

New Models of Construction Procurement

The annual report of the NMCP Working Group to the IPA

January 2019

Final version 5.1 to be submitted to IPA

New Models of Construction Procurement

The annual report of the NMCP Working Group to the IPA, January 2019

Draft version 5.0 final, 29 Jan 2019

Introduction and Summary

1. This report is submitted by the New Models of Construction Procurement (NMCP) Working Group to the Infrastructure and Projects Authority. In summary,
 - The NMCP Working Group has continued its brief to report on trials of the three new models of construction procurement.
 - The first trial project for IPI, Advance II at Dudley College, has successfully concluded, showing savings of 6%, and the client has commenced a second project with the same approach. A third pilot is also underway. The other two models, Two-Stage Open Book and Cost-Led Procurement, were accepted as proven by the IPA in January 2017, and these have been increasingly widely adopted, particularly in the local government sector where data shows an estimated £1 billion per year of projects are using the models as of end 2018.
 - Crown Commercial Services' £2.8 billion consultants framework now includes a requirement for capability in the new models and consultants have formed an alliance committed to shared procurement practices, although limited client demand has been perceived for adoption of the new models. Crown Commercial have also advertised a £1.2 billion modular alliance procurement including NMCP options and in early 2019 are due to advertise a £30 billion contractor framework alliance including NMCP options.
 - In 2019 the Working Group's priority is to improve awareness of the three new models and the case for adoption with public sector client-side decision makers including their professional advisors, and to measure and report on uptake of the new models. The report sets out a plan of action to this end in paragraph 9.

Background and current context

2. The NMCP Working Group was tasked in the Government Construction Strategy 2016-2020 as follows:

"New models of construction procurement were trialled under GCS 2011-15 to explore the potential to drive better value and affordability in the procurement process. The new models include the principles of early supplier engagement, transparency of cost, and collaborative working to deliver a value for money outcome. Alongside the potential for efficiencies, the models can support improved relationships across clients and the supply chain, increased supply chain innovation, and reduced risk. Case studies of the trial projects demonstrate that the new models can help realise efficiencies. The [Trial Projects] Working Group will continue to encourage the use of new models of construction procurement and the Project Initiation Routemap.

The Government, with support from industry, will continue to establish trials of the new models of construction procurement outlined in GCS 2011-15 (Cost Led

Procurement; Integrated Project Insurance; Two Stage Open Book). The trials will be monitored by the Trial Projects [now *New Models of Construction Procurement*] Working Group and will form part of the growing evidence base to inform their adoption."

3. In early 2017 the Working Group submitted a report to the IPA¹, in which the IPA's foreword summarised as follows:
 - "Two new models of construction procurement (Two-Stage Open Book, Cost-Led Procurement) have delivered positive outcomes for public sector clients, in terms of value, cost (savings of 6%-20%+), time, quality, sustainability and social value as well as improved productivity. They are recommended for continued widespread use in the public sector.
 - A third new model (Integrated Project Insurance) shows promise, and we will continue to review the evidence of trial projects of this model as it develops, to build the evidence base from which to inform future recommendation.
 - Clients wishing to consider any of these three new models should follow the guidance available on the IPA website², which is accompanied by a range of case studies. The government's Crown Commercial Service has included capability in the new models as one of the core competencies expected of tenderers for its latest frameworks³, they are also included in our Project Initiation Toolkit.
 - We welcome the commitment of the industry organisations who have agreed to resource its work moving forward. We will keep their evidence of effective new models under regular review, and to formalise this we have asked for an annual report to the Government Construction Board on new models of procurement, emerging lessons and recommendations for further improvement."
4. The Working Group's updated membership and plan of work for 2017-18 is attached at Annex A. Areas of progress include:
 - Two-Stage Open Book and Cost-Led Procurement have been increasingly widely adopted, particularly in the local government sector where data shows an estimated £1 billion per year of projects are using the models as of end 2018. For example, in 2018 the Surrey County Council Trial Project (Project Horizon) reported an average of 12.5 % savings over five years, plus new 10-year warranties on 76% of the schemes, and local apprenticeships and recycling initiatives led by Kier Highways. This project was recognised as an exemplar in the 2018 'Project 13' Blueprint published by the ICE.
 - The first trial project for IPI, Advance II at Dudley College, successfully concluded in 2018 and a detailed research report and case studies were published. A capital cost saving of 6% was reported against the target price. The core team decided to rebrand the model as Insurance-Backed Alliancing. In 2018 the project won the

¹ <http://constructingexcellence.org.uk/cabinet-office-trial-projects/>

² <https://www.gov.uk/government/collections/new-models-of-construction-procurement>

³ <https://www.contractsfinder.service.gov.uk/Notice/0a5bc66e-be4d-4500-a11a-2bac7ea432af?p=@T0=MjdNT08=UFQxUIRRP>

Constructing Excellence Midlands award for Collaboration in the Midlands, and it went on to win the National Award in November.

