Policy through Construction Procurement?

Professor Peter McDermott, Director
Centre for Construction Innovation
Introduction CCI

Construction Procurement Policy Drivers: A brief overview

The Coalition

The Value of Construction

Responding to recession – supply side and clients

Efficiency Reform in the Cabinet Office

Values in national and regional frameworks
Centre for Construction Innovation

University of Salford Award Winning Enterprise Centre.

Not for Profit Organisation

Established 1999 in Response to the Rethinking Construction Agenda.

Over 25 Staff with varied skills and professions.
Centre for Construction Innovation

Environmental
- Carbon
- Breeam
- Recycling
- Renewables
- Waste
- Climate Change
- Energy
- Technologies

Economic
- Procurement
- Strategy
- Contract
- FM
- Efficiency
- Training
- Bid Coaching

Social
- Culture Change
- Equality
- Skills
- Diversity
- Economic Development
- People Skills
- Community Benefit
- CSR

Project Managers

University of Salford
A Greater Manchester University
Constructing Excellence

CCI – set up to work with industry, but now influencing policy ...

Constructing Excellence – set up to influence policy, now working with industry ...
Procuring Value in Design and Construction

- Identifying value drivers
- Implementing procurement strategies
- Managing the procurement process
- Selecting designers
- Selecting contractors and suppliers
- Enabling frameworks

Recent clients:

ASK Developments – procuring best value for the public realm elements of the £25m Greengates project in Salford.

NW Centre of Excellence – CCI was the joint leader and programme manager for the construction work stream, delivering a programme of strategic procurements and collaborative working, and delivering potential savings worth in excess of £8.85 million.
Developing Successful Frameworks

- Framework Creation
- Framework Management
- Performance Measurement and Review
- Management Development

CCI developed the £400m Decent Homes Improvement Programme Framework with Manchester City Council, and is managing it through IMPACT, the housing procurement consortium. IMPACT will deliver 31,000 refurbished homes, generating over 400 apprentices and 137 other trainees and training opportunities, and saving the public sector £43.1 million.

Over 93% resident satisfaction

5% of the workforce from BME backgrounds

56% savings on electric showers

Working with five social housing providers - Parkway Green HT, Northwards Housing (ALMO), Southway HT, Eastlands Homes and City South Manchester HT
CCI Example Clients
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‘Rethinking Construction’ Summary

Drivers for Change
- Committed leadership
- Focus on the customer
- Product team integration
- Quality driven agenda
- Commitment to people

Improving the Project Process
- Product development
- Project implementation
- Partnering the supply chain
- Production of components

Targets for Improvement
- Capital cost: -10%
- Construction time: -10%
- Predictability: +20%
- Defects: -20%
- Accidents: -20%
- Productivity: +10%
- Turnover & profits: +10%
2009 – Constructing Excellence concluded that industry has achieved only two targets.
2003 The NAO Confirms Government Procurement Must Change

Client expectations are too low......

• 2/3 ‘rds over budget and 3/4’rs are delivered late
• Lowest Price rarely if ever gives good value
• Government Clients must specify needs not solutions
• Government clients should form long term relationships with suppliers selected for capability
• Measure performance
Strategic Approach to Markets

OGC
Office of Government Commerce

Increasing Competition & Long Term Capacity Planning

If competition and capacity planning are to be significantly improved, the public sector needs to take a much more systematic and strategic approach to the markets in which it operates.
The Social and Economic Value of Construction
The Construction Industry’s Contribution to Sustainable Development

- The labour productivity and total factor productivity records are good not bad
- The environmental record is debatable but improving
- The social record could be much better but the messages seem to be understood
- There is a crucial need to get work done on quantifying the social and environmental benefits of good design
- The health record looks bad but it has improved dramatically
Procurement on whole life costs (rather than the cheapest option) !!!!!....

Construction to achieve a low carbon more resource efficient public sector

Construction industry has been slow to challenge the status quo and look to better practices....
Operational Efficiency Programme - Collaborative Procurement

- Increasing uptake of collaborative procurement strategies
- Increasing access to deals through professional buying organisations (eg ProCure 21, OGC Buying Solutions)
- Extending the scope of existing framework agreements
- Bringing new volume into existing arrangements
- New ways of buying and approaching the market
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The Coalition: Clear Policy?
Clearer Policy ...?

- No More RDA’s
- Quangos?
- 25% (40%?) budget cuts
- £6bn efficiency savings
- Austerity
- Efficiency
- “More for Less”
The Big Society?

