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Lucy Alderson

Construction News

Cladding: How Grenfell is changing the market forever

https://www.constructionnews.co.uk/best-practice/health-and-safety/cladding-how-grenfell-is-changing-the-market-forever/10031810.article

Although cladding has been covered extensively by industry publications, this was the first time the impact of Grenfell on the cladding market had been examined in-depth.

Lucy revealed how the confusion surrounding building regulations and cladding was leaving contractors in the dark as to what materials were safe to use.

She also revealed that Stanmore, the UK's second-largest cladding specialist by turnover, was spending £20,000 on fire tests for every single one of their projects as a result of this uncertainty.

Getting multiple cladding specialists to open up about such a sensitive subject was difficult and required persistence.

Lucy's article shed light on the chaos surrounding buildings regulations and the resulting impact on contractors. She explored the key technical details behind cladding and the regulations to provide companies with much-needed advice and legal guidance.

HEALTH & SAFETY

Cladding: How Grenfell is changing the market forever

14 JUNE, 2018 | BY LUCY ALDERSON

1 COMMENT

The cladding sector has faced more scrutiny than almost any other part of the industry since the tragic events at Grenfell. *Lucy Alderson* analyses the biggest concerns, the impact of uncertainty and how companies are now responding.

At 12.54am on 14 June 2017, London's fire brigade was called out to a 24-storey residential block in west London.

When they arrived at Grenfell Tower just after 1am, fire had already taken hold of the building. The tower continued to burn over the next 24 hours before the last of the flames were finally put out.

The speed at which the fire spread though the tower immediately raised questions over whether the ACM cladding – which was fitted onto the building's exterior as part of a refurbishment completed by Rydon in 2016 – acted as fuel for the fire.

Evidence now indicates it was.

Barbara Lane, a chartered fire engineer and leader of fire safety engineering at Arup, gave evidence to the Grenfell Tower Inquiry on the first day of expert witness statements this month. She concluded that the rainscreen cladding system was not compliant with current Building Regulations.

Dr Lane added that the cladding material, Reynobond 55PE, contributed to the "most rapid of the observed external fire spread". The maker of Reynobond, Arconic, says the panels were "at most, a contributing feature" to the fire.

The families of those who died are seeking answers on how Grenfell Tower could have been signed off and handed back to hundreds of families, given how quickly the fire eventually spread.

Among the issues are current Building Regulations themselves, which many industry experts and lawyers claim are not fit for purpose and require major clarification.

The system of combustibility tests for building materials has also come in for scrutiny, raising additional concerns over just how confident construction firms can be in specifying these products.

These factors mean that serious questions over cladding remain unanswered, leaving the industry confused and nervous about which materials are safe to use – even if they have passed fire safety tests.

With the market gripped by this uncertainty, how do contractors tackle the cladding crisis and ensure another tragedy like Grenfell never happens again?

Regulation disagreements

Under current Building Regulations, Approved Document B (the technical guidance for Building Regulations) states that buildings over 18 m should have insulation that is of limited combustibility (under section 12.5 detailing guidance for external wall construction).

However, this wording is different from the guidance published by the British Standard Institute.

In the BSI's document BS9991, section 18.2 outlines guidance around external fire spread over external faces of buildings. It states that not only should buildings over 18 m have insulation of limited combustibility (as per Approved Document B), but cladding materials should also be of limited combustibility.

> "Grenfell doesn't match the standard square face that is mocked up on tests because it was angled. It is simply not possible to have tested accurately the way in which the cladding and insulation was used on Grenfell"
>
> Geoff Wilkinson, Wilkinson Construction Consultants

Furthermore, tension arises between how to compare and correspond British Standards and European codes together. The two standards use different grading systems to class the fire performance of materials, resulting in further confusion for the industry as it is asked to justify its choices about materials and whether they are compliant.

As a result, Building Regulations surrounding cladding are in "a mess", according to Barry Hembling partner at law firm Fladgate. "The issue is: how have we had so many buildings being signed off as compliant with Building Regulations?" he asks. "This can only be because the Building Regulations are inconsistent [with regards to] understanding what the appropriate standard that ought to be met actually is."

Material labelling concerns

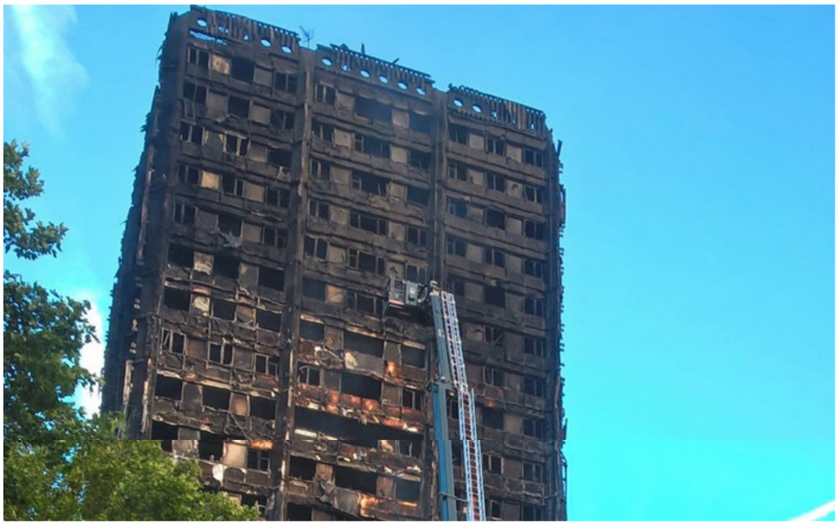
Grenfell has damaged confidence in the fire safety labelling of building materials, Mr Hembling suggests.

