Construction and Infrastructure Powerhouses, Pipelines, Procurement and Social Value

Powerhouse – more than a free labour market?
Pipelines of work – how we can use them?
Why procurement matters
How procurement may drive social value - if we procure for social value ….

Professor Peter McDermott
p.mcdermott@salford.ac.uk
School of the Built Environment
University of Salford

iBUILD Stakeholder Meeting

Building the infrastructure for the Regional Powerhouses
6 June 2016 Leeds

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CONSTRUCTING EXCELLENCE IN THE NORTH WEST

Construction and Infrastructure Powerhouses, Pipelines, Procurement and Social Value

Powerhouse – more than a free labour market?
Pipelines of work – how we can use them?
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How procurement may drive social value - if we procure for social value ….

Previous speakers

Richard – Are you being served – Nr4 – delivery Methods for infrastucture
James – Infrastructure challenge – construction delivery – higher inflation, skills shortage

|Adrian - Role in attracting investment/NIC cascade down to regional level, more than economic growth

ibuild

Construction Policy Context

Growth and Procurement

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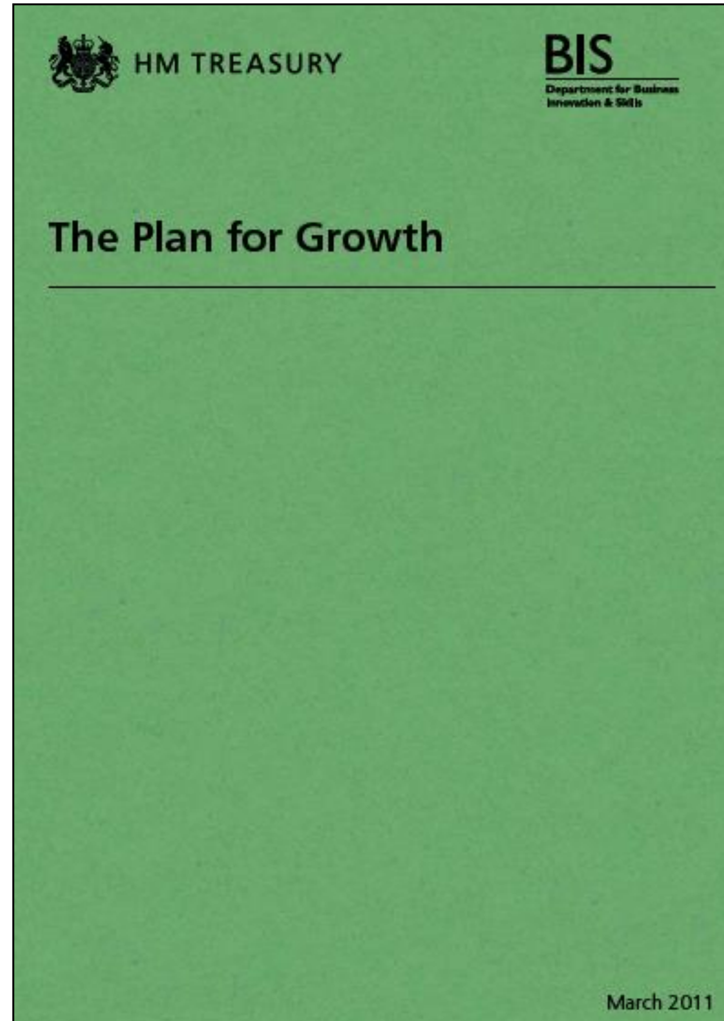
“A successful construction industry is vital for sustainable growth”

Use government procurement to drive innovation

Reform the way in which it procures public sector construction and infrastructure to reduce costs by up to 20 per cent. This will include measures to encourage standardisation rather than bespoke designs, setting clear criteria for asset performance and introducing new models of procurement


HM TREASURY

BIS Department for Business Innovation & Skills

The Plan for Growth

March 2011

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Infrastructure Implementation Plan

Radically different delivery models are required to achieve integration in the infrastructure delivery process and in order to promote early involvement and innovation at all levels of the supply chain.

New model competition and procurement processes

Guidance on selection of procurement models and contracting options


HM TREASURY

Infrastructure UK

Infrastructure Cost Review:

Implementation Plan

March 2011

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Infrastructure Implementation Plan

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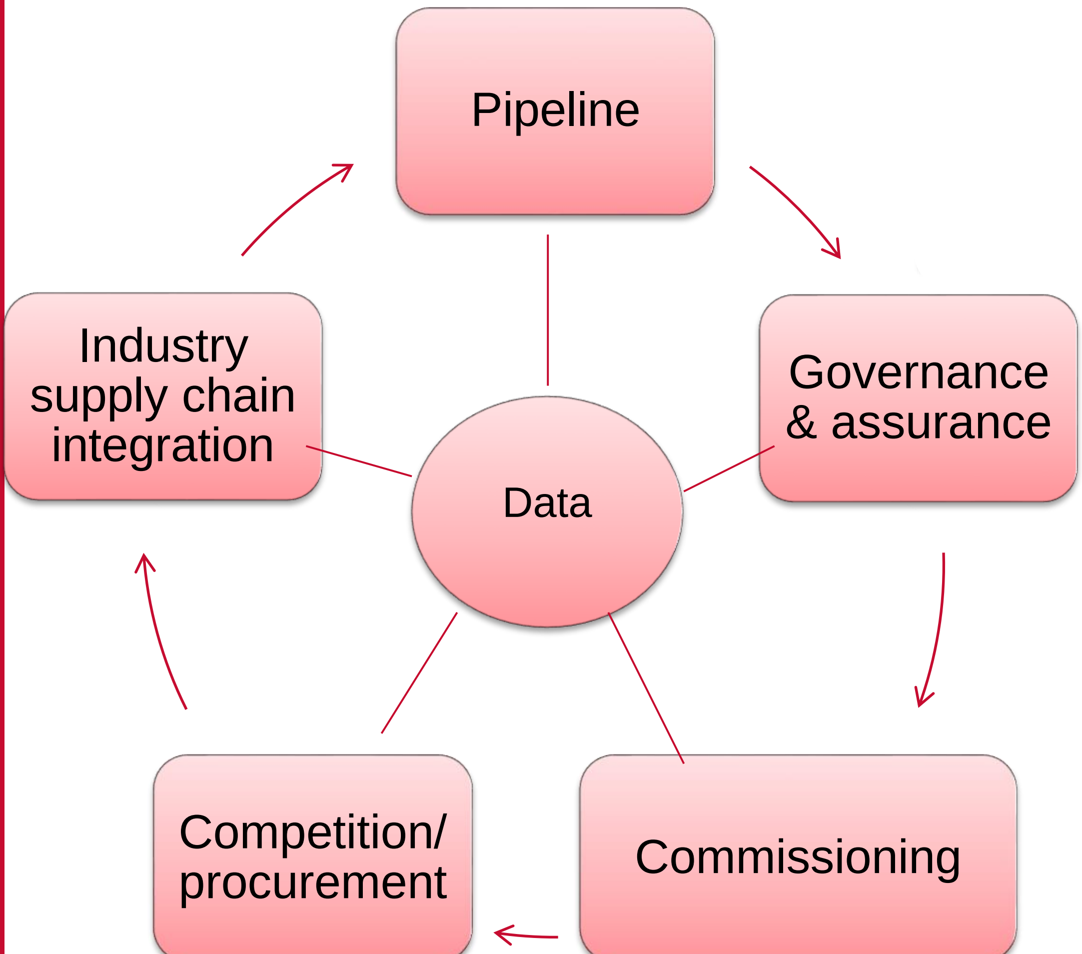



HM TREASURY
Infrastructure UK

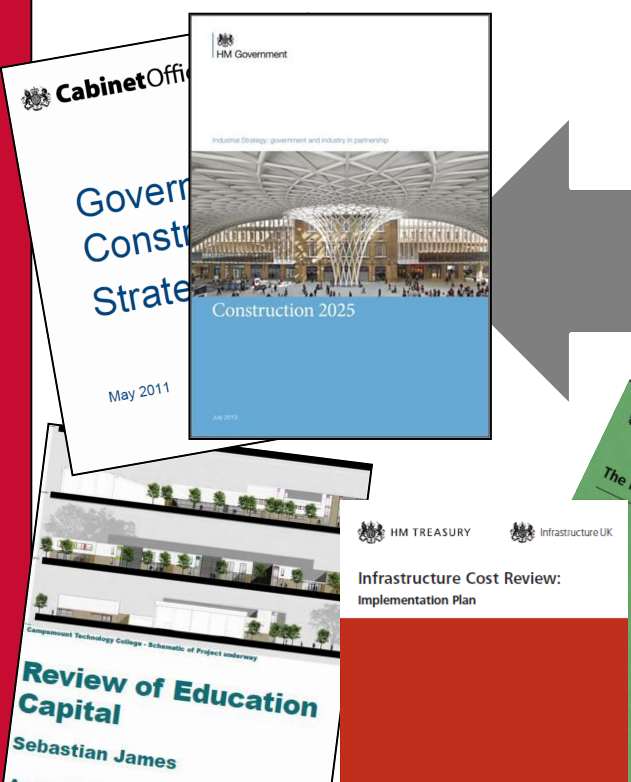
Infrastructure Cost Review:
Implementation Plan

