

Delivering value through Smart Construction Procurement



Don Ward
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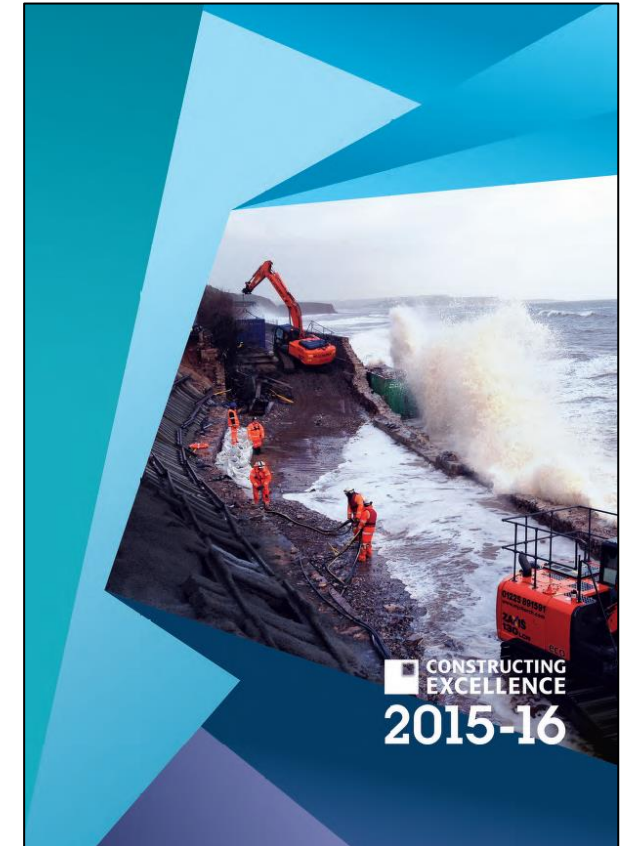
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Constructing Excellence



The independent platform
for industry improvement
to deliver better value
for clients, industry and users
through collaborative working

“Excellence through Collaboration”



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Nationally we are best known for...

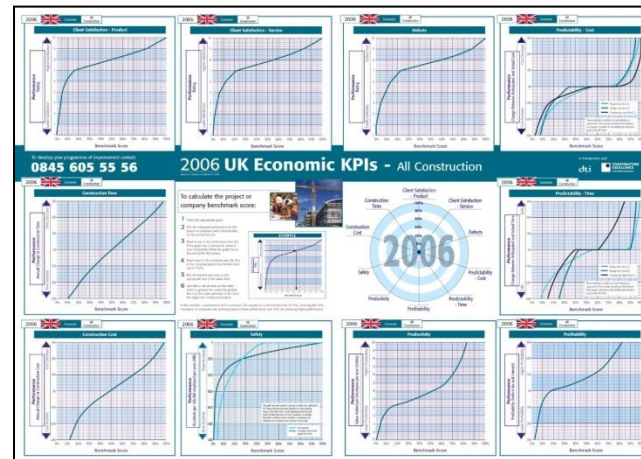
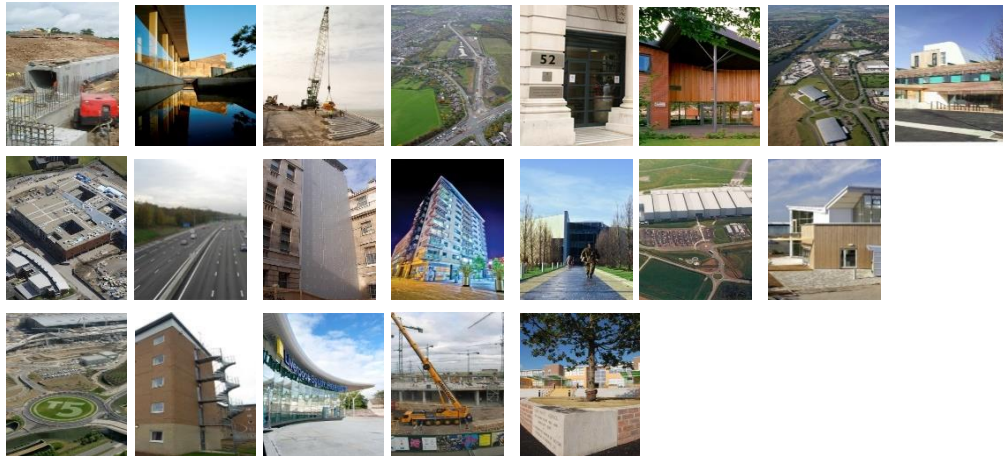


Track record – dating back over 20 years

Demonstrations programme - over 500 projects

KPIs – annual KPI data and industry report published

Regional awards programme – 8 events, 3000 attendees



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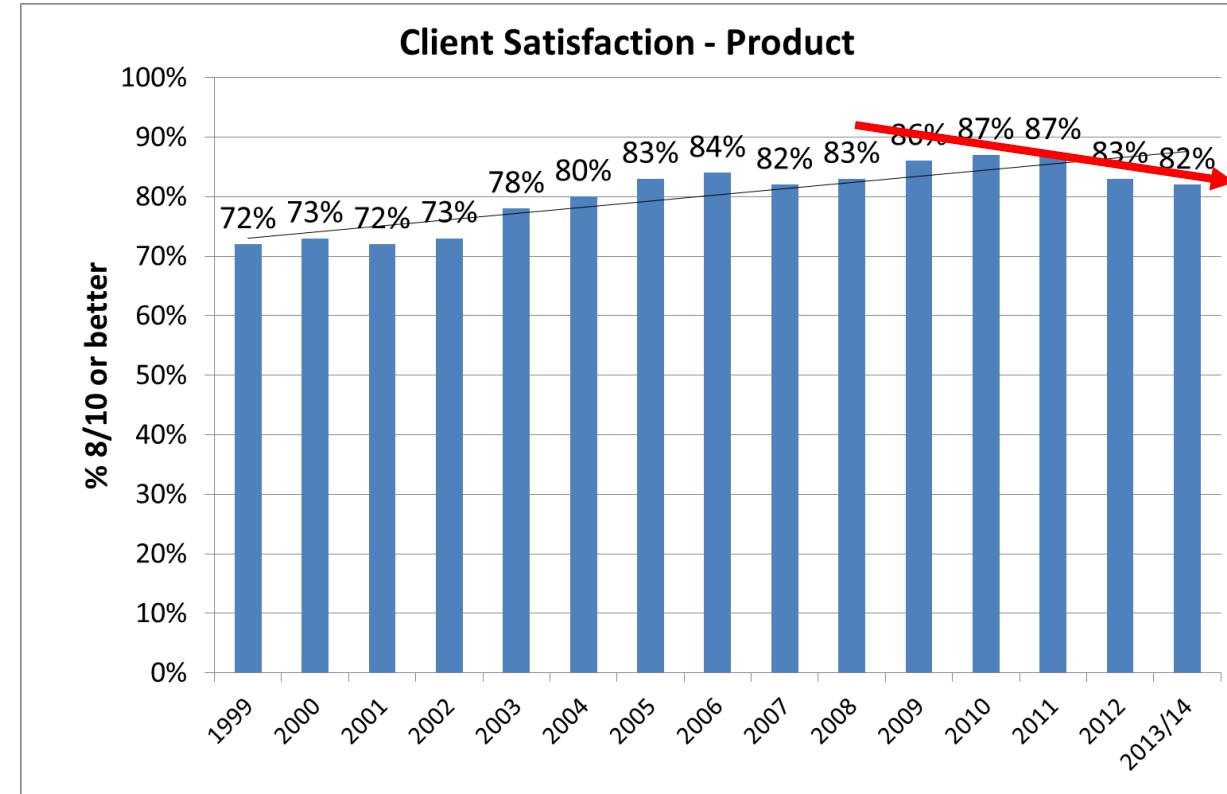
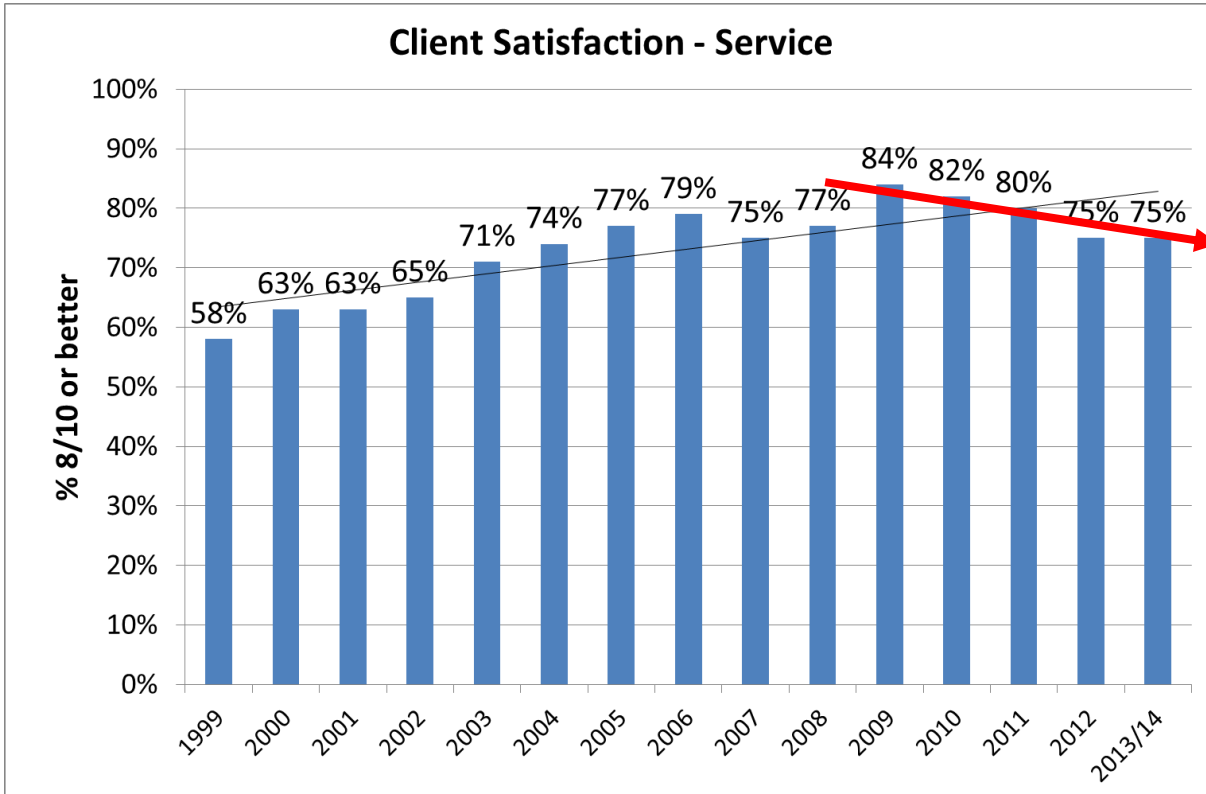
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Client satisfaction suffered in the recession



