



No Turning Back:

The Case for a Renewed
Emphasis on Best Value and
Collaborative Working in Public
Sector Construction Procurement

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Executive summary

The recession has brought the issues facing the Welsh construction sector into very sharp perspective. Falling order books, confusing tender processes and a lack of clarity from its major client, the public sector, has meant that there is a very real danger that organisations operating in the built environment will revert to unsustainable price driven methods of working. In other economic sectors, market forces can drive efficiencies and help deliver services at a lower price, sometimes even generating more value for money. Construction is not like other sectors and Wales is not like any other country.

Wales has specific issues such as local unemployment, an infrastructure needing improvement, combined with tough Welsh Assembly Government (WAG) targets on waste and sustainability. At the same time, Wales has great potential, which the construction sector can help realise.

There is a clear link between infrastructure investment, economic growth and competitiveness. To establish the right infrastructure to help turn Wales into a world class economy it needs to stick to what is a progressive programme of public sector capital projects. To help it deliver these projects Wales requires a dynamic, flexible and efficient built environment sector. Therefore that makes the public sector in Wales the construction industry's most important customer at the moment. However, we believe the industry, which means the whole supply side and its clients, must work together to change the way construction is delivered for the public sector.

This report, commissioned by Constructing Excellence in Wales (CEW) and its Procurement Task Force, makes the case that the decision makers inside local government, health trusts and highways teams need to allow the construction supply side to work with them to help plan forthcoming schemes correctly. That means working collaboratively, adhering to WAG policy of best value as spelled out by the Egan and Latham reports and the One Wales document. That requires commitment; it demands change, client skills and leadership. We are making the argument and commissioned research to support it, because of our conviction that best value procurement can guarantee construction is delivered for the public sector on time, on budget and whilst meeting WAG targets.

Unless there is a clear vision, then WAG targets such as the prevention and minimisation of waste, reducing carbon and community benefits will be missed. What's necessary is clarity and a commitment to a policy of best value delivery, encouragement for procurement to use integrated delivery teams to run capital projects in the public sector.

Right now, there is huge inconsistency across the public sector procurement process in construction. A lack of conviction, a desire to save money combined with poor leadership and communication is driving the industry back towards a culture it was told to forget over 13-years ago. The trend once again is for lowest price tendering, which sets off a domino effect that can result in what are perceived to be 'expensive' project objectives being overlooked, parked or half baked. This trend is exacerbated because of complex tendering processes and inconsistencies between public sector bodies.

In this report, we argue that the industry needs leadership from WAG and core public sector decision makers; it needs improved and consistent tendering processes. But most of all it needs to know that WAG is adhering to its policy of best value as per One Wales and that it is willing to work with construction bodies to make sure integrated supply teams truly collaborate to build the Wales the country's economy demands.

Introduction



In July 2010, Business and Budget Minister Jane Hutt made it clear that cuts to the WAG 2010-11 budgets will not be delayed. How will this affect the construction industry?

There is a fear among some people that the rush to cut costs in the private and public sector has forced a return to the adversarial, lowest price method of working that hamstrung industry performance in the 1980s and 1990s. It was those conditions, amid an atmosphere of poor performance, poor health and safety, high costs and low value, that the Egan and Latham reports were commissioned during the 1990s. Since then, for a number in the industry, performance has improved over a period of economic prosperity with no real incentive to change its ways, but now with the economy under such pressure can the industry maintain its pursuit of best practice?

In 2009, the report 'Never waste a good crisis', authored by Andrew Wolstenholme on behalf of Constructing Excellence, made a clear case that it is in more straightened times that the construction industry has to adhere to the principles of best practice. Egan and Latham's recommendations allow for significant improvements in efficiency that all help add value and reduce costs – core objectives in a recession. Wolstenholme argued that now, more than ever, was the time to apply best

practice principles to reap the benefits for the economy as a whole, and specifically to create a built environment that is sustainable.

This year Jane Hutt said she was confident that major capital projects would not have to be cancelled: "WAG brought forward spending on major capital projects in the past two years to help the construction industry through the recession and believes that cutting such spending could jeopardise the recovery. We have made it clear that our priority is to protect and improve the public services that people rely on while continuing to lead Wales into economic recovery. Continuing capital investment is key to delivering this."

These are reassuring words, yet spending cuts and fear of further constraints are already impacting on construction activity and many contractors, consultants and architects in Wales are feeling the pressure. At the same time, many public organisations seem confused as to the best way forward in procuring work. A growing chorus of voices from every side of the industry complain of a widespread shift back to older, more rigid and obstructive behaviours perceived as 'safe'. There is now a real danger of a move away from the post-Egan progressive practices that have helped rejuvenate the industry and a return to misguided short-term self-interest.

