

The Public Administration and Constitutional Affairs Committee

Government management of major projects

ACE submission

November 2018

ACE Submission

1. **How can major public projects be managed to command more respect and public confidence?**
 - 1.1 Unfortunately, there is no quick solution when it comes to improving levels of public respect and confidence in major projects. Building the respect and trust of the public takes time and opinions will not be altered overnight.
 - 1.2 Delivering major projects on time and to budget does much to improve public perception and trust. However, in reality this is not always achievable for a variety of reasons. Where projects fail to deliver, and depending on the degree of failure, is where major projects lose the respect and confidence of the public.
 - 1.3 It will not be enough to just deliver one project, but a series of projects that prove UK plc has a system that works and is capable of delivering over the course of years, if not decades. In order to boost the public perception of major projects in the future, it will be critical to deliver on time and to budget.
 - 1.4 Improving the communication around what the benefits of a major project are to members of the community will also help to garner support for UK major projects. Members of the local community need to understand what the benefits of a project will be for them and their area. These may be the tangible benefits a project may bring, such as the connectivity delivered by HS2, or the wider benefits a project may have for local suppliers and workers in the community, ensuring this message is clearly communicated is the first step in building support.
 - 1.5 If local people see clear benefits and are involved in a project with the construction, or at some point in the supply chain, they develop an affinity with the project. This helps to erode localised opposition and ensures that the project has a positive effect on the local community, leaving a positive enduring legacy. The Infrastructure Projects Authority (IPA) benchmarking team would be well placed to assess this once it has been established.
 - 1.6 The Government should also consider what it announces, how much and when. This would help to avoid setting unrealistic baselines that lead to mismanaged expectations. The approach of announcing the benefits first, followed by an announcement of a willingness to pay, leaving the timescales and costs to later in the process when the Government can be more confident will help to manage expectations over the course of the project.

2. **How well equipped is the Civil Service to commission, manage and deliver major projects?**

- 2.1 Ensuring there are the people with the appropriate skills in the civil service is crucial to the delivery of major projects. In the case of the management and procurement of major projects, this is one area that would greatly benefit from having specialists within the civil service.
- 2.2 One of the key challenges for the civil service is determining what it is best cost and what is best value. The issue is the difference between cost and value is often difficult to understand, and the way projects are procured often leaves little room for manoeuvre when it comes to awarding contracts. Having the right numbers of experienced staff with the correct skillset and inherent expertise when it comes to procurement in the civil service is vital if the Government is to properly understand the various bids for major projects.
- 2.3 Retaining staff with these skills in the civil service can be an issue; those with expertise in procurement often move to a different department or even enter into the private sector resulting in a loss of skills. In some instances, civil servants that start on a project often don't see it through to completion because of the timescales of major projects resulting in a disconnect between the team that starts on a project and the one that sees it completed.
- 2.4 Another key issue early on in the procurement process is ensuring the civil service ask the right questions that correctly probe and find the most appropriate partner for delivery. In many instances, the initial stages of the procurement process amount to little more than a 'tick-box' exercise that fails to actually give bidders any degree of what the Government wants to get out of the project. This results in bids that will struggle to deliver the Government's vision for a major project.
- 2.5 Questions currently are arbitrary in nature and fail to focus enough on how a project is going to be delivered. Civil servants need to be empowered to ask the questions that will discern between bids that will successfully deliver a project. If the initial procurement questions were to focus more on how the project will be delivered and the pre-qualification questions standardised, the outcomes of projects should improve.

3. How are decisions to commission and deliver major projects taken? What planning takes place and at what stage? How is the requirement for the project assessed?

- 3.1 Procurement criteria will be set by a project manager usually on a points-based system that assigns different values to certain performance indicators. The value associated with a measure will be related to its importance to the project. These criteria will apply specifically to a given project meaning there is often little consistency in the questions asked across projects. The alignment of benefits into the commercial approach as well as how this feeds into procurement and the awarding of contracts will also be considered.
- 3.2 Early on in the process there is a lack of extensive supply chain involvement, meaning opportunities to innovate and add value are often missed. In conjunction with poor integration with SME's, the decision-making process prohibits projects from achieving their full potential.
- 3.3 Whilst there will always be bespoke arrangements and considerations on major projects, a lack of consistency in the approach to commissioning and delivery prevents projects being benchmarked against one another on a basic level. The result is it is difficult to draw conclusions about how the decision to commission major projects compares to one another.
- 3.4 Not only does this make measuring the way projects are commissioned and delivered difficult, it also lengthens the amount of time it takes to compose a bid due to the specific nature of the tender document. Bid teams are required to dissect the tender document individually and ensure that nothing is missed. Increasing transparency around bid requirements and removing unnecessary bureaucracy would greatly assist with project understanding and, consequently, delivery.

