

ADDRESS BY MINISTER PASCHAL DONOHOE T.D. TO THE CONSTRUCTION SECTOR GROUP

Thursday, 21 March 2019

(Check against delivery)

WELCOME

I would like to extend a warm welcome to you [*the members of the Construction Sector Group and members of the Government Contracts Committee for Construction*].

I thank you for your attendance here today as we formally launch our review of the policies and practices deployed in the procurement of public works projects. The changes arising out of this review will have a significant impact on construction projects that are to be delivered under the Exchequer funded element of Project Ireland 2040.

PROJECT IRELAND 2040

By 2040 the population of Ireland is expected to grow by over 1 million people.

Key to providing for this anticipated growth over the coming years will be;

- investment,
- a clear plan, and
- an industry with the capacity to deliver.

Under the NDP, public capital investment in Ireland will move from relatively low levels following the recent recession to being among the highest in the EU averaging 4% Gross National Income (GNI*) on an annual basis over the period 2022 to 2027.

The National Development Plan sets out the projects that will be developed over the period to 2027, we have also put in place the National Planning Framework which will form the basis for investment decisions in subsequent iterations of the NDP.

Your industry has a vital role to play in delivering the necessary infrastructure to the highest standards to create an environment in which all may prosper.

PROJECT IRELAND 2040 – DELIVERY SUPPORTS & WORK IN PROGRESS

To support project delivery and achieve value for money in investment, a suite of key reforms have been introduced to support the efficient implementation of Project Ireland 2040 and we are reviewing existing practices to drive further improvements.

In addition to measures such as the Project Delivery Board, the Project Tracker and the establishment of the Investment Projects and Programme Office, this Group, is a key enabler. Through regular and open dialogue between government and the construction sector we can resolve some of the challenges we face in delivering an ambitious investment programme.

As part of the ongoing reform of Ireland's capital management systems, my Department is also overseeing a number of reviews which seek to further enhance the delivery of the NDP.

- We are undertaking a Capacity and Capability review of public sector bodies to ensure that the State's delivery practices are to the highest standard;

- We are reviewing the Public Spending Code which is the set of rules, procedures, and guidance to ensure Value for Money in public expenditure across the Irish Public Service.
- And of course the review of construction procurement policies and procedures which I will come to later;

PROJECT IRELAND 2040 – CHALLENGES

Recent events serve to remind us of the challenges in delivering such a large programme of capital investment and when we look at potential risks a number of issues immediately stand out. I will mention just two which, if not tackled, have the potential to significantly curb the ambition of Project Ireland 2040.

- Construction tender prices are currently rising well in excess of general inflation and there is clear evidence that capacity constraints are driving prices up.
- Productivity levels have been highlighted in the ‘Build’ report, the first annual report on Construction Sector Performance and Prospects recently published by **this Group**.

It is abundantly clear that Government needs an efficient and functioning construction industry with the capacity to deliver much needed public infrastructure.

I have great faith that the dialogue between government and the industry that is being facilitated through the establishment of this Group will be instrumental in finding solutions to these issues. I look forward to reading the reports and recommendations that will flow from the various working groups.

Government has already taken steps to drive productivity in the sector with the announcement of its strategy for increased use of digital technology in the delivery of key public works projects in November 2017. Work is advancing in the Office of Government Procurement in conjunction with the Public BIM Group in determining the means by which digital technologies will be adopted throughout the different stages of a project's development.

As the Minister with responsibility for expenditure, cost control on public projects is foremost in my mind. The issues that have arisen on the New Children's Hospital have generated significant discussion and debate. In addition to the range of supports that we have previously set out for the delivery of Project Ireland 2040, we have announced further reforms in recent weeks and we await with keen interest the report being undertaken by PwC.

REVIEW OF CONSTRUCTION PROCUREMENT POLICY

Procurement, of course, plays a vital role in the successful delivery of the NDP. Procurement policy must address quality, timely delivery and value for money for the taxpayer. It must be open to all who have the competence and capacity to contribute the expertise and skills necessary whilst recognising the importance of making a reasonable profit after employees and suppliers are paid.

The key objectives set out when the construction procurement reform initiative was commenced in 2004 are, and remain:

- Cost certainty at tender award stage
- Better value for money, and
- More efficient delivery of public works projects

The manner in which these objectives are achieved and, in particular, the tools used to meet these objectives will change as we undertake the review of current practice and policy.

We are starting from a good place. The framework for project delivery is well developed, notwithstanding the need for enhancement. The Public Spending Code sets out the high level review and reporting structures that are key to efficient project management. These structures have been incorporated into the Capital Works Management Framework to create a holistic approach to project appraisal.

Work will be undertaken to better bed these structures in a consistent fashion across the public capital programme in a manner which will inform procurement and contracting strategies.

I would like to briefly touch on two key themes that will frame the development of the next generation of the Capital Works Management Framework.

The first is **risk**, risk is to be brought front and centre with regards to the decisions that are to be taken during a project's development. It will be a **requirement for risk to be identified at the outset and evaluated** before determining how it is best addressed and, crucially, who is to manage it.

At project inception stage the full risk potential for a project will be recognised by means of pre-determined formulae to derive a risk rating which will determine a budgetary provision.

As the project moves through its development stages and greater definition is developed the risk rating will reduce and with it the associated financial provision.

Where a project is poorly defined, the successful outcome of the project is placed in considerable jeopardy by allowing the market to price the risk represented by inadequate definition in a competitive tender.

Key to all of this is information and, more importantly, **quality information** which is the second theme. Without quality information it is impossible to make informed decisions and uninformed decisions usually have negative cost and quality consequences.

Quality information will become a central tenet to all aspects of project delivery. This is vital if we are to exploit the possibilities offered by digital technologies such as Building Information Modelling.

STRUCTURE OF ENGAGEMENT

Because of the breadth of the issues to be addressed and the extent of stakeholder engagement necessary, it is considered appropriate to plan, develop and engage with stakeholders and progressively refine the Capital Works Management Framework over a period of 12 – 18 months.

It is not envisaged that it will be possible to address all the issues within 2019, nor is it intended to wait until all recommendations are complete to progress implementation on key issues. Hence the need for robust objectives and principles to permit those solutions that are agreed and approved to be addressed.

Position papers will be published throughout the course of 2019 in order to broaden consultation beyond the stakeholder bodies represented here and will cover a wide range of areas including:

- risk management;
- price inflation;
- BIM;
- liability, indemnity and insurance requirements;
- performance evaluation;
- encouraging collaborative working.

Responses to the position papers will be taken into consideration when finalising the policy response. Implementation measures will also be published for consultation purposes.

The Office of Government Procurement, in conjunction with the Government Contracts Committee for Construction, has established a set of objectives and principles which issued as part of your invitation. These will guide the engagement and the policy changes that will develop the next generation of the Capital Works Management Framework.

I am confident that we can rely on all stakeholders to participate in a constructive fashion on the range of issues that are impacting on successful project delivery. This review and indeed the working groups established under the Construction Sector Group have the potential to significantly improve project outcomes.

I would like to thank you again for your attendance this morning and look forward to reviewing the recommendations that will arise out of your engagement in the coming months.

There is time for a short statement from each of the bodies represented should they so wish.

[Ends]