



MINISTRY OF DEFENCE

**DE NEXT GENERATION ESTATE
CONTRACTS (NGEC) INDUSTRY
FOCUS GROUPS: EMERGING
THEMES**

Edition 1: 7 June 2010

Background

On 4-5 May 2010 the NGEC team hosted representatives from more than 60 companies to discuss the future commercial arrangements for the Defence estate across 11 areas of contract development. The aim was to harness industry expertise and best practice, to inform development of the future contracts.

This document provides an overview of the themes that emerged from the initial round of discussions. These themes are intended to inform and guide – but not to dictate – the development of the future contracts.

There is therefore no guarantee that any detail discussed in the Industry Focus Groups will be taken forward into the next stage of the NGEC programme.

Group 1: Defining the requirement

How DE should present what is needed from suppliers

- **Current challenges** – factors such as the forthcoming Strategic Defence Review and the uncertain funding environment will present a challenge for DE in defining future commercial requirements
- **Funding options** – the various options for contract funding, ranging from defining and funding a minimum service level with defined work packages added on, up to defining top-level requirements for contract outputs (e.g. a well-maintained operational military base) with industry bearing the financial risks of delivery
- **MOD role** – the role that MOD plays in the commercial arrangements will vary depending on the contract model, from being highly involved where minimum service level contracts are concerned, to being much less involved where output level contracts are in operation
- **Asset data** – the importance of condition data in making a contract bid, and the option for DE to provide “warranted” (accuracy guaranteed) condition data
- **Contract change** – the need for a clear methodology for planning and agreeing changes to contract outputs with industry partners

Group 2: Change control & minor new works

How to manage the injection of extra work into contractual requirements

- **Pricing models** – the use of target pricing, firm pricing, and multi-pricing, and their suitability for different types of work
- **Injected work** – how to determine firm prices for injected work across a range of value bands, the option of splitting out basic service requirements, and delivering the injected work through a mix of prime contracts and framework arrangements
- **Clarity** – the need for clear statement of what the MOD requires from its industry partners, and including of its base requirements
- **Lean approach** – the wisdom of ensuring that engagement is appropriate to the project (e.g. sufficiently early) and bureaucracy is kept to a minimum

Group 3: Risk

How to identify key risks, and manage and mitigate their impact on supplier performance

- **Estate information** – the level of detail required by industry to undertake risk management during bidding, mobilisation, and steady state, and the general requirement for accurate, comprehensive data that is easily available on a fair and level basis to all bidders
- **Stakeholder engagement** – the need for clear and comprehensive engagement to ensure that end-user requirements are understood, to address vested interests and reduce future change to contract outputs
- **Terms & conditions** – the need to adopt appropriate procurement terms & conditions to suit the type and value of work in question, to avoid unnecessary extra costs which could add to overall risk

Group 4: Tender pricing structure

How to provide prices for the work that DE needs in a climate of uncertain funding levels

- **Injected work** – the methods for managing the contracts and any injected work, such as management by a contractor, or management by a consultant who provides recommendations on how to deliver each package of work
- **Modular pricing** – use of a system of delivery based on work packages which can be either added or removed, with an associated increase or decrease in the level of risk borne by the MOD (i.e. the greater the level of work, the more MOD can specify its required outputs and pass over more risk to the contractor)
- **Full package pricing** – ways of pricing the full package, either against availability of the required outputs or against performance standards, with the injection of minor new works treated as a change to the full package
- **Tendering costs** – the costs of tendering with a range of different variations of price according to risk level will be expensive and time consuming for industry to provide
- **Clarity of requirement** – the less specific the MOD is about what it requires, the greater the cost for industry in tendering, and for MOD over the lifetime of the contract

Group 5: Assurance

What governance is needed to demonstrate and provide evidence that a service has been delivered as contracted

