



Specialist Engineering Contractors' Group



ANNUAL REPORT

2006

www.secgroup.org.uk

CONTENTS

Page

PRESIDENT'S FOREWORD.....	3
PAYMENT SECURITY.....	4
Working Group on Fair Payment.....	4
Project Bank Accounts (PBAs).....	5
Retentions	5
Construction Act Review	5
SPECIALIST ENGINEERING ALLIANCE	6
HEALTH AND SAFETY	6
2012 OLYMPICS.....	7
SEC GROUP IN WALES.....	7
INTEGRATING INDUSTRY DELIVERY PROCESSES.....	8
BUILDING REGULATIONS	8
PARLIAMENTARY LOBBYING.....	9
COMMUNICATIONS	9
ABOUT SEC GROUP	10
INFORMATION.....	11



PRESIDENT'S FOREWORD



Lord O'Neill of Clackmannan
President of the SEC Group

I was delighted to take over as President of the Specialist Engineering Contractors (SEC) Group in August. I should take this opportunity to pay tribute to the work that John Harrower, my predecessor, has carried out over many years on behalf of the specialist engineering sector.

During 2001/2 John was a member of the Strategic Forum for Construction chaired by Sir John Egan. He became chairman of one of the Forum's working groups to consider the most effective means by which the industry's delivery processes could become more integrated. Much of the work that he led as chairman of this group is beginning to bear fruit.

Working closely with SEC Group's chairman, Trevor Hursthouse; Rudi Klein and John Nelson (respectively chief executive and executive secretary) I have been impressed by the strong sense of purpose shared by SEC Group's six member associations. Together they identify the priorities for SEC Group and with their full participation and support SEC Group is able to remain focused on delivery.

One of the highlights of 2006 was the launch in July by Tessa Jowell (Secretary of State at the Department of Culture, Media and Sport) of the **2012 Construction Commitments**. At the launch the Secretary of State described them as "obligations". They are not only relevant to the 2012 Olympic Games; the government's view is that they should be applied across the whole of public sector construction procurement.

The Commitments say all the right things - projects to be delivered by integrated project teams; project insurance to underwrite the delivery team; 30 day payment periods; project bank accounts; early involvement of specialist contractors in the design process and so on.

In fact, all these were recommended in the report of the National Audit Office, *Improving Public*

Services through Better Construction, published in March 2005.

The key message in 2006 (and, no doubt, in 2007) was that we have to implement and embed best practice throughout the procurement and delivery processes. I was pleased that this issue was at the forefront of Margaret Hodge's priorities when she took over as Construction Minister during the early part of the year. It was the theme that dominated the meeting of the Strategic Forum for Construction in November.

The Minister was present at that meeting when Martin Davis, chairman of the Forum's Integration Steering Group (and SEC Group Board member), put forward a series of measures to drive greater integration and collaboration throughout the industry's delivery process. The key proposal was making Treasury funding of government projects conditional upon procurers demonstrating that their project(s) - particularly at the design stage - were truly integrated and that there would be collaborative working involving all the key members of the delivery team including engineering contractors.

Another proposal related to the setting up of a group of senior figures from the industry who were converted to the principle of integrated delivery. This group would be led by a high profile individual with the status and authority to drive the agenda forward. The group would explain the business case for integration as well as overcoming any obstacles on the road to a more integrated and collaborative industry.

The Forum must not lose the momentum. For me, the business case is clear. A fragmented industry - characterised by the traditional procurement processes - is a major barrier in the way of delivering sustainable solutions, effective risk management, significant improvements in health and safety performance and, above all else, world class quality.

Lord O'Neill of Clackmannan

PRESIDENT
Specialist Engineering Contractors Group

PAYMENT SECURITY

During 2006 payment security continued to be SEC Group's overriding priority. In 2005 the NAO¹ report, *Improving Public Services through better construction*, identified continuing payment problems in the industry as a significant barrier to engaging the full potential of the supply chain. The NAO recommended that *project bank accounts* should be introduced to provide a safe receptacle for payments to the delivery team as well as removing the incentive to delay and obstruct the flow of cash. Moreover, they would help to reinforce collaborative working since payment to the team would come out of the same "pot".