March 2011

1994 1998 2002 2006 2008

Procurement Policy Drivers

2015 2012

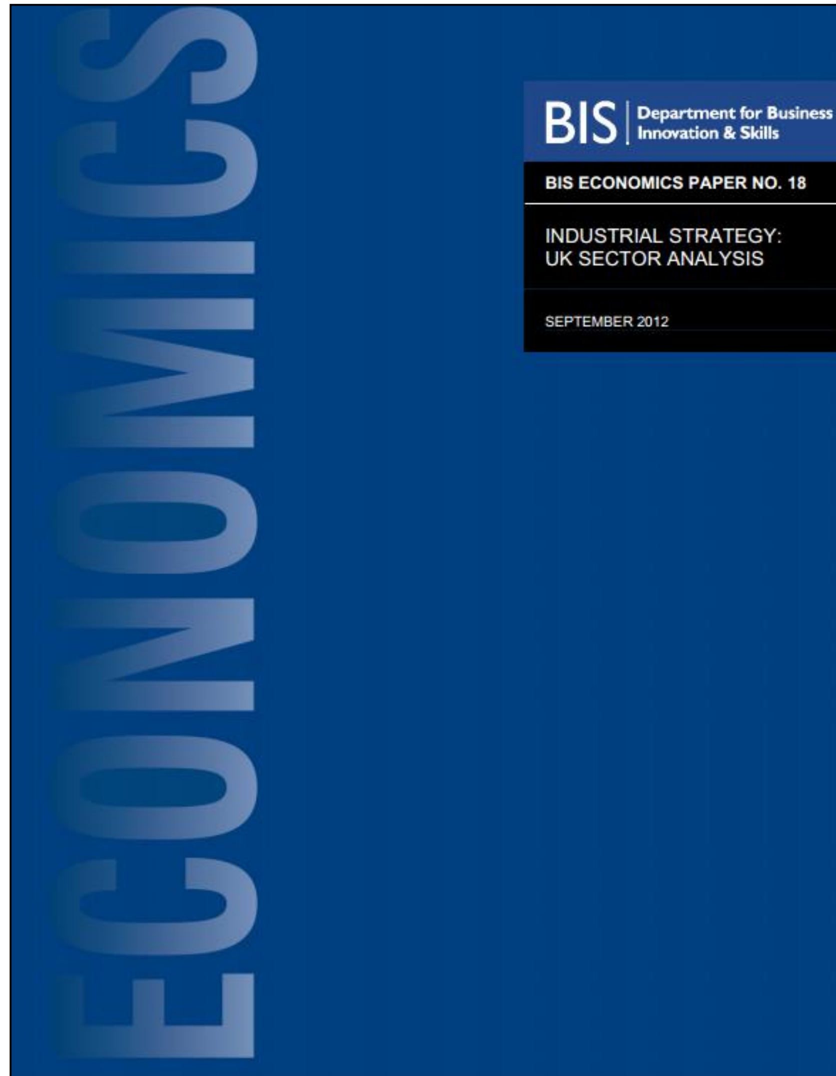


An industrial Strategy for Construction?!

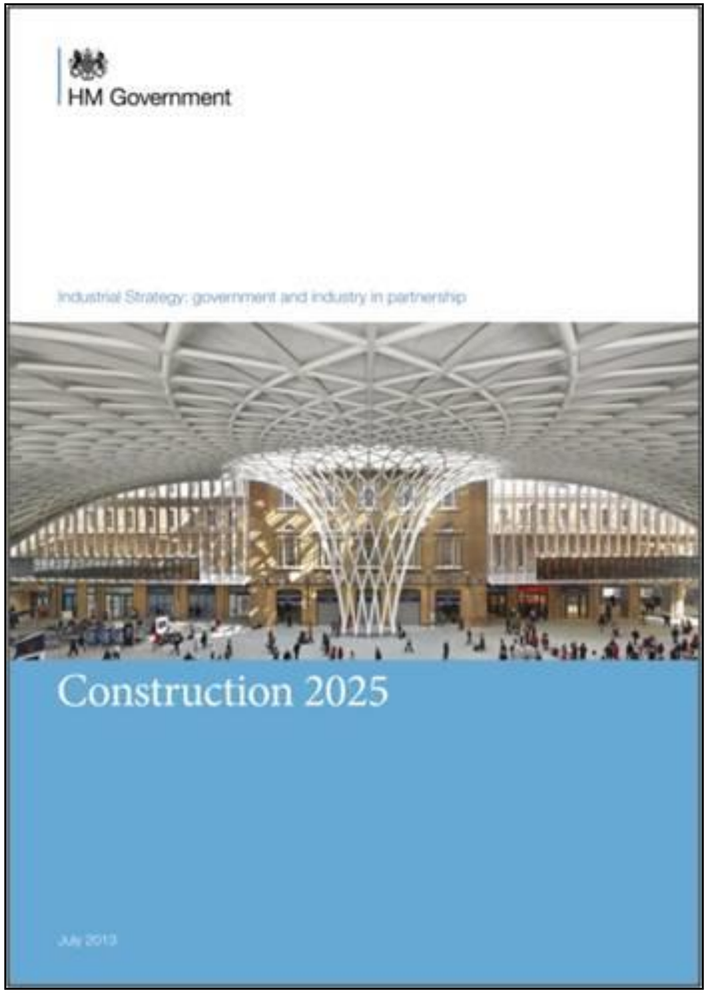
“The Government shapes the British economy with its decisions every day. It makes many decisions about skills and universities, on research, on technologies, and on infrastructure. Through what it buys, and how it goes about buying it, the regulations that exist, the markets it oversees, and tax policy. All of these send messages to the economy. *We can have an industrial strategy by default or design.* Ignoring this reality is not a policy - it is just negligence” – Vince Cable

Construction as an Enabling sector

"Developing a series of collaborative but challenging sector strategies in advanced manufacturing, knowledge-intensive traded industries, and the *enabling industries.* This will include building strategic partnerships with industries and targeting support for them to help realise their substantial growth prospects".



Pipelines - Industrial Strategy: Construction 2025



- Encourage more non-government owned pipelines to build a better picture of future demand
- Develop and refine the pipeline of future work opportunities and make it more useable for all construction businesses
- Work with academic and research communities to bring forward more research, development and demonstration to the wider industry and work to remove barriers to innovation

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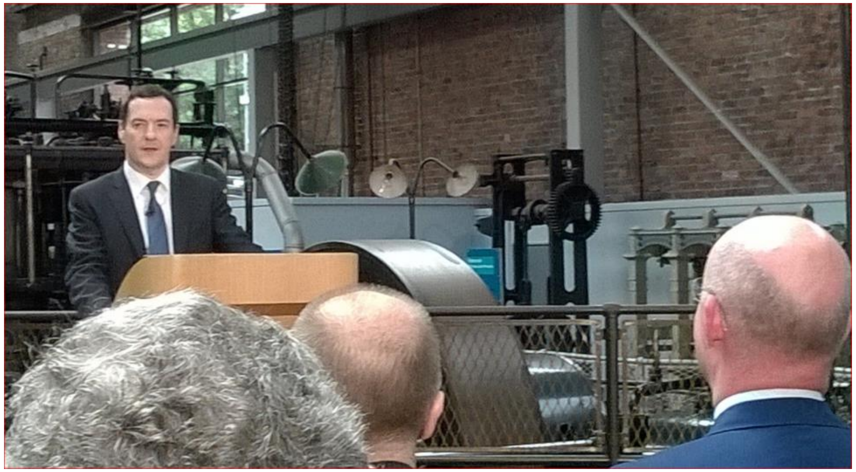
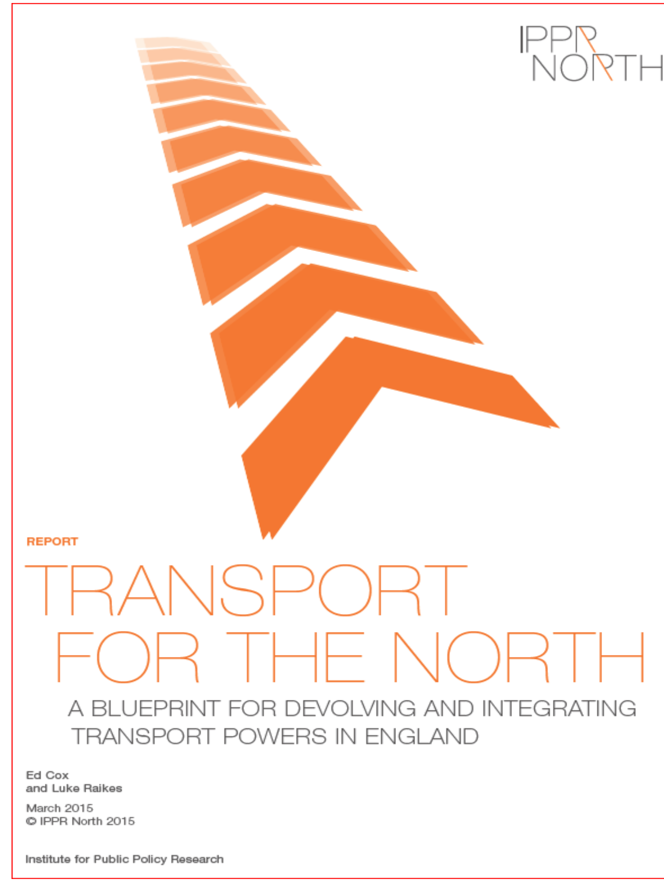
The Northern Powerhouse!?



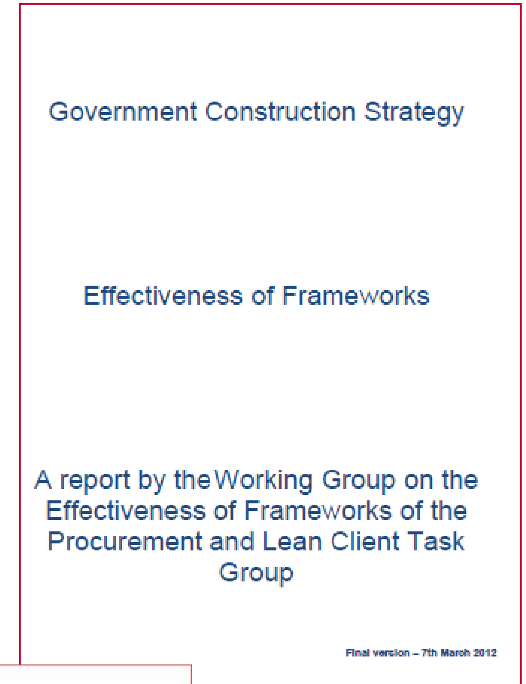
•In June 2014 George Osbourne talked about HS3 and its ability to change the North West region and its cities into a Powerhouse, creating a counter weight to London economic status;

•This would occur by connecting these cities through transportation projects, improving their universities and innovation and devolution of decision making where cities would have control over their resources.