- **Purpose of assurance** – to provide opinion or expression of confidence on whether the specified requirements are being met, with a view to identifying areas for improvement”
 - **NGEC Assurance Principle** – AIM: Assess, Improve, Monitor
 - **Cultural change** – closer working between the MOD and industry on assurance activity, with joint effort and shared findings, and the importance of linking and finding synergies between contractors’ quality management systems and DE performance reporting; also creating links between assurance teams and those areas being reviewed such that there is more dialogue, creating better mutual understanding enabling effective action plans to be developed
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- **Outcomes** – effective outcomes from assurance activity should include a reported statement of whether the specified requirements are being met, agreed action plans where improvements are identified, and adjustments to risk registers accordingly to highlight risks to delivery. There should always be an appropriate follow up to see what progress / improvements have been made.
- **Regular reviews** – the need for regular reviews of contract specifications to ensure that they remain appropriate, relevant and flexible, and to ensure that assurance activity is appropriate and informative
- **Risk review** – the need for close integration of Risk and Assurance should be encompassed – they are members of one family
- **People** – the importance of looking not just at the work being completed, but the conduct of the people doing it, including their qualifications, certificates of work and equipment (e.g. gas safety certificates), and the quality of their workmanship, to provide a better chance to remedy any weakness and identify follow-up action
- **Real-time assurance** – the need for audit teams to provide feedback during their assurance activities, to improve common understanding of issues, and to take into account actions already in hand to improve weakness and to enable the assurance team to identify and then communicate existing areas of good practice
- **Layered approach** – operational, looking at day-to-day transactional activities; management, looking at higher-level strategic reviews of delivery and performance; deep audit, taking a specific issue and taking an in-depth look at it, perhaps across several contracts

Group 6: Relationship management

The working dynamics between DE, its customers, its suppliers and the supply chain

- **Early engagement between all parties** – recognition that it takes time to bring a team together, align customer and supplier objectives, and build awareness of what is required across the board
- **Understanding the MOD structure** – the need for an adequate level of understanding throughout the supply chain of the MOD structures and processes, including a clear definition of the customer in the process
- **Understanding contract scope** – the need for an appreciation of how the defined scope of a contract actually impacts in practice on the ground
- **Mutual respect, fairness, honesty** – appreciation of the constraints and challenges faced by both sides of the commercial relationship, and the reality of their impact on outcomes, absorbing and acting on what is being said, and ensuring that risk is managed fairly
- **Consistency of training, culture, understanding** – delivering consistent packages across industry to ensure consistency and shared values across the contracts and cascaded down the supply chains, and common understanding of what is happening and of the big picture
- **Defining top-level relationships** – the importance of establishing the dynamics of senior-level relationships (including between DE and its supplier), the importance of defining leadership/ownership and its impact on the quality of relationships at other (lower) levels
- **Defining the customer** – acknowledging and managing trade-offs in the tripartite structure (DE – end-user – contractor), and potential mismatches between DE corporate targets and aims and end-user requirements

- **Measuring relationships** – the need for tough, robust, but achievable key performance indicators that are consistent across all contracts, irrespective of length, and which properly demonstrate the success or failure of the relationship; the frequency of those measurements, the importance of regularly measuring how relationships are developing over the life of contract, and three-way measurement
- **Continuity** – what is needed to ensure that key managerial relationships remain in place over the life of a contract, and guaranteeing that management and other key staff in place during tender are those who will work over the life of a contract
- **Managing expectations and change** – the need to ensure that as contract requirements change, information is made available at all levels of the supply chain to manage expectations and ensure the right level of resourcing is available; importance of clarity on the relationship between funding levels and outputs, and meeting customer satisfaction
- **Delivering as tendered** – recognition that a sales pitch doesn't guarantee results over time, and the need to test the dynamics of the whole supply chain – not just at a senior level – as part of the tender, as well as managing relationships during the operational phase
- **Dispute resolution** – how to manage disputes locally, formal dispute resolution process, and managing the impact on operational activity
- **Evolving best practice** – the need for best practice among the trades (architects, engineers, soft FM, etc) to be shared as it evolves across the supplier community, perhaps through a standing committee

