

Constructing Excellence

Members Forum 8th October 2014
The SCMG Trial Project

Ministry of Justice – New 2100sqm prison in North Wales

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Two Stage Open Book – What is it?

- A client-led EU compliant system to develop cost savings and other improved value, through early main contractor/subcontractor/supplier contributions
- Prospective team members are invited to bid against an outline brief and cost benchmark
- Team selection is on demonstrable capability, including improved value, plus profit/fee/overheads
- Team members are conditionally appointed to work up design proposals, open book costs and final supply chain against clear deadlines
- Team members are unconditionally appointed when an agreed price and clear risk profile is approved by the client

Early Contractor Involvement, Team Integration and PPC2000

A combination of neo-classical and relational contracting, using enterprise planning to avoid negotiation or delay while moving from incomplete to complete information

Consultants and Tier 1 Contractor selected on Profit/Fees/Overheads and designs/other proposals (costed as appropriate) against Client brief and Project Budget	Integrated Team develop designs and costs, obtain savings/improved value within Project Budget while finalising work/supply packages and Tier 2/3 Subcontractors and Suppliers	Authority to proceed to construct for fixed price or target cost within Project Budget and Client brief
Brief and team engagement	Design/cost development	Decision to build

Supply Chain Collaboration – What is it?

- A client-led EU compliant system to develop cost savings and other improved value under an existing framework, alliance or long-term contract
- One or more clients with one or more main contractors review existing subcontractor/supplier commitments, costs and other value
- Supply chain review processes are agreed against clear deadlines, using open book costs and separate profit/fees/overheads
- Subcontractors/suppliers are offered improved client/main contractor commitments in return for agreed savings and other improved value
- New mutual commitments are recorded in new main contractor/subcontractor/supplier agreements

Summary of Supply Chain Collaboration

<p>Client(s), Tier 1 Contractor(s) and Consultants agree scope for achieving savings/improved value through improved mutual commitments with Tier 2/3 Subcontractors and Suppliers</p>	<p>Timetabled processes led by Tier 1 Contractor(s) to obtain and agree new proposals from Tier 2/3 Subcontractors and Suppliers</p>	<p>Improved mutual commitments and consequent savings/ improved value captured in Supply Chain Agreements</p>
<p>Scoping of Supply Chain Collaboration</p>	<p>Supply Chain Collaboration process</p>	<p>Decision to build</p>

Hackney Homes and Homes for Haringey (SCMG) Trial Project - £200m housing refurbishment programme



Key project features:

- | | |
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| <ul style="list-style-type: none">• Frameworks and Supply Chain Agreements in conjunction with PPC2000 contracts• Early joint appointment of comprehensive range of SME Tier 2 and Tier 3 supply chain members• Substantial savings achieved firstly at main contractor procurement (16%), and secondly through joint working with Tier 1 and Tier 2/Tier 3 supply chain members (14%) | <ul style="list-style-type: none">• Reduced waste through lean programming, value engineering and rationalisation of specifications• Substantial time savings through new pricing and mobilisation systems• New opportunities for SME subcontractors and suppliers, and substantial employment and skills improvements, with Building Lives Training Academy |
|--|--|

Two Stage Open Book Trial Projects



Two Stage Open Book and BIM

- Ministry of Justice Cookham Wood – first UK Government Trial Project using BIM Level 2
- Two Stage Open Book enabled early development of BIM models by main contractor/subcontractors/suppliers
- BIM data drops set out in contractual hub created by PPC2000 Partnering Timetable and Service Schedules
- No BIM contract amendments or separate BIM Protocol
- Improved exchange of information through BIM and Two Stage Open Book contributed to identification and agreement of 20% cost savings
- BIM and Two Stage Open Book under PPC2000 being applied on all Ministry of Justice alliance projects including £250m North Wales Prison

Other Two Stage Open Book and Supply Chain Collaboration Trial Projects



Liverpool City Council/
SCAPE – Archbishop Beck
School



Ministry of Justice, North Wales Prison (also
trailing Building Information Modelling)



Circle Housing Group –
Capital and Reactive
Alliance Programme



ConnectPlus/M25
Framework (with
particular emphasis on
the Intelligent Client)



King's/Cabinet Office Guidance on Two Stage Open Book and Supply Chain Collaboration

