



**HACKNEY HOMES PROCURE 2010**

**SUPPLY CHAIN MANAGEMENT**

**VALUE FOR MONEY**

**ANALYSIS**

**REPORT**

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## **1.0 Introduction**

### **1.01 Purpose of the Report**

- To outline the methodology/steps taken to undertaken the harmonisation of a number of Supply Chain rates for 20 trade packages including the evaluation of such
- To highlight the efficiencies savings and added value achieved via the harmonisation process subsequent to the Procure 2010 ISFP submission.
- Conclusion and Next Steps

## **2.0 Methodology to Harmonise**

The strategic process of harmonising the Price Framework was drafted by Mace Ltd in conjunction with a number of Hackney Homes (HH) individuals. The strategy objective was outlined to the Lead Constructor and other Framework Constructors which resulted in all parties adopting the process.

It was agreed that the documentation to be used for procuring the harmonised supply chains priced frameworks should be the same as used for the Procurement of the Constructor Framework (i.e. the Price (60) / Quality (40) matrix) to maintain consistency and avoid any potential procurement challenges about the process.

The methodology was a five (5) step process as noted below:

- 1. Lesson Learnt / Update Project Brief (s) & SORs**
- 2. Enquiry Document**
- 3. Commercial**
- 4. Tender Analysis**
- 5. Recommendation\_and Supply Chain Agreement**

### **3.0 Efficiency Savings Achieved**

The Supply Chain harmonisation post Contract Award has been able to achieve **16.53%** (refer to Table 1) saving (in addition to savings highlighted in the Mace Tender Analysis Report dated 13<sup>th</sup> April 2010) which is significant with a programme spend of circa £10-15m ( **equivalent to £1.65m - £2.48m**) in Decent Homes Works per year.

When Phase 2 is compared to Phase 3 based on the above a phenomenal saving of **circa 28.07%** is achieved (refer to Table 1). This equates to **£2.8m saving on a £10m and £4.2m on a £15m** programme of works.

For comparison purposes the methodology used to demonstrate the savings was carried out by populating the harmonised rates into the Decent Homes Procure 2010 Cost Model and comparing such against the ISFP submission.

When compared to Phase 2 the savings are in addition to the cost efficiencies gain, a set of non-cashable benefits were also achieved including:

- A more effective and efficient process for carrying out some of the work packages (external works generally)
- Extended Defects Liability Period
- Sustainability targets with respect to employment of local labour, apprenticeship and use of Hackney's Job Centres etc included within each Supply Chain Agreement which has been signed and executed by all Supply Chain members
- Warranties and Guarantees

Table 1 below highlights the savings achieved:

HACKNEY PHASE 3 PROCUREMENT

PLANNED & CYCLICAL WORKSTREAMS

**COSTS AND SAVINGS ACHIEVED FROM HARMONISATION OF FINAL SUBMISSION RATES**

| PHASE 2 YEAR 4 RATES |   |   |  |  |   |
|----------------------|---|---|--|--|---|
| BROKEN DOWN COSTS    |   |   |  |  | OVERALL COSTS   |
| CONSTRUCTOR          | Final Tender Submission Rates Net Construction Works Sub-Totals £ | SITE OVERHEADS (N.B. Site Overheads to be calculated on Construction Works) | CENTRAL OFFICE OVERHEADS (N.B. Central Office Overheads to be calculated on Construction Works & Site Overheads) | PROFIT (N.B. Profit to be calculated on Construction Works & Site Overheads, but not Central Office Overheads) | Overall Final Tender Submission Rates Net Construction Works Sub-Totals £ |
| LAKEHOUSE            | -   | -   | -  | -  | -   |
| MANSELL              | £8,449,210.38   | £1,182,889.45   | £770,567.99  | £8,322.13  | £10,410,989.95  |
| MULALLEY             | £8,499,860.38   | £1,189,980.45   | £775,187.27  | £209,300.56  | £10,674,328.66  |

