



**Tom Fitzpatrick/ Construction News
Construction/Infrastructure Writer (accompanying statement)**

These three pieces of content are each exclusive, completely different from each other and also examples of where I have ensured *Construction News* has set itself apart from its competitors.

They show a range of techniques, from investigation and research, to interviewing senior leaders and analysing trends. Each piece was our cover story for that week.

Network Rail: Where did it all go wrong?

This analysis demonstrates my ability to spot key trends and reveal insight in the construction industry ahead of the curve by maintaining excellent contacts.

Contacts warned me that Network Rail had been issuing confused messages about high profile schemes and had called contractors in to warn them of delays to projects worth billions.

Our analysis and the corresponding splash were published on 18 June and I wrote CN's leader on the issue.

A week later on 25 June, Network Rail issued a statement announcing a number of projects would be axed or delayed on its £38.5bn five-year investment programme following work overruns and escalating costs.

On 16 July, a month after I published this piece, one of our competitors - *Building* - ran a feature about these problems at Network Rail and used the story on its cover.





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I was lucky to join in a crisis

Prior to Network Rail coming under government and supplier pressure, new chief executive Mark Carne had joined and gave his first trade interview to *Construction News*.

The importance of securing this interview for our readers was that Mr Carne was relatively unknown in the construction sector up until that point having come from the oil and gas industry.

This interview allowed readers to get a sense of his priorities and how he would operate, as well as his views on issues like safety, nationalisation of the railway and Network Rail's relationship with government.

We splashed on this interview as Mr Carne slammed the industry's record on safety, and I persuaded him to pose in King's Cross station against oncoming rush-hour traffic for a great cover shot.





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A little bid more:

I worked with a consultancy called Marketing Works to produce research on how contractors could improve their percentage chances of winning on tenders, as they are often forced to spend millions unsuccessfully bidding for projects.

I wanted this research to demonstrate how companies could change habits, as well as exposing some of the costs involved.

We published the survey and distributed it via our daily newsletter to 50,000 readers, while together with Marketing Works we secured extensive promotion of the survey within the industry.

The exclusive analysis revealed contractors were spending, on average, 22 per cent of their operational turnover on tendering for work and setting out ways they could improve their winning percentage, as well as analysis from academics and industry experts.



Network Rail's CEO talks exclusively to *Construction News* about his baptism of fire, why the industry needs to improve and how to deliver a £38bn pipeline



RAIL
TOM FITZPATRICK

On the wall of Mark Carne's office in King's Cross hangs a 1901 print of Brunel's drawings of the Dawlish sea wall.

The print was given to Network Rail's chief executive by staff at the National Rail Museum's archives and he need only glance from his desk to be reminded of his baptism of fire when he started his role in February.

The wild winter weather which battered the UK's coastline had led to flooding at almost 300 sites and more than 100 landslips.

Dawlish was the most high profile, with slips on two separate occasions and eight weeks of repair works. The estimated cost of the clean-up to Network Rail was around £170m.

Mr Carne brought forward his starting date by five weeks to try to become the focal point for getting the crisis under control.

Fortunate timing

Having been thrown into the depths of a debate over the UK's crumbling infrastructure, with Dawlish making front page news and being visited by the prime minister David Cameron, it is surprising to see the former Shell executive vice-president look back on that time with a smile and describe his good fortune.

"I was lucky to arrive at a time of national crisis, because it gave me the opportunity to see how

"I am not being complacent; across the industry there is an issue about talent, so we have to be competitive"

well the industry can respond... and it accounted for itself extraordinarily well," he says.

"We had 280 flooded sites, over 100 landslips; these were major challenges thrown at us.

"What struck me was that we were at our best; there was really strong collaboration between contractors and Network Rail when, in a sense, you couldn't tell who was who."

His pride in the work carried out by Network Rail and its contractors shines through as he speaks, beneath the framed photos of the Queen's visit to open the revamped Reading station in July and the PM's visit to Dawlish, which also adorn his office walls.