- Launched by Vince Cable 2nd July 2014 at Government Construction summit
- Peter Hansford, Government Chief Construction Adviser – *“These models encompass principles of early supplier engagement, transparency of cost, integrated team working and collaborative working”*. *“Their adoption will contribute considerably to the reductions in the cost of construction that both Government and industry are seeking.”*
- Nick Hurd, Ministry for Civil Society – *“The construction industry is a vital driver for growth sustaining thousands of SMEs”*
- The new guidance *“will build on the excellent trial projects – which have made average savings of 14 to 20% by applying these models – and should be followed closely to help drive innovation and eliminate waste from the process”*

Further information

- Professor David Mosey PhD, Director, Centre of Construction Law and Dispute Resolution: +44 (0) 207 848 1661; david.mosey@kcl.ac.uk
- Supply Chain Management Group (SCMG) Trial Project Case Study (<https://www.gov.uk/government/publications/procurement-trial-case-study-social-housing-refurbishment>)
- Ministry of Justice: Cookham Wood Prison (<https://www.gov.uk/government/publications/procurement-trial-case-study-cookham-wood-prison>)
- Two Stage Open Book Guidance (<https://www.gov.uk/government/publications/two-stage-open-book>)
- Arup Report 2008 (http://publications.arup.com/Publications/A/Annual_and_Corporate_Reports/Annual_Report_2008.aspx)
- PPC website (<http://www.ppc2000.co.uk/>)

SUPPLY CHAIN MANAGEMENT GROUP

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Supply Chain collaboration

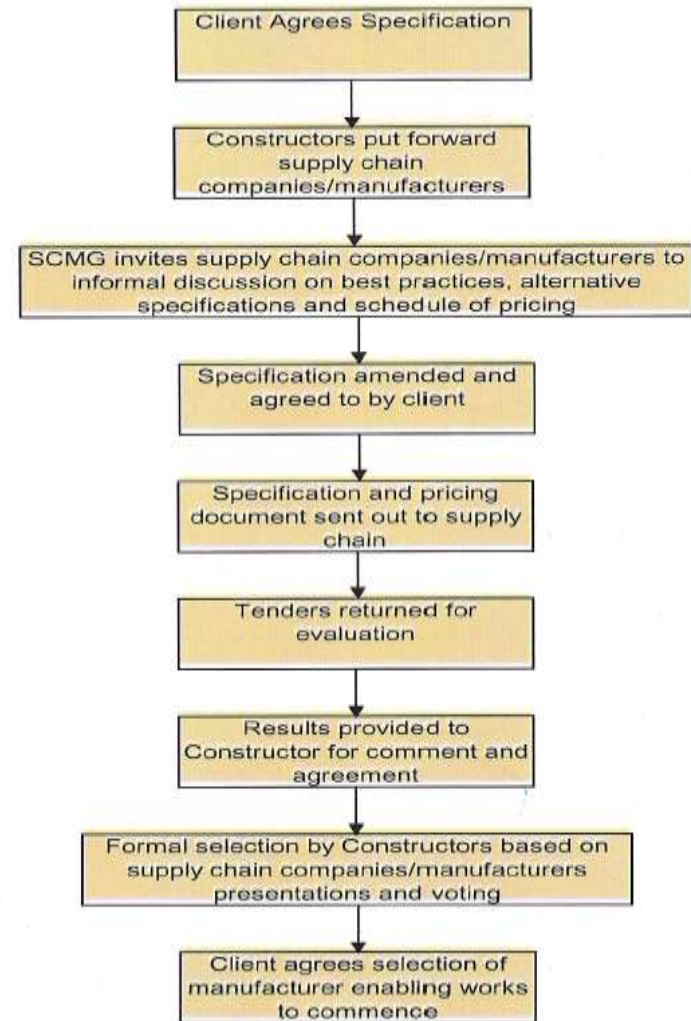
- SCMG is not a Tier 1 procuring organisation.
- We collaborate with the Clients appointed Tier 1 contractor, to facilitate the creation of a Supply Chain.
- Generally, around 80% of project costs go through main contractors to suppliers and installers, who do the bulk of the work.
- Clients do not typically have the means to create a relationship with the Supply Chain which reflects the Client's buying and process power. SCMG does this in a way does not affect contractual relationships.