| PHASE 3 FINAL SUBMISSION RATES |   |   |  |  |   |
|--------------------------------|---|---|--|--|---|
| BROKEN DOWN COSTS              |   |   |  |  | OVERALL COSTS   |
| CONSTRUCTOR                    | Final Tender Submission Rates Net Construction Works Sub-Totals £ | SITE OVERHEADS (N.B. Site Overheads to be calculated on Construction Works) | CENTRAL OFFICE OVERHEADS (N.B. Central Office Overheads to be calculated on Construction Works & Site Overheads) | PROFIT (N.B. Profit to be calculated on Construction Works & Site Overheads, but not Central Office Overheads) | Overall Final Tender Submission Rates Net Construction Works Sub-Totals £ |
| LAKEHOUSE                      | £6,952,174.19   | £792,935.00   | £290,441.59  | £77,451.09   | £8,113,001.87   |
| MANSELL                        | £9,617,147.17   | £751,159.50   | £259,207.67  | £155,524.60  | £10,783,038.93  |
| MULALLEY                       | £7,958,771.86   | £486,054.83   | £337,793.07  | £168,896.53  | £8,951,516.28   |

| PHASE 3 HARMONISED RATES |  |   |  |  |  |
|--------------------------|--|---|--|--|--|
| BROKEN DOWN COSTS        |  |   |  |  | OVERALL COSTS  |
| CONSTRUCTOR              | Harmonised Framework Rates Net Construction Works Sub-Totals £ | SITE OVERHEADS (N.B. Site Overheads to be calculated on Construction Works) | CENTRAL OFFICE OVERHEADS (N.B. Central Office Overheads to be calculated on Construction Works & Site Overheads) | PROFIT (N.B. Profit to be calculated on Construction Works & Site Overheads, but not Central Office Overheads) | Overall Harmonised Framework Rates Net Construction Works Sub-Totals £ |
| LAKEHOUSE                | £6,621,468.62  | £757,734.00   | £295,168.10  | £73,792.03   | £7,748,162.76  |
| MANSELL                  | £6,621,468.62  | £669,569.70   | £236,958.75  | £109,365.57  | £7,637,362.64  |
| MULALLEY                 | £6,621,468.62  | £477,574.83   | £283,961.74  | £141,980.87  | £7,524,986.06  |

| PHASE 2 YEAR 4 RATES v PHASE 3 HARMONISED RATES |   |   |  |  |   |   |
|---|---|---|--|--|---|---|
| BROKEN DOWN COSTS                               |   |   |  |  | OVERALL COSTS   | OVERALL COSTS   |
| CONSTRUCTOR                                     | Harmonisation Savings Generated Net Construction Works Sub-Totals £ | SITE OVERHEADS (N.B. Site Overheads to be calculated on Construction Works) | CENTRAL OFFICE OVERHEADS (N.B. Central Office Overheads to be calculated on Construction Works & Site Overheads) | PROFIT (N.B. Profit to be calculated on Construction Works & Site Overheads, but not Central Office Overheads) | Overall Harmonisation Savings Generated Net Construction Works Sub-Totals £ | Average Harmonisation Savings Generated Net Construction Works Sub-Totals £ |
| LAKEHOUSE                                       | -   | -   | -  | -  | -   | -   |
| MANSELL   | £1,827,741.76<br>(21.63%)   | £513,319.75<br>(43.40%)   | £533,609.24<br>(69.25%)  | £101,043.44<br>1,214.15%   | £2,773,627.31<br>(26.64%)   | £2,961,484.96<br>(28.07%)   |
| MULALLEY  | £1,878,391.76<br>(22.10%)   | £712,405.63<br>(59.87%)   | £491,225.53<br>(63.37%)  | £67,319.69<br>(32.16%)   | £3,149,342.60<br>(29.50%)   |   |
| <b>AVERAGE SAVING</b>                           | <b>£1,853,066.76</b>  | <b>£612,862.69</b>  | <b>£512,417.38</b>   | <b>-£16,861.87</b>   | <b>£2,961,484.96</b>  |   |
| <b>AVERAGE PERCENTAGE SAVING</b>                | <b>(21.87%)</b>   | <b>(51.63%)</b>   | <b>(66.31%)</b>  | <b>590.99%</b>   | <b>(28.07%)</b>   |   |