WORKING GROUP ON FAIR PAYMENT

At the beginning of the year a SEC Group delegation met John Healey, Financial Secretary to the Treasury. The SEC Group representatives proposed the setting up of a Treasury/OGC² working group with industry representatives to produce guidance and model documentation for project bank accounts.

Subsequently the OGC set up a working group on fair payment which was constituted as Working Group 4 of the PSCCF³.

Working Group 4 made a number of recommendations which were endorsed by the PSCCF at its meeting in December 2006. These included:

- A "Fair Payment" Charter to be signed by the delivery team before appointment⁴;
- Advice to clients on best practice payment processes aimed at ensuring that all those in the delivery team received payment within 30 days;
- Collaborative working and delivery of improved quality will obviate the need for retentions;
- Evidence of good "fair payment" practices to be used as a pre-qualifying criterion when selecting lead contractors;
- Inviting clients to consider making payments directly to major sub-contractors and suppliers;
- Progressive use of project bank accounts where practical and cost effective⁵;
- Monitoring compliance with the model "Fair Payment Charter" and the take up of project bank accounts.

1 National Audit Office

2 Office of Government Commerce

3 Public Sector Construction Clients Forum - The Forum was set up in December 2005 to enable public sector clients to contribute to the development of the government's policy for construction procurement.

4 The Charter will be fully implemented by 1 January 2008 and compliance with it will be a significant factor in the future selection of project teams.

5 Guidance on the use of project bank accounts and a model trust deed was produced by the Working Group.

MODEL "FAIR PAYMENT" CHARTER¹

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 2008² 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 chain³.
- 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 cashflow 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.

1 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 stand alone document or part of a wider partnership charter. In either case it is not intended to be legally binding.

2 The 12 month introduction period is to allow time for clients and contractors to modify their business systems and procedures.

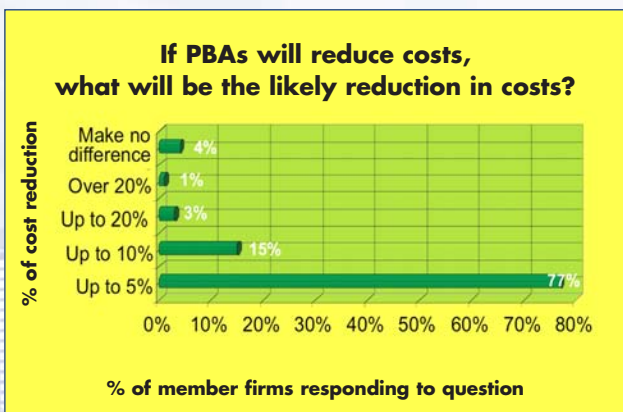
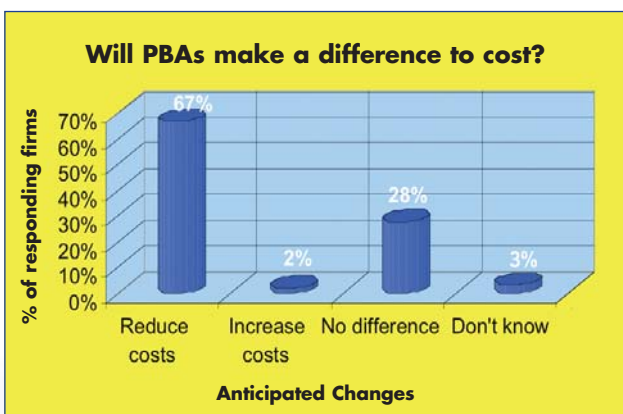
3 The Charter would be signed by the client at the outset and contractors and suppliers subsequently engaged would be expected to sign the Charter before appointment.

PROJECT BANK ACCOUNTS (PBA's)

In February SEC Group representatives met with the BBA⁶. The purpose of this meeting was to elicit their members' interest in endorsing a standard project bank account package. It was agreed that the BBA would circulate any draft documentation for consideration by its members. This meeting was kindly facilitated by HSBC Bank.

