



Office of Government Commerce

# Improving Construction Procurement in the Public Sector

**John Ioannou, Assistant Director, Office of Government Commerce**



# 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.

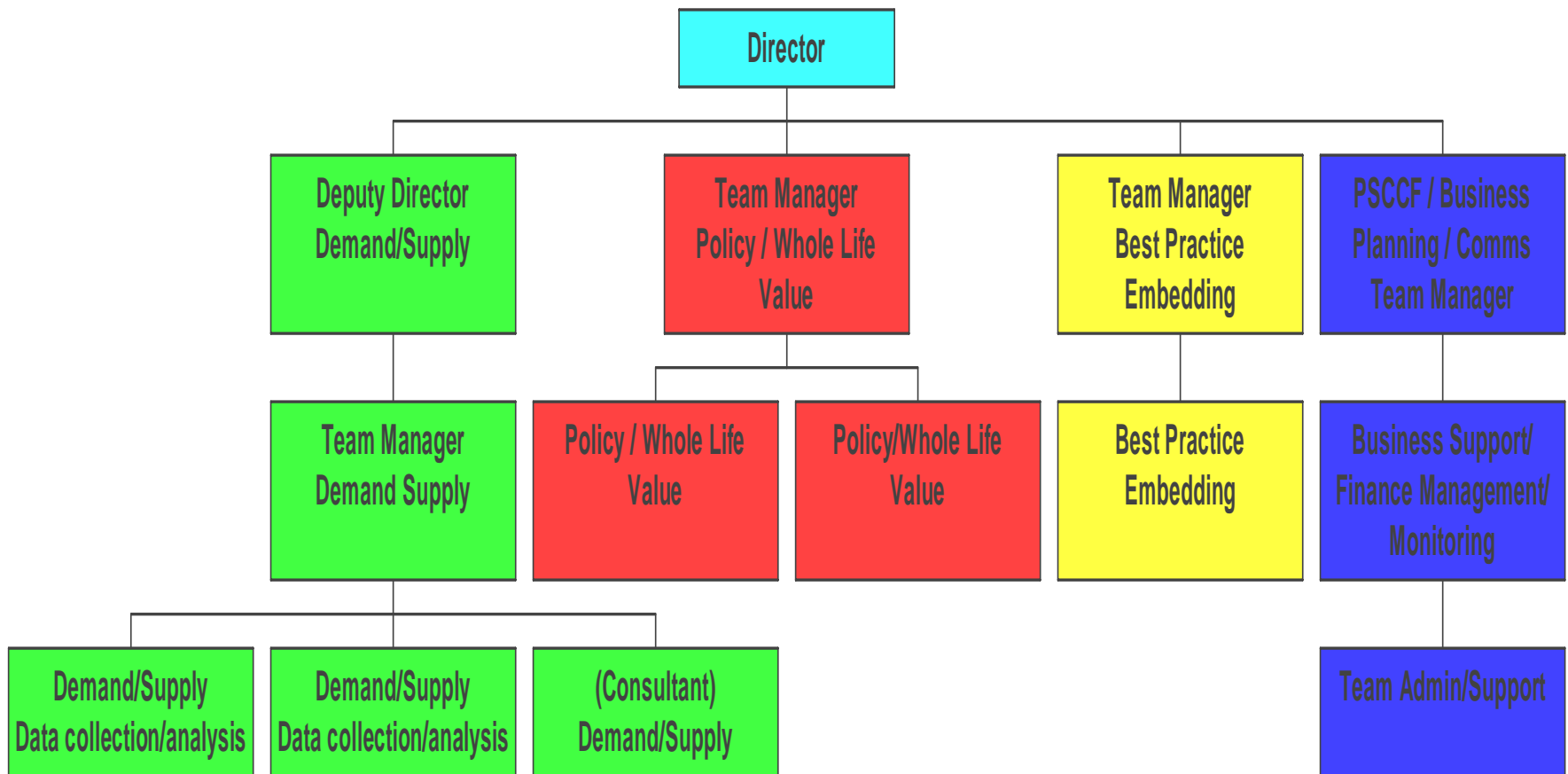
By whole life procurement, we mean the whole life-cycle process of acquisition of goods, services and works from third parties – beginning when a requirement is a just an idea or concept and ending with the conclusion of a service contract or the ultimate disposal of an asset.

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



## 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<sup>2</sup> 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?

