



Chief Construction Advisor to the Government

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Introduction

The extreme turbulence faced by the Irish construction sector over the last few years, including the loss of massive levels of employment, collapse in tender prices and the emergence of below-cost tendering, and the exclusion of many small and medium-sized enterprises from tendering for public works, necessitates a new way of doing business. It is likely that direct exchequer funding of capital works will be cut in the forthcoming Budget, and spending departments will be asked to do more work with fewer resources. At the same time, the financial crisis has created a new necessity to explore innovative project funding structures and a new model of PPPs.

The construction industry has an important role to play in the restoration of the Irish economy by continuing to improve the quality of Ireland's physical infrastructure and built environment. Since 2007, the output of the sector has declined from 22% of GNP to less than 6% - against a long-term optimum output of around 12% to 15%. Thus, it is clearly evident that the recent story has been one of over-correction and under-performance. It is important both for the long-term viability of the construction sector and the wider economy, that new efforts are made to promote a diverse, stable and dynamic construction sector which can respond to the needs of clients without a return to the unsustainable levels of output of the late Celtic Tiger years.

While it must be acknowledged that some elements of the construction sector still attract negative commentary, this should not lead to a hand-off approach by government. Doing nothing will only lead to further sectoral under-performance, an erosion of the skill base of the industry and a further hollowing out of the professional capacity of the sector. Instead, a new approach to partnership within the industry and government could have a very positive effect on the restoration of construction activity in Ireland.

Good working relationships exist between the construction industry and government through a myriad of points of contact. The Construction Industry Council, the Construction Contact Group and others, have had significant impact in assisting

government in the delivery of capital works. Nonetheless, as value for money becomes an ever greater objective for government, the Society of Chartered Surveyors believes that a single point of contact, to foster a new partnership process between the industry and Government would be beneficial.

Government is currently exploring new delivery vehicles for investment in productive infrastructure through the NewERA programme. It is the view of the Society of Chartered Surveyors Ireland that significant streamlining in the procurement of public works needs to take place, so that capital projects which are given ministerial approval can proceed through tendering and design stages, and construction work begin as quickly and as efficiently as possible. This necessitates a more joined-up approach by government, to co-ordinate capital investment by government departments.

The UK Experience

The Society of Chartered Surveyors Ireland recommends the creation of a new office of a **Chief Government Adviser on Construction** to mirror recent successful developments in the UK where the Chief Construction Adviser, himself a construction professional, has been instrumental in identifying and responding to the skills and training requirements of the UK construction sector to deliver government policy on smart, sustainable infrastructure and buildings. His office has become the central point of contact between the State as a client and the construction industry as the contractor and service provider.

Overseeing Capital Investment

Capital investment in construction-related projects is a significant part of exchequer spending each year; even maintaining, improving and upgrading Ireland's existing physical infrastructure and stock of public buildings requires a multi-billion euro investment. This justifies the creation of a senior position in government, to derive the best possible value-for-money, decide on strategic priorities within the context of a

declining Budget, and take advantage of international appetite for investment in Irish infrastructure.

The role of this official within the Irish public service would be to oversee contact between government and the construction sector, including professional service providers, and to work on a cross-departmental basis, providing government with high-level independent, technical expert advice on construction procurement and public capital spending-related issues. The Chief Government Adviser on Construction should be central to the formation of the annual public capital programme (PCP) and the monitoring of multi-annual capital spending envelopes. The Adviser should be centrally placed to co-ordinate the rollout of the PCP at department and project level.

Over the last few years, the industry has experienced an ever greater diversity in procurement and tendering processes by different departments, agencies and local authorities. This has created huge inconsistencies in the procurement of capital works, and increased the cost of procurement (to both client and contractor). The Society believes that this role, if given the task of improving and streamlining such issues, could have a significant public benefit.

Project Financing

This is a timely initiative. Project financing has become a significant issue for the construction industry in 2011, as funding mechanisms which were available to procurement agencies and clients are no-longer available. The Chief Government Adviser on Construction should be placed at the heart of developing new models of project financing, to harness PPP and PFI initiatives, secure new sources of funding and ensure the successful and timely completion of public projects where funding is shared with the private sector.

By international standards, Ireland has a relatively poorly developed programme of Public-Private Partnerships for infrastructure and public building investment. The global banking crisis has undermined the financing of many previously viable PPP projects both in Ireland and overseas. In Ireland, banks have fallen into State-ownership and have

withdrawn from the PPP market. While the cost of Government borrowing is beginning to fall, Ireland's poor status amongst rating agencies has made it difficult for scheduled projects to be funded. This is an opportune moment to reflect on Ireland's experience of PPP and PFI funding and put new structures in place to develop a new model of financing public projects.

Other more mature PPP markets have faced similar difficulties in finding private and public investment and reacted by establishing State bodies to oversee PPP policy and help re-activate lending for PPPs. The Society of Chartered Surveyors Ireland believes that a centrally co-ordinated agency should be set up under the auspices of the Chief Government Adviser on Construction to stimulate project activity, improving the viability of private funding and oversee the rollout of all departmental PPP activity.

This new chief Adviser should target investment in the most necessary and viable projects. It should work to safeguard project delivery and increase investor confidence. A pipeline of multi-sectoral bundles of PPP projects should be created and delivered on, using a credible assessment of risk, timely and accurate data and forecasting, and by promoting project flexibility, simplification and standardisation. By being seen to co-ordinate PPP policy, Ireland will be able once again to attract international investment in public utilities.

Conclusion

The Society believes that both industry and government can benefit from having an office tasked with championing innovation in government procurement, as well as promoting innovation in construction skills and delivery of publicly procured projects.

It is likely that in 2012, construction tender prices will plateau and some increases may be seen. It is vital, therefore, that the State can continue to invest in new public works, harness new funding measures and deliver on the public capital investment programme.