- Reinvigorate local communities
- Increase accountability
- Devolution of powers from Whitehall to Town Halls
The Long List

- More for Less
- More measured
- Greater transparency
- Aggregated buying
- Localism and community benefit
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The Value of Construction – Construction Matters

- Employment for more than 2.8 million people
- A wide view of the UK construction sector (incorporating upstream and downstream activities) shows that it covers up to 19% of UK GDP
- Contracting alone employing 1 in 12 of the UK workforce
- Construction generates some £10 billion of exports each year
- Parts of the sector are held in high regard internationally—design alone produces over £3.8 billion of export income per annum
- In turn, the built environment—the roads, houses, offices, factories, etc, which represent the output of the industry—is estimated to account for 70% of UK manufactured wealth
Impact of construction activity on the economy

£1 spent on construction output generates a total of £2.84 in total economic activity
(Source: ONS; LEK analysis)

£1 Direct Impact

£1.09 Indirect Impact

£0.75 Induced Impact

£2.84 Total Economic Activity

Wage income and corporate profit made in the const sector, plus spend on non-labour inputs.

Supply chain Impacts i.e. Increase in output and income up and down the supply chain.

Increase in household income as a result of increased employment in construction leads to increased demand in the overall economy.
Construction one of the most effective sectors in which the government could invest to stimulate economic activity

UK type 1 multipliers by selected sectors
Source: ONS; UK Contractors Group

- Public administration and defence
- Education
- Social work activities
- Banking and finance
- Motor vehicles
- Agriculture
- Construction
- Health services
- Railway transport

Multipliers:
- Construction: 2.09
- Railway transport: 2.17
- Health services: 2.19
- Banking and finance: 1.84
- Motor vehicles: 1.95
- Agriculture: 1.94
- Social work activities: 1.59
- Education: 1.41
- Public administration and defence: 1.26
Local (ism) spend

“Of £357m procurement spend across the top 300 MCC suppliers **86.5%** is spent in Greater Manchester. Furthermore, **25p in every £1** is re-spent by our suppliers on employees, products or services within the city region.”
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Cutting the deficit
How much and how fast?

Don’t cut until 2011 warns IMF
Economists reject calls for budget cuts (‘FT 50’ Economists)
Fiscal tightening should start this year (‘ST 20’ Economists)
Never Waste a Good Crisis – calls on the supply side to lead the response to recession

- The industry has improved over the last decade
- 4 blockers have slowed the pace of change
- Recession may provide the impetus needed for change
- Collaborative working is even more important for this next era
Never Waste a Good Crisis

- Understand [value in] the built environment
- Focus much more on the [low carbon] environment
- Find a cohesive voice for our industry
- Adopt new business models that promote change
- Develop a new generation of leaders
- Integrate education and training[/development]
- Procure for value
- Suppliers [all supply side] to take the lead
But....

• Few companies have the purchasing power to leverage their supply chains, or the resources to invest in IT, people development or offsite production capacity to improve performance. ....Only a handful of construction firms offer a vertically integrated approach from design to managed handover.
Policy through (construction) procurement??

• “Part of the problem is a lack of long-term performance data which clearly needs to be addressed with better research and evaluation. Progress has been made in proving the case in the development of hospitals, where patients recover better; schools, where students learn better; offices, where people are more productive and leisure facilities where sales are improved, all because of the quality of the built environment”. (Never waste a good crisis, 2009)
Advice to Clients - CBI “Procuring through the downturn”

Recession in early 1990’s

• Construction output fell by 39%
• 0.5m jobs were lost
• 35,000 firms were declared insolvent
• Spending on training fell by 50%, and also
• Lower standards
• Higher out-turn costs
Advice to Clients - CBI “Procuring through the downturn”

Resist “cost bottom tendering” and maintain
• Integrated and early engagement
• Persist with frameworks
There are 6 critical success factors for collaborative working

• Early involvement
• Selection by value
• Common processes and tools
• Measurement of performance } continuous
• Long-term relationships } improvement
• Modern commercial arrangements
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Efficiency Reform OGC/Cabinet Office Role

- Delivering Cashable Savings and VfM from third party spend
- Delivering projects to time, quality and cost, realising benefits
- Delivering sustainable procurement and sustainability: develop and implement plans to reduce public sector generated carbon emissions, waste, energy consumption and monitors delivery
- Supporting the delivery of Government policy goals e.g. growth, SMEs, low carbon emissions......
- Improving central Government capability in procurement, project and programme management
Over 70% of spend is not Central Government

Construction Landscape £122bn

Public Sector £35bn

Wider Public Sector £25bn

Other Spend £

Central Government £10bn

Via RIEPS £

Private Sector £87bn

Includes PFI

Central Procurers (MOD, HA etc)