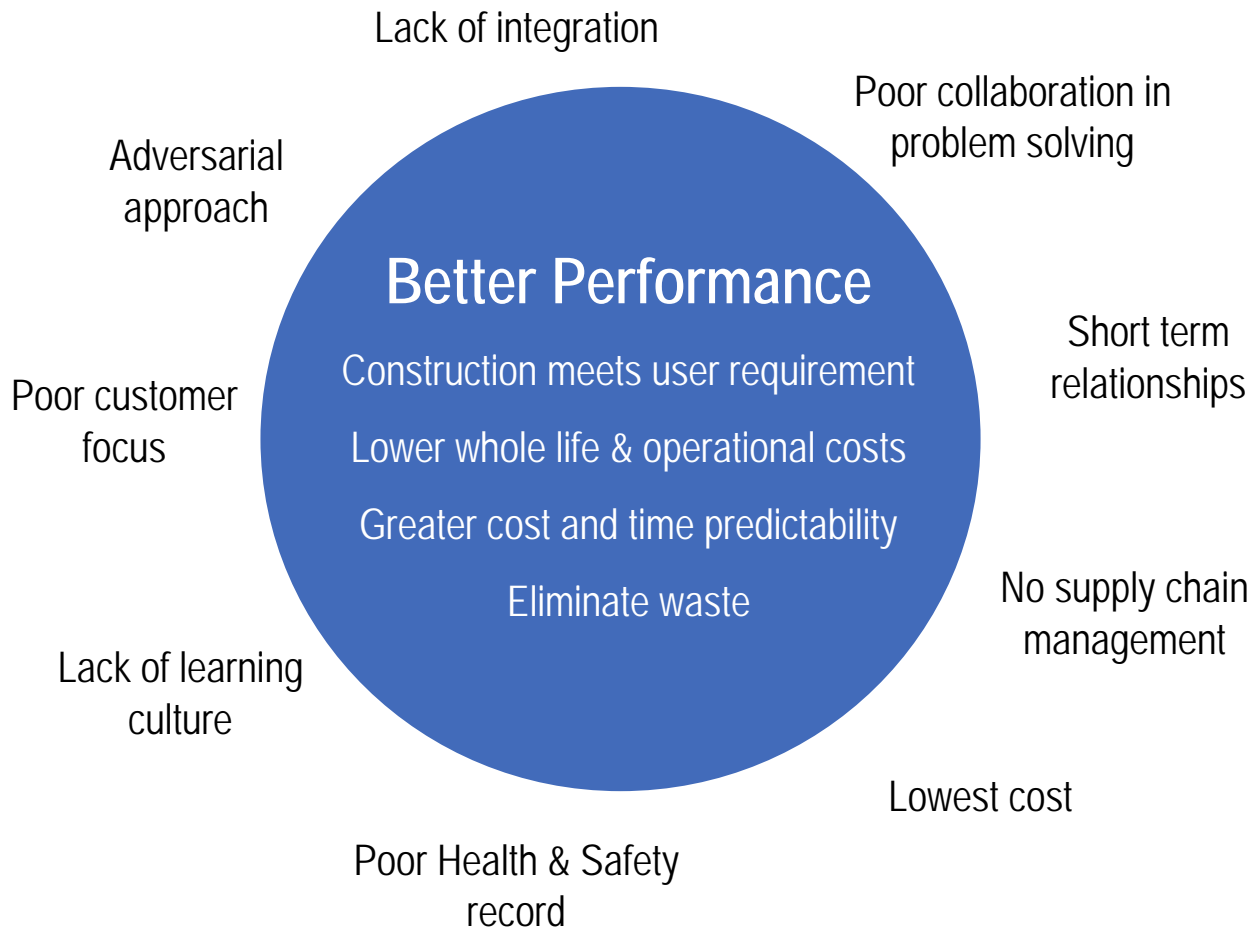
- Bath University Study 1998
  - Identified failings in 6 main areas:
    - 1) Poor management
    - 2) Risk averse culture
    - 3) Design & construction in isolation
    - 4) Poor project flow
    - 5) Non-value oriented approach to procurement
    - 6) Misinterpretation of need for public accountability