Supply Chain Collaboration

- In London we have operated in Hackney, Haringey, Newham and Lambeth.
- The Haringey Led, London Construction Programme is currently going through a Tier 1 tender process which will allow their clients to adopt the SCMG model.
- A west London Client has also agreed to use the SCMG model in their current Tier 1 tender.
- SCMG is a process, we do not manage contracts, procure for Clients or enter into contracts.

Summary of how the process works.

- Client agrees spec.
- Constructor choice
- SCMG evaluates
- Amend/agree spec.
- SCMG seeks prices
- Prices returned to SCMG
- SCMG evaluation
- Constructors evaluation
- Presentation and vote
- Client authorises work



Supply Chain collaboration

- Around 3 years ago SCMG, through HCA, became engaged with the Cabinet Office in contributing to the Government Construction Strategy (GCS).
- Our aim was to convince Clients of the benefits to be had by changing the way that they do business and to bring a new Supply Chain Management model into the mainstream of procurement thinking.
- There are three Tier 1 procurement routes being evaluated in the GCS. Cost led, Integrated Project Insurance and Two Stage Open Book.

Benefits of Supply Chain collaboration at Tier 2

- Solid evidence of the benefits of each procurement option is being provided through the Cabinet Office Trial Projects programme.
- The Hackney/Haringey projects valued at over £200m is one of the Trial Projects relating to 2 stage Open Book procurement.

New Models: Common Characteristics

- “Intelligent client”: knows what they want, what it should cost, how best to go to market
- Transparent pipelines of work
- Early contractor involvement
- Client works with fully integrated supply chain to create design and construction solution
- Open book
- Independent validation

TRIAL PROJECT - Supply Chain collaboration

- Draft guidance on adoption of the SCMG process has been published by Central Government and is expected to become a “business as usual” procurement route for Central Government by Summer 2014.

Benefits of Supply Chain collaboration at Tier 2

- No further procurement is required by Client or Tier 1 contractor
- No Nominations by Client
- No conflict with the Tier 1 contract
- Very significant savings
- Access to the skills and experience of the Supply Chain.

Benefits of Supply Chain collaboration at Tier 2

- Transparency, building trust
- Removal of duplication of effort
- Extended guarantees
- reduced complexity in administration
- improved trading conditions for supply Chain members,

Benefits of Supply Chain collaboration at Tier 2

- final accounts settled more quickly,
- SCMG members can aggregate demand, resulting in further volume discounts.
- Suppliers gain the benefit of an extended programme of works which is sustainable from one year to the next.
- Clients can gain significant Asset Management benefits in respect of extended guarantees, spares, design input, inspections, training and employment etc.

Discussion / Q&A

Discussion / Questions

Thank you



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The SCMG Trial Project

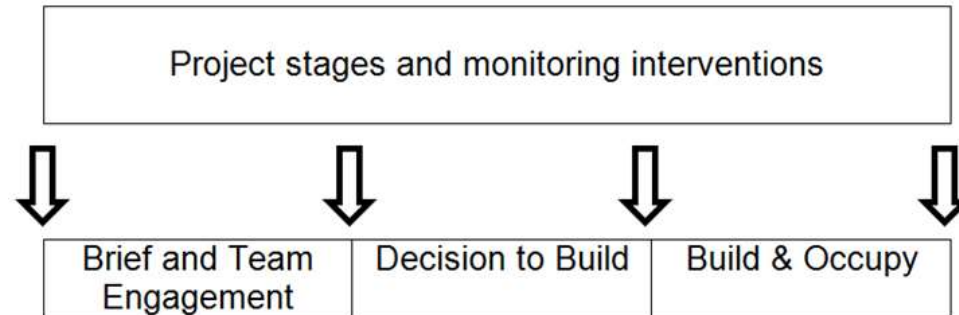
Academic Perspective



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Role of Academic Partner

- ◉ Independent monitoring of the trial projects
- ◉ Lead on data capture, interviewing and other monitoring



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- ◉ Constructing Excellence will produce reports on the successes and lessons learned.