In order to support the work of the "Fair Payment" Group SEC Group carried out a survey to gauge the extent to which firms felt that their costs would be reduced by the introduction of PBAs. The results of the survey were audited by Davis Langdon.

67% of firms (out of the 123 firms which responded) indicated that their costs would be reduced by having a PBA in place. The overwhelming majority of those firms (77%) anticipated that PBAs would reduce their costs by up to 5%. A further 15% of respondents thought that their costs could be reduced by as much as 10%. Turning them on their head these figures showed that current payment arrangements in the industry were unnecessarily adding to the industry's overall costs.



RETENTIONS

During the year SEC Group continued to update its list of client organisations that do not require retentions⁷. By the end of the year this list consisted of more than 70 clients, many of them large procurers of construction work.

CONSTRUCTION ACT REVIEW

With little sign of the DTI⁸ revealing its proposals to amend the Construction Act, SEC Group launched a vigorous lobbying campaign to highlight the industry's concern over the lack of progress. Claire Curtis-Thomas MP initiated an Early Day Motion (EDM 1941) which attracted 178 signatures and placed the EDM at 75th in a list of 3,000 EDMs initiated during the 2005/6 Parliamentary Session.



EARLY DAY MOTION 1941

'That this House believes that security of payment in the construction industry especially for small and medium sized

businesses is a prerequisite to achieving trust and collaboration in the industry; therefore, urges the Secretary of State for Trade and Industry to use the opportunity presented by the current review of Part II of the Housing Grants, Construction and Regeneration Act 1996, initiated by the Chancellor of the Exchequer, to amend the Act to ensure that there is a statutory mechanism for defining the amount to be paid at the date for payment, that all conditional payment provisions and cross contract set-off are outlawed, that progress payments start from commencement of contract and that the Act provides effective protection for firms in the supply chain from 'upstream' insolvencies. That this House believes that payment security will be a major factor in the successful delivery of the construction projects for the 2012 London Olympics'

6 British Bankers' Association

7 The current list can be downloaded from the website: www.secgroup.org.uk

8 Department of Trade and Industry

Many firms in SEC Group's member associations contacted their MPs to encourage them to sign the EDM.

In February SEC Group made substantial input to a DTI Conference that was arranged to consider revised proposals for amending the Construction Act. SEC Group emphasised that the key reform had to be a statutory payment mechanism that would give rise to a debt by the final date for payment.

SPECIALIST ENGINEERING ALLIANCE

The Specialist Engineering Alliance is a unique concept in the construction industry. It brings together organisations representing consultants, contractors and manufacturers in the specialist engineering sector⁹. The Alliance also includes the Building Services, Research and Information Association (BSRIA) which is the research body for the M&E sector.

At its last meeting of the year the Alliance agreed to establish a working group to consider the extent to which traditional procurement in the specialist engineering sector is a barrier to achieving sustainable outcomes for construction projects. The greatest potential for achieving sustainable solutions lies within this sector. Often fragmented and hierarchical delivery has a detrimental impact on sustainability. For example, ill-thought out design results in substantial re-work that, in turn, results in substantial waste.

Firms that have invested in new technologies to help promote sustainable solutions find that the design that they have inherited does not allow for the use of such technologies. Often the prevalence of lowest price bidding usually undermines any attempts to achieve efficient whole life performance or ensure that there are significant reductions in the carbon footprint.

The working group will be chaired by Lord O'Neill (SEC Group's President) and will consider the following:

- *The extent to which traditional delivery in the specialist engineering sector prevents a full consideration of sustainable solutions.*
- *How an integrated project team would have helped deliver the necessary sustainable solutions; and*

⁹ The member organisations within the Alliance are The Chartered Institute of Building Services Engineers, Association of Consultancy & Engineering, Specialist Engineering Contractors Group, Federation of Environmental Trade Associations, The Association for the British Electrotechnical Industry, Building Services Research & Information Association.