- Crown Commercial Services' £2.8 billion consultant framework included a requirement for capability in the new models, with a commitment to share procurement practices under an FAC-1 framework alliance, although limited client demand has been perceived for adoption of the new models through the framework. Crown Commercial have now also advertised a £1.2 billion modular FAC-1 alliance including NMCP options, and in early 2019 are due to advertise a £30 billion contractor FAC-1 framework alliance including NMCP options.
 - Other public sector frameworks continued to deliver using Two-Stage Open Book model or variants thereof.
 - Ad hoc events, speaking engagements and other activities to promote the models have been undertaken notably by King's College London, Constructing Excellence, and IPI in association with Dudley College.
5. In our 2017 report our trial projects programme covering central and local government had a total value of £2.2B. Our assessment of wider take-up by central government and local government of these new procurement models is now updated as follows, we only have updated figures for local government.

| Sector | Uptake late 2016 | Commentary end 2018 |
|------------------|--|--|
| Local government | Take-up in the local government sector is more widespread - we identified projects being delivered under frameworks using the recommended principles worth £1.5B in the last two years alone ⁴ . Furthermore, Cabinet Office auditors verified added value benefits and savings delivered by the Southern Construction Framework (SCF) using the Two Stage Open Book approach worth £31.24m for 2014-15, and £38.91m for 2015-16 ⁵ . | <p>The National Association of Construction Frameworks is reported to be delivering around £1B of 2SOB projects per year: Southern Construction Framework (£500M), North West Construction Hub (£200M), Construction West Midlands (£150M), East Midlands - Scape (£100M), Midlands Highways Alliance (£50m).</p> <p>The SCF has now reported £200m of verified added value savings to the Cabinet Office since 2015, this figure has been included in the Government Construction Board's own report.</p> |

⁴ As reported by members of the National Association of Construction Frameworks

⁵<http://www.southernconstructionframework.org.uk/docs/SEaL%202015%20End%20of%20Term%20report%20web.pdf>

| Sector | Uptake late 2016 | Commentary end 2018 |
|--------------------|--|---------------------|
| Health (DH) | National framework Procure 21+ worth £650-£750m which enables early engagement and integrated supply chains for some years now. Shares and informed many of the features of the new models, as will the replacement Procure 22. | No update available |
| Education (EFA) | EFA is procuring over £5B through the Priority Schools Building Programme using National, Regional and Modular Frameworks, they have effectively used CLP and achieved like-for-like savings of up to 35% which could be considered as high as 50% when area considerations are included. Two trial project schools in the local government sector in Beverley and Leeds are both achieving significant savings. Other authorities are looking to join in. | |
| Justice (MOJ) | £900M national and regional framework alliances using Two Stage Open Book - plus trial projects also integrating BIM | |
| Homes (HCA) | CLP trial project in the 'sheltered' sector with Anchor Trust, 13% saving on refurbishment of old persons homes. 2SOB trial project with Hackney Homes/Homes for Haringey, 14% savings on housing refurbishment. Widespread use by RSLs. | |
| Defence (DIO) | Trial Project of 2-Stage Open Book through the Southern Construction Framework. The DIO National and Regional frameworks are suitable for CLP and BIM integration. | |
| Environment Agency | Currently using CLP on a flood alleviation scheme on the Upper Mole and is nominating another which will be their 3rd. | |
| Highways England | Widespread use of early contractor involvement, which shares and informed many of the features of the new models. | |

