

**Summary of proceedings at
Public Sector Construction Clients Forum (3)
19.6.06**

See Annex A for a list of attendees and apologies

1. Agenda item 1: Welcome, apologies, introductions

- 1.1 Sir Christopher particularly welcomed Don Ward, Sally Brooks and Roger Latham, for whom this was their first meeting and Jeremy Jones, representing HMT.
- 1.2 Members agreed that OGC should seek to appoint a supply side industry 'practitioner' as a member of PSCCF.

2. Agenda item 2: Minutes of 23 March 2006 meeting

- 2.1 The Minutes of the 23 March 2006 meeting were accepted as an accurate record of the proceedings.

3. Agenda item 3:

a) 2005-2015 Construction Demand/Capacity Study – Findings and Recommendations

- 3.1 The fundamental assumptions underpinning the 2005-2015 Construction Demand/Capacity Study Report that had been produced by Deloitte and Experian for OGC, and which had been circulated to Members with the meeting Papers, were explained and it was made clear that the important consideration for PSCCF was what action needed to be taken to address the findings and recommendations in the Report. Heather Hancock, Head of Public Policy at Deloitte and Nobel Francis, Experian then delivered a presentation outlining the Report's findings, the headline issues raised and the resulting recommendations.
- 3.2 Heather reminded the meeting of the key elements and recommendations in the Report to inform later discussion. She said that the focus was around the Public Sector and the aim was for a dynamic, top-down model. In terms of labour and skills, the findings in the Report were at some variance with other reports produced by industry practitioners, with the Report indicating and Olympics related output price inflation premium of 0.12% peaking at 0.6% in 2006-2007. The report was not about the labour market overall, just the construction-related market and it was important to differentiate between numbers and skills. She said that the findings indicated that it was important to drive up skills. She made the point that, while not saying there may not be individual product issues and that there must be a caveat in relation to external factors (eg energy prices), the findings of the Study indicated that the likely volume of public sector demand for construction over the period was unlikely to create major inflationary issues.
- 3.3 Heather continued by saying that the Study/Report raised a number of issues in respect of pre-construction constraints and behaviours. In particular, the impact of client actions.
- 3.4 There followed a brief discussion about what proportion of inflation was attributable to labour costs. The conclusion was that 50% was about right for construction but manufacturing would be lower and service higher. Guy Hazelhurst said that labour input varies considerably by type and that this might be an issue for PSCCF consideration. Experian pointed out that their Model builds on CITB's own Skills Model that covers 24 occupational groups. Guy said that the CITB Model covers £34bn worth of major projects from which a dynamic picture is emerging that will change over time.

- 3.5 Noble Francis then went on to describe the Model that provides a “base case” for forecasting and then for running scenarios. Scenarios already run demonstrate the importance of project phasing. The aim is that, in time, public sector clients and the supply-side of the construction industry will provide more granular data to input to the Model. He then explained in some detail the scenarios that had already been run around the 2012 Olympics infrastructure delivery and the varying effects on inflation that had been generated.
- 3.6 Summing up, Heather outlined the key conclusions from the Study Report:
- o No significant general labour capacity constraints – but this does not preclude specific issues for specific materials/projects.
 - o Capacity shortages were identified in specific management and design disciplines, particularly project management, M&E, Civil Engineering and client-side management.
 - o Constraints can be mitigated by planning.
 - o Granularity data failings – if these can be overcome, better forecasts will result.
 - o Positive economic impact will result from better planning (eg if it were possible to manage the timing of Crossrail/T5, the impact on output growth could be significant).
- 3.7 She said that this Report clearly indicated that inflationary claims made in some cases by some people were not justified and that this will allow Public Sector departments to be more robust in its dealings with the supply base where this is an issue.
- 3.8 She concluded by saying that the Model provides an illustrative tool; it is not predictive of outturn forecasts for individual projects. It presents a broad picture for Ministerial/departmental decision-making; for demonstrating the impact of decisions/change and the significance of the choice of procurement routes.
- 3.9 Sir Christopher said that all that had been said was reasonably reassuring. It was clear, however, that pre-tender client actions and skill shortages were crucial areas for concentration.
- 3.10 PSCCF discussed the presentation and Members raised issues and questions that were of particular concern/relevance to their departments/sectors.
- 3.11 An issue around the link between wage costs and tender inflation was raised, which Deloitte undertook to respond to in more detail outside the meeting but there was a suggestion that approaching the market more robustly as well as other factors affect the dynamic.
- 3.12 There was discussion about HMT/the public sector needs to manage its demand and the associated finances to avoid the danger of simply accepting what the market offers with note that the Model would help in this process.
- 3.13 The meeting noted that as the 2012 Olympics’ deadline is immovable, consideration was needed to weigh up any potential for, and to mitigate the effect of, any backend drift. It was clear to Members that granularity of data to input to the Model, which was clearly an important planning tool, was essential to enable PSCCF to advise Ministers of the timing of projects to best economic effect but that, currently, there was a marked shortage of departments’ project plans to input.