Looking at the specification of the insulation used on Grenfell (Celotex RS5000) prior to the fire, the product's labels state that Celotex has class 0 fire performance.

The Building Regulations state buildings over 18 m should have insulation that is of limited combustibility – and limited combustibility is graded as Class 0 in Approved Document B.

"The question arises: how do we have a product on one hand that says it is compliant with relevant standards, whereas on the other hand we now know that product wasn't compliant?" Mr Hembling asks. "This is a really important point we need to have clarified which has not yet been clarified."

He adds that this raises another important issue. "It identifies the lack of certainty about the labelling of construction materials and the extent to which the construction industry can generally have confidence in those labels."



SOURCE: METROPOLITAN POLICE

This lack of confidence in product certification has been observed by Speedyclad commercial director Tony Blake.

Following Grenfell, Mr Blake says he noticed fire barriers (products installed around buildings to reduce the spread of smoke and fire) were being withdrawn or reclassified. "Manufacturers would make claims that their fire barriers met the standard, but they would only meet standards if they are tested in a specific way, as you could only use them in the way that they were specifically tested," he says.

By this, Mr Blake means that, while some fire barriers may have passed the BRE test when combined specifically with certain building material products, they may have failed if combined with different products.

He suggests the "big conundrum" is the lack of confidence this creates in the labelling of building materials.

Doubts over fire safety tests

Concerns over the reliability of fire safety tests increased even further in April this year, following research conducted by the Fire Protection Association (FPA).

The FPA investigated the competency of laboratory tests currently used to check the fire safety of building materials. Fire and industry experts were concerned about whether the standards set by the British Standards Institute for these tests were fit for purpose.

Concerns surrounded whether the tests adequately reflected 'real-world' conditions, rather than simply the conditions in a laboratory setting.

The FPA's 'real-world' tests led to larger areas of cladding being consumed more rapidly by fire, and produced temperatures that were significantly hotter than in BS tests. Indeed, one test the FPA cariied out involving burning plastic commonly found in home and office fires had to be stopped, as the heat of the fire threatened the safety of one of its labs.

> "The market became very nervous; no one wanted to make any decisions and put any cladding on the walls for the first three to six months"
>
> Ben Jayes, Vivalda

Wilkinson Construction Consultants managing director Geoff Wilkinson, who is a Building Regulations expert, says these BS8414 tests, which are carried out by the BRE, need to be reviewed in the wake of Grenfell.

He explains that these tests involve a particular combination of insulation, cladding and so forth, designed to mimic a wall of the building in question. The tests are conducted on an L-shaped piece of cladding, as though setting fire to a corner of the building. However, the geometry of Grenfell's corners was different to this L-shape used in BRE tests.

"There can't have been a test on the [actual] Grenfell layout, as this is different to the British Standard test layout," Mr Wilkinson says. "Grenfell doesn't match the standard square face that is mocked up on tests because it was angled. It is simply not possible to have tested accurately the way in which the cladding and insulation was used on Grenfell.

"That is one of the problems – you cannot replicate exactly every possible geometry or configuration that you may have on a building."

Response in the cladding sector

The confusion and concern around cladding post-Grenfell has prompted some cladding specialists to take action.

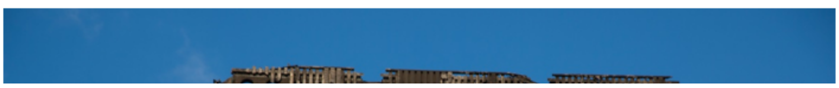
Stanmore managing director Raj Manak argues that an appropriate response is to conduct fire safety tests on every single one of its facade jobs, with each test costing around £20,000.

His firm – and others – have also been sending off their materials to private testing facilities in Dubai, as the BRE labs in the UK have a three-to-four-month waiting list because of increased demand for material combustibility tests.

Mr Manak says it is "difficult to say" how much these tests will affect the firm financially, but adds that the costs are being built into each facade tender. More broadly, the cost of buildings is rising due to a shift in the insulation materials now being used, he says.

Mr Manak identifies two main types of insulation materials used on buildings: phenolic insulation and mineral insulation. Before Grenfell, phenolic insulation was more widely used because it keeps heat within buildings more efficiently compared with its mineral insulation counterpart.

The thermal performance of buildings was a priority for the industry, Mr Manak says, because of pressure placed on contractors to minimise heat loss on buildings. "Government policy has been driven by having low carbon emissions," he says. "That's what caused the industry to use a lot more insulation which was CO2-friendly and stopped heat loss."



