DIO Commercial Strategy

Transforming how DIO buys for its customers

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Introduction

This document sets out the commercial strategy for the Defence Infrastructure Organisation (DIO) for 2018 and onwards. It highlights how we will improve our services for our customers and make it easier for our supply chain to do business with us.

We, the DIO, provide infrastructure services to the Ministry of Defence (MOD) Front Line Commands (FLCs) and other Top Level Budgets (TLBs) through our suppliers. We are passionate about the work we do to support our armed forces, commissioning, building and maintaining what the men and women who serve our country need to safely live, work, train and deploy on operations.

To effectively deliver pan-estate expertise for our customers and value for money for the UK taxpayer into the future, we must harness this passion and look at new ways to improve our services for our customers. This need is reinforced as we optimise the defence estate and transfer budgetary responsibility for it to the FLCs and TLBs1.

Our suppliers deliver 95% of our infrastructure services by value, to support our FLC and TLB customers’ operational output

With an annual spend of c.£3bn on construction and infrastructure services, the market should recognise the opportunity that we present in the face of continued economic uncertainty.

This Commercial Strategy outlines the range of services by value that we require, and the likely nature of the contracts by service. It is underpinned by our commercial principles, which have been developed to improve our services and deliver increased and measurable value to our customers.

Finally, this DIO Commercial Strategy should be read in conjunction with the DIO Procurement Plan2 and ‘Procurement at MOD’3 webpage content. These provide detail on individual procurements that we will commission on behalf of our customers, the procurement routes that will be used, and how suppliers can access these opportunities.

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1 At time of writing this was due to take place on 1st April 2018.

2 DIO Procurement Plan 2017

3 Procurement at MOD
“To improve as a professional estate services business, advising the Front Line Commands and other TLBs on how and where they need to spend their budgets, we need to deliver a better estate, provide a better service, and run a better business.”

Graham Dalton, DIO Chief Executive
Our vision

To be a key client in the infrastructure and facilities management market, exercising clear customer leadership and able to leverage effective supplier delivery.

Our vision is central to our new role as a strategic advisor and commissioning agent, supporting our customers and our suppliers by being more transparent, responsive and easier to do business with.

Our vision and guiding principles support the delivery of a Better Estate, a Better Service, and a Better Business.

As a key infrastructure client we will engage with suppliers, sharing pipeline information to shape the market, drive innovation, and invigorate and sustain a diverse portfolio of suppliers. Developing a competitive environment enables us to leverage effective supplier delivery and ensure our customers’ performance and affordability needs are met.

Maintaining our infrastructure and professional services expertise and information will enable us to exercise clear customer leadership, supporting our customers through funding transition to develop and prioritise their own portfolios of projects. We will act as an intelligent, trusted supplier of professional services, guiding our customers through requirements setting and providing advice on design and build, by proactively proposing the ‘right’ questions to ask. This will support the development of clearer requirements for the market.

In implementing the vision, the focus we put on different parts of the procurement lifecycle will change to focus on increasing customer value. As the diagram below illustrates, we will:

- Invest more time upfront before going to market, including proactive pipeline planning with our customers
- Reduce procurement time by exploiting standard processes and frameworks
- Invest time to improve managing each contract, including its processes and suppliers

![Diagram](image-url)
How DIO buys for its customers

Our customers need diverse, innovative and resilient suppliers, and the infrastructure services market should recognise the opportunity offered through our committed longer term spend, backed by UK government.

What we buy and spend\(^4\)
DIO will continue to buy the following services on behalf of its FLC and TLB customers, enabling UK armed forces to safely live, work, train and deploy. This is a strategic guide, and more detailed information about future contracts and frameworks is included in DIO’s Procurement Plan:

DIO spends c.£3bn per annum buying infrastructure services in the UK and overseas on behalf of its customers

- Design
  - Architecture
  - Programme management
  - Building conservation
  - Engineering; mechanical, electrical, civil and structural
  - Design management

- Build
  - Construction of new buildings
  - Refurbishment of existing buildings
  - Infrastructure engineering
  - Dismantling and demolition

- Soft FM
  - Catering
  - Retail and leisure
  - Mess and hotel services
  - Cleaning and laundry
  - Waste management

