Improving Construction Procurement in the Public Sector

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Introduction

- Office of Government Commerce (OGC) Smarter Construction

- Achieving Excellence in Construction

- Increasing Competition and Improving Long-term Capacity Planning (Kelly Programme)
What is Value for Money?

VFM is the optimum combination of whole life costs and quality to meet the users’ requirement. Not lowest initial price.

By whole life procurement, we mean the whole life-cycle process of acquisition of goods, services and works from third parties – beginning when a requirement is a just an idea or concept and ending with the conclusion of a service contract or the ultimate disposal of an asset.

This all-embracing notion of procurement, lends itself to a more strategic, holistic and professional approach that enhances the whole process.
Aims of OGC’s Smarter Construction Team

- Continuous improvement in construction procurement in the public sector by encouraging delivery of better whole life value for money through:
  
  • Facilitating improvement in the public sector’s:
    - planning of its construction procurement
    - communication of its needs to industry;
  • Continuing to embed best practice principles;
  • Measuring / reporting performance improvements in delivery of construction projects;
  • Into the future – looking at strategy / innovation leading to continuous improvement.
The SC Team Structure

Director

Deputy Director
Demand/Supply

Team Manager
Policy / Whole Life Value

Team Manager
Policy/Whole Life Value

Team Manager
Best Practice Embedding

PSCCF / Business Planning / Comms Team Manager

Team Manager
Best Practice Embedding

Business Support/ Finance Management/ Monitoring

Team Admin/Support

Team Manager
Demand Supply

Policy / Whole Life Value

Policy/Whole Life Value

Demand/Supply Data collection/analysis

Demand/Supply Data collection/analysis

(Consultant) Demand/Supply
UK Construction

- **Big money** - £160bn - 4% GDP; the bulk of the nation’s assets is infrastructure

- **Public sector** - £65bn (including PFI, design/consultancy)

- **Service delivery** - a vehicle for service improvement

- **Sustainability** - built environment accounts for 45% of UK energy use; up to 50% CO\(^2\) emissions
Government and Modernising Construction

- 1994 Latham Report
- 1995 Levene Report
- 1998 Egan Report
- 1999 Gershon Report
- 2001 National Audit Office Report – Modernising Construction
- 2005 National Audit Office Report – Improving Public Services through better construction
Problem? What Problem?

- Bath University Study 1998

  - Identified failings in 6 main areas:
    1) Poor management
    2) Risk averse culture
    3) Design & construction in isolation
    4) Poor project flow
    5) Non-value oriented approach to procurement
    6) Misinterpretation of need for public accountability
Problem? What Problem?

- Her Majesty's Treasury Benchmarking Study 1998
  - 73% exceed tender price
  - 70% exceed time estimate
    - But 70% of clients happy!!!!

- Her Majesty's Treasury Benchmarking Study 1999
  - 50% exceed pre tender estimate
  - 66% exceed time estimate
The Problem

Lack of integration
Adversarial approach
Poor customer focus
Lack of learning culture
Poor Health & Safety record
Lowest cost
No supply chain management
Short term relationships
Poor collaboration in problem solving
Better Performance
Construction meets user requirement
Lower whole life & operational costs
Greater cost and time predictability
Eliminate waste
The Performance Gap

From

- Poor management
- Risk averse culture
- Design & construction in isolation
- Poor project flow
- Non-value oriented approach to procurement
- Misinterpretation of need for public accountability

To

- Leadership
- Risk assessment and mgt
- Integrated teams
- Reviews and decisions
- Design quality and value for money
- National Audit Office and Her Majesty's Treasury support
Achieving Excellence in Construction

- Launched 1999

- 3 year Action Plan (initially)

- Focus on 4 Areas
  - Management / Culture change
  - Measurement
  - Standardisation
  - Integration
Achieving Excellence

- Management / Culture Change
  - The Project Sponsor
  - Sustainability

- Measurement
  - KPIs/Benchmarking
  - Post Project Implementation Plans

- Standardisation
  - Practices - Life-cycle costing, value/risk management, output based specs

- Integration
  - Integrated procurement strategies
  - Collaboration (partnering & teamworking)
Achieving Excellence

- Management / Culture Change

  - Commitment and Leadership
  - Empowerment and Skilling
  - Consistent and Skilled Project Sponsorship / Management
Achieving Excellence

- Measurement

  - Standard Key Performance Indicators
  - Post Project Implementation Reviews
  - Client Performance Surveys
Achieving Excellence

- Standardisation

  - Key standard practices on:
    - Procurement decisions on total value for money
    - Use of risk and value management
    - Output / performance specifications
    - Whole life costing
    - Robust change control