4. How should the Civil Service and government departments initiate and manage major projects? What represents best practice and how well is best practice understood?

- 4.1 Best practice is captured in the civil service route map, but this often fails to translate in reality. This returns to the previous issue around skill retention within the civil service. Having the right people within the civil service who have developed an understanding of best practice and experience of the process is invaluable.
- 4.2 In terms of best practice, there are certainly senior consultants who understand and have good experience from working on large scale major projects and what

the best way to manage and deliver these projects should be. The key challenge is ensuring these people remain in the public sector and can continue to put their expertise to good use.

- 4.3 Alongside this, the civil service must be more open to admitting when it does not have the required skills for a project and reach out to the private sector to bring in this knowledge at the right time. This is crucial in early stages of project development as the clearer the governmental client is about why they need a particular project and how they will meet that need, the better for the procurement process will be. Consulting Engineers have the skills to help Government achieve this, but they are not being engaged at an early enough stage.
- 4.4 By benchmarking on outcomes and outputs, the process by which best practice is realised can be improved. Whilst best practice is conceptually well understood, ensuring that it translates into reality happens less often.

5. Who is, and who should be, held accountable for the conduct of major projects and for their outcomes, and who should be held accountable?

- 5.1 Currently, on major projects, ultimate accountability for the project's successes and failures rests with the Minister responsible and the head of the department overseeing the project. Accountability is often shared down through the management chain to the head of the project and then with senior management of the project.
- 5.2 In reality, apportioning responsibility for the failures of a major project is difficult. From an industry perspective, finding the person responsible from the public sector can be challenging, and for them to then be held to account, even more so.
- 5.3 Accepting responsibility in the public sector comes with an entire category of risks that the private sector does not have to deal with. The consequences of perceived failure in the public sector could include wider political and electoral consequences, with the potential for backlash from voters if failures occur.
- 5.4 Increasing transparency in the public sector would go a long way to improving accountability across major projects. Spreading the responsibility thinly around a department or departments diminishes the effect and ultimately nobody takes responsibility. It is important that when it comes to placing responsibility, or indeed praise, this is done with a deal of assiduousness and rigour. It is easy to accept praise, but far harder to admit to mistakes. Being transparent in the way the civil service does this would help improve levels of accountability.

- 5.5 Major projects specifically require a partnership between consultants and government, taking joint responsibility and accountability at all levels of a project. The reason this often becomes blurred is due to risk allocation in the supply chain contracts. Early acknowledgement of this principle should help to establish clear and direct lines of accountability for stages and sections of the project.
- 5.6 Increased levels of responsibility necessitate consultants take on joint accountability for a project, and in these cases, the Government needs to empower and trust consultants to deliver. All of this requires a cultural change in accepting responsibility when it is right to do so and being modest in our acceptance of success.
- 6. How should departments establish the best governance of major projects? What is the optimum structure? How should departments divide and allocate responsibilities, and how should boards and chief executives be held accountable for governance of their operations, without restricting their requirement to exercise their own discretion?**
- 6.1 In order to achieve good governance of a major project, it is necessary for all partners to be able to have a seat around the table when it comes to decision making. By embedding contractors and suppliers into the management and governance structures, concerns from across the supply chain can be raised and addressed at the appropriate levels. This concept of shared responsibility would go some way to improving major project governance.
- 6.2 Furthermore, having cross departmental visibility of the criteria for success ensures that all partners are pulling in the same direction. It is vital these criteria are visible and not open to varying degrees of interpretation as this results in the desired outcomes not being realised.
- 7. How should departments assess the strength of leadership of a major project? What skills and experience do they need to apply to this question?**
- 7.1 Properly assessing the quality of leadership requires clear Key Performance Indicators (KPI) for management structures. Critically, these measures must have clear and tangible consequences that can influence behaviour and improve the leadership of major projects.
- 7.2 Departments should also consider the skills of a leader as an asset owner and how this will affect the performance project. This should be assessed through route map asset management modelling.

8. What should be the expectation of remuneration levels, churn of top executives, and conflicts of interest between commissioning authorities, contracted companies and potential contractors, consultants and civil servants leaving their department for the private sector? How should the government oversee these issues?

8.1 ACE has no comments on this question.

9. What role does competition play in the market for contractors for major projects? When is competition beneficial and when is it more of a distraction from issues which need to be addressed?

9.1 ACE welcomes competition in the bidding process, however it is vital there is a level playing field ensuring all potential suppliers have an equal chance of being awarded a contract. This can only be achieved if the right criteria are being used and the right questions are being asked during the procurement stage.