- Hard FM
  - Support services - e.g. estate reporting
  - Management services - e.g. waste, sustainability and defect
  - Maintenance services
  - Housing management
  - Training estate management

- Specialist & Other
  - Utilities and network management
  - Acquisition and disposals
  - Specialist TLB specific requirements

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\(^4\) We envisage this breakdown will not change significantly as funding transfers to the TLBs.
How we buy

Given the breadth of requirements across the defence estate, we recognise that procurement approaches will vary. We will conduct value and risk analysis to understand the nature of the services we are going to buy and how we should procure and manage them to deliver value to our customers, and be easier to work with for our suppliers.

- **High Risk - Low Scale**
  - Shorter term price focus, with an active sourcing policy. Use of target cost incentive fees. e.g. Operational facing overseas refurbishment

- **Low Risk - Low Scale**
  - Mid-term contracts with simple KPIs focussed on reliability. e.g. Simple accommodation block construction

- **High Risk - Large Scale**
  - Longer term collaborative and partnership approaches, including PPP/PFI. e.g. Estate or Region wide asset maintenance and management

- **Low Risk - Large Scale**
  - Longer term contracts that ensure suppliers are motivated to provide quality with outcome-based requirements. e.g. Provision of estate or region wide SFM

How we manage

Once a buying method has been determined using the approach outlined above, an appropriate management strategy will naturally flow from this. The diagram below is adapted from the Institute of Collaborative Working and is indicative of the methodology we will apply, as we seek longer term relationships in a regional delivery model with suppliers who excel in delivery.

- **Alliance**
  - Linking of business aims with high levels of trust and interdependence.

- **Collaborative**
  - Long term close collaboration sharing information and development plans.

- **Cooperative**
  - Relationship close enough to ensure supplier is competent to manage further tasks.

- **Transactional**
  - Distant relationship with no need for frequent conversation.
Drivers for change

We must improve our services as we move from being a ‘landlord’ to a strategic adviser and commissioning agent for our TLB and FLC customers. We must modernise commercial practices to become more responsive, develop our suppliers and shape the infrastructure market to ensure long-term delivery.

The National Audit Office’s ‘Delivering the defence estate’ report of November 2016 examined the way that the UK Defence Estate is managed and how infrastructure decisions are taken and implemented within the MOD. The UK Defence Board accepted the need for DIO to tackle the two-fold challenge of ‘right-sizing’ the defence estate, whilst tackling the long term under-investment in the estate by better aligning what the MOD has with what is needed.

To support this, the Board reinforced the decision to transfer funding and investment prioritisation for the estate and its assets to the respective TLBs and FLCs from April 2018. The diagram on page 17 illustrates the revised business model that will be in place to support this.

In particular, we need to use our guiding principles to:

- Increase the speed of procurement whilst ensuring good governance is maintained.
- Be transparent in demonstrating progress and addressing issues that cause delays.
- Provide more accurate pre-construction estimates to inform investment decision making.
- Be more long term in our understanding and management of commercial and delivery risk.
- Develop a clear long-term pipeline of procurement activity communicating our customers’ intent to the market.
- Embed appropriate supply chain development and relationship management consistent with the adoption of ISO 44001.
- Work with other government departments (OGDs) to procure common goods and services and drive better value for money.
- Exploit electronic procurement systems to make the end-to-end process as easy and inexpensive as possible for potential suppliers.
- Introduce standardised commissioning approaches and frameworks for similar and repeatable construction projects.
- Adopt a commissioning and delivery model to capitalise on both regional and national suppliers, including small and medium-sized enterprises (SMEs) where appropriate.

We must develop a mindset of using commercial expertise to develop pragmatic, affordable solutions with our suppliers, rather than using policy as a barrier to customer delivery.

We recognise that for DIO, in our new role as strategic advisor and commissioning agent, to continue to deliver value to our customers in FLCs and TLBs we must improve the way we deliver our services and the way we do business with the suppliers.

