



# Seminar on Integrated Teamworking

Update from UK on the “Business Case”  
and innovative developments in procurement, contract and insurance of  
potential relevance to “RIVANS”

by

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A Champion for Integration for the Strategic Forum for UK Construction

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# Integration of a fragmented industry

*The most successful enterprises do not **fragment** their operations – they work back from the customer's needs and focus on the product and the value it delivers to the customer.*

*The process and production team are then **integrated** to deliver value to the customer efficiently and eliminate waste in all its forms”*

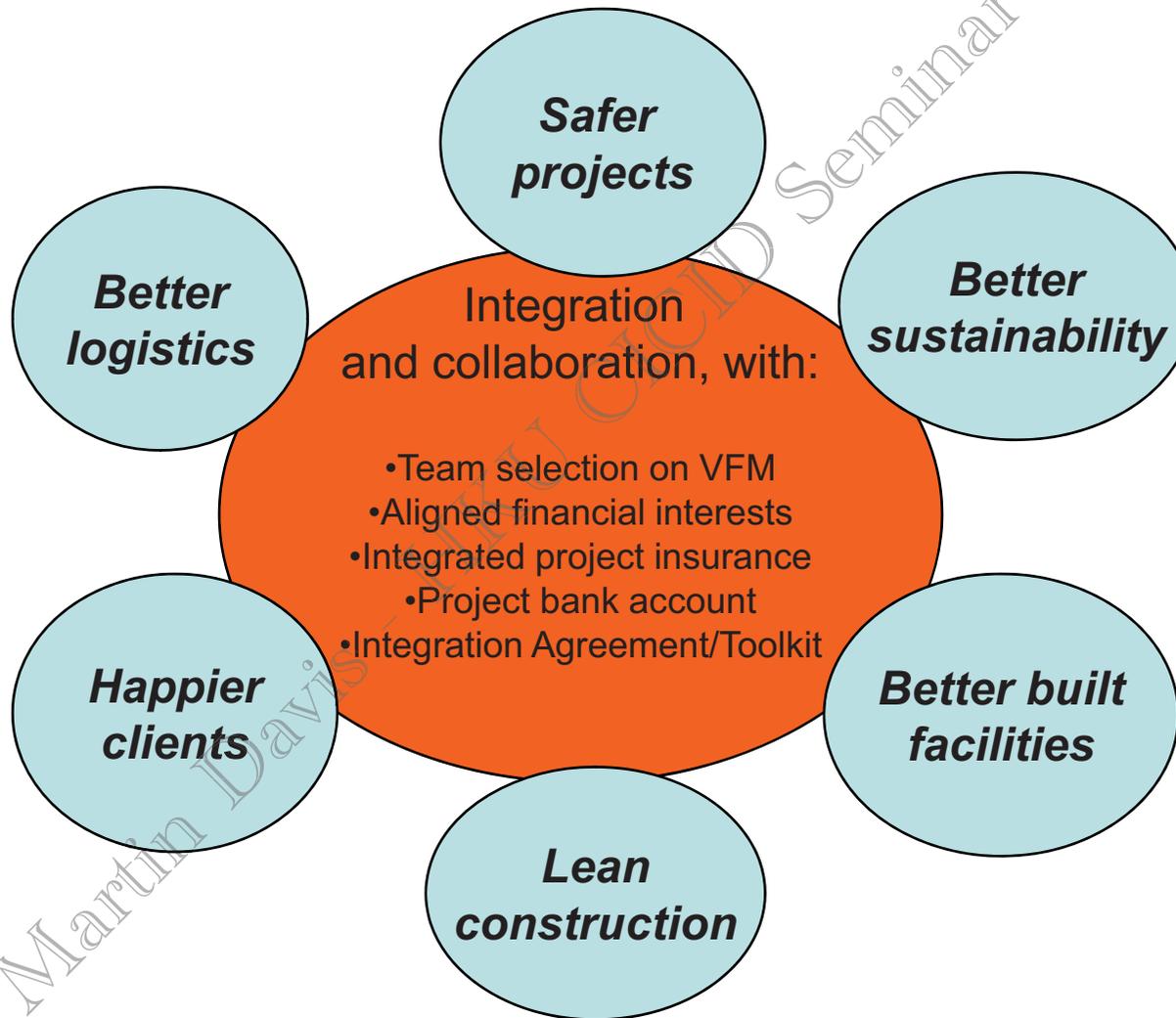
*Rethinking Construction (1998)*

## Report from the Integration Task Group to the SFfC

***“...savings of up to £2.6 billion may be possible if good practice, including partnering and early development of an integrated project team, was applied across all the public sector”.***

The NAO Report *‘Improving public service through construction’* 2005

# *The power of integration and collaboration*



## Report from the Integration Task Group to the SFfC\*

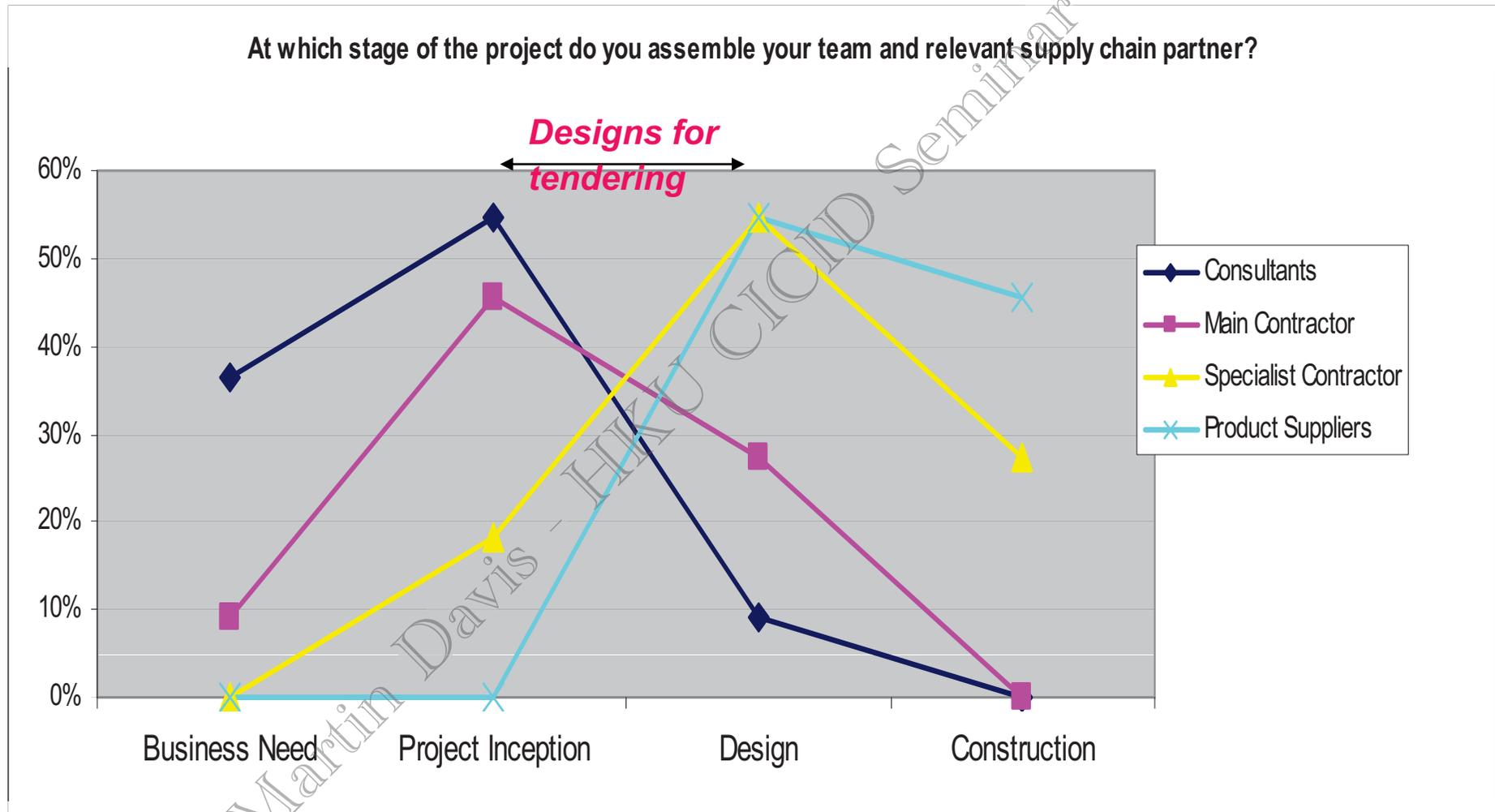
*"The fragmentation of the construction industry has contributed to its poor performance....*

*"Integrated working... ..creates an environment that encourages investment in capacity and innovation...*

*...progress in adopting integrated working has been slow. We welcome the new targets for the period 2008 to 2012."*

House of Commons Business & Enterprise 9<sup>th</sup> Report  
Construction Matters, July 2008

# The Challenge: Early Involvement for All



Source: CCG Survey

# Summary of data

- **Consultants and Main Contractors are most commonly brought into the project team at Project Inception whereas Specialist Contractors and Product Suppliers are most commonly brought into the project team at the Design stage.**
- **Early involvement is seen as the key factor to success regarding working with Consultants and Main Contractors whereas Selection on Best Value is seen as the key success criteria for working with Specialist Contractors and Product Suppliers.**
- **Benchmarking and Project Reviews are carried out for the majority of projects (70% and 80% respectively).**

*Survey Report for Construction Clients' Group  
by Constructing Excellence*

## The Business Case for Integrated Collaborative working

### Premise:

The better you are integrated and the more collaboratively you work, the better the outcomes will be for the project and all those associated with it.