Bearing in mind the recommendations made in the Wolstenhome report, Wales cannot afford to return to a lowest price driven, short term view of the world. Wales is a vulnerable economy, it needs its infrastructure improved and only the construction industry can deliver that. To create the built environment desired by WAG and the electorate tough targets on waste, carbon emissions and community involvement have to be met. An approach that puts price first and fails to take an holistic approach to value, will mean that these targets might be sidelined at best, or at worst forgotten because they are deemed as too costly and time consuming. The reality is the opposite. Time invested upfront in planning and collaborating up and down the supply chain (involving clients, specialists and sub-contractors) enables these WAG targets to be achieved (we have examples in the report that demonstrate this). The danger of a move away from best value and towards lowest price is that community benefits, sustainability and waste targets will be missed.

This needs to be placed in an economic context. Construction orders fell by 14% between April and June 2010. A quarterly survey undertaken by the Civil Engineering Contractors Association across the UK reveals that Wales is faring worse than England and Scotland. Compared with 12 months ago, 84% of Wales' civil engineering contractors report a decline in workload compared with 15% in England and 33% in Scotland. No company in Wales reported an increase in workload. Employment balances in Wales as a consequence are heavily negative with a 58% reduction in skilled operatives being reported, a 74% reduction in other operatives, and a 47%

reduction in staff. Tender prices, when opportunities do present themselves, are lower than 12 months ago, according to 63% of the respondents (37% consider they have remained the same), and this against the continuing increased material costs of oil and steel amongst others. Clarity from WAG and other public sector bodies about the capital projects has to be a priority. This is essential for the industry to survive and develop and to stem the flow of company closures and redundancies. Suppliers in construction require an idea when these projects will commence to plan appropriately, allocate budget and resources. All of which will help boost the sector, the economy and help give Wales the built environment it requires.

Constructing Excellence in Wales felt it imperative to seek an industry view on how best value delivery could be achieved. A steering group was assembled to establish how this industry view could be obtained and how to deliver a strong, cohesive and positive way forward. The composition of the group represented all elements of the delivery stream from clients, consultants, contractors and suppliers. The output from this work forms the content of this report.

The report shows that a return to lowest price tendering is emphatically not the best use of the limited funds available in the capital budget, but rather a strengthened focus on best value and sustainability, and a genuine partnership between public and private sectors. It concludes with a series of recommendations to suppliers, client organisations and WAG on where we all go from here.



1 How public spending cuts are impacting on public sector procurement

In the current economic climate there is less money available for project delivery, and everyone knows it. Wales continues to need better schools, roads, hospitals and housing, but public sector bodies know they must make limited resources stretch further, while suppliers worry about future workflows. Many perceive that these pressures are leading to a drift away from best value and collaborative working as the underpinning principles of project procurement and delivery. But abandonment of the progressive practices enshrined in Rethinking Construction will not serve the Welsh public sector or the construction industry.

(i) The dangers of moving away from best value tendering

Anxious to make shrinking resources work harder, some public sector client organisations are turning away from quality-led selection processes in favour of employing those who tender the lowest price. These unsustainably low bid prices appear, in the short term, to be value for money. Evidence shows us that this will almost certainly lead to problems and the project will end up costing far more than the original bid and therefore will not provide value for money in the longer term

Such an approach would also appear to be in direct conflict with WAG's commitment to sustainable development as a central organising principle for WAG, as highlighted in the One Wales: One Planet publication. Supporting Principle 2 states that WAG should take account of full costs and benefits of schemes and projects, which for the construction sector implies whole life costing. A procurement process focused on price makes this impossible.

The industry needs to be handled sensitively. One of our respondents explained: "The industry's vision is influenced by the economic climate. There are two groups – the larger companies who are looking longer term and who are committed to adopting best practice in order to run a sustainable business model; and SMEs who look more short term as they are in survival mode. We need a process that is sensitive to this context and has realism in terms of understanding that a lot of companies are operating a survival approach to business at the moment."

The bad old days of the 1980s and 1990s exposed the dangers arising from lowest price tendering. It is important not to lose sight of these.

Emphasis purely on price promotes conflict and inhibits collaborative working and sharing of knowledge and learning. It restricts the scope to innovate or try out fresh ideas. It squeezes out opportunities to benefit the wider community, for example through training, apprenticeships and local employment. An emphasis on price will lead to pre-project planning by the whole supply chain being placed under time pressure, which in turn will mean less of an emphasis placed on the construction scheme addressing wider community issues, minimising waste and meeting sustainability targets.

The wrong tone of voice from WAG, lack of clarity and perceived lack of sympathy might easily push the construction supply side towards a short term survival mode of lowest price tendering.

Problems for the client

A very low bid price forces the suppliers to recoup money wherever possible, often as a series of further claims as the project proceeds. Such claims often lead to litigation and legal costs as the client challenges them. A culture of mistrust and antagonism between client and supplier may develop, further impeding progress and forcing the client to expend more in-house management time on monitoring the project.

