



## **Wales Construction Federation Alliance [WCFA]**

### **EQUALITY, LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE (NATIONAL ASSEMBLY FOR WALES)**

#### **Inquiry into making the economy work for people on low incomes**

#### **Submission from the Welsh Construction Federation Alliance [WCFA]**

##### **THE WCFA**

1. The WCFA comprises the following trade bodies representing a cross-section of construction in Wales:
  - Specialist Engineering Contractors' (SEC) Group Wales/Cymru
  - Civil Engineering Contractors Association (CECA Wales)
  - Federation of Master Builders (FMB Cymru)
  - Home Builders' Federation (HBF Wales).
  - Mineral Products Association (Wales).
  - Builders Merchants Federation (Wales)

Together these bodies represent the vast majority of Welsh construction (by value).

##### **THIS SUBMISSION**

2. This submission to the Equality, Local Government and Communities Committee focuses on how construction procurement might be harnessed to help people on low incomes and, thus, reduce levels of poverty. Additionally, it seeks to promote the means by which the Wales Governments' Community Benefits Policy and Social Values might be delivered. It should be emphasised that some 99% of firms in Welsh construction are SMEs and, given the implementation of efficient procurement processes, secure cash-flow and fair competition, they will be the better able willingly to continue playing their part in alleviating poverty and delivering Community Benefits in line with Wales Government Policy. The majority of SMEs are involved in the delivery of construction works as sub-contractors in the supply chain. There are approximately 13,000 firms employing 130,000 people, involved in the design and delivery of construction-related

activity across Wales.

## PROCUREMENT

3. We have fully supported the Welsh Government's desire (through the Wales Procurement Policy) to use procurement as a strategic tool to improve the overall well-being of people in Wales. In fact, four years ago, the construction industry in Wales developed a Construction Procurement Strategy with this overall goal in mind. This strategy had the total endorsement of Welsh Government with the (then) Minister for Finance, Jane Hutt AM commenting that: "*we can use intelligent procurement policy to deliver cost effective outcomes that also provide social, economic and environmental benefits to Wales.*"
4. The Construction Procurement Strategy was produced by the Construction Procurement Strategy Steering Group comprising, but not exclusively, representation from the public sector, WGLA, Constructing Excellence in Wales and, significantly, Value Wales, the construction procurement arm of Welsh Government, as well as representatives from the supply chain. The Strategy set out a bold objective for achieving radical reform of construction procurement in Wales:

*"Clients will form a procurement policy that uses ethical sourcing, enables best value to be achieved and encourages the early involvement of the supply chain. Integrated project teams will be used to work together to achieve the best possible solution in terms of design, buildability, environmental performance and sustainable development."*

5. Implementation of the above objective would realise **two** major benefits that would ultimately improve the lives of people in Wales on low incomes:
  - efficiency savings gained through better value procurement can be diverted by Welsh Government to programmes that will help and support people on low incomes to improve their position, not least including Community Benefits:
  - Improved procurement practices will help displace bad practices - especially those associated with unfair risk transfer along the supply chain - that severely impinge upon the ability of SMEs to employ and, significantly, to train people in their communities.

Moreover best value procurement strategies help to sustain economic growth the benefits of which, in turn, permeate down to the less well-off.

6. But progress on achieving this objective, by general consensus, has been slow. The key to unlocking greater efficiencies and, thus, savings, is to engage the supply chain much earlier in the procurement process. This significantly reduces waste. A study carried out by the (then) Defence Estates Organisation in 1999 indicated that early supply chain involvement could save up to 69% on materials and labour costs. Currently significant waste is incurred by supply chains in having to make designs "work" or in rectifying work because of poor design or the lack of adequate information about the design. This, then

breeds disputes and provides reasons for denying payments to firms in the supply chain.

7. To overcome this fragmentation in the delivery process (which generates substantial wasted costs) the Construction Procurement Strategy calls for the use of integrated project teams from the outset. It recommends the piloting of a radical procurement option referred to as Integrated Project Insurance (IPI). IPI is already being trialled by the UK Government. It aims to achieve savings of up to 20% on construction works through eliminating process waste. IPI requires that the whole of the delivery team is appointed at the outset to agree with the client on the design solutions and how best to manage risk. The client and the team then finalise the cost plan which is then insured. If there is an overrun on the cost plan the insurance policy - a financial loss policy - meets the overrun subject to an excess shared in pre-agreed proportions amongst the delivery team.
8. The previous Minister for Finance, Jane Hutt AM, has suggested potential piloting of IPI on a two of projects within the 21<sup>st</sup> Century Schools Framework. It is vitally important that, given Welsh Government's ambitious economic and social infrastructure pipeline, that Welsh Government prioritises construction procurement reform. The only way in which this can be achieved is through a national agency that drives the reform process against measured targets, progress milestones and assessment of outcomes. Such agency should also have the power to challenge poor practices (that usually engender unnecessary costs) by both public sector clients and the supply side.
9. Whilst on the subject of wasted costs, Value Wales estimates that £20 million p.a. is wasted on the prequalification process. SMEs regularly complain that they have to repetitively complete prequalification questionnaires before becoming eligible to compete for contracts. These questionnaires either come from public sector organisations or from tier 1 contractors. Each questionnaire is different and this process, therefore, often imposes a substantial financial burden on small firms. Welsh Government has sought to standardise the process by publishing its supplier Qualification Information Database (SQulD). Unfortunately this is only being used by 50% of local authorities in Wales and there is no insistence that it is used by tier 1 contractors when selecting their sub-contractors. Our view is that we need to save the £20 million so that the monies can be re-directed to needier projects, such as are being considered by this Committee.