Mineral insulation is now preferred over phenolic, as it performs better in fire safety tests. However, more of the material needs to be installed to avoid comprising thermal performance, meaning the thickness of external walls is increasing.

Mr Manak says contractors have to ensure the structural integrity of the building is not affected, which means more structural steel may be required. The result is that buildings are now "even more expensive to build" he says.

Fladgate's Mr Hembling suggests companies using international testing rigs must ensure those tests are carried out to the standards that would apply in the UK. "Contractors will want to scrutinise the relevant test reports, as those who are testing products abroad need to provide detailed analysis about the basis on which those tests were carried out and the standards to which those tests satisfy," he says. "Contractors will want to make sure they have an understanding of those issues."

Another challenge facing cladding contractors is professional indemnity insurance, according to Mr Blake. Speedyclad has seen a significant increase in its future insurance premiums and a change in cover level. "We're seeing massive hikes in insurance premiums, a reduction in cover and an increase in excess levels," he says, estimating that many cladding contractors could be paying 10 times what they were before on insurance annually.

Suppliers and manufacturers: changing markets

In the immediate aftermath of the Grenfell fire, decisions around installing cladding on buildings ground to a halt, as Vivalda managing director Ben Jayes recalls.

"The market became very nervous; no one wanted to make any decisions and put any cladding on the walls for the first three to six months," he says. "Naturally that affected our figures, sales desirability and demand for our product in the first instance. But equally, buildings still need to be built [...] and at some stage, you need to make some fundamental decisions on putting some kind of material on the external skin of the facade."

At that stage, Vivalda noticed a radical change in the types of products that were in demand – particularly non-combustible cladding (which are A1 and A2-rated products).

Products such as fibre cement, including glass-reinforced concrete, have picked up, Mr Jayes reports. "We've seen a shift in the products we sell," he says. "Even social housing for instance – where clients have historically gone for lower-grade or lower-value materials – we've seen a shift in culture where they are going for high-end materials that are A1 and A2-rated."

Legal tips for contractors

Fladgate partner Barry Hembling offers legal advice for construction companies.

Use specialists' knowledge: "Cladding contractors are relied on for their expertise and they often use that to judge which products are appropriate for a building.

"They need to be taking extra care over which products they select for use on buildings, and they need to be looking in much closer detail at the product manufacturer specification.

"These contractors would want to ask more questions about whether the product complies or not with the information that has now been available through the BRE, including historical data on cladding systems that satisfy Building Regulations standards."

Non-ACM cladding: "Following the fire, there has been concern about non-ACM panels with a near-identical construction.

"It's important for contractors to apply the same rigid standards to all types of panel specifications. They [should] make sure they review the specification of non-ACM panel types and make clear these are issues that could extend more widely."

Insurance: "They will also be wanting to look at the terms of their insurance as well. To cover themselves, it may be that they want products liability insurance in place for products that they specify.

"[They should] ensure they are insured to provide comfort in the event that there might be any future claims against them, and equally be looking at insurance arrangements of the manufacturers that supply products to them."

Mr Jayes says that one particular type of glass-reinforced concrete cladding made by German manufacturer Rieder is now being used on social housing blocks. To his knowledge, this product has never been used on social housing blocks prior to Grenfell and has only typically been used on high-end, luxury apartments.

Most noticeably, Mr Jayes says he has seen a marked change in attitudes towards responsibility and accountability of build quality. "From architects down to contractors and subcontractors, it's very much a belt-and-braces approach and people are far more regimented towards responsibility, warranty and certification than ever before," he says. "There is less demand and focus on the cost of materials and the focus has shifted dramatically towards the certification, fire [rating], integrity and longevity of the product."

Manufacturers selling products that are not A1 and A2-rated have suffered as a consequence, according to Mr Jayes.

He says some of the smaller manufacturers are falling out of the market, as they lack the resources to conduct the regular expensive tests that have been in demand post-Grenfell. "That is arguably going to create a slightly elitist market," he says.

Hackitt Report disappointment

Grenfell has put the industry's accountability over building safety in the spotlight, and prompted calls for urgent reform.

It was against this backdrop that Dame Hackitt was appointed to review the current regulations and fire safety of buildings. However, despite calls for her to recommend an outright ban of combustible cladding, Dame Hackitt's 156-page report did not mention it once.

Published last month, the report was criticised for stopping short of calling for a ban, with some also suggesting her recommendations could not produce the changes the industry required.

Speaking following the publication of the report, Dame Hackitt said: "If people think that simply banning cladding would fix it all, it won't; it is a broken system and banning cladding on its own will not fix it."

However, many across the industry have criticised this decision, believing it would have provided some clarity over what to do with combustible cladding – including Vivalda's Mr Jayes.

> "If people think that simply banning cladding would fix it all, it won't; it is a broken system and banning cladding on its own will not fix it"
>
> Dame Judith Hackitt on response to report

The company adopted a policy last year of selling only non-combustible materials to high-rise developments. Mr Jayes had hoped Ms Hackitt would recommend a ban on combustible materials on tall buildings. "I find the Hackitt report quite frustrating," he says. "I think it was an opportunity missed to bring clarity to the construction market and the regulations we all work within. I don't think that was achieved."