- *Recommendations or actions to be taken by both public sector clients and the specialist engineering sector to facilitate the necessary integration.*

In June the Alliance launched its major output to date which was *A Design Framework for Building Services*. This includes a checklist of the design activities involved in the delivery of M&E installations. It will assist collaboration within integrated design teams by facilitating the process of allocating responsibilities relevant to each activity. A similar project is underway within the steel construction sector.

HEALTH AND SAFETY



Bill Belshaw

During the course of the year the Health & Safety Task Group, chaired by Bill Belshaw, began updating SEC Group's Health & Safety Strategy. The existing strategy document was issued following the first Health & Safety Summit in 2001.

A significant development was the agreement by the Construction Confederation and SEC Group to sign a *Statement of Intent* to work closely together to improve the health and safety performance of the industry. This builds on work carried out by both organisations to develop a set of core criteria for assessing corporate health and safety competence.

These criteria were incorporated into the Carpenter Report in November 2005 and are now the basis of the core criteria for demonstrating competence in appendix 4 to the new Approved Code of Practice. This will be issued alongside the revised Construction, Design & Management Regulations due to come into force on 6 April 2007.

The Construction Confederation and SEC Group have agreed to encourage both clients and contractors to apply these criteria when assessing contractor competence. This will mean that firms able to satisfy the criteria - either individually or through membership of a qualification or registration scheme - should not have to qualify under any other scheme or vetting process in order to demonstrate their competence.

It is expected that this will eventually encourage mutual recognition of schemes through a common "badge" that embraces the core criteria.

Whilst on the subject of CDM Regulations, the working group revising the Regulations concluded its work. The group reported to CONIAC¹⁰. SEC Group was represented on the working group where it was instrumental in changing the Regulations so that:

- There was greater emphasis on the need for early appointment of contractors to better manage health and safety risk at the front end of projects;
- The information received by contractors about to commence work specifically relates to their activities (thus reducing the paperwork);
- There are now criteria for assessment of corporate competence in order to achieve effective enforcement of the requirement of competence.

The Health & Safety Task Group has been encouraging the use of the *Safe Site Access Certificate* to enable health and safety risks to be addressed before a contractor arrives on site¹¹.

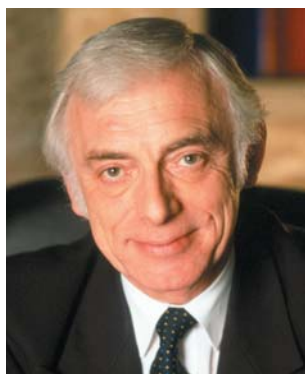
The Group published a "Respect for People" Pocket Guide that summarises the *Respect for People Code* produced by the Strategic Forum for Construction¹².

Funding is being sought to develop health and safety "design gateways" for specialist engineering works. Production of the 'design gateways' would facilitate effective management of health and safety risks at the design stage.

The Task Group has sought to improve the gathering of statistics relating to RIDDOR - *reportable accidents*. Member associations of SEC Group are being encouraged to improve their gathering of statistics so that there is adequate data upon which to reliably assess the impact of measures taken to date.

document and urged the ODA, amongst other things, to:

- Ensure that risks are appropriately shared out amongst the delivery team;
- Put in place project insurance arrangements and project bank accounts for all Olympic projects;
- Select firms that have demonstrated their competence through membership of reputable qualification or registration schemes;
- Ensure that partnering arrangements comprise the whole team;
- Appoint engineering contractors to the design team; and
- Make Olympic projects a retention-free zone.



Trevor Hursthouse
Chairman of the SEC Group

These issues were taken up with Richard Caborn, MP, Minister of Sport, at the SEC Group Board Dinner in October. The Minister undertook to facilitate a meeting between SEC Group and senior officials from the ODA.

The chairman of SEC Group, Trevor Hursthouse, is a member of the Strategic Forum's Olympic Task Force chaired by Peter Rogers, CBE. The Task Force's responsibility is to support the Olympic Delivery Authority in implementing best practice procurement.