Cause and effect

# Maturity Matrix: Measuring the Cause

Integrated Collaborative Working Maturity Measures						
Attribute	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6
<b>Early Involvement:</b> Consulted = Not paid Involve(d) = Paid	Client Side determines brief and cost plan. Design Side involved after brief developed. Implementation Side involved after design 'complete' to detail and deliver.	Client Side determines brief and cost plan. Design Side involved after brief developed. Implementation Side consulted about products. Implementation Side involved after design 'complete' to detail and deliver.	Client Side involves Design Side during brief and cost plan development. Implementation Side consulted about products & buildability. Implementation Side involved after design 'complete' to detail and deliver.	Client Side involves Design Side during brief and affordability development & lead implementation Side during design. Remaining Implementation Side consulted about products & buildability & involved after design 'complete'. Design Side supports Implementation Side in detailing and delivery.	Client Side involves Design Side & lead Implementation Side from inception. Remaining Implementation Side involved during design development. Design Side supports Implementation Side in detailing and delivery. FM consulted on operability.	All sides involved from inception. Parties involved in design of all elements for which they have delivery or operational responsibility. Team utilises the most appropriate skills on offer.
<b>Selection By Value</b>	Client Side sets strategy. All parties appointed sequentially using lowest price competitive tendering.	Client Side sets strategy. Design Side appointed on value/price. Implementation Side appointed on lowest price tenders.	Client Side & Design Side set strategy. Design Side appointed on value/price. Lead Implementation Side appointed on two stage value/price, remaining Implementation Side on lowest price.	Client Side, Design Side & lead Implementation Side set strategy. DS appointed on value. Lead Implementation Side appointed on two stage value/price, remaining Implementation Side on lowest price.	Client Side, Design Side & lead Implementation Side set strategy. Design Side appointed on value. Lead Implementation Side appointed on value, remaining Implementation Side and FM on value/price.	Whole team agrees and implements strategy. All parties appointed on value, based on ability to understand & deliver the lifecycle needs. Collaborative team selection tools are used.
<b>Common Processes &amp; Tools</b>	Client Side tries to impose procedures & methods but everyone uses their own, usually paper based.	Client Side & Design Side use complementary systems. Lead Implementation Side applies collaboration tools but delivery side uses own systems in parallel, mostly paper based.	Client Side & Design Side harmonise systems. Lead Implementation Side agrees collaboration tools with key Implementation Side. Remaining Implementation Side operates own systems in parallel. Some use of ICT.	Client Side & Design Side harmonise systems & collaboration tools with lead/Key Implementation Side. Remaining Implementation Side operates own systems in parallel. ICT frequently used.	Client Side, Design Side and lead Implementation Side agree collaboration tools with key Implementation Side. Collaboration tools harmonised with remainder of Implementation Side & FM. ICT mostly used.	All parties agree collaboration tools and apply ICT enabled open transparent methods and protocols selected to support the ongoing operation of the asset(s).
<b>Performance Measurement</b>	Time & price performance is measured against the accepted tender and tender summation.	Client Side applies time, price & quality KPI's to Design Side. Implementation Side measures time & price performance against tender & tender summation.	Client Side & Design Side collectively agree a range of KPI's. Lead Implementation Side has time, price & quality KPI's allocated. Remaining Implementation Side measures performance against tender.	Client Side, Design Side and lead Implementation Side utilise industry KPI's and agree risk allocation. KPI's allocated to remainder of Implementation Side and FM.	Whole team (including FM) utilises industry KPI's. Team agrees risk allocation. Team regularly measures performance including post completion.	Whole team utilises industry wide KPI's, shares risk allocation, agrees continuous improvement mechanisms from inception & continually measures performance including ongoing lifecycle.
<b>Long Term Relationships:</b> "Framework" includes all forms of long term agreements	Parties are appointed on a project by project basis from open invitation. Relationships depend on regularly winning tenders.	Some parties are appointed from a preferred (limited tender) pool, with the remainder from open invitation.	Some parties are appointed from frameworks but still tendered, remainder from pool or open invitation.	Frameworks for key parties, some negotiated some limited tender, remainder from partners' established supply chains by limited tender.	Frameworks for all key parties and supply chains for remainder, most appointments by negotiation.	All parties selected from established frameworks based on best skills match & using pre-agreed profit & cost mechanisms.
<b>Modern Commercial Arrangements</b>	Each party procures using its own Terms & Conditions which rigidly focus on non-performance.	Bespoke contract forms applied to key parties but most are on rigid independent arrangements.	Flexible contract forms allow some lead parties to track change and adjust accordingly. Most are on rigid independent arrangements.	Client specific modern 'partnering' arrangements (which include no retentions) encourage some key partners to openly collaborate. Remainder on partners' bespoke forms.	Client specific modern 'partnering' arrangements encourage all key partners to openly collaborate. Remainder on consistent back to back agreements.	Only industry wide unamended collaborative arrangements are used, which align mutual benefit for all with delivery of collectively agreed success criteria including wholelife performance.

Client Side Owners, occupiers, funders, end users, other customer stakeholders and advisors (including cost advisors)  
 Design Side Consultants and others whose primary activity is the development of designs (including quantity surveyors)  
 Implementation Side Contractors, subcontractors, specialists, manufacturers, suppliers and others whose primary activity is the detailing, manufacture, assembly and construction of built environment facilities  
 Facilities Management (FM) Maintenance, servicing, support and others whose primary activity is the management and upkeep of built environment facilities

A 360° Tool

Applied to the core team

Core team includes key suppliers and manufacturers etc.

Views should be collected by independent intermediary

Levels are the average of all responses

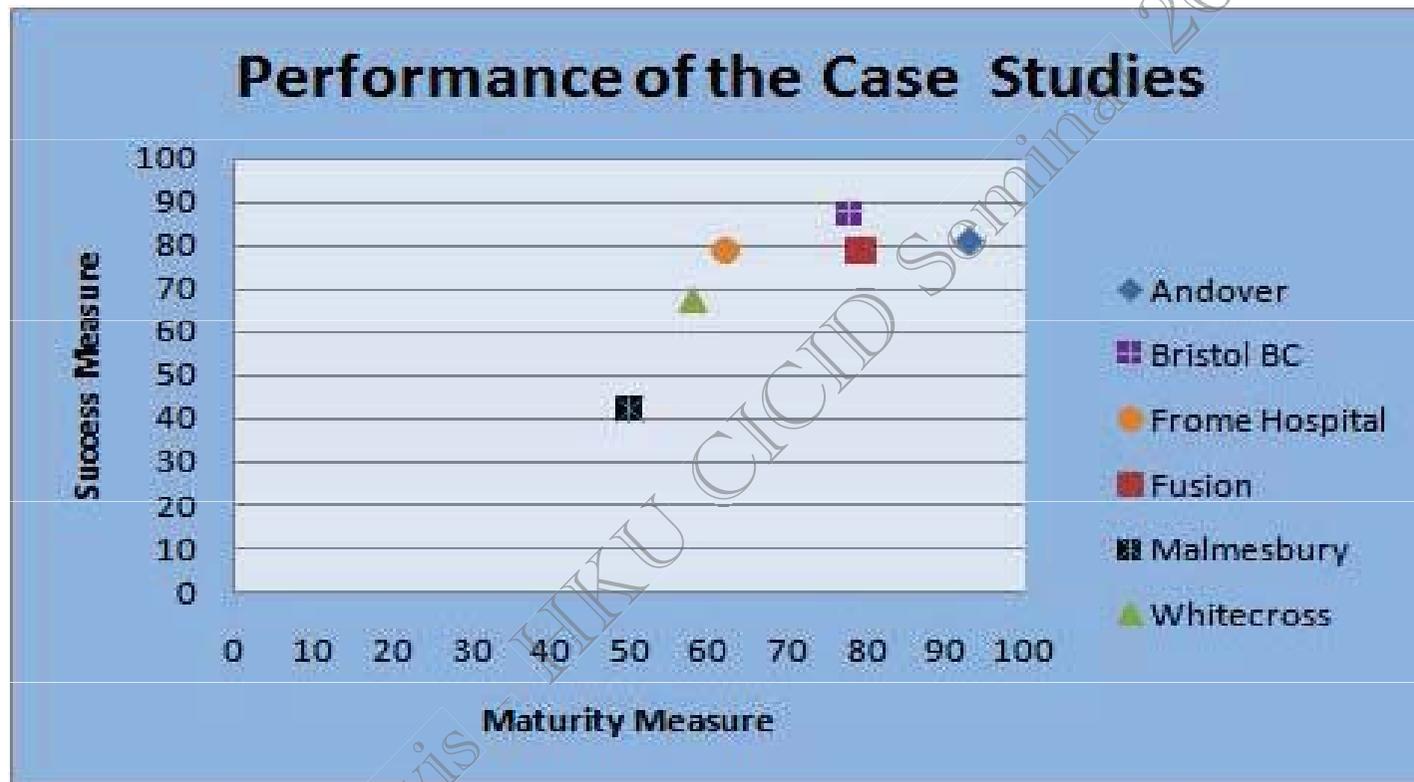
Maturity is the aggregate of the attribute scores

# Success Matrix: Measuring the Effect

Integrated Collaborative Working Success Measures			
Attribute	Weighting	Project Performance	Score
Success Criteria 1 (e.g. Functionality)			
Success Criteria 2 (e.g. Flexibility)			
Success Criteria 3 (e.g. Whole life cost)			
Sustainability Criteria (e.g. Waste / energy )			
Predictability Time			
Predictability Cost			
Productivity			
Profitability			
Defects			
Safety			
Totals	100%		

- A 360° Tool
- Team collectively agree priorities (weighting) at the beginning
- Maximum attribute weighting is 30% & minimum 5%
- Minimum weighting for Safety and Sustainability are 10%
- Success & sustainability criteria are project specific
- All other criteria are industry standard
- Results should ideally be collected by an independent intermediary
- Performance is the average of responses converted via the CE KPI Calculator to an industry comparator
- Overall score is the sum of weighted performance to provide an overall percentage

# The Results: 6 Case Studies



## The Projects:

**Andover North Site:** Following success of the MOD Building Down Barriers pilot programme, Andover was the first Defence Estates stand alone Prime Contact to be let.

**Beckenham Restructuring:** One of Glaxo Wellcome's highly acclaimed FUSION projects. Winner of the Contract Journal award for Single Project Partnering in 1999.

**Bristol Blood Clinic:** A P21 project providing the largest blood processing centre in the world.

**Frome Victoria Hospital:** Somerset Primary Care Trust and Laing O'Rourke worked together from inception to deliver the first community hospital to combine private & NHS care.

**Malmesbury Care Home:** An 80 bed care home and day care centre in Wiltshire.

**Whitecross High School:** A single secondary school PFI Project in Hereford with substantial environmental credentials, led by Stepnell as PFI investor and main contractor.





## What innovations are in place or underway in UK to implement Integration and facilitate Collaboration?

- Early involvement ) *“Selecting the Team” under*
- Selection by Value ) *“Modern Procurement” methods*
- Common Processes - *“Integration Toolkit”*
- Long Term Relationships – *Framework Agreements*
- Performance Measurement – *Measurable “Success Criteria”*
- Modern Commercial Arrangements – *Integration Agreement  
Project Bank Account  
Gain-share/pain-share  
Integrated Project Insurance,*

**Selection by “lowest cost tendering” –  
What does the UK National Audit Office say?**

***“Experience has shown that acceptance of the lowest price bid does not provide value for money in either the final cost of construction or the through life and operational costs”***

**Modernising Construction 2001**

*Martin Davis - UKCC Seminar 2009*

# Directive 2004/18/EC of the European Parliament and Council

## Article 53 – Contract award criteria

Either most economically advantageous tender from the point of view of the contracting authority – criteria such as

- quality,
- price,
- technical merit,
- aesthetic and functional characteristics,
- running costs,
- cost-effectiveness,
- after-sales service and technical assistance,
- delivery date and delivery period or period for completion,

or

- the lowest price only.

