

Government Construction Strategy

Interim Report of the Procurement/Lean Client Task Group Summary Report

January 2012

Procurement and Lean Client Task Group

Interim Report: Summary

Summary of activities

The Procurement and Lean Client Group was established in autumn 2011 to help deliver objectives for the reform of the industry identified in the *Government Construction Strategy*.

Representatives from central and local authority clients worked with counterparts from the supply chain to develop these reforms, turning outline objectives into solid proposals that can be trialled on real public sector construction projects.

In delivering its work, the Group has maintained contact with other groups involved in reform of the industry. This includes the other working groups set up to help deliver the recommendations of the *Government Construction Strategy* (Building Information Modelling; FM/Soft Landings; Data & Benchmarking; Standards/Lean Supply; and Performance Management). It has also engaged with counterparts involved in the work to implement the recommendations of Infrastructure UK Cost Study, and the emerging activities of the Green Construction Board.

As its name indicates, the Group focussed on opportunities to generate savings through the way that projects are managed and procured by public sector clients. It has initially looked at four key themes:

New models

For proposed 20 per cent cost savings for public sector construction by 2015 to be achieved, the *Government Construction Strategy* recognises a need to look at the process by which projects are procured.

It offered two new proposed models which might help contribute towards this target, known as Cost-Led Procurement and Integrated Project Insurance. The working group added an additional proposal, known as the Two Stage Open Book model. Each model has now been developed to the point where they can be trialled on actual current construction projects.

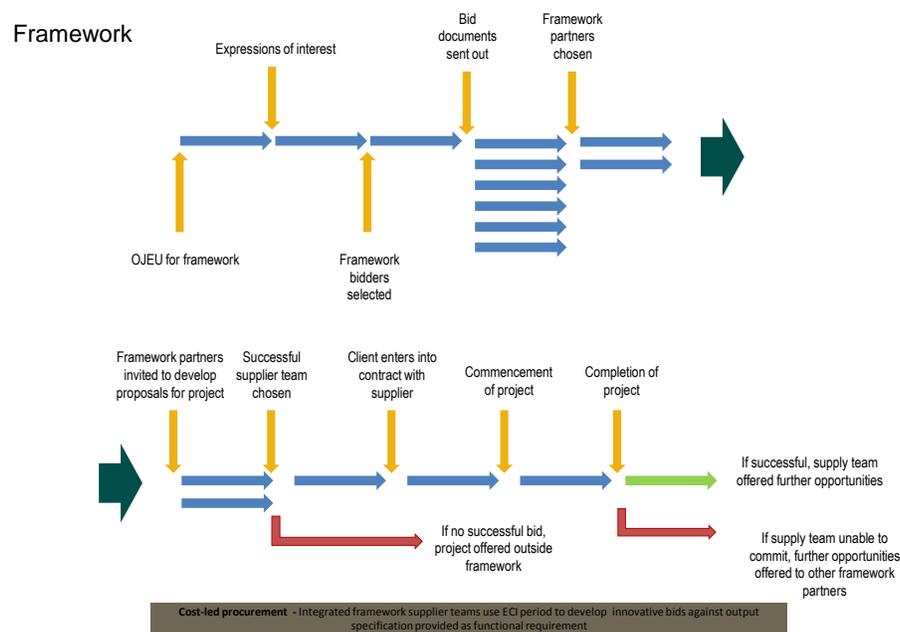
Each of these models requires the client to identify a clear definition of what it wants to achieve through delivery of the project (functional outcome). It must also set a challenging maximum cost for the project (cost ceiling). Where it is being delivered as part of a programme of works, there is an expectation that this cost will be reduced through continuous improvement over the programme.

It is expected that in each case projects will be delivered by integrated project teams. Teams will be appointed early enough to allow the benefits of their experience to be used to refine the project proposal, reducing costs and risk.

In all cases projects should be delivered using standard forms of contract with no amendments to clauses, risk allocation or payment terms.

Under **Cost-led procurement** a client establishes a framework of integrated project teams. 2-3 of these teams are invited to develop proposals to deliver a given project within the client's pre-defined cost ceiling, while still meeting the functional outcome. Successful completion of the project within these parameters would lead to the team being offered similar projects with an expectation that these would be delivered at below the cost of the previous project due to continuous improvement. If framework suppliers are unable to deliver the project within the agreed parameters, it would then be offered to other suppliers outside the framework.

The Group has recommended that NEC3 Option C be used as the form of contract for the trials.