But asked if contractors should be given control of a major rail route, as suggested by Sir Roy McNulty, author of the 2011 *Rail Value for Money* study, Mr Carne is quick to argue against greater devolution of power.

He points to the "enormous advantages" of running the network as an integrated provider with unified standards and the resultant efficiency.

"They are enormous benefits that would far outweigh any that one would get from further fragmentation of the network," he argues.

"I am in favour of continuing to run the infrastructure as an integrated entity. But within that, I support the devolution of routes to local leadership teams.

"We have routes where we have

devolved decision-making locally, working closely with train operating companies but using common standards, services and ways of working within a devolved, accountable structure."

Talent drain?

Since taking over from Sir David Higgins as chief executive, Mr Carne has seen his predecessor joined by former Network Rail stalwarts Simon Kirby (former MD for infrastructure projects) and Jim Crawford (former major director) at HS2 Ltd.

Others have departed for private sector firms, such as former finance and commercial director for its infrastructure projects division, David McLoughlin, who joined Spencer Rail.

Looking at Network Rail from the outside, the organisation appears to have lost significant management expertise, just as a £38bn pipeline of work starts to materialise in the form of Control Period 5.

Mr Carne cites the recruitment of Bombardier Transportation UK MD Francis Paonessa to replace Mr Kirby as an "outstanding" recruit and is keen to play up the opportunities to promote from within.

With the rail operator under pressure to cut expenditure and its £30bn-plus debt, promoting from its existing staff might offer a cost-effective solution for a rail operator where bonuses for the executive board were slashed from 160 per cent of annual salary to a maximum of 20 per cent earlier this year.

"We have a very good pipeline of talent, I'm quite encouraged at the strength of that," he says.

"I'm not complacent; across the industry there is an issue about talent, so we have to be

"I like contractors' good returns to be earned through innovation and creativity and delivery of goals"

competitive. One of the great things about the railway is the scale of the projects, their complexity and the importance of them to the economy.

"This means they are incredibly exciting projects for engineers to want to be part of and it's a really important part of the attraction [for prospective staff]."

Contractor competition

Major contractors are turning down work, particularly in London and the South-east, where clients are increasingly having to entice firms to tender for deals as more work comes to the market.

In rail, firms are blessed with a £38bn forward pipeline of five years, much of which has already been procured for CP5 (2014-19) under long-term deals.

Those deals are here to stay, Mr Carne says, but with major rail infrastructure projects such as HS2 and Crossrail 2 on the horizon, Network Rail could face a battle to ensure it has the best staff working on its projects at the latter end of CP5.

"We have to constantly ask ourselves whether our way of working is one that encourages the contractor to put its best people on our jobs. Sometimes we have managed to do that, but not in all cases.

"I've said very clearly that I like working with profitable contractors. I like them to make a good and fair return but I like it to be earned through innovation and creativity and delivery of our performance goals."

Network Rail is widely adjudged to have improved as a client in recent years, in setting out clearer expectations from contractors and in the way it collaborates.

But its CEO is not resting on his laurels. On collaboration he says: "I don't think we're good ▶

CV

Mark Carne

Mr Carne was formerly executive vice-president for Royal Dutch Shell in the Middle East and North Africa.

Before that role he was executive vice-president and managing director for BG Group in Europe and Central Asia following 21 years spent in a variety of roles with Shell – including responsibility for its oil and gas platforms in the North Sea.

Mr Carne, 55, studied engineering at Exeter University and is a fellow of the Institute of Mechanical Engineers. He is also an independent governor of Falmouth University.

'I was lucky to join in a crisis'

► enough". On workforce safety the performance of Network Rail and its contractors is "not at all acceptable". To tackle the threat of climate change, there is "a huge amount that needs to be done".

On safety, Mr Carne is already taking steps to improve the performance of Network Rail and its contractors, from demanding those responsible for safety on site be directly employed by the client or contractor, to equipping staff with iPads to electronically map all its sites and renewal works.

"Construction is the largest contributor to industrial fatalities," he says. "We have a role to play with our major contractors to think about how work can be carried out more safely."