#### OUR PROPOSALS

**We invite the Committee to consider recommending:**

1. **The setting up of a National Construction Procurement Agency to drive procurement reform and challenge poor practices with the objective of achieving up to 20% savings in the cost of construction/infrastructure. Central to this should be the piloting of the IPI option (as is already recommended within the Construction Procurement Strategy but has yet to be implemented).**
2. **The same Agency should have a general remit to challenge wasteful and unnecessary expenditure with particular regard to the prequalification process. It should have powers to mandate any necessary changes (perhaps through the**

withdrawal of grant-aid). The use of SQuID should be mandated across the public sector construction, up and down the supply chain.

## CASHFLOW

10. The ability of SMEs in Wales to support their local communities through providing training, upskilling of their workforces and providing employment opportunities is critically hampered by poor payment practices. These are particularly prevalent in the supply chain where large tier 1 contractors tend to bolster their ailing balance sheets by insisting on lengthy payment periods or by finding spurious reasons for non-payment. A particular abuse is associated with the regular practice of withholding monies from progress payments, ostensibly as a hedge against failure of a firm to return to remedy defects. In practice this system of cash retentions is used, again, to bolster the working capital of those withholding the monies. Often the monies are not released until 2 or 3 years after handover of the work. Furthermore public bodies in Wales use retentions to finance other capital works\* or, in some cases, to invest in the overnight money markets. Approximately £30 million worth of retentions is outstanding at any one time in Welsh public sector construction. The bulk of these monies are funded by small firms.

*\*Evidenced by surveys of Local Authorities obtained by SEC Group Wales in 2014 and 2016 using the Freedom of Information Act.*

### OUR PROPOSALS

**We invite the Committee to:**

1. **Endorse the imminent announcement by Welsh Government that project bank accounts (PBAs) will be mandated for public sector projects worth over £2 million. (PBAs will enable monies to be paid directly from a public sector client to SMEs in the supply chain through a ring-fenced bank account; this will enable payments to be made within 12 to 15 days.)**
2. **Urge Welsh Government to introduce a statutory requirement that retention monies withheld on construction works in Wales are held in a protected scheme until release (such legislation already exists in North America, Europe and Australasia).**

## A LEVEL PLAYING FIELD FOR COMPETITION

11. The inevitable “race to the bottom” where lowest price trumps technical proficiency and reputation favours businesses which have little interest in investing in people and their communities. This issue was highlighted in Professor John Cole’s inquiry into the defects resulting in the closure of 17 Edinburgh schools last year and is likely to be raised again in the public inquiry into the Grenfell Tower tragedy. There is little incentive for reputable firms to provide the necessary investment in their own communities when they are operating in a very uneven competitive environment.

12. The overwhelming majority of US States and some Australian States have licensing schemes. Licensing provides evidence that a business is technically competent (often because it invests in training and developing the necessary skills) and has a good health and safety record. Many trade associations in Wales operate arms-length schemes that verify a firm's technical capability.

#### **OUR PROPOSAL**

**We invite the Committee to urge Welsh Government to establish a joint Government/WCFA task force with a remit to actively consider solutions such that a more level 'playing field' is created for all construction and allied sector firms in Wales. Perhaps also with a remit to consider licensing schemes abroad and distil the benefits into a licensing scheme for Welsh construction. A national licensing scheme for Wales would have the added benefit of dispensing with the pre-qualification process, with the ensuing benefits in the reduction of waste.**

#### **SUMMARY**

13. We firmly believe that, in taking radical action in the three areas we have identified could place the Welsh construction industry, together with the Welsh public sector, in a far stronger position to contribute to alleviating the incidence of poverty in Wales and assisting in meaningfully delivering Community Benefits. That notwithstanding, construction SMEs in Wales will continue to play their part in supporting their local communities, but some strong recommendations from the Committee may help to remove some of the barriers, such that, overall, wasteful practices in public sector procurement are eradicated, facilitating assistance to Wales Government in delivery of its' Community Benefits Policy and adding to real Social Value.

21/08/17 – AM/RK.