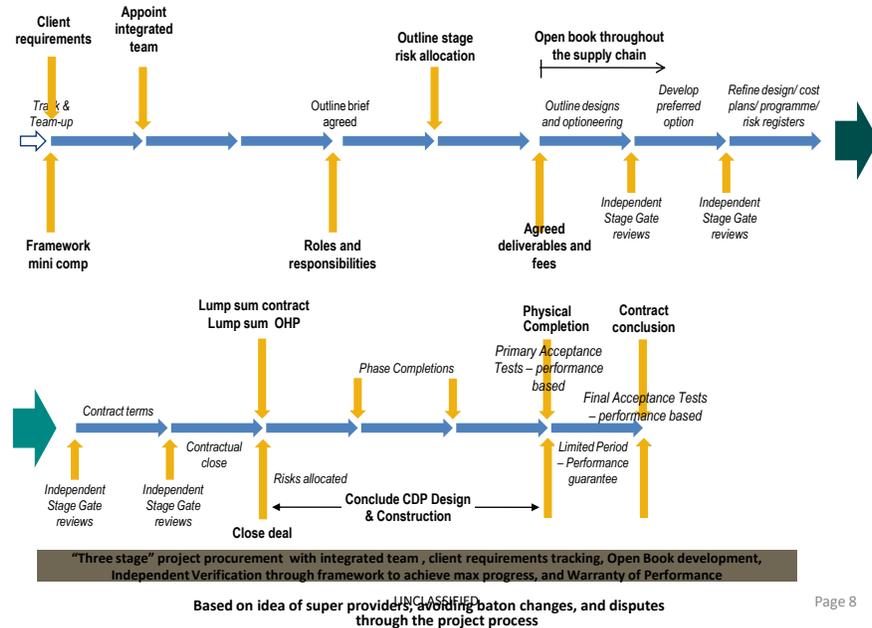


Integrated project insurance requires a client to assemble an integrated team to deliver a project, which is again required to develop a solution that delivers a functional specification within a cost ceiling.

The difference with this model is that, having developed a solution, the whole project then adopts a single third-party assured insurance policy. This policy covers all project risks, removing the potential for a blame culture within the project. Any cost overruns above an

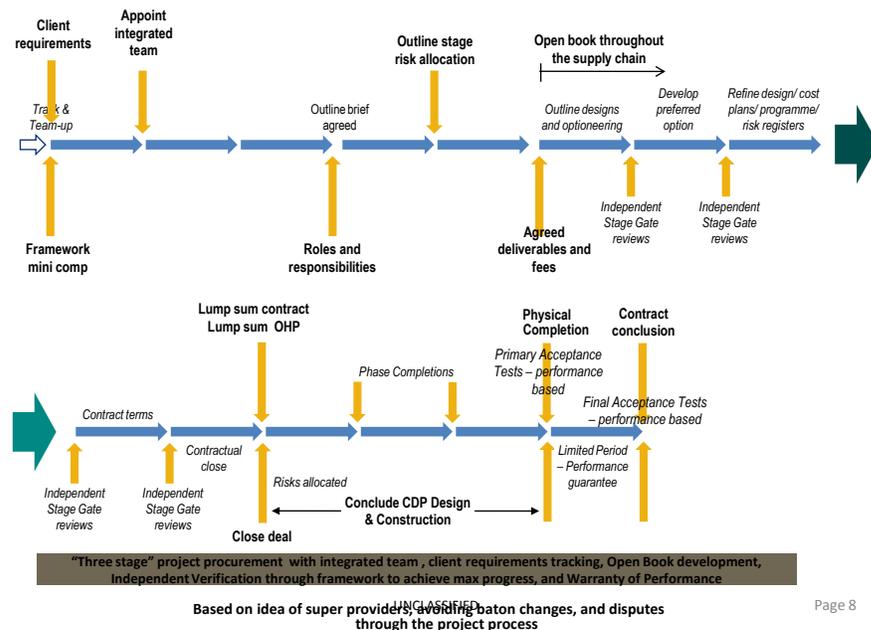
agreed ceiling would be met by the insurance policy. For the insurance company's part, it will only provide cover for the project subject to rigorous evaluation of the proposals, ensuring that it is comfortable that the project will not fail. The likely cost of such insurance has been estimated at 2.5 per cent of the project sum, significantly less than the savings that are predicted to be achieved as a result of the use of this model.

The Group has recommended that PPC 2000 be used as the form of contract for the trials.



