

Contracting for Cost Reduction: Learnings and Opportunities

Kirsti Olson, Partner
Construction & Engineering
Jill Reid, Partner
Oil & Gas





Rain...what rain?



The UK Construction Industry in the 1990's

- 1994 – the Latham Report: “Constructing the Team”
- Part II of the Housing Grants, Construction & Regeneration Act 1996
- The Government’s Construction Strategy 2011 - aims to:
 - Reduce costs by 15%-20% by 2015
 - Increase growth and competitiveness
 - Eliminate waste and inefficiency
 - Stimulate innovation

What have we learnt?

- Payment
- Dispute Resolution
- Building Management
- Core client skills
- Standard form contracts
- New procurement models

Payment

- Pay when paid clauses illegal
- Must be interim payment provision
- Must be due date for payment and final date
- Notices to be served if sums to be withheld
- Project Bank Accounts



Dispute Resolution

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- Contract Administrator
- Risk Registers
- Early warning systems
- Dispute Review Boards
- Adjudication



Building Management **mms** | Maclay Murray & Spens LLP

- BIM (Building Information Modelling)
- Records key product and asset data in 3D digital model
- Compulsory in Government projects from 2016 onwards
- Targeting £2 billion of savings



Core client skills

- Scottish Parliament
- Estimated construction cost: £50 million
- Final cost: £414 million
- Lesson: effective project management by the client is essential



Other developments

- Standard form contracts
 - New LOGIC Decommissioning Contract
- New procurement models
 - Two stage tendering
 - Cost led procurement
 - Integrated project insurance

Success?

Government Construction Strategy 2011

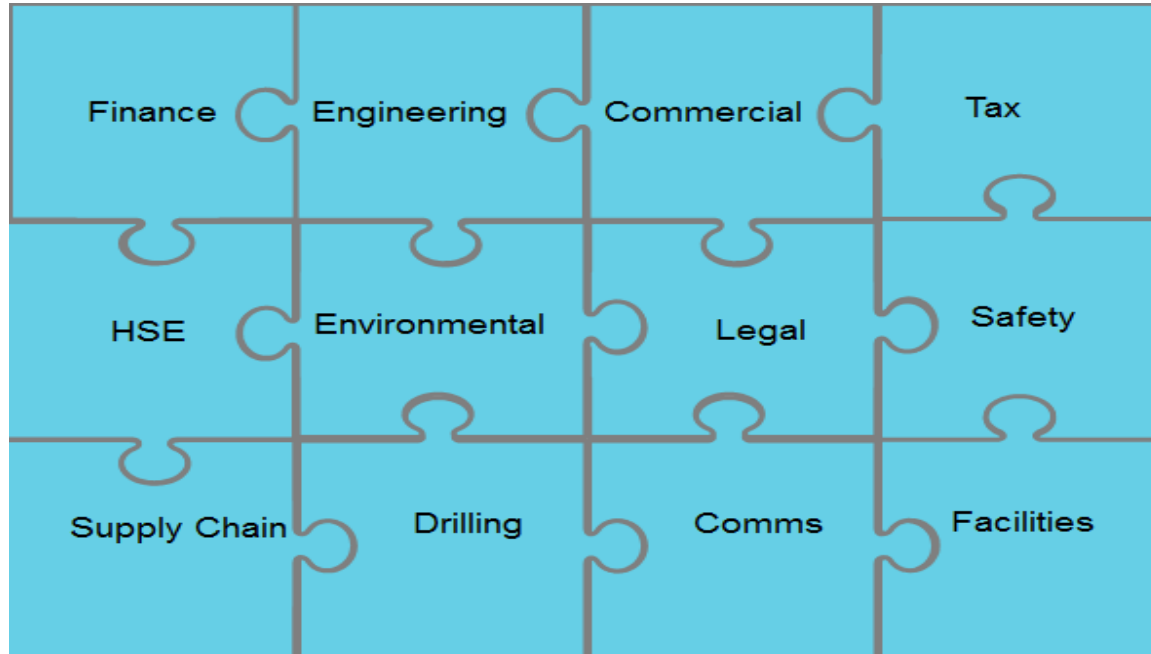
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- 2014/2015
- Expenditure: £3.6 billion
- Savings: £855 million
(23.6%)

Decommissioning - Collective Responsibility

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Gulf of Mexico Decommissioning



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- January 2015 valued at \$26 billion (shallow water \$18 billion/deepwater \$8 billion)
- Approx. 53 fixed platforms and towers in deeper water
- Bullwinkle – estimated decommissioning cost \$265 million
- Host platform for processing and production from satellite fields
- 2010 acquired by Superior Energy

Contact us

Kirsti Olson

Partner

0330 222 1922

kirsti.olson@mms.co.uk

Jill Reid

Partner

0330 222 1678

jill.reid@mms.co.uk