- 3.14 The view was expressed, with which there was agreement among Members, that transparency of public sector plans would give the supply-side of the industry greater confidence to bid. It was pointed out that the Study Report was consistent with the Kelly Report in that it highlighted that good clients get the best results; that greater risk management was a good thing; and, finally, that the cost implications of logistics and transport were not yet factored into the Model and were not a feature of the Report.
- 3.15 The question of whether the cost of land, particularly where there was premium to be paid as a result of a relationship between the contractor and the landowner, had been considered in the Model. Experian said that land spending was not accounted for but could be. In answer to another question, Experian said that they did have forecasts for repair and maintenance spend and Guy Hazlehurst explained that there was a significant repair and maintenance feed into the Experian Model from the CITB Skills Model.
- 3.16 OGC said that these issues would be considered as part of the Action Plan.
- 3.17 There was some discussion about the time frame that should be allowed for decision-making to have an effect and particular discussion about the impact on the economy and training implications of migrant labour and about inflation generally.
- 3.18 Following debate about the draft/suggested Action Plan presented to the meeting, it was agreed that OGC would produce a developed version within two weeks highlighting those issues that need to be addressed (including skills and client capability) as a priority and in what timescale (ie short, medium or long term), with an indication of work that is already in hand/planned, the expected outputs and who was responsible. This Action Plan would then be circulated to Members for them to identify work that their departments/sectors will contribute to or already are contributing to taking identified actions forward. From the returns, gaps in action can be identified and filled and a revised PSCCF Action Plan can then be agreed that will take advantage of good work already being done, will avoid duplication and ensure consistency of approach. Such a PSCCF Action Plan will also ensure that overall it is owned and controlled by its stakeholders.
- 3.19 In conclusion, Members noted the macro-economic view of construction demand/capacity for the period 2005-2015 provided by the Report and also acknowledged the potential usefulness of the dynamic Model for market analysis/planning purposes – provided more granular input data becomes available. However, issues that had been raised at the meeting, such as the land/construction cost relationship, would need to be followed up by the parties concerned to ensure that all contributory factors had been taken into account to their satisfaction.
- 3.20 Members acknowledged the constraints on the conclusions and results in the Study Report and agreed that OGC should produce a developed Action Plan as detailed at paragraph 3.18 above.
- 3.21 It was also agreed that consideration would need to be given to how the Report and the Model would be shared with Ministers and with the supply-side of the construction industry. It was agreed that OGC would develop a 'line to take' and a plan for promulgation, which would emphasise the importance of the need for granularity of input.

3.22 As regards management of the Model, it was agreed that the work should continue under the supervision of a Stakeholder Group reporting through Working Group 1 to PSCCF.

b) Progress Report by PSCCF Working Group 1 – First Kelly Market

3.23 OGC updated PSCCF on progress on the balance of work being taken forward by PSCCF Working Group 1 – First Kelly Market (WG1). The Terms of Reference of WG1 were endorsed and progress on the Demand Database Enhancement project was noted. OGC emphasised again how essential it would be for departments to provide robust and granular data. It was confirmed that the project was on programme and was being trialled in 3 departments: DfES, Highways and MOD during June and July. Rollout was planned for the end of Autumn 2006. Members also note the discussions that were continuing between OGC and Constructing Excellence on the synergies between their respective KPI data.