The **Two Stage Open Book** process represents a third way. In the first stage integrated teams selected from a framework bid against an outline brief and cost benchmark. The winning team then works up a full proposal to meet the cost ceiling and functional outcome with the client on an open-book basis. The first stage reduces procurement costs to suppliers, limiting expenditure in the first stage. Commercial tension is maintained in the second stage through independent verification at stage-gate reviews.

The Group has recommended that JCT Constructing Excellence be used as the form of contract for the trials.



Intelligent Clients

Alongside new models for construction, the Group recommends that steps are taken to ensure that public sector clients have the capabilities required to deliver the reforms outlined in the *Government Construction Strategy*.

To this end, the group has developed a description of the key competencies of an 'intelligent client'. These are:

- Consistency in the procurement models used by the client
- Strong client leadership
- Development of collaborative culture within client
- Focus on early involvement of supply chain
- Ensuring suppliers are engaged based on their ability to collaborate
- Establishment of mutual objectives
- Commitment to continuous improvement
- Transparent issue resolution
- Opportunity to innovate throughout project development and implementation

The Group has asked the government to roll out professional development within public sector clients to ensure that their staff can deliver these competencies. It also recommends a similar push in industry to encourage equivalent best practice to be promoted within the whole supply chain.

The Group has welcomed the recent announcement of the creation of a Commissioning Academy. It is intended to help improve the skills of public sector procurers and, as such, will help deliver the aspirations of the *Government Construction Strategy* in this area.

Frameworks

The Government Construction Strategy recognises that the use of framework agreements, under which a client appoints a number of contractors to deliver a series of projects over a given time period, can deliver considerable efficiencies and improvements in the way that construction is delivered for public construction clients. But it equally recognises that some frameworks have failed to deliver these benefits, and in some cases actually have a negative effect on the sector.

The Group has attempted to draw together available evidence to define what makes a successful framework. This work has identified the following characteristics:

- Has a demonstrable need supported by a business case developed in conjunction with key stakeholders and the private sector
- Is underpinned by client leadership to actively engage stakeholders and implement effective governance.
- Actively supports its clients through management arrangements that ensure clients are left with a legacy of improvement.
- Is driven by aggregated demand to create volume and generate efficiencies.
- Maintains competitive tension during its life.
- Is designed and actively managed to deliver the required outcomes
- Distributes sufficient work to cover the suppliers investment
- Measures performance against the required outcomes and pays fairly for the work done and the risks taken.
- Can demonstrate greater value for money for the taxpayer.
- Contributes to the development of an effective and efficient construction market
- Harnesses the power of public sector procurement to provide jobs and skills, local employment and enables SMEs to prosper
- Proactively intervenes to ensure SMEs and supply chains are engaged early and collaborative values flow down the supply chain.

The Group has developed a scorecard of attributes by which future public sector frameworks will be judged, with a Framework Quality Mark awarded to those which meet the above characteristics.

Cross-government procurement

Where products, materials and services are in common use across a series of public sector projects, the Government Construction Strategy recognises that there is the potential to reduce cost and stimulate improved quality through innovation as the result of aggregated procurement.

Work in this area relating to products is considered should be led by the Government Procurement Service (GPS), and is therefore now outside the scope of the Group's work.

Looking at aggregated procurement of services, the Group has considered the work of the Supply Chain Management Group (SCMG) led by Hackney Homes. Under this model a group of

clients work with suppliers to understand how costs could be reduced if the opportunities from each client could be brought together under a single requirement. Having established cost reductions, these reduced rates were then available to tier 1 contractors working for each client.

The Group has recommended that a trial of the SCMG approach be considered to test its effectiveness in the wider public sector.

Evaluation of new models

Having identified a number of trials projects, the Group will now work with representatives from the wider public sector client base and industry to ensure that these are implemented appropriately.

The Group will monitor the trials during delivery and post-completion to identify whether the anticipated benefits of the new approaches have been achieved. The Group's findings will then be disseminated to the public sector and industry, stimulating wider reform of the industry.

The Group believes that, if implemented, the new models offer considerable potential to reduce the cost of construction to the public sector, and therefore taxpayer. Alongside reduced costs, it is likely that the models will contribute to improved programme certainty, reduced risk and greater innovation, as well as improved relationships throughout the supply chain.

However the Group also recognises that no process alone can deliver these ambitions. For this reason, any technical efforts to reform the industry must be supported by behavioural change within the industry, with all parties working together to achieve these benefits.

The full text of the Task Group's interim report is available at www.cabinetoffice.gov.uk