

Edge Debate 85 - Procuring for Whole Life Value: how do we effect real change?

16th October 2018 – Building Centre

Chair: **Matthew Tulley**, Development and Property Services Director
Great Ormond Street Hospital (GOSH)

Speakers: **Ann Bentley**, Chair of RLB, Board Member of CLC and author of the
Procuring for value report

Louise Lado-Byrnes, IPInitiatives, Collaboration without barriers

Kevin Murray, Deputy Director & Head of Property and Construction,
Crown Commercial Services

Alan Crane, Construction Consultant & Past President CIOB

GOSH has spent £400m over last of 10 years and plans to spend £500m more over the next 10. Its challenge is to procure buildings effectively within constrained Government spending limits.

Ann Bentley said having been invited to be a member of the Construction leader Council (CLC) by Andrew Wolstenholme she saw her role as listening, informing and problem solving. Wolstenholme had stressed that in order to get messages across to ministers you needed to ever only say three things – so that they might remember one. Accordingly the CLC had three themes:

- Digital
- Manufacturing
- Performance

With three enabling programmes

- Procuring for Value
- Industry led innovation; and
- Skills for the Future

Significantly, because of the CLC’s activity, construction got a Sector Deal within the Government’s Industrial strategy and “in the months ahead the sector and the government will work to ensure construction projects across the public and private sectors are procured and built based on their whole life value, rather than just initial capital cost” (Construction sector deal, July 2018). The industry therefore has to define what value is. If we can’t define it, we can’t procure for value. What is the real value of the projects we are procuring?

At present there is a lack of alignment of contract goals and therefore our procurement system doesn’t work as it should. Professionals make predictions of project outcomes, but it doesn’t matter if we are right or wrong because by the time they occur we are long gone. The Value Model in the Procuring for Value report has listed 11 aspects of use value in order that they can be assigned quantum and assist clients to make a genuine choice between cost and value.

- Capital cost effectiveness
- Whole-life value
- Capital and Operational Carbon Emissions
- Digital effectiveness, BIM and data capture
- Use of standard components and pre-manufactured value
- Design Quality Indicators
- Collaborative behaviour and supply-chain integration
- Government Soft Landing
- Social Value of the construction process
- Health, Safety and Well-being during construction
- R&D and Innovation

Example of good practice: Anglian Water looked only at outputs not inputs



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Kevin Murray described the opportunity represented by the size of the public sector as a client with circa £50bn p.a. and the ability to develop policy, the Issues around large numbers of contracts, supplier failure and poor practice and oversight; leading to action to achieve better outcomes through consolidation, efficiency, policy change, improving capability, greater transparency and reduced risk.

Crown Commercial services have developed a plan to deliver a carefully programmed ten-year plan employing better information, using SME's to drive innovation, standardised off-site & modular construction products and Alliance contracting under framework agreements (JCT + NEC + PPC2000 with standard 'boiler plate' amendments). He recognised that the programme was ambitious and was intended to show leadership. Now the consultants needed to respond and professional institutions engage.

Louise Lado-Byrnes stated that IPI initiatives were trying to change the world with their IPI Alliancing model contract. Look at a series of recent reports (available from ipinitatives.co.uk) for further information.

They were attempting to define, in advance, the value that would be delivered and then procuring services on the basis of behaviour and ability to add value on the project. Now on its fourth project IPI were focusing on Topex (=Capex + FM costs) as the defining goal and avoiding the danger of the client's needs being diluted and to eliminate the Chinese whispers effect of long chains of command.

Value is defined by how much you are willing to pay to get it right. They use a top down investment target. Clients define their desired outcome in a strategic brief and match it with the money.

How did we get an industry that doesn't measure its performance through POE? We've been talking about for years - Let's bloody well do it! The industry must invest in new ways of thinking, which is hard when most companies in the industry are SMEs. There was an onus on the people in the room, because they are the advisers.

Project bank accounts should be the norm with open book accounting, payments on forecast. IPI use digital co-ordination and BIM management at a direct cost to themselves – but they are assuring the outcome and not the input.

Alan Crane (Construction Consultant & Past President CIOB) is still trying to change the construction world and reform a process that dilutes the contract between those who commission works and those who carry it out. Professions are in the way, including lawyers and QSs, who have no responsibility for anything to anyone. Finding the right procurement process is key and enough models have been developed, although risk has become one of the key drivers of divergent behaviour in the industry there is no clear definition of what that risk involves and represents.

Old Bovis had a successful long time relationship with most of its supply chain working for M&S etc. But today the middle ranking contractors see the JCT as an opportunity as the design team will not have done enough to define the scope of work and it will become an opportunity for generating profit.

Construction collaboration agreements only involve Tier 1 + 2 contractors/suppliers but tiers 4 & 5 (60-75% of the total work) work collaboratively and needs to be researched. It is what they do!

Housebuilders only understand speed of sale. For them value=turnover. Lets build our models on local procurement systems and use Constructing Excellence models. M4I Demo projects 2000-2008 showed 30% improvement, documented by NAO - we have the research so lets use it! You can use any form of contact, but it needs whole supply chain engagement.

