming partnerships with one or more developers, in order to ensure that the viability for the development of previously used land is fully recognised and exploited and is reflected in their 5-year housing land supplies. While this approach clearly provides benefits to the local authority, as the Pathfinder experience has shown, the benefits to the developer are significant in that it reduces planning risk and provides the opportunity of significant returns from the enhanced land value of redeveloped sites.

This potential growth in land value is of central importance to the private sector. Some sites have a low value due to development costs and issues related to the location which can include economic and social factors as well as the condition of the general environment. However, the potential rewards for investors can be substantial as successful regeneration partnerships can realise the true potential of land and therefore offers the prospect of major capital growth.

Having regard to the above, the Calcutt Review refers to the range of Local Delivery Vehicles (LDV's) which can be drawn upon to provide effective leadership for a regeneration plan which will give confidence to private sector investors. Moreover, the Review builds upon the advice in the Green Paper and provides details of different models of LDVs which could combine LA land assets, public funding streams, private finance and expertise as well as input from the new Homes and Communities Agency. These models can provide, inter alia:

- Establishing long term strategic planning development focus for a wider area / estate between Local Authorities, the new homes agency and the private sector.
- Providing a long term spatial framework for investment and prioritisation of phased development.
- Reducing procurement time and costs.
- Increasing scale and speed of delivery.
- Giving Local Authorities the ability to secure any increase in rising land and asset values over the long term, as opposed to a fixed value in the form of up front capital receipts.
- Access to private finance.

This managed and balanced process will generate value that will feed on itself. As confidence returns to an area the values will rise which will fund the necessary infrastructure and amenities and draw in higher value employment opportunities.

However, the Review stresses the importance of sustaining confidence through the ongoing commitment from public service providers to maintain support for an area through, for example, Local Area Agreements and involving housebuilders / developers in Local Strategic partnerships.

Having regard to the above, reference is made to the **Draft Procurement Strategy (July 2007) for Interventions Funded by BNG** (Appendix 1) which sets out some guiding principles to be adopted by the Board. This document reflects the principles enshrined in the Calcutt Review and the Housing Green Paper. The Draft Procurement Strategy states:

“In carrying out the BNG Procurement Policy the use of such alternative procurement methods is to be encouraged and used wherever possible. Procurement options will be tested as part of the project appraisal mechanism.

Key elements of this new procurement regime include:

- Partnering with shared profit/loss;
- Strategic Partnerships;
- Joint Venture Arrangements;
- Innovative use of land assets e.g. Local Asset Backed Vehicles;
- Framework agreements;
- Competitive dialogue;
- Joint procurements across the Pathfinder area and potentially wider;
- Integrated design and construction teams including clients, contractors, and suppliers;
- Whole life costing appraisals to form an integral part of the process to include all future running and maintenance costs.

In addition the potential benefits of collective purchasing/supply arrangements and the efficiencies that consortia might deliver should be considered.”

Examples of how these principles are being delivered on the ground in BNG include:

#### **Example 1: Scotswood Expo**

This is an innovative project with a value of £450million which seeks to deliver in the order of 1800 new dwellings of mixed type and tenure with a focus on family housing, a new neighbourhood centre with commercial, community and retail opportunities, a new primary school and enhanced public realm, a neighbourhood park and high quality civic spaces.

Having received outline planning permission for the Scotswood Masterplan Development in 2007, the Council together with its public sector partners including Bridging NewcastleGateshead, English Partnerships, The Housing Corporation and One North East is seeking to establish, through the creation of an Urban Regeneration Vehicle (URV), a long term partnership with a private sector developer to deliver this comprehensive housing-led regeneration development. The private sector partner will be required to provide innovation in terms of both design and delivery together with development expertise and funding.

The URV will take the form of a Local Asset backed Vehicle (LABV) with a Limited

Liability partnership (LLP) structure. The URV will comprise the Private Sector partner (PSP) who will invest money while the Public Sector Partners (EP and NCC aka NewcEP) will invest land and equity of equal value. Both partners will receive 50% of available returns. Under current constitutional arrangements BNG, whilst providing funding support and commitment to the URV, will enter into a funding arrangement with NewcEP and will receive a share of returns commensurate to its proposed investment of £10million.

The current position with regards to the Expo is that officers from EP, BNG and NCC (together with professional advisors) are to enter into competitive dialogue with a long list of bidders following the receipt and review of Pre Qualification Questionnaires in autumn 2007.

### **Example 2: Gateshead Partner Procurement**

In July 2007 GVA Grimley was appointed by Gateshead Council to consider the merits of alternative Regeneration Delivery Vehicles for the BNG Pathfinder area of Gateshead. This work, which is ongoing, has been funded by BNG.