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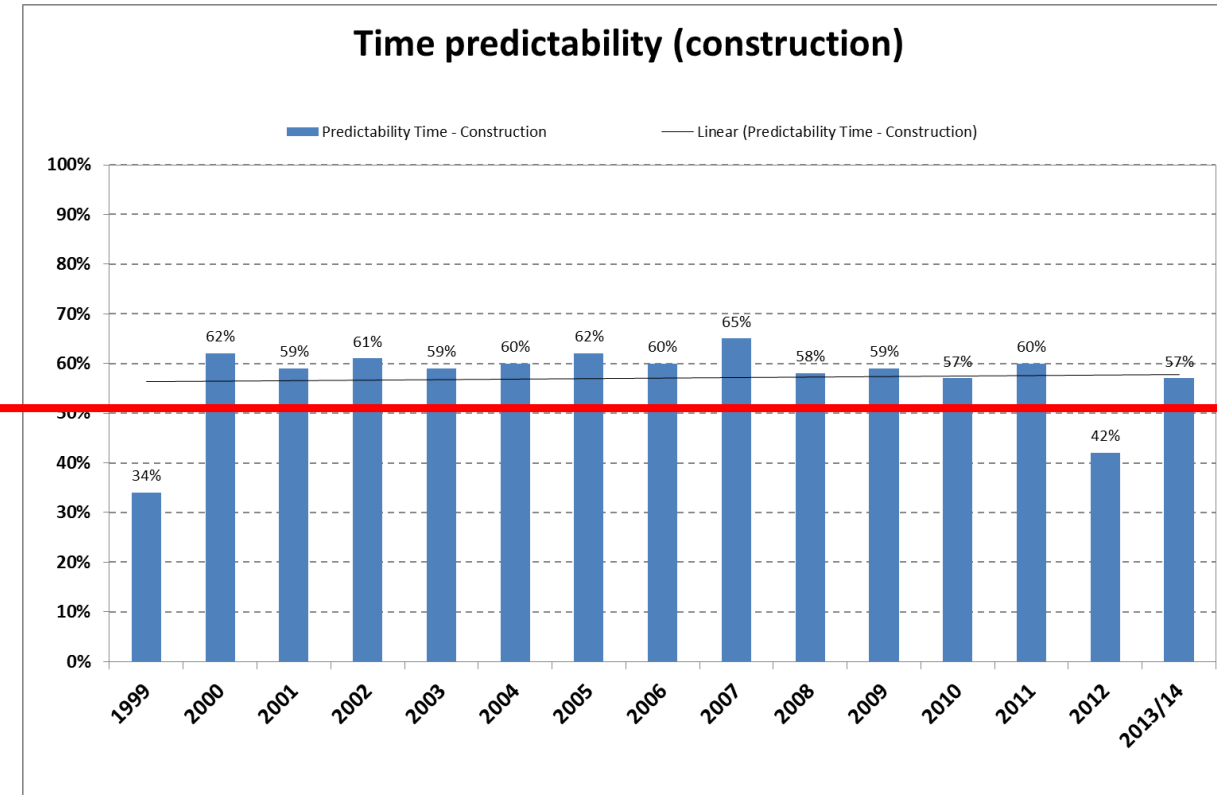
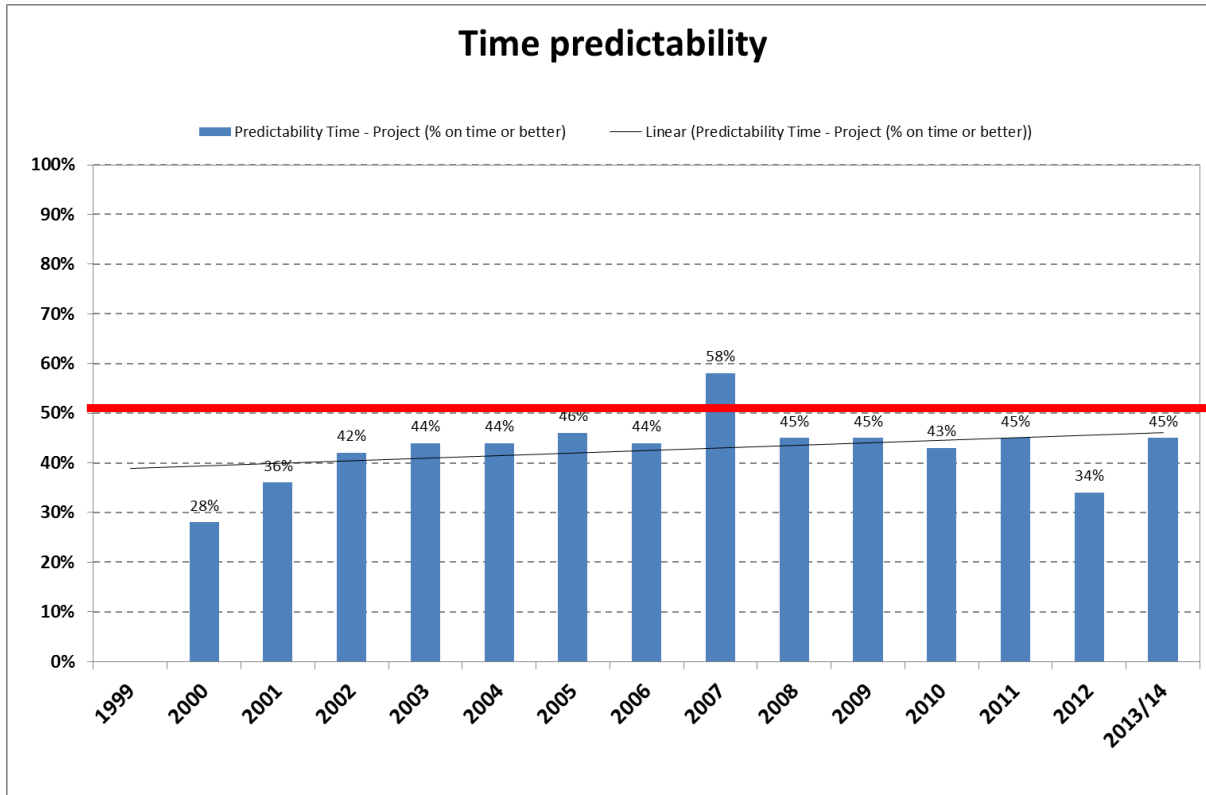
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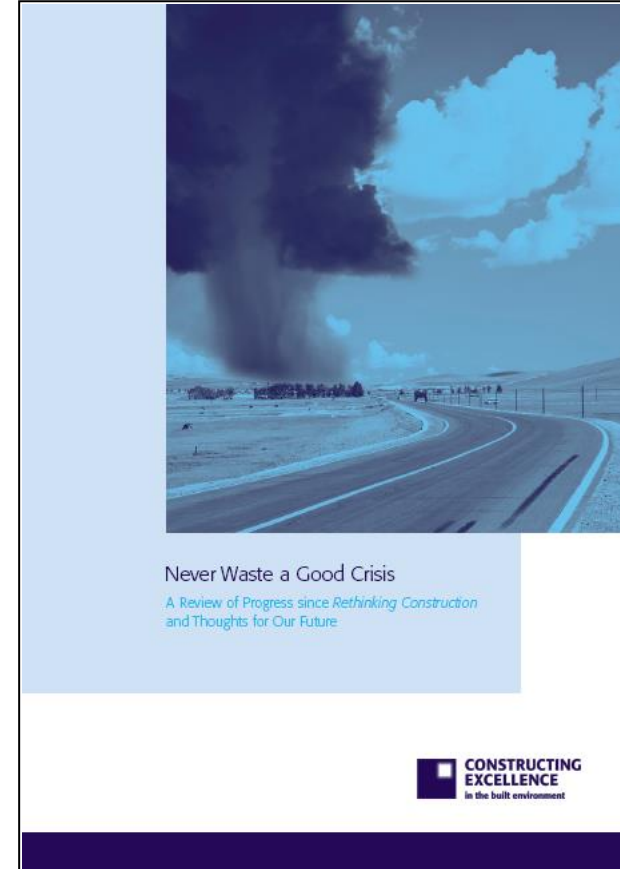
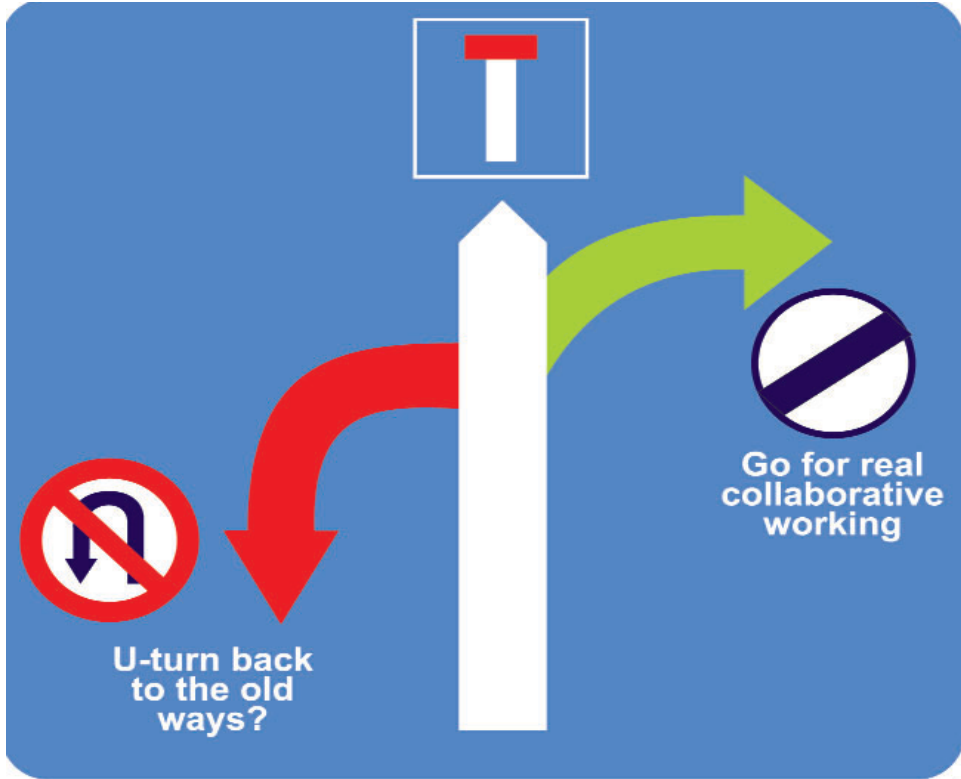
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Predictability remains a challenge (time)