The government announced a consultation on banning combustible cladding, just hours after the Hackitt report's publication.

However, other aspects of her recommendations have also raised concerns, with Wilkinson Construction's MD describing some of the suggestions as "really worrying".

"One of the recommendations was to have a different standard for high-rise, high-risk buildings," Mr Wilkinson says. "To come out with a conclusion that high-rise buildings are different from other buildings seems so wrong to me."

The lack of fire safety traceability approval is not only a problem for social housing, he suggests. "Why couldn't this be a problem on a three-storey school or a hospital? They're all built in the same way."

Mr Wilkinson believes the Hackitt report did not address the issues at hand. "I don't think it is fit for purpose. Either it should have been looking at the technical aspects or it should have looking at the procedural aspects.

"However, what instead seems to have happened is that it has picked up on procedures relating specifically to tower block buildings. It doesn't seem as though it answers any of the questions which we all know are issues in the construction industry."

Until all the expert statements are heard and final conclusions reached in the Grenfell Tower Inquiry, uncertainty will persist over how to fix our testing and regulatory regimes.

One thing though is certain: Grenfell is having and will continue to have a permanent impact on the standards to which construction is held.

Canada Water: CN tours British Land's £4bn mega-project

https://www.constructionnews.co.uk/companies/clients/canada-water-cn-tours-british-lands-4bn-mega-project/10031188.article

British Land is pumping £4bn into transforming Canada Water. With a massive pipeline of work, this development is one of London's key schemes that contractors are keeping an eye on.

While the industry has recently been in the headlines for all the wrong reasons, Canada Water represents an opportunity to inspire firms to be part of an iconic project.

Contractors are champing at the bit for more details and Lucy sought to provide a go-to-guide for this mega project.

She spoke to the head of the development Roger Madelin for exclusive information on how the project was going to be procured, and scooped a further exclusive on which contractors British Land was talking to for the scheme.

Mr Madelin also outlined the challenges he had faced on the regeneration of King's Cross and the lessons learned from that scheme.

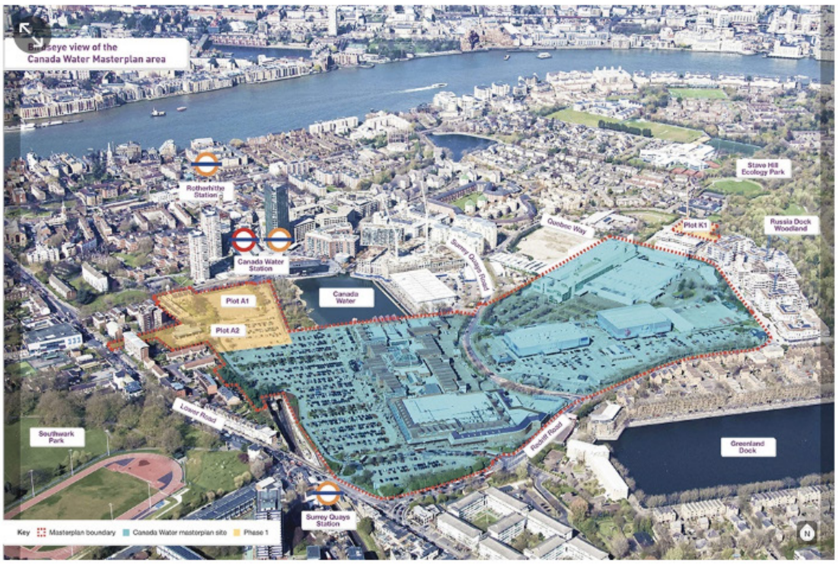
As a result, Lucy's article provides invaluable information about the project you can't read anywhere else.

CLIENTS

Canada Water: CN tours British Land's £4bn mega-project

24 MAY, 2018 | BY LUCY ALDERSON

COMMENT



British Land is pumping close to £4bn into transforming Canada Water, with around 5m sq ft of new developments on the cards. The project's mastermind Roger Madelin takes *CN* around a site that is catching the eye of industry heavyweights.

Around 200 years ago, Canada Dock was pulsating with economic activity.

It was part of a network of 10 docks that hugged the banks of the River Thames in south-east London. Collectively, they were known as the Surrey Commercial Docks and marked a boom in trading activity in the early 19th century as the British Empire expanded overseas. The docks were built and named after the countries from which goods were shipped to the capital, hence: Canada Dock.

But as transportation and technology developed throughout the 20th century, the role of these trading hubs declined. By the end of the 1960s many of them had closed down for good.

Canada Dock is now more commonly known as Canada Water, and is best known for its station served by the London Overground and Jubilee lines, and for the lake it overlooks. Many of us might even have mistaken it for London's financial hotspot Canary Wharf, accidentally getting off our trains one stop too soon.

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But British Land is planning to radically transform Canada Water's reputation.