He points to his former career in oil and gas and the steps that industry took to cut deaths from working at height as one example of how "there are lessons to be learned from other industries".

But his trust in contractors to up their performance shines through when he refers to those weeks in February and March when firms worked around the clock to get lines reopened and communities reconnected.

Energetic experience

The theme of collaboration is a constant one and Mr Carne draws on his experiences in oil and gas, which he left to join Network Rail.

"In my past [work] I learned that the closer you work together, the more you create a single team trying to achieve objectives, the better the performance is.

"But I don't think we do that well enough in the day-to-day working here, so I think there is an opportunity to collaborate more to create these sorts of single teams. It's always very dangerous to make these sweeping generalisations because I can give you many

"It's no bottomless pit. If we overspend on projects we can't just keep going back and saying we need more money"



The February storms that damaged the Dawlish sea wall provided Mark Carne's first test as CEO

"I'm not expecting any significant change in the degree of political involvement"

fantastic examples, particularly around our big projects, where that collaboration is evident.

"Where we have [to improve] is in trying to resolve things in the shorter term. I think it's an opportunity to work more closely and better."

Talk turns to politics, with an election less than nine months away. Network Rail was reclassified as a central government body in the public sector this month.

This means its £30bn debt will now sit on the government's balance sheet, a move that increases the public sector's net debt by around 2 per cent of GDP, according to The Office for Budget Responsibility.

The Labour Party has already pledged to bring the rail operator together with a passenger rail body to oversee passenger operations, stations, ticketing and to manage infrastructure.

Political influence

As fares continue to rise and Network Rail receives fines from the Office of Rail Regulation for its performance (including a record £53.1m in July), the operator can expect to be at the forefront of plenty of political debate in the

run-up to the election. But Mr Carne insists agreements are in place with the Department for Transport that mean the industry shouldn't be unduly worried about greater political interference.

"Clearly there are some changes to the relationship between Network Rail and government but we also have a clear understanding from them that they want us to continue running the railway, so I'm not expecting there to be any significant change in the degree of political involvement."

But almost immediately, perhaps spotting an opportunity to throw down the gauntlet to the UK's biggest firms, he shifts message. The agreement with the DfT "preserves our independence in terms of decision-making on certain issues, including the overall level of debt and funding we will have over the CP5 period".

"I'm not naïve. There will be certain changes, the debt is handled differently and the timing of the funding of projects will be subject to more scrutiny.

"We are no longer borrowing against our own debt; we will have to go back to the Treasury and arrange for that debt.

"One could expect more public scrutiny, that's not an unhealthy thing. We are accountable to parliament for the way we spend taxpayers' money, so I'm not worried about that.

"But it's not a bottomless pit. If we overspend on projects we can't just keep going back and saying we need more money. There has to

IN QUOTES

Mark Carne on...

HS2 "It's an incredibly tough project, especially at Euston, but the relationship is strong and it's essential we work closely together."

Efficiency "We have to achieve another 20 per cent over five years and then we will meet Sir Roy McNulty's targets. We have a trajectory but I don't know how exactly we're going to deliver that. I am optimistic we are going to achieve this. There are a lot of inefficiencies in the way we work and if we can work more closely there are huge opportunities."

Safety "Throughout my life I have seen those companies with the best safety performance also have the best business performance. There's no conflict between the two. There's a moral and ethical imperative, but it's also just good business."

UK infrastructure "I wouldn't characterise it as crumbling infrastructure. It needs to be resilient to climate conditions we haven't seen in the past. We need to focus on identifying vulnerable areas and strengthen them."

The election "I don't believe there should be any uncertainty. We're in a fortunate position. We have a five-year order book here and we have to get on and deliver it."

be a proper check and balance, which is entirely appropriate."

The message is clear: for Network Rail to justify its spending into CP6, contractors need to outperform expectations.

Collaboration is the key, with contractors at the heart, Mr Carne says. He wants to have "a close relationship with the main contractors", as he knows they can "make sure we deliver as promised and outperform".