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5 NAO Delivering the Defence Estate 2016
6 The current Defence Estate is assessed as too large, too expensive and not fit for purpose.
7 Better Defence Estate Strategy 2016
8 Exploit standard procurement approaches and commercial off the shelf (COTS) to deliver the majority of MOD infrastructure portfolio needs.
Our guiding principles

Our guiding principles support the delivery of our vision for the DIO Commercial Strategy, and outline how we will improve to better serve our customers and work with our suppliers.

To be a key client in the infrastructure and facilities management market, exercising clear customer leadership and able to leverage effective supplier delivery.

- We will be easier to do business with...
- We will focus on value, not price...
- We will work faster and smarter for our customers...
- We will engage meaningfully with our stakeholders...
- We will have a broader and more diverse supplier base...
We will be easier to do business with...

We aim to work in a transparent and consistent manner, where our actions are driven by an empathy to the needs, expectations and priorities of our customers and suppliers.

This principle will help foster an environment where we, DIO, are the adviser and commissioner of choice for our customers, and client of choice for our suppliers. It will ensure that we are positioned to access the best information and resources from a wide range of proactive contributors.

How it will benefit our customers
Our customers will know how to access our services, and be able to do so in a quick and efficient manner. They will understand how their money is being spent and the value being delivered in return. The service we provide will balance flexibility – customised to their needs – whilst drawing on the collective bargaining power of MOD and wider government procurements.

How it will benefit our supply partners
Our suppliers and prospective suppliers will see us as a genuine and concise channel for communicating our customers’ needs. They will know that any requirements we place on them when bidding for work will be transparent, appropriate and proportionate. Industry will have confidence that they can work with us in an open and constructive way whether in developing innovation or responding to delivery challenges and disruptions.

How we will support this principle
We will be consistent, proportionate and transparent so that our expectations of industry in bidding for our business will be easily understood.

We will use standard templates and common standards, including industry-supported terms and conditions, except in exceptional circumstances.

We will continue to work with our wider defence colleagues to adopt electronic means of procuring, managing and paying for the goods, services and works that our customers need.

We will co-ordinate our engagement with individual suppliers, trade associations and wider industry so that common messages are provided and we, DIO, speak with one voice.

The benefits we expect to deliver
▶ Greater choice of suppliers
▶ Reduced cost of business (including bidding activity) for us and industry
▶ Improved payment performance
▶ Improved relationships with industry.
We will work faster and smarter for our customers...

We aim to deliver at a quicker pace – reducing the lag between customer request and implementation – and become more proactive to customer needs through being experts in infrastructure and translating those needs into contracts that deliver value for money.

This principle will encourage us to assess the ways in which we work and understand the information, expertise and value collected as we do so. We will hold ourselves to continuous improvement principles, and determine our performance and that of our suppliers by transparent objective measures, aligned to customer value.

How it will benefit our customers
Our customers will see their goals at the heart of both what we do, and in the incentivisation of our suppliers. They will understand the ways in which we are working to improve the environments in which they live, work, train and deploy. The direct line of sight between our customers and our performance with our suppliers will make them key stakeholders in how we do business and how we respond to their needs.

How it will benefit our supply partners
Our suppliers will be empowered to help us meet our customers’ needs. They will understand that they hold the key to releasing the performance and pace of improvements in the services provided by DIO. As well as technical know-how and compliance, we will value those suppliers that demonstrate an ability to collaborate with us and other suppliers, to innovate and meet common customer goals. Suppliers that delight us today will be more likely to be afforded the opportunity to delight us tomorrow.

How we will support this principle
We will proactively help our customers identify and develop their requirements, and build their business cases.

We will develop new cost estimate capabilities by making better use of the price data we hold internally and cost data available from external sources.

We will use our own dedicated and existing government framework contracts as the preferred route to market wherever they provide access to goods, services and works we require.

We will engage with industry before procurements to collaboratively identify mechanisms to share investment, risk and benefits.

The benefits we expect to deliver
- Reduced procurement cycle timescales
- Improved budget and forecasting accuracy for new projects and contract changes
- Improved agility and shorter procurement timescales in responding to customer needs
- Improved performance and customer satisfaction.
We will have a broader and more diverse supply base…

We aim to ensure that our supply base reflects the diversity we see in our estate, our customers and our regions. In particular, we aim to increase the value to taxpayers and growth by generating true competition and opportunity that is unhindered by a supplier’s size and experience with DIO.