'Economic climate change' means companies faced a stark choice



Never waste a good crisis, 2009



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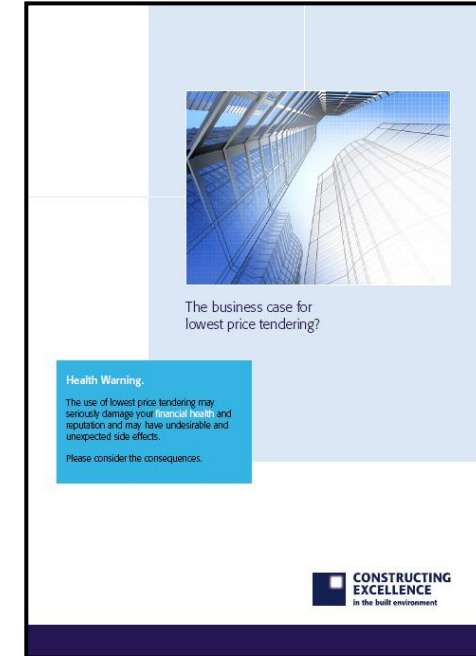
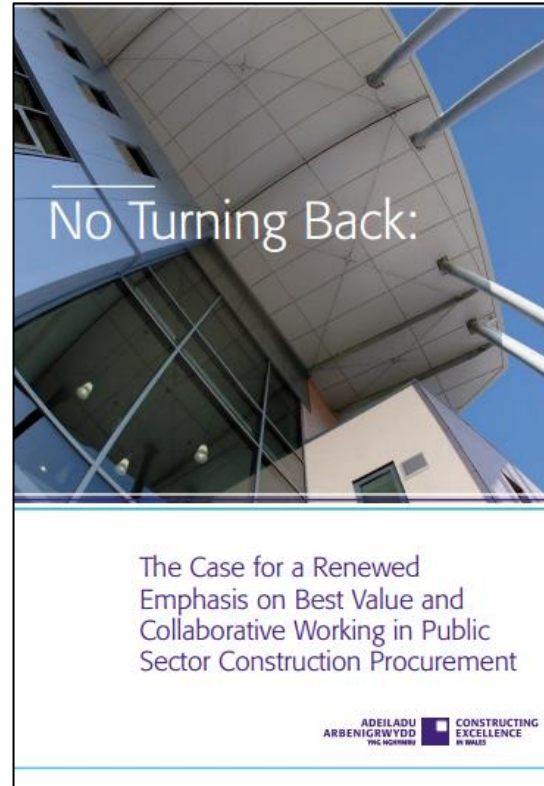
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Risks and controls of lowest price tendering

- Cost over-run
- Time over-run
- In-house management costs
- Legal costs
- Legal challenge
- Poor lifecycle performance
- Cartels
- Risk of insolvency
- Low morale
- Damage to our reputation
- No repeat business



The business case against lowest price tendering, 2011



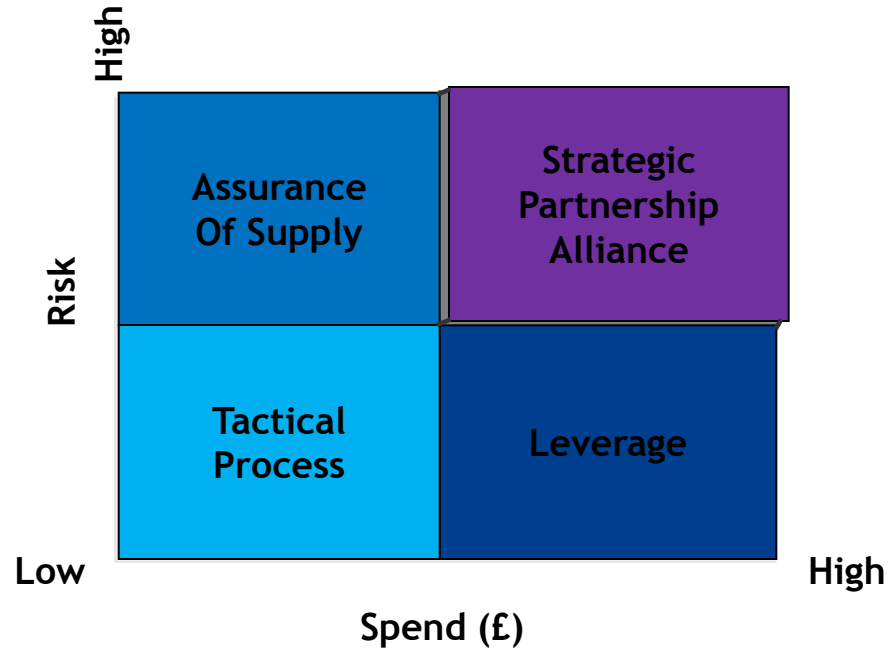
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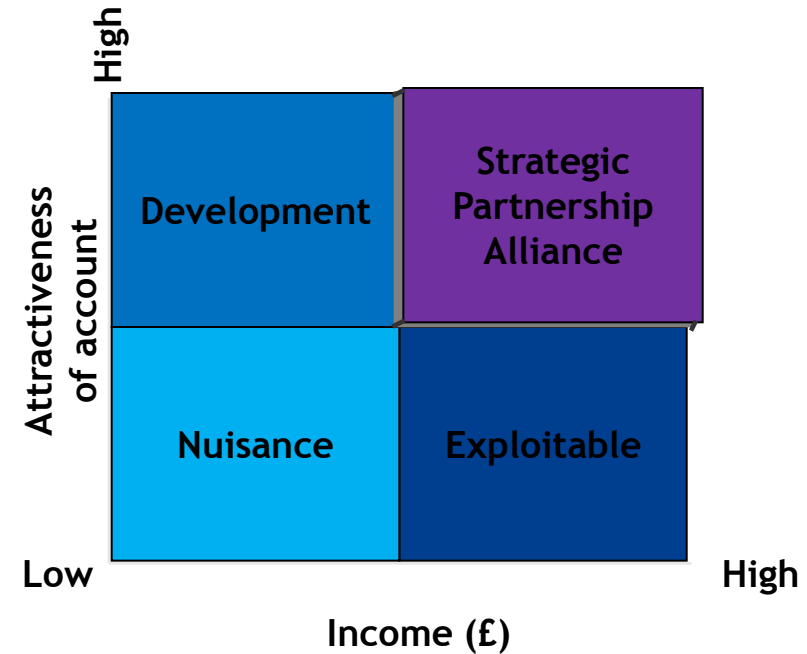
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Customers' and suppliers' viewpoints



