1. The Scottish Contractors Group (SCG) welcomes the opportunity to submit its views to the Finance Committee on the work of the Scottish Futures Trust (SFT). SCG represents 12 leading contractors operating in Scotland and is the primary association for major contractors on construction specific issues. Our aim is to provide a collective presence in terms of both (i) promoting and working to improve the perception of the industry and (ii) leading industry communication with Scottish Government.

**SFT’s role in securing additional investment**

2. SFT have been instrumental in securing additional investment, particularly during the recession. While public sector budgets have been cut, SFT continue to improve the long term strategic planning of infrastructure and influence decisions through creating a long term pipeline of work. There is no doubt that the drive behind SFT is a major factor in rebuilding confidence within the industry in terms of both medium and long term planning.

3. SFT also play an important role in working with government and the private sector to resolve the issues related to the ESA 10 rulings on public/private investment projects.

**SFT’s role in securing better value for money and improved public services**

4. SFT has evolved considerably during the last 5 years. When the market was saturated and restricted, the efforts of SFT were welcome in kick-starting the economic cycle. In the recovering marketplace, the challenges for the SFT will take a different focus and SCG would like to see further expansion and commitment to the current funding models.

**Fostering innovation to improve outcomes**

5. SFT have fostered innovation at a programme level, successfully delivering both the Hub and initial NPD pipeline. Both programmes have successfully delivered investment and competition into the procurement of Scottish infrastructure in times of economic challenge.

6. The approach introduced by SFT, including reviewing risk allocation and introducing direct public sector investment resulted in an approach designed to foster better understanding, communication and collaboration while ensuring improved value for money. SCG believe the Hub model in particular has the potential to deliver in this respect; a restricted supply chain, used regularly on successive projects, also helps to encourage innovation.
Encouraging collaboration to improve efficiency

7. Working collaboratively with an extensive supply chain on most projects, SCG members have collaboration built in to their existing work ethic, taking time to build relationships and nurture existing ones. We therefore support and aspire to the collaborative working practices of the SFT yet encourage them to go further. SFT are forthcoming in encouraging collaboration, they give end clients the flexibility to use collaboration effectively to drive efficiency. That being said, within the Hub programme there is potential to develop greater collaboration across tier one contractors. SCG would like to participate in discussions to achieve better collaboration at this level.

Securing better outcomes including job creation, training and apprenticeships, environmental sustainability, broader community benefits and digital connectivity

8. SCG support the increased community benefit clauses within construction contracts which have stemmed from the work of SFT. These can be used to build a range of economic, social and environmental conditions into public contracts which contribute to best value in sustainability. The challenging targets set lead to job creation, increased training, apprenticeships, development of SMEs and other wider community benefits. Overall this will benefit our industry and SCG members are therefore committed to delivering these objectives within projects.

Any other comments you might have on the SFT’s work towards achieving its key aims

9. The work of SFT has helped in the adoption of a collaborative approach to infrastructure investment, leading to better value for money and efficiency within the industry. In particular, the Hub programme is a key area of interest for SCG. We have previously engaged with SFT on this matter and look forward to continuing positive discussions on this subject (SCG’s Hubs paper is attached at Appendix 1). SFT are also playing a positive role in taking forward wider reforms of public sector construction procurement.

For further information please contact:

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Scottish Contractors Group review of procurement Hubs

Introduction
This paper sets out the Scottish Contractors Group's (SCG) views on 5 Hubs currently in operation in Scotland and more generally on the operation of construction frameworks.

Summary and proposed actions
SCG members are supportive of the Hub approach. However, we believe four key issues need to be tackled to improve the current hubs:

- **Pipeline of future work**: We would suggest a more transparent future pipeline of Hub work to encourage take-up, along with better information on build period and estimated project value. Currently participants are not required to put any volume of work through the Hub vehicle, meaning Hubs have to market their service capability to obtain projects.

- **Value for Money (VFM)**: VFM is not being fully delivered as the current tender evaluation process tends to focus on bottom line price. In particular, SCG believes that earlier contractor involvement could deliver better VFM. At the moment main contractors are not engaged until after the design team has been appointed. SCG wishes to work with procurers to increase VFM;

- **Streamlining process**: We would recommend a reduction in the period of time taken to financially close Hub projects – specifically from preferred bidder to financial close. SCG would like to be involved in discussions to find ways of achieving this.