| PHASE 3 FINAL SUBMISSION RATES v PHASE 3 HARMONISED RATES |   |   |  |  |   |   |
|---|---|---|--|--|---|---|
| BROKEN DOWN COSTS   |   |   |  |  | OVERALL COSTS   | OVERALL COSTS   |
| CONSTRUCTOR   | Harmonisation Savings Generated Net Construction Works Sub-Totals £ | SITE OVERHEADS (N.B. Site Overheads to be calculated on Construction Works) | CENTRAL OFFICE OVERHEADS (N.B. Central Office Overheads to be calculated on Construction Works & Site Overheads) | PROFIT (N.B. Profit to be calculated on Construction Works & Site Overheads, but not Central Office Overheads) | Overall Harmonisation Savings Generated Net Construction Works Sub-Totals £ | Average Harmonisation Savings Generated Net Construction Works Sub-Totals £ |
| LAKEHOUSE   | £330,705.56<br>(4.76%)  | £35,201.00<br>(4.44%)   | £4,726.51<br>1.63%   | £3,659.07<br>(4.72%)   | £364,839.12<br>(4.50%)  |   |
| MANSELL   | £2,995,678.54<br>(31.15%)   | £81,589.80<br>(10.86%)  | £22,248.92<br>(8.58%)  | £46,159.03<br>(29.68%)   | £3,145,676.29<br>(29.17%)   | £1,645,681.88<br>(16.54%)   |
| MULALLEY  | £1,337,303.23<br>(16.80%)   | £8,480.00<br>(1.74%)  | £53,831.33<br>(15.94%)   | £26,915.66<br>(15.94%)   | £1,426,530.23<br>(15.94%)   |   |
| <b>AVERAGE SAVING</b>                                     | <b>£1,554,562.45</b>  | <b>£41,756.93</b>   | <b>£23,784.58</b>  | <b>£25,577.92</b>  | <b>£1,645,681.88</b>  |   |
| <b>AVERAGE PERCENTAGE SAVING</b>                          | <b>(17.57%)</b>   | <b>(5.68%)</b>  | <b>(7.63%)</b>   | <b>(16.78%)</b>  | <b>(16.54%)</b>   |   |

## **4.0 Internal and External Works Programme Savings**

Based on the evidence noted above we undertook a further detailed analysis to identify the manifestation of savings already achieved during 2010/11 financial year for kitchen and bathroom refurbishment works (Internal Works) and potential savings for roof, windows, brick and concrete repairs (External Works) for 2011/12 based on historical AMPs.

When the Phase 3 internal refurbishment works were compared against Phase 2 (using Mansell and Mulalley Final Accounts) a saving of **20%** (excluding Prelims& OH&P) was realised whilst for the External Works the following potential savings are:

### Blocks

- 1-3 Storey Blocks 22.5% excluding Preliminaries & OH&P
- 4-6 Storey Blocks 16.2% excluding Preliminaries & OH&P
- 7-9 Storey Blocks 35.6% excluding Preliminaries & OH&P

### Street Properties

- Grd or Mid-Floor St.Property 33.9% excluding Preliminaries & OH&P
- Top Floor Flat 16% excluding Preliminaries & OH&P
- 3 Storey 6.3% excluding Preliminaries & OH&P

The above reflect an average saving of **21.7%** saving (excluding Preliminaries, OH&P) on a programme of External Works.

## **5.0 Conclusion & Next Steps**

The Procure 2010 Tender followed by the Supply Chain Harmonisation Process has been successful as significant cashable and non-cashable efficiencies has been realised to date.

Based on the findings in this report cashable savings of **circa £2m and £2.17m** on a £10m Internal and/or External programme of works can be realised. The manifestation of such savings can be delivered within the 2 year period for the External Works programme as the prices are fixed until 31<sup>st</sup> March 2013 whilst the Internal works prices are until 31<sup>st</sup> March 2012.