# **“Selecting the Team”**

***“Selecting the Team will be of great assistance, not only to clients and their advisers who are embarking on integrated team working for the first time, but will also serve as a standard methodology for those who are more experienced”***

*Sir John Egan*

***“Using a carefully selected integrated team will enhance a project in many ways. A key factor to the success of any project is getting the brief right, and a well chosen team is better able to develop a brief that meets the client’s needs.”***

*Peter Rogers*

***“Picking the right players is the key to building any successful team. Simple as it seems, the process is not just about selecting the best available for each role. It is about getting the right blend to form the team best suited to undertake the particular job in hand.”***

NB “Selecting the Team” is freely accessible at [www.strategicforum.org.uk](http://www.strategicforum.org.uk) under “Reports”

← Stage One →

Client Need      CIC 'Guide to Project Team Workshops'  
 List of Applicants      Completed Selection Packs

**1 Forming a Selection Panel**  
 Membership to include  
 • Client  
 • End User  
 • Third Parties  
 • Partnering Advisor

**2 Explore Selection Objectives**  
 Establishing Selection Factors  
 • Brainstorming  
 • Delphi  
 • Objectives Workshop  
 Establish Selection Descriptors  
 Rank Factors

**3 Prepare a Selection Pack**  
 Prepare a Selection Pack  
 • Scope of Work  
 • Questionnaire  
 • Statements of Quality  
 • Take references

**4 Shortlist Applicants**  
 STT Summary Form

• Selection Panel  
 • Co-ordinator Role

• List of Selection Objectives

• Circulate Selection Packs

• Short-list of Three Applicants

← Stage Two →

3-5 Successful Applicants

**5 Evaluate Shortlist**  
 Statement of Quality (if not already requested)  
 Interview  
 Tour Project Site  
 Tour Applicant Place of Work

Successful Applicant

Design Development & Rationalisation

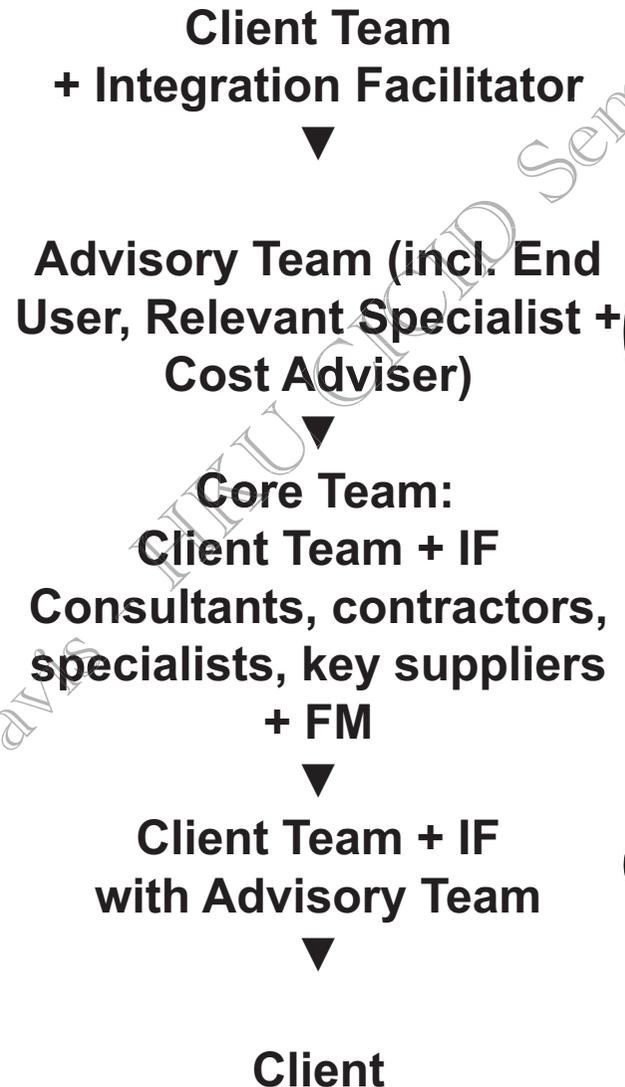
Figure 1: Selecting the Team Process Diagram

## Modern Procurement

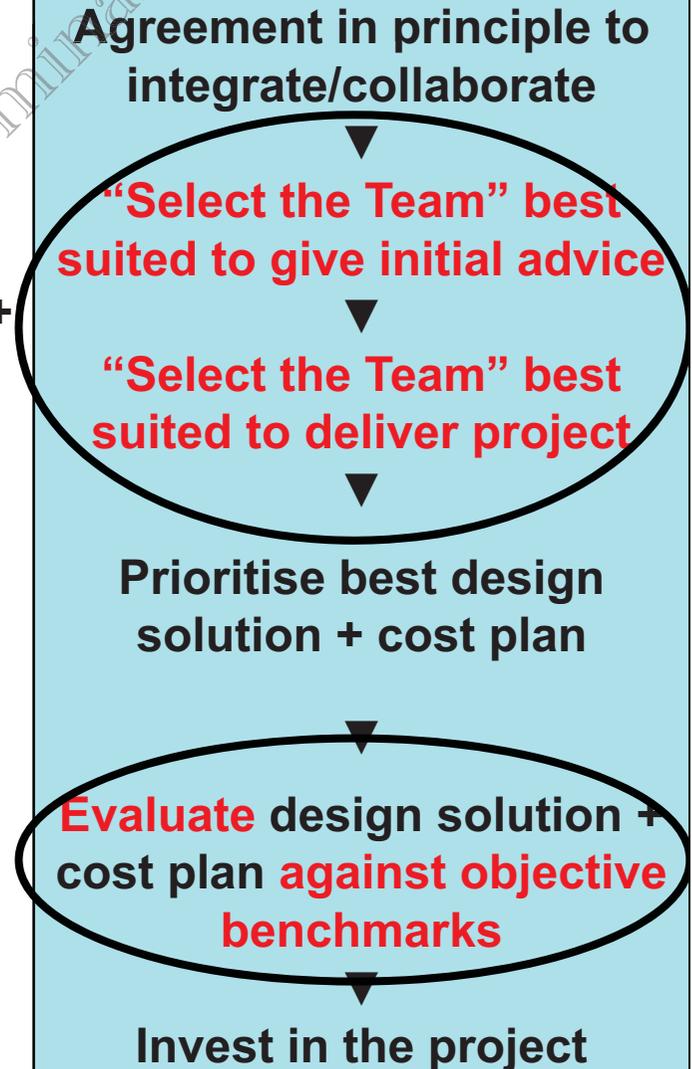
### PROCESS



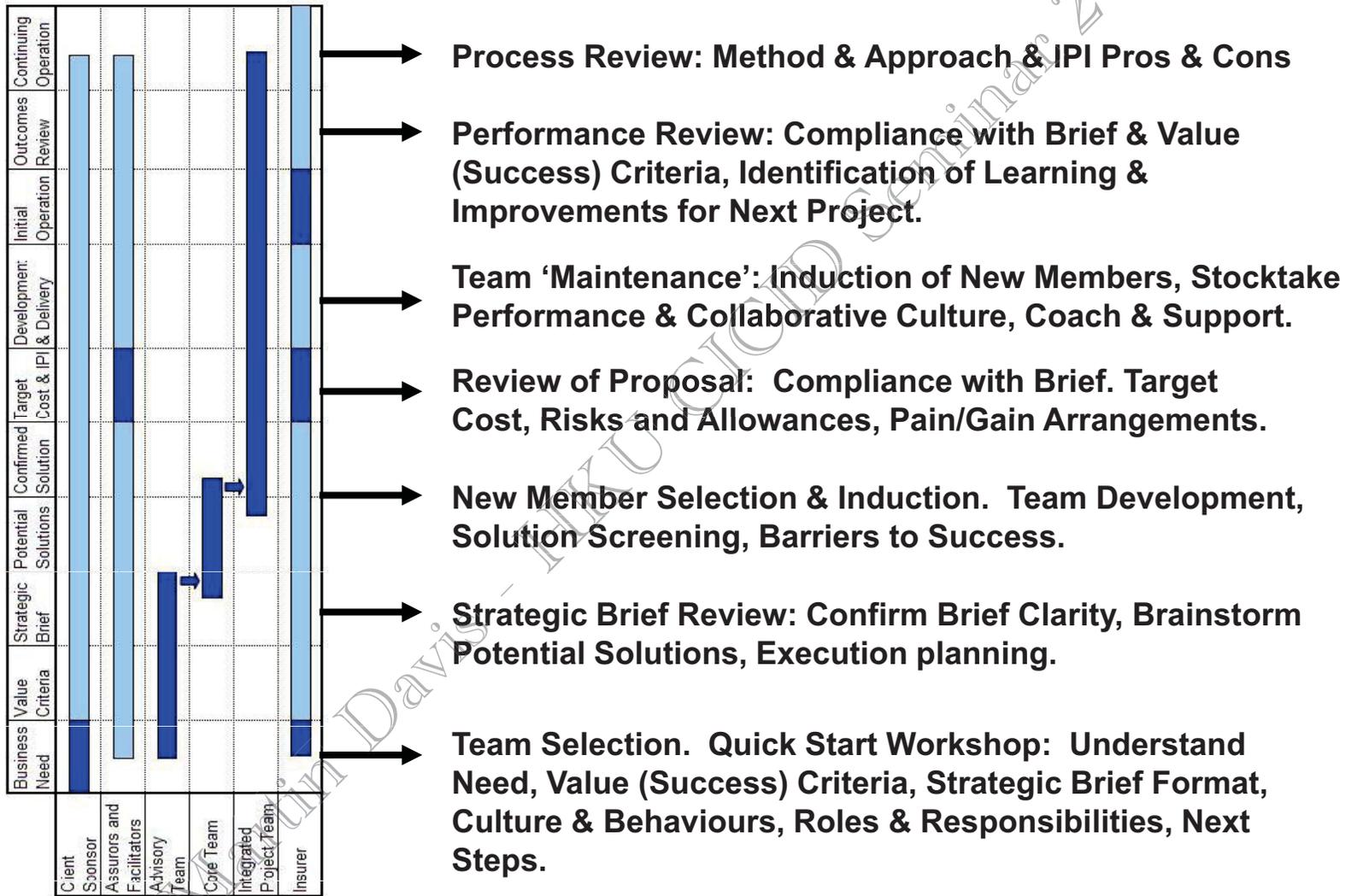
### ACTORS



### DELIVERING VFM



# Integration Facilitation Activities



## **Common Processes – the challenge of the Integration Toolkit**

- ***Outcomes that better meet your needs, delighting your clients, customers and end users***
- ***Delivery that is 25% – 40% faster than your competitors with 11% – 30% less capital required***
- ***Improved profitability, reduced operating costs and more sustainable outcomes***
- ***Significantly improved predictability of programme, price and quality***
- ***To work in a safer environment where empowered people are open, honest and realistic and go home feeling trusted, valued and fulfilled***