2012 OLYMPICS

SEC Group played a significant role in the drafting of the 2012 Commitments to ensure that issues such as the early involvement of engineering contractors in design teams, payment security and equitable contracts were all addressed. In the summer the Olympic Delivery Authority (ODA) produced its draft procurement policy. SEC Group responded to this

Over the course of the year SEC Group has worked closely with officials of the Welsh Assembly Government (WAG) in identifying best practice for public sector construction procurement in Wales. To that end regular discussions were held with officials from the WAG as a result of which a draft *Best Practice Charter* was drawn up. The Charter addresses issues such as pre-qualification, selection and appointment of firms, monitoring quality and performance, contracts and payment. It is intended that compliance with the Charter will:

- Help deliver best value construction procurement to the public sector;
- Improve the capacity of the construction industry in Wales; and
- Improve profit margins for all firms engaged on public sector works.

The discussions on the Charter also involved Constructing Excellence in Wales.

10 Construction Industry Advisory Council - the joint industry/HSE forum.
 11 The Safe Site Access Certificate is available on the SEC Group website: www.secgroup.co.uk
 12 The Strategic Forum for Construction comprises the industry's umbrella bodies (including SEC Group) that represent the different sectors of the industry. It is primarily responsible for delivering the Accelerating Change agenda that aims to achieve an integrated and collaborative delivery process.

INTEGRATING INDUSTRY DELIVERY PROCESSES



Martin Davis

Integrating the construction delivery process continues to be a major priority for SEC Group. The achievement of an integrated and collaborative delivery process has a crucial part to play in improving quality, productivity, securing best value and increasing profitability

of firms in the sector. It is also vital in delivering improved health and safety performance and sustainability. *Accelerating Change*, launched by Sir John Egan in September 2002, included targets for integration. By the end of 2004 over 20% of construction projects (by value) should have been undertaken by integrated teams. By the end of 2007 the target is 50%. At an industry summit in May organised by Constructing Excellence it was acknowledged that these targets would **not** be met.

Through its discussions with Ministers and involvement in the Strategic Forum, SEC Group has been tireless in its pursuit of greater integration. After all, this is the government's aim for public sector construction procurement and is reflected in the OGC's *Common Minimum Standards* that govern procurement decisions. In discussions with the Treasury, SEC Group has urged that the Treasury should refuse funding if there isn't a formal commitment by an *integrated* team to the cost plan when the investment decision is being made by the relevant government department. SEC Group has also urged the Treasury to appointing a high profile champion to help drive greater integration in procurement delivery on public sector projects.

Integration is also about the integration of processes such as payment and insurance. Reference has already been made to project bank accounts and the agreement of the PSCCF to the introduction of PBAs on public sector projects.

The PSCCF has also agreed that project insurance - a policy of insurance that would underwrite the delivery team - should be piloted by public sector

clients. SEC Group has invested substantial resources in the developmental work on project insurance and on bringing together the various parties including clients, consultants, contractors and insurers. An integrated project insurance policy offers the prospect of insuring the financial outcome of *integrated projects* and, therefore, is radically different from existing policies that are primarily aimed at establishing fault.

A number of public sector projects have already been identified as possible pilot projects with each project averaging £20m. SEC Group pays tribute to the work of Martin Davis, a Board Member, who has led the work on project insurance in his role as Champion of Integration for the Strategic Forum.

BUILDING REGULATIONS

In June SEC Group was invited by the DCLG¹³ to participate in a meeting to review the Building Regulations. Together with colleagues from other bodies within the Specialist Engineering Alliance, SEC Group produced a position paper for the consideration of the Parliamentary Under-Secretary of State Angela Smith, MP, who chaired the meeting.

The Building Regulations have developed incrementally over the years and as they have evolved, they have become unwieldy and complex. Furthermore, duplication and inconsistencies have crept into the Regulations adding to the difficulties of enforcement. These problems have been exacerbated since other regulations have 'grown up' alongside the Building Regulations with the same or similar aims. These include (for example) the Gas Regulations, Fire Regulations, Water Regulations and the Construction, Design & Management Regulations.

