



**Cabinet**Office

# Government Construction

Initiative update

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# INTRODUCTON

This update on the construction strategy initiatives is provided as required by the strategy and due to the level of interest from industry and the public. Future updates will be provided in the form of a news letter directly to interested individuals and organisations. It should be noted that this update represents work in progress and that the programme to deliver improvements targeted under the strategy continues. In particular the development of the approach to trial and pilot new methods of procurement which requires suitable projects is not yet complete. Potential projects have been put forwards and further projects are being sought. A further update on this topic will be provided during January.

## Construction Strategy initiative update

### Status of Departmental Benchmarking and Cost Reduction Plans

#### 1.0 Introduction

The current status of Departmental Benchmarking and Cost Reduction Plans is set out below. To achieve their construction related cost reductions, Departments are adopting a range of measures encompassing the following:

- different approaches to packaging of projects and procurement (including introduction of mini competitions on frameworks; commercial / improved cost targeting);
- streamlining project development and approvals processes;
- value engineering using innovation and alternative methods to deliver the same outcome more efficiently;
- improved delivery process / contractor efficiency savings through reducing waste / increasing productivity;
- lean initiatives to increase the proportion of spend on the end product and a corresponding reduction in non productive costs (particularly those related to upfront design and site overhead costs / schedule duration);
- amendment of output specification requirements and floor areas (achieving tighter fit between specification and requirement);
- shift from new build to refurbishment options;
- standardisation of materials products and components: bulk purchasing / category management of materials, products and components;
- introduction of Building Information Modelling (BIM);
- certainty of funding allowing the planning and managing of work as a programme rather than as a series of discrete projects, enabling better collaboration with the supply chain to develop a more efficient delivery strategy that comes with a large and visible programme;
- improved risk and value management through portfolio risk management;
- confidence in the forward pipeline leading to the opportunity to reduce overhead and profit fee rates in awarding new construction frameworks.

Through the Infrastructure Cost Review, IUK will also seek to include Network Rail, London Underground and other regulated infrastructure provider's benchmarks, to be reported alongside the public sector benchmark data during the first half of 2012.

#### 1.1 Ministry of Defence

Resourced benchmarking systems are in place to allow for all costs to be benchmarked against Building Cost Information Service data as part of an overriding system of judging value for money agreed by departmental Investment Approvals Committee and HM Treasury/OGC. Benchmarking units and majority of normalised / clustered benchmarks will be published second quarter 2012. Costs to be driven down further by the introduction of a series of national and regional frameworks - with first due out to tender early 2012 – and through continuing to refine MoD's approach to delivering value for money on projects, a key element of which will be to continue reducing capital costs.

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Cabinet Office to support MoD in the development of this approach and the corresponding plan during the first half of 2012.

### **1.2 DEFRA / Environment Agency**

Resourced benchmarking and cost reduction plans in place. Building on EA's existing Unit Cost Database, benchmarking units and majority of normalised / clustered benchmarks will be published first quarter of 2012, with the remainder published second quarter of 2012. Finalised cost reduction trajectory will be submitted to Cabinet Office first quarter of 2012.

### **1.3 Department of Health**

Funded benchmarking and cost reduction plans in place, with team resources in place for the immediate term and currently being secured for the longer term. Building on Department of Health's existing project cost database, benchmarking units and normalised/ clustered benchmarks will be published second quarter of 2012. Finalised cost reduction trajectory has already been submitted to Cabinet Office.

### **1.4 DfT / Highways Agency**

Resourced benchmarking and cost reduction plans in place, which reflects that Highways Agency's knowledge of its cost of construction is at a detailed level. Benchmarking units and normalised / clustered benchmarks will be published first quarter of 2012. Finalised cost reduction trajectory will also be submitted to Cabinet Office first quarter 2012.

### **1.5 DCLG / Homes and Communities Agency**

Funded benchmarking and cost reduction plans in place, with team resources still to be secured. Decent Homes (refurbishment) / New Build: benchmarking units and normalised / clustered benchmarks will be published second quarter 2012. Finalised cost reduction trajectory for Decent Homes and New Build will also be submitted to Cabinet Office second quarter of 2012.

### **1.6 Ministry of Justice**

Resourced benchmarking and cost reduction plans in place. Benchmarking units and normalised / clustered benchmarks will be published first quarter 2012. Finalised cost reduction trajectory will also be submitted to Cabinet Office first quarter 2012.

### **1.6 DfE / Partnership for Schools**

Resourced benchmarking and cost reduction plans in place, which reflects PfS' mature approach to tracking its costs. Benchmarking units and normalised /clustered benchmarks expected to be published first quarter 2012. Finalised cost reduction trajectory also expected to be submitted to Cabinet Office first quarter 2012.

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### **2.0 New Models of Procurement**

- Cost Led Procurement (CLP) – Environment Agency has identified the Rye Harbour project for trialling CLP and is currently confirming feasibility. Homes and Communities Agency has received strong interest from Cyntra and Procure Plus to trial CLP and this is being explored further. Other Departments including Ministry of Defence and Ministry of Justice are also exploring whether upcoming projects may be suitable for trialling CLP. Projects within Environment Agency, Highways Agency, Department of Health P21, and Partnership for Schools that have already adopted elements of CLP are also subject to evaluation for Case Studies to share best practice and lessons learnt.
- Integrated Project Insurance (IPI) – Environment Agency has identified the Sandwich Town Tidal Defence project for trialling IPI and is currently confirming feasibility with the proposers of IPI. Other Departments are also looking to identify appropriate projects.
- Centralise Procurement – Highways Agency and the Government Procurement Service have discussed in principle a trial that involves marketing by GPS of the aggregated commodity deals currently being generated by HA.

### **3.0 Project Bank Accounts (PBA's)**

The Ministry of Defence and Highways Agency are now building on the success of trial projects and are expanding PBAs to their full programme of work. Other departments such as the Environment Agency and in addition the wider public sector are also now trialling PBA's. The implementation programme has now exceeded the annualised target of £500m for FY 11/12. With new future projects identified, the cumulative new procurement values confirm the FY 12/13 target of £2bn and has a high confidence rating of being achieved, and that will see the £4bn target reached by 2013/14. With a conservative estimate of 1% saving throughout the supply chain this would equate to a £40m saving per annum.

### **4.0 Building Information Modelling (B.I.M.)**

Departmental BIM workshops have commenced in order to develop an internal understanding “engaged client” and capability to drive improved efficiency throughout the entire project life-cycle by way of collaborative BIM working. On-boarding programmes are being established with the Departments to ensure a maturity gearing between now and full adoption by 2016. Early adopters such as the Ministry of Justice are already ascertaining suitable pilot projects to enter the B.I.M. pipeline.

In support of the above, the first tranche of (funded) BIM work packages are now under way to develop guidance and templates e.g. common data structure. This initial stage of work will be complete by the end of Q1 2012 to enable future projects to enter the BIM pipeline with consistency and governance. Six industry wide “push groups” have also been established to ensure that proposals can be pragmatically applied and that the journey towards 2016 is suitably sign-posted.

Cabinet Office  
70 Whitehall  
London  
SW1A 2AS.

[www.cabinetoffice.gov.uk](http://www.cabinetoffice.gov.uk)