


# Construction Clients' Policy



Investment in new construction or refurbishment represents a significant decision for any enterprise and should contribute to more effective business. In order to achieve this, clients increasingly need access to best practice in both briefing and purchasing and supply management skills.



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### CIPS and the Construction Industry

CIPS was invited to act as "Clients' Assessor" to the Latham Review. The CIPS' contribution, "Productivity and Costs in the Construction Industry", was based on contributions from over 100 clients. It recommended the establishment of a representative body for clients and first suggested the target of 30% value improvement included in the Latham Report. Although rejected as impossible at the time by much of the construction industry, this target became generally accepted and then, three years later was raised to 50% by Sir John Egan.

CIPS, jointly with the British Property Federation (BPF), funded the establishment and operation of the Construction Clients' Group (CCG) which was also supported by the Construction Industry Board (CIB). The CCF has recently been restructured and is now known as the Confederation of Construction Clients (CCC).

CIPS members have contributed to the development of the CIB's Good Practice Guides, the preparation of the CCF Pact and the new Construction Clients' Charter, and have generally played a significant part in the work and management of the CCF.

### Background

The construction industry generates 8% of the UK GDP, yet is much less a proportion than that of our international competitors and must be expected to increase. Even so, annual purchases of construction services, equipment and materials for new works, refurbishment and facilities management amount to some £60billion.

Investment in new construction or refurbishment represents a significant decision for any enterprise and should contribute to more effective business. In order to achieve this, clients increasingly need access to best practice in both briefing and purchasing and supply management skills.

### The Latham Report and Sir John Egan's "Rethinking

Construction" highlighted the construction industry's need to improve its poor public image, its product and its profitability. Recommendations from both authors promoted new ways of working for the industry and the wider adoption of such purchasing and supply management practices as:

- Value Management, Risk Management and Value Engineering
- Partnering
- Supply Chain Management
- The use of new technology and techniques such as: eCommerce, JIT, MRP, standardisation and benchmarking.

### The CIPS' Role

CIPS exists to promote best purchasing and supply management in all respects. It sponsors four University Chairs to stretch the boundaries of purchasing and supply management practice and provides continued professional development including the CIPS Graduate Diploma.

The CIPS believes that the development and promotion of best purchasing and supply management practice in the construction industry is in the interests of clients, the industry and the UK as a whole.

Led by its Construction Clients' Purchasing Group, the Institute will:

- expand its services to all clients, large and small
- provide additional benefits for members
- consult and inform the industry.

In line with Sir Michael Latham's key recommendation, CIPS will encourage clients "to take the lead". To do so, CIPS will facilitate their gaining the necessary skills and knowledge of industry practice.

### The Present Position

A fair proportion of major clients, leading designers and innovative contractors are benefiting from the Latham/Egan initiatives. However, the multitude of medium and small clients as well as many large ones together with their suppliers, remain untouched. Indeed, complaints against the construction industry overtook those against the car industry for the first time in 2000.

Improving the performance of the industry offers great benefits for everyone involved as well as for the UK economy.

### CIPS Construction Industry Policy

CIPS subscribes to and supports the "Construction Clients' Charter": produced at the behest of HM Government, by the Construction Clients' Confederation. CIPS will promote the benefits of the Charter, paying additional attention to the needs of small and occasional clients. CIPS recommends that clients should prepare a "business case" for any construction project. The case should identify the lifetime added value expected and use "whole-life costing" to demonstrate that the added value adequately exceeds the costs. CIPS also recommends that clients should develop skills for measuring how their projects perform in practice.

CIPS believes that clients of the construction industry have a responsibility to set clear, realistic and quantifiable objectives and to define priorities for their projects. In particular, the CIPS recommends that clients should:

- take time to produce excellent briefs. Only then can optimum designs be developed leaving the improved fitness for purpose and greater lifetime value.
- recognise that the direct cost of repairing defects is reported as £1Bn a year and that their consequential costs are much higher. Clients also bear the costs of the time so often lost on site due to inadequate management.
- understand the purchasing options available as the method of selection and contracting process for the engagement of project managers, designers, other professionals and the construction supply chain is crucial to the success of the project. Early appointment of any one of these may limit the client's options and control.
- take care in assembling the team including all the necessary skills and experience for their project and promote a non-adversarial approach amongst client, advisers and the supply chain.
- use the more modern and less-adversarial forms such as the New Engineering Contract (NEC) family that encourages the resolution of risk allocation and programme before contracts are awarded.

The NEC family includes conditions for the appointment of professionals, the Engineering and Construction Contract, its sub-contract form and a separate form for appointing adjudicators

that together provide the only complete and homogeneous terms and conditions for an entire project.

CIPS believes that there is scope for improving the calculation of fees for professional advisers and that these should be more aligned to value of services provided (as provided by the NEC Professional Services Contract which was produced in co-operation with the CIPS) rather than a percentage of total cost.

CIPS believes that the construction industry should become increasingly transparent and fairer to all parties. All parties should adopt the principles of the CIPS Practice Document on Business Ethics. For example, suppliers at all levels in the supply chain should be paid within the agreed period. CIPS recommends that suppliers be selected through a competitive process within a value for money framework and that quality, service and other factors should be considered along with price. In addition, risks should be allocated to those parties best able to manage them and to the extent they are able to carry the risk.

CIPS believes that clients and their professional purchasing and supply management advisers should audit the construction supply chain from a social responsibility perspective. This includes: human rights; health & welfare; working conditions; workplace safety; equal opportunities; training & personal development and also global issues such as use of child labour.

CIPS believes that the use of sustainable materials and components, the minimisation of wasteful processes and wasted materials will lead to both a better environment and greater value for money.

CIPS believes that the construction industry should be more oriented towards the needs of the client.

### Benefits

The CIPS commends the adoption of these policies for the following reasons:

- reduced exposure to commercial risk (greater certainty of cost, programme and quality)
- increased value for money and availability of assets (right first time)
- fewer contractual disputes
- being an attractive client increases the competitiveness of offers
- reduced risk to reputation regarding social and environmental issues
- better working environment leading to increased employee satisfaction.

### Conclusion

To achieve these objectives the CIPS recommends that professional purchasing and supply management input should be involved from the outset of any construction project.



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