The initial findings of the study were presented to Gateshead Councils' Strategy Group (comprised of Senior Officers) in October 2007 where the scale of the regeneration programme in Gateshead was outlined. The objectives for delivering housing market renewal were set out to the group together with the findings of initial development appraisals for key sites - some of which lie outside the Pathfinder Area where values are potentially higher. The group was advised of descriptions of alternative delivery vehicles and a preferred approach for procuring a regeneration partner in Gateshead.

Options tabled to the group included:

- Setting up a contractual arrangement with a Preferred Delivery Partner in the form of a Contract, Development Agreement and Business Plan.
- Setting up a Partnership or Company Delivery Vehicle between the Council and the PSP which is in the form of an asset backed vehicle and could be, for example, a Limited Liability Partnership.

The current position with regards to this work is that GVA Grimley are currently undertaking soft market testing to establish if there is any appetite within the market for this approach. They are also establishing the best procedure in respect of procuring a partner under EU Directives i.e. Negotiated or Competitive Dialogue Procedure.

The principles of this approach have still to be endorsed by Gateshead Councils Cabinet.

On the basis of the above it would appear that measures are currently in place within BNG to address the issues raised in the Calcutt Review and that, where appropriate, officers and partners are actively seeking to implement the recommendations contained therein.

### **3. NEXT STEPS**

To continue to progress existing alternative procurement routes and pursue new opportunities as they arise in line with the recommendations set out in the Calcutt Review.

4. **RECOMMENDATIONS**

That the board notes the content of the report.

## APPENDIX 1

### Draft Procurement Strategy (January 2008) for Interventions Funded by BNG.

#### Introduction

*It is a primary role for all public service providers to deliver the best possible services in the most cost-efficient way. It is up to local authorities to decide how best to achieve this, but there is a changing financial climate and they must think fundamentally about how they can achieve improved efficiency, service performance and outcomes. Local Govt White Paper 2006*

BNG expects that all interventions financed by Housing Market Renewal grant will be able to demonstrate that they are delivering value for money (vfm).

This document is to provide project sponsors with guidance as to how BNG anticipates procurement should be used to deliver vfm.

Value for money in construction involves completing a project to time, cost and to a required level of quality. A good project will continue to provide vfm and meet user needs throughout its lifetime, and will contribute to the environment in which it is located with a wide range of social and economic benefits.

The greatest opportunities for demonstrating vfm and efficiency gains will probably flow through improved procurement. Procurement decisions should be taken on the basis of a long term view of value for money so that the focus is not simply on the lowest price. BNG therefore expects service deliverers to combine competition with innovative ways of procurement while managing the inherent risks effectively. These presumptions will be tested through the project appraisal process.

#### Procurement policy

It is anticipated that project officers will procure goods and services using the corporate procurement guidelines in place in their respective local authority. BNG expects that contracts will be awarded using Best Value Procurement principles, to the provider offering the most economically advantageous balance of quality and cost within the context of the policy objectives.

The key objectives of Best Value Procurement, subject to legal and regulatory constraints, are divided into strategic outcomes and best practice procurement objectives:

##### Strategic outcomes

- Achieve clearly specified outcomes for each service, and the processes which directly relate to the quality and responsiveness of the service;
- Generate the most economically and socially advantageous balance of quality and whole-life cost;

- Take full account of the need for economic and social sustainable development in the whole-life evaluation of proposals;
- Deliver Housing Market Renewal policy objectives;
- Maximise opportunities to reduce inequalities and increase social inclusion;
- Maximise local labour and social and economic provisions;
- Support regional policies to maximise the benefits of local sourcing of goods and services;
- Underpin the local authorities' Corporate Procurement Strategies;
- **Stretch HMR resources by maximising investment from the private sector.**

#### Best practice procurement objectives

- Be timely;
- Minimise the burden on administrative and monitoring resources;
- Avoid over-complicating simple or routine transactions;
- Explore all forms of procurement and partnering arrangements;
- Encourage the continuing participation of high quality partners, contractors and suppliers through e.g. framework agreements, supply chain management etc ;
- Be transparent and democratically accountable;
- The procurement route should reflect the potential cost of the service to be provided;
- Consider potential economies of scale available that can be obtained by means such as regional collaboration;
- The service provider is making best use of the resources applied to the service and can deliver continuous service improvement.

#### Emerging Best Practice

Various bodies such as the Local Government Task Force and Rethinking Construction share the vision that tangible improvements can be delivered to the construction process by more efficient ways of working. This entails a change in the traditional procurement route of serial design and tendering of projects and a move to projects that are designed and delivered using the expertise of the entire project team.