Visit [www.strategicforum.org.uk](http://www.strategicforum.org.uk), “Integration Toolkit” and click on spanner

# [www.strategicforum.org.uk](http://www.strategicforum.org.uk) IPT Workbook 3

**3** 0 1 2 3 4 5 6 7

**Core team: create and screen strategic solutions**

Home The Toolkit Guide **Integrated Supply Chain** Integrated Project Team What's new

**At a glance**

3.0 Form the core team	3.9 Inform the team
3.1a For occasional clients of the construction industry	3.10 Interactive development of the Strategic Brief - collectively explore the business needs to enable clarification of the project objectives
3.1b For regular clients of the construction industry	3.11 Feedback objectives - to confirm understanding
3.2 Select and appoint appropriate alliances /partners	3.12 Create a robust precedence-based decision-making process for the development of strategic solutions
3.3 Select internal partners	3.13 Identify strategic solutions
3.4 Agree core values and principles	3.14 Managing expectations
3.5 Define roles and responsibilities	3.15 Reconfirm selection and prioritisation of value criteria
3.6 Agree processes to resolve issues	3.16 Identify potential solutions
3.7 Agree remuneration strategy	3.17 Screen solutions against value
3.8 Appoint partners	3.18 Determine which solutions to take forward

**Workbook**

Step	Process	Culture and activities	Tools and techniques
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start 04-06-08CWC SFC T... IPT Workbook 3 | For... My Computer EN 16:33

## Long Term Relationships – “Framework Agreements”

***“An agreement between one or more contracting authorities and one or more economic operators, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price and, where appropriate, the quantity envisaged”***

EU Directive 2004/18/EC Article 1(5)

***“The parties to the framework agreement shall be chosen by applying the award criteria set in accordance with Article 53”***

EU Directive 2004/18/EC Article 32

## **Example of a UK Framework Agreement - NHS Procure 21**

***“The overriding principle in guiding the parties in the operation of this agreement is their agreement to work together with the supply chain and any NHS Client (and any Professional Advisers appointed by any NHS Client) in a co-operative and collaborative manner to achieve the overriding objective acting in good faith and in the spirit of mutual trust and respect”***

*clause 3.1*

# **NHS Procure 21 Framework principles**

- ***Early involvement of key members of the project team***
- ***Target cost approach .. with pain/gain incentivisation***
- ***Continuous improvement targets***
- ***Share information/best practice – use of IT***
- ***Long-term relationships***
- ***Key performance indicators***
- ***Standardise processes***
- ***Use of NEC contract on schemes***
- ***Open-book accounting***
- ***No guarantee of work***

# Frameworks – the benefits

- **Sound award criteria (other than lowest price)**
- **They permit “long - term” relationships (4 years)**
- **The “Principal Supply Chain Partner” has every opportunity to “co-operate and collaborate” with the rest of the supply chain**
- **The ECC contract chosen (Option C under P21) encourages pro-active and collaborative conduct**

# Frameworks – the problems

- They only open the door to good practice; if the parties don't work at it, inefficiency can abound
- If the PSCP abuses his position and applies lowest cost tendering to the supply chain, the benefits will be lost
- Large frameworks for “bundled projects” can result in local SME's not getting their proper share of the work, resulting in low standards and excess inflation

# Examples of “the Virtual Company” – Teamworking/Integration/Collaboration

- **British Airports Authority –  
Heathrow Terminal 5**
- **Defence Logistics Organisation –  
Andover (North Site)**

*See also “Partnering in Europe – Incentive based alliancing for projects” ISBN 072772965 - 9*

# How the various T5 documents fit together

## The document:

## What it is:

### T5 Agreement

(also referred to as  
Delivery Team Handbook)

The terms and conditions  
everybody working on T5  
is bound by.

### Supplemental Agreement

The detail of the agreement  
which is signed by the suppliers.  
It defines the work the suppliers  
are doing on T5.

### Functional Execution Plan

The support required to  
enable projects to deliver.

### Sub Project Execution Plan

The team's plan of work.

### Work Package Execution Plan

This is the breakdown  
of work by supplier  
(combines preliminaries,  
specifications & drawings).

Commercial Policy  
Programme Handbook  
Core Processes and Procedures  
Industrial Relations Policy

Supporting  
documents

# BAA Terminal 5: “The T5 Agreement” – 3 “values”

## Commitment

- Being seen to do what we say
- Challenging targets
- Value-focused
- Managing the supply chain
- Enabling processes and solutions

## Trust

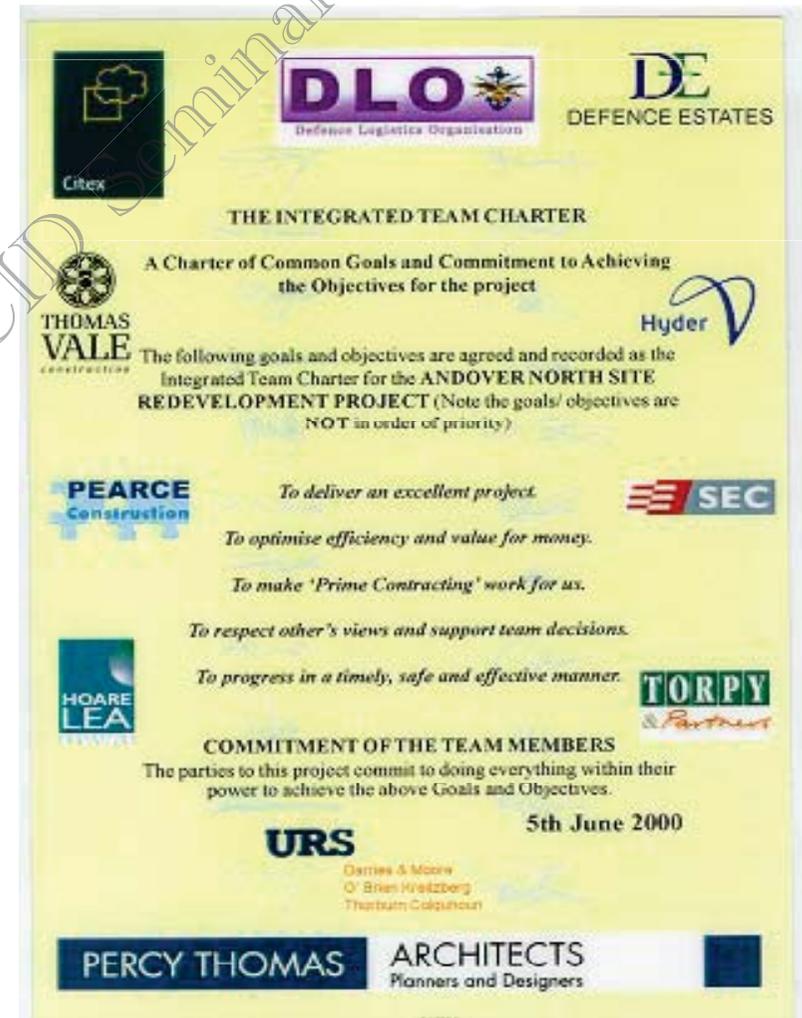
- Partnering
- Co-operation
- Meaning what we say
- Respect
- Selected on merit
- Treating our workforce as customers

## Teamwork

- Fully inclusive teams
- Integrated
- Co-located
- Share responsibility
- Share success
- Outcome (not problem) focused
- Helping and supporting
- Enabling individuals
- Managers as enablers
- Fully empowered
- Trained
- Celebrate achievements
- Leading by example

# MOD Andover North Site – the “Virtual Company”-

- Aligning objectives
- The Project Charter
- Single Project PII
- The Integrated Project Agreement
- Core Team share in Risks and Rewards
- Project Bank Account
- Technology tools



# The Andover Core Team



# Identifying Needs, Evolving Solutions

- **Integrated team workshops throughout design & construction**
- **Potential solutions assessed utilising Balanced Score Card Reviews**
- **Balanced Score Card Reviews:**
  - Capital Cost
  - Whole life Cost
  - Risk
  - Programme
  - Aesthetic
  - Health & Safety
  - Environment

# Performance Measurement

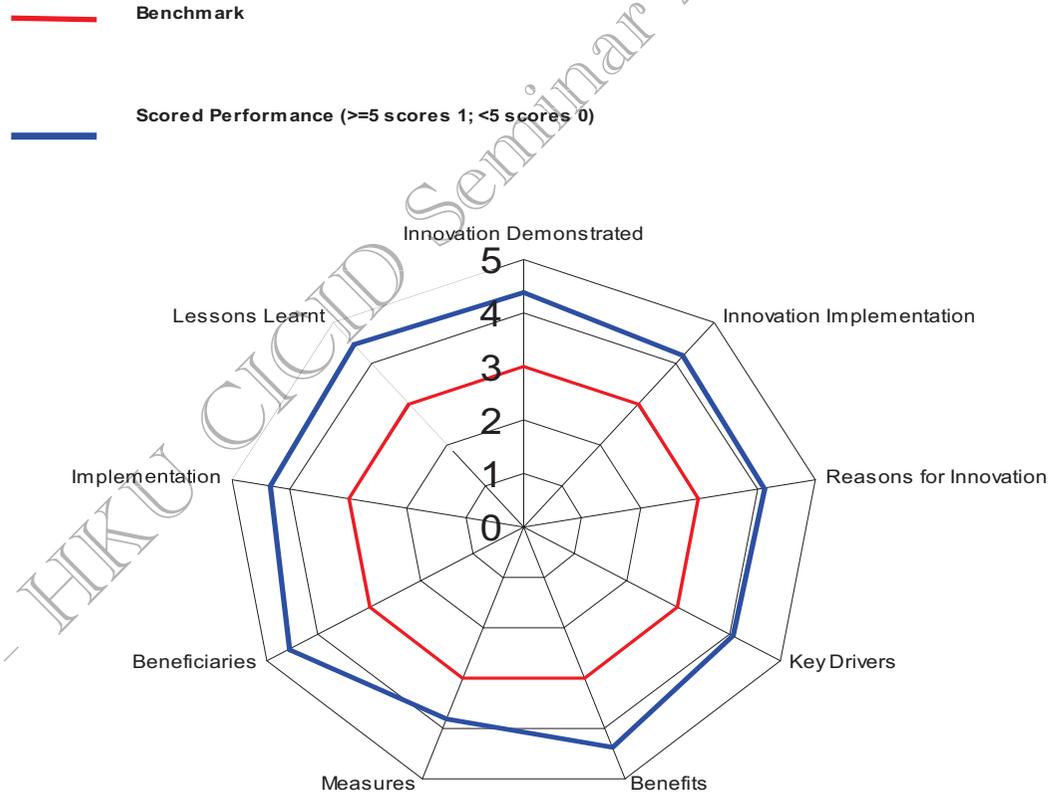
- **Success Criteria must be “bought into” by the whole Integrated Team**
- **Measurement : 360° to cater for different personal perspectives and positions**
- **Comparison of two projects where varying involvement of the supply chain caused commensurate variation in performance**