Having seen in his first days as chief executive how contractors rose to the challenge of storms battering the UK's infrastructure, he knows there is much to be done to protect and improve the UK's rail assets and ensure Dawlish isn't a scene repeated year in, year out.

Network Rail: Where did it all go wrong?

Slammed by its regulator, under pressure from government and faced with growing contractor unrest, is Network Rail in crisis? *Construction News* examines what's going wrong at one of the industry's biggest clients



RAIL
TOM FITZPATRICK

When Mark Carne became Network Rail chief executive in 2014, he inherited a network buckling under some of the worst storms seen in Britain for many years.

He told *Construction News* in September last year that he was "lucky to join in a crisis", having had the chance to see first-hand how the industry could rally and fight back against the wet and wild elements battering the nation's infrastructure.

But almost 18 months later, whatever luck Mr Carne felt he had appears to have run out, as the storm shows few signs of dissipating for an organisation coming increasingly under fire.

To some observers, Network Rail still remains in a crisis. So far this year, it has had to endure the threat of worker strikes, major projects cancelled or going awry, recriminations over a turbulent

Christmas period that saw hubs including Paddington and King's Cross closed for large periods of time, and now a damning regulator's report (see p2).

And with budgets coming under increasing pressure, the construction industry has been left exasperated.

Changes to senior management including the departure of collaboration advocate Simon Kirby; delays to projects – many of which are stuck in the design phase – and confusion over standards have all contributed to a sense of flux for suppliers, who just 18 months ago were gearing up for work to be fast-tracked through new mega frameworks.

Senior sources at large contractors expressed their fears that the rail client, which had taken such strides to facilitate collaborative rather than adversarial relationships with its supply chain, is now in danger of going backwards.

Despite Control Period 5 (2014-19) having been under way for

more than a year, contractors are now seeking urgent talks with the rail client to determine which of their projects may be under threat.

Honeymoon over

Businesses who had licked their lips at the prospect of £38bn planned spending in CP5, with early contractor engagement and 90 per cent of the work to be carried out already let, are now anxiously awaiting news of spending cutbacks.

One says: "We're at the end of a honeymoon period for CP5. It started with lots of frameworks and projects but all of a sudden the designs are all late. There's a lot of tension around."

"Contractors aren't driving through the volumes they thought they'd have by now, so their business plans are under pressure and they can't see how that's going to come to an end."

A separate source adds: "Since Mark Carne came in, it's all gone horribly wrong. It's not his leadership that has caused the problems, but you almost wonder have others left Network Rail because they saw what the future looked like and didn't want to be on the end of it."

Just last week, the government confirmed the delay of a huge programme of work to electrify the TransPennine Express line between Manchester and York. Network Rail has told ministers the scheme, originally announced in 2011, needed "more work".

It is the threat hanging over future CP5 projects that has got



the construction industry concerned, as it seeks urgent talks with Network Rail management to try to stave off the threat of an axe being wielded to a programme of work that is already mostly procured.

Supply chain companies complain that design delays are affecting projects, with designer, client and contractor all keen to avoid professional indemnity issues on schemes where cost has risen to the extent that, in some cases, projects conceived two years ago no longer stack up.

A source says: "Lateness of design effectively forces construction companies onto the critical path more and more. It puts innovation like prefabrication or logistics management under more pressure."

"Designs are in some cases coming in up to the day before work is expected to start. Then contractors are expected to make sure teams are briefed, everything is sorted out and you can construct properly under huge pressure."

"You wonder if others left Network Rail because they saw what the future looked like"

SOURCE

An Office of Rail Regulation report last week found that the rail operator had missed 30 out of 84 'milestone targets' on major infrastructure projects between October 2014 and March 2015.

More delays

ORR deputy director engineering and asset management Mark Morris admits design delays and problems on larger schemes are a concern.

"Network Rail needs to up its game significantly on major projects," he says. "We have a role as a safety authority in authorising new infrastructure into service towards the end of the [construction] process, and we find that sometimes they don't understand what they need to do ahead of time and are reacting late in the day."