With no allowance for proper pre-planning, projects may take much longer than expected to complete as unforeseen problems arise. No allowance for proper value engineering will almost certainly lead to poor quality, poor environmental performance and low safety standards in the finished result. By failing to seek a truly best-value solution, the completed project is almost guaranteed to demonstrate poor lifecycle performance and high in-use costs.

Finally, the client may suffer damage to its reputation through perceived mismanagement of the project, and its failure to deliver good value with public money.

Problems for the supplier

Submitting an unsustainably low price means poor uneconomic margins, leading to poor returns. Disputes with the client and ensuing litigation may delay the final account settlement. It is notable that in the current climate the pressure on lowest price tendering applies to architects, engineers and other professionals as much as contractors, sub-contractors or materials and plant suppliers.

Low client satisfaction will almost certainly lead to loss of future work from that source.

The organisation's reputation may be damaged, and staff morale will suffer from involvement in a 'bad' project.

(ii) Obstacles to best practice and collaborative working

Excellent schools, hospitals and other facilities have been built – on time and to budget – as a result of projects based on quality, value, collaborative working and partnering. The Constructing Excellence in Wales Demonstration Project Programme is a showcase for this approach. So too is WAG's own Designed for Life: Building for Wales, a framework of integrated supply chains committed to the principles of long-term strategic partnerships, integrated teams and collaborative practices.

Why, then, has this progressive and proven way of working taken so long to permeate the industry?

As part of this report, Constructing Excellence in Wales commissioned an industry review exploring the attitudes and practices that are inhibiting collaborative working. A trend that may accelerate in the harsh economic climate unless strong leadership is shown on all fronts. This section summarises the views of over 40 participants, including representatives from the supply side and demand side of the industry in a range of sectors.

Entrenched attitudes

Changing procurement processes to embrace collaborative working and best value was thought by the respondents to require a cultural shift. Yet in difficult times, people prefer to play safe and stick with what they know:

"The dominant barrier to working collaboratively is culture – it is a people issue. People are hiding behind risk-averse behaviour and justifying their traditional approach to procurement."

Within public sector departments, it was felt that a number of

factors prevented people from moving away from old methods of procurement: a high degree of risk aversion, fear of legal challenges, and the constraints of budget structures and funding streams leading to short-termism. Risk and the audit culture, in particular, cause individuals to fear for their jobs and resist change and innovation.

Sometimes, the problem is with powerful individuals reluctant to allow change for their own reasons:

"Many individuals who continue to practise the traditional approach see it as a personal criticism to accept that they have been doing it wrong."

"Willingness to change is perceived to be related to willingness to give up control. There is a power struggle by people who want to protect their disciplines."

On the supplier side, some felt that the economic climate is forcing organisations into survival mode, leading them to revert to a 'claim and blame' culture. But there is also a perception that collaborative working is more expensive and uncertain.

The main reluctance to work collaboratively is that the initial price is often higher, but there is more budget certainty not less.

Reluctance to learn

Improving efficiency and the procurement process requires those involved to adopt best practice and learn from previous costly mistakes. Respondents believed there is great potential to learn from others' experiences and good practice, but identified several barriers:

"There is a real lack of willingness from the big players in the industry to learn from others as they often either refuse or feel embarrassed to accept that there is a better way of doing things. Consequently, few public sector leaders are willing to seek or listen to advice from those who have been recognised for delivering best practice innovations..."

One respondent blamed fragmentation among local authorities:

"When we had fewer authorities, they were larger and thus there was a culture of learning and getting support from the many specialists who we were surrounded by within our larger working departments. Now we have too many authorities with too many small departments who have farmed out the specialists so that we have little scope to learn from them. The issue is worsened by the resource constraints meaning that authorities operate in a firefighting culture, which leaves little time for reflection, training or learning."

Suppliers suffer from a lack of feedback from the procurement process, which means they miss out on valuable learning opportunities:

"We need better feedback and access to data for companies who lose out on bids so that the industry can better understand what is demanded of them and so that they can learn what is required of them. In reality there is very little feedback offered of any utility, which often leads to confusion and contempt towards the system."

Quality is not a function of size, but of an ability to embrace and provide best value delivery. And yet, smaller and medium sized suppliers run the risk of being squeezed out of the process, which in turn might mean less local labour is employed and community benefits sidelined:

"There needs to be room for the smaller players. There is room for many types of contractor working together. A local supply chain should use local labour and local resources."

Lack of capability

Interviewees frequently referred to the worrying number of public sector procurement professionals with little knowledge of construction or the intricacies of detailed construction contracts.

"Often individuals who are responsible for construction are people with no background or knowledge in the industry."

