



INTRODUCTION	P1
EXECUTIVE SUMMARY	P3
BACKGROUND INFORMATION	P4
CURRENT METHODS OF PROCUREMENT	P4
THE ROLE OF THE CLIENT	P8
PUBLIC SECTOR AND VALUE FOR MONEY	P10
SUICIDE BIDDING	P12
COVER PRICING	P13
RESULTS AND DISCUSSION	P14
METHODOLOGY AND DEMOGRAPHICS	P14
METHODS OF PROCUREMENT	P16
PUBLIC SECTOR PROCUREMENT	P21
CLIENTS IN CONSTRUCTION	P24
ADVERSE PRACTICES IN PROCUREMENT	P26
CONCLUSIONS AND RECOMMENDATIONS	P28

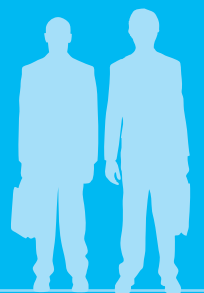
INTRODUCTION

The Chartered Institute of Building is the leading professional body for personnel in the global construction management industry. Established in 1834, the CIOB continues to lead the way in establishing, promoting and maintaining standards of excellence in the sector.

The CIOB draws its members from a wide range of professional disciplines, from across the building and construction supply chains. These include clients, consultants and contractors, as well as specialists in regulation, research and education.

The purpose of this research is to investigate the perception of

procurement in the construction industry through the views of industry professionals. The CIOB will use this research to raise the awareness in the public and political arenas of the issues surrounding procurement in the industry, including the effects of the recent spending review, and to provide recommendations on how best to overcome barriers. ■





78% OF RESPONDENTS EXPECT THE GOVERNMENT SPENDING CUTS TO RESULT IN A DECREASE OF AVAILABLE WORK

EXECUTIVE SUMMARY

This is first survey from the Chartered Institute of Building (CIOB) into procurement in the construction industry. The key findings from this report indicate that construction professionals view procurement as absolutely crucial to the delivery of a project on time, on budget and to a high quality, with 87% of respondents of the belief that good procurement is synonymous with a successful project. 82% of respondents believe that “suicide bidding” exists within the industry, a worrying statistic that highlights the dangers of selecting a very low bid at tender stage.

This research examines the stance of construction industry professionals on the current state of procurement within the sector, with a particular focus on the UK industry. It centres on the role of the client, current methods of procurement, the effects of the spending cuts both now and in the future, the prevalence of practices such as suicide bidding, and what can be done to improve construction procurement practice.

The findings from this survey indicate that 77% of respondents believe clients are not sufficiently knowledgeable about procurement in the construction industry, which often leads to poor advice being taken and results in a project coming in over-budget, outside of timeframes, or to a poor standard.

93% of respondents have been involved in projects that overran in terms of cost. 57% of those who had been involved in those projects believed that the chosen procurement method directly contributed to the cost overruns. Similarly, 94% have been involved on projects that overran in terms of time. Of those, 49% believe the chosen procurement method directly led to the time overruns. Half of respondents indicate that a lack of communication is the most significant problem arising during the procurement process, followed by 46% who are of the belief that alterations to client requirements is a problem, and 34% who highlighted issues over responsibility. All three of

these issues are closely linked into the need for the industry to integrate further.

Unsurprisingly, 78% of respondents expect the Government spending cuts to result in a decrease of available work. In terms of procurement, 19% feel that the spending cuts will actually increase the cost of the procurement process, compared to the 10% who feel it will reduce the cost.

According to respondents, the four key priorities in public sector procurement should be:

- Standardisation
- Reduced cost of procurement
- Sustainability
- Public accountability

64% of the sample believe a more transparent procurement process will benefit the construction industry. Transparency will allow for more trust and openness between all parties, therefore resulting in a greater emphasis on communication. ■



Procurement is essentially a series of considered risks – each method has individual strengths and weaknesses, which must be carefully calculated by clients and industry alike. There are a number of different types of procurement routes available for clients to select. Each different type of procurement (Traditional, Design and Build, Construction Management, etc) has its own advocates and inherent strengths and weaknesses.

Selection of an absolute optimal procurement method is difficult, because even the most experienced client or contractor does not know all the potential benefits or risks for each method. Procurement is, therefore, a succession of ‘calculated risks’. Industry and academia have consistently focused on reducing this risk through the use of innovative methods of procurement.

The difficulty, and what sets construction industry procurement far apart from anything else, is the complexity of projects. Influences such as ground conditions, topography, logistics, weather, available technologies, finance, labour availability and services, just to name a few, all affect the ability of a project to be completed on time, on budget and to a high quality.



Procurement, being a series of risks, has different methods that transfer varying levels of risk onto the client or contractor. The most used method, according to the RICS Contracts in Use survey (2007)^①, is the Traditional method of procurement.

Traditional contracting, which can be described as the separation of design and construction using a lump-sum contract, has its weaknesses, as all other methods of procurement do. However, the construction industry has used the Traditional process for so long that it has become the most understood. Indeed, it is



^① The Royal Institution of Chartered Surveyors/Davis Langdon ‘Contracts in use: a survey of building contracts in use during 2007’ (2007)

Design and Build is popular with clients, as the risk primarily lies with the contractor and the process is relatively easy to understand – the project is specified to be designed (at least in part) and built by the same contractor, which, in theory, allows for greater communication. Other parts of the design phase may be carried out by consultants hired by the client, though the contractor will

likely that the simplicity involved in understanding Traditional is its greatest strength – the designer is responsible for design and the contractor for execution, so responsibility for co-ordination of subcontract packages lies firmly with the contractor. While complications will inevitably arise, as with any procurement system, the Traditional method sees each party knowing where they stand, and who has responsibility for what. Weaknesses with Traditional are, however, apparent. The nature of separating the design and construction processes means disputes are common, and those delivering the project (i.e. the contractor) do not have much of a say in the design, cost and allocation of risk. Indeed, some may say that Traditional goes against the requirement for the industry to integrate further.

be informed of developments during the phase. It is not always as straightforward as this, and there can be numerous changes to the design in the construction phase, or a lack of communication between the two teams. Ideally, the Design and Build stage would see both teams working in partnership, with the contractors giving feasibility input in the design stage, and the architect advising on site during the construction phase. Both would result in a more integrated approach, as set out in the Latham Report ‘Constructing the Team’.^②

Prime Contracting is an extension of the Design and Build system. The ‘prime contractor’ will be expected to have a well established supply chain, and will co-ordinate and project manage throughout the

design and construction stages. The prime contractor is paid all actual costs, plus profits incurred in respect of measured work and design staff – the main risk lies in respect of staff and the supply chain, including subcontractors.