"Our priority is to get the railway running for passengers and freight trains, and sometimes we have to work very hard to get Network Rail over the line because they didn't think clearly enough about what to do to get to the end."

The client is divided into 10 routes, where individual leaders or managing directors oversee planned construction works.

Construction firms have complained that different

standards are being applied across different routes and in different regions, with one source saying the operator's new status as a public sector body since last September is also causing confusion for its senior management.

The source says: "Senior players under the executive board level are trying to figure out who their bosses are. They know there is a budget impact on projects but they don't know where – they're in a state of the unknown."

"They put out some major frameworks in areas like electrification but there's confusion over where the budgets were created – they are not realistic. That, combined with the limited design capability in the marketplace, means they have a problem."

Major frameworks allocated early in CP5 included its southern routes, where VolkerFitzpatrick (Anglia), Costain (Kent), Bam Nuttall (Sussex) and Osborne (Wessex) were appointed to deals worth up to £1.2bn. Other major winners included nine suppliers winning 20 framework spots worth a combined £1.6bn for deals on the London North Western and East Midlands routes.

Despite work being held up in frameworks, Network Rail points

"Sometimes we have to work hard to get Network Rail over the line because they didn't think about what to do to get to the end"

MARK MORRIS, ORR

to the fact that it spent a record £3.4bn on enhancements over the last year, as it revealed in its 2014/15 results last week.

This is double what was spent five years ago, and is one reason why the organisation has improved relationships with key supply chain partners in recent years, as long-term visibility of work has continued to improve.

The operator has also improved payment terms and points to its use of "advanced collaborative contract forms".

Financial setbacks

However its new status as a public sector body added £30bn to the national debt, and with the company to face further fines for missing ORR targets, its budgets are increasingly under pressure.

This is why the Department for Transport is understood to be considering privatising parts of the rail client, while the Treasury is reported to be interested in securing private sector investment to aid electrification programmes.

A Conservative government would be unlikely to privatise the entirety, or even large swathes of the network, with the memory of its ultimately doomed privatisation of the railways

through Railtrack in the mid-90s still fresh in the memory due to high-profile incidents including the Hatfield rail crash in 2000.

Sources pointed to property assets and even its consulting arm as among the options for sales, with speculation that major stations could also be taken from Network Rail to allow it to focus on track maintenance. But Mr Morris says the ORR is not seeking greater centralisation within the operator.

"I don't think there's any case at the moment for centralisation, we don't see that as the way forward," he says. "The routes now need to step up – the level of performance that would have been good enough a few years ago is not good enough anymore."

Though the ORR retains a belief that the operator can be fixed through greater transparency and accountability, the length of time it takes to make improvements may be a luxury the industry cannot afford, having already factored in billions-worth of work into their future plans.

More on Network Rail
All the latest news and updates regarding Network Rail at
>>> cnplus.co.uk/network-rail

THREE CHALLENGES FOR NETWORK RAIL

- **Workloads** Which projects are going ahead, and when? Clarification of future workloads is a must for the industry that is waiting anxiously for schemes to materialise.
- **Safety** The ORR says there has been "no noticeable improvement" in worker safety during the year. With a huge health and safety overhaul now underway, Network Rail and its contractors will be under pressure to perform.
- **Collaboration** How will it fix what appears to be broken links and mixed messages with industry? Having taken great strides to become a collaborative client, the industry needs reassurance it won't see a return to adversarial relationships.

Mark Carne spoke to *CN* in September 2014 about the benefits of joining the company amid a crisis



A little bid more

New research reveals contractors spend 22 per cent of their operational turnover tendering for work. What is driving this staggering cost and how are firms ensuring every bid counts?



BUSINESS
TOM FITZPATRICK

“How did we end up being cheaper than anyone else on the shortlist? We came up with a building solution for something that wasn’t buildable.

“The other bidders had put a provisional sum against it without working out a way to actually build the thing.”

That’s the view of one bid co-ordinator at a major contractor, asked about how it set itself apart from rivals when tendering for a particular scheme.