This lack of knowledge could contribute to claims and disputes, particularly where a lowest price tendering approach has been used. The gap in capability between suppliers and client organisations relating to contractual complexities could, it was pointed out, lead to the public sector being exploited or receiving sub-standard project outcomes.

There was also concern that some clients lose sight of the true objectives of the project and the needs of the end users – particularly councillors and political representatives, who 'often demand cheaper procurement' without understanding the consequences.

Some pointed out that smaller supplier companies may not always have the specialist skills required by clients, and may have difficulty in responding to overly complex tender documents. They may be able to undertake the job, but lack the resources, time and skills to prepare unnecessarily complex tender documentation.

Lack of leadership

Many of the issues raised boiled down to an absence of effective leadership. This 'leadership' is less about project management, but more about key decision makers and budget holders having a conviction and then a commitment to pursue best value. There are many strong personalities on all sides of the Welsh construction sector that have shown faith in the collaborative approach and their projects are exemplars of best value (some are captured in the next section).

However, many respondents felt that WAG was failing to provide a clear strategy and direction:

"The Assembly needs to deliver their message clearly and with one voice."

Others noted that in client organisations, strong leaders are needed to drive change forward and prevent a return to long-standing, familiar ways of working:

"In the context of a local authority, people will resort to type unless there is good leadership."

Poor leadership in both supplier and client organisations was blamed for reversion to low price tendering:

"It is the leaders who are soft in their approach that often fall back on low price tendering, as they either do not have the capability to enforce change or they are risk averse."

But for many the situation was summed up by this comment:

"We don't have clear WAG leadership on this issue. There are 22 Local Authorities (should only be about 8) and we should be encouraging them to work together. This needs leadership and champions."

2 The case for a public procurement process based on quality, value and partnership



There is a wealth of evidence to prove the benefits of an approach to procurement based on best value and genuine partnership. The best evidence of all is the excellent outcome of the projects commissioned and delivered on these principles (such as those which have become Constructing Excellence in Wales Demonstration Projects). Elements of a successful construction project include: a realistic budget based on quality, allowing for a strong focus on sustainability and taking account of whole life cost; an ongoing concern to minimise waste; a thorough pre-planning process; early involvement of the contractor; transparency and 'open book' working; and regular communication between stakeholders. In other words, a process that recognises and delivers continuous improvement.

(i) A better way to build schools

In the past few years as projects have reached completion, the full benefits of the collaborative approach to procurement has become evident – particularly in schools. The three projects outlined here are all part of the Demonstration Programme run by CEW. Newport High School was named Project of the Year at the 2010 CEW Awards.

Penyrheol Comprehensive School, Swansea

When the Penyrheol Comprehensive School was significantly damaged by fire following an arson attack in March 2006, the immediate concern for the governors and local authority was to get the building functioning as an educational facility again as soon as possible. Funding, however, was limited to the insurance settlement.

The scale of the work required and the limited budget offered the ideal opportunity to fully embrace principles set out by Sir John Egan in his Rethinking Construction report and embrace best practice. The council adopted a collaborative, partnering approach, working alongside Carillion and the design team in a non-adversarial, open book style of project. It enabled all parties to have far more input into the delivery of the scheme, giving greater financial security and more value for the client.

The whole team embraced the best practice agenda and communicated openly in regular stakeholder meetings. This allowed for progress to be monitored and potential problems to be addressed quickly, often before they arose. It also made the measurement of progress against targets much easier.

By pushing the project down the partnering and best practice route, the team delivered a school that not only replaced the old school buildings but improves on them.

Newport High School, Newport

When Newport City Council developed a strategy for the redevelopment of the city's secondary schools it was determined that the mistakes made in the 1960s and 1970s would not be repeated. Bettws and Hartridge Secondary Schools were the first two to be rebuilt, and as part of its bid to deliver them, the client team focused on delivering quality and minimising waste at the very start of the procurement phase.

A collaborative approach and sound planning produced excellent waste management results at Newport High School (the new name for Bettws). Reducing waste from the outset of the scheme was a primary target and it was agreed to involve the entire supply chain in conjunction with the main contractor, Leadbitter. The goal was to go beyond normal compliance, but to be realistic as well.

The first step was the use of a Site Waste Management Plan (SWMP) as a tool to monitor waste production, then target the construction elements with recyclable value, and finally review the SWMP on monthly intervals to achieve a Waste versus Resource Action Plan as per WRAPs Best Practice guidance. There was commitment across the whole project, and on-site recycling processes such as reusing the piling mat as fill below

ground floor slab and then crushing demolition material for reuse delivered immediate benefits. There was consistent reuse of surplus materials such as stockpiling topsoil; insulation off-cuts reused by masonry contractor to avoid cold-bridging; and bricklayer's waste crushed on site and reused for community projects.

The team has achieved its goals. Of the 24,607 cubic metres of waste created, over 24,000 cubic metres has been reused and only 67.8 cubic metres went to landfill. That's a diversion of 24,500 cubic metres from landfill.