Private Finance Initiative/Public-Private Partnership Projects (PFI/PPP) has long been the subject of debate as to its effectiveness. Launched in the mid-1990s by the then-Conservative Government, PFI reached popularity under the Labour Government between 1997 to 2010. Designed specifically for large-scale, high value projects such as road/rail infrastructure networks or hospitals, PFI is a result of the shift towards privatisation.

PFI differs in that, instead of paying a lump sum upfront for a new project, the Government agrees to pay a private firm an annual fee over a set number of years to take on the entire construction, financing, design, management and operation of the project. The private firm makes a profit on the fee, the Government avoids administrative work, and this frees up resources in their departments for other use. However, the loss of control by the public sector makes accountability difficult, and raises questions over whether value for money is really being obtained. Many PFI projects have come in late and over-budget, as the National Audit Office has found in its investigations, and criticism has been aimed at how much money is spent on consultants

^② Sir Michael Latham ‘Constructing the Team – The Latham Report’ (1994)



CURRENT METHODS OF PROCUREMENT (CONT.)

before any construction has even begun.^③ PFI has also been affected by the recent economic downturn, raising questions as to its place, in its current form, as a viable procurement option. Revisions to PFI are likely needed in order to ensure large-scale projects can be financed privately in the future.^④

The Latham Report *Constructing the Team* (1994), commissioned by the Government in the wake of a series of poorly-performing projects, identified inefficiencies and a lack of trust between contractors and clients as a clear problem in the industry. The Egan Report *Rethinking Construction*, which followed in 1998 highlighted partnering as key to ensuring the client's needs were at the very heart of the construction process. As a result, clients, consultants, contractors and their supply chains committed to working more collaboratively and in a strategic fashion. An increase in partnering between clients and contractors was one such fall-out. The CIOB describes partnering as “a management approach used by two or more organisations to achieve specific objectives by maximising the effectiveness of each participant's resources”. Therefore, this strategic approach requires mutual trust and an open relationship between parties, and results in a combined drive to achieve improvement and best practice.

The CIOB believes partnering is the “most efficient way of undertaking all kinds of construction work including new buildings and infrastructure, alterations, refurbishment and maintenance”. Long-term (strategic) partnering commitments showcase the real benefits of the procurement method, although short-term (project-specific) partnering has also proved highly beneficial on individual projects.

The principles of partnering include a decision making process, mutual objectives, and an overall improvement in performance. As more projects are worked on in tandem, a greater understanding of how to accomplish best practice, reduce costs and attain value for money is achieved.

Management Contracting works by having a contractor managing a series of ‘works’ contractors or subcontractors. Advantages include early involvement in the project, and the management contractor can also appoint trusted subcontractors they have worked with previously rather than risk an unknown factor. Disadvantages include the lack of a single point of responsibility

for both design and construction phases, which opens the possibility for disputes to arise.

Framework Agreements (FA) are template contracts that are agreed for a series of projects. An advantage to Frameworks is in their simplicity for the types of projects they are used on – there is only the need to negotiate a contract once for a series of projects. This is of benefit to the contractor/consultant who initially agreed the contract, as they can repeat business with the client. Disadvantages lie in the fact that this practice is a barrier to smaller construction

firms who are unable to handle multiple projects due to limited resources, which restricts competition. Essentially, FA are closed systems.

Construction Management is not a widely used procurement method – its main reason for existence is for use on large and/or very complex construction works, such as Heathrow Terminal 5, where it was used to good effect. The system works by having a construction manager as a point of contact, who will typically be head of a design team, who co-ordinates the project in terms of the various construction operations on site. Construction Management is generally considered to be the least adversarial form of procurement, and is often used when design needs to run in tandem with construction.^⑤

Comparing which procurement method is ‘best’ is nigh-impossible – there is no direct way to measure, as construction projects are bespoke and differ substantially from project to project in many aspects. This is why education, advice and input at all stages of a project throughout the procurement process is absolutely vital to ensure success. ■



③ Sherman, J. 'Millions of pounds wasted on private finance tendering' The Times, March 8, 2007

④ Gardiner, J. 'PFI Alternatives: A change of route' Building, November 26, 2010

⑤ The Chartered Institute of Building 'Code of Practice for Project Management for Construction and Development' 4th Edition (2010)

THE ROLE OF THE CLIENT

All construction projects must begin with a client. This is the party who has instigated the project, will have thought about why the facility should be built, will have organised the funding and be convinced that it is a worthwhile investment.

They are therefore the sponsor of the whole construction process, who provides the most important perspective on project performance and whose needs must be met by the project team. However, the term 'client' implies that it is one person or one organisation to whom all other parties can refer. This is not necessarily the case, especially with large complex organisations where users, decision makers and financiers may all work in quite separate departments, each with its own procedures, priorities and attitudes.

Construction projects themselves are unique; in general, they are all one-off products designed to satisfy the bespoke needs of the particular client at a particular time. It is entirely down to objectives and needs. Therefore it is paramount that clients who need these one-off works are educated and informed sufficiently, so as to ensure best value for money and take into account risk accordingly. ■



IT IS PARAMOUNT
THAT CLIENTS...
ARE EDUCATED
AND INFORMED
SUFFICIENTLY, SO
AS TO ENSURE BEST
VALUE FOR MONEY.

PUBLIC SECTOR AND VALUE FOR MONEY

Public sector work accounts for approximately 40% of all turnover generated by the UK construction industry. The public sector has been widely credited for keeping construction from entering into a far worse situation than it did during the start of the 2008 recession.