# 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

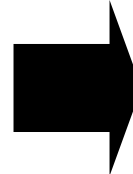
# The Problem



# 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

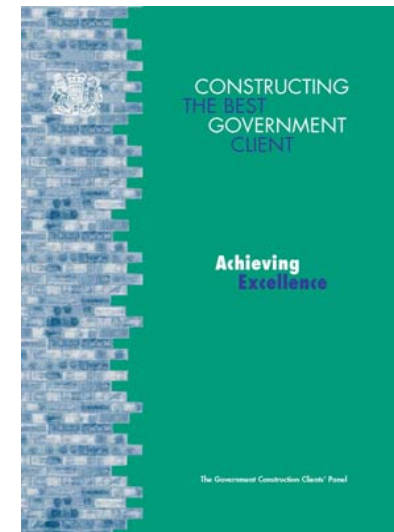


To

- 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

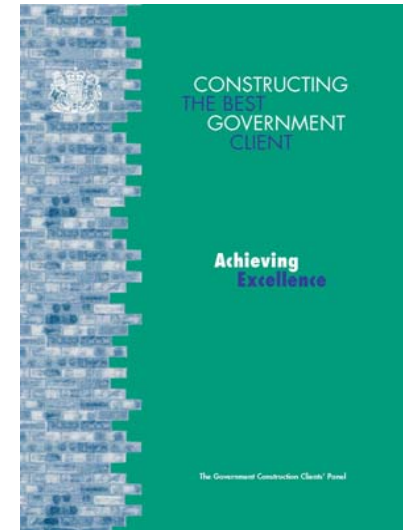
- KPIs/Benchmarking
- Post Project Implementation Plans

## ■ 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

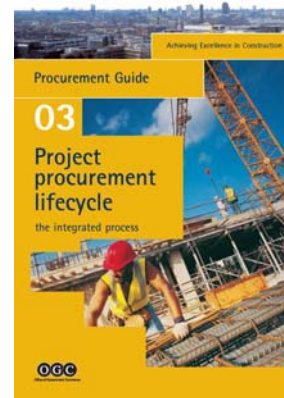
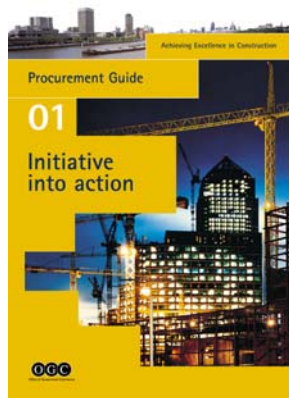
- Teamwork and partnering
- Integrated procurement strategies – focus on:
  - Design & build
  - PFI
  - Prime contracting

# Achieving Excellence in Construction



# Achieving Excellence

## Procurement Guides

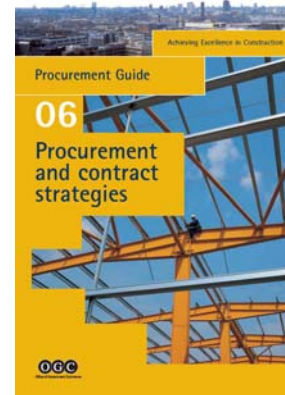
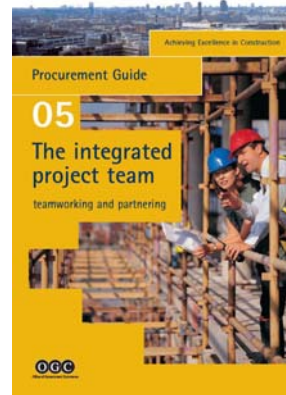
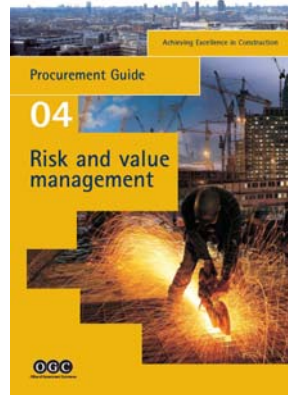


### ■ 3 Core Guides

- 01 Initiative into Action
- 02 Project Organisation
- 03 Project Procurement Lifecycle

# Achieving Excellence

## Procurement Guides

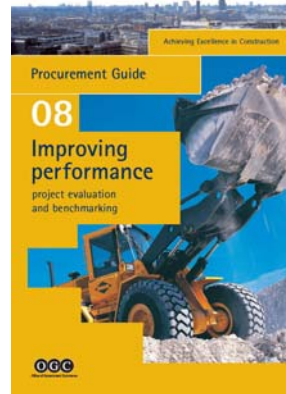
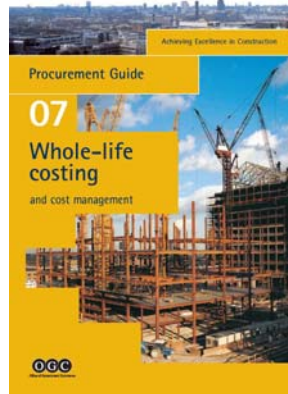