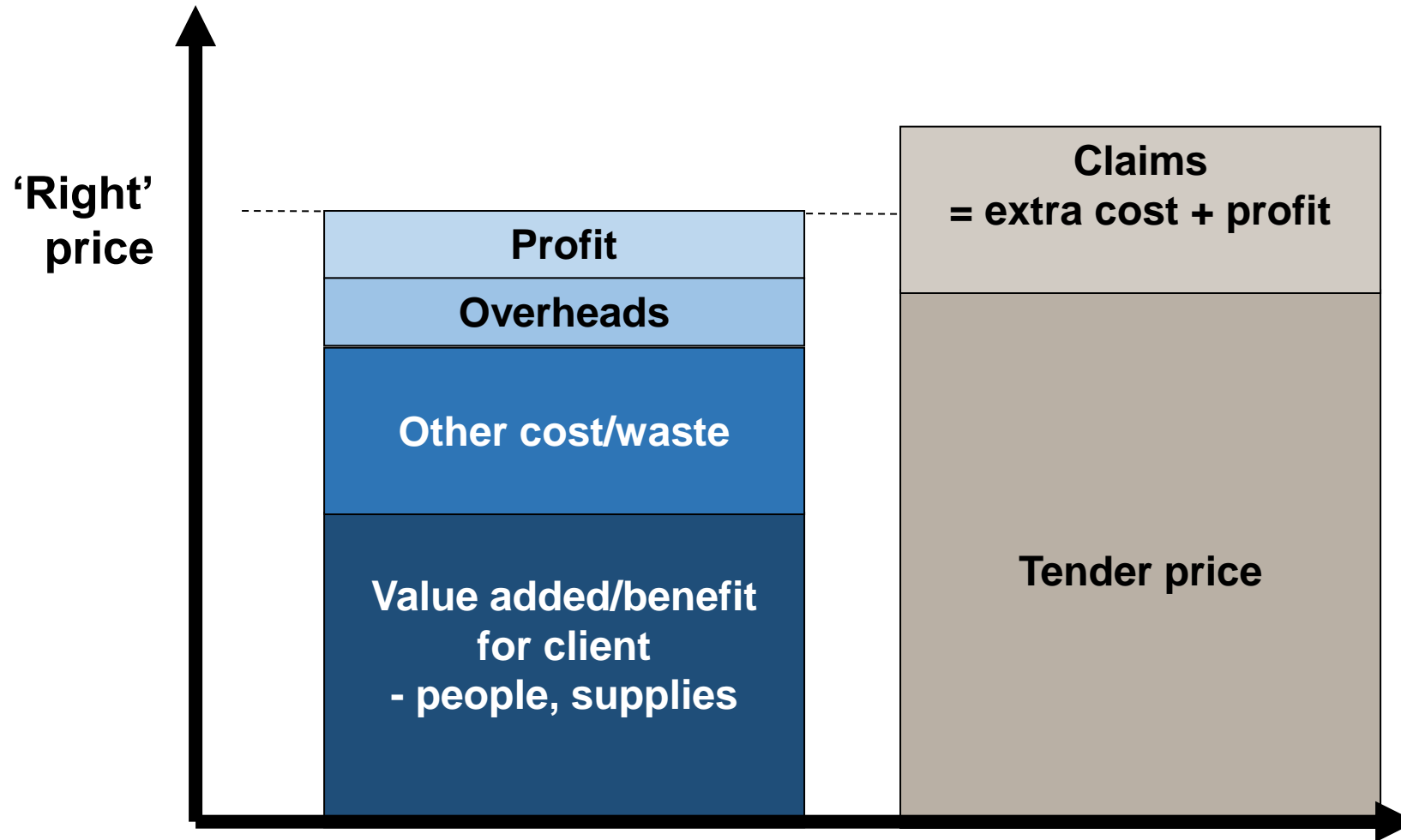
Customer



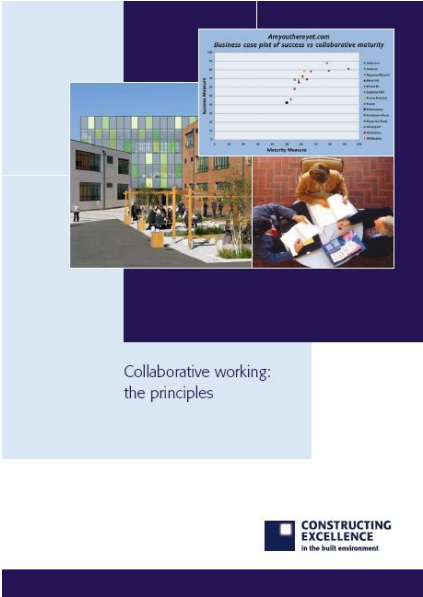
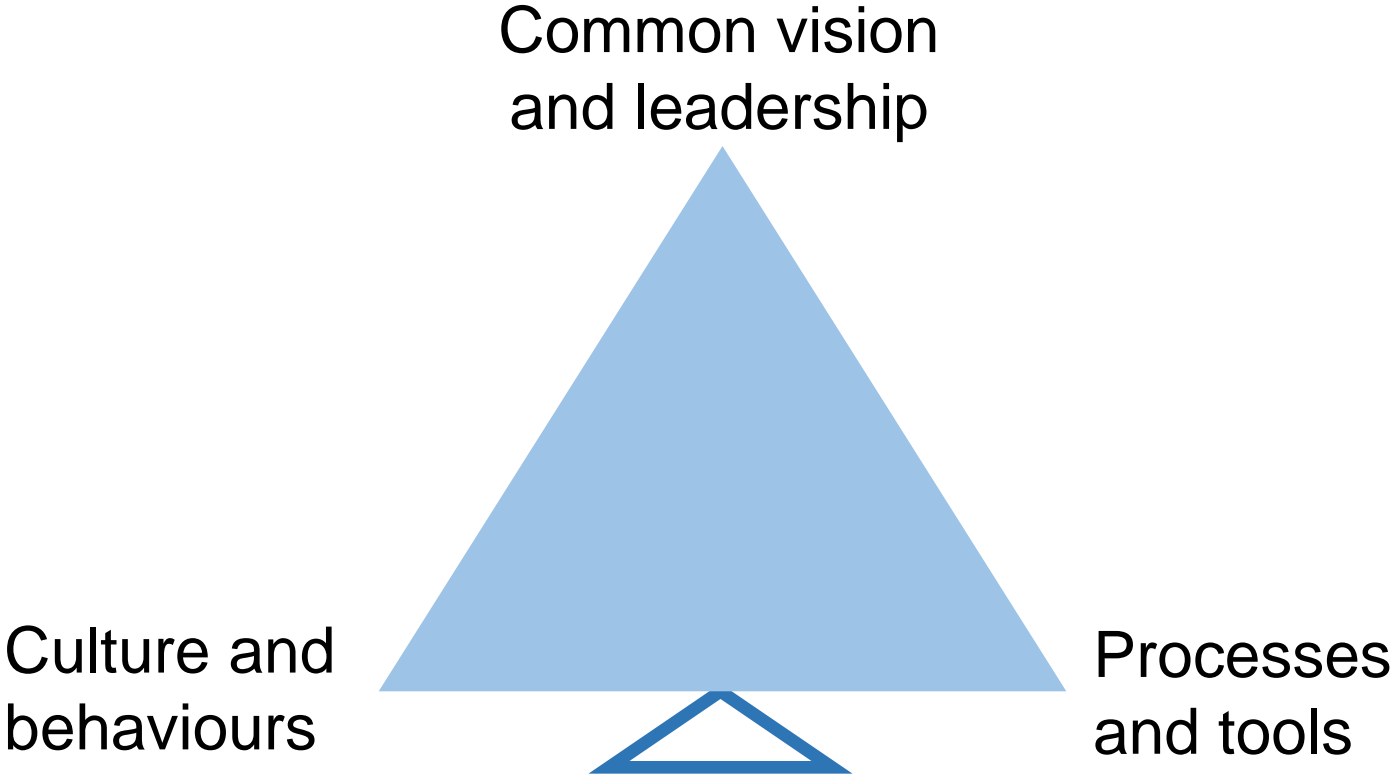
Supplier