Under the leadership of Roger Madelin, the mastermind behind Argent's regeneration of King's Cross, British Land has submitted a masterplan to regenerate the 21 ha site, pumping close to £4bn of investment into the area.

SOURCE: JOHN STURROCK

The planning application for the scheme was submitted to Southwark Council last week. It will be split nearly 50:50 between commercial and residential space with around 5m net sq ft of land will be developed into office, retail and leisure space, and up to 3,000 homes.

The masterplan covers the former SE16 Daily Mail printworks, the Surrey Quays Shopping and Leisure Centre, the Dock Offices, and the former Rotherithe police station.

A huge pipeline of work is up for grabs, whetting the appetites of the industry's top contractors and featuring plenty of opportunities for the supply chain to get involved, according to Mr Madelin.

Different from King's Cross

With more than 35 years of experience in the industry, 15 of which were as chief executive of Argent, Mr Madelin has been involved in some of the country's most high-profile regeneration schemes.

Having spent 29 years at Argent, he left the company in 2016 to head up the Canada Water development for British Land. In November that same year, he told *CN* that his "biggest disappointment" while working on the King's Cross scheme was that Argent had been unable to confirm to tier one contractors "exactly what was going to happen and when".

This time round, he hopes this will be different.

"When I was at King's Cross, it was 2008, you couldn't borrow any money and Argent just had what was left of the investment from British Telecom pension scheme," Mr Madelin says. "We couldn't say [to contractors], 'Next year we're going to start this building'."

As the severity of the recession finally began to subside towards the end of 2012, he recalls how Argent had to play catch-up on King's Cross to ensure returns on the investment that had been committed.

On Canada Water, British Land's balance sheet will allow it to give contractors more visibility of the pipeline, with Mr Madelin adding that the developer has sufficient resources to finance not only the major first phase, but ongoing work on the wider scheme.

Phase one

In total, 1.8m sq ft of residential, office, retail and leisure space will be delivered under phase one, which is split into three sections: 1A, 1B and 1C.

British Land has submitted a detailed planning application for phase 1A, which encompasses about 315,000 sq ft of office space, 271 homes and 30,000 sq ft of retail as well as food and drink space.

The centrepiece of 1A will be a 35-storey tower that will house 185 apartments and overlook Canada Water Dock. This will be adjoined by a six-storey 115,000 sq ft office block, while another building under phase 1A will comprise 200,000 sq ft of office space above a sports hall.

Man with the plan

He joined Argent in 1987 and sat on the firm's development consortium during the 90s. He oversaw the delivery of major schemes in the Thames Valley, Manchester, the City of London and Brindley Place in Birmingham.

Mr Madelin became Argent CEO in 1997. In 2000, work started on the regeneration of the 27 ha King's Cross site under his leadership. He joined British Land in 2016.

Architect Allies and Morrison, which has worked on mega-projects such as the London 2012 Olympic Park, the regeneration of Elephant Castle and 100 Bishopsgate, is behind the design of these buildings.

The final part of phase 1A will be a five or six-storey residential block that will house 86 apartments with a courtyard facing the Russia Dock woodland area. It has been designed by Duggan Morris Architects, which also worked on projects at King's Cross.

Phases 1B and 1C are currently in the design process, Mr Madelin adds.

Plans for 1B centre on the redevelopment of the SE16 printworks, where the *Evening Standard* and *Daily Mail* were once produced. British Land acquired the site in 2012 from the Daily Mail & General Trust.

> "We are talking with major contractors and specialists about the opportunity of delivering not only a huge first phase, but the continuation of construction work over 10-15 years"
>
> Roger Madelin, British Land

The printworks were left empty until 18 months ago when the doors were opened to the public as a cultural events space. Since then this 119,000 sq ft industrial space has made a name for itself as one of London's best nightclubs, and has also been hired out by artists such as Ed Sheeran and Stormzy for music videos.

Following the venue's success, the Canada Water team is mulling over whether to keep parts of the printworks as entertainment spaces. However, British Land head of operations for the development Emma Cariaga says the warehouses will "almost certainly" be demolished and replaced by new developments.

Finally, plans for phase 1C are currently being discussed; Mr Madelin says 800,000 sq ft of space could be developed under this programme.

Enabling works and ground investigations will commence later this month, before main construction on phase 1A gets under way this time next year.

Who's eyeing up the scheme?

With such a massive pipeline of works, it is no surprise to hear that many contractors have been knocking on Mr Madelin's door wanting to know more about the opportunities.

These include Balfour Beatty, Bam Construction, Laing O'Rourke, Mace and Wates, according to Mr Madelin, saying that wider conversations with the industry are ongoing.

Four contractors are expected to be picked this autumn to sit on a Canada Water developer panel. Opportunities to secure repeat work on the scheme could be on the cards, Mr Madelin hints.

"We are thinking, talking and strategising very hard with the supply chain, including major contractors and major specialist contractors, about the opportunity of delivering not only a huge first phase, but (one would hope) the continuation of a lot of construction work over 10-15 years," he says.

He adds that British Land is looking at how it can benefit from relationships with its contractors on other major London projects, including Sir Robert McAlpine (which is on site at Broadgate) and Lendlease (1 Triton Square in Euston).