9.2 Achieving competition that results in beneficial outcomes is tied in with the construction of the procurement questions. Ensuring the questions are outcome focussed will stimulate fair competition to provide the best bid rather than focusing on lowest cost.

9.3 The competition in the process currently results in bids often being assessed on their price alone because of the Government's accountability to taxpayers. It is difficult to ensure that this does not result in the lowest cost bid being taken forward because it is the least short-term cost to taxpayers. This may be in spite of the fact other bids for the same project may cost the tax payer more in terms of capital, but the wider social or environmental value delivered are greatly improved as a result of the higher bid.

9.4 Competition can often cause companies to say they can deliver a project for a specified amount, but only do so to secure the contract rather than it be awarded to a competitor. The result is that bids are constructed in order to win contracts rather than deliver a project that demonstrates excellent value for taxpayers; the actual delivery of the work is an afterthought. Ensuring the procurement questions establish the right parameters at the outset is vital.

9.5 It is important to state lowest cost may equate to best value in some instances. The crucial aspect is ensuring the civil service is aware of how to distinguish between cost and value, and that this is reflected when deciding who to award contracts to.

9.6 Where major infrastructure projects are concerned, getting the procurement questions right at the is a crucial consideration because the life of the asset is so

important. The considerations at the start of the project have visible and tangible implications in the long term; building low cost and low-quality roads is ultimately costlier in the long run than building better quality ones that last.

10. What are the strengths and weaknesses in the usual process by which contracts are awarded and managed? What are the lessons to be drawn from particular examples of success or failure?

- 10.1 The impact the collapse of Carillion had on our industry was profound and it is vital the lessons are learned from this. Understanding the cashflow situation and the future pipeline of work is vital to avoid the repetition of a similar situation.
- 10.2 What the collapse of Carillion demonstrated is that no company is too big to fail and that assuming a large contractor will be able to deliver a project primarily because of their size should not be taken for granted.
- 10.3 When major projects are mismanaged, it is also important to acknowledge the effect such a failure can have on the entire supply chain supporting the project.
- 10.4 The issue of late payment of invoices is also important for our members. Our recent Benchmarking Report¹ indicates that an average of 3.4% of Directors' and/or Partners' time was spent on payment disputes. 31% of firms thought that 5-10% of their principals' time was spent on late payment issues. Other staff spent 8.2% of their time on this task. This is all time that could be spent bidding for and winning work. Furthermore, performance needs to be taken into account when awarding contracts based on key metrics such as payment times to suppliers.
- 10.5 The use of 'Z clauses', whilst these are able to serve a particular purpose, often result in unintended outcomes, or outcomes that delay the decision-making process and add to the opaqueness of the contract. They often alter the way risk is balanced and add legal uncertainty into the process.

11. How are timescales for delivery decided?

- 11.1 When considering the timescale for delivery, much of this will be decided by experience from previous similar projects. However, the bespoke nature of major projects often means there are elements that have not been tested before either overall, or on the scale required for the project. This unknown is difficult to account for and generates risk which has an impact on the timescales.

¹ <https://www.acenet.co.uk/resources/benchmarking/>

12. How adequate are the processes for monitoring the progress of projects over their lifetime?

- 12.1 Major projects, because of their high profile, attract a lot of scrutiny and as a result, pre-commencement monitoring tends to be of a good standard.
- 12.2 However, where industry fails to fully capture or understand the value of a project comes post-completion. Without post-completion reporting, it is difficult to formally recognise the benefits and address the shortcomings a given project is delivering. If no formal assessment is made that considers how well the project is performing, the benefits to the taxpayer become opaque and there can be little basis to pass judgement on whether a project has succeeded in delivering what it was intended to.
- 12.3 Better understanding the legacy and lasting impact of major projects requires us to undertake more post-completion reporting. The 2012 London Olympics and the Eurotunnel project are two examples of major projects whose long-term impacts are apparent and where the legacy of each project is well known.
- 12.4 It is too often the case that we hear about the success or failure of major projects via the National Audit Office (NAO) or following an inquiry rather than directly from the projects themselves. Indeed, the NAO's latest findings around projects leaving the Government's major projects portfolio highlight the data available is inadequate to provide a full assessment of the legacy of certain projects.
- 12.5 Part of the issue are the fiscal assumptions embedded in HM Treasury's Green Book, for example five-year funding cycles and three-year Spending Reviews. This is particularly problematic for major projects which can take far longer to complete, and their return will be realised over several years or decades. Major projects need continuity and long-term funding security in order for them to achieve their full potential.