Infrequent Procurers

Devolved Procurers’ (DCMS, DfT, DCSF)
Cabinet Office - Collaborative Procurement

- Clients and suppliers working together to remove waste
  - key theme at Construction Supplier Conference, 29 September

- By improving understanding of public sector category expenditure and driving category strategies

- Sharing best practice tools and methodologies across the public sector such as Contracts Database, category management and Supplier Relationship Management (SRM)

- Ensuring collaborative solutions work with and help shape broader policy and CSR agendas
Cabinet Office –
Facilitating engagement & efficiency

Central Government: Key departments working together through Construction Client’s Board (CCB), cascading information through to Non-Departmental Public Bodies

Wider public sector: Close working relationships dialogue with the National Improvement & Efficiency Partnership for Construction (NIEP), RIEPs, local authorities, trade bodies, contracting authorities

Supplier Relationship Management programme:
- Created supplier forum
Cabinet Office Initiatives

Policy
- Common Minimum Standards
- Achieving Excellence in Construction

Sustainability

Supplier engagement
- Strategic Alignment Agreements
- PQQs: saving bid costs
- Common Assessment Framework

Public sector engagement
- Aggregation of demand
- Contract standardisation
- Centralised procurement

Cabinet Office
Cabinet Office - Linking Policy with Procurement

- Fair payment
- Support for SMEs
- Apprenticeships / Youth Employment
- Low Carbon
- Shared services

Many examples now of how collaborative frameworks are being used to further these aims at local level
Cabinet Office - Key themes post Election

- Cashable savings
- Contract renegotiation
- Demand aggregation
- Simplification & opportunities for SMEs
- Standardisation
- Transparency
- Big Society – devolution / community engagement
Efficiency and Reform

- For **central government**, the target is:

  Deliver centrally co-ordinated actions to reduce construction costs by 10-20% by the end of the 5 year life of the current Parliament
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Regional Frameworks

Regional Construction Framework Lead: Hampshire CC

Regional Construction Framework Lead: Devon CC

Regional Construction Framework Lead: Manchester CC

Regional Construction Framework Lead: Notts CC

Regional Construction Framework Lead: East of Riding of Yorkshire

Regional Construction Framework Lead: Essex CC

Collaborative Working Group - LAPN - WCC - Frameworx - LHC

Possible sub-regional frameworks

Business case for regional construction framework underway

Regional Construction Framework:
- London £2.4bn
- SW £1bn
- SE £1.5bn
- EM £1bn
- WM £1.5bn
- Y&H £1.5bn
- NW £1.5bn
- NE £1bn
- NE £1bn
- SW £1bn
- SE £1.5bn
- WM £1.5bn
- Notts CC
- London CC
- Devon CC
- Manchester CC
- Notts CC
- East of Riding of Yorkshire
- Essex CC

Regional Construction Frameworks:
- Regional Improvement and Efficiency Partnerships

A Client View
North West England – North West Construction Hub

• Five sub regions
• 47 local authorities
• Four-fifths of the region is rural, most of the population live in urban areas
• 60% of people live in conurbations of Merseyside and Greater Manchester
Develop skills across the region
Sub regional lots

Generic model for framework management

Promote sub regional engagement & ownership

Encourage participation from sub regional contractors
NWCH Frameworks

NWCH mandated by the sub regions to deliver 3 Frameworks

– Low Value (up to £500k) **Interviewing at ITT**
– Medium Value (£500 - £10m) **Awarded to 14 partners August 2010**
– High Value (£10m+) **Awarded to five partners April 2010**
NWCH Evaluation Approach

• Quality and Experience – weighted and scored criteria
  – Project experience
  – Public Sector experience
  – Collaborative working
  – Early contractor involvement
  – Sustainability
Benefits Evidencing

• Better quality projects for less
• Initial savings have been identified of £78m on £1.9bn or 4.1%

According to the OGC, IEP framework projects cost 9% less than industry comparators.

Savings on £100m of work equate to the cost of a new primary school.

Councils have recorded the project outcomes (i.e. output versus entry cost) of the framework against those of industry comparators with the following results:

• Improvement and Efficiency South East: major project framework identified an 8% saving
• Manchester City Council: framework One identified a 6% saving
• Manchester City Council: framework Two identified a 10% saving
• YoBuild: frameworks identifies a 4% saving
Next Generation Procurement/Frameworks

✓ Managed frameworks
✓ Demonstrating benefits to local community
✓ Social benefit clauses
✓ Adoption of Jobs and Skills Toolkit
✓ KPIs – apprenticeships, local subcontractors, fair payment, waste to landfill, carbon reduction
✓ Self funding arrangements