Brexit effects?

With Brexit looming ever larger, has the political climate hit the development's progress?

It certainly affected certain plans on British Land's £1bn upgrade of London's Broadgate Campus near Liverpool Street station. The developer was initially going to fully redevelop the 1 Finsbury Avenue building. However, following the result of the EU referendum, it submitted another proposal to refurbish the building instead, due to the resulting uncertainty.

However, no plans have been altered on the Canada Water development, according to Mr Madelin. On the contrary: the demand for office space has been high. "British Land slowed down after Brexit and we paused for a while," he says. "But the number of office lettings has surprised us all. I've had more conversations with potential office occupiers than I have ever had at any development I've been involved in for 35 years."

Mr Madelin suggests the location and connectivity of Canada Water could be reasons why workspace in particular is in such high demand. The site sits along the underground line, linking more affordable neighbourhoods popular with millennials in the south-east of the capital (such as New Cross) and the north-east (Hackney and Dalston).

SOURCE: JOHN STURROCK

The tube line also runs through London's epicentre for technology start-ups in Shoreditch and Hoxton, where office space can reach an eye-watering £80 per sq ft.

"Generally, all the under-35s want to live [around the Canada Water] area," Mr Madelin says, adding that setting up office space on the site offered many attractions for companies. "This is partly down to connectivity and partly down to the fact we can offer office space at less than £80 a square foot."

Other factors have also had a significant influence on the scheme's progress.

British Land's existing assets on site – the Surrey Quays shopping centre and cinema complex – dropped in value by 10.8 per cent, according to the developer's trading update last May. This has acted as a "kind of an incentive to get on with it, knock it down and redevelop it," Mr Madelin says.

Too much paperwork

To grasp the scale of the site, Mr Madelin takes *CN* to the top of the 28-storey Ontario Point building, located next door to Canada Water station.

The site borders two green spaces: Southwark Park and Russia Dock Woodland. Canada Water station sits at the north-west of the site, with Surrey Quays station at the southern boundary.

Mr Madelin says the biggest challenge the scheme has faced so far has been the planning process. "The King's Cross planning application was very big and very complicated," he says. "It needed 42 supporting documents. But this planning application for Canada Water, which is a similar size, needed 82 supporting documents."

This is the nature of building in London, he says. "We wouldn't necessarily have to respond like that in places outside of London – in Manchester perhaps. But London is a mature and politically active area, lots more people are interested in a development [...] the process has become more complicated."

> "We paused for a while, but the number of office lettings has surprised us all. I've had more conversations with potential office occupiers than I have ever had at any development I've been involved in for 35 years"
>
> Roger Madelin, British Land – on the referendum vote

With the need for housing becoming increasingly desperate and new developments constantly springing up across the capital, it's no wonder this mega-scheme is attracting interest from council planning departments and the general public.

As Mr Madelin continues our tour of the site, we walk over to what remains of Canada Water Dock: the freshwater lake. Although 70 per cent of the Canada Water area was once covered in water, only this lake remains.

We pause, standing in the same place where tradesmen would have offloaded cargo from ships that had travelled across the world during the height of the British Empire.

Now, British Land will be forging the next chapter of Canada Water's story. This time, the construction industry will not be building docks, but transforming this south-east section of London into a new community.

Unusual partnership

Canada Water has produced an interesting union between local authority Southwark Council and British Land.

In March this year, a deal was signed pulling both parties' interests together. The council granted British Land a 500-year lease in exchange for a larger portion of landownership of the site.

Southwark Council now has a 20 per cent stake in the development – a somewhat unorthodox deal between the private and public sector, according to British Land head of operations for the development Emma Cariaga. "It is unusual," she says. "It allows the council to put 20 per cent into the development and get 20 per cent in return."

And as squeeze on local authority budgets tightens, Ms Cariaga says the council has struck an "entrepreneurial" deal with the private sector to secure alternative sources of revenue. "It allows the council to get the spoils too," she says.

Carillion: The collapse and the chaos

https://www.constructionnews.co.uk/companies/contractors/carillion/carillion-the-collapse-and-the-chaos/10027099.article

The collapse of Carillion in January shook the industry and made headlines nationwide.

While national papers were struggling to talk to workers on the ground, Lucy spoke to staff on some of Carillion's most problematic projects (including one of its major PFI schemes) to provide readers with more information on what was happening amid the fallout.

Lucy spoke to her sources at other companies and gained exclusive insight into the problems Carillion had run into on the government's £8bn schools framework.

She also spoke to industry leaders such as Cast Consultancy CEO and *Modernise or Die* author Mark Farmer, who told her the tier one contracting model was "doomed to failure".

This was an important feature for our readers, pulling together the confusing chain of events to clearly outline what had happened in the aftermath of Carillion's collapse.

CARILLION

Carillion: The collapse and the chaos

17 JANUARY, 2018 | BY LUCY ALDERSON

COMMENT

How did the UK's second biggest contractor suffer such a catastrophic collapse, what happens next and what will it mean for the rest of the industry?