# Performance Measurement

“Key performance indicators”

DLO Andover  
Best demonstration project

## Andover Project



Martin Davis - HKU CICID Seminar 2009

# Success Matrix: Measuring the Effect

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Productivity			
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# Whitecross High School, Hereford



## Report from the Integration Task Group to the SFfC

- **900 Place Secondary School**
- **PFI Procurement Route**
- **Contractor acting as investor and D&C Contractor**
- **Time to manage delivery and supply chain risks**
- **Emphasis on whole life costs**
- **Extensive use of LEAN practices**

# Care Home, Malmesbury



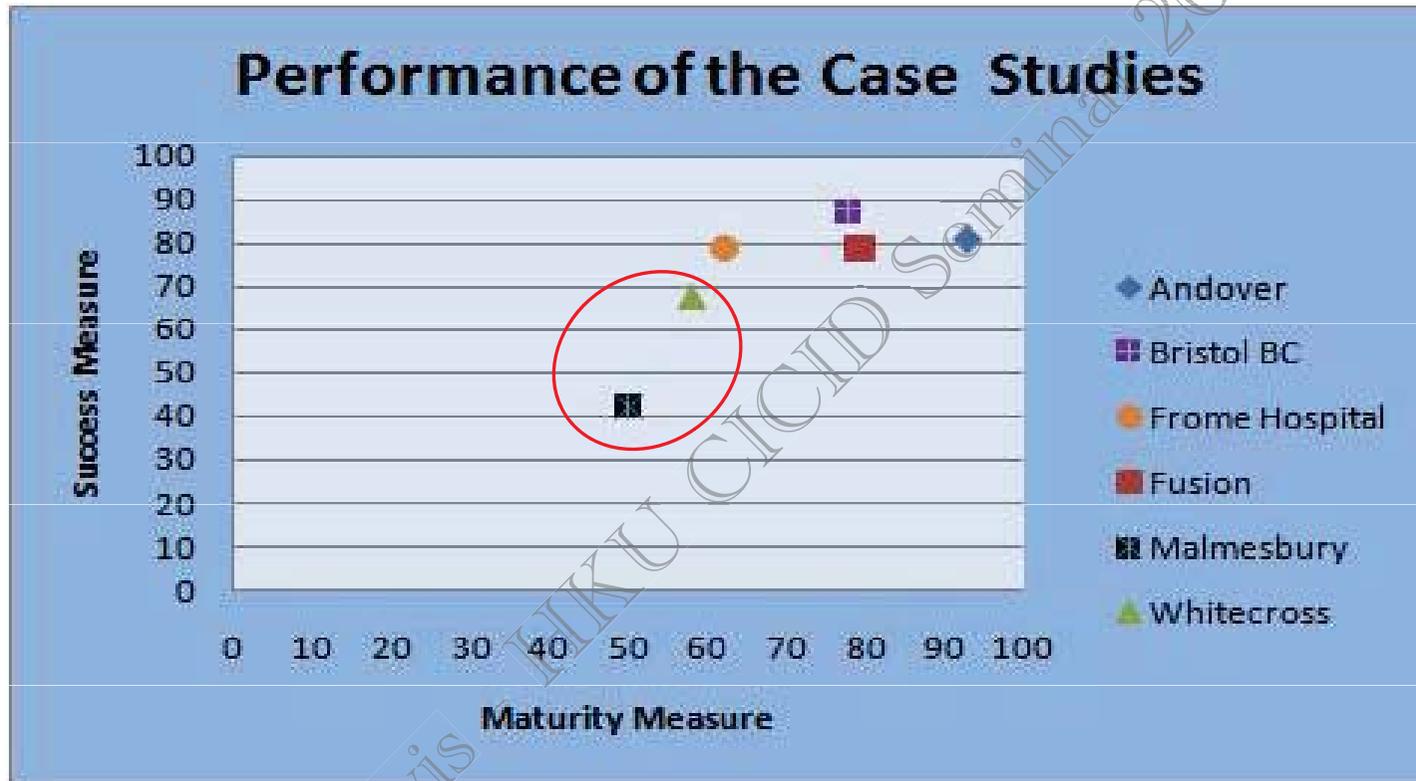
# Malmesbury

- **80 bed Care Home**
- **Developer led Procurement Route**
- **Poor control of initial delivery risk**
- **Very little time to manage supply chain risks**
- **Extensive variations**

# Lessons learnt

- The results appear to correlate with expectations, though it is important to understand anomalies
- Success measures were consistent between the client and principal supply chain partners. Supply chain measures were not so well aligned
- Parties generally needed assistance in completing the matrices and using the CE calculator. Further induction/advice required by Constructing Excellence

# The Results: 6 Case Studies



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# Modern Commercial Arrangements

- ECC Contract Option endorsed by UK Government, with Options C or E used on public sector “modern” contracts
- “Model Form of Agreement for an Integrated Project Team” (multi-party) at [www.strategicforum.org.uk](http://www.strategicforum.org.uk) “Integration Toolkit” IPT workbook 3.2
- Project Bank Account:
  - “Fair Payment Charter
  - Comparative payment cycles (Traditional / FPC/ PBA)
  - Savings compared to traditional base case

## Model 'Fair Payment' Charter<sup>1</sup>

Fair and transparent payment practices are an essential underpinning to achieving successful integrated working on construction projects. In working with each other in good faith and in a spirit of mutual trust and respect, we agree that by 1st January 2008<sup>2</sup> we will meet the 'Fair Payment' commitments set out below:

- Companies have the right to receive correct full payment as and when due. Deliberate late payment or unjustifiable withholding of payment is ethically not acceptable.
- 'Fair Payment' will apply equally between the client and lead contractor and throughout the supply chain<sup>3</sup>.
- The process will be transparent in order that members of the supply chain have certainty of how much and when they will be paid.
- Companies will consider, where appropriate, operating relevant contracts on an open book basis.
- The correct payment will represent the work properly carried out, or products supplied, in accordance with the contract. Any client arrangements for retention will be replicated on the same contract terms throughout the supply chain. Any withholding of payment due to defects or non-delivery will be proportionate and demonstrably justified in line with arrangements made at the time of contract.
- To ensure effective and equitable cash flow for all those involved, all contracts will provide for regular payments and have payment periods not exceeding 30 days.
- In order to avoid payment delays, the client and all supply chain members will agree payment procedures at the outset of their contracts. Payment will be through electronic BACS transfer and will apply throughout the supply chain.
- Monitoring and auditing and problem resolution procedures will be agreed between the parties.

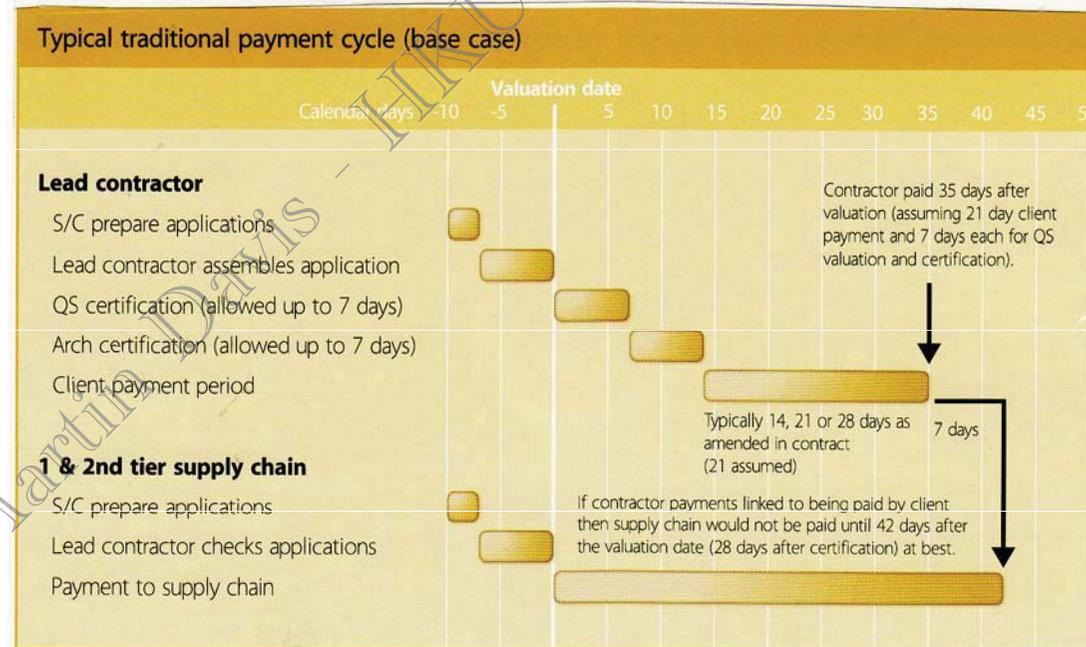
We the undersigned agree that this Charter is not intended to be a legally binding document and not used in construing any contractual commitment.

<sup>1</sup> The Charter sets out the values and arrangements relating to payment practices consistent with integrated working. The Model Charter is flexible to allow for adaptation and can either be a standalone document or part of a wider partnership charter. In either case it is not intended to be legally binding.

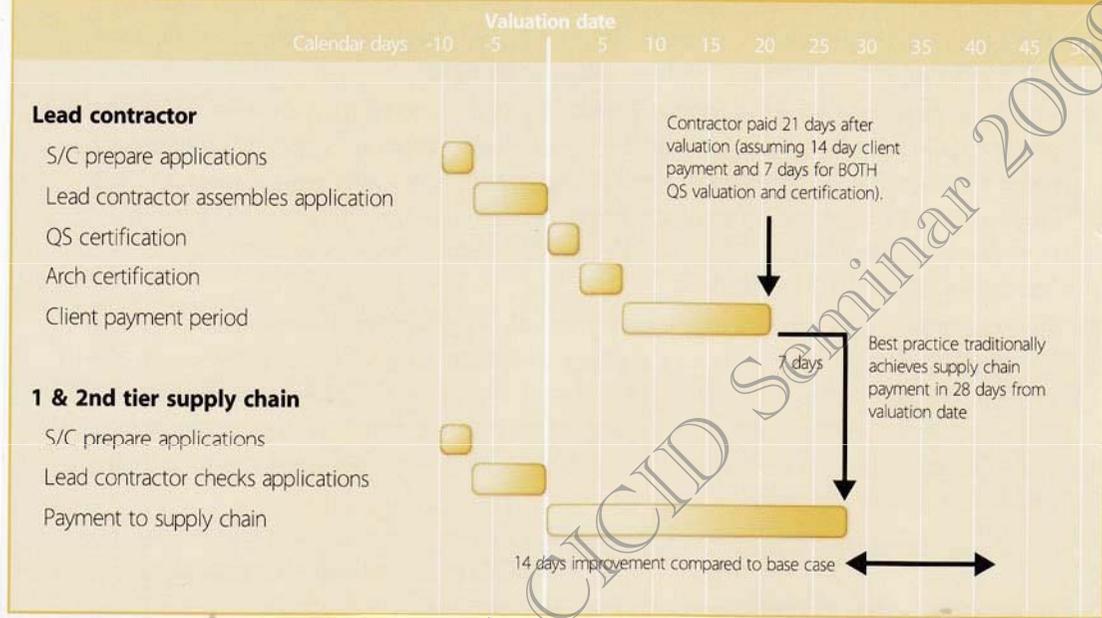
<sup>2</sup> An introduction period is to allow time for clients and contractors to modify their business systems and procedures.