The key message from SEC Group was that we needed to develop a single identifiable badge for *Competent Persons Schemes* that embraces common standards of accreditation. Also the requirements in other related regulations (such as the Water Regulations and Fire Regulations) relating to competence and accreditation standards could be "shoe horned" into *Competent Persons Schemes* - perhaps with "add-ons" to such Schemes. This would help rationalise and harmonise the various regulations as well as substantially reducing the burdens upon the industry arising from multifarious qualification and vetting processes.

SEC Group also alerted the DCLG to a specific problem that had arisen within constructional steelwork.

¹³ Department for Communities & Local Government

¹⁴ British Constructional Steelwork Association

This concerned the replacement of British Standards by Eurocodes. According to the BCSA¹⁴, Eurocodes would increase costs of steel construction by at least 5%. On behalf of BCSA, SEC Group urged the DCLG to retain references to British Standards in the *Approved Documents* issued under the Building Regulations.

At the end of the year SEC Group had a very productive meeting with the consultants appointed by the DCLG to carry out the review of the Building Regulations.

SEC Group's chief executive, Rudi Klein, spoke on Business Ethics at the 2nd Strategic Leadership Conference on 14 June which was organised by *Constructing Excellence*. He was the speaker at a dinner held by Taylor Woodrow on 10 April for members of its Strategic Alliance Partnership. He was also a speaker at a conference in September organised by the Office of Government Commerce on an economic model for aligning construction demand and capacity. On 1 April 2006 he was appointed Chairman of the New Engineering Contract Users' Panel.

PARLIAMENTARY LOBBYING



Ed Balls, MP

During the course of the year SEC Group maintained a high profile lobbying campaign to convince the DTI of the need for changes to the Construction Act to achieve certainty of payment. Reference has already been made to EDM 1941 which attracted 178 signatures. During the

course of the year contacts with all political parties were maintained. Meetings were held with a number of influential MPs including Ed Balls, who subsequently became Economic Secretary to the Treasury. The guest at the Board Dinner held in July was Mark Prisk, MP, the shadow spokesman on construction.

Two issues of the SEC Group's *Parliamentary Newsletter* were produced and circulated to MPs. For the first time a Welsh Assembly Newsletter was published and circulated to Assembly Members.

COMMUNICATIONS

Member associations continue to be updated by the SEC Group *Focus* addressing headline issues and the SEC Group *Briefing* that provides detailed information on topical matters of concern for member associations and their members. This information can be found on the SEC Group website at www.secgroup.org.uk

ABOUT SEC GROUP

SEC Group is the representative voice for the specialist engineering sector. It brings together the construction industry's premier trade associations: These long-standing, effective and influential organisations represent a sector comprising over 60,000 companies and a workforce of more than 300,000.

**Association of Plumbing and Heating Contractors (APHC)
British Constructional Steelwork Association (BCSA)
Electrical Contractors' Association (ECA)
Heating and Ventilating Contractors' Association (HVCA)
Lift and Escalator Industry Association (LEIA)
SELECT (Electrical Contractors' Association of Scotland)**

SEC Group seeks to raise awareness - amongst clients, professional advisers, government and the industry at large - of the critical importance of specialist engineering expertise within the construction industry. Moreover it aims to promote productivity, profitability and best practice throughout the construction process.

The SEC Group's constituent associations represent a wide range of engineering expertise including telecommunications, power and lighting, heating and ventilation, air conditioning and refrigeration, acoustics, ductwork, plumbing, automation and control systems, security systems, data transmission, lifts and escalators, constructional steelwork and facilities management. SEC Group's constituent associations work closely to define and pursue their mutual objectives under the SEC Group umbrella. The strength of the SEC Group lies in the cooperation between the associations as well as in the engineering synergy that binds the associations and their members together.

"The SEC Group exists to promote an efficient and profitable specialist engineering sector, comprising qualified firms and a skilled workforce, able to meet the business needs of its clients with delivery of high-quality engineering systems, services, products and structures as part of integrated supply teams."

(SEC Group Mission Statement)



INFORMATION

Information about the SEC Group can be found by visiting the SEC Group website (www.secgroup.org.uk). Further information can be obtained by contacting:

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