Ysgol y Graig Primary School, Anglesey

The Ysgol y Graig team set themselves an ambitious target of building a benchmark 'green school' to set the standard for future Anglesey schools with drastically reduced running costs and an innovative design. They wanted to achieve this through a teamwork approach through early involvement of the contractor and engagement of the end customer throughout the process.

The early appointment of Wynne Construction enabled the project planning and implementation to run smoothly and efficiently. The procurement procedure consisted of a two-stage selection procedure based on quality and price. The second stage consisted of a preferred bidder consultation period.

The new primary school is a landmark development in both design and construction, achieving a 'very good' BREEAM rating. Now located on a greenfield site on the outskirts of Llangefni, it is within walking or cycling distance for the majority of the children, reducing the number of car journeys at school start and finishing times. A direct footpath link to the nearby housing estate enables a safe route to school for the children.





One of the school's targets was to be as sustainable as possible and features such as photovoltaic roof panels and a 'quiet revolution' wind turbine have been installed. The long-term plan is that any on-site electricity generated via these systems will be used to power the school with any surplus units being sold back to the grid. It is estimated that the total output from the renewable energy systems will provide 49 per cent of the school's annual consumption.

(ii) A better way to build roads

Church Village Bypass is an excellent example of how best value procurement delivers on all of the targets that WAG has set for construction. The design, planning and then construction of the new road, which provides a bypass for the settlements of Tonteg, Church Village, Llantwit Fardre and Efail Isaf, along the severely congested A473 route in that area, has achieved significant waste reduction, sustainability and community benefits as well as easing traffic problems.

Costain was the lead contractor. The company advocates rethinking construction principles and its long standing

association with WAG, Rhondda Cynon Taf County Borough Council along with the Early Contractor Involvement method of project delivery, allowed the time and flexibility for it to allocate the right resources to deliver this major scheme ahead of schedule and inside its budget.

Working as a team, client and contractor were able to engineer value into the scheme to help make the construction of the bypass more efficient, and also to make sure the road scheme provided a valuable boost to the local economy in difficult times. Construction started in January 2009 and the building work has employed approximately 4,000 people and is estimated to have brought in £27m for the local economy. More than 90% of the sub-contracts have been awarded to local companies based in South Wales and over 50 local unemployed people were recruited to work on the project. During the build phase the project team reached out to the wider community liaising with schools and local people, keeping them apprised and involved with the scheme as much as possible. Now it is finished the bypass is helping to create a more prosperous society through economic regeneration in the area.

The project team has estimated that value engineering – something that in another method of procurement might not have been possible – has saved around £35m. Use of GPS has helped manage plant safely and efficiently; using pre-cast bridges saved around 100,000 man-hours; changes to the route and use of technology made excavation and construction easier and safer. Such an approach meant the project won three RoSPA awards and enjoyed over a million man-hours without a reportable accident. The scheme won environmental awards for its ecological and sustainability methods and consideration for newts, slowworms and butterflies – even creating three special bridges costing £190,000 to enable dormice to cross the £90m bypass.

The team also had a huge success in their management of waste, over 70,000 sq metres of the road surface comprised of recycled material. No infill was imported onto the site and 95% of the reinforced steel used was recycled and around half of all the linear drainage system was recycled. As well as this old tyres found on the site were turned into bales and used as part of the landscaping of the road.

Darren James, managing director of Costain's infrastructure business, said: "The project and the wider objectives were made more successful by the way we engaged in a totally integrated team with Rhondda Cynon Taf officers and other stakeholders in focusing on delivering best value for the local and wider community.

We are very proud of our joint achievement in creating a legacy that will greatly enhance the quality of life of residents and visitors to Rhondda Cynon Taf – The Church Village Bypass."



(iii) Integrated team working in nuclear power

Can collaborative working and a drive for best practice really work in the decommissioning of a nuclear power station? It has to be on the 'ten most challenging projects' list, but the project team at Trawsfynydd has proved that a best value approach does work.

The decommissioning of Magnox North's nuclear power station at Trawsfynydd in the Snowdonia National Park in North Wales is a long job, made more complex by the lack of a national repository for intermediate level radioactive waste. The decommissioning team will recover all intermediate and low level legacy radioactive waste at the site and store it in the purpose built Intermediate Level Waste (ILW) Store that has been built at Trawsfynydd. There it will stay until the site for the national facility is finalised.