### ■ Supporting Guides

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

# Achieving Excellence

## Procurement Guides

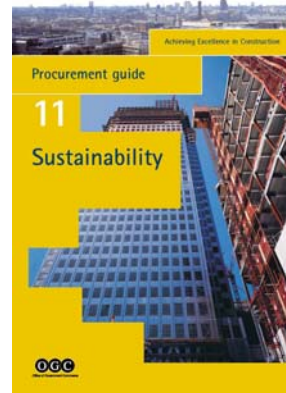
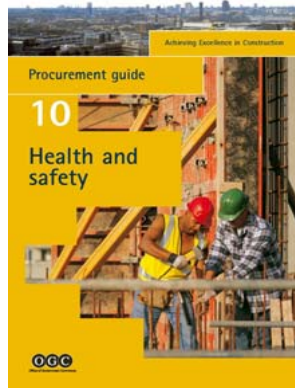


### ■ Supporting Guides

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

# Achieving Excellence

## Procurement Guides



### ■ Supporting Guides

- 10 Health & Safety
- 11 Sustainability – in development

# Achieving Excellence – Taking Stock and Future Strategy (2003)

- 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 through 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



Office of Government Commerce

  
Office of Government Commerce

---

## 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 CMS – see pages 2-11 below. Project team members including Investment Decision Makers, Senior Responsible Owners, Project Sponsors and Project Managers should take steps to understand and implement the CMS.

**Background**

Ministers are committed to obtaining value for money through improvements to the procurement of built environments that provide facilities for the public sector. They are conscious that public sector procurers are subjected to a range of policy initiatives of differing levels of importance and considered it was essential to adopt a consistent benchmark to delivering value for money and to provide a coherent approach to the market.

To this end, OGC was asked to establish a group of cross-government senior policy officials (SCPG). The SCPG's objective was to identify and promulgate a set of key minimum procurement standards, which would improve the coherence and integration between the different policy agendas impacting in this area.

Ministers have now agreed the key minimum procurement standards, which are mandatory across central government, including departments, executive agencies and the non-departmental public bodies for which they are responsible. They will apply to any procurement of a built environment covered cost in England for a public sector client, whether through a capital procurement, a private developer scheme or a Public Private Partnership/Private Finance Initiative. (These standards will not apply to the devolved authorities, nor to projects covered out overseas.) Departments will be expected to take all reasonable measures to ensure that the standards are also adopted throughout the wider public sector, where responsibility for the expenditure of public funds has been devolved – such as to local authorities, health trusts and the police. OGC and ODPM will produce a specific version of these standards to reflect local authority practice and language.

These standards are not new and some are already mandatory.

It should be noted that the standards do not cover legislative requirements, which are in any event mandatory.

Compliance with these standards is considered to represent cost effectiveness, however their practical application by individual procurers should be considered on a project specific basis, within the context of practicality, achievability and value for money, defined as the optimum combination of whole life cost and quality to meet user requirements. Procurers will be expected to comply with these standards unless it can be clearly demonstrated that one or more of them fall outside the above criteria.

The standards have been assessed by policy making departments, key departments delivering programmes and projects with a significant construction phase, the Office of the Deputy Prime Minister with the local government sector in mind and by industry body representatives. Their comments have been taken into account. The consensus of the consultation confirmed that the standards are comprehensive, practical and achievable, as well as cost effective.

Web links within the CMS that form the balance of this document allow simple reference to supporting detail and implementation guidance.

The first and 'General Standard' refers to adherence the OGC Achieving Excellence in Construction (AEC) initiative, which encompasses all the CMS within its best practice principles for managing and delivering construction projects. A direct link to the AEC guidance is available at: [www.ogc.gov.uk/directories/reference/ogc\\_library/achievingexcellence/index.html](http://www.ogc.gov.uk/directories/reference/ogc_library/achievingexcellence/index.html)

**Further Information**

Any queries or requests for further information about the CMS should be directed in the first instance to the OGC Service Desk by telephoning 0845 000 4999 or by e-mail at [helpdesk@ogc.gov.uk](mailto:helpdesk@ogc.gov.uk).