  - IT and standardisation document handling
Achieving Excellence

- **Integration**
  
  - Teamwork and partnering
  
  - Integrated procurement strategies – focus on:
    - Design & build
    - PFI
    - Prime contracting
Achieving Excellence in Construction
Achieving Excellence

Procurement Guides

- 3 Core Guides
  - 01 Initiative into Action
  - 02 Project Organisation
  - 03 Project Procurement Lifecycle
Achieving Excellence

Procurement Guides

- 04 Risk & Value Management
- 05 The Integrated Project Team
- 06 Procurement & Contract Strategies

Supporting Guides
Achieving Excellence

Procurement Guides

- 07 Whole Life Costing
- 08 Improving Performance
- 09 Design Quality

Supporting Guides
Achieving Excellence

Procurement Guides

- Supporting Guides
  - 10 Health & Safety
  - 11 Sustainability – in development

- Strategic Targets

- By March 2005, 70% (by volume) of construction projects reaching benefits evaluation (Gate 5) in the period 1 April 2003 – 31 March 2005 to be delivered:
  - On time
  - Within budget
  - To exceed consumer and stakeholder expectations
  - With zero defects
Achieving Excellence in Construction

- Achievements so far (2005)
  - 65% (27%) - on time
  - 61% (30%) - within budget
  - 60% - with zero defects
  - 70% (70%) - exceed consumer and stakeholder expectations
National Audit Office opinion on Achieving Excellence in Construction

- National Audit Office report *Improving Public Services though better construction*

  - Stated that Achieving Excellence had helped government clients avoid approx £800 Million overspend on construction projects

  - Estimated that a potential value gain across the whole public sector of up to £2.6 Billion per annum is achievable

**IMPROVING BUT MORE TO DO !!!!!!!**
Common Minimum Standards for the procurement of built environments in the public sector

Common Minimum Standards

For the procurement of built environments in the public sector

Standards for construction procurement mandated with immediate effect

Where a business case for a new programme or project includes a construction element, departments should ensure that this is undertaken with full reference to the Common Minimum Standards (CMS) – see pages 211 below. Purpose-built housing, investments, aesthetic works, Digital Transformation Centres, Project Sponsor and Project Managers should take steps to understand and implement the CMS.

Background

Ministers are committed to delivering value for money through improvements to the procurement of built environments that provide facilities for the public sector. There are concerns that public sector procurements do not reflect the best value for money, and that value for money is not always achieved.

To address this, the OGC was asked to establish a group of government sector experts (COG) to produce the CMS. The CMS was developed to be simple, pragmatic and within the reach of procurement practitioners, which would improve the coherence and effectiveness between the different stages in the procurement cycle.

Ministers have now agreed the key minimum procurement standards, which are mandatory across central government, including departmental, executive agencies and the non-departmental public bodies for which they are responsible. They will apply in any procurement of a new environment-based or Project. If there is a new environment-based or Project, the minimum standards must be applied as a minimum requirement.

The CMS are currently being trialled across central government, and they already represent a significant change from the current processes in place. For example, the CMS require greater involvement by departments in the procurement process, the appointment of an internal champion, and a significant increase in the number of stages in the process. These changes will be implemented according to the standards set in the CMS.

The CMS will be enforced by the OGC and its agencies, and the implementation will be monitored by the OGC. The CMS are designed to improve the delivery of public sector projects, and to ensure that value for money is achieved.

Further information

Any queries or requests for further information about the CMS should be directed to the CMS Service Desk. For more information, please visit the CMS website: www.gov.uk/guidance/common-minimum-standards.

Office of Government Commerce, Victoria House, 1-5 Whitehall Place, London SW1P 3RB
Tel: 0845 330 6300 Fax: 0845 330 6301 Email: govmail@ogc.gov.uk
What do CMS cover?

1. General Standard – AE generally
2. Project and Programme Procurement
3. Health and Safety - AE 10
4. Design - AE 9
5. Historic Estate
6. Sustainability – AE 11
Kelly Programme Capacity Planning
Kelly Programme

- Increasing Competition and Improving Long-term Capacity
  Planning the Government Marketplace

- Aims to achieve a more systematic & strategic approach to major government markets by:
  
  - Providing industry with clearer information about public sector demand
  - Gaining a better understanding of markets
  - Sharing market intelligence
  - Strategic shaping of the market
“Kelly” Recommendations

- A Senior Stakeholder Group to be established to undertake market analysis function
  - Public Sector Construction Clients Forum (PSCCF), Database and Model

- Detailed evaluation of planned public sector construction programmes
  - The Study

- The Public Sector Demand Database to store, monitor, and analyse forward looking construction plans

- Publication of forward-looking demand plans for major public sector construction programmes’ to industry

- Dissemination of demand data to wider set of public sector stakeholders
Public Sector Construction Clients Forum (PSCCF)

- Chaired by Sir Christopher Kelly – Office of Government Commence as Secretariat

- Members included Department of Health, Ministry of Defence, Department for Education and Skills, Department of Trade and industry, Highways Agency

- In all, PSCCF membership represents about 80% of total UK public sector construction procurement spend

- Mission –

  To lead improvement in the value for money obtained for the public sector construction procurement, leading to better public services though delivery of built environment programmes and projects that are both cost effective in whole life terms and sensitive to social and environmental considerations.