Lowest price lump sum tendering incentivises conflict



Three overriding principles of collaborative working



There are 6 critical success factors for collaborative working


Early involvement

Selection by value

Common processes and tools => **BIM**

Measurement of performance } **continuous**
Long-term relationships } **improvement**

Aligned commercial arrangements



Collaborative working:
the principles



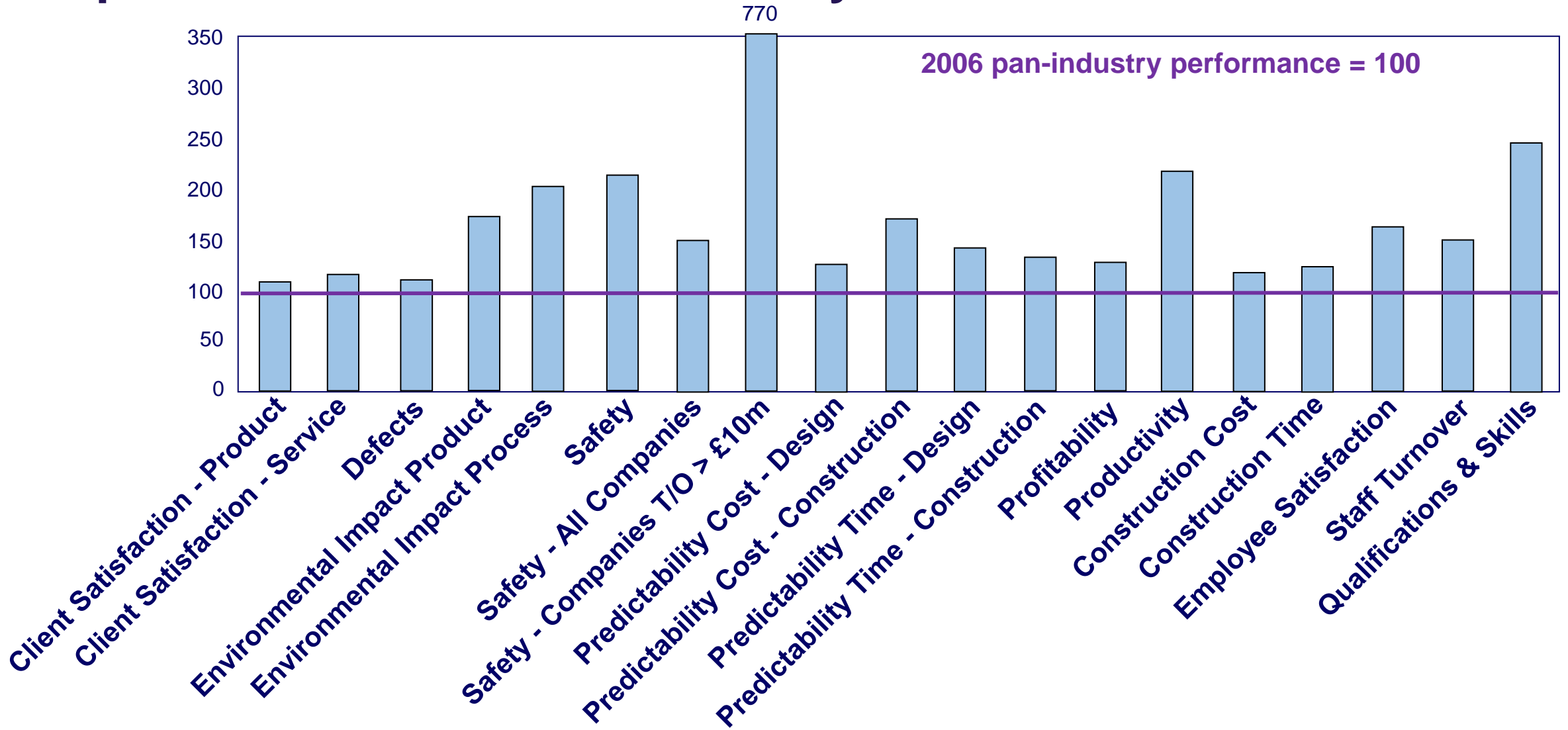
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Demonstration projects out-perform the rest of the industry



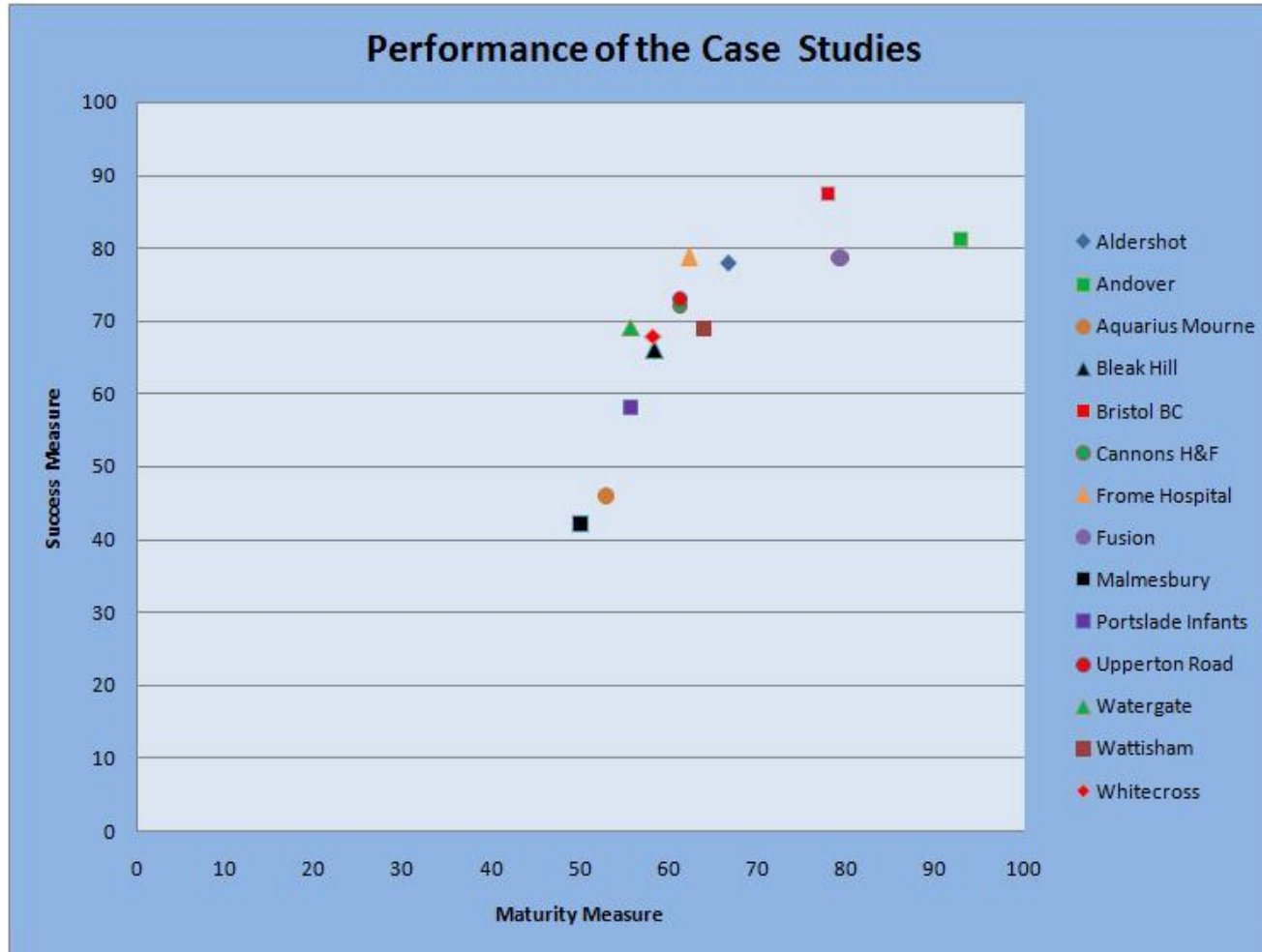
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Collaborative working exemplars



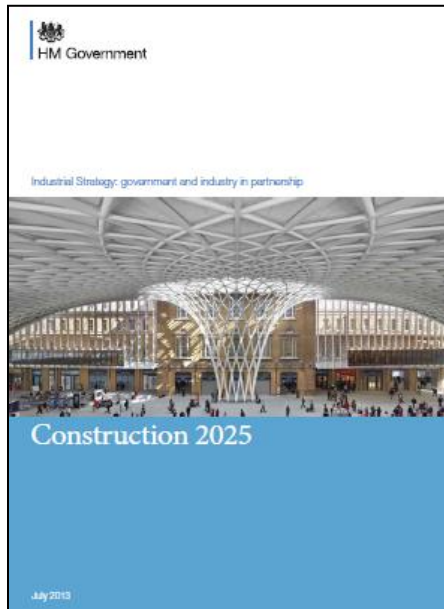
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Construction 2025, BIS, 2013



Lower costs

33%

reduction in the initial cost of construction and the whole life cost of built assets

Faster delivery

50%

reduction in the overall time, from inception to completion, for newbuild and refurbished assets

Lower emissions

50%

reduction in greenhouse gas emissions in the built environment

Improvement in exports

50%

reduction in the trade gap between total exports and total imports for construction products and materials