The reality, the source says, is clients and quantity surveyors can

often just look at the form of tender showing the projected total project cost and make a snap decision based on price. “We have lost bids almost immediately upon submitting them [when clients have seen the bid] and have also won them immediately afterwards for the same reason.”

But in the murky world of tendering, where UK firms are increasingly choosing to be selective about work, there are particular trends that separate winners and losers.

Specialist consultant MarketingWorks, in association with Professor Will Hughes of the University of Reading, surveyed 179 firms – 60 of whom were main contractors – about their tendering

“These costs represent a large proportion of a contractor’s work and can definitely be reduced”

PROF WILL HUGHES,
UNIVERSITY OF READING

habits, as part of new research.

The data received encompasses £11.3bn of total project value, of which £8bn has full cost data.

Winning vs losing

The results show that the average cost of a winning tender to a contractor was £60,208 in 2014; for consultants, it was £23,821.

The cost is an average across all respondents and contract sizes ranging from up to £2m to more than £250m. The research finds that firms winning one in every five projects could be spending up to 22 per cent of operational turnover on winning work.

For smaller projects (less than £5m), the proportion of bid cost to project value is highest, meaning the win ratio is crucial for firms looking to avoid problem jobs and

determining whether to bid schemes in the first place.

The average bid cost across both winning and losing bids was 0.57 per cent of total project value. This means, for example, on the £400m One Nine Elms scheme being developed by Wanda One, costs could total £2.3m for bidders such as Mace and Interserve/China State Construction Engineering Corporation, who have been tendering for almost a year.

This scheme is among the high-rise London projects complicated by contractors having to work with an overseas end-client. For the Wanda One project, for instance, bidders have had to fly to China to discuss the project at their own cost.

Chinese developer Greenland Group and Malaysian developer SP Setia are understood to have made similar demands for firms bidding for their mega projects, including the £600m Ram Brewery and £8bn Battersea Power Station redevelopments.

To win the 42-storey Manhattan Loft Gardens scheme in Stratford, Bouygues is believed to have flown property developers Manhattan Loft Corporation to schemes it has built in Singapore, due to its lack of high rise projects in the UK.

Contractors are also racking up costs spending vast sums on CGI fly-through concepts of projects in various phases.



developers are finding contractors being a bit more circumspect than they would have imagined in terms of their interest.”

The nature of contracting also makes it crucial for businesses to manage in-house costs. Contractors will outsource a lot of their tendering costs for packages including

M&E and façades. Some firms such as Balfour Beatty have been victims of having in-house subcontractor capabilities. In its 2014 results last month, it revealed certain legacy BB Engineering Services jobs had contributed £62m to group revenue but generated losses of £88m. It no longer bids for M&E subcontractor work in London or the South-west.

“Bid costs, on the face of it, are similar to a contractor’s margins,” Prof Hughes says. “The nature of contracting means they are more significant to construction firms than to firms in other sectors, because contractors are a conduit for nearly all the work and only a small proportion of work remains in-house. The costs represent a large proportion of a contractor’s own work. Moreover, these costs can definitely be reduced.”

Lack of feedback

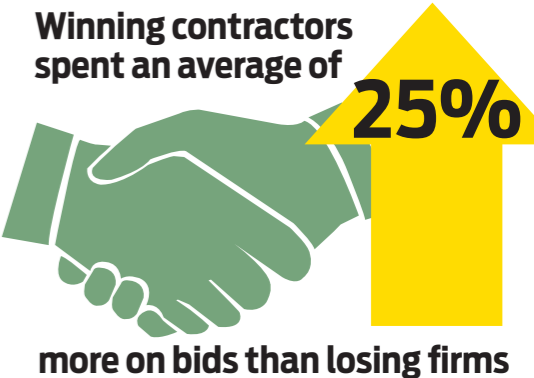
The research showed that for 11 per cent of bids won and 15 per cent of bids lost, the reasons for winning or losing are unknown. MarketingWorks MD Philip Collard says the industry suffers from clients not providing clear and accurate feedback, or bidders failing to ask for it.