On Monday 15 January, Carillion took its last breath and plunged into compulsory liquidation.

Its collapse came as no great surprise to the industry, which had looked on over the past few months as the contractor's problems spiralled out of control.

It became clear that Carillion was riddled with troubles it could not fix. Contract losses emerged, payment issues in the Middle East mounted and its debt pile soared to a mind-blowing £1.5bn, the unbearable weight of which finally forced the contractor to buckle.

In the days leading up to the liquidation, it became clear lenders were not prepared to see their cash sucked into a black hole. The company's banks, which included Barclays and HSBC, stuffed their chequebooks firmly back into their pockets. Carillion's last hope – the government – was not prepared to take a stake in the business.

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Many thought Carillion too big to fail. Yet the UK's second largest contractor has suffered perhaps the most dramatic fall from grace in living memory.

The question now is: how far will the shockwaves from Carillion's earthquake spread across the industry?

What went wrong?

No-one browsing Carillion's financial updates between December 2016 and July 2017 would have suspected the catastrophe waiting to happen.

Its reports to the City seemed to show a business enjoying relative stability. In its full-year trading update, published on 7 December 2016, Carillion said its performance was "meeting expectations" and that it expected "strong growth in total revenue and increased operating profit".

The company said it would reduce net borrowing from the half-year level, which had stood at £290m as of 30 June 2016.

Full Carillion coverage

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"Given the size and quality of our order book and pipeline of contract opportunities, our customer-focused culture and integrated business model, we have a good platform from which to develop the business in 2017," wrote chairman Philip Green in the group's financial update.

As 2017 progressed, it looked as if Carillion was enjoying a stable year as it continued to win huge contracts – particularly from the government. The contractor scooped a £200m FM deal with the Defence Infrastructure Organisation in April, and another £90m contract with the same client in March.

In early July it secured $180m (£139m) of guaranteed finance from government body UK Export Finance to design and build the third phase of a Dubai World Trade Centre campus development. But just four days later, the horror story began to play out.

The beginning of the end

Carillion issued a profit warning on contracts worth £845m and both its chief executive and head of the UK building division stepped down. It said the contracts could cost the business up to £150m in net cash outflows, primarily in 2017 and 2018. The firm also announced it would exit construction markets in Egypt, Qatar and Saudi Arabia.

Even then, Carillion kept on winning. Just a week later it's JV with Kier and Eiffage won two phase one civils packages for HS2, worth a combined £1.34bn. A day later, the DIO awarded the contractor two more military services contracts totalling £158m. As late as November, the firm bagged a place on the government's £8bn four-year schools framework.

But while these public sector contracts were being dished out to the contractor, the bad news continued.

> "They're trying to put machines across the gates to stop us getting our gear off. But what else are we going to do? We can't get our money."
>
> Carillion subcontractor

Carillion fell out of the FTSE 250 index in August after its share price plummeted 76 per cent following its July profit warning. In September, just five weeks after officially signing its HS2 contracts, Carillion issued a fresh profit warning as it reported a £1.15bn half-year loss in what interim chief executive Keith Cochrane descried as a "disappointing set of results".

An unscheduled trading update was made on 17 November when Carillion issued its third – and final – profit warning. It revealed that profit for 2017 was expected to be "materially" below expectations and that the group required "some form of recapitalisation, which could involve a restructuring of the balance sheet".

As 2018 began and the last dregs of confidence among its lenders vanished, Carillion's last-gasp rescue plan failed to persuade stakeholders that it could reduce debt and secure funding.

Just 189 days after its first profit warning, Carillion imploded.

The aftermath

Following the collapse, confusion and chaos erupted on Carillion projects around the country.

One subcontractor who wished to remain anonymous said Carillion representatives were trying to block subcontractors getting on site to remove equipment after hearing the contractor had folded. "They're trying to put machines across the gates to stop us getting our gear off," said one North-east subcontractor working for Carillion. "But what else are we going to do? We can't get our money."

The subcontractor added that they had "no idea" when they would get an update on what would happen to the project they were working on, and said their company had an exposure of around £100,000.

They eventually recovered their equipment, but confusion remained about what was happening with work on site. "Carillion lads on site don't know what's happening. None of us know what's happening," they said.

A source working on one of Carillion's well-known problem PFI contracts says its workers have been told to keep working on the project as the "job needs to be finished".

> "There could be thousands of SMEs that could be put into financial distress following the contractor's collapse"
>
> Rudi Klein, Specialist Engineering Contractors' Group

"They're all here and they're all working," the source tells *CN*. "They have been told that they will be paid until the end of the month, and the message they are getting from the other JV partners is that they can't do the job without them."

Another subcontractor says they sued Carillion 16 times last year because of late payment issues and still have two existing cases against the contractor. As it stands, the collapsed firm owes them in the region of £25,000.

"I've had companies go bust on me before," they say. "You never get your money back. At the minute, I've paid my suppliers from my own personal credit cards. You either close the door and choose to fold like everyone else or you get yourself out of the shit."