- The IPPR report argued that despite changes occurring in the North West region decisions are still centralized where the precise nature of devolution and the suitable nature of power which should be passed is still debated;
- Goals are economic, accessibility & accountability and sustainability.

“Towards a north-west construction and infrastructure powerhouse”?!


Government Construction Strategy

Effectiveness of Frameworks

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Final version – 7th March 2012


HM Treasury

Fixing the foundations:

Creating a more prosperous nation

Cm 9098

HM Treasury

National Infrastructure Plan for Skills

September 2015

Public Services (Social Value) Act 2012

CHA

Explanatory Notes have b
understanding of this Act

HM Government

TRANSPORT FOR THE NORTH

The Northern Powerhouse:
One Agenda, One Economy, One North

A report on the Northern Transport Strategy

March 2015

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Fixing the foundations: Creating a more prosperous nation

HM Treasury

Fixing the foundations:

Creating a more prosperous nation

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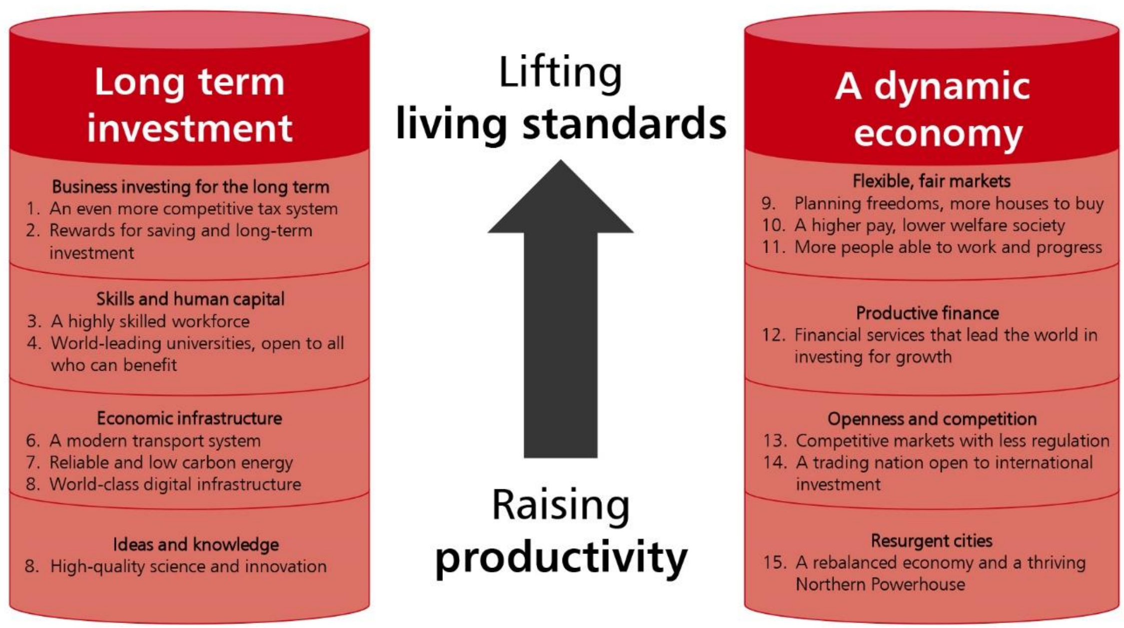
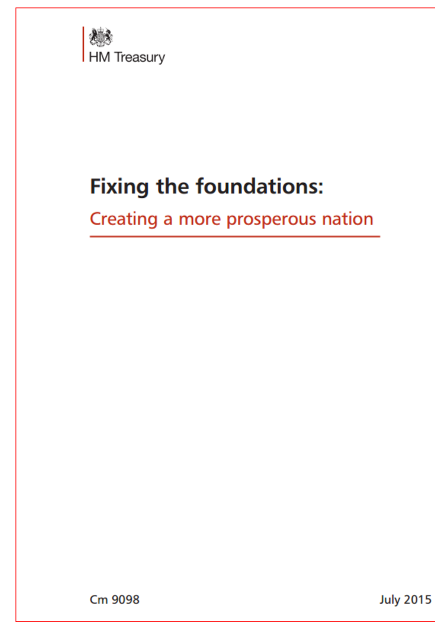
"The government's framework for raising productivity is built around two pillars…."

Chart iii: A framework for raising productivity



Source: HM Treasury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Resurgent cities, a rebalanced economy and a thriving Northern Powerhouse

Box 15.A: Greater Manchester Devolution Deal

The government is committed to giving cities the opportunity to drive growth within their metro areas. That is why, on 3rd November 2014, the Chancellor and Greater Manchester civic leaders signed a ground-breaking agreement for Greater Manchester to create the first directly elected metro-wide mayor outside of London, with powers over transport, housing, planning and policing.

Following the initial deal, Greater Manchester and NHS England signed up to arrangements to bring together £6 billion of NHS and social care budgets so that joint planning of these services can deliver better care for patients.

In addition, the March Budget 2015 announced a pilot scheme in Greater Manchester and Cheshire East to enable the retention of 100% of any additional business rate growth.

HM Treasury

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Creating a more prosperous nation

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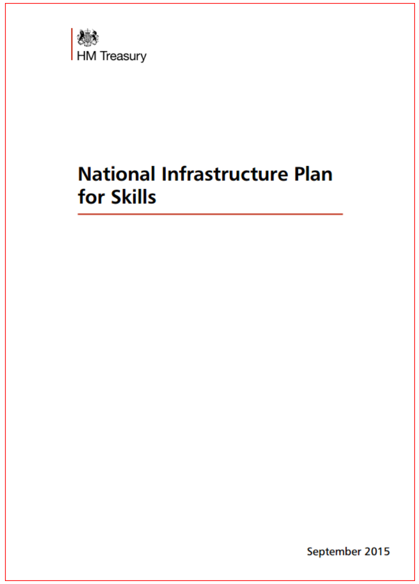
The National Infrastructure Plan for Skills

HM Treasury

National Infrastructure Plan for Skills

September 2015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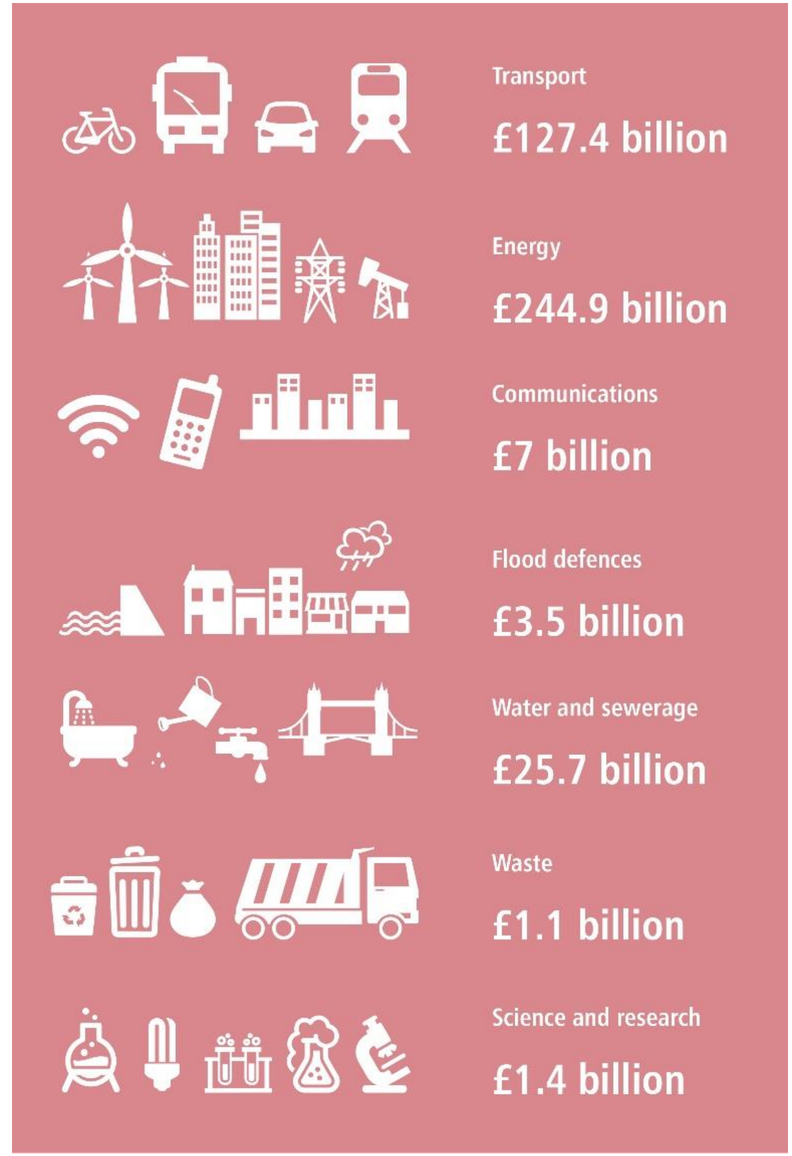
The National Infrastructure Plan (NIP) pipeline, updated in July 2015, contains details of £411 billion of investment in 564 projects and programmes to 2020 and beyond.