The 2012 Olympics, BSF, Crossrail, NHS projects and other, less high-profile works at local Government level sustained the industry enough to soften the blow of the downturn and, even during the tough economic climate, construction contributed 8% to the UK's GDP.^⑥

The advent of the Comprehensive Spending Review (CSR) has seen spending dramatically reduced, sparking fears that construction could be heading for a 'double-dip' recession. Government has committed to investment in the construction sector, specifically £3bn more than set out in early 2010, with most of this to be spent on infrastructure projects. However, approximately £20bn of work will be lost in total, largely through the 60% cut in projects from the cancellation of BSF and the 74% reduction in the Department of Communities and Local Government's (DCLG) capital budget.

So what does this mean in terms of construction procurement? Fundamentally, Government bodies are looking at how to achieve best value for money from construction projects, particularly in the wake of the waste that emerged from the

^⑥ UK Contractors Group, 'Construction in the UK Economy – The Benefits of Investment' (2009)



procurement process on the BSF programme. Value for money must be defined clearly so that it does not automatically create the assumption that the lowest bid should be accepted, especially with the focus now on austerity. Otherwise, industry and clients risk poor quality projects that will result in unplanned increases in cost and time, all of which contribute to a poor position for the construction industry.

The recent National Audit Office (NAO) report on the £3.4bn M25 widening scheme has highlighted procurement on this PFI project as wasteful, primarily as the contract was too prescriptive and had little room for manoeuvre. In addition, the NAO states that the slowness of taking the project forward contributed heavily to the eventual 25% increase in cost.^⑦

The construction procurement process could be expected to become less expensive and wasteful as a result of the spending review, with a greater emphasis on transparency and e-procurement, and simplified pre-qualification questionnaires

(PQQs). Conversely, the severity of the spending review could result in a focus on lowest cost rather than greatest value. In other words, the pressure to reduce spending could lead to less importance placed on quality and whole-life costs.

Palaneeswaran et al (2003) found that best value on a public project could ultimately be defined as improved maintainability and lower operating costs, followed by earlier project completion.^⑧ Sustainability was seen as the eighth most important criteria for defining best value. Therefore, the whole-life costs of the project must be considered thoroughly by the client before going out to tender. Since 2003, the UK Government has committed to reducing the country's carbon dioxide emissions by 80% (compared to 1990 levels) by 2050, which places far more emphasis on the sustainability aspect of a construction project. ■



^⑦ National Audit Office 'Highways Agency: Procurement of the M25 private finance contract' November 2010

^⑧ Palaneeswaran et al, 'Targeting optimum value in public sector projects' Engineering, Construction and Architectural Management, Vol 10, No. 6, pgs 418-431 (2003)

SUICIDE BIDDING



The practice of bidding unusually lower than competitors in order to obtain work is referred to in the industry as 'suicide bidding'. Companies do this simply to ensure they have work for their skilled staff to undertake, even if it means only breaking even on a project or, in some cases, making a loss.



Connaught plc, which recently went into administration and caused over 1,400 immediate job losses, bid for a contract by nearly a fifth less than the nearest rival bid on a Norwich City Council social regeneration project; a bid described by rival contractor Morrison as "abnormally low".

To remain in business, some companies will have to resort to suicide bidding and then to use adversarial behaviour to increase their final accounts. When the inevitable happens and the company enters dire financial straits, this affects the client, the project, and all subcontractors associated with the works. Responsibility does, in part, lie with the company who bids so low. However, it can be argued that clients have a certain degree of responsibility for accepting the lowest bid. Regrettably, some clients enter this arena willingly.⁹ ■

⁹ Prior, G., 'Clients beware of Connaught suicide bids' Construction Enquirer (<http://www.constructionenquirer.com/2010/09/07/opinion-clients-share-blame-as-suicide-bids-cost-connaught/>) 7 September, 2010

COVER PRICING

Cover pricing, a form of bid rigging, is the act of placing a high bid at tender stage to clients. Contractors work in collusion to do this, as they require a base price that the other contractors will place a serious bid for. The said contractor will usually increase their own price by approximately 10% higher than the 'serious' bidder knowing that the client will not select them, but will still have seen their credentials and that they have the resources to work on future projects.

The obvious issue with cover pricing is that clients will be receiving a false indication of tender price, especially when more than one bid has been inflated. This harms competition levels and skews the outlook on value for money, which clients will not always be getting with a cover priced bid.

The Office of Fair Trading (OFT) conducted a four-year investigation ending in 2008 into cover pricing practices in the UK, which culminated in 103 construction firms being found guilty of cover pricing, and fined a total of £129 million. ■



METHODOLOGY

The survey was conducted using an internet-based questionnaire; open for four weeks between 18 October and 12 November 2010, which respondents could access through the CIOB website (www.ciob.org).

Respondents were asked general demographic questions regarding their age, gender, CIOB membership level, location, job level and sector, and the number of employees within their organisation.

An email was sent to 21,890 CIOB members informing them that the survey was online. The survey was also open to the general public and wider industry.

There were both qualitative and quantitative questions in the survey, to allow respondents the opportunity to openly express their opinions.

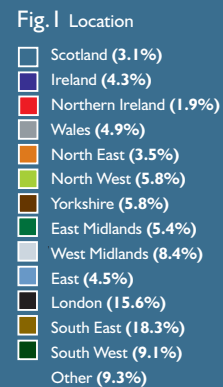
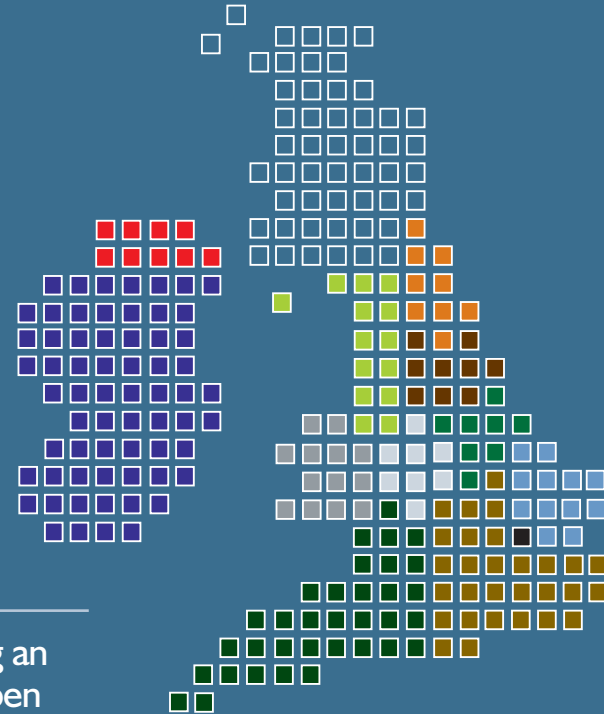