This principle will help us develop as a flexible provider of innovative solutions and savings. Working with our strategic suppliers, we will aim to increase the number of SMEs and support wider government objectives in sustainability and economic growth.

How it will benefit our customers
Our customers’ money will go further and deliver more. The increased supply chain diversity will provide benefits – in responsiveness and innovation – through access to a mix of niche, regional and national suppliers. Our efforts will also help customers meet their obligations regarding government procurement policy.

How it will benefit our supply partners
Our suppliers will benefit from clearer and simpler tendering procedures aimed at encouraging participation. Our clear pipeline of planned procurements will allow easier resource management. The increase in supplier numbers will create a genuinely competitive supply base where reward is based on the depth of valid and specific expertise rather than breadth of competence.

How we will support this principle
We will engage with SMEs, as well as large players, prior to going to market to enable the development of innovative or alternative delivery solutions.

We will review the qualification criteria that we use to ensure that it does not discriminate against companies based on their size or experience with DIO.

We will develop our supply chain to ensure that our tier one suppliers provide SMEs the opportunity to benefit from large scale procurements.

We will adopt government best practice supply chain terms to ensure that second and subsequent tier suppliers benefit from prompt payment.

The benefits we expect to deliver
- Increased diversity in the range of services and advice available for our customers
- Improved value for money through competition
- Improved social and economic value through each pound spent by DIO, including use of SMEs
- Increased supply chain resilience.
We will engage meaningfully with our stakeholders…

We aim to develop a purposeful model of engagement where our interactions with stakeholders drive value and deliver straightforward solutions to customer challenges.

This principle will allow DIO to transparently integrate the opportunities, issues and risks across the supply chain to position us as a value adding partner. We recognise that we do not have all of the answers and through better stakeholder alignment and engagement we can draw upon the wealth of expertise around us.

How it will benefit our customers
Our customers’ priorities will be better understood and accommodated through our engagement model. They will work with us during our respective planning activities, which will allow us to inform their budgeting, options and trade-offs through better cost estimation, and proactively put in place arrangements to meet their requirements. Importantly, we will be accessible and accountable for discussing, scoping and improving the services we provide.

How it will benefit our supply partners
Our suppliers will work with us in the design and planning of programmes and procurements. Our requirements will be shaped by the capability and innovation evolving in the market. We will not surprise the market with tender documents issued ‘out of the blue’. During tendering exercises participants will be regularly informed of progress and potential delays, and upon completion, receive full and constructive feedback.

How we will support this principle
We will work with FLCs and TLBs to identify future needs, inform investment decisions with credible cost estimation, and share information about how current needs are being delivered.

We will build in the information about customer needs to our forward pipeline of procurement activity.

We will seek industry feedback on the planned projects to add value through the design of requirements, contract model and procurement.

We will extend our roll-out of ISO 44001 collaborative working with key suppliers and customers, and take a systematic, transparent approach in determining the type of relationships we will have with all suppliers.

The benefits we expect to deliver
› Increased customer confidence in deliverability of plans and programmes
› Improved performance for customers through value design
› Improved accuracy and industry preparedness for plans to go to market
› Improved innovation and performance through constructive supplier relationships and dialogue.
We will focus on value, not price…

We aim to ensure that all commercial decisions consider our customers’ strategic objectives and whole life costs. For us, value means improving the working, living and training environments for our customers, and maximising the impact of public money. This principle provides our staff with clarity on value and reinforces our new role as a commissioning agent for our customers. It will allow us to ensure that the decisions we take today increase the chances of delivering an efficient and effective estate tomorrow.

How it will benefit our customers

Our customers’ staff and estate will benefit from integrated supply chain working to improve the long-term condition of the estate – and better value for money. In our new model, they will access better information and a range of quality standards to decide how and where money should be spent in order to meet their priorities.

How it will benefit our supply partners

Our suppliers will be given the opportunity to gain competitive advantage through differentiation in service, innovation and quality. We will work collaboratively with our key suppliers to achieve this aim. An increased use of incentivisation linked to outcomes in contracts will provide opportunity for increased business, and we will also look for suppliers to share in the investments and risks where appropriate.