Specialist Engineering Contractors' Group chief executive Rudi Klein outlines the severe consequences Carillion's subcontractors now face. "There could be thousands of SMEs that could be put into financial distress following the contractor's collapse," he says.

He estimates that the amount of retentions Carillion owes its supply chain could be as much as £1bn, if not more.

Widespread devastation

As details emerged, Carillion's staff and subcontractors took to social media and LinkedIn, voicing anger and disappointment over how the executive board let the company spiral completely out of control.

One Carillion worker commenting underneath a Facebook post issued by the company announcing its liquidation said their world had been "turned upside down and inside out", adding, "I'm devastated".

Much of the anger across the industry surrounds the continued awarding of government contracts to Carillion, despite its profit warnings and plummeting share price. One *Construction News* reader wrote: "How did the government let this state of affairs go on? Why are they doling out works after the profit warnings – who the hell is pricing these works in the first place if they can lose that amount of money?"

> "I've had companies go bust on me before. You never get your money back"
>
> Carillion subcontractor

Many comments have been left on social media about the lack of warning Carillion staff had, with many finding out about the liquidation from the media and wondering whether their jobs were at risk – or whether to turn up for work at all.

However, some in the industry first realised something was seriously wrong when the contractor failed to bid for some of the government's biggest frameworks last year.

In November Carillion won a place on the high-value lots of the government's £8bn school building framework. However, speaking just a day before Carillion's collapse, one source told *Construction News* that the firm had not been bidding for framework contracts for some time.

"Carillion didn't bid on the last framework and we don't think they'll bid on this successive [one]," the source said. "They haven't got the money to bid for anything. The framework management team were issuing strong statements and said if people had won a place on the framework and are not prepared to participate, they were urging them to reconsider their positions.

"Everyone knew exactly who they were referring to."

Government under fire

A Northern-Rock style bailout by Whitehall was never on the cards for Carillion, but the government has promised to provide funding to ensure all of the contractor's 450 government contracts will continue. It also confirmed former Carillion pension-holders would be protected.

However, the government has been put firmly under the spotlight to explain why it kept awarding Carillion major contracts – an issue that Liberal Democrat leader Sir Vince Cable voiced concern over at the CN Summit last November.

"I do worry that the government is actually feeding [Carillion] the contracts to keep them going," he said at the time. "It suggests there is the same problem that the banks have – that there are companies that are too big to fail. That shouldn't be the case."

That same month, public accounts committee chair Meg Hillier voiced the same concerns, telling *The Times* that any failure at Carillion would be "catastrophic" for some government projects.

Prof Klein says the SEC is expressing "real frustration... and anger as well" that government clients such as HS2 and Network Rail gave Carillion work "knowing full well" that the bulk of these contracts would be outsourced to supply chains.

One source revealed that Carillion had not bid for work under the ESFA framework

"They have no concern for what will happen to SMEs," he says. "They have realised they have made a big mistake [awarding government contracts to Carillion]... they haven't put in place project bank accounts, even though we've been telling HS2 to do it after they employed Carillion. I hope the government really learns from this."

Questions also linger as to why Carillion was left without a crown representative in Whitehall for three months as the contractor's financial troubles deepened.

Crown representatives monitor the government's 29 largest suppliers, but *Construction News* revealed earlier this month that Carillion's previous representative left her post in August.

Ministers later confirmed that the role was left empty for the three months between August and November 2017; the Cabinet Office declined to identify who was brought in.

The industry is left asking why government did not find a replacement sooner to manage its relationship with Carillion at a time when the contractor was in dire straits.

Moving forward

With 20,000 UK jobs at risk, doubts over the contractor's projects and pipeline, and thousands of subcontractors left out of pocket, it will be some time before the industry understands the extent of damage Carillion's fall has caused.

The post-mortem will undoubtedly look at what went wrong at the company – from its pension deficit to its problem projects – as industry rivals look to avoid the same mistakes.

However, for Cast Consultancy chief executive Mark Farmer, Carillion's demise exposes a wider systemic issue facing the whole industry.

"There is a bigger issue around how tier one contractors operate at the moment," says Mr Farmer, who authored the government-backed *Modernise or Die* report in 2016. "It's a model that uses other people's money to deliver outcomes that they are less and less in control of; it is doomed to failure."

> "Carillion's peer group should be waking up and thinking quite seriously about the implications this has on its own business model"
>
> Mark Farmer, Cast Consultancy

He adds that Carillion's fall "shines a light" on what is going wrong in the construction industry – and indicates what urgently needs to change.

"Carillion has demonstrated poor supply chain management, adversarial relationships with the supply chain and examples where they have taken on risk that they can't manage," Mr Farmer says, adding that the relationship between tier ones and subcontractors has increasingly become "fraught" and "dangerous".

Mr Farmer says the industry is in a "dangerous phase" and Carillion will "just be the beginning" if changes are not made. "Carillion's peer group should be waking up and thinking quite seriously about the implications this has on its own business model," he says.

"I'm hopeful that if there's anything good that can come out of something as bad as this, it's got to be that the industry will sit up and take notice that this isn't just about Carillion."

COMMENT