Fig.5 Job level

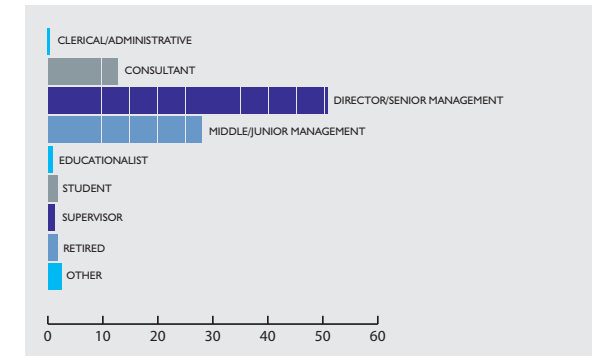


Fig.6 Sector:

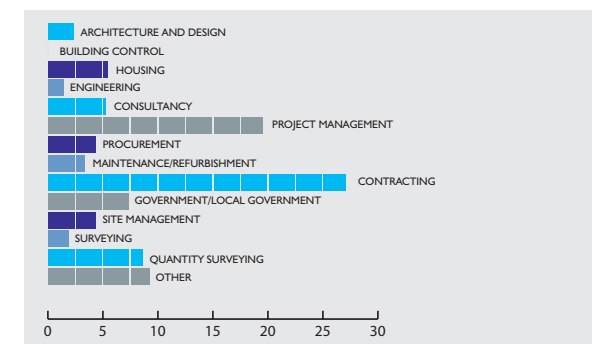


Fig.2 Age

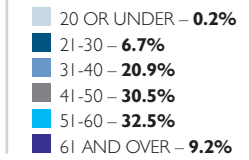


Fig.3 Gender

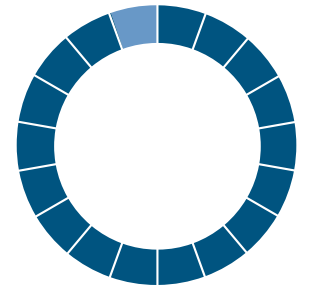
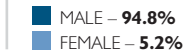


Fig.4 CIOB Membership Level

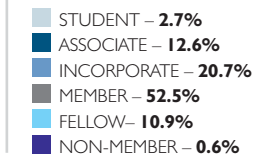
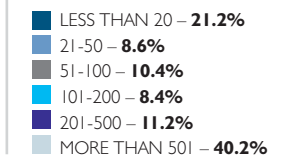


Fig.7 Number of employees in organisation



THE SAMPLE

The sample consisted of 525 construction industry professionals, the majority (79%) of whom described themselves as employed in a management position. 27% of respondents work in contracting and 4% work in the field of procurement.

40% of the sample work for organisations employing over 501 staff, while 21% work for SMEs who employ fewer than 20 staff.

34% of respondents are located in London and the South East, representing the majority of the sample. ■



METHODS OF PROCUREMENT

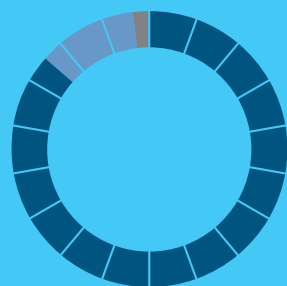


The importance of procurement in a project cannot be underestimated – an overwhelming majority (87%) believe good procurement to be synonymous with a successful project.

This places even further emphasis on ensuring the procurement method chosen and advice given to clients is entirely relevant to the needs of the project. In this sense, Partnering has an important part to play in ensuring good procurement is always associated with a successful project, as each party learns from mistakes and issues arising in previous projects to achieve the highest standards.

Fig. 1
Do you believe that good procurement is always synonymous with a successful project?

■ YES – 86.6%
■ NO – 11.7%
■ I DON'T KNOW – 1.7%



Of the following procurement methods, which one do you perceive to be the most efficient and suitable for the following scale of projects:

Fig.2.1 Projects up to £5m

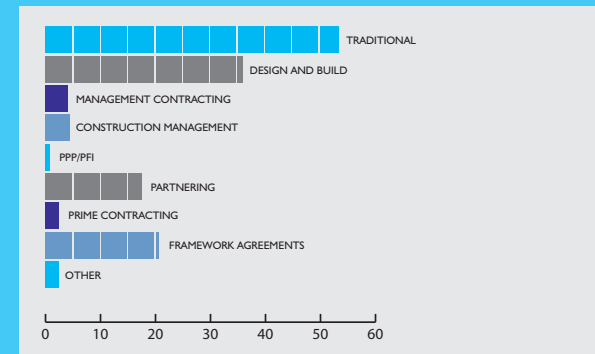


Fig.2.2 Projects between £5m-£50m

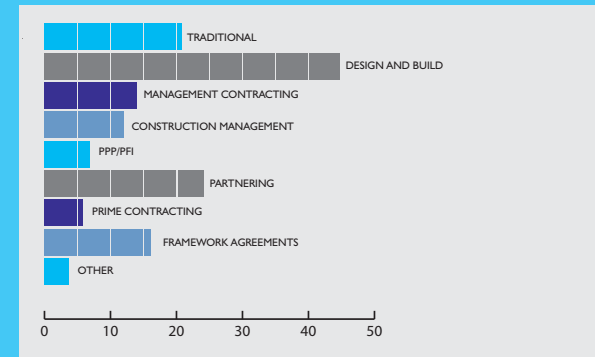
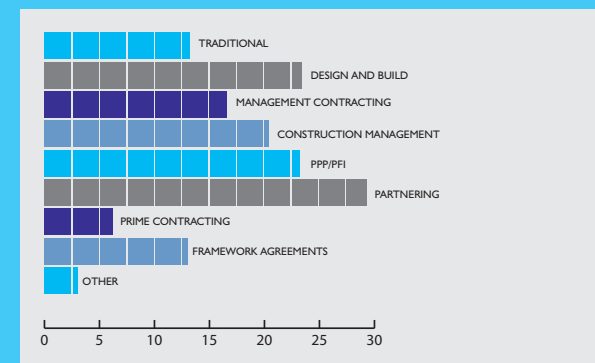


Fig.2.3 Projects over £50m



In terms of value, which is just one of many markers in judging a suitable procurement method, respondents highlighted the following key points:

On projects up to £5m, the Traditional procurement route is seen as most efficient and suitable, followed by Design and Build. Frameworks and Partnering also feature highly. These four methods are all relatively simple to understand, and are preferred by clients on lower-value projects.