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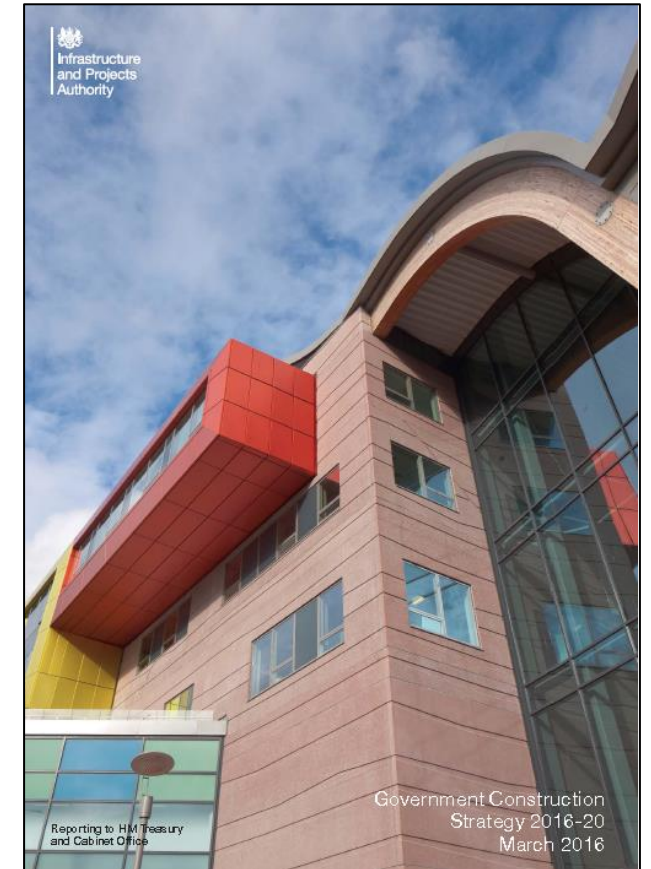
Government Construction Strategy 2016-2020

March 2016



“... sets out the Government’s plan to develop its capability as a construction client and act as an exemplary client across the industry...”

... will help departments meet the challenges of inflationary pressure in a rising market by driving increased construction productivity.”



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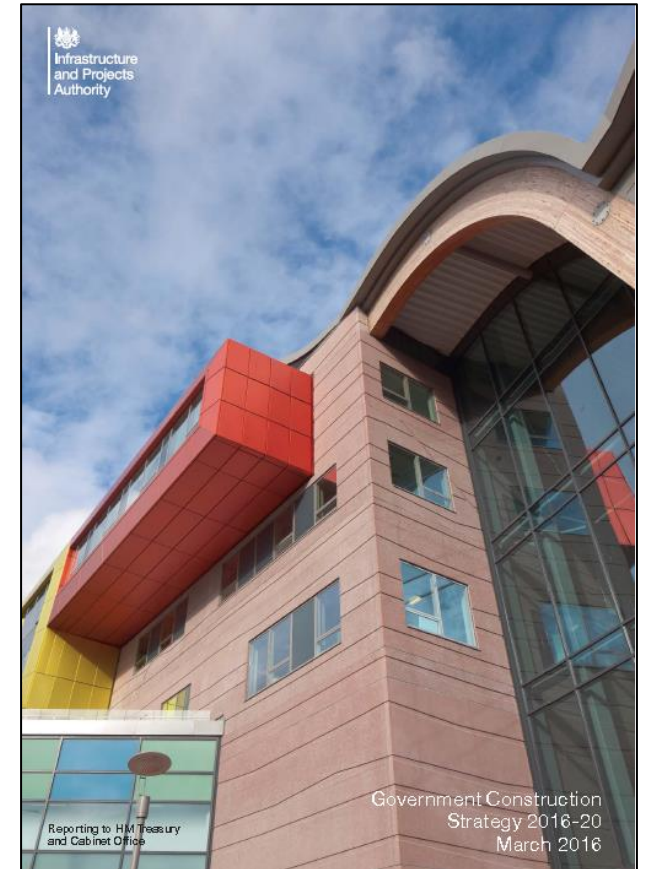
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Government Construction Strategy 2016-2020



Objectives

- improve central government's capability as a construction client
- embed and increase the use of digital technology, including BIM Level 2
- deploy collaborative procurement techniques that:
 - enable early contractor and supply chain involvement
 - develop skills capacity and capability, including [20,000 apprenticeships]
 - promote fair payment
- enable and drive whole-life approaches to cost and carbon reduction ...



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New Government procurement methods, 2014



Cost Led Procurement (CLP)

Integrated Project Insurance (IPI)

Two Stage Open Book (2SOB)



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Government Construction Strategy

New models of procurement, 2014



Three modern methods:

- Two-stage open book
- Cost Led
- Integrated Project Insurance

All feature early supplier engagement, transparency of cost, integrated team working, collaborative working

Trial projects programme on-going via CE

Adoption proven to contribute considerably to cost reductions

Cost certainty, better long-term value

Commended by the Chief Construction Advisor for wide adoption



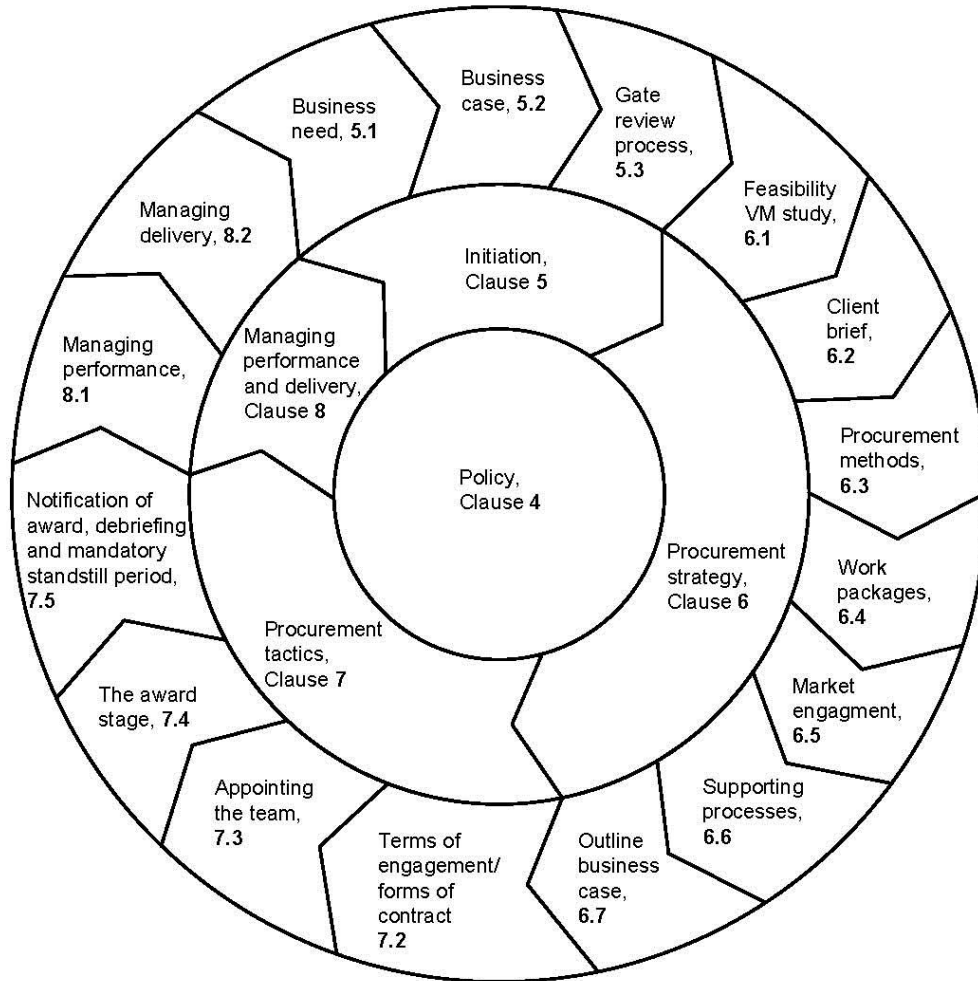
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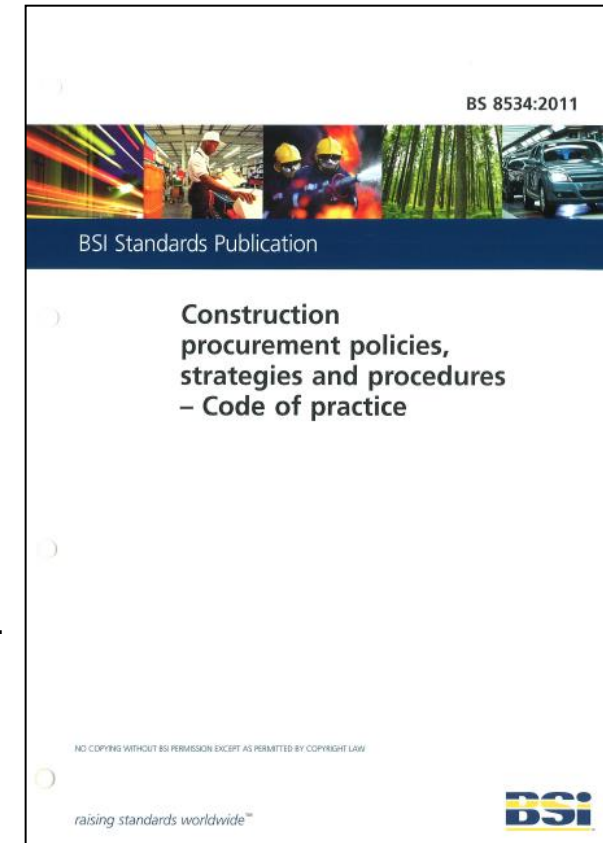
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BS 8534:2011: Construction procurement policies, strategies and procedures – code of practice