How we will support this principle

We will better design our key performance indicators and service levels to align with the differentiated value factors identified in customers’ and defence-wide objectives. We will leverage value for our capital procurement suppliers through increasing the continuity of design companies throughout the build stages. We will use a wider range of commercial models – moving away from fixed price – to incentivise our service suppliers to innovate and deliver. We will recognise that the realisation of value occurs in delivery and increase the investment in effort to manage our contracts proportionately and effectively.

The benefits we expect to deliver

- Greater customer value linked to outcomes
- Increased supplier accountability throughout our capital procurements
- Improved contract management and performance
- Greater value for money in delivery.
MOD infrastructure operating model

From 1 April 2018, budgetary responsibility for the UK’s defence estate, its assets and their upkeep will transfer from DIO to the TLBs and FLCs. With this transfer, a new operating model has been developed to ensure that our suppliers can continue to support the delivery of military capability output.

By implementing this new operating model we will provide accurate information and advice to FLCs and TLBs to support balanced investment decision making.

MOD Estate Intelligence and Planning
Our Customer Support Teams, facing into each TLB, will maintain a single view of the whole defence estate to advise on future infrastructure strategy and policy, enabling customers to make balanced investment decisions and plan their infrastructure portfolios. These expert teams will include dedicated TLB representatives and colleagues from across our business functions including Delivery, Finance and Commercial.

MOD Infrastructure Delivery
Our customer delivery function will be structured regionally to better align with local priorities and strengthen relationships with suppliers. Coordinated through a centrally managed Operations Support Team, these regional teams will engage with suppliers at a local level for the day-to-day management of the estate, manage strategic projects nationally to drive learning and efficiencies, and work with industry partners to assure delivery of contracted services.
Our commercial enablers

Our people

Professionalisation
We will further develop a workforce of professionals with commercial acumen and business skills, enabling us to be responsive to the infrastructure needs of our customers. Our alignment with MOD initiatives and the Government Commercial Organisation (GCO) to professionalise the commercial function will continue and provide colleagues with meaningful careers across government.

Improving commercial behaviours
We will embed a culture of value for money and commercial awareness across DIO, FLCS and TLBs, and include commercial ways of working in individual development objectives. Our teams on the ground will work with our chosen suppliers with respect and trust to increase value delivered for our customers.

Our systems and processes

Data management
We will embed contract management systems into our ways of working9, seek better data from our suppliers, ensuring compliance with approvals policy and providing a clearer insight into delivery quality and asset condition. Better requirements and cost forecasting will reduce uncertainty-driven pricing in bids and allow us to reduce instances of suppliers struggling to deliver against the submitted price.

Exercising clear customer leadership
We will seek to provide a level of service that supports our customers’ outcomes. Driving value through benefits monitoring, and reducing contract management costs through better contracts, service level agreements, supplier engagement, and escalation and issue resolution processes.

9 Incorporating Contracting, Purchasing and Finance (CP&F) Release 2 and onwards, and Infrastructure Management System (IMS).

Our suppliers

Key client in the market
The value our vision seeks to deliver can only be achieved with our suppliers. We will make DIO a more attractive collaborative industry client, and support this by sharing information, defining the right requirements, procuring the right suppliers, and managing them appropriately.

Leveraging effective supplier delivery
Informed and engaged suppliers who understand our business and delivery needs, will enable us to deliver cost, performance, technology and service innovation. We will seek longer term relationships with those suppliers who consistently excel in delivery, and as we move to a regional delivery model, will measure and publish supplier performance across regions.

Our government colleagues

Consistent approach
As part of the Government commercial function, we will leverage the expertise of Crown Commercial Service (CCS), and also the Infrastructure and Projects Authority (IPA) to exploit common processes, tools and standards. We recognise that cross government consistency makes us easier to business with, and frees up our time to focus on delivering lower costs and improved service for our customers.

Government buying power
We will ensure we inform both MOD and wider government procurement initiatives in infrastructure service delivery, as well as exploring exploitation of existing cross-governmental frameworks. Our customers will see that we are proactively leveraging government buying power to reduce costs where common requirements exist.