<sup>3</sup> The client would sign the Charter at the outset. Contractors and suppliers subsequently engaged would be expected to sign the Charter before appointment.

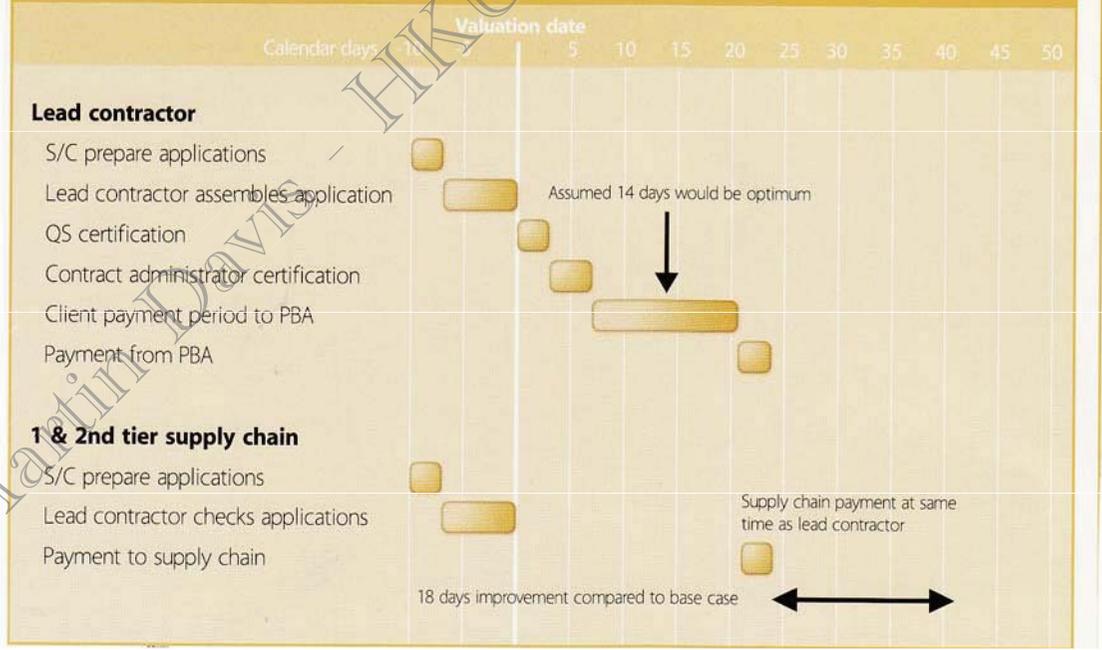
Savings compared to base case:		
	Option A: Improved 'Fair Payment' Process	Option B: Using Project Bank Accounts <sup>11</sup>
<b>Sub-contract (total of all sub-contracts)</b>		
Reduction for cash collection	-0.1%	-0.1%
Reduction for cash flow risk certainty	-0.8%	-2.1%
Reduction for trade indemnity insurance	0%	-0.2%
<b>Lead contract</b>		
Reduction for cash collection	-0.1%	-0.2%
Reduction for cash flow risk certainty	-0.5%	-0.8%
Increased profit to offset loss of cash flow benefit	+0.5%	+1%
<b>Total impact on project</b>	<b>-1%</b>	<b>-2.5%</b>



### Example payment cycle



### Example using Project Bank Account



## **Gain-share / Pain-share**

- **To align interests of client and integrated team by gearing to performance against success criteria**
- **Client and all key members of team critical to delivery of success criteria must share**
- **Allocations must be the same for pain-share as gain-share**
- **Allocations must be agreed by balancing party's critical importance against financial capacity**

# Creating the 'Virtual Company' Approach

Partnering Environment - A Culture of Collaboration



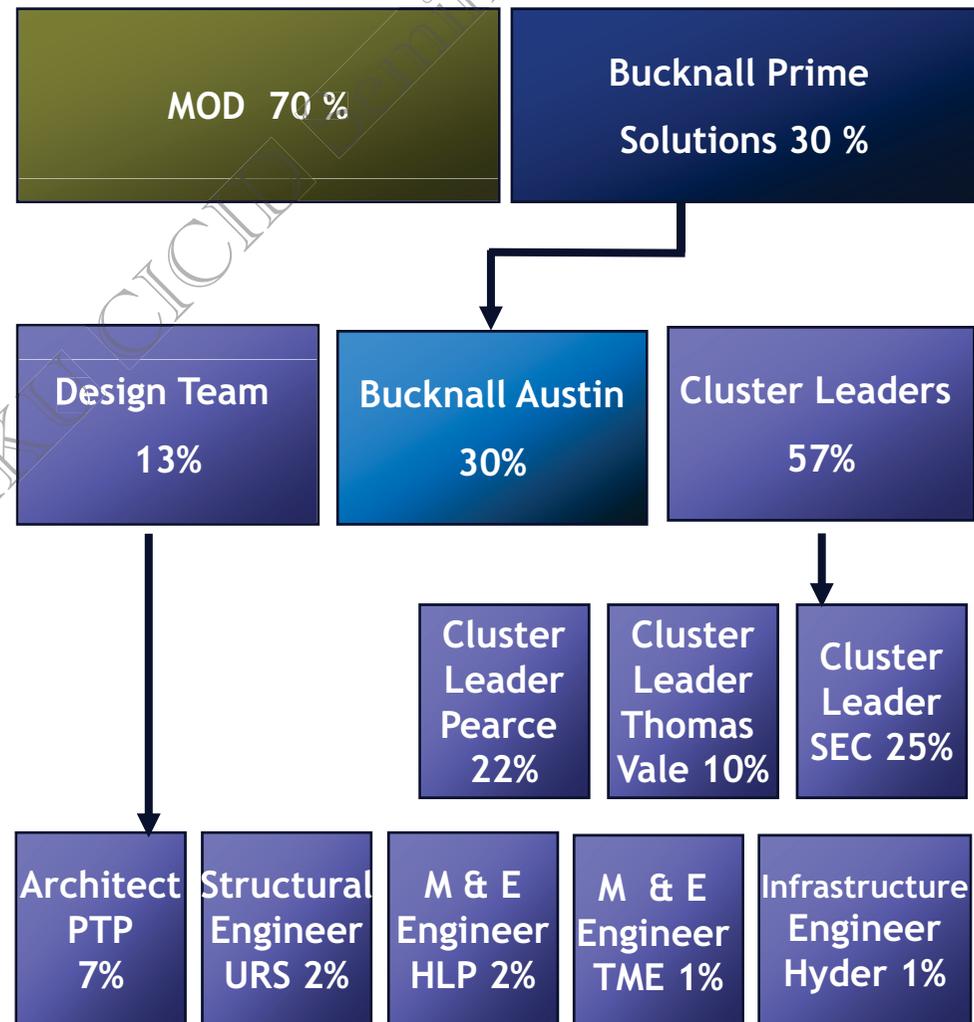
Team Focus - A Lean Approach



# Developing the 'Virtual Company' Approach Pain/Gain Sharing Model

The WHOLE  
Core Team have  
agreed shares  
of the  
benefits/pain of  
Cost under-runs  
and over-runs  
across the  
whole project,  
not for individual  
parts.

No one party  
has a majority.



## But what happened when we hit a real problem?

- **Traditionally:**  
**‘problems’ are seen as ‘opportunities’ for claims where nobody wins (except the lawyers) !**
- **On the Andover project :**
  - **Emergency meeting of the Joint Steering Committee called**
  - **All discussions centred on ‘what is right for the project’.**
  - **Team solution took 20 minutes!!!**
  - **Everyone won, (except the lawyers) !**
  - **QED !**

# The Client's View of Team Achievements

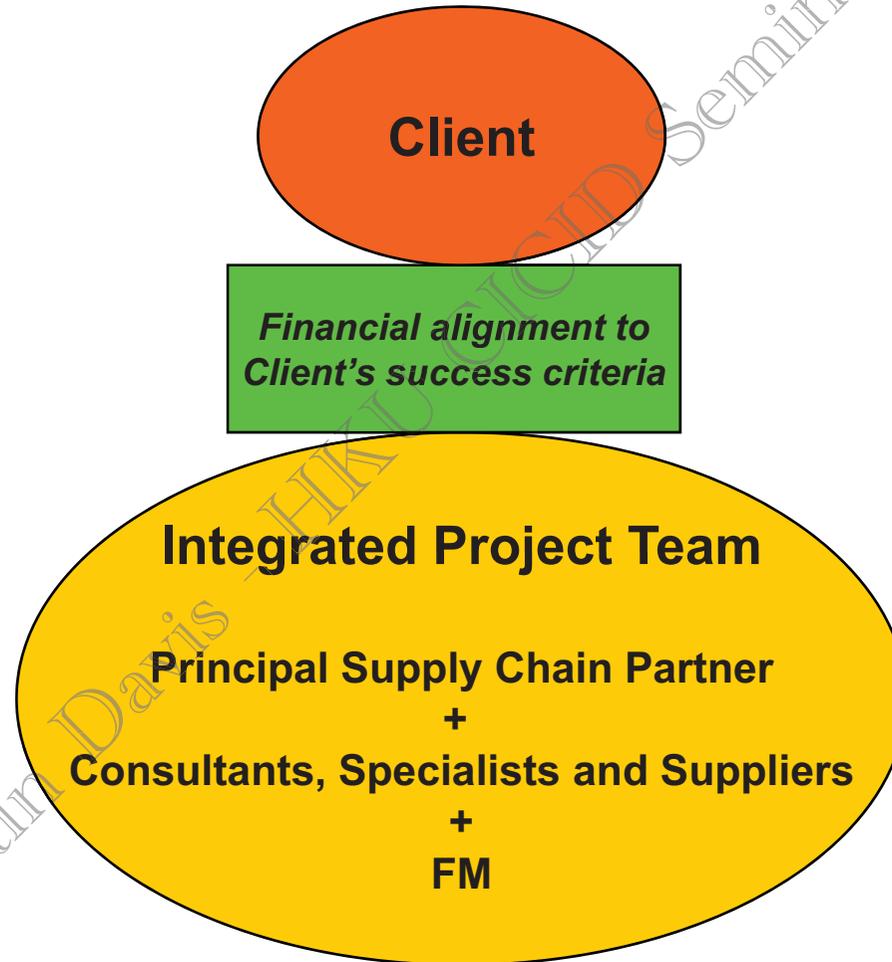
- **Collocation – Virtual/Real**
- **Collaborative Working**
- **Open & constructive approach by both Client and Partners**
- **On Time**
- **On Budget**
- **No Claims!**
- **Meeting the Strategic Brief**