- Vision –

  For the public sector to be regarded as clients of choice by the construction industry in the delivery of sustainable construction.
Current PSCCF Working Groups

1: Demand / Capacity in the Construction Industry
2: Whole-life Value
3: Better Embedding of Best Practice
4: Fair Payment
5: Procurement Strategies
6: Enhancing Client Capacity

Public Sector Construction Clients Forum (PSCCF)
Current PSCCF Study Groups

• Why Tender Price Inflation is so consistently higher than the Retail Price Index over the last 10 years.

• How to redress the shortages of Mechanical & Electrical Building Services engineers.

• Stimulating and supporting trials of Project Insurance.

• Reviewing pros and cons of new contract forms used by Government, and stimulating some degree of convergence.
The Study

- Kelly Report recommendation
  - OGC should undertake a detailed evaluation of planned construction programmes in London …….for market shaping decisions

- The NAO March 2005 Report
  - OGC should strengthen the leadership and coordination of public sector construction activity…

- Stakeholder concern
  - Regarding the industry’s ability to deliver public sector construction programmes in the run-up to the 2012 Olympics
Key study findings - 1

- Industry Capacity – likely to have sufficient capacity to meet the demand from public sector construction programmes, including that of the Olympics:
  - Assuming that there will be a sufficiency of migrant labour
  - Critical skills gaps in certain trades (Plasterers, Carpenters, Bricklayers)

- Significant skills shortages in specific professional disciplines:
  - Leadership (Pre-construction issues and Client-side capacity)
  - Project management
  - Specific aspects of design in particular mechanical and electrical design (M&E) design
Key study findings - 2

- Olympics construction programme is predicted not to have a significant effect on inflation

- On assumptions re migrant labour:
  - Adding on average 0.12% pa to OPI from 2006 to 2010
  - Inflation premium peaks at 0.6 per cent in 2006/07
  - Average annual overall wage inflation in construction 6.5% pa 1985 to 2000 (used in the Study as a proxy indicator for skills shortages)
  - Reducing to 4.4% pa over last 5 years average
  - Wage inflation for unskilled workers has been just 3.9% - 0.5 per cent lower than the economy-wide average

- Reinforces the point that the key capacity constraints stem from the upper end of the skills spectrum
Key study findings - 3

- Pre-construction issues and client side capacity:
  - Management imposed constraints
  - Uncertainty about future demand profile
  - Programme/project planning uncertainty
  - Inefficient procurement strategies/routes
  - The capacity and capability within client organisations
PSCCD and the Model
Public Sector Construction Demand Database (PSCDD)

- PSCDD addresses a key recommendation of the “Kelly Report”

- A real-time electronic secure web-based data collection/storage/analysis (e-PIMS based)

- Visibility of demand, and future spending patterns for supply, and demand side – real-time

- PSCDD will feed data to Model
The Model

- An econometric Model for supply/demand modelling - key deliverable of the Study

- Will inform the decision making process of the PSCCF in its market analysis role

- By providing a quantitative measure of construction output fluctuations

- For reporting to ministers, highlighting investment and resource implications in relation to future demand, priorities and capacity constraints
The Vision
The Information Continuum – Demand – Performance – WLV

Public Sector Data

Project Performance including Unit Costs

2005 2006 2007 2008 2009 2010 2011

Ministers

PSCCF

Model

CITB Model

VFM Medium / Long Term Quantification

Supply-side and Demand-side Visibility

Whole-life Value

PSCDD
£7.2 billion infrastructure expenditure added

Between 2006 and 2015

“Crossrail premium” to output prices (London) ~ £98 M
Terminal 5 Counterfactual Scenario

Impact of T5 Counterfactual Scenario on London Output

- £2.3 billion infrastructure expenditure removed
- Between 2002 and 2005

Impact of T5 Counterfactual Scenario on Output Prices
Olympics Counterfactual
Base Case

- £2.5 billion infrastructure and public non-housing expenditure removed
- Between 2006 and 2012

“Olympics Premium” to Output Prices (London) ~ £21 M
OGC works with public sector organisations to help them improve their efficiency, gain better value for money from their commercial activities and deliver improved success from programmes and projects. Our priorities are to support the delivery of:

- the public sector’s £20bn annual efficiency gains by 2007/08
- £3bn saving by 2007/08 in central Government procurement
- improvement in the success rate of mission critical projects.

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