---

Office of Government Commerce, Treasury House, 26 – 33 Great Peter Street, London SW1P 3DT  
Service Desk: 0845 000 4999 E: [helpdesk@ogc.gov.uk](mailto:helpdesk@ogc.gov.uk) W: [www.ogc.gov.uk](http://www.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

**OGC Report to the  
Chancellor of the Exchequer**

**Increasing Competition and Improving Long-Term  
Capacity Planning in the Government Market Place**

**December 2003**



**2005 – 2015**

**Construction Demand / Capacity  
Study**

**Full Report**

June 2006

**Deloitte.**

# 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

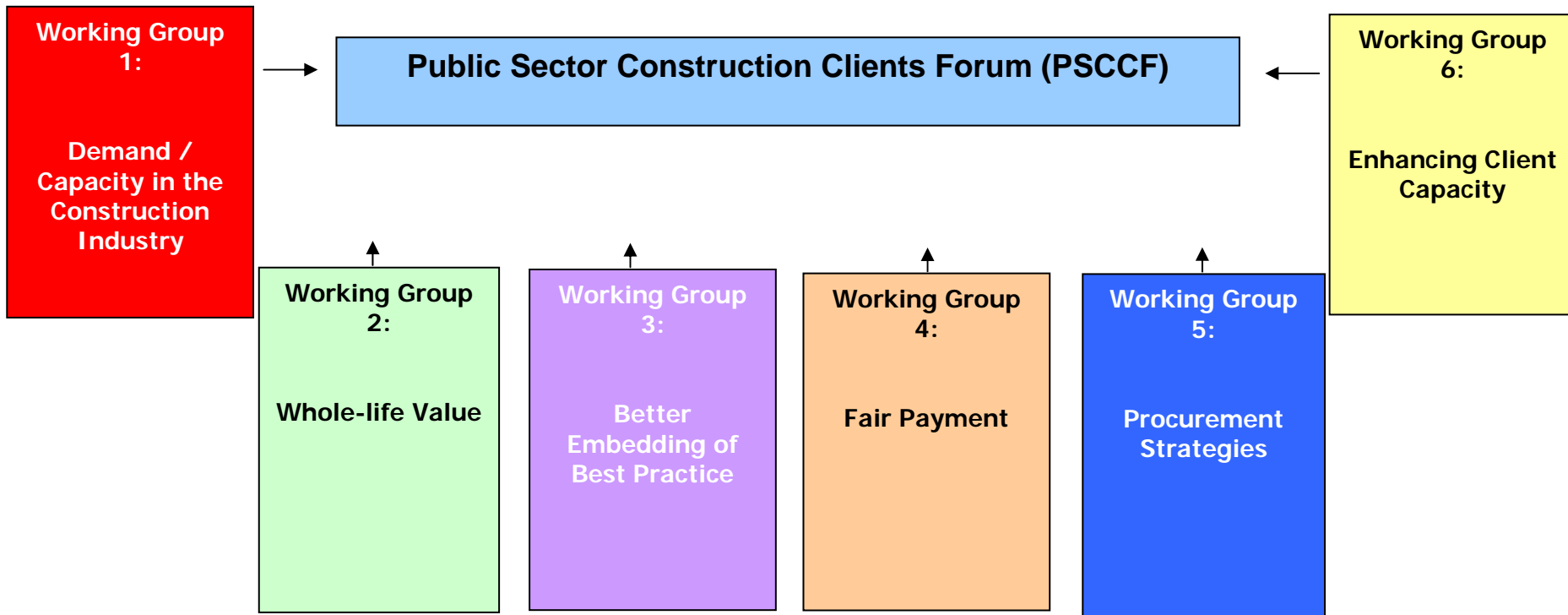
- Mission –

*To lead improvement in the value for money obtained for the public sector construction procurement, leading to better public services through 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





# 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



The screenshot shows a Microsoft Excel spreadsheet with a web browser interface overlaid. The interface features the OGC logo and the text "OGC Construction Demand/Capacity Model". Below this is a "Main Menu" with four buttons: "View Introduction", "User Guide", "Scenario Analysis Menu", and "Parents Menu". At the bottom of the interface, there is contact information for the Office of Government Commerce Service Desk, including a phone number (0845 000 4999) and a website URL (http://www.ogc.gov.uk). The Excel spreadsheet background shows a grid with columns labeled A through Q and rows numbered 1 through 71.