“This leads to the conclusion that the industry as a whole (both sides of the work-winning

process) is not valuing the role that feedback plays in improving the efficiency of work-winning approaches and behaviours.”

But what role are clients playing in reducing upfront costs to contractors, or do they simply care about price? Constructing Excellence chief executive Don Ward points to the Cabinet Office finding 5 to 15 per cent savings from value-based procurement on its trial projects including integrated project insurance and two-stage open-book procurement.

Some private developers such as Argent and Grosvenor are benefiting from bravely employing contractors under negotiated frameworks in the downturn, rather than prioritising low-cost bids. Argent’s panel of Bam Construct, Carillion and Kier, and Grosvenor’s relationship with Chorus (part of Byrne Group) and Sir Robert McAlpine, have



helped those contractors to record solid margins. In exchange, the clients have long-term, locked-down relationships where they can demand ‘A-teams’ for work.

Others are choosing mini-competition routes, including Quintain Estates with nine contractors on its framework for £2.1bn of work at Wembley Park, while in the public sector the Education Funding Agency named 16 firms for its £5bn

Bids won based on price



Bids lost based on price



The big concern for contractors tendering for work today is to avoid the problem jobs that have blighted a plethora of firms in the last 18 months.

One source at a major contractor says: “If you make one mistake pricing a job, even a small works package, you can lose a huge sum of money. At the moment it’s a choice between wanting to bid and wanting to avoid a costly mistake.”

Quality time

Among the trends highlighted in the new research is that winning contractors spend more time than losing contractors on factors such as their decision to bid (double the time) and selecting/briefing members of the team.

EC Harris head of residential Mark Farmer says: “The most important thing contractors are factoring in is the client and consultant team and whether they know what they’re doing. Some

“The industry is not valuing the role feedback plays in improving work-winning behaviour”

PHILIP COLLARD, MARKETINGWORKS



“If all we talk about is the price to get congestion down, we won’t deliver the benefits”

PETER ADAMS, HIGHWAYS ENGLAND

Regional Framework last year across six lots. On the whole, frameworks offer contractors better win-ratio possibilities and higher-margin work, as well as the chance to win repeat business with big clients. “Frameworks move procurement costs upfront, but provided those costs can be over five to 10 jobs for all parties, then it is easy to see that tendering costs as well as the time taken can be dramatically reduced,” Mr Ward says.

Making in-roads

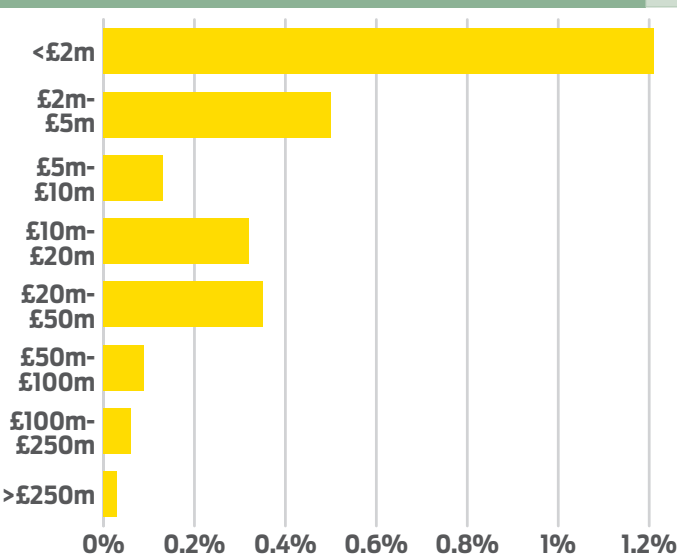
Highways England appointed 26 firms to a £5bn Collaborative Delivery Framework in November 2014. It is placing less emphasis on cost-first procurement and wants to promote bulk-purchasing arrangements and saving on costs by conducting fewer tendering exercises. The new body has a programme of major improvements totalling around £7bn of capital spending across 112 individual schemes, as well as the development of a further 15 schemes for its next Road Investment Strategy.