On projects between £5m-50m, Design and Build is seen as most suitable, followed by Partnering. The Traditional method is seen by over a fifth of respondents as suitable.

On large-scale value projects, Partnering is viewed as the most suitable and efficient (29%) – this is likely due to the fact that collaborative working practices and relationships associated with Partnering are well-regarded on high-value, high-risk projects. Design and Build, PPP/PFI and Construction Management also feature highly, as might be expected, particularly as the latter two methods are almost solely developed for use on high-value and complex projects.

High value projects that use the Traditional procurement route – and these do exist, Wembley Stadium being the most recent high-profile project – are widely seen as the least suitable method to use. In the case of Wembley, the Traditional route allowed little freedom to adapt to changes that arose in the design stage, leading to the project coming in heavily over-budget and outside of its timeframe.



Of the following procurement methods, which one do you perceive to be the least efficient and suitable for the following scale of projects:

Fig.3.1 Projects up to £5m

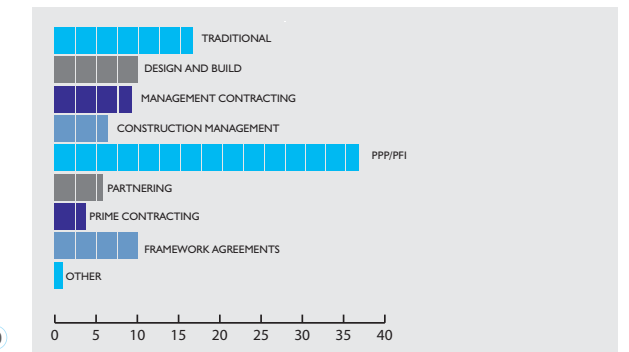


Fig.3.2 Projects between £5m-£50m

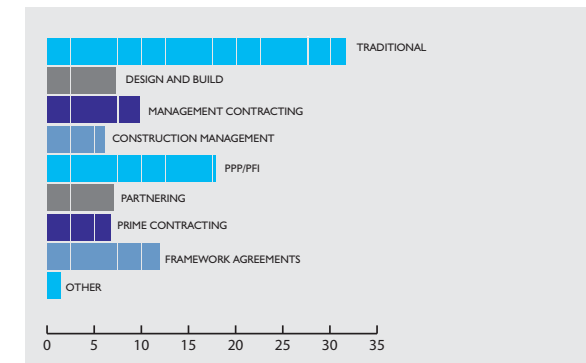
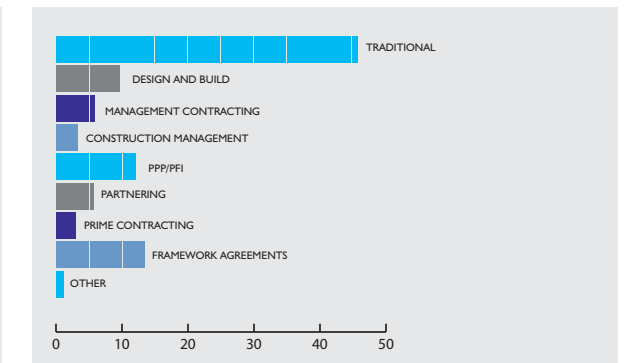


Fig.3.3 Projects over £50m



¹⁰ Limbrick, S. 'Multiplex sues Mott MacDonald for £253m over Wembley' Building, November 18, 2008

PPP/PFI is viewed by 29% of respondents as the procurement method that is most in need of restructuring. This may be interpreted as due to the recent, and not-so-recent, high-profile failings of projects using the method, such as M25 widening scheme. Excessive waste, coupled with the amount of time for projects to start, are two weaknesses associated with PFI.

Fig.4
Of the following procurement methods, which one do you perceive to be the most in need of restructuring?

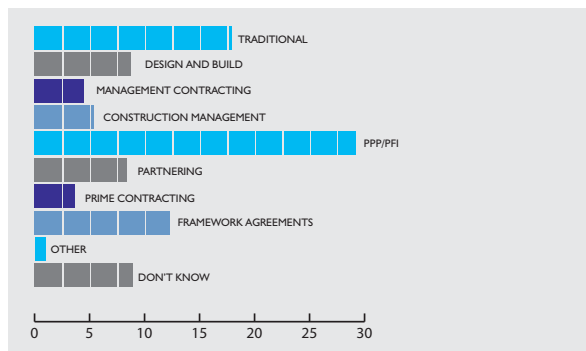
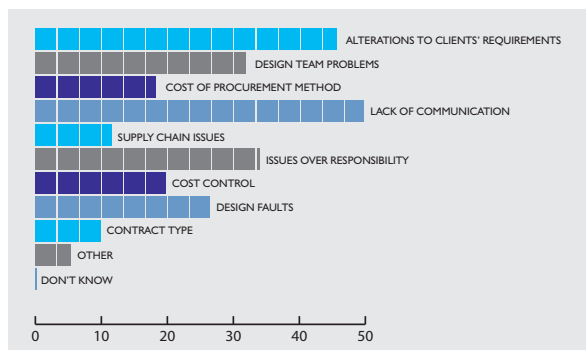


Fig.5
What do you view as the most significant problems arising during the procurement process? (select up to 3)



The Traditional method is seen by 18% as in need of restructuring. The separation of the design and construction processes and disputes that subsequently arise using the Traditional method go very much against the need for greater integration that has been set out in various industry reports.