Example of good practice: Argent.

Discussion:

Long-term value?

AB - we are using maths to quantify value and cost. QSs are very literal about costs but clients are not very literal on value. Getting clients to compare value and costs can be eye opening for them. QSs need to be trained to document clients' value.

Cost models and value models can be utterly different

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LL-B - OJEU ensures costs are part of the bid but IPI minimises the cost element and focuses on behaviour. IPI uses lean teams and people with tight behaviours developing solutions through workshops

AC – supports taking the value route. Clients need to identify how the project fits into their business plan. A good test for clients is the question: ‘What has led to the decision that leads to a building? What is the business case?’

Q1 - How to hang onto the interesting bits? Tier 1/2 players have squeezed out the small value-adding players and cut out opportunities for value through their attitude to risk.

LL-B – it must have been a poor Alliancing contract. One person in the team shouldn’t have that power. It should be the whole team making decisions jointly. Value engineering and AIs should be forbidden - we don’t do them - we do ‘give and take’ and ‘value management’ instead.

Advisers

Q2 - Client advisers often let down clients on issues such as POE and soft-landings. PMs describe them as a waste of time. There is a lack of professionalism and integrity. Is the RICS demonstrating leadership on this? As a minimum energy use should be benchmarked. On-going consultant involvement is necessary to learn from feedback.

AB - People get lazy. Clients should have higher expectations of advisers. The digital age will potentially could sort this out through in-use performance. There will be a fall-out of (bad) advisers.

AC - Where do clients go for advice? It used to be the architect but they moved away and the PMs filled the vacuum. Should we register advisers as well as contractors as in France or Germany or USA? It might provide better safeguards for clients.

LL-B - there are good client advisers in the room who do what clients want even if it is to get the lowest cost. However they are still advocating the same solutions for fear of trying something different.

Social value

Q3 - Construction manages to avoid the Social Value Act. Some LA clients are misusing this – asking only how many apprentices will you employ or how much money will you pay us? Are there any good examples?

AB – Construction has been excluded but the Act could be expanded. There are more bad examples than good. Best is Sellafield’s decommissioning tenders, which demand social value thinking in depth from the whole team and ask how they would effect change.

LL-B – I had 2 brilliant community-conscious contractors from Lincolnshire who could not find a way for their social value commitment to be rewarded in the tender process.

Q4 – The UK Collaborative Centre for Housing Evidence (CACHE) is doing research into social value under the Act. Currently piloting a toolkit for social value.

Q5 – As one of London Mayor’s framework advisers – social value is built into assessment of projects. Scores are 70% quality, including social value, 25% cost and 5% diversity (EDI) of the team. Making social value mandatory is aiming to force clients to examine their own values. It puts an onus on clients and client education. Best practice is about what good looks like.

Teamwork

Q6 - as architects we can put a good collaborative team together which you then lose when novated to the main contractor. It is the contractors that make the difference.

LL-B most contractors do ‘design and dump’ not ‘design and build’.

AC – ‘design and construct’ can work if there is a direct line from architect to client.

Q7 - M&S used their clout to motivate the D&B team.

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Performance

Q8 - following the recent IPCC report giving us 12 years to act on climate change, our industry has to step up to meet the challenge and deliver buildings that work. Are we training the right people?

AB - Best practice, not cutting edge practice, is what matters and yet we see more bad practice than best - WHY? Why don't clients do their research – few know it's there but look at Crossrail's detail performance reporting on their website

Q9 – Main contractors want to know how to measure performance and develop a quality metric - is the Housebuilders' star system suitable?

AC – There are already benchmarking indicators on the shelf. M4I and CE information was publicly accessible. NHS Procure22 does monthly reporting of performance!

LL-B - Beware honeymoon periods in POE reporting* – we are looking for the TripAdvisor of the construction industry.

Education

Q10 – 60% primary schools are no longer teaching creative skills. Both FE and HE underfunded. Is education supportive of the value agenda?

AC – Lack of education for the industry is the single biggest issue. We are suffering from 20 year lack of investment, however at the moment there is no shortage of high quality graduates.

Divergent/Aligned interests

Q11 - We don't have any documented evidence of contractors' bad practice. We need research into why we failed before? The contractors play the game of balancing employment/risk etc. Their very powerful business model will take some shifting. Nice words are crushed and mangled when they meet such a powerful model.

AB – The industry is full of vested interests but there are also great examples of where interests are aligned. There is no advantage to the bricklayer to say that the wall is set out in the wrong place – the opposite is the norm as he will be paid again if it has to be rebuilt yet until we can set up systems that produce an alignment of interests we will always get that.

AC – When Judith Hackitt was chair of HS&E she brought change in the H&S regulations saying clients cannot subcontract away risks. Risk needs to be carried by those who can afford to carry it.

The Government uses the industry as an economic regulator. It owes the industry the responsibility to regulate well.

End.

* Text revised following input from L-LB