# 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

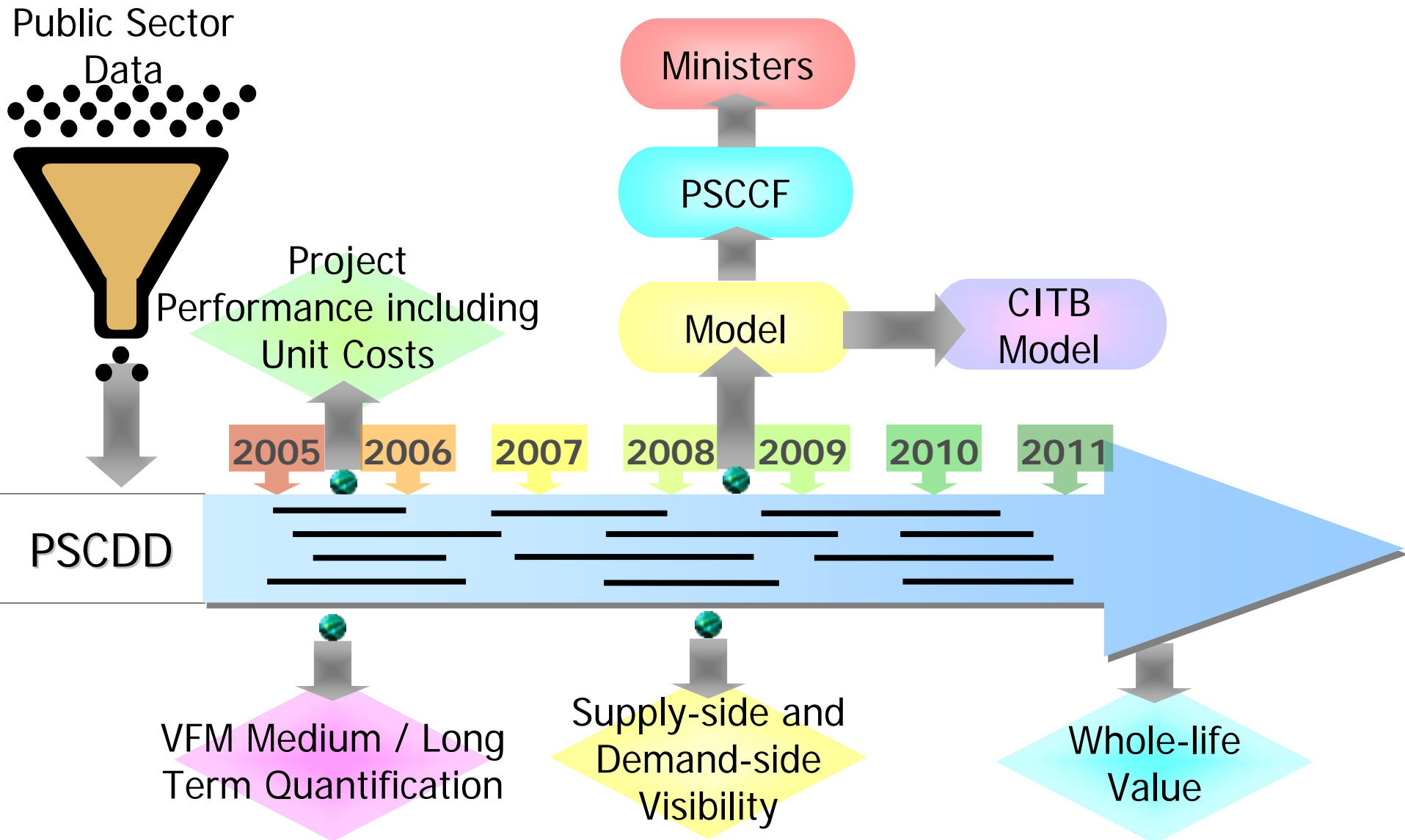
# The Model

- 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