13. How are risks assessed? How are they mitigated and what are the lessons to learn from examples of success and failure of risk management?

- 13.1 Risk on a project is often poorly explained, and the difference between a 'risk' and an 'issue' is not well understood. Better differentiation between the two is the first step to better assessing risks.
- 13.2 The civil service has its framework for management of risk in Government. Part of the issue is that different departments within Government have different models for managing risk despite them being under the framework of risk

management. A consistent methodology across the civil service for assessing risk would greatly assist with the delivery and procurement of major projects.

- 13.3 From an industry perspective, different companies will have different risk approaches to risk management and different structures for mitigating these. A client, sponsor or market's capability will inform their ability to mitigate risk. A highly capable client and sponsor should be able to use the complexity of a project to drive the approach to risk management² and avoiding complacency in the process.
- 14. What are the best financial models to adopt for financing and managing the delivery of major projects?**
- 14.1 The model used should be appropriate for the proposed project. While capital is, of course, necessary, it is not sufficient to ensure success. The money has to be focused on the right projects and then spent judiciously.
- 14.2 There are two primary sources of revenue for investors in infrastructure. The first is public funds and the other is revenue streams in the form of charges, such as tolls, paid by end users. Historically, Government has assumed most of the burden. However, the scale of major infrastructure projects makes attracting private investment critical to supplement Government funding.
- 14.3 To do so, projects in difficult-to-finance areas such as roads and water should take their cue from telecommunications. This sector manages to attract investors, even in capital-poor countries, because it offers a clear return on investment and predictable cash flows. If charging users offers a realistic prospect of covering capital or operating costs, then doing so makes sense, assuming this arrangement makes provisions for low-income users, ensuring they are not overburdened. ACE have explored this concept more thoroughly in our 2018 report *Funding Roads for the Future*³ where we discuss options for funding our road network over the coming years as revenue from fuel duty and vehicle excise duty reduces.
- 14.4 To replicate the telecoms model for other kinds of infrastructure, governments should ensure that charges reflect the economic costs. Even a well-structured project will fail to attract private financing if prices are set too low; in that case, the public sector will be forced to cover all the costs. In order to ensure the price is set right the period of time for return needs to also be set at the right level as

² IPA - Improving Infrastructure Delivery: Risk Initiation Routemap

³ <https://www.acenet.co.uk/media/1139/funding-roads-for-the-future.pdf>

too short a pay-back period can lead to charges that are too high to achieve public support.

- 14.5 However unpopular doing so may be, the Government need to set prices for such projects so that investors can earn a reasonable financial return. Otherwise, the systems will not get built.
- 14.6 Capital is one thing but the infrastructure-finance market is also plagued by a lack of information. Governments and businesses aren't in the habit of sharing best practices or benchmarks with each other, much less the details of what went wrong (or even right). Governments, investors, developers, and operators alike would benefit from sharing more information and in more structured ways. Many governments recognize that developers can be a valuable source of ideas, for example, about which projects would have the best economic returns or how to attract private investment. Early evaluation of project plans can help prospective bidders warn governments if the project looks unviable.

15. What are the most prevalent reasons for major projects overrunning or exceeding their budget?

- 15.1 As shown above, the lack of clarity from governmental clients combined with lack of information to prevent either Government or the private sector accurately evaluating the time and cost a project will take. This leads to over optimistic assessment by Government that lowers cost and shortens delivery times in the pre-bid process which affects how the private sector responds.
- 15.2 Initial bid estimations by large companies are often not constructed by the 'bid team'. The first stage of the bid often gives a very rough estimation of how much a company would be able to complete a job for. Contractors must make a decision about the amount of resources they are willing to commit to creating an accurate initial bid: there is little point in a company creating a detailed bid initially if the contract is not going to be won. This is compounded by the issue of evaluation on cost alone where it is more often than not the case where the cheapest contractor is awarded the job.
- 15.3 The result is that when the actual bidding team have to put together the second stage and work out specifics, there are inevitably more things that need to be considered. Cost projections are higher than initially anticipated because more time is given to accurately working out the cost of delivering the project.
- 15.4 There then follows an expectation to deliver the contract, understandably, to the initial bid cost submitted. The issue lies not in that projects are more expensive than anticipated, per se, but rather that companies are submitting contracts that

seem cheap in order to secure any work at all. If a company was to consistently put in bids that were 50% more expensive than other competitors, they would never be awarded any work.

16. What lessons can be learned from examples of projects in other countries or under the control of devolved or local government?