**In carrying out the BNG Procurement Policy the use of such alternative procurement methods is to be encouraged and used wherever possible. Procurement options will be tested as part of the project appraisal mechanism.**

Key elements of this new procurement regime include:

- Partnering with shared profit/loss;
- Strategic Partnerships;
- Joint Venture Arrangements;
- Innovative use of land assets e.g. Local Asset Backed Vehicles;
- Framework agreements;

- Competitive dialogue;
- Joint procurements across the Pathfinder area and potentially wider;
- Integrated design and construction teams including clients, contractors, and suppliers;
- Whole life costing appraisals to form an integral part of the process to include all future running and maintenance costs.

In addition the potential benefits of collective purchasing/supply arrangements and the efficiencies that consortia might deliver should be considered.

Many of the interventions to be delivered by Bridging NewcastleGateshead lend themselves to some, if not all, of the alternative procurement methods suggested, such as:

- Group repair/refurbishment schemes;
- Demolitions;
- Improve for sale schemes;
- New developments.

## **Tender Evaluation**

It is anticipated that relevant BNG Officers, e.g. Director, Head of Development, Head of Finance etc. as appropriate, will be involved in the evaluation of tenders for schemes to be funded by BNG. This will usually take the form of being members of any assessment panels that may be set up to evaluate tenders and procure developers etc.

## **Efficiency Gains and Procurement**

The Gershon review into public sector efficiencies identifies four main categories of vfm and efficiency gains from procurement activity:

- Individual departments/delivery agents/ negotiating an improved deal with a supplier;
- Aggregating demand across departments/delivery agents to exert greater leverage on suppliers thereby creating economies of scale;
- Reducing process or transaction costs;
- Improving project, contract and asset management.

Efficiencies from capital spend require careful consideration as one-off projects do not enable year on year comparisons of costs and associated outputs. However, capital spend can be undertaken at varying levels of efficiency (e.g. higher or lower levels of procurement costs), differing degrees of delay and varying impact on efficiency of operating processes.

Two key ways to achieve efficiencies in capital expenditure processes are:

### **1. Avoid cost-overruns.**

The main ways to avoid cost-overruns are to have:

- Objectives that are realistic and not changed during the course of the project;
- Estimates for the project that are realistic - that is not unduly optimistic;
- A project brief that is complete, clear and consistent;
- A design that meets planning and statutory requirements;
- A design that is coordinated and takes account of buildability, maintainability, health and safety and sustainability;
- Risk allocation that is unambiguous and clear to all parties involved;
- Clear leadership and appropriate management controls;
- Simple payment mechanisms that incentivise all parties to achieve a common and agreed goal.

## 2. Deliver more outputs for the same resources.

This effectively means a reduction in price or an increase in efficiency. The quality of the outputs must be maintained or enhanced in this scenario to allow it to count as an efficiency gain.

### Measurement of Efficiency Gains

The Measurement Taskforce has provided the following advice on measuring efficiency gains through capital expenditure:

The total project cost can be split into three components:

- Investment cost – the capital cost of the asset;
- Process management cost – the in-house and external costs of the procurement process; and
- The lifetime operating or servicing costs – the costs of running, maintaining and disposing of the asset where appropriate.

Provided that outputs are delivered, efficiency gains can be achieved – and measured – in all three areas. Project outcomes are necessarily harder to define, but if capital projects achieve more outputs or higher quality for the same resource, this counts as an efficiency gain. The types of efficiency gains that may be measured from capital spend are set out in the table below:

Issue	Efficiency Gains
Reduction in lifecycle replacement costs	More efficient facilities management as assessed through whole life costing
Reduction in bid costs	Reduction in costs through standardisation of documentation, managing market capacity and programming. Demand side improvements count as cashable gains: supply side as non-cashable efficiencies
Negotiation of improved deal with a supplier	If current best value market price (based on tenders received and whole life costing) is improved by

	negotiation, this counts as an efficiency gain.
Project Costs	<p>Areas for improvement include:</p> <ul style="list-style-type: none"> <li>• Reducing professional fees</li> <li>• Reducing preliminaries and building costs</li> <li>• Standardisation of design and construction processes; and</li> <li>• Improving marketplace workflow</li> </ul>
Asset optimisation	Capital programmes that match supply with demand more effectively

Source: ODPM 10<sup>th</sup> March 2005

**Improved procurement methodologies should make an impact on efficiency gains. Wherever possible these gains should be quantified in the BNG submission form.**