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Construction productivity growth has lagged behind the other sectors of the economy

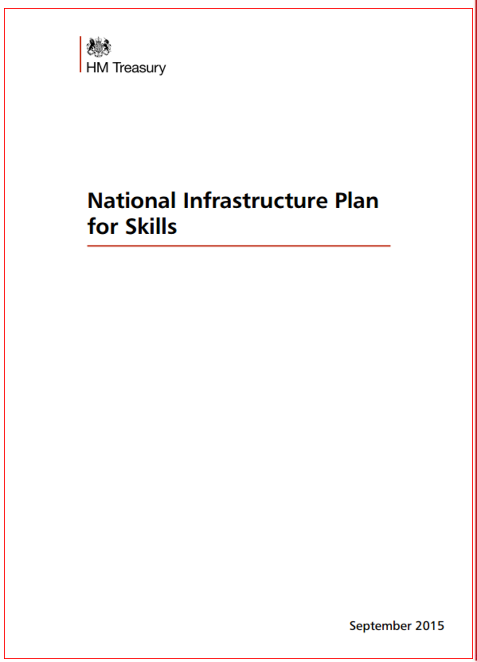
HM Treasury

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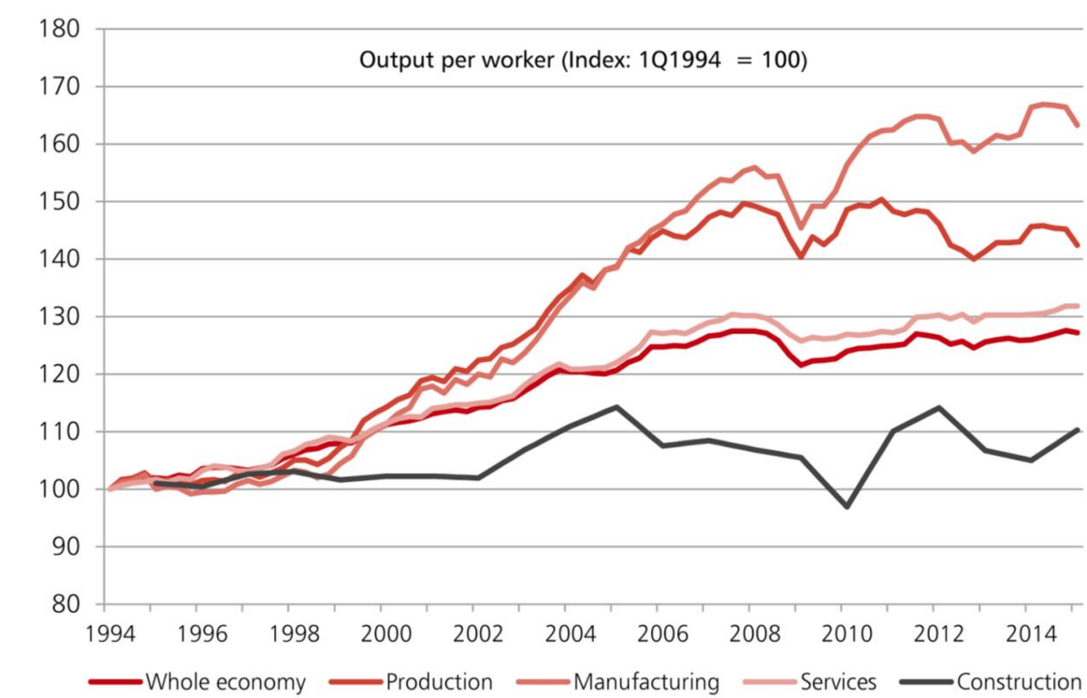
Chart 1.A: Productivity by increase in output relative to employment



Source: Arcadis, ONS

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Chart 2.A by 2020 there would be a reduction in workforce numbers meaning demand would outstrip supply by around 100,000 people

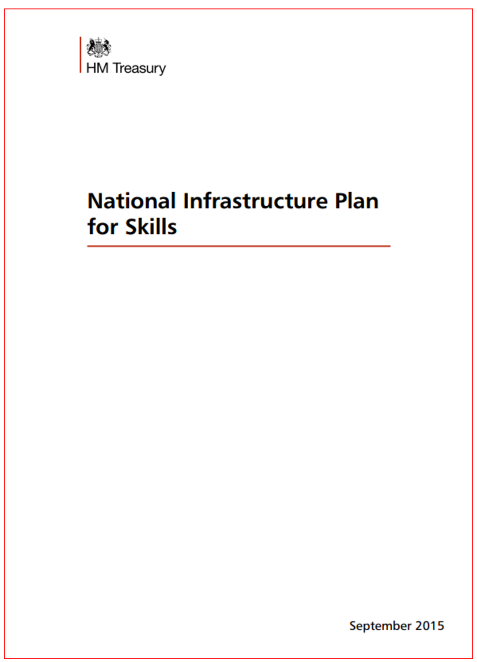
HM Treasury

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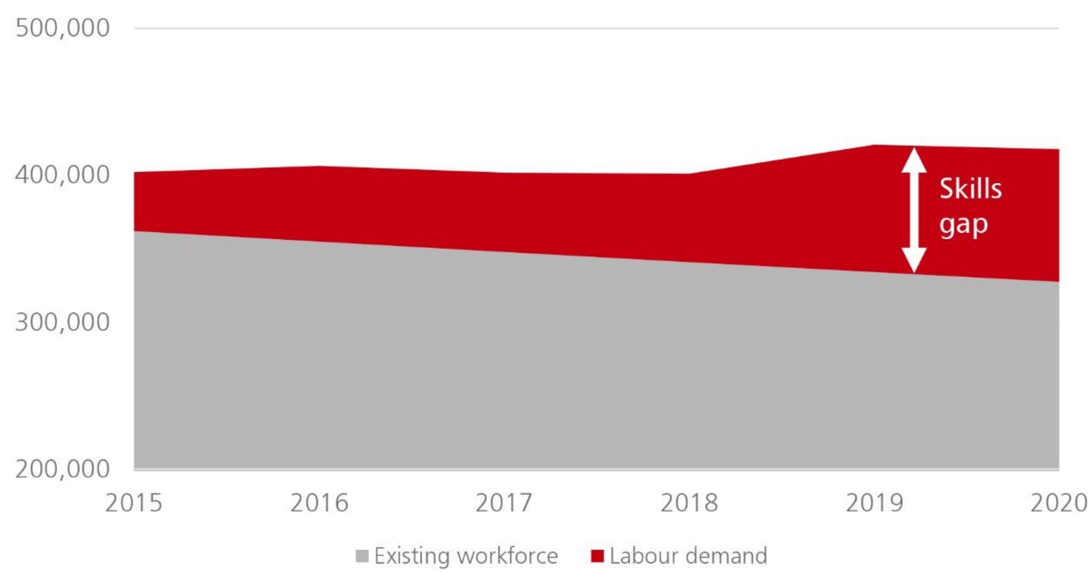
Chart 2.A: Infrastructure labour demand



Source: CITB/WLC, IUK analysis

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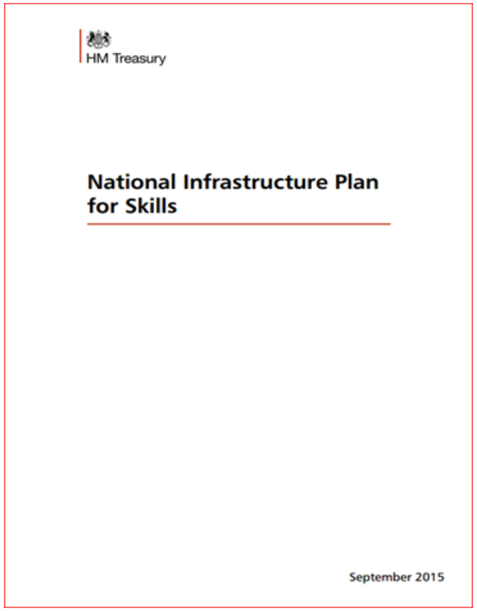
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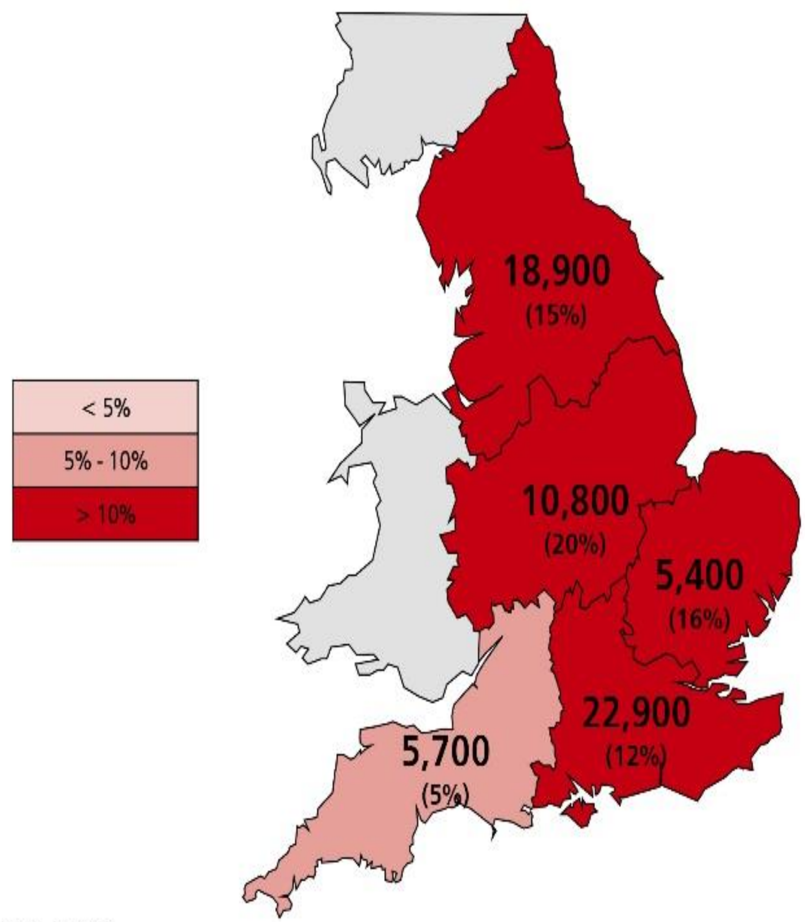
September 2015

Construction management and supervisory roles increasing levels of demand for these skills across all English regions over the next five years….