Alongside this the twin reactor buildings will be reduced in height and have a capping roof built within them, covering the top of the old reactor face, before being cocooned in a newly built shell and the whole site mothballed until 2088 in what is termed the 'Care & Maintenance' phase. It is complex and the project management and contracts behind the scheme are as well. Hence, a drive to change the method of working that saw the embryonic creation of the Trawsfynydd Strategic Integrated Framework (TSIF), a group of partners who would be able to deliver the decommissioning from "design to demolition". Examples of collaborative working from other industries were poured over and the team drew on best practice from sectors that have developed framework agreements including Dŵr Cymru Welsh Water. In October 2005, 12 months after the initial concept was proposed the final TSIF team was appointed with Costain leading the civils and demolition work, AMEC leading the mechanical and electrical work, alongside decontamination specialist Aker Solutions and technical services partner the VT Group.

However, there is no instant payback from this sort of agreement. At Trawsfynydd it has taken a while for the benefits to be clearly demonstrated and for the framework to really start delivering against Magnox North's aspirations. But results show that the best value approach is working. There has also been year on year improvement in terms of cost and time including the delivery of several million pounds in efficiency savings to date, a benchmark that the team will continue to push.

(iv) Designed for Life: Building for Wales

Framework agreements are one aspect of collaborative working which can produce excellent results, securing long-term financial and delivery benefits. However, economic pressures, negative attitudes by major clients like BAA and the existence of too many poorly run frameworks has meant they have been severely criticised. The Welsh Health Estates (WHE) Designed for Life: Building for Wales programme is an example of a well-managed, successful framework that is already delivering results for the NHS.

In 2006 WAG through Welsh Health Estates (WHE) launched the Designed for Life: Building for Wales framework to deliver major improvements to the infrastructure of the NHS in Wales. The scheme took the lessons learned from the Procure 21 model used by the NHS in England and created a procurement and construction framework bespoke to Wales.

The ambition is to create world-class healthcare and social services in the country by 2015. Designed for Life: Building for Wales is a framework of integrated supply chains committed to the principles of collaborative working. It will deliver the capital projects required to meet the goals set by WAG. The model put forward by WHE and adopted by WAG is focused on the development of long-term strategic partnerships, integrated teams and collaborative practices.

Nearly four years on and the framework agreement is working well with nearly half a dozen schemes on site and double that in the development phase. It operates as follows:

- There are three Supply Chain Partners (SCP) – BAM Construction, Interserve Project Services and Laing O'Rourke
- It uses the NEC3 Engineering and Construction Contract, Option C: target contract with activity schedule
- It has one independent firm of National Cost Advisors collating and distributing cost and performance data
- There are three Supply Chain Squads made up of up to 25 organisations (a maximum of three per discipline), headed by an SCP
- It has support consultants
- It is overseen by a project board drawn from WAG, representatives from Welsh NHS Trusts, Welsh Health Estates, Value Wales and Constructing Excellence in Wales.



Working together to achieve common goals

In line with WAG's commitment to moving away from traditional, adversarial and price-focused procurement methods, the Designed for Life: Building for Wales Framework is based upon strategic partnering, collaborative working and integrated supply chains.

Getting it right from the start

Early engagement is central to the success of the framework. All the contractors and Trusts agree that it gives freedom, time and flexibility to get things right that is not normally allowed in a traditional contract.

NHS Trusts sit down with their Supply Chain Partners and their respective teams to pre-plan a scheme. They are able to dispense with the traditional consultant procurement, design stage and tender stage and focus on discussing the best way to deliver the project. Far more time is invested before going on site than in traditional contracts. The focus is on agreeing the best way to deliver the scheme with benefits to everyone.

Managing costs and budgets as a team

Managing costs and budgets is central to all building projects. Within Designed for Life this is addressed via the NEC3 contract. Geoff Walsh at Cwm Taf NHS Trust said: "It has been a steep learning curve, but there is no doubt the process is an improvement on the old way of working. The discussions about costs are now all up front and the NEC3 form of contract takes away a lot of the pain and frustration we experienced using

traditional methods. Now, we sit round the table and discuss the budget issues and try to help each other because we are all working as a team for the long term."

The budgets and target prices all have to allow for the pre-project planning and time invested in design. This is covered by fees and each SCP is obliged to estimate these fees, which are set against the final charges. From the outside, the perception can be that projects take a long time to reach the construction stage, but more time spent at the planning stage generates more value later.

Fees and costs have all been within expectations on the projects being managed to date. The time from pre-planning to site varies from each scheme, but overall the schedules are well paced and going to plan.

Providing a full range of services

Commented David Jones, head of works and estates at Gwent Healthcare NHS Trust: "It is worth noting that a significant benefit of SCPs and SCMs is the provision of the full range of services, including health planning and facilities management. This would not be part of a traditional fee structure but incurred elsewhere within the organisation, with the dangers of a dysfunctional approach."

Engaging the community

Wherever possible, the framework encourages involvement with the community. This might be at the planning stage or it might be by using local labour.

3 What needs to happen

Managing budget cuts while still creating the infrastructure Wales needs means that construction organisations, public sector bodies and WAG must work together. Moving from traditional procurement strategies and 'lowest price' attitudes to collaborative working based on best value requires strong leadership on the part of WAG and managers in public sector procurement organisations, professional advisors and construction companies.