- 16.1 ACE believes local government structures do not have the ability or capacity to take on, let alone deliver, any sort of major projects in their entirety. There may be a role for local authorities and devolved governments to take on part of a major project if it has been divided into sub projects.
- 16.2 Local authorities suffer from a shortage of skills for some statutory services, let alone where major projects and their procurement are concerned.
- 16.3 Metro regions in the UK cover sizable administrative areas, however lack the fiscal autonomy that similar regions have overseas in the United States, Canada and Germany for example. Providing greater fiscal autonomy to UK metro regions would go some way to improving the outcome of major projects.
- 16.4 One way to take advantage of the ideas and expertise of private sector developers is to allow them to submit unsolicited proposals for infrastructure projects to government. Brazil and Colombia, which are two of the busiest and most promising infrastructure markets in South America, all accept such proposals. Other entities are seeking to open new channels of communication. For example, the Port Authority of New York and New Jersey has invited private investors and developers to share their perspectives on how to develop the region's infrastructure. Tanzania's Government uses "delivery labs" of public, private, and social-sector experts to set infrastructure-investment plans. Chile has developed a way of evaluating PPP projects that rewards developers for proposing low-cost solutions to national-infrastructure problems. As each of these approaches becomes successful, private players become more comfortable and more willing to participate, and the public sector becomes more willing to pay attention.

17. What is the role of the Infrastructure and Projects Authority and how well does it perform this role?

- 17.1 The Infrastructure Projects Authority (IPA) performs an important function in managing the portfolio of major projects the Government has and assists with the delivery of these projects.

- 17.2 As to its ability to perform this role, the IPA struggles from a lack of reporting and limited data collection as to the benefits of major projects. Additionally, when projects leave the Government's portfolio there is often little explanation or evidence demonstrating whether they are on track to deliver.
- 17.3 The NAO found that poor measurement of what a project achieves reduces accountability and transparency for Government and parliament making it difficult to discern whether the cost of a project is justified.
- 17.4 Furthermore, a lack of robust post-completion reporting on major projects makes it difficult to assess whether the desired outcomes are being achieved. Some of these projects suffer from a lack of clear targets and wider KPIs they are due to be measured against. The IPA is in a position to demonstrate how important post-completion reporting is, as well as the value it can add to the industry.
- 17.5 Without this post-completion analysis, the IPA is failing to champion and raise the profile of the most important infrastructure projects this country is undertaking. This additionally hinders the IPA in its role to improve the performance of infrastructure assets over their lifespan.
- 17.6 While the IPA's strategic business cases are robust, there is a noticeable difference when business cases are released to the market. Given the IPA's coordinating role in terms of infrastructure, the IPA should also take a more proactive role in creating a consistent approach to allocating risk as well as assessing risk across the whole major projects portfolio.
- 17.7 There is also a clear role for the IPA to address the significant effort required by firms to submit responses to competitive tender processes, as well as time spent by firms settling late payment disputes.
- 17.8 It is also important to note that with the Autumn Budget 2018 moving away from Private Finance Initiatives, there is a risk that the IPA would essentially revert back into the Major Projects Association.
- 17.9 The IPA has lost its ability to conduct market sounding and engagement activities by losing commercial specialists. This function previously added a lot of value and brought market intelligence when it came to project initiation, as well as providing the Government with good information on its policy development.
- 17.10 Implementing the recommendation of the Transforming Infrastructure Performance programme⁴ would make a significant difference to the performance of the IPA. However, there has been a lack of evidence to suggest this is on track to be delivered as a number of key milestones have been missed.

⁴ IPA – Transforming Infrastructure Performance

About ACE

As the leading business association in the sector, ACE represents the interests of professional consultancy and engineering companies, large and small, in the UK. Many of our member companies have gained international recognition and acclaim and employ over 250,000 staff worldwide.

ACE members are at the heart of delivering, maintaining and upgrading our buildings, structures and infrastructure. They provide specialist services to a diverse range of sectors including water, transportation, housing and energy.

The ACE membership acts as the bridge between consultants, engineers and the wider construction sector who make an estimated contribution of £15bn to the nation's economy with the wider construction market contributing a further £90bn.

ACE's powerful representation and lobbying to governments, major clients, the media and other key stakeholders, enables it to promote the critical contribution that engineers and consultants make to the nation's developing infrastructure.

Through our publications, market intelligence, events and networking, business guidance and personal contact, we provide a cohesive approach and direction for our members and the wider industry. In recognising the dynamics of our industry, we support and encourage our members in all aspects of their business, helping them to optimise performance and embrace opportunity.

Our fundamental purposes are to promote the worth of our industry and to give voice to our members. We do so with passion and vision, support and commitment, integrity and professionalism.

Further information

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