However, respondent comments indicate that the problem may not lie with the methods specifically, but with the lack of professional procurement expertise and advice in choosing which method to use.

Respondents indicate that the most significant problem arising during the procurement process is a lack of communication (50%), followed by alterations to client requirements (46%) and issues over responsibility (34%). All three of these can be mutually connected to the need for greater integration throughout the construction process. Communication between industry, consultants and clients is vital to achieving best practice with regards to procurement, which in turn reduces the need to alter client requirements and clarifies which party has responsibility for what. Other issues that were seen as significant problems are those involved with the design team (32%), and design faults (27%). Greater communication between all parties during the procurement process will assist in eliminating these problems as compromises are found, and help to achieve value for money.

Fig.6a
Which procurement method was primarily used on those projects that overran in terms of cost?

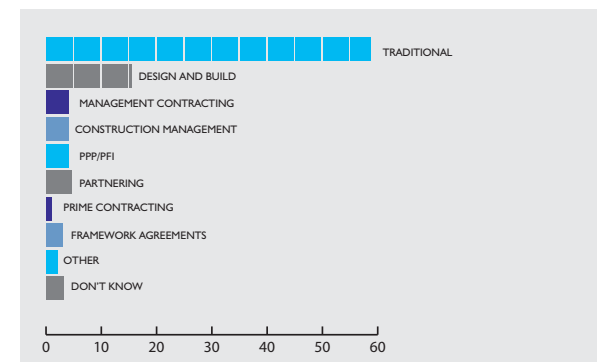
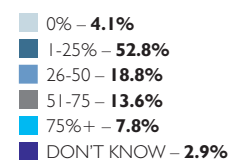


Fig.6
What percentage of projects during your career have you been involved in that have overrun in terms of cost?



93% of respondents have been involved in projects that have overrun in terms of cost. This is a worrying statistic in its own right, though one of no huge surprise to the industry. There are many factors, some out of control of the contractor, client, or indeed anyone, which can result in cost overruns. Of that 93%, the majority of cost overruns (53%) were on up to a quarter of projects. 59% of respondents indicated the Traditional method was used on projects that overran. On further analysis, in the cases where respondents indicated that 75%+ of projects they had been involved in had overrun in costs, the percentage of those using the Traditional method increased to 67%.

Overall, 57% of those who had been involved in projects that went over budget believed the chosen procurement method directly contributed to costs overrunning.

In terms of time, the statistics read similarly to cost, though there is a difference in the number of respondents who

believe projects were directly affected by the procurement method (49% as opposed to 57%). This is likely due to uncontrollable external factors such as adverse weather affecting timeframes. Traditional procurement again proved the method most used (60%).

The statistics above relating to cost and time suggest that current procurement methods are not entirely suitable to the construction industry, and alternatives or a greater understanding of procurement are necessary.

37% specify that their organisation has had to make alterations to contracts where a 'less than ideal' procurement route was selected, and did this by incorporating aspects of another procurement method.

Fig.6b
In these instances, do you believe the chosen procurement method directly contributed to the project overrunning in terms of cost?

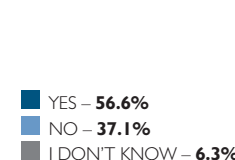


Fig.7
What percentage of projects during your career have you been involved in that have overrun in terms of time?

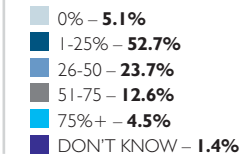


Fig.7a
Which procurement method was primarily used on those projects that overran in terms of time?

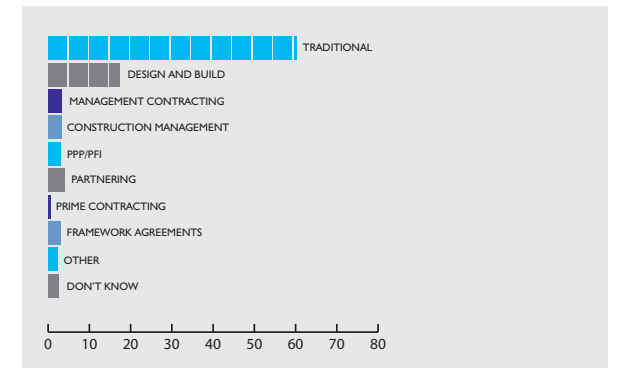


Fig.7b
In these instances, do you believe the chosen procurement method directly contributed to the project overrunning in terms of time?

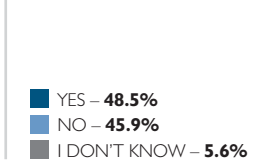


Fig.8
During your career, where a 'less-than-ideal' procurement route was selected, did your company make alterations to contracts in order to incorporate aspects of another procurement route?





PUBLIC SECTOR PROCUREMENT

Many respondents (64%) display the feeling that a more transparent procurement process will benefit the construction industry.

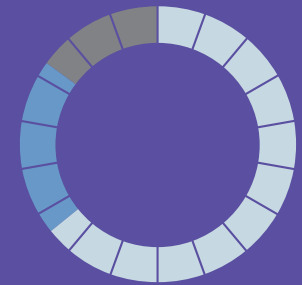
When asked for comments, the most common responses gave the impression that transparency would essentially build trust, facilitate communication and increase information sharing between all stakeholders, including the general public. This communication, the lack of which has been highlighted in this report as a problem with current procurement practices, will therefore lead to a more integrated approach to projects.

40% of respondents see the EU regulations on public procurement as inappropriate to the construction industry, compared to 25% who see them as appropriate. Respondent comments indicate that the Official Journal of the European Union (OJEU) way of advertising work is unsuitable – many responses focus on how UK-based work should be won by UK-based contractors, and advertising to other EU members instead results in a wasteful and drawn-out process.



Fig. 9
Will a more transparent public procurement process benefit the construction industry?

YES – 64.2%
NO – 20.8%
I DON'T KNOW – 15.0%



However, while the majority believe they are inappropriate to the industry, they concede that the regulations are unlikely to be adapted to suit construction's needs. Therefore, instead of being viewed as a barrier and disadvantage, the EU regulations should be acknowledged using staff that are educated and trained in their application.