The next steps to clearly demonstrate the future benefits of the 4 year programme are:

- Reconciliation of 2011/12 Externals Works Budget using the Supply Chain Harmonised Rates
- Comparison of External Works Phase 2 and Phase 3 Final Account
- Benchmark against other consortiums providing same
- Annual Analysis of the supply chain rates

## **APPENDIX 1**

### **Methodology to Harmonise**



## **Methodology to Harmonise**

### **Step 1- Lesson Learnt / Update Project Brief (s) & SORs**

1. HH Team (Asset and Planned Maintenance) to identify the elements of work to be prioritize this financial year and focus on them.
2. A brief lesson learnt exercise should be facilitated for each of the elements so the pros and cons can be captured. This should include procurement, Contract Managers and other Planned Maintenance personnel associated with the relevant element
3. HH Team to review current Project Brief (.i.e. specification) and Pre-Priced SORs where applicable and provide update/comment on any discrepancies and/or in-adequacies. This information should be captured in a systematic manner.
4. The above should be used to prepare and create new Project Brief (s) and update the SORs ready for issue to the Lead Constructor and other Framework Contractors.
5. The above will be included as part of the Enquiry document to be issued by the Lead Constructor

### **Step 2- Enquiry Document**

1. HH Team, Lead Constructor and other Constructors to agree on the content of the Enquiry document over and above Step 1 item 4 above including
  - o Price /Quality Matrix – detailed breakdown of such 60/40 or other. Presentations and interviews and % for such etc
  - o Supply Chain Agreement
  - o Sustainability Protocol (if applicable)
  - o Projected Budgets for each element over the next two years (if possible)
  - o Volume discount to apply or not
  - o Added Value (Non-cashable benefits)
  - o Agreement on the number of Supply Chain Members to the enquiry should go to for each element/package
  - o Framework Constructors and HH Team to nominate a number of supply chain members that each element should be tendered too.
  - o Enquiry document to be reviewed and sign-off by HH Team prior to issue by Lead Constructor

### **Step 3- Commercial**

1. HH Team to review the Pre-Priced SORs and set the HH harmonised rate for each element excluding the manufacture cost (i.e. materials) and OH&P (where possible)
2. Harmonised rate to be included within the Pricing section of the Enquiry document and a request for the Supply Chain to offer % add or deduct

3. HH Team and Lead Constructor to engage manufacturers and/or material suppliers. Discussions with such should include better rates/prices, volume discount and improved warranties and guarantees
4. It would be great if each Supply Chain member for each element can provide % increase on the SORs but also price a previous project based on a Final Account.
5. Obtain Preliminaries and OH&P breakdown from Framework Constructors for each element if not already highlighted in Contract Documents.

#### **Step 4 – Tender Analysis**

1. Tenders to be returned both in electronic and hard copy format
2. All tenders should be returned to a nominated HH individual within HH Planned Maintenance team who should record such
3. Qualitative sections of tender documents should be distributed to the relevant HH Team members, Residents (if applicable) and Framework Constructors for scoring. All scores will be collated by the Lead Constructor
4. The analysis of the pricing to be carried out by both HH Team and the Lead Constructor with a view on agreeing the outcome. The price scoring to be done in accordance with the Price /Quality Matrix
5. Presentation and interviews to be undertaken in a structured manner based on a number of key questions to be agreed between HH and the Framework Constructors. HH to confirm the extent of Resident involvement in this part of this process.
6. Based on the Price /Quality matrix the overall scores for each Supply Chain member for each element will be collated and then ranked accordingly.

#### **Step 5 – Recommendation and Supply Chain Agreement**

1. The recommendation would be based on the ranking of each Supply Chain member for each element and review of the magnitude of the respective programme of works to ensure that the list of Supply Chain members required is adequate for such
2. The recommendation will be afforded by the Lead Constructor representative to the Directors of the Framework Constructors for comment (if any) and authorisation to proceed with recommendation
3. Lead Constructor to co-ordinate the Supply Chain Agreements and organise for such to be executed subject to HH Team and Trowers & Hamblins review and comments.



## **APPENDIX 2**

### **Phase 3 Harmonised rates vs Phase 2 Rates (External Works)**

## **APPENDIX 3**

### **Phase 3 Harmonised rates vs Phase 2 Rates (Internal Works Works)**