Chart 3.C: Construction management skills peak to 2020 (% increase over 2015 supply)



Source: CITB / WLC

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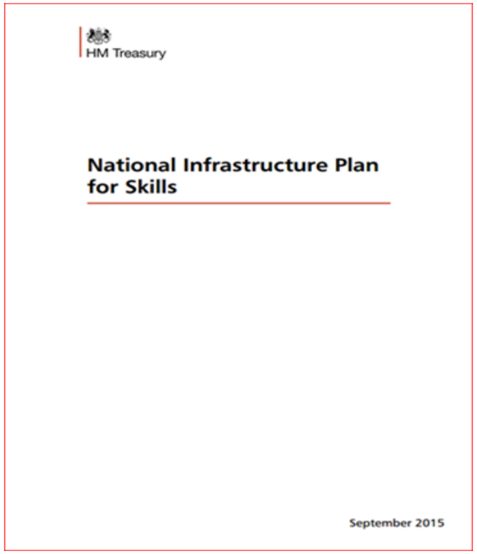
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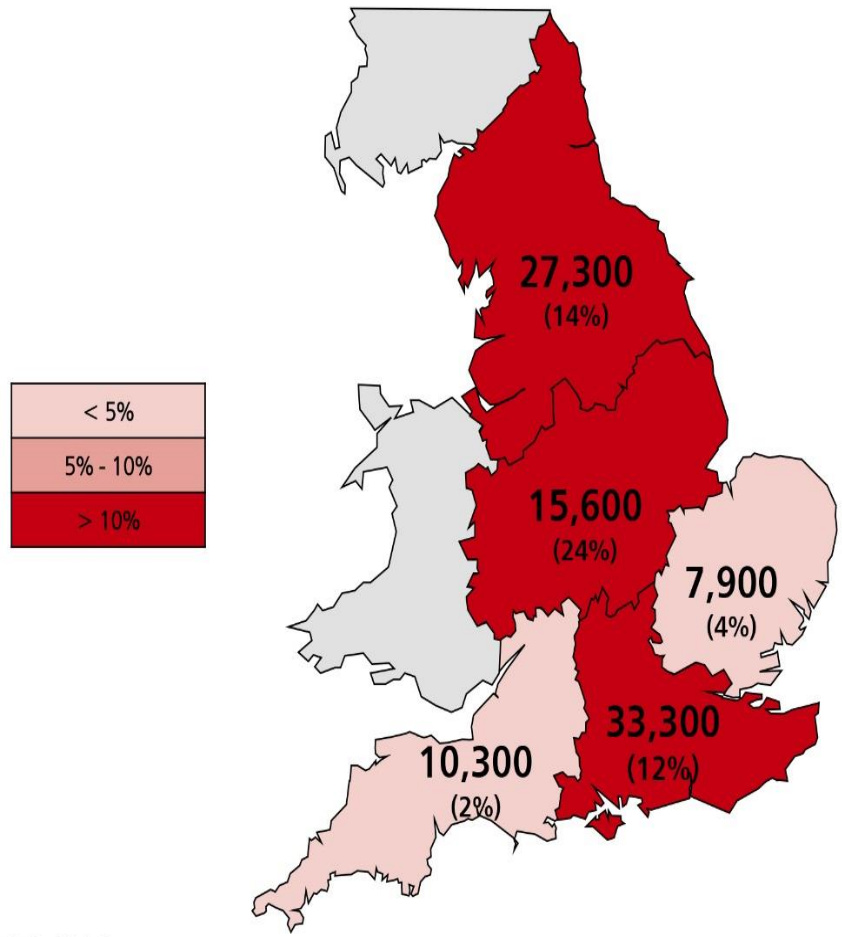
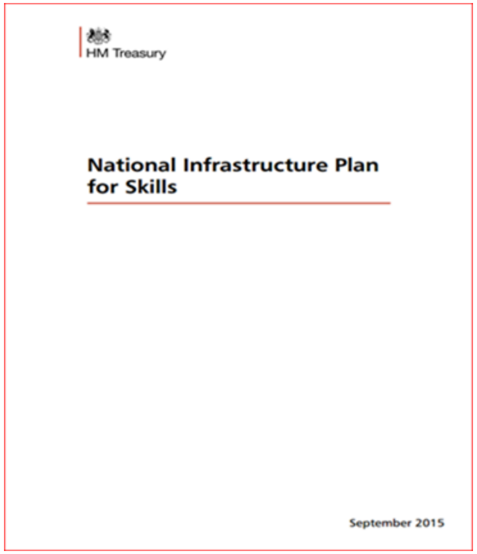
September 2015

Technical and engineering skills are required throughout the project lifecycle with many critical to delivery as construction works progress.

Chart 3.B: Engineering and technical skills peak to 2020 (% increase over 2015 supply)



Source: CITB / WLC



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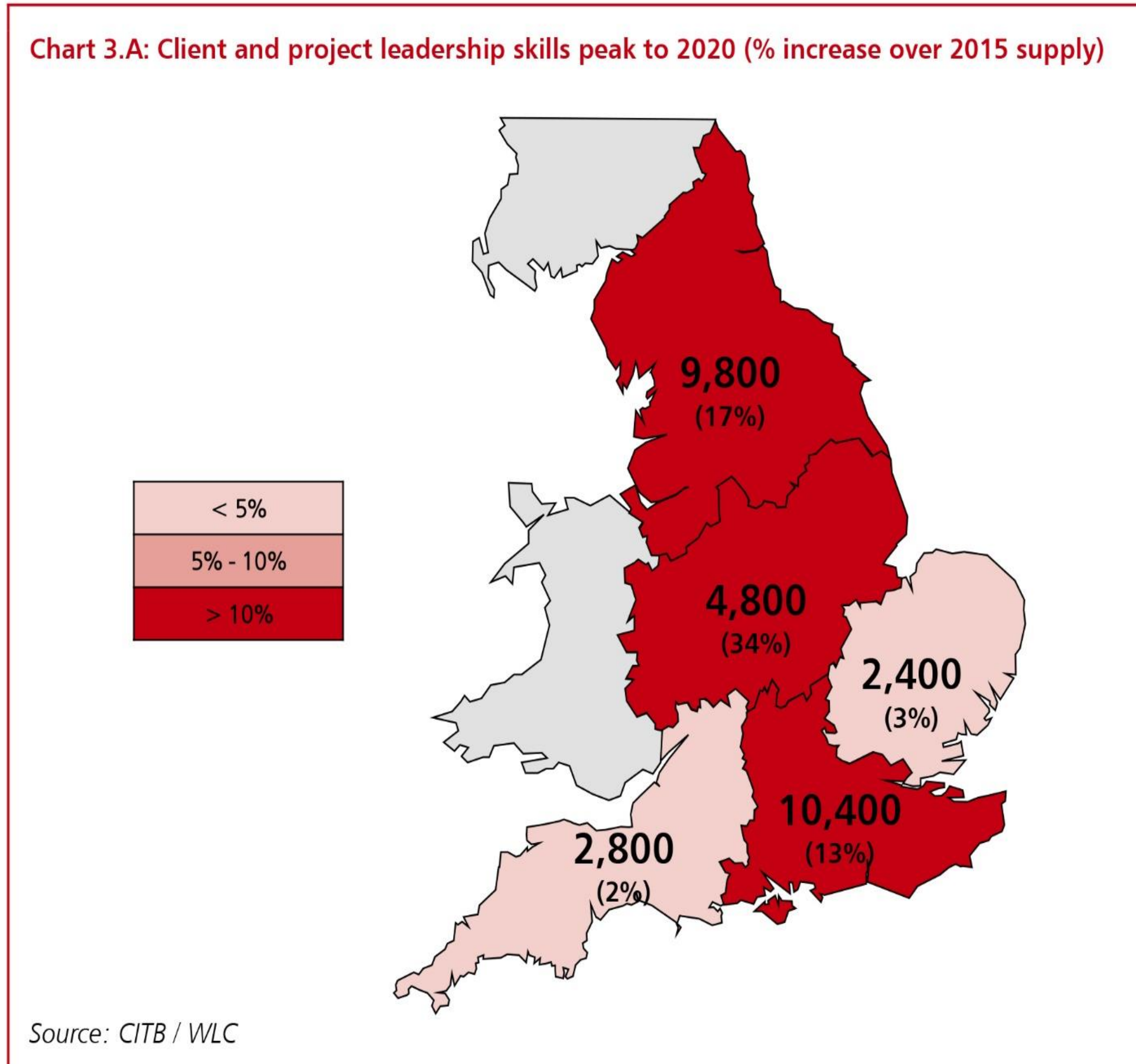

Ensuring the right project leadership skills exist – in both clients and the supply chain – is essential to delivery

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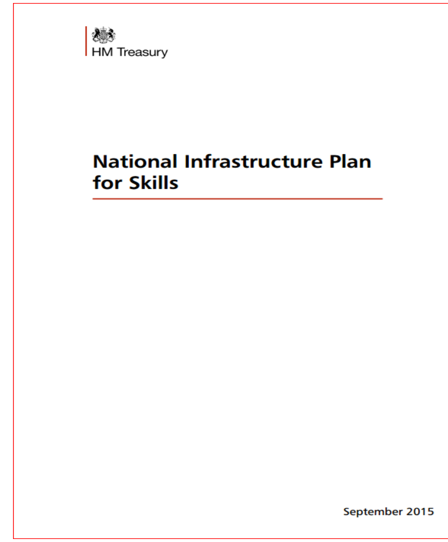
Case study: North west construction pipeline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September 2015

Case study: North west construction pipeline

In March 2015, the Greater Manchester Chamber of Commerce released its latest construction pipeline analysis, covering for the first time the whole of the North West. The analysis aggregated projected demand across conventional construction, housing and infrastructure. Their report showed that:

- The planning system has a total of £114.4 billion of construction projects, with £69.8 billion expected to have a high degree of certainty of delivery.
- The output between 2015 and 2018 inclusive is expected to be £29.9 billion. The output is driven by infrastructure and housing at £10.9 billion and £6.8 billion respectively.
- Projects worth £40.4 billion are due to start in the four year period between 2015 and 2018 inclusive.
- Labour demand for 2015 is 184,000 workers, the average labour demand for 2015-2018 is 122,000 workers.
- The training needs for the 2015 – 2018 period are 45 per cent more than the average for 2011 – 2014.