- Business need
- Business case
- Gate review process
- Feasibility VM study
- Client brief
- Procurement methods
- Work packages
- Market engagement
- Supporting processes
- Outline business case
- Terms of engagement/forms of contract
- Appointing the team, incl. prequalification...
- The award stage
- Notification of award...
- Managing performance
- Managing delivery



Key differentiators

Cost-led Procurement

Assumes framework, and/or historical reference costs

Allows breakout from the framework if parameters not met

Winning bidder recovers cost through the framework

Two-Stage Open Book

Early team selection on profit, fee and qualitative proposals

Timetabled joint design and risk management

Team remuneration fixed price vs deliverables for work stages

Integrated Project Insurance

Up-front appointment of integrated project team





Backed by a total insurance policy with pain/gain mechanism

Team remuneration at cost plus profit, this can be incentivised



Two-stage open-book procurement



PROJECT	SAVINGS	OTHER BENEFITS
 <p>Cookham Wood Youth Justice Board - Ministry of Justice</p>	<p>20%</p>	<p>Cost and programme certainty lean programming Innovation through collaboration reduced prospective operating costs</p>
 <p>Project Horizon</p>	<p>17% (+16%)</p>	<p>Improved whole life value improved warranties and quality control employment and skills commitments increased recycling/reduced landfill</p>
 <p>Supply Chain Management Group, Hackney/Haringey</p>	<p>14%</p>	<p>Improved end user satisfaction reduced defects reduced waste to landfill, carbon emissions improved employment and skills</p>
 <p>Archbishop Beck school, Liverpool</p>	<p>20%</p>	<p>Improved programme certainty innovations through early engagement of the team improved local employment and skills commitment</p>







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Cost-led procurement

PROJECT	SAVINGS	OTHER BENEFITS
 <p>Rye Harbour, Environment Agency</p>	<p>6%</p>	<p>Streamlined up-front procurement processes continuous development of the project team innovation through ECI and collaborative working significant time savings</p>
 <p>Upper Mole, Environment Agency</p>	<p>15% targeted savings</p>	<p>Driving innovation through the supply chain integration and collaborative working benefitting the local labour force and economy</p>
 <p>Anchor Property Delivery Transformation</p>	<p>9%</p>	<p>Improved services for customers and efficiency supply chain integration continuous improvement of client skills incl cost, risk & value engineering</p>
 <p>North West New-build Housing (Procure Plus)</p>	<p>20%</p>	<p>6 previously unemployed local residents all achieved NVQ qualifications and then supported into future employment</p>



Case studies of 'trial projects'

<http://constructingexcellence.org.uk/resources/cabinet-office-trial-projects/>



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Rye Harbour New delivery model / procurement route: **Cost Led Procurement**

Cost savings achieved:
Achieved cost savings of 8% on the out-turn cost, worth £800,000

Other key benefits achieved:
Streamlined the up-front procurement processes, continuous development and improvement of the Environment Agency's client capability, drove innovation through the adoption of ECI and collaborative working principles

Trial report sequence:	Kick off meeting	Brief / Team Engagement	Decision to Build	Build and Occupy
Cost saving basis:	Outline saving aspiration	Challenging cost target	Award cost	Outturn cost

Executive summary:
The Rye Harbour Western Training Wall project involved the replacement of a falling structure / steel sheet pile retaining wall as part of the Environment Agency's flood defence programme. The Environment Agency adopted the Cost Led Procurement route on the Rye Harbour project. This enabled them to generate savings of 8%, and furthermore, it also enabled them to go from Business Case to Completion in fourteen months, essentially cutting the programme time in half. Due to the funding requirements on this project, these savings in cost and time were essential to the successful delivery of this project.

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London Group New delivery model / procurement route: **Two Stage Open Book under PPC2000**

Cost savings achieved:
Achieved: 14% (in addition to 10.5% achieved through procuring the framework)

Benefits achieved:
Risk and quality control, additional employment and skills commitments through increased recycling/reduced landfill, creation of integrated project

Kick off meeting	Brief / Team Engagement	Decision to Build	Build and Occupy
Outline saving aspiration	Challenging cost target	Award cost	Outturn cost

Summary:
Heron, Gurney County Council has worked successfully with its Tier 1 contractor May Tier 2 supply chain members Aggregate Industries and Marshall Surfacing and to savings. Improved quality and an integrated team culture in the delivery of capital and improvement works across Gurney.

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Sham Wood New delivery model / procurement route: **Two Stage Open Book under PPC2000**

Cost savings achieved:
Achieved: 20%

Benefits achieved:
Savings certainty, innovation and reduced prospective operating costs

Kick off meeting	Brief / Team Engagement	Decision to Build	Build and Occupy
Outline saving aspiration	Challenging cost target	Award cost	Outturn cost

Summary:
Have created a collaborative culture so as to bring together the consultants, Tier 1 and at the earliest stage and to develop cost saving innovations and improved efficiency.

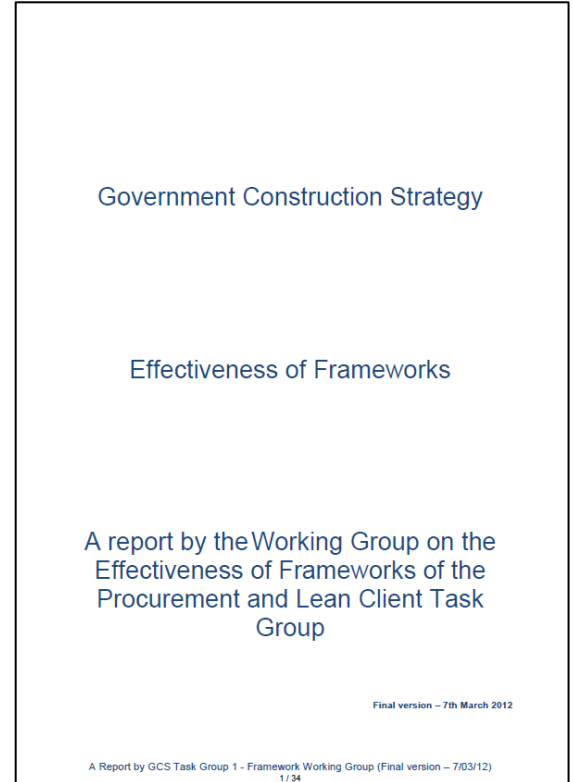
Cost Trial Project combines collaborative working under Two Stage Open Book with M, Project Bank Accounts and Government Soft Landings. A fully integrated team eight timescales to commence delivery on site of a new build Young Offenders Centre has exceeded cost saving targets.



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“Effectiveness of Frameworks”, 2012

Delivering sustainable efficiency savings
Reduction in consultancy and construction costs
Delivery of projects closer to target cost and time
Reduction of disputes, claims and litigation
High client satisfaction rates
High proportion of value of work undertaken by SMEs
High proportion of local labour and sub-contractors
High take-up of government initiatives e.g. fair payment, apprenticeships, Localism etc
High proportion of construction, demolition and excavation waste diverted from landfill
Good health and safety performance against national average.
Acting as a key enabler to integration of the supply team.