Small and medium enterprises (SMEs) account for over 80% of all construction companies. 58% of respondents signify that SMEs are at a disadvantage due to preferred bidders and partnering processes in procurement – this is further backed up by research that shows SMEs do not have the resources to compete as competitively as larger contractors when it comes to the pre-qualification stage. ⁽¹⁾

⁽¹⁾ National Federation of Builders 'Procurement – the roadblocks to success' (2010)

Fig. 10
Do you believe the current EU regulations on public procurement are appropriate to the construction industry?

YES – 25.3%
NO – 40.2%
I DON'T KNOW – 34.5%

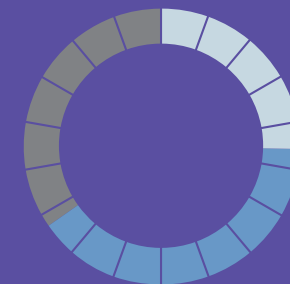
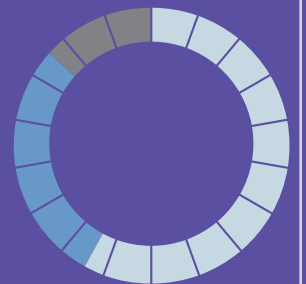


Fig. 11
Do you believe the use of preferred bidders and partnering in the procurement process creates disadvantages for SMEs in the industry?

YES – 58.2%
NO – 28.5%
I DON'T KNOW – 13.3%



The majority (62%) of respondents believe the use of preferred bidders and partnering, where a single contractor is going to be utilised to do work on the clients behalf over a series of projects, does not create disadvantages in terms of diversity. However, this may create grounds for disadvantage if a partnering agreement was to be established between a client and a contractor who did not have a pertinent diversity policy.

Competition levels for contracts, particularly in the climate during the economic downturn when work has been scarce, are extremely high. Over a quarter of respondents highlight the fact that the industry does not require further competition.

55% of the sample designate simplified pre-qualification criteria as the key method to increase competition; 22% see reduced regulation as an option; while 18% believe improved payment times are necessary.

The UK Government commissioned the creation of a standard pre-qualification questionnaire in the form of a publicly available specification (PAS)91 in 2010. PAS91 is a voluntary measure that provides a common set of PQQs for contractors and suppliers.



In theory, PAS91 will reduce the time and cost required to complete questionnaires from a contractor or supplier perspective, particularly useful for those without the resources to usually complete PQQs time and time again, such as SMEs. It will also reduce the time and cost for clients, both when developing questionnaires and when assessing responses. The fact that it is a voluntary standard and still requires greater exposure to achieve widespread use means that PAS91's effectiveness has not yet been fully felt within the industry.

Fig. 13 How can competition levels for contracts be improved?

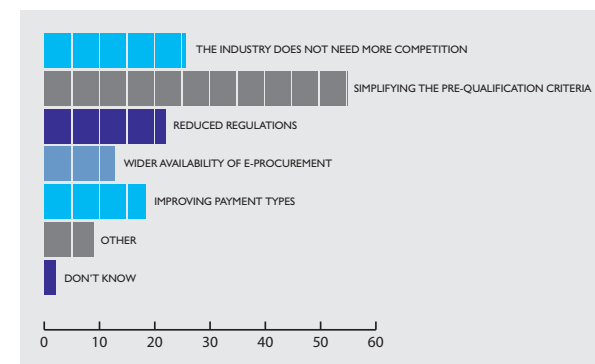


Fig. 12 Do you believe the use of preferred bidders and partnering in the procurement process creates disadvantages in terms of diversity/inclusivity in the industry?

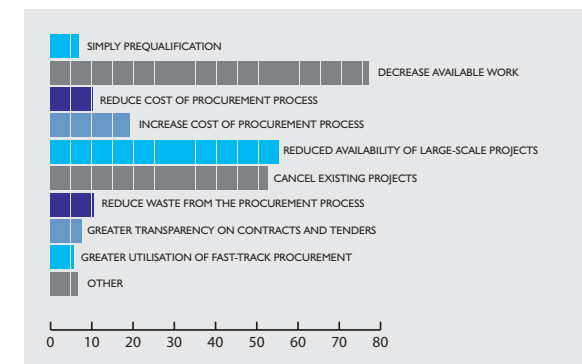
■ YES – 28.4%
 ■ NO – 62.1%
 ■ I DON'T KNOW – 9.5%



The recently announced cuts in the Comprehensive Spending Review indicate that there are some significant repercussions for the construction industry. Firstly, and most obviously, is the fact that spending from departments on sourcing products (i.e. procuring buildings in the case of the construction industry) will decrease. Respondents highlight this as the greatest effect the spending review will have on the industry – decrease available work was far and away the most chosen option with 77%. Responses overwhelmingly focused on the negatives associated with the spending review, as may be expected. Indeed, almost double the number of respondents expect the cost of procurement to increase, rather than decrease, as a result of cuts. Few responses indicated that the spending cuts will have consequences such as cutting waste from procurement, greater transparency or the simplification of pre-qualification.

Standardisation, reduced cost of procurement and sustainability are the three criteria that respondents feel should be a priority in public sector procurement. Also featuring highly is public accountability, apprenticeships and lean construction. Interestingly, and despite Chief Construction Advisor Paul Morrell pushing for its implementation, Building Information Modelling (BIM) is one of the lowest choices selected by respondents. This can be explained by the fact that it is currently not a priority for the industry – the cost associated with procurement and standardising materials (i.e. reducing costs) is, justifiably, crucial in a time of economic uncertainty.

Fig. 14 What effect(s) do you believe the Government spending cuts will have on procurement? (select up to 3)

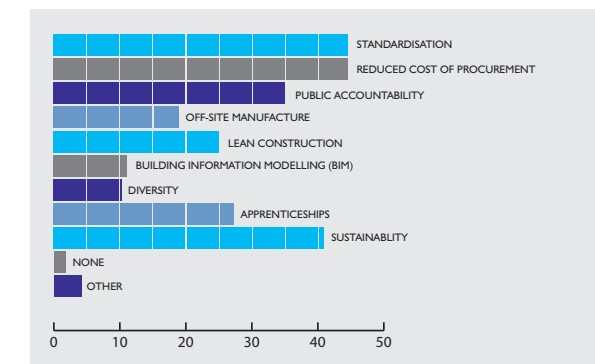


BIM does entail initial implementation costs and would certainly require new skills and training in order to be put into practice effectively, although when output begins to recover sufficiently it could prove to be an opportunity for companies to invest in BIM.