6. Developments in government policy during 2018 included:
- The Working Group on procurement of the Construction Leadership Council (CLC) chaired by Ann Bentley published its **Procure for Value** paper which included reference to the new models.
 - With BEIS the CLC launched the **Construction Sector Deal** under BEIS' Industrial Strategy, adopting the Construction 2025 targets of 33% reduction in cost, 50% reduction in project time, 50% reduction in carbon emissions, 50% reduction in the trade gap.
 - In December BEIS launched the £72 million **Core Innovation Hub** to drive innovation and technological advances in the UK construction and infrastructure sectors. The Transforming Construction Alliance brings together the MTC (Manufacturing Technology Centre), BRE (Building Research Establishment) and the CDBB (University of Cambridge Centre for Digital Built Britain). Keith Waller has been appointed its Director.
 - The Infrastructure and Projects Authority (IPA) has continued to focus on **the role of government as a client**. Its belief is that adopting more digital and manufacturing techniques in government-led building projects can drive a step change in investment and innovation in the construction sector and support productivity growth in the long term, as set out in its **Transforming Infrastructure Performance** programme. This is complemented by **Project 13**, an ICE-led response to the demand for a new business model based on an enterprise, not on traditional transactional arrangements.
 - In the 2017 Budget and Industrial Strategy, five departments adopted a **"presumption in favour of offsite construction"** from 2019 where it provides value for money. In November 2018 the government announced a Proposal for a New Approach to Building proposing a **"platform approach to design for manufacture and assembly (P-DfMA)"** to realise economies and efficiencies of scale and create a more resilient sector.
 - The **Grenfell Public Enquiry** is set to concluded Part 1 on what happened on the night (Part 1), and will then move on to Why (Part 2). The Hackitt Report has led to work by CIC to co-ordinate the 'Industry Response' by April 2019, this effort has twelve working groups considering the competencies of the various people involved in the construction process. Recommendations will be made on future competencies, and then CIC will collate and publish a complete report to Government. In 2018, the Housing Forum published its response to the Grenfell Tower disaster on 'Stopping Building Failures', with reference to NMCP Trial Project case studies.
7. The working group has obtained feedback from some 25 project managers revealing a lack of awareness and indeed interest in the New Models from most government Departments. Some Departments have evolved their own procurement methods which are designed to promote integrated collaborative working, but generally they appear to misunderstand what 2SOB and CLP really are, and do not even consider IPI. Put another way, the more extensive the changes and improvements entailed by the new models, the less appears the Departmental appetite. Yet a requirement for deep and certain collaborative working by integrated teams of designers, suppliers and constructors, as variously achievable under the New Models, will have to be policy and

procurement imperatives alongside BIM and Offsite construction if there is to be any prospect of achieving the challenging targets of the Industrial Strategy 2025.

Purpose and objectives

8. For 2019 the Working Group considered whether there remains a job to be done, its strong conclusion is YES. The following objectives are proposed:
 - a. “Improve awareness of the three new models and the case for adoption with public sector client-side decision makers including their professional advisors,
 - b. Question and challenge public sector failure to use the new models more widely,
 - c. Measure and report on uptake of the new models.”

Specific action plan

9. The following actions are proposed:
 - Report to IPA with a request to present to the Government Construction Board.
 - 1:1 meetings with key client representatives.
 - Continue to influence CCS and other frameworks.
 - Industry and client-side events to raise awareness and promote uptake.
 - Support the development of training material to support uptake of the three models.
 - Measure the uptake of the three models.
 - Report annually on progress.

Constitution of the Working Group

10. Given the above purpose, objectives and action plan, we have considered the most appropriate governance structure, and propose the following:
 - **Merger** with the Constructing Excellence theme group on procurement. Ann Bentley has agreed to take over the chair of the CE group from January 2019, recognising that it provides a practical way to connect and integrate the work of the CLC and CE, combines the complementary strengths of these two bodies, and avoids parallel, duplicative or competing activity. A further integration with the New Models of Construction Procurement Working Group will further aid alignment and impact in this respect.
 - **Chair.** Don Ward has had this role for a number of years and is now based overseas. He will continue to support the group with greater input from UK-based colleagues, but will stand down as chair. Ann Bentley will take over the role as per above.
 - **Membership.** All national members of Constructing Excellence will be entitled to participate in the group. The lead mentors for the three new models plus all bodies

with representatives on the NMCP Working Group will be invited to nominate representatives to the new group. It is for those bodies to confirm their representatives, so all current members of the group will be able to continue their participation.