- **Improving collaboration**: We believe that there is some potential to continue to improve collaboration across tier 1 contractors on Hubs within the bounds of Competition law. A restricted supply chain, used regularly on successive projects, also helps to encourage innovation. SCG would like to participate in discussions to achieve better collaboration.

More generally, SCG members believe that procuring construction services through construction frameworks can provide better value for the client whilst ensuring that SME contractors are not disfranchised. SCG believes that more local authorities could be encouraged to make use of the process if the benefits were better promoted. SCG is keen to work with the Scottish Futures Trust to establish a clearer business case for frameworks and better guidance on when it is appropriate to use them.
The Hub process in Scotland

There are currently a limited number of frameworks in operation in Scotland - the 5 Hubs are prominent, followed by a number of other frameworks carried out by individual local authorities and the NHS Health Facilities Scotland Framework.

The current Hubs are all different in their make-up and approach

SCG members’ experience of the Hubs

In 2014 SCG members collectively reviewed their experience of the Hub process to date. The following views were expressed:

The process

The early Hubs such as South East and North have closed supply chains, whilst the West and South West have more open supply chains. These differing approaches produce different results. The West's approach – whereby the selection process is from 3 contractors who provide bids on the basis of Quality Submission plus fee + prelims arrangement is seen as more efficient with appointments being made more quickly.

SCG also believes that there is benefit in restricting Hub supply chains to a limited number of contractors to improve collaboration and overtime deliver better value for money. This cannot be achieved via open supply chains. Even so, SCG recognises the need to keep Hub membership under regular review.

On schools procurement via Hubs it was felt that some use could have been made of the experience gained in England on BSF/Academies.

There was also a view that the competitive dialogue process was often wrongly applied discouraging innovation.

Value for Money (VFM) and costs

VFM is often lost in the drive for competitiveness. While there is an understandable desire to minimise procurement costs, this needs to be balanced against VFM over the medium term. The tender evaluation processes used by Hubs tend to focus on bottom line rather than VFM/price and programme robustness/innovation. Processes also don’t always allow sufficient evaluation of alternative bids.

SCG members would like to see greater transparency in the tender scoring system – the methodology needs to be clearer and the quality of feedback more consistent. It is currently felt that there is too much emphasis on the capital cost as opposed to the whole life cost.

As the construction market recovers, there has been an increase in inflationary cost pressures - fee percentage and risk allowances need to better reflect market conditions.
One route to achieve costs savings and economies of scale could be through bundling similar projects in the same geographical area together.

**Collaboration**

SCG members believe the Hub model would benefit from greater co-ordination between the Hub vehicles to spread learning, and achieve efficiencies and value for money solutions.

Cross Hub communications and learning should be encouraged. At Hubco level there is a forum where regular meetings are held between the various Hub bodies - this could be built upon, with lessons learnt and examples of best practice communicated better.

Within the Hubs themselves there could be greater collaboration across the tier 1 contractors.

More discounts are being asked for on prime costs of works, as opposed to achieving real prime cost savings via streamlined procurement process achieving the benefits of volume discounts being obtained for bundles of projects being let across Client bodies in different Local Authorities.

**Designers**

SCG members believe there is a risk that over time designers will not work to the various capped fee levels as other opportunities will become financially more attractive.

It would be useful to understand what the collective value of spend has been on design fees and procurement process using NPD model - it was thought this would show that the process was an inherently costly and inefficient method of procurement.

Payment to designers during the preconstruction period in Hubs also varies, with some Hubs paying in stages, and others asking designers to finance until financial close which can be a disincentive. This is being revisited by SFT however no definitive guidance or mechanism to allow costs to be recovered pre financial close are yet in place. Cash flow for designers could be improved by monthly drawdowns during Stages 1 & 2.

Design guides have been seen as positive (e.g. Vanilla Schools), but should be extended and good examples communicated better so Hubs do not have to recreate existing good practice.

The suitability and selection of designers is still varied with some LA’s choosing and others leaving it to contractors.

From a contractor perspective, early involvement is essential – as often contractors are employed after months of design work has taken place. Time and cost are often then expended while the design is reviewed and budgeted, and adjustments made.
M&E Market

On a similar basis the M&E market has changed and will continue to do so as workload picks up, the approach to this element of work is seen as critical to the success of projects being delivered to budgets and programmes, however it is clear that the base costs are a challenge which needs to be recognised and addressed.

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