Group 7: Pricing & incentivisation

How to incentivise suppliers and supply chains within financial constraints

- **Use of firm price** – will require MOD to be definite with its requirements, and provide detailed data on asset condition data, puts greater emphasis on relationship between MOD and prime contractor, and on the contractor's culture, and transfers more risk over to the contractor
- **Innovation** – firm price can stifle innovation, so a bonus scheme for excellent performance against a robust set of key performance indicators could be an alternative
- **Maximum Price Target cost** – provides incentive to innovate and improve efficiency. Will also encourage sharing of best practice and clarity on risk ownership, but if there was a requirement for open book accounting that would increase overheads
- **Future injections** – stated contract outputs should include an estimate for new works, to ensure that the contractors retains the capability to take on new work, with risk shared between DE and contractors
- **Pricing low-value/high-value work** – varying use of firm price and target cost, according to the value of the work, to minimise management overheads
- **Capital works** – the pros and cons of using firm price against target cost; importance of early engagement with contractors as the requirement emerges; importance of retaining a skilled and motivated supply chain; and benefits of providing a number of contractors with repeat business enabling them to improve efficiency
- **New Engineering Contracts (NEC)** – the benefits of introducing an industry standard, including to ensure fair terms and conditions for the supply chain

Group 8: Sustainability & energy

How to factor these important considerations into the contract terms and conditions

- **Performance indicators** – introducing criteria that are standard across all the contracts, to ensure MOD requirements are set out clearly and equitably
- **Sustainability targets** – the importance of reflecting the other areas of sustainability performance beyond energy, such as biodiversity, community engagement, water and waste management
- **Access to energy systems** – the need for contractors to have full access to internal systems in buildings to facilitate the introduction of low-carbon measures in facilities managed and maintenance
- **Benchmarking and industry standards** – using the first year to gather data and set targets, with a regular review; possible use of DE contractor league tables to incentivise performance and use of industry standards for performance measurement
- **Work area targets** – the importance of setting sustainability targets within each type of work (construction, repair/maintenance, operational usage)

Group 9: Estate management

How industry experience can be integrated into Defence estate decision-making

- **Role and responsibilities** – setting out clearly what is expected of each stakeholder involved in management of the estate
- **Metrics** – setting out a coherent set of performance measurements to reflect both the performance of the estate (e.g. on energy, sustainable development etc) and of the contractor (i.e. on contract delivery)
- **Asset data** – the importance of having coherent data on estate assets to underpin decision-making and service requirements, perhaps through a central data repository
- **Contract length** – the positive impact of longer duration on, for example, 3rd party revenue options, and industry investing in areas such as energy management, life-cycle replacements and innovation
- **Collation of costing information** – categorised detail of costs against different asset types, and the role it could play in supporting strategic decision-making, optimising investment in the estate, and managing the impact of budget constraints
- **Standardised designs** – the benefits in the delivery of major refurbishments and new-build projects
- **Combined authority** – the customer and MOD jointly articulating the strategic requirements of the estate, through joint forward planning, coordinated estate rationalisation, and a coherent programme setting out priorities for life cycle replacement, major refurbishments and new build projects

Group 10: Frameworks

How best to tender and operate communities of approved suppliers

- **Approaches to engagement** – the different ways of engaging potential bidders for framework projects, such as early engagement against a high-level project
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specification, or direct engagement in a “mini-competition” against a detailed specification including design

- **Other public sector methods** – e.g. the Environment Agency uses one contractor to develop the design and brief, then opening it out to mini-competition; the National Academy Programme uses two contractors to develop the design and brief, then selects one to build; National Offender Management Service uses professional services to deliver a project brief, then holds a mini-competition across framework contractors
- **Early engagement** – the benefits of early engagement with contractors, including the supply chain, to maximise understanding of the requirement and of customer needs, and avoidance of discussion over whether a design is buildable or offers the best solution
- **Structure** – the various options for geographical layout, and different value bands, to attract both large contractors and small-to-medium-enterprises from wide geographical areas
- **Appointing contractors** – the various approaches for appointing contractors into a framework – use of “live projects”, “demonstration projects”, schedules of rates, and non-financial criteria such as past performance, technical capability, and skills availability

Group 11: Life-cycle replacement

The balance between replacing or repairing an asset

- **Decision-making** – the information required such as asset replacement costs, future maintenance and repair costs, current running costs, estimated costs arising from breakdown, to inform sound decisions on whether to repair or replace an asset
- **Asset prioritisation** – the need to prioritise assets based on current and future operational importance, to identify where asset replacement is most needed
- **Current plans** – the need for existing contractors’ forward plans for life-cycle replacement to be available, together with details of estimated remaining life
- **Financial limits** – the need for DE to provide financial limits for the replacement of life-cycle replacement of level 3 assets (e.g. heating systems) as part of the invitations-to-tender

(Comment on this paper can be emailed to dengec@de.mod.uk)
