

Possible Procurement Changes for Project Acceleration in response to C-19

Observations on procurement in relation to sustaining the construction sector as a means of more rapidly delivering and spreading economic stimulus funds in response to C-19

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Our panel



Rupert Hodson
Northern Region Manager
(Host)

Rupert has over 20 years of experience as an urban planner. In his role as Region Manager, he coordinates Beca's scale and breadth of offering to help public sector clients respond to challenges and opportunities associated with the Northern Region's growth, notably in large scale infrastructure planning, design and delivery.



Stuart Tucker
Business Director, Major
Projects & Partners
(Speaker)

Stuart has been involved in the delivery of significant transport and infrastructure projects for nearly 30 years and has an outstanding track record as one of New Zealand's leading large project design managers.



Gerard Lieshout
Senior Project Director, Project
Strategy & Delivery (Panellist)

Gerard has 30 years of experience as a quantity surveyor, specialising in risk based estimating of major airport terminal, defence estate and state highway projects as well as leading programme management of nationwide and regional housing maintenance, repair and new build programmes.



Gavin Shaw
General Manager, Project
Strategy & Delivery (Panellist)

Gavin leads Beca's Project Strategy & Delivery team and has been involved in the formation and delivery of projects across most market segments both here and in the UK, and is highly motivated to drive an improvement in our industries procurement practices and outcomes.



Quintin Blackburn
Senior Principal, Project
Director Transport
Infrastructure (Panellist)

Quintin is a project delivery specialist with 25 years' experience in transport and infrastructure. His expertise lies in procurement and in project management, design management, risk management and construction management.

Safety moment



Settings

Lockdown has impacted everyone in the construction sector, particularly contractors

Government has announced a significant additional investment in infrastructure

There is a desire to use this investment to help “kick start” the economy and provide employment

There is a sector wide desire (clients, contractors and consultants) to use established “best-practice” mechanisms for procurement, contract form and terms of compensation to reframe and rebuild the sector to deliver the outcomes identified by the Construction Sector Accord

Settings



Choice of procurement methodology, contract form and conditions of contract have a significant impact on project cost and delivery timeframes



Significant expertise with rapid procurement processes already exists within procuring agencies (particularly NZTA)



Bespoke conditions of contract have become the norm. These have served to significantly delay contract award, increase the cost of bidding and have shifted risk profiles (arguably to unsustainable positions)



There are significant people capacity and capability constraints across the sector



There is a lack of robust and reliable pipeline information that makes planning and response difficult for the supplier market

Procuring Organisation Capability

Many procuring organisations may lack the willingness, capacity, capability and experience to manage the anticipated volume of additional activity, particularly noting the high speed objective and higher risk environment – hence recommended adoption of mandatory, simplified procurement processes

Where procuring organisations lack the necessary resources to deliver the procurement programme, consider private sector secondments to bolster capacity and address private sector workload shortfalls

A general lack of comprehensive and robust understanding of cost, risk and programme drivers suggests that shared risk approaches will yield better results in the near to medium term

There will be a shortage of experience with shared risk models that may test organisational capability and capacity, particularly at project governance level

Supplier Market Capability



Supplier market is not fundamentally broken but continues to struggle following a decade of poor procurement and contract management practice that has resulted in unsustainable risk and margin positions adopted as “market standard”



Significant level of change and volatility in the market, including ongoing insolvency and high levels of turnover hampering quality of response



Conditions and practices in the three segments (horizontal, vertical and residential) are significantly different and each require a tailored approach



Suppliers remain resource constrained, particularly at governance and project director levels



Border controls will restrict offshore support – certainly in the near term but potentially in the medium term as well, particularly for contractors



Lack of collaborative work practices and experience may hamper vertical and residential sectors

C-19 Context: Critical Risks

THREAT

Contractors already experiencing trading difficulties with minimal cash reserves may become insolvent mid-contract

MITIGATED BY

Consider application of NZTA Advance Entitlement Payment scheme to ease cashflows

Consider fortnightly billing and seven day payment terms

Develop contingency plans to take over projects mid-contract

Consider multiple contractors teaming to deliver projects (supported by shared risk forms of contract)

Procurement takes longer than expected, slowing cash flows, leading to insolvency

Adopt simplified procurement options chosen for speed

Actively manage portfolios including use of overt KPI's

Stimulus investment only benefits large firms

Target SME's, either directly with right sized contracts or through programmes of work (for example, housing insulation, asbestos pipe replacement, defence estate housing, school maintenance, health estate, etc)

Consider stipulation of minimum sub-contract work to SME's (Vic Park example)

C-19 Context: Critical Risks

THREAT

Stimulus cash burn is too high or too low. Both can result in too little work or too much work and both can lead to rework and/or insolvency

Central and local government procurers revert to pre-C19 procurement and delivery models

Conventional approach to risk and margin results in “race to the bottom” creating sector level risk of further failures

MITIGATED BY

Initial ‘bump’ of procurement to kickstart sector followed by period of measurement and feedback to assess capacity and capability for additional work

Ongoing engagement with suppliers to test capability and capacity

Maintain pipeline of “ready to procure” projects to supplement market

Consider advance entitlement payment to ease cash flows

Government stipulates acceptable forms of contract and procurement

AoG oversight (not necessarily procurement) producing accurate and current statistics with feedback to “offenders”

Opportunity to escalate and redirect wayward procurement

Procuring agencies stipulate overhead and margin

Robust assessment of contract risk at procurement phase, potentially with third party reviews

Robust due diligence on solvency of bidders

Recommendations - Procurement



Consider adoption of NZTA Procurement Manual for all government and local government construction project procurers to mitigate delays associated with bespoke procurement and contracts.



Recommend adoption of Shared Risk (alliance) for projects of scale to increase speed to market, particularly where design not yet commenced or complete.



Minimise use of competitive design-construct and competitive alliance methods (these are inconsistent with Construction Sector Accord outcomes, take too long to procure and often result in inappropriate risk allocation – should be used sparingly, if at all).

Recommendations – Contract Form



Adoption of **standard** forms of contract (i.e. without modification or special conditions) for all government and local government projects for the near to medium term to enable speed to market.



Adoption of reimbursable terms of compensation for direct costs (i.e. project-related costs).



Stipulation of on-site and off-site overhead and margin for contractors, and corporate overhead and margin for consultants, based on audited precedents (available from prior projects).

Recommendations – Other Matters

Draw on existing expenditure programmes to the extent possible, including large scale planned or deferred maintenance programmes

- easy to get going,
- no consenting issues, e.g., replacement of aging asbestos pipes, housing insulation

Consider application of 1% - 2% of construction cost to non-cost KPI performance payment pool using metrics targeted at delivering Construction Sector Accord outcomes.

Prepare, publish and regularly update robust pipeline data. Consider implementing an active market engagement strategy

Construction Sector Accord outcomes:

- Career pathways, apprenticeships, diversity
- Quality, value for money, reliable and timely delivery
- Workforce capability, collaboration and safety
- Productivity, well being and environmental performance.

Plus:

- Measurement of push of funds to SME's (Victoria Park Tunnel example), iwi and engagement of unemployed workers.



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