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North West Pipeline Methodology by GM Chamber

- Value and breakdown of pipeline from Barbour ABI data.
- Labour & skills forecast from CITB Labour Forecasting Tool.
- Existing provision analysis using SFA data.
- Document ‘sense checked’ and sponsored by NWCH.

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Barbour ABI

Skills Funding Agency

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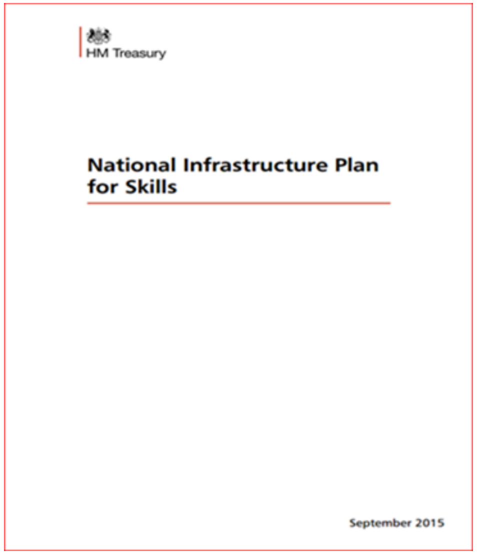
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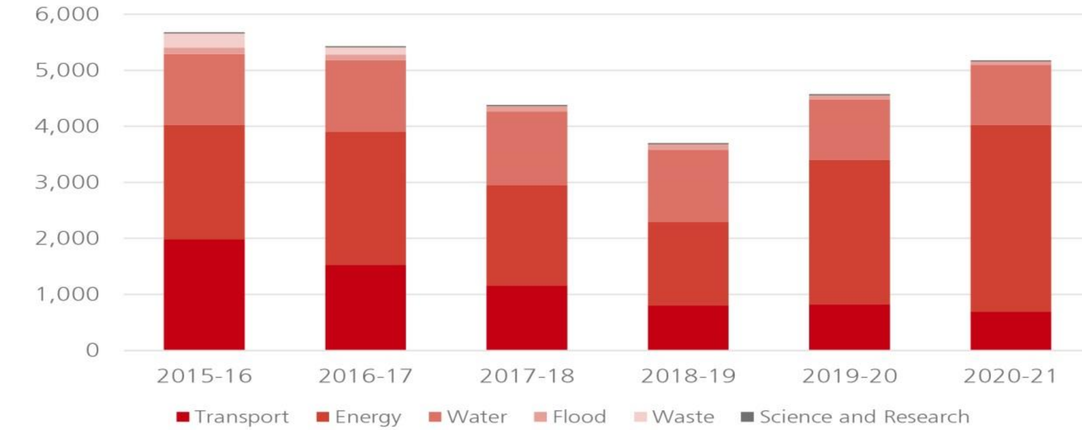
Northern Powerhouse Infrastructure pipeline investment 2015-2020 (£29 billion)

Northern Powerhouse

Infrastructure pipeline investment 2015-2020 (£29 billion)



(excluding regional share of national programmes)

Key projects

Energy:
Moorside Nuclear Power Station, Trafford Power Station, Drax Biomass Conversion

Transport:
Mersey Gateway Bridge, Northern Hub, A1 Leeming to Barton

Science and research:
National Graphene Institute

Skills demand 2015-2020

Current workforce: 85,000

Peak workforce: 99,000

	Client and project leadership	Engineering and technical	Construction management	Skilled trade and labour
Current	8,300	24,000	16,400	36,300
Peak (year)	9,800 (2015)	27,300 (2015)	18,800 (2015)	43,700 (2020)

National Infrastructure Pipeline by region

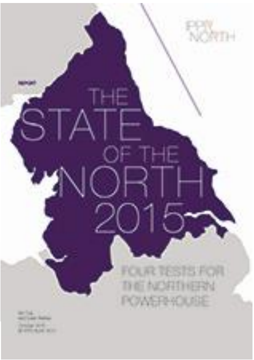
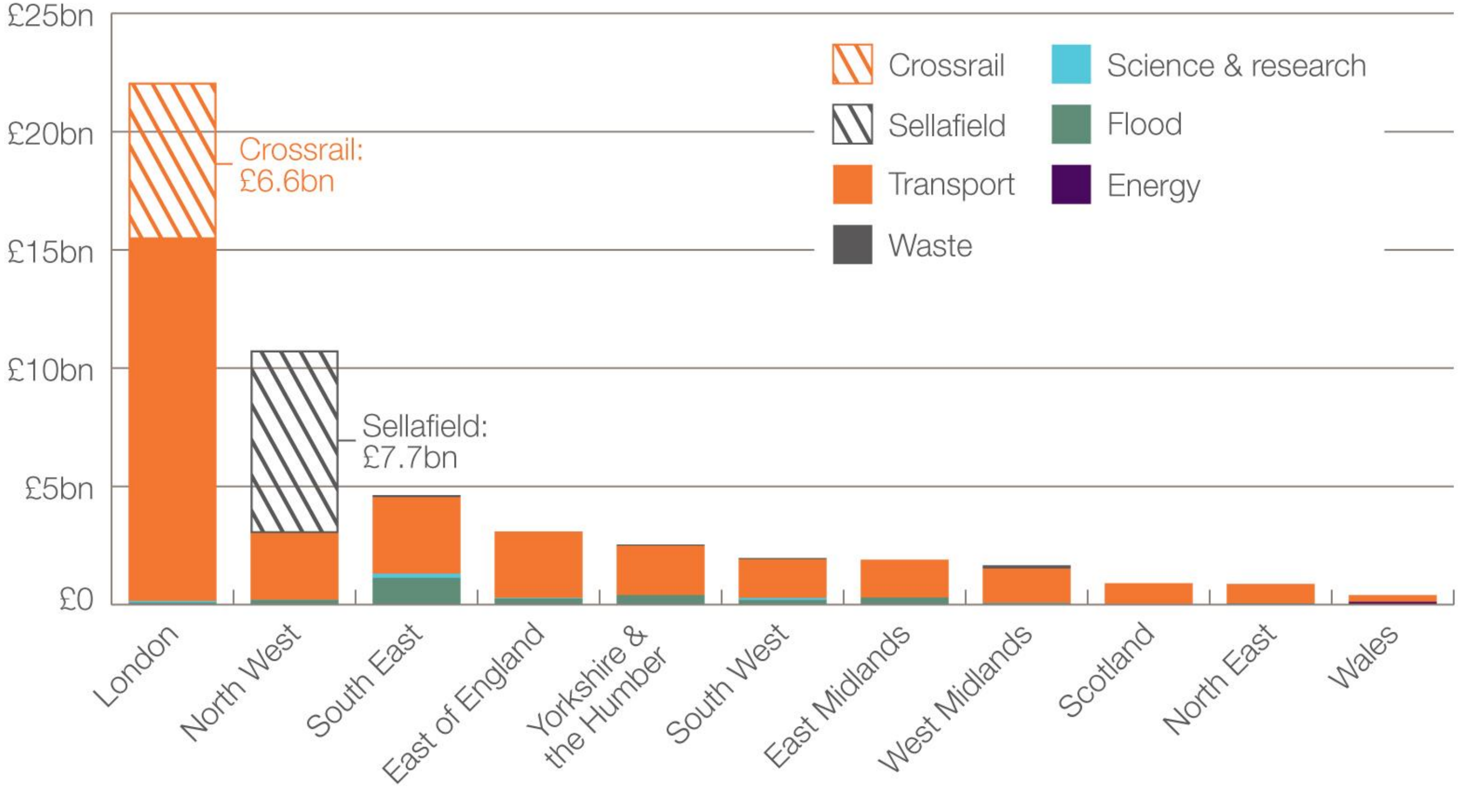


Figure 3.3

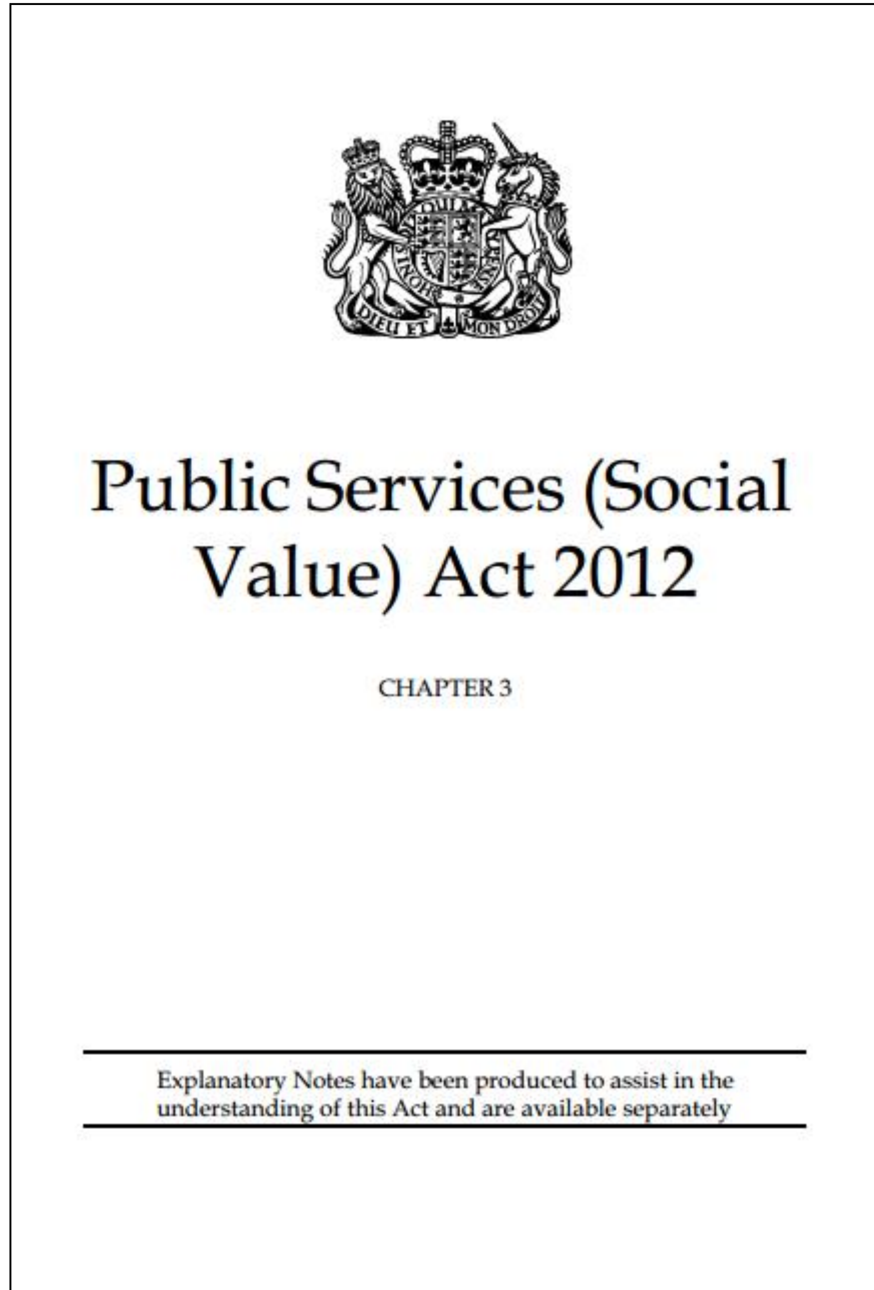
Planned expenditure, from 2015/16 onwards, on public and public/private funded projects included in the national infrastructure pipeline, by UK region/nation