***Result – Client Satisfaction.....***

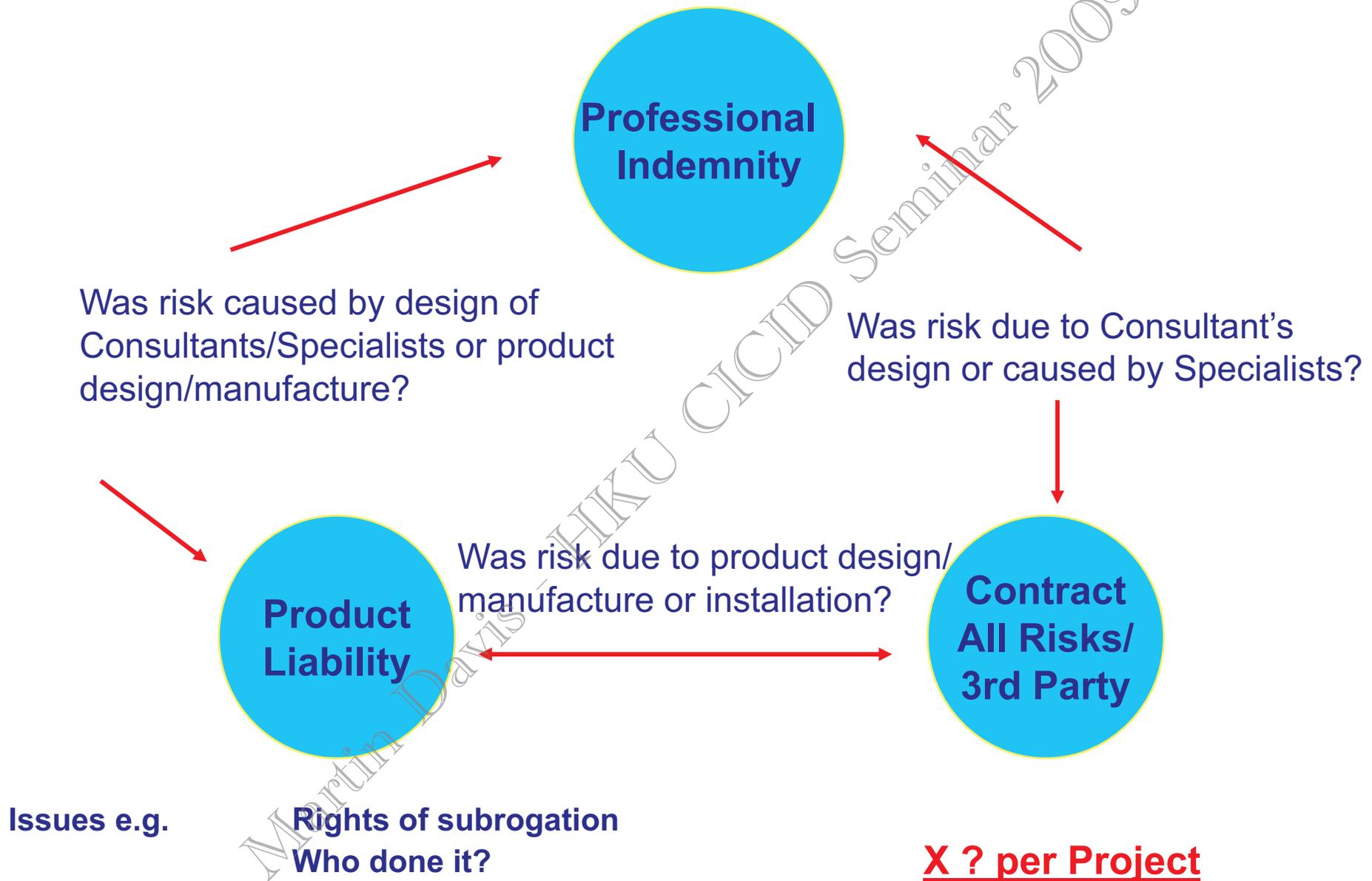
# Integrated (Project + Insurance)

- **The team must be integrated, and show its commitment to collaboration by a “no blame/no claim” agreement (except for fraud)**
- **Team gain-share (profit) is geared to how successfully the project objectives are delivered; shares are pre-determined**
- **Team pain-share equals the excess under the financial loss insurance; therefore each party’s loss is limited to its similarly pre-determined share**
- **Insurers waive rights of subrogation against all insured under the policy**

# A “Virtual Company” – full integration of the project team



# The Insurance Industry's Silos



# **Project professional indemnity insurance**

- **Covering Clients, Consultants, Contractors and their supply chains**
- **Loss, not culprit, has to be demonstrated**
- **Rights of subrogation waived**
- **Can sit alongside project All Risks insurance**
- **Positive effects on behaviours and performance**
- **DLO Andover and Heathrow Terminal 5 had Project CAR and PI Insurance, and both benefitted**
- **But T5 partners, despite minimal financial impact, were reluctant to disclose failures, and so delayed claims**

# **Project Insurance**

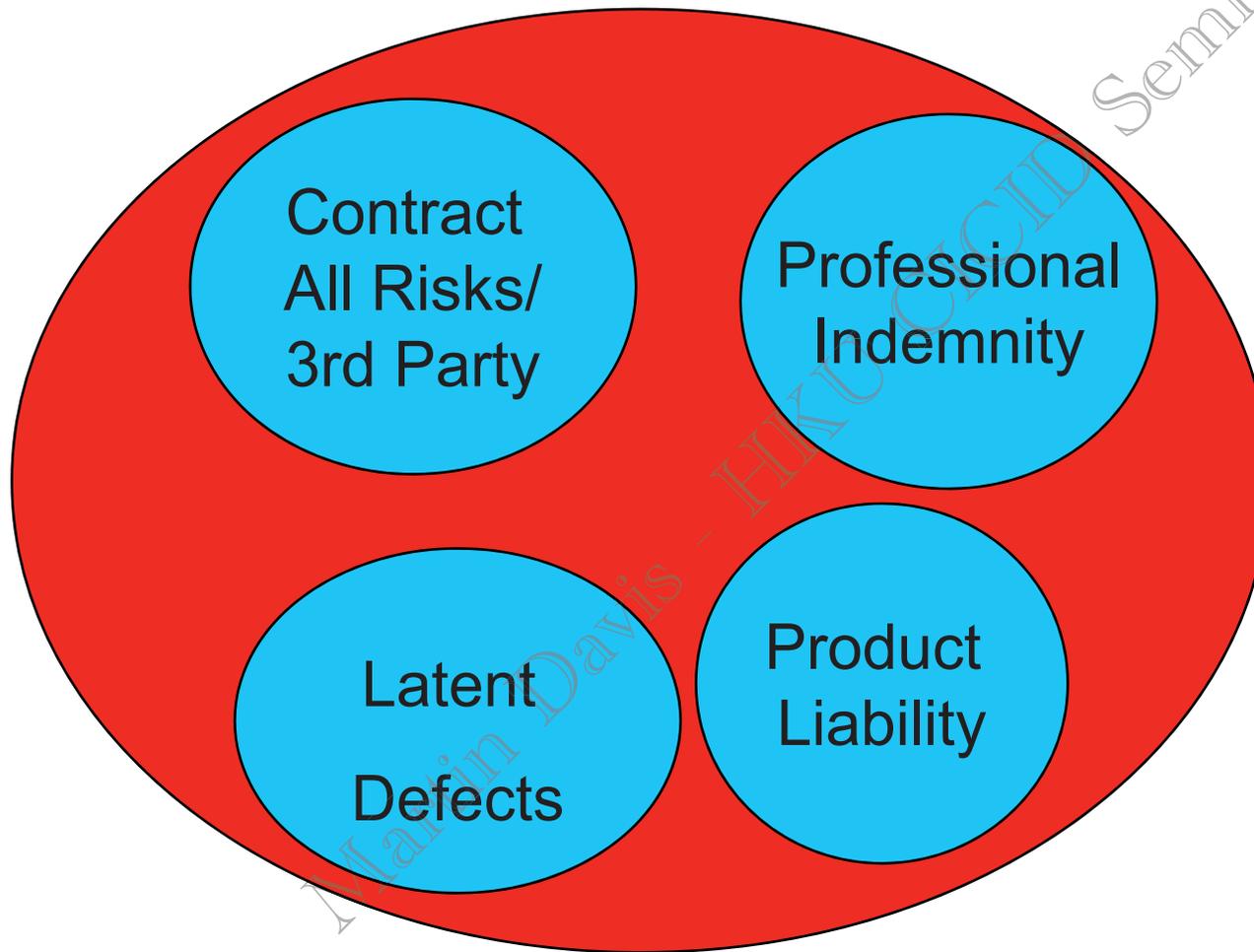
**What does the UK National Audit Office say?**

***“Departments should ....seek opportunities to pursue the case for project-wide insurance***

- not only to reduce costs through bulk buying,***
- but also to align behaviours with the principles of integrated team working.***

***Departments should, however, assess the costs and benefits of such approaches and whether they have sufficient capability to manage the associated risks”***