'Social value' in procurement

Construction means local jobs and apprenticeships



The “economic multiplier” (£2.84) has made a compelling argument for investment in construction for growth and employment



LEK report for UKCG, 2009/2012 *

- £1 investment generates nearly £3 of economic impact
 - Construction is a local industry
- Imports < 8% of total supply
 - Construction is a domestic industry
- Extra £1-£2 end value (eg better education)
- Just about the highest such factor

* *Construction in the UK economy
- The benefits of investment*



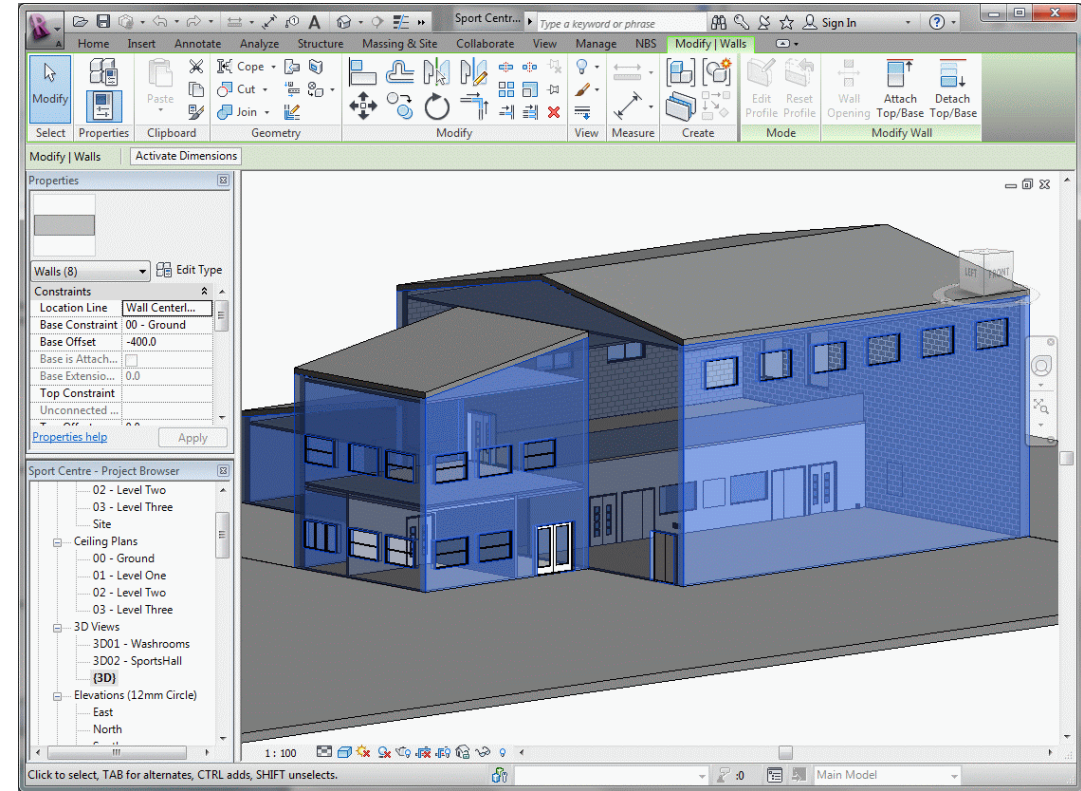
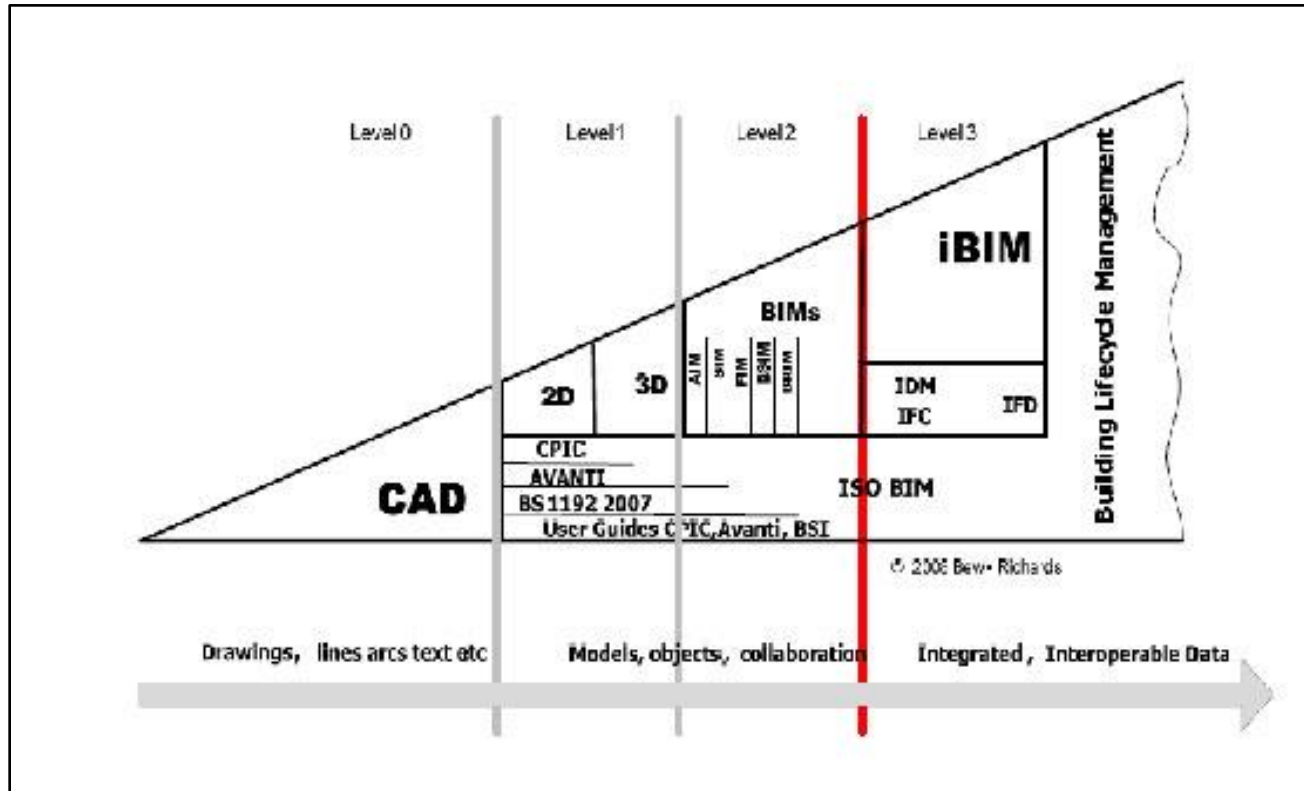
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ICT, digital and BIM are important enablers and drivers of change



Pressures on clients => Smart Construction Procurement



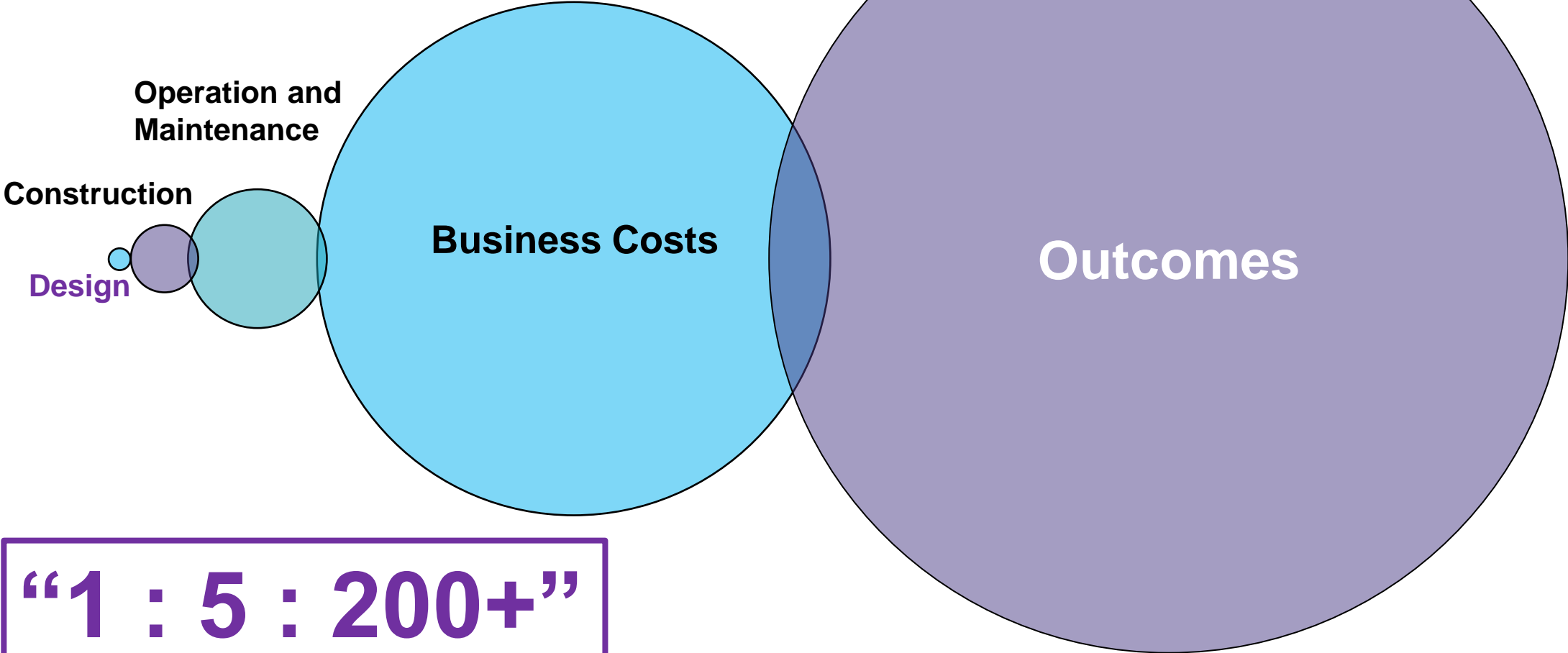
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The value of client outcomes far outweighs the project costs



“1 : 5 : 200+”



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Delivering value through Smart Construction Procurement

“As much as £32 million of the £39 million project budget was spent in Wales, and 1,422 people were employed from within a 25-mile radius.”



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