Source: HM Treasury 2015

Social Value - Public Services (Social Value Act)

All public bodies in England and Wales, including local authorities, will be required to consider how the services they *commission and procure* might improve the economic, social and environmental well-being of the area.


Public Services (Social Value) Act 2012

CHAPTER 3

Explanatory Notes have been produced to assist in the understanding of this Act and are available separately

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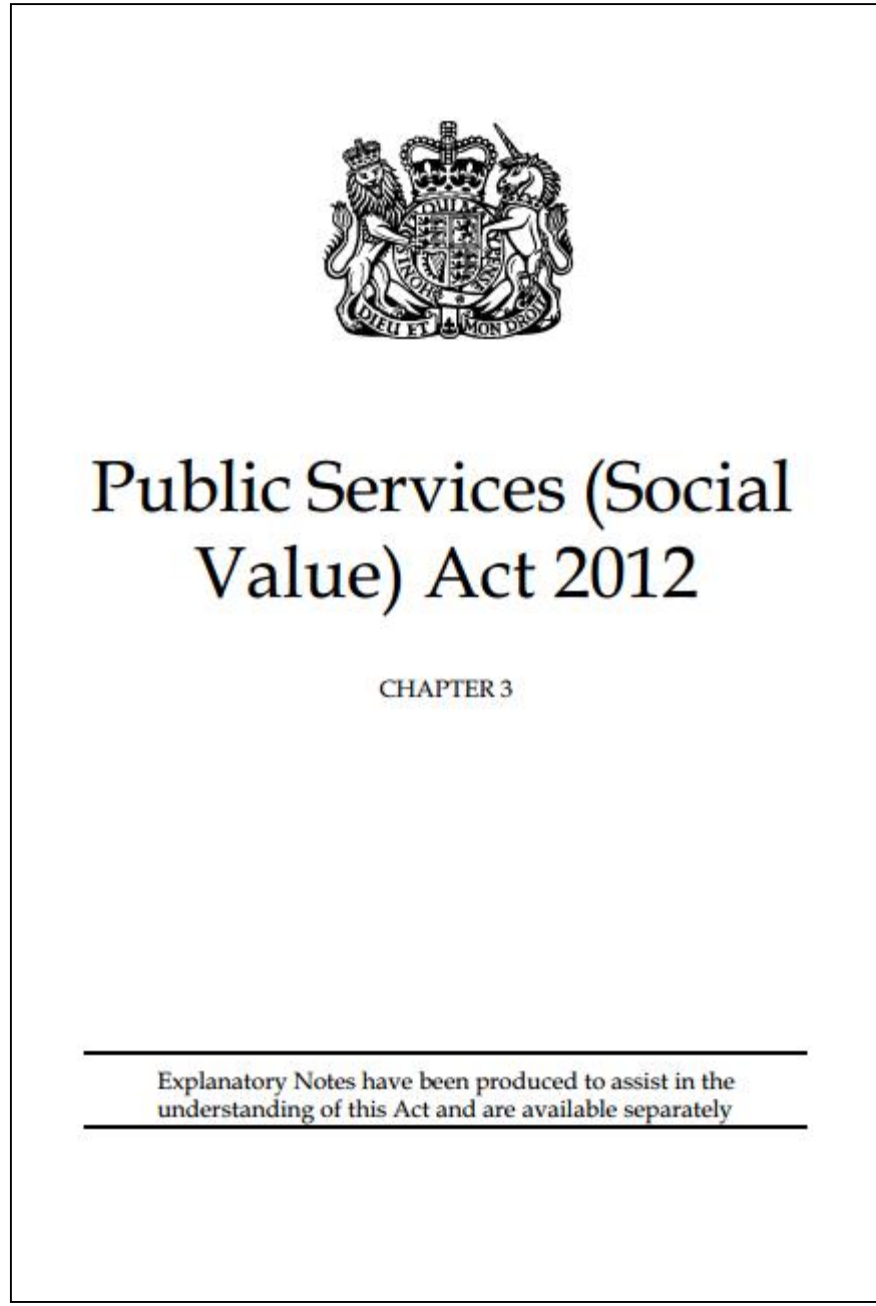
Social value asks the question: "If £1 is spent on the delivery of services, can that same £1 be used to also produce a wider benefit to the community?"



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Public Services (Social Value) Act 2012

CHAPTER 3

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Cabinet Office -Social Value

This procurement policy note gives guidance supporting the Public Services (Social Value) Act 2012.

Procurement Policy Note –

The Public Services (Social Value) Act 2012 – advice for commissioners and procurers

Information Note 10/12 20 December 2012

Issue

1. The Public Services (Social Value) Act 2012 (the Act) received Royal Assent on 8 March 2012. It will be brought fully into force by commencement order on 31 January 2013

2. From that date the operative provisions of the Act will apply and commissioners and procurers must follow the Act and take it into account when considering procurements of certain types of services contracts and framework agreements.

Dissemination

3. Please circulate this Procurement Policy Note (PPN) within your organisation, agencies, non-departmental public bodies (NDPBs) and any other bodies for which you are responsible, drawing it to the particular attention of those with a commissioning or purchasing role.

Contact

4. Please direct any general enquiries to the Service Desk: 0845 000 499 servicedesk@cabinet-office.gsi.gov.uk

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Social and Economic Value through Procurement?

"…socially responsible procurement… is not only …fully in harmony with the latest requirements of EU procurement legislation, but can also deliver greater social value.. More jobs, better pay, improved skills, vibrant small businesses, technical innovation….


SOCIALLY RESPONSIBLE PROCUREMENT

A Manifesto for Labour

Report by the

Labour Finance and Industry Group /Society of Labour Lawyers Task Force on Public Procurement

March 2015

Better, Smarter, Strategic Procurement?

The investigation of frameworks

Evidence and commentary from a spectrum of users and contractors points to both the highly effective use of frameworks as well as those frameworks which are less effective. Implementation of the construction strategy will investigate the effective use of frameworks across the public sector

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CONSTRUCTING EXCELLENCE IN THE NORTH WEST

Effectiveness of frameworks – social and economic value

Delivering sustainable efficiency savings

Delivery of projects to target cost and time

Reduction of Claims

High Client satisfaction rates

Good health and safety

Good “diversion from landfill”

High proportion of spend undertaken by SME’s

High take up of government initiatives (fair payment, apprenticeships)

Government Construction Strategy

Effectiveness of Frameworks

A report by the Working Group on the Effectiveness of Frameworks of the Procurement and Lean Client Task Group

Final version – 7th March 2012

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CabinetOffice

Government Construction Strategy

May 2011

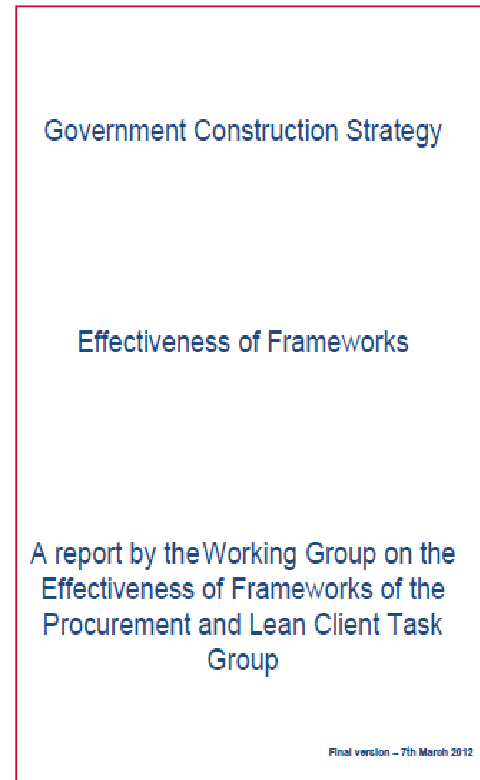
Social Value through frameworks?