3.24 Roger Latham offered to discuss how more detailed data could be obtained via LGTF.

4. Agenda item 4: - Working Group 2 - Whole-life value for money Progress Report

- 4.1 OGC delivered a progress report on the work of WG2 and sought PSCCF agreement to the use by public sector clients of DQIs and POEs on appropriate public sector projects, with the choice of model of POE left to the client organisation.
- 4.2 There was general support for the use of DQIs and POEs and WG1 was asked to provide a definition of “appropriate” public sector projects in respect of their de minimis value.
- 4.3 OGC were tasked with considering/exploring how the use of DQIs and POEs could be promulgated.
- 4.4 PSCCF was also asked to note and support the intention to produce HMT Green Book supplementary guidance. It was reported that WG2 had set up a sub group to take this work forward, which had attracted volunteers at a national level and included an HMT representative. The plan was to report progress to PSCCF’s September meeting. WG3 – PSCCF’s Better Embedding Working Group - supported the production of this guidance. In the course of their discussions on improving whole-life value for money, the issue of the separation of capital and operational costs had again been identified as a crucial impediment. It was confirmed that from the supply-side’s perspective this was also the case.
- 4.5 Members’ support for such supplementary guidance to the Green Book was noted as was the need for close liaison between WG2 and those in HMT would be responsible for producing a whole-life cost guide in response to the Sustainability Procurement Task Force, which will be a basic, two-page document. This would be vital to ensure consistency of messages. Ultimately, HMT will own both guides.
- 4.6 The meeting then discussed WG2’s proposals for the adoption, in due course, of ISO 15686: Life Cycle Costs that is currently in draft. Members noted and endorsed, in principle, the position taken by WG2.

5. Agenda item: 5 - Working Group 3 - Better Embedding Best Practice Progress Report

- 5.1 A progress report on the work of WG3 was presented to PSCCF, which confirmed that the mini-survey to explore the restrictions to the implementation of best practice that PSCCF approved at its March meeting had been completed and had revealed no surprises. The most significant findings were summarised as a lack of skills in the public sector; a prevailing approach where best practice is applied of “if there is time”; whole-life value is not generally understood and a lack of clarity about why early contractor involvement is of value.
- 5.2 The meeting noted the mini-survey findings, about which there was a short discussion. The difficult balance of incentive versus discipline was aired and opinion was expressed that suppliers would like clients to be more prescriptive; that mixed messages were not helpful.
- 5.3 The recent Ministerial imperative that “bad practice is not an option” was highlighted in this context and it was suggested and supported by particular Members that NAO involvement would help.
- 5.4 It was agreed that WG3 would present their proposed action plan for ‘Better Embedding of Best Practice’ to the September PSCCF meeting.

6. Agenda item: 6 - Working Group 4 – Fair Payment

- 6.1 The WG4 progress report on the start-up of the group, its composition and approach being taken was noted. It was also noted that the intention was that the Group’s work would be completed in December 2006, with an outline recommendation to be put to PSCCF by correspondence in October.

7. Agenda item: 7 - Procurement Strategies handling

- 7.1 OGC proposed that a separate Working Group to take forward work to consider procurement strategy decision-making: which approaches are best suited for different types of contract. It was agreed that WG5 would be established later in the year, rather than subsume this work into WG3 as was discussed at the March PSCCF meeting. Nominations for a Chair and membership for WG5 were sought from PSCCF. Prior to the meeting, Richard Simmons had confirmed CABE’s support for the proposed work of this group. OGC agreed to follow this up with CABE and with the other Members who volunteered to be party to this work.

8. Agenda item: 8 - Bulletin (standing item)

- 8.1 David Adamson spoke to this paper, which provided a commentary on:
 - Single point project insurance – pilot projects
 - Research and innovation
 - Contract Forms
 - CABE’s publication - ‘The Cost of Bad Design’
 - Key Performance Indications – 2006.
- 8.2 There was a short discussion about single point insurance. OGC’s view was that if major spending departments lead – ie PSCCF Members - others will follow. The meeting generally supported the initiative. It was agreed that there should be individual ‘conversations’ between OGC and PSCCF members to reach agreement on pilot projects.
- 8.3 Members agreed, in respect of PSCCF’s role in developing the Strategic Research Agenda and involvement in the associated High Level Group, it would be best to await the outcome of the Cooks/Horlick/Technology Strategy Board.