In its 2015-20 delivery plan published last week, Highways England set out its plans to “create a collaborative shift from cost negotiation to value assurance”.

Major projects director Peter Adams says: “[Framework firms] are often leading the design. If all we’re talking to them about is the price to get congestion down, then [we won’t be delivering] the benefits the government wants from this investment – so [we are asking] how do we incorporate those benefits?”

Balfour Beatty MD of major projects Stephen Tarr says the CDF has helped remove layers of duplication in the tendering process and the temptation to bid

BID COST AS % OF PROJECT VALUE BY VALUE BANDS



on a cost-first basis. “There’s collaboration in that we’re coming together as delivery partners to take a view on the deliverability and the budget, so the burden is shared across the partners. You get experience without duplication. In some cases you say, ‘We’ll look at this, you look at that’ – that’s a way of validating certain measures.”

He adds that the setting of overhead and profit return parameters as part of CDF means the primary incentive to reduce cost becomes about money being reinvested in roads.

“Competition becomes more about the people and processes we

have, how we deploy and the efficiency in which we operate.

“We are competing on the things we should be competing on [rather than cost].”

Mr Ward cites the 2011 CE report, *The business case for lowest price tendering*, which set out a “catalogue of costs and controls required to mitigate risks” including projects going over budget and programme, poor lifecycle performance and risk of insolvency. “If we found a new procurement route with this track record today, we would never be able to promote its uptake, yet we are asked for a business case for

more modern and appropriate approaches,” he says.

Problems in public

It’s not all rosy in the public sector though. Contractors to have suffered in recent times include Bouygues and Interserve, who lost out on the £206m Papworth and £335m Royal Liverpool Hospital PFIs respectively in 2013 and 2014.

The bidding processes lasted several years on both projects, with sources telling *Construction News* they would have cost ‘several million’ to bid. Other major clients such as Crossrail have sought full design-and-build target cost prices that were fixed with arrangements to manage cost changes.

Mr Tarr says: “That’s a costlier way of doing it, but that’s a one-off programme; others like the Highways Agency and water firms have a longer-term business and engage to get long-term value.”

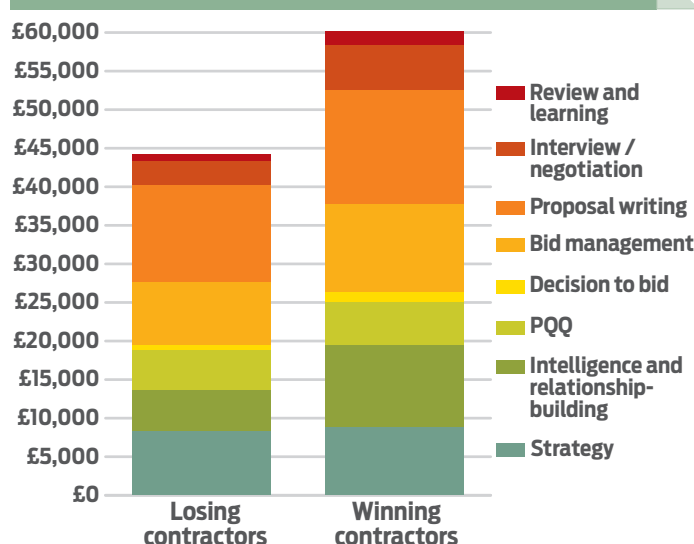
Choosing the right projects and understanding the bidding processes that separate winners from losers will enable smarter contractors to improve win ratios as work pipelines swell.

Regardless of client and supply chain procedures, construction remains a low-margin industry and finding higher-margin work is a constant struggle.

“Clients want continuity; contractors want a long-term, steady margin,” Mr Farmer says.

But while some ‘intelligent’ clients are putting their trust in the supply chain, the challenge remains that, as the bid co-ordinator says: “Everyone still wants their project to be cheaper, faster and better.”

SPENDING COMPARISON WINNERS VS LOSERS



What are your views?

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