Supply Chain Engagement:

- Agree SME and supply chain engagement strategy:
- Ensure engagement in national, regional and local frameworks
- Emphasise the involvement and integration of tier 2/3 suppliers within the framework and design team
- Ensure transparent approach and client engagement with supply chain
- Local sourcing, fair payment provision down the supply chain, measure and monitor engagement

Example Measures in Local Government:

- % of Sub-Contractors SMEs
- % of Sub-Contractors local to the area
- % of Construction Contract Spent with SMEs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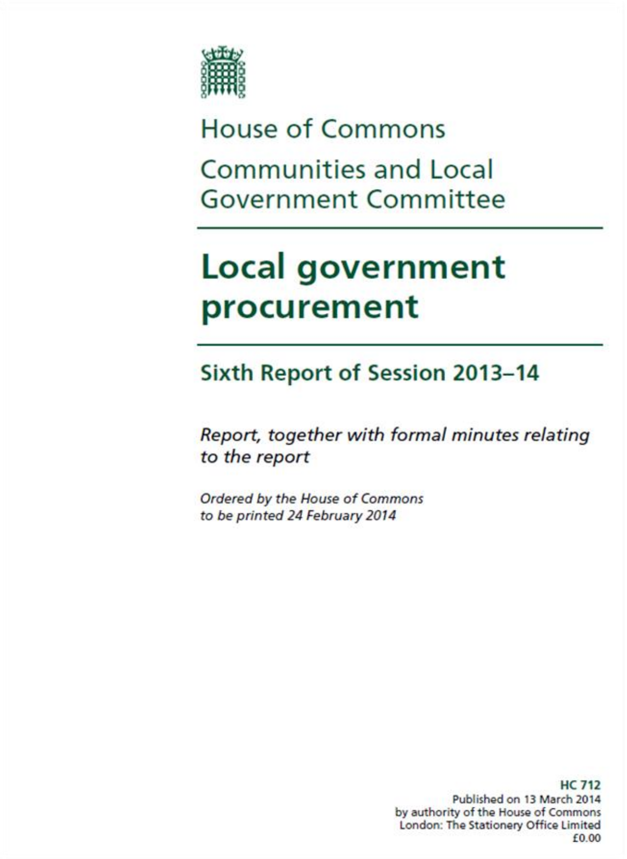
Social and Economic Value through framework procurement?

- Local councils spends around £45 billion on procuring goods and services from third parties (House of Commons, 2014);
- The North West Construction Hub (NWCH) was given as prime example for delivering value for money through their ability to choose competent contractors (P 22);



House of Commons
Communities and Local Government Committee

Local government procurement

Sixth Report of Session 2013–14

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 24 February 2014

HC 712
Published on 13 March 2014
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

Data from NWCH- Key Performance Indicators (KPI's)

Where UK Industry Performance average scores have been steadily declining in recent years, NWCH satisfaction scores have continually increased year on year.

- Fair Payment
- Waste Reduction
- Carbon
- Local Labour
- Apprentice Weeks
- Predictability
- Satisfaction
- Health & Safety

Data from the NWCH "Delivering True Value"

1618 employability and learning activities

141 project initiated apprentices created

288 sustainable apprenticeship placements

567 community engagement events

60.6% of site staff were defined as 'local'

For full details, visit www.nwconstrucionhub.org to view the 'More for your Money' Report

Please note the above figures are the most recent and supersede those within the More for your Money Report

North West Procurement Pipeline – allowing better, smarter, strategic procurement?

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North West Pipeline Methodology by GM Chamber

- Value and breakdown of pipeline from Barbour ABI data.
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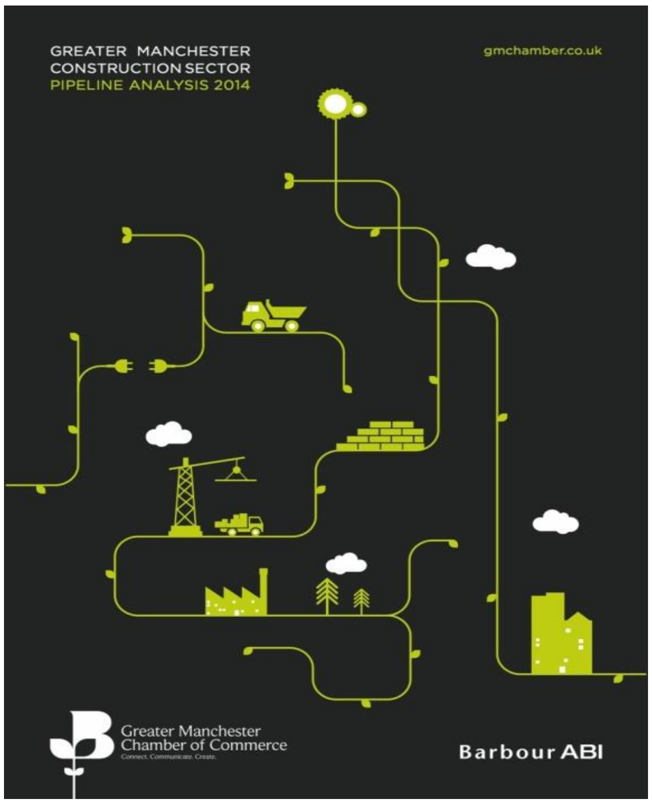
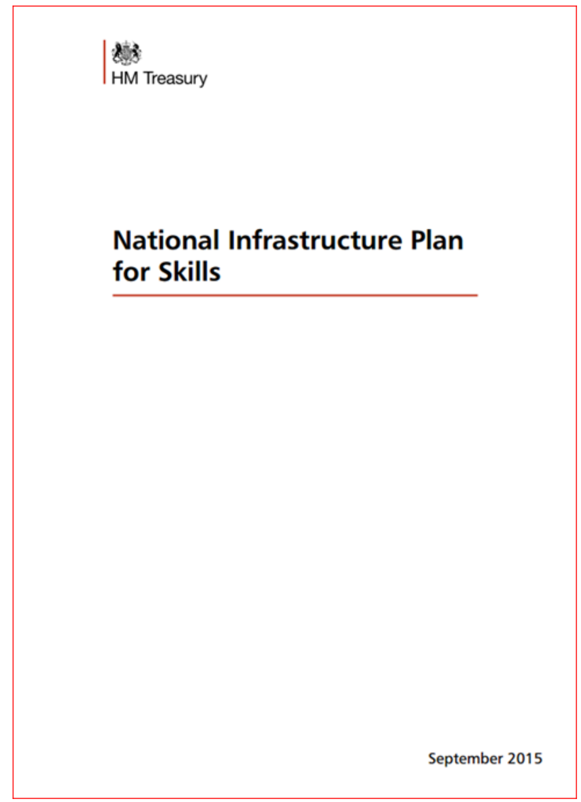

GREATER MANCHESTER
CONSTRUCTION SECTOR
PIPELINE ANALYSIS 2014
gmchamber.co.uk
Greater Manchester
Chamber of Commerce
Barbour ABI


HM Treasury
National Infrastructure Plan
for Skills
September 2015

Inside the stock exchange in Santiago, Chile, one of the first countries to adopt a form of neoliberal policies.

Neoliberalism: Oversold?

Jonathan D. Ostry, Prakash Loungani, and Davide Furceri

Instead of delivering growth, some neoliberal policies have increased inequality, in turn jeopardizing durable expansion

MILTON Friedman in 1982 hailed Chile as an "economic miracle." Nearly a decade earlier, Chile had turned to policies that have since been widely emulated across the globe. The neoliberal agenda—a label used more by critics than by the architects of the policies—rests on two main planks. The first is increased competition—achieved through deregulation and the opening up of domestic markets, including financial markets, to foreign competition. The second is a smaller role for the state, achieved through privatization and limits on the ability of governments to run fiscal deficits and accumulate debt.

There has been a strong and widespread global trend toward neoliberalism since the 1980s, according to a composite index that measures the extent to which countries introduced competition in various spheres of economic activity to foster economic growth. As shown in the left panel of Chart 1, Chile's push started a decade or so earlier than 1982, with subsequent policy changes bringing it ever closer to the United States. Other countries have also steadily implemented neoliberal policies (see Chart 1, right panel).

There is much to cheer in the neoliberal agenda. The expansion of global trade has rescued millions from abject poverty. Foreign direct investment has often been a way to transfer technology and know-how to developing economies. Privatization of state-owned enterprises has in many instances led to more efficient provision of services and lowered the fiscal burden on governments.

However, there are aspects of the neoliberal agenda that have not delivered as expected. Our assessment of the agenda is confined to the effects of two policies: removing restrictions on the movement of capital across a country's borders (so-called capital account liberalization); and fiscal consolidation, sometimes called "austerity," which is shorthand

Instead of delivering growth, some neoliberal policies have increased inequality, in turn jeopardizing durable expansion (IMF, Finance and Development June 2016)

"Towards the north-west construction and infrastructure powerhouse"?!

As the taps on the *investment* pipelines are turned on, it is the *procurement decisions* that will determine the social and economic impact that the "powerhouse" will generate. Amongst all industry sectors construction has the quickest and deepest economic multiplier effects. If the powerhouse is to be more than a free labour market, if it is to help re-balance the economy, if it incorporates some anti-austerity measures, if the new governance structures for devolution are to have an impact, then *better procurement decisions, and new procurement vehicles are needed*, especially in the construction and infrastructure sectors.

University of Salford MANCHESTER

CONSTRUCTING EXCELLENCE IN THE NORTH WEST

THE WIDER POTENTIAL USE OF THE INVESTMENT PIPELINE DATA

We can anticipate many other powerful uses of this pipeline, including

- **to help identify hot-spots of activity and pinch points in supply** to allow the promotion of smoothed investment planning across sectors by major clients in the region;
- to potentially forecast **the impacts of demand scenarios derived from the pipeline on future outturn costs**, and help to mitigate the impacts of cost inflation;
- To **encourage major clients in the region to invest more in the commissioning phase of programmes and projects**, as outlined in IUK Project Initiation Routemap;
- To **encourage the major clients in the region to adopt the set of Common Procurement Principles** being developed by government;

All of the above would potentially encourage changed behaviours and new business models from suppliers?

For example, suppliers may

- invest more in their own workforce,(or their sub-suppliers),
- improve payment times, and
- may help reduce false self-employment.

Further in consideration of the recent Review of the Public Services (Social Value Act) (2012, and especially the amendments to the EC Procurement Regulations the use of social and environmental criteria in procurement has been encouraged. If this public sector purchasing power was harnessed in the north-west (pure public sector = £2.9Bn) and was spent with a view to securing beneficial social and environmental outcomes, it would, inter alia,

- mitigate against any overall falls in this spend during the next parliament
- help prepare the suppliers for more inward, private sector investment
- stimulate local growth by increasing the spend that passes, directly and indirectly, to SME's in supply chains