The lack of standardisation is a key reason why the procurement process during the Building Schools for the Future (BSF) programme was widely criticised. Bespoke buildings that brought little benefit, other than for pure aesthetics, saw costs rise to tremendous levels. Indeed, Paul Morrell has stated that by reducing the costs of BSF in this sense, output could have been increased by over 30%, resulting in a third more schools being built.

Sustainability, predominantly carbon reduction measures, is now incorporated in all construction projects, of all size, type and value – it is therefore encouraging to see 41% of respondents highlight it as a key priority.

Fig. 15 Of the following, which, if any, do you believe should be prioritised in public sector procurement criteria? (select up to 3)



CLIENTS IN CONSTRUCTION



Another option influencing client procurement method selection is their experience on previous projects, which is relevant when considering partnering as a procurement system.

77% of respondents believe clients do not have a sufficient understanding of procurement in the construction industry. The simplest answer to tackle this, and one highlighted by the vast majority in an open-text comment section, is to educate clients, their procurement managers specifically, on how the construction industry works. Other responses, aside from education, focus on employing experienced construction professionals in client procurement divisions; greater transparency on procurement options offered to the client by consultants; and finally, greater communication between all parties involved in the construction process.

There was a relatively even spread of respondents specifying what they think influences client procurement method selection. This can suggest that all of the options asked in the question were as relevant as each other, though value for money, perhaps more relevant than ever in the current climate, is the option selected by 33% of the sample as being the primary influence for client selection.

32% see the client's requirement to complete a project on budget as the primary factor, coming ahead of completing on time and to a high quality.

Education-wise, best practice procurement case studies would be key to raising awareness of how to procure a construction project, while information from independent organisations, such as the CIOB, would be both well-respected and informed by the Institute's highly knowledgeable membership base.

Educating clients is absolutely vital to achieving a joined-up approach with greater understanding and communication between all parties in the construction process. ■

Fig. 16
What do you believe to be the primary factors in influencing client procurement method selection? (select up to 3)

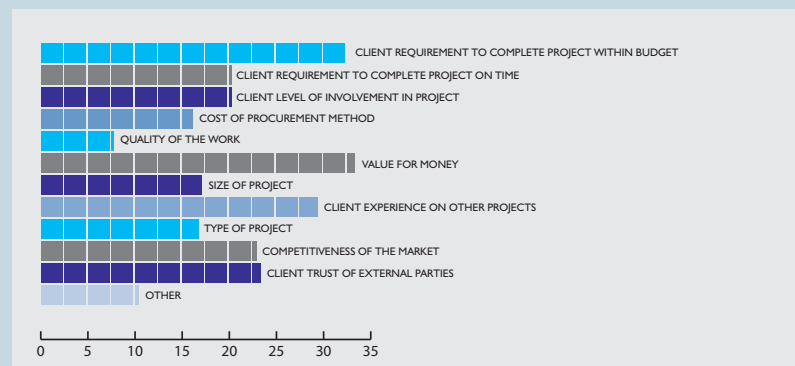
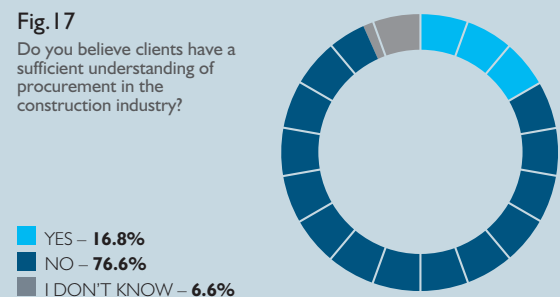


Fig. 17
Do you believe clients have a sufficient understanding of procurement in the construction industry?



ADVERSE PRACTICES IN PROCUREMENT



Suicide bidding is a practice that is prevalent within the industry, according to 82% of respondents. Ultimately, CIOB recommends that clients should not be seduced by the lowest bid, predominantly when said bid is suspiciously low (> 10% below second largest bid) i.e. a common sense approach.

Clients should be educated that value for money can be achieved, and a project delivered to a high standard on time and on budget, if a bid other than the lowest is accepted. Value for money in

construction must be understood fully by clients, and the CIOB recognises its role as existing for the public benefit to ensure clients receive suitable information.

Clients should not accept a bid merely on the basis of cost – unsustainable bids should quickly be identified and refused to be accepted. The effects of suicide bidding are felt throughout the supply chain and construction process, with subcontractors feeling the pinch as well as manufacturers and, of course, the client.

Transparency in the tender stage is also needed – if contractors can truthfully give a picture of their financial status, then clients would be more wary about accepting an abnormally low bid.

After the 2008 investigation by the Office of Fair Trading (OFT) into cover pricing, it appears it is still an issue in the industry. 45% of respondents in this survey believe it is a practice that exists; a significant difference to the 13% figure that believed cover pricing was common in a recent (June 2010) OFT evaluation.¹²

Cover pricing, in theory, would become less prevalent in times of sparse available work. Therefore, these results can be seen as somewhat surprising after the OFT's investigation ■

Fig. 19
In your experience, does so-called 'suicide bidding' for contracts exist within the industry?

■ YES – 81.8%
■ NO – 7.5%
■ I DON'T KNOW – 10.8%

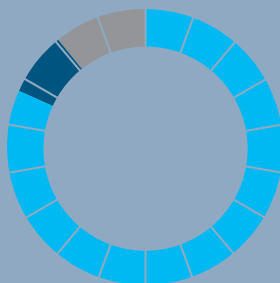
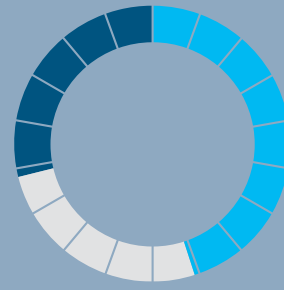


Fig. 20
After the recent investigation by the