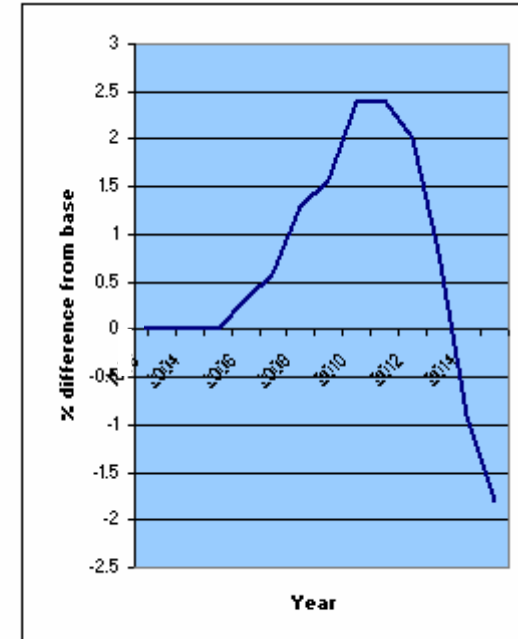
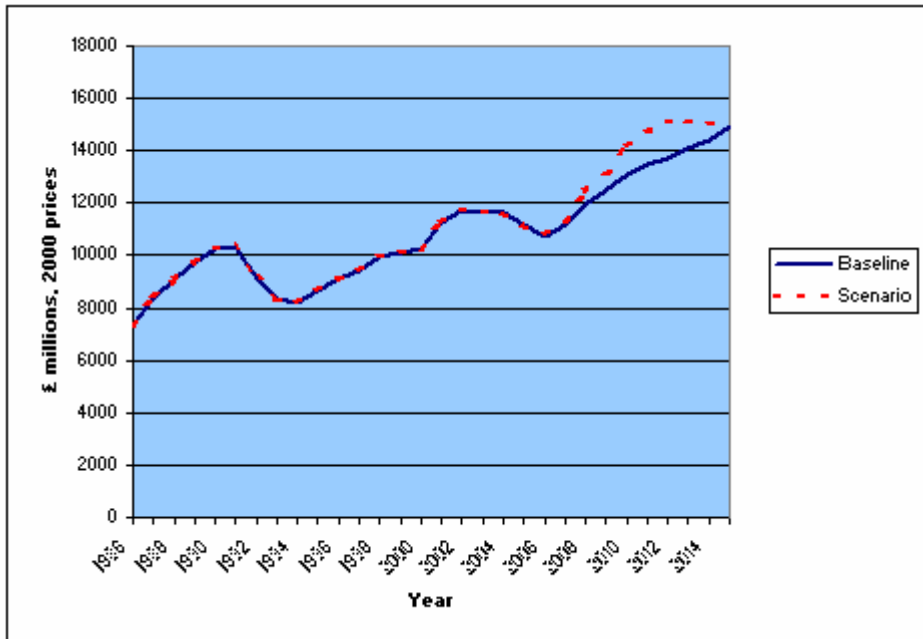
The Information Continuum - Demand - Performance - WLV