SCMG trial project

HM Government **CONSTRUCTING EXCELLENCE**
to the full government

Trial project: Supply Chain Management Group (SCMG)	New delivery model / procurement route: Two Stage Open Book under PPC2000			
Cost savings achieved: 14% (in addition to 16.5% achieved through procurement)				
Other key benefits achieved: Time and cost control, end user satisfaction, reduced defects, reduced waste to landfill and carbon emissions, improved employment and skills outputs				
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

Trial project details	
Project title	Supply Chain Management Group (SCMG)
Clients	Hackney Homes and Homes for Hackney
Project value	Hackney Homes £110.6m and Homes for Hackney £91.5m
Form of project	Capital housing refurbishment programmes
Main contractors	Mulvey, Kierston, Morrell, Lushington, Lovell, Stiles
Lead designer	Main contractors as above
Key suppliers	Mace Veka Bauer Sovereign Gestergroup Borchard



Executive summary:
Hackney Homes and Homes for Hackney as members of the Supply Chain Management Group (SCMG) have used Two Stage Open Book to demonstrate a breakthrough that will enable public sector clients to deal directly with Tier 2/3 subcontractors and manufacturers, working with Tier 1 contractors, to build up fully integrated working relationships.
SCMG has created a multi-client, multi-contractor team engaged on housing refurbishment that has worked with a wide range of SME subcontractors and manufacturers under a standardised system of costing and long term engagement that has created major savings and significant qualitative benefits.
The SCMG relationships and structures are sustained by training and support to embed a collaborative culture. Both Hackney Homes and Homes for Hackney re-procured their Tier 1 contractors during the Trial Project Case Study period, and demonstrated significant savings in the procurement process itself and in the outturn costs / rates.

- Not a project, but a programme

- Year March'13 to April'14

- Interim and final case studies

SMG Trial Project



SCMG Trial Project Findings

- ◉ Cost targets and savings
- ◉ KPI targets
- ◉ Qualitative benefits
- ◉ Local benefits
- ◉ Cultural benefits



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Cost targets and savings

Reduced supply chain costs

14%

Procurement

16.5%

Improved client brief

Simpler pricing

Greater visibility of workload

Lower bid costs
Due to simpler procurement process

Commercial



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KPI Targets

- ◉ Improved client / resident satisfaction
- ◉ Improved predictability of time & cost
- ◉ Improved quality
- ◉ Improved sustainability
- ◉ Improved leaseholder relations



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Qualitative benefits

- ◎ Through early engagement of supply chain
 - Standardised specifications
 - Improved briefing process
 - Supply chain innovation
 - Improved quality control
 - Extended warranties
 - Improved repairs and maintenance



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Local benefits



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Cultural benefits

"The **use of local resources and labour** from the areas we are working in helps **break the barriers** sometimes felt between local residents and the client or constructor"
(Dendale).

The supply chain said...

"planned and confirmed turnover, cash flow certainty, direct communication between all parties from client to resident"
(Sovereign)

Increased confidence in relationship between client and supply chain enabling **higher levels** of productivity and **performance**

"The speed of which a contract can go from AMP inspection to starting on site and completion is **far quicker than normal procurement practices**"
(Gunite)

"Everyone is more than **happy to help each other** out to get the works complete at the same time, **keeping the tenants informed and happy**"
(Masher Bros)

SCMG Trial Project

- ◉ Intelligent client
- ◉ Engaged supply chain
- ◉ Integrated working relationships
- ◉ Improved predictability
- ◉ Prompt payment throughout the supply chain
- ◉ Greater trust



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Guidance


Two Stage Open Book

From: Cabinet Office and Efficiency and Reform Group
First published: 29 January 2014
Last updated: 2 July 2014, see all updates
Part of: Government construction, New models of construction procurement and
Buying and managing government goods and services more efficiently
and effectively


Guidance and frequently asked questions about the Two Stage Open Book model of construction procurement.

Documents

 [Two Stage Open Book guidance](#)
PDF, 1.35MB, 62 pages
This file may not be suitable for users of assistive technology.
Request a different format.

 [Two Stage Open Book model: frequently asked questions](#)

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PROJECT PROCUREMENT AND DELIVERY GUIDANCE

Using Two Stage Open Book and Supply Chain Collaboration

<https://www.gov.uk/government/publications/two-stage-open-book>

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