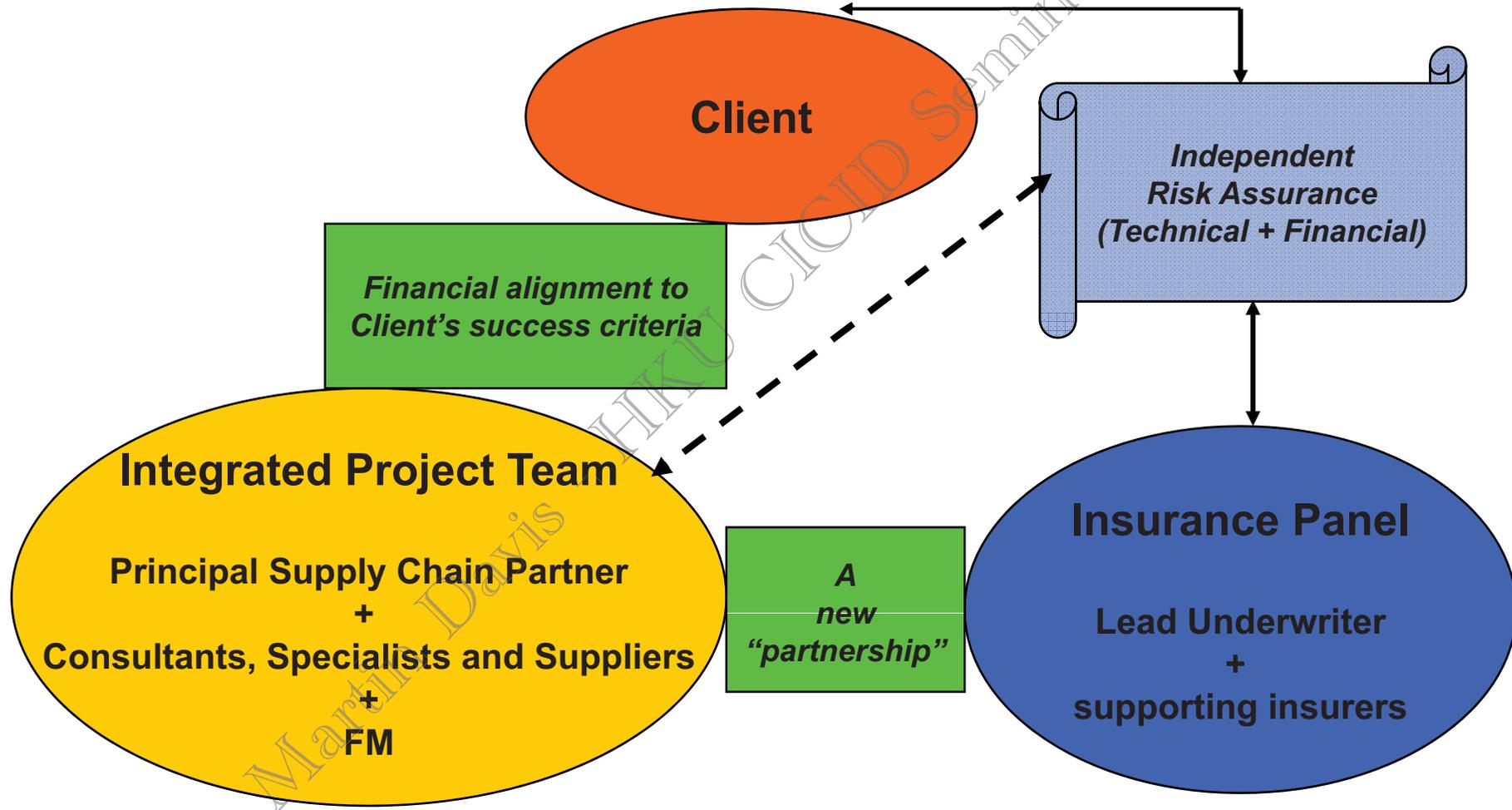
**A move from families of individual Risk Insurances  
to one “Integrated Project Insurance”, also  
covering Financial Loss over the agreed Cost Plan**



*To cover all  
members of the  
Integrated Project  
Team including  
Client, and  
funders*

*No blame:  
Rights of  
subrogation  
waived  
Demonstrate **loss**,  
not culprit*

# A “Virtual Company” + an Insurance Panel - a partnership in Risk Management



# The rationale for Independent Risk Assurance

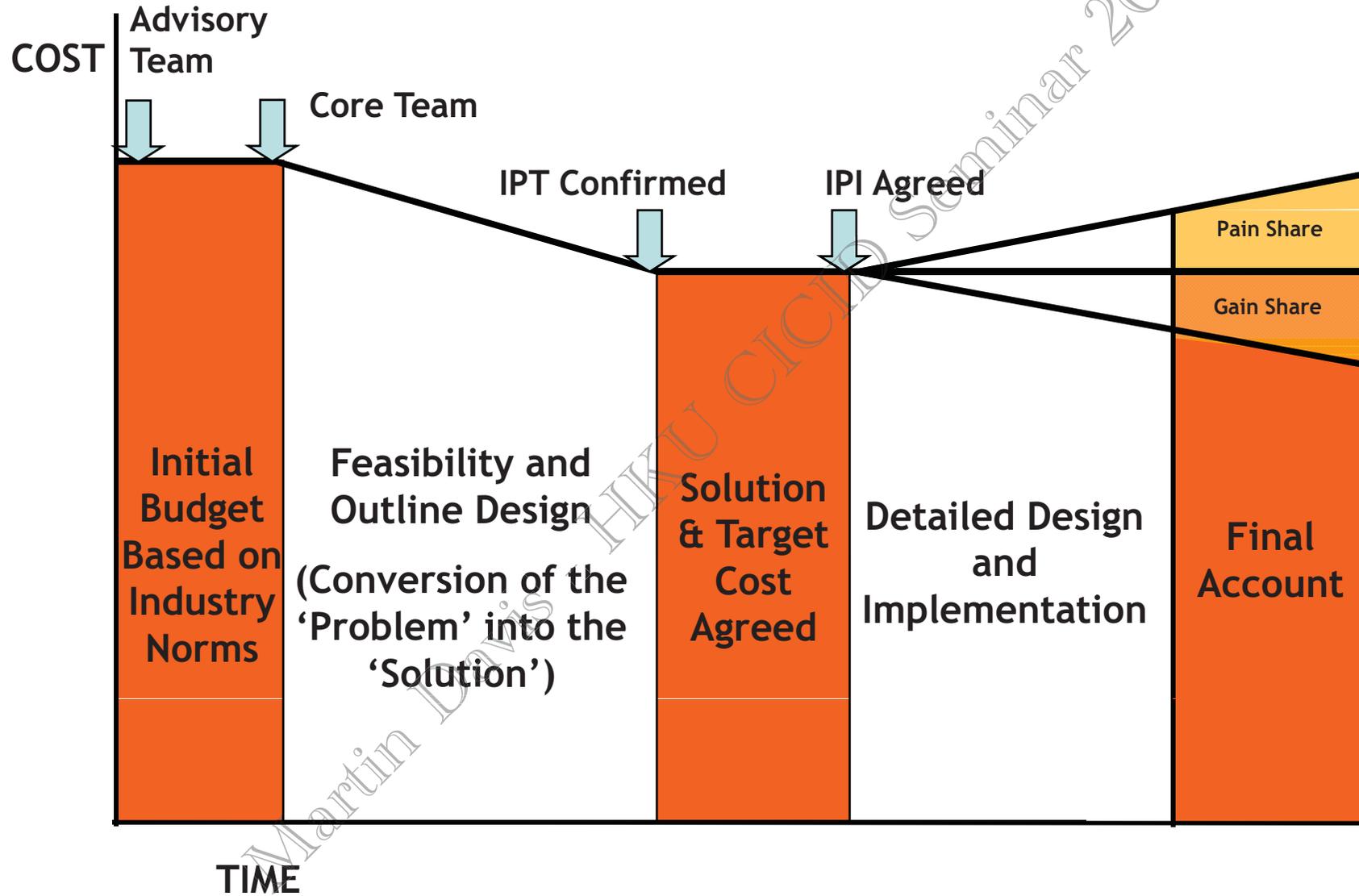
## Technical

- Belgian “technical control” as operated collaboratively by SECO underpins the performance of Integrated Teams
- Safety is addressed integrally with the critical design and planning stages
- Latent defects premiums typically reduce by 30%

## Financial

- This is similar to the “due diligence” carried out by Cost Advisers for banks intending to lend
- Insurers must know that the cost plan has adequate allowance for the risks involved
- Under an “integration agreement” all parties undertake transparency

# The Target Cost Model



# Testing Integrated Project Insurance in practice

- **Radical innovations have to be proven in practice!**
- **HM Government has agreed to 10 pilot projects over several years at £10m - £20m each**
- **A Panel of insurers, led by Norwich Union and Royal & Sun Alliance, has agreed in principle to IPI; brokers are Griffiths & Armour and Tysers**
- **Development and piloting of IPI is controlled by a “Product Team” steering group**
- **Progress with the pilot programme is slow despite support from Government (Treasury, PSCCF and Select Committee)**
- ***Will the Recession help or hinder?***

# Feedback on first pilot project

- **A mental health facility for older persons**
- **Principal Supply Chain Partner: Laing O'Rourke**
  - **“Building Constructive relationships” strategy has established supply chain of consultants and specialists for Health Projects**
- **Prioritisation of Success Criteria – recognised all must benefit**
- **Value creation workshop – savings in work content (eg balconies!) and process improvements (eg avoidance of re-bidding) facilitated**
- **Specialists in supply chain needed confidence-building**
- **Habit must be challenged at each stage, so as to cut out wasted time and money; role of seconded research graduate agreed**

## **Prioritised Success Criteria – *who benefits?***

- 1. Improved H&S during delivery and operation**
- 2. We make a profit – that is everyone gets the appropriate level of income and expenditure**
- 3. Safe environment**
- 4. NEAT – sustainability and energy costs**
- 5. Design to ensure staff monitoring of clients**
- 6. Value for money**
- 7. Cost certainty – GMP & CE not exceeded**
- 8. Minimal / zero defects at handover**
- 9. Collective team success – e.g. infection control and other issues are addressed**
- 10. Designed and built for safe operation and maintenance**
- 11. Flexible / future proof**
- 12. Patient experience improved**
- 13. Staff experience / recruitment / retention improved**

# Prioritised Success Criteria – *who benefits?*

1. Improved H&S during delivery and operation *[Safety]*
2. We make a profit – that is everyone gets the appropriate level of income and expenditure *[Team benefit]*
3. Safe environment
4. NEAT – sustainability and energy costs *[Client benefit]*
5. Design to ensure staff monitoring of clients
6. Value for money
7. Cost certainty – GMP & CE not exceeded
8. Minimal / zero defects at handover
9. Collective team success – e.g. infection control and other issues are addressed
10. Designed and built for safe operation and maintenance
11. Flexible / future proof
12. Patient experience improved
13. Staff experience / recruitment / retention improved

## **Benefits of IPI – behavioural and legal (1)**

- **Liberates the whole team from the need for protective behaviours**
- **The “Joint and Several Liability” problem is avoided.**
- **Collateral Warranties – a huge aggravation for little advantage – become redundant**
- **IPI cover survives the insolvency of any member of the team, and any resultant financial loss will be covered**  
**[NB this should facilitate partnering with local SMEs]**
- **Legal, forensic and management costs in re-living projects embroiled in “whodunnit?” litigation should be avoided**
- **Limits each partner’s potential loss to their share of the pain-share**
- **Expected to cost no more than the 2½% cost of traditional insurances throughout the supply chain (no longer required)**

## Benefits from IPI - efficiency and performance (2)

The IPT can dispense with

- Processes orientated around each team member's silo
- Protective contractual documents
- Separate systems (in favour of common platforms)
- Specifications and drawings prepared by consultants to obtain tenders which have the effect of creating divides down the supply chain
- Protective and non-productive letter-writing
- Notification, preparation and pursuit of claims, or defences against claims

*This is Latham's 30%, still to be applied to 80% = 24% !*