- 8.4 The meeting noted OGC's work in relation to taking forward discussions on contract forms (other than NEC3 that already does so) to assess whether/how/to what extent they can accommodate the Achieving Excellence in Construction/Common Minimum Standards best practice principles.
- 8.5 The meeting also noted CABE's publication 'The Cost of Bad Design' and Constructing Excellence's KPI results for 2006. Don Ward said that CE is hoping to do some analysis to compare the public sector with the private sector.

9. Agenda item: 9 – Smarter Construction Events Planning

- 9.1 Members noted the three proposed OGC events planned for 2006-2007 that each had a focus on the work of PSCCF. Members were asked to note, in particular, the Demand/Supply event to be held on 25 September at the Victoria Park Plaza Hotel in London, at which Sir Christopher and Sir John Bourn, NAO Comptroller and Auditor General had agreed to deliver the Keynote the closing speeches respectively. It was confirmed that invitations would be sent out shortly.
- 9.2 The other two events in planning were an event at ICE on 20 October, aimed at representatives of professional bodies and supply-side leaders to brief them generally on the work of PSCCF and another major conference in the new year – February or March – which would focus on whole life value for money.
- 9.3 It was agreed that it would be advisable to brief FST on the 2005-2015 Report prior to the 25 September especially on the presentational issues relating to the timing of the event. [*Post meeting note: After the meeting, a submission was prepared and sent on 22 June to FST, and to the OGC Board advising about the report, the media interest that it had already generated and about the September event. The decision has now been taken to publish the 2005-2015 Report on the OGC Website as soon as possible.*]

10. Agenda item: 10 – Actions outstanding not covered above

- 10.1 There are no significant actions outstanding from earlier meetings.

[10.2 *Post meeting note: PSCCF Members had previously agreed to encourage provision of demand data from their own departments. The next data collection round will be during late Summer/early Autumn 2006 and details of departmental contacts had already been provided to Members. This coincides with discussions earlier in the meeting about the importance of the provision of granular project data.*]

11. Agenda item: 11 - Any other business:

a) PSCCF page on OGC Website

- 11.1 Members were informed that there is now a PSCCF 'page' on the OGC Website.

12. Agenda item: 12 - Next meeting date

- 12.1 Sir Christopher confirmed that the date for the next meeting is 11 September 2006, at 10am in Trevelyan House.

Present

Departmental Members**External**

Sir Christopher Kelly
Peter Coates

Jim Price
Sally Brooks

Roger Latham

Steven Douglas

Stephen Rice
Jeremy Jones

Sampath Sundaram
Don Ward

OGC

Martin Sykes

David Adamson

John Ioannou

Simon Robinson
(Observer status)

Jennifer Stonehouse

Guests

John Ioannou

Charlotte Madum
(Part time)

Heather Hancock

Noble Francis

Guy Hazelhurst

Apologies

Archie Robertson

Barbara Moorhouse

Vice Admiral Peter Dunt

Richard Simmons

Tony Mulcahy (Observer
status)

Chair

Deputy Dir. of Finance-
Investment

Head of Professional Services
Head of Schools Capital &
Buildings

Chief Executive

Deputy Chief Executive

Director Operations North
Corporate and Private Finance
Team

Commercial Director
Chief Operating Officer

Executive Director Smarter
Procurement

Director Smarter Construction
PSCCF Executive Officer

Head of Strategic Supplier Mgmt

PSCCF Secretariat

Assistant Director Smarter
Construction/Chair WG1

WG1 Demand/Supply Executive

} For Agenda item 3 only

Dept of Health

SWRDA
DfES

Nottinghamshire
County Council
Housing Corporation

MOD DE
HMT

DCA
Constructing
Excellence

OGC

OGC

OGC

OGC

OGC

OGC

Deloitte

Experian

CITB

Highways Agency

DCA

MOD Defence Estates

CABE

DTI