All sides also need to take action to ensure that functions essential to the success of construction in Wales, particularly sustainability (all aspects of it: environmental, social and economic), training and development, do not fall victim to cuts. As one of the respondents to our research said: "We haven't got enough time to do things the nice way; the industry is struggling in this economic climate and we need to change things for the better immediately".

What WAG needs to do

WAG needs to tackle uncertainty and anxiety about the future by being clear about the cuts, where they are to be made and how much budget will be available for public infrastructure projects. It then needs to move fast to establish a realistic and sustainable programme of work. This is essential to help the construction industry in its business planning and resources management.

WAG needs to reaffirm its commitment to collaborative working and best value procurement processes. It should provide clarity and direction for public sector procurement, perhaps by appointing a Minister for Construction. It should issue clear and consistent guidelines, use conditions on funding to ensure that organisations procure for best value, and see that the procurement approach adopted is in line with WAG policy.

WAG should address excessive fragmentation by reducing inconsistencies between procurement departments and grant funding bodies across the public sector and encouraging them to work together.

WAG should promote better communication and information sharing between public sector clients and the construction industry by ensuring that public sector clients offer better-quality data and feedback to the supply side during the procurement process. It should also ensure that those who manage public sector frameworks provide realistic information about the likelihood of future work, and offer realistic repeat business opportunities.

What clients need to do

Public sector clients must challenge insular cultures and obstructive attitudes within their organisations that are preventing genuine partnership working. They should take action to ensure that staff are open to innovation and fresh thinking. Along with their suppliers, they should embrace a transparent process with data and feedback openly shared. In short, clients must work with their suppliers to provide opportunities to develop better value solutions via early contractor involvement; collaborate with each other on joint procurement, best practice policy; examine refurbishment and no build solutions if necessary rather than sacrifice quality; and encourage a team approach to driving out waste in the processes and reducing costs.

Clients must place greater emphasis on learning, through using knowledge banks, post-project audits and via greater liaison with client organisations that have procured similar and successful construction services in the past.

Clients should address the obstacles that impede the tender process. They should consider: standardising the procurement process; setting time restrictions on changes to the brief before submission deadlines; setting limits on shortlists to reduce the numbers invited to submit detailed and thus resource-intensive tender documents.

They should include robust, evidence-based quality questions in the tender documents to enable them to conduct a more objective assessment and increase transparency.

One way would be to familiarise themselves with WAG's Supplier Qualification Information Database (SQUID), which aims to provide a database of quality questions, standard answers and guidance.

The procuring authority must be held accountable for its input into the procurement process to the same degree as those responsible for delivering a project. There must be incentives for change for all participants.



What suppliers need to do

To an extent, suppliers are caught in the middle, but they too must challenge the culture and behaviours within their own organisations as well as challenge and educate their customers, partners and fellow suppliers. The current structure does not help or motivate the supply side – particularly the smaller suppliers – to embrace best value procurement.

Different procurement processes can kill off a lot of scope for smaller organisations; WAG departments pay lip service to encouraging local employment (a lot of it driven by smaller organisations) but in reality it must be questioned whether this is happening as widely as reported. On top of this the cascade down of payments is not happening. Right now for smaller suppliers it can be difficult to work out how the system works and who is giving out what work and to whom and when. There needs to be clarity to help smaller contractors and consultants.

Therefore suppliers must work more closely with their clients, embrace innovation and so promote early contractor involvement; develop better joint procurement and best practice policy; work together to examine refurbishment and no build solutions if necessary rather than sacrifice quality; and encourage a team approach to drive out waste in the processes and reducing costs.

The aim for the whole industry in Wales is to create a situation where real collaboration delivers the highest quality services and projects. True collaboration means recognising the pressure on client budgets, but also the need for robust commercial returns for the supply side to fuel our recovery.