- **Subgroups** or other working mechanisms may be established if the group's size becomes unwieldy.
- **Terms of Reference.** It is proposed that a specific remit be adopted as per paragraph 8 above. Note that the theme group may have other objectives, eg to support the CLC's work on *Procure for Value*.

NMCP Working Group
January 2019

Annex A. Membership of the working group and programme of work for 2017-18

The members of the working group for 2017-18 have been as follows:

| Role | Name | Job Title | Organisation |
|---------------|--------------------|---|--|
| Chair | Don Ward (Chair) | Chief Executive | Constructing Excellence |
| Mentor (2SOB) | David Mosey | Director, Centre of Construction Law and Dispute Resolution | King's College London |
| Mentor (CLP) | Vaughan Burnand | Managing Director | VEB Lean Ltd |
| Mentor (IPI) | Martin Davis | Chairman | Integrated Project Initiatives |
| Client | Kevin Murray | Deputy Director - Head of Property and Construction | Crown Commercial Service |
| Client | Keith Heard | Chair | National Association of Construction Frameworks |
| Industry | Mark Taylor | Group Commercial Director | Osborne / Build UK Main Contractor rep |
| Industry | Alasdair Henderson | Operations Manager | Bam Ritchies / BuildUK Specialist Contractor rep |
| Industry | Steven Thompson | Professional Groups Associate Director of the Built Environment | RICS (and Construction Industry Council) |
| Industry | Peter Caplehorn | Deputy Chief Executive & Policy Director | Construction Products Association |
| Industry | Trevor Hursthouse | Chairman, Specialist Engineering Contractors' Group | Lingwood Management services |
| Academic | Rob Garvey | Senior Lecturer | University of Westminster |

The proposed programme of work was set out in Annex C of the annual report, final version March 2017, as follows:

| GOAL | TACTICS | |
|---|--|---|
| | Short-term (2017) | Longer term (2018+) |
| <i>Embed proven new models in central and local Govt</i> | <ul style="list-style-type: none"> Collate comms pack (guidance, case studies, standard slide deck, website etc) Add criteria/decision tree on which to choose Improve links in eg IPA Routemap 1:1 meetings with each Govt Dept at senior-most level to understand current positions and including direct engagement at further appropriate levels to engage champions Influence Crown Commercial Services and Govt Category Board | <ul style="list-style-type: none"> Continuously review and improve short-term tactics Annual report to Government Construction Board Target top 100 projects of 'applicable spend' in Pipeline Target Departments' existing frameworks renewal processes to |

| | | |
|---|--|--|
| | <ul style="list-style-type: none"> • Support NACF meetings with key clients | include new models as option |
| <i>Trial other models</i> | <ul style="list-style-type: none"> • Secure and monitor further trial projects as required (esp IPI) through direct contact with Government Departments and support of key bodies such as Government Construction Board, Construction Leadership Council. | <ul style="list-style-type: none"> • Establish process for 'horizon scanning' • Trial further new models if identified |
| <i>Guidance & training</i> | <ul style="list-style-type: none"> • Publish overview introduction to the new models including 'decision tree' • Publish definitive guidance/'legal opinion' on compliance with OJEU • Develop and promote training package • Arrange programme of industry events and Govt client events • Review new (IPI) toolkit and consider development of generic procurement toolkit | <ul style="list-style-type: none"> • Branded CPD sessions supported by IPA • Embed references in 'Major Projects' Leadership Academy etc • Develop 'train the mentors' programme • Refresh core guidance docs (see feedback paper) • Consider maturity matrix |
| <i>Measure uptake of new models and the benefits</i> | <ul style="list-style-type: none"> • Establish reporting process for collecting data on take-up • Agree KPIs to be measured on all projects • Better analysis and reporting of benefits monitored in trial projects • Track hits and downloads of key guidance • Consider survey of awareness amongst key stakeholders | <ul style="list-style-type: none"> • Establish reporting process for benefits realised across the estate (not just trials) |
| <i>Integrate new models with other initiatives</i> | <ul style="list-style-type: none"> • Mutual/cross-representation on other key govt Working Groups (eg BIM, Project Initiation Routemap) • Common messaging about new procurement models as the foundation for facilitating other govt initiatives (BIM etc) • Private sector, eg Institute for Collaborative Working, Collaboration for Integration project, CE exemplars | <ul style="list-style-type: none"> • Improve positioning and content in Project Initiation Toolkit, BIM guidance etc |