

LOCAL GOVERNMENT AND HOUSING COMMITTEE

‘RETHINKING CONSTRUCTION’

Purpose

1. To give the Committee an update of progress in raising awareness and implementing the principles of ‘Rethinking Construction’ in the public sector following a report to the Local Government and Housing Committee on 01 November 2000 and to seek the Committee’s support for Proposals for Future Action in paragraph 9.

Recommendation

2. The Committee is recommended to:

- a. note progress
- b. endorse the proposals for future action
- c. seek a further report on progress in January 2002

Timing

3. The report is presented to the Committee to be involved in and to support the forming of guidance on best practice in construction procurement across the Welsh public sector.

Background

‘Rethinking Construction’

4. The Egan Report ‘Rethinking Construction’ recognises the under-performance of the construction industry and recommends a commitment to continuous improvement in the construction process, with the whole supply chain involved. The profile of the construction agenda has been raised sharply, particularly on issues of Health and Safety. UK Government and National Assembly policies are increasing the need for the construction industry and its public sector clients to fully implement the principles of ‘Rethinking Construction’.

UK Government

5. The **Department of Environment, Transport and the Regions** (DETR) has central responsibility for securing improvements within the industry and a summary of its initiatives is given in **Annex A**. It is Government policy for all sponsoring Departments and associated Non Departmental Public Bodies, including the Housing Corporation, to fully implement the principles set out in the 'Rethinking Construction' Report by 2003-04.

6. The **National Audit Office** (NAO) published its report 'Modernising Construction' in January, which examines how construction procurement in the United Kingdom can be modernised by adopting the principles of 'Rethinking Construction' with benefits for all.

The **Office of Government Commerce** (OGC) under HM Treasury has assumed responsibility for leading the Government's drive to improve departments' and agencies' performance as construction clients and for disseminating good practice guidance.

The National Assembly for Wales

7. The Assembly has adopted a **Sustainable Development Scheme** which requires that principles of sustainable development must apply to all of the Assembly's operations, requiring a change of culture and working practices. The construction industry has the potential to make a significant contribution to sustainable development. 'Rethinking Construction' calls for the construction industry to become more sustainable by addressing concerns about waste, pollution, quality and user satisfaction.

7.1 Welsh Procurement Review- 'Better Value Wales': this has begun the process of developing a national initiative to achieve better value for money from procurement in the Welsh public sector. It makes a number of recommendations relating to 'Rethinking Construction'. It recommends that the Assembly establishes a concordat with the OGC to ensure that opportunities for the sharing of government procurement information are maximised. It finds that the Welsh public sector must go further to implement 'Rethinking Construction' and that much work needs to be done to introduce best practice thinking in construction to the Welsh public sector.

7.2 Assembly Building Project: the Management Contractor for the Assembly Building is committed to working within the Latham and Egan principles and is also committed to M4I (Movement for Innovation).

In addition, the Project has been included in the University of Wales Waste Management Project, which seeks to develop best practice for the segregation of waste to maximise re-use and recycling. UCATT, the construction worker's union is working with the Management Contractor on the training of construction workers on site.

7.3 The Audit Committee Report on Accommodation for the National Assembly contains

recommendations that steps should be taken to improve Assembly guidance and practices in construction project procurement. The Cabinet response is due shortly.

7.4 Assembly Response to Urban White Paper: In answer to Chapter 4, paras. 25 and 28, which call for improved planning and design to be complemented by improvements in the quality of construction and a drive to make construction more environmentally sustainable, the Assembly responded:

"The Assembly sees the application of the Egan Report, 'Rethinking Construction' to the procurement of construction activities as the way forward in improving the quality of construction."

"The Assembly's commitment to Sustainable Development will be reflected in the formulation of policies for new procurement methods in Assembly funded construction- based on the principles of the Egan Report."

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Consideration

'Rethinking Construction'- Progress in the Assembly and Welsh public sector

8. Various initiatives are being taken to promoting and implement the principles of 'Rethinking Construction' in the Welsh public sector:

Awareness Raising

As part of the Assembly's Operational Plan to Deliver Better Quality of Life, the Housing Directorate is progressing measures to promote 'Rethinking Construction', including:

the potential for implementing the principles of 'Rethinking Construction' in public sector construction; the promotion of project partnering as the procurement method for the majority of Assembly funded RSL developments and its use in other areas of construction activity; the promotion of a continuing programme of best practice seminars in Wales in partnership with the Construction Best Practice Programme and related organisations.