Recommendations

1. WAG and public sector organisations need to provide clarity for the industry on the programme of capital spend as soon as possible. Establish a composite and comprehensive programme of infrastructure and other works across all the public sector bodies and organisations that operate in Wales, to assist the construction sector in planning its future resources and training requirements. This must be coupled with a quicker move to market.
2. WAG should provide leadership to standardise the procurement process across Wales. Develop in conjunction with public sector clients a standardised pre qualification process, web based with very clear requirements in plain language. This will eliminate the massive waste, duplication and contradictions in the tender processes throughout Wales and help raise the standards in the industry. This could be supported by a Value Wales rapid response expert support team.
3. WAG, the public sector and industry must publicly commit to and implement a fully collaborative construction procurement strategy focused on outcomes and value:
 - Integrated Teams: Enable an early involvement of the whole team, client, designer, contractor and supplier to develop the best solution for the client. This should include the supply chain at an early stage
 - Value: Select the principal delivery team on a quality/ value basis focusing on the outcome that best delivers the solution for the client at the lowest cost
 - Cost: Challenge the team to seriously reduce costs via 'radical no-build/refurbishment rather than new build if possible' through 'value engineering' 'independent cost management', 'developing challenging target costs'
 - Ensure that the returns of the companies involved are protected. There is no advantage ultimately to clients and the Welsh economy if capital projects are delivered at a loss to the supply side
4. WAG, public sector and industry must adopt a best practice approach to payment. Standardisation across the whole of the public sector in relation to financial standing orders to eliminate (sometimes petty) differences which impact on the construction sector's ability to ensure sustainable through flow of cash in an open book environment.
5. WAG and the public sector across Wales should undertake a review of capability, capacity and structure of construction procurement teams to ensure that resources are optimized to support delivery of best value outcomes.
6. Public investment in works and services through construction procurement must be linked to the creation of sustainable benefits for local communities, the environment (prevention of waste and maximising energy efficiency) and employment (training in the construction sector).

Appendix 1

This work builds on a number of relevant industry reports and recommendations related to obtaining best value from public sector procurement, starting with the influential Latham and Egan reports of the mid to late nineties.

Constructing the Team	Latham	1994
Rethinking Construction	Egan	1998
Achieving Excellence in Construction	Treasury	1999
Modernising Construction	NAO	1999
Building a Better Quality of Life	DETR	2000
Better Public Buildings	CABE/PM	2000
Accelerating Change	Strategic Forum	2002
National Procurement Strategy	ODPM	2003
Egan Skills Sustainable Communities	ODPM	2004
Public Sector Efficiency 'Gershon'	Treasury	2004
Improving Public Services	NAO	2005
Capital Investment Programme 06-09	WAG	2006
Value Wales Report	WAG	2006
One Wales	WAG	2007
Research Project – Barriers to Procurement Opportunity	WAG/Value Wales	2008
Never Waste a Good Crisis	CE	2009
Procuring in a Crisis	CBI	2009
Economic Renewal – A New Direction	WAG	2010
Towards Tesco – Improving Public Sector Procurement	Colin Cram	2010

Appendix 2

Constructing Excellence in Wales assembled representatives from the whole of the public sector supply chain to form the Procurement Task Force steering group. The members of the steering group were all actively consulted, helped with research and commented upon the report at each stage of its development.

The steering group was comprised of:

Michael Edmonds	Task Group Chairman Associate Director	Arup
Mark Adams	Head of Construction Project	Rhondda Cynon Taf CBC
David Benson	Head of Estates	University of Wales Institute Cardiff
David Clague	Director, Demonstration and Best Practice	Constructing Excellence in Wales
Neil Davies	Director	Welsh Health Estates
Derek Downer	Head of Property Services	Monmouthshire County Council
Chris Hughes	Executive Director	Welsh Built Environment Forum
Darren James	Director of Infrastructure	Costain Ltd
Keith Jones	Director Wales	The Institution of Civil Engineers Wales
Rhodri-Gwynn Jones	Director and Secretary	Civil Engineering Contractors Association (Wales) Ltd
Milica Kitson	Chief Executive	Constructing Excellence in Wales
Ian Layzell	Consortium Director	Integrate
Mike Lewis	Director	Laing O'Rourke Wales & West Ltd
Phil Lumley	Head of Consultancy	Carmarthenshire County Council
Harry Meese	Managing Director	CW Electrical
Greg Montgomery	Investment and Regeneration Manager	RCT Homes
Eira Rowe	Director, Operations & Events	Constructing Excellence in Wales
Pierre Wassenaar	President	Royal Society of Architects in Wales
Huw Williams	Head of Service Gwynedd Consultancy	Cyngor Gwynedd Council

As part of the research that forms part of the report and upon which some of the recommendations are based, stakeholders from the construction supply chain in Wales as well as the task group members, were interviewed. Task Group members are listed on the previous page; the stakeholders interviewed are listed below:

Neil Beresford	Dean and Dyball
Andrew Dobbs	Willmott Dixon
Ed Evans	Torfaen County Borough Council
David Harries	Cowlin
Leigh Hughes	Carillion
Iwan Jenkins	Morgan Cole
Colwyn Knight	Castleoak
David Mellor	Cyngor Gwynedd Council
Justin Moore	Carillion
Ian Mowatt	Cyngor Gwynedd Council
Tony Norris	Geldards
Colyn Price	BAM Nuttall
Jason Pritchard	21st Century Schools
Andy Roberts	MPH Limited
Dave Thomas	BAM Nuttall
Mark Watkin Jones	Watkin Jones Group
Richard Wilson	Welsh Assembly Government
Paul Wintle	Construct Wales
Chris Wynne	Wynne Construction



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