# Crossrail Scenario

## Impact of Crossrail on London Output

## Impact of Crossrail on Output Prices

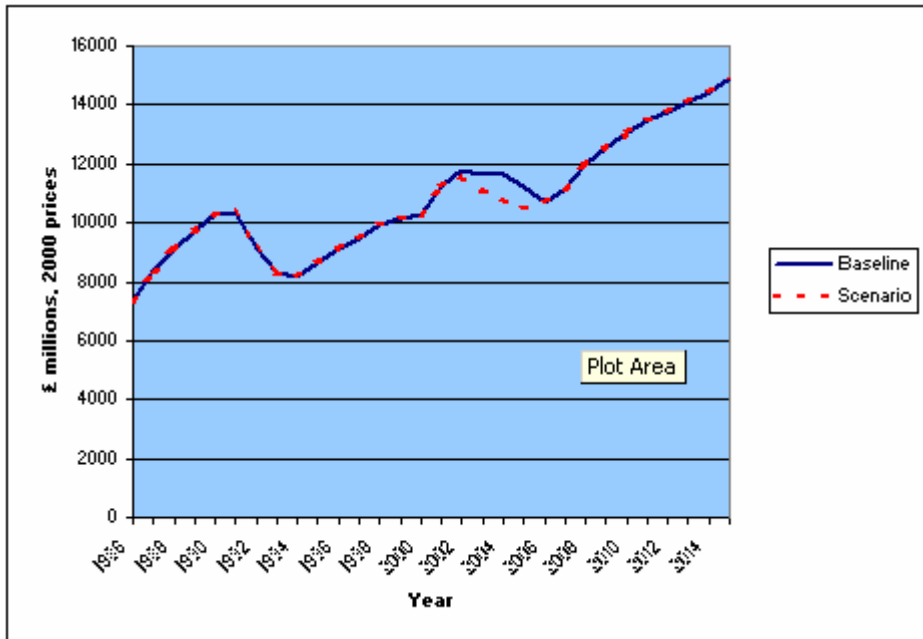


- £7.2 billion infrastructure expenditure added
- Between 2006 and 2015

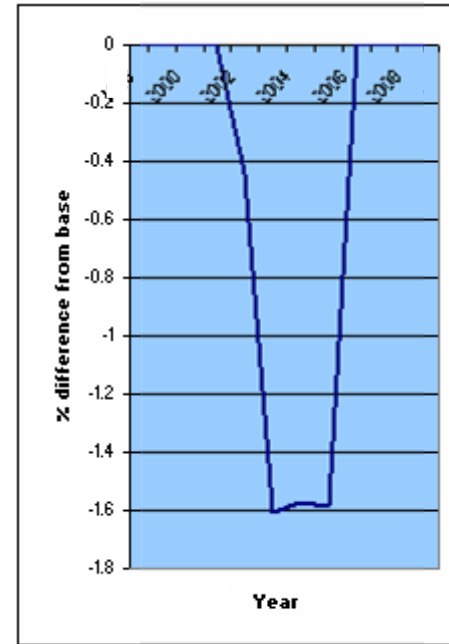
“Crossrail premium” to output prices (London) ~ £98 M

# Terminal 5 Counterfactual Scenario

## Impact of T5 Counterfactual Scenario on London Output



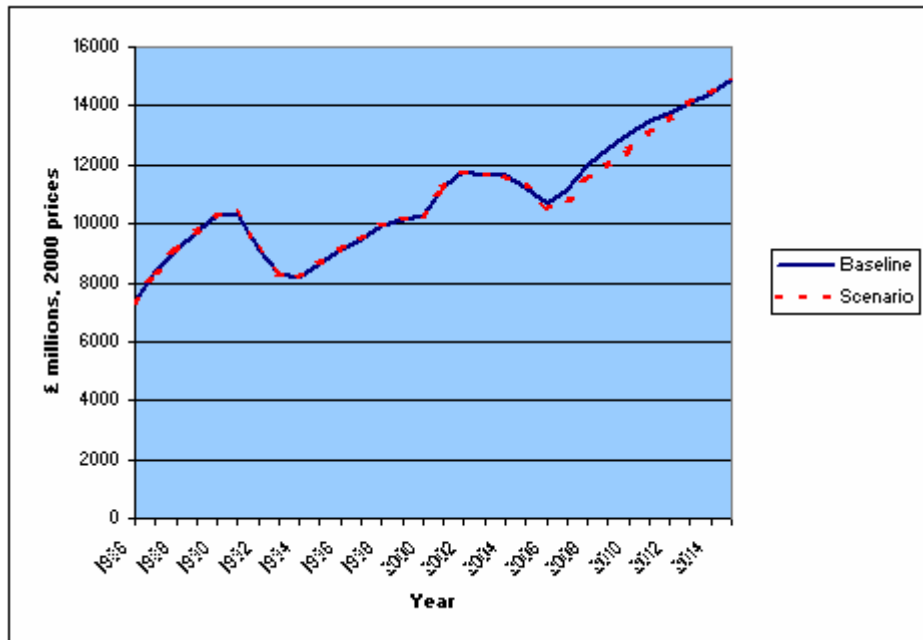
## Impact of T5 Counterfactual Scenario on Output Prices



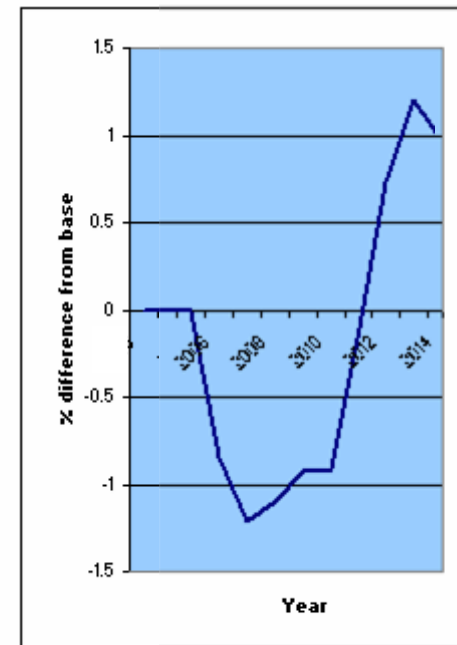
- £2.3 billion infrastructure expenditure removed
- Between 2002 and 2005

# Olympics Counterfactual Base Case

## Impact of Olympics Counterfactual Scenario on London Output



## Impact of Olympics Counterfactual Scenario on Output Prices



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

“Olympics Premium” to Output Prices (London) ~ £21 M

## Contact us

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.

**0845 000 4999**

**[www.ogc.gov.uk](http://www.ogc.gov.uk)**