Highways

The Transport Directorate is responding to 'Rethinking Construction' and is committed to achieving best practice and long term value for money in its highways programme. A summary of initiatives being promoted by the Transport Directorate is given in **Annex B**.

Health Trusts

Welsh Health Estates (WHE) supports the Assembly in all health estate issues and provides guidance to NHS Trusts on construction procurement. It has issued Technical Advice Note (99/08) to all NHS Trusts informing them of the 'Rethinking Construction' Report and its targets for improvement. WHE will monitor progress of the Trusts, which are currently in the early stages of developing their capital construction schemes. Two hospital schemes, Neath Port Talbot and St Davids Cardiff, are progressing as 30 year PFI's where analysis of whole life cycle costs have been included in the business case.

Education

The Assembly grant aids a proportion of the construction value of the Voluntary Aided schools capital programme and Grant Maintained Schools capital programme. No progress has been made in implementing the principles of 'Rethinking Construction' and this is an area with potential for improvement.

Local Authorities

The requirement to produce Best Value reviews and action plans will lead to consideration of the Local Authorities' construction activities particularly in repairs and maintenance. There has been no guidance on 'Rethinking Construction' issued to Local Authorities in Wales, who were not included in the guidance issued by the DETR Local Government Task Force. This is an area for action by the Assembly.

Welsh Development Agency (WDA)

The WDA is procuring a programme of office and industrial buildings which represent the start of a 'new generation' of WDA development for Wales. Design and construction teams have been selected on the basis of 'best value' and sustainable development criteria. Scheme design and construction will be subject to measurement of energy ratings and performance indicators. The DETR sponsored Movement for Innovation (M4I) are interested in establishing a construction best practice regional group for Wales and see the WDA (and University of Glamorgan) as an important part of this.

Registered Social Landlords (RSLs)

The Assembly Housing Directorate in its role of Regulator of RSL's will issue, after consultation with the WFHA and the WLGA, guidance on Project Partnering as the preferred method of

procurement for the majority of SHG funded new housing development. 'Partnering' is a term used for a variety of innovative approaches to managing relationships between organisations in construction.

Social Housing Innovation Programme (SHIP)

The Housing Directorate is sponsoring a two year programme for 2002-04 to encourage the demonstration of sustainability principles in RSL housing and promote best practice in the built product and construction process.

Housing Forum Demonstration Projects and Partnering

There are three RSL registered demonstration projects in Wales - Mount Calvary Church Swansea, Bettws Regeneration Bridgend and Winston Square Barry, all under construction - and the Newport Bungalows project which is adopting project partnering principles. These participate in the Housing Forum West Midlands Benchmarking Club but the Housing Forum is encouraging the formation of a Welsh Housing Forum Group.

Cardiff County Council is considering the 'Cardiff Partnering Scheme' for the redevelopment of various sites, based on principles of sustainable development and 'Rethinking Construction'.

Construction Best Practice Programme (CBPP)

The Assembly and CBPP sponsored an awareness-raising conference 'Rethinking Construction- Pulling Together' - last October which attracted 120 delegates from the construction industry, clients and professionals in Wales. A survey of delegates indicated most interest in the topics of 'Best Value', 'Partnering', 'Key Performance Indicators' and 'Value Management'.

Wales Construction Best Practice Club

Following expressions of interest at the conference 'Rethinking Construction- Pulling Together', the Wales Best Practice Club (BPC) was formally constituted in March with a committee of construction consultants, contractors and representative. The BPC will link with other UK clubs through bi-annual conferences where BPC committee members can exchange knowledge of best practice.

'ECO-Clusters in Construction'

Cardiff Business School and Mandix are running a project for construction SME's funded by

ERDF, Cardiff University, Mandix, CIRIA with support from NAW, WDA, Local Authorities, Hyder, Corus, Willmott Dixon and others. The project reflects Government commitment to the 'European ECO-Efficiency Campaign' and the Assembly's support for the concept of business clusters. It involves 4 clusters of 33 construction SME's and, together with other key customers or regulators of construction activities, will agree the basis for building a Wales-wide network of information and advice on business and environmental best practice.

The Small Firms Research Unit of Cardiff Business School responded to the National Economic Development Strategy consultation document with a case for including construction as a strategic sector. As a result the Deputy First Minister and Minister for Economic Development has invited SFRU to draft ideas for a section on 'opportunities in the construction sector'.

Construction Productivity Network (CPN)

The Housing Directorate as part of its plan for 2001-02 is sponsoring the extension of the Construction Productivity Network (CPN) programme into Wales- six events for the current year. CPN operates as part of the Construction Best Practice Programme and is managed by Construction Industry Research and Information Association (CIRIA).

Ad-hoc Working Groups

Housing Strategy Task Group 1 recommended that the Assembly should convene ad-hoc working groups to assist in forming policies for implementing 'Rethinking Construction' in Assembly funded construction activities. 'Better Value Wales' (section 8) states that all parts of the Welsh public sector should work together towards better procurement performance.

It is proposed that a Construction Forum is convened to enable sharing of best practice amongst the public sector in Wales and to assist the Assembly in forming guidance on improved construction procurement and which will include representatives of Assembly Divisions with responsibility for construction activities and of public sector bodies such as the WDA and Welsh Health Estates.

Proposals for Future Action

9. It is proposed that:

- a. The Assembly Housing Directorate in consultation with the Welsh Local Government Association (WLGA) takes action to ensure that Local Authorities in Wales are advised of guidance produced by the Local Government Task Force.
- b. The Assembly Housing Directorate convenes a Construction Forum of representatives of Assembly Divisions with responsibility for construction activities and of public sector

bodies.

Financial Implications

10. There are no financial implications for the Assembly beyond commitments already made and accommodated within budgets approved by the Assembly.

Compliance

11. There are no issues of regularity or propriety. In accordance with FN1/01 this submission does not require prior ACO clearance but is copied to the Assembly Compliance Office Mailbox for monitoring purposes.

Cross cutting themes

12. Implementing the principles of 'Rethinking Construction' for construction procurement in Wales will contribute directly to achieving many objectives of the Assembly's policies for Better Wales, particularly those relating to Better Quality of Life, Economic Development and Sustainable Development.

Action for subject committee

13. To note the contents of the report, to support the recommendations and to require a further progress report.

Contact point

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ANNEX A

UK GOVERNMENT INITIATIVES

It is Government policy for all sponsoring Departments and associated Non Departmental Public Bodies, including the Housing Corporation, to fully implement the principles set out in the 'Rethinking Construction' Report by 2003-04.

The Department of Environment, Transport and Regions (DETR) has central responsibility for promoting improvements within the industry and its clients. The Treasury (and now the **Office of Government Commerce**) leads the promotion of improvements in the performance

of departments and agencies as purchasers of construction services. Both have taken a range of initiatives to promote improvements.

The DETR supports several initiatives aimed at different sectors of the construction industry and its clients:

The Movement for Innovation (M4I) Board, established in November 1998 to promote innovation in the construction industry and to share good practice. Working in partnership with the DETR, the Construction Best Practice Programme and the Construction Industry Board it has developed the key performance indicators to raise awareness of the need to measure performance.

Construction Best Practice Programme (CBPP), established in February 1998. The programme raises awareness across the industry of the need to change and identifies, publicises and supports the use of improved business and management practices for the construction industry.


The Housing Forum, established in December 1998 to promote 'Rethinking Construction' amongst housebuilders and clients. Its activities include demonstration projects to promote good practice, a benchmarking club, and a series of working groups to explore current issues such as sustainability of buildings, customer satisfaction and refurbishment.

The Housing Corporation, in its Allocation Process for 2000-01 and 2001-02, has set criteria for defining 'Egan compliance' (as they describe it) which RSL's must meet over a four year period. The Housing Corporation has allocated £40 Million of its funding for 2001-02 and 2002-03 to 'kick-start' a programme of innovative housing schemes.

Local Government Task Force (LGTF), launched in October 1999, promotes 'Rethinking Construction' among local authorities in England. It formed working groups to look

at the implementation of the Rethinking Construction agenda and has issued guidance:

- '20 Good Ideas for Repairs and Maintenance', to improve service delivery, customer satisfaction and reduce costs.

-  Integrating Rethinking Construction with Best Value'

-‘Partnership Approaches to Procurement’

-‘Rethinking Construction Toolkit’, produced with the OGC, Audit Commission, CABE, CBPP, LGA and others and circulated in May 2001.

Further guidance is being prepared for the current year including the use of Constructionline by local authorities.

Constructionline was launched by the DETR in July 1998 as a public-private partnership to provide a pre-qualification and selection service with contractors and consultants assessed against financial, technical and managerial criteria. In June the Northern Ireland Executive will make it compulsory for all public sector bodies to use it for selection of contractors.

Achieving Excellence in Construction Programme

Launched in March 1999, to improve the performance of Government departments, agencies and non-departmental bodies as purchasers of construction services. Key elements of the programme include an Action Plan which makes clear the processes Government clients should implement including the use of risk management, output/performance based specifications, life costing, performance indicators, post project implementation reviews, team working and partnering principles. The target date for full implementation is March 2002.

Office of Government Commerce(OGC) was established in April 2000 and assumed responsibility from the Treasury for leading the Government's initiative to improve departments' and agencies' performance as purchasers of construction services and for disseminating good practice guidance to help achieve this. The Assembly is represented on the OGC Chief Executive's Advisory Group. A key initiative is 'Achieving Excellence in Construction'. The OGC now expects departments and agencies to procure construction projects using one of three routes. The use of 'traditional procurement' - tendering and selecting contracts mainly on the basis of lowest price – is discouraged and should be used only if it can be demonstrated that it will provide better value for money than any of the other three types of procurement.

Central Government Task Force consists of a small core of larger spending departments and agencies (covering 75 per cent of central Government expenditure) who are committed to implementing "Achieving Excellence" in their own organisations and monitors progress across central government departments.

Government Construction Industry Task Force provides industry feedback on Government's proposals for improving its performance as a client.

Government Construction Client Panel(GCCP) is intended to ensure that all departments

and agencies apply management approaches to become best practice construction clients.

Sustainability Action Plan, published in June 2000 by the Government Construction Clients' Panel, sets targets for implementation of action plans by March 2003 which will introduce measures for the evaluation of sustainability issues, whole life cost assessment and measurement of energy consumption.

ANNEX B

NATIONAL ASSEMBLY TRANSPORT DIRECTORATE

Value for Money Manual

In February 1998 the Transport Directorate produced a Value for Money Manual providing a framework and guidance for Project Directors/Engineers on the application of techniques such as Value Management, Benchmarking, Estimating, Value Engineering and Risk Management and Analysis. The comprehensive approach of setting targets, eliminating risks and targeting resources to achieve objectives whilst encouraging innovation helps to achieve greater value for money. Although produced for the Assembly's Trunk Road and Motorway Projects it is available for use by other organisations.

Procurement

Since 1995 the Directorate has maintained a move away from the 'adversarial' type of contract to more flexible and adaptable forms capable of being used on a wide range of civil engineering projects. The Design and Build contract provides a more efficient, cost effective and cost controlled project transferring all major risks to the Contractor who in turn has a wider scope to produce a more innovative, economical and timely project. Although a number of schemes are yet to be completed current evidence suggests that there will be a drastic reduction in the percentage increase of outturn costs over tender costs compliant with Egan targets.

Partnering

The Directorate's policy is to encourage partnering within the Government's procurement guidance and where appropriate all its contracts are awarded on the basis that non contractual partnering will apply. The partnering concept has proven very successful.

Quality/Price Assessment

The Directorate are currently trialling contracts which are awarded using tender evaluation criteria based on a quality/price assessment moving away from the traditional method of

awarding contracts purely on lowest price.

Lane Licence

A trial is also taking place using Lane License, this form is suited to schemes on existing highways where the works will cause severe interference to traffic flows by temporary closures of carriageway lane. It is anticipated there will be less congestion to the travelling public.

Transport Directorate Contract Procurement Review

A review of alternative methods of procurement for the range of schemes in the Assembly's Motorway and Trunk Roads programme has been carried out as part of the Assembly's Operational Plan to Deliver Better Government. The review will provide the basis for developing a procurement strategy for trunk road schemes with Local Authorities encouraged to adopt "best practice". The Best Practice Guidance is to be completed by September 2001.

It recommends that pilot schemes are selected and trials carried out using a range of new forms of Engineering and Design and Build contracts. Monitoring and evaluation must be undertaken using benchmarking and key performance indicators as recommended by the 'Rethinking Construction' report.

The review has also examined a number of initiatives such as Early Involvement of the Contractor, Framework Agreements and Prime Contracting providing advice to Senior Management for discussion in developing a procurement strategy for trunk road schemes.

Highways Maintenance

In England and Scotland, Highways Maintenance has been contracted to the private sector and different procurement methods (prime contracting, framework agreements etc) can be considered. In Wales the Transport Directorate is responsible for motorway and trunk road maintenance and Local Authority Trunk Road Agents (TRAs) undertake the task in accordance with Agency Agreements. LA's with responsibility for their own roads may wish to consider new forms of contracting in the context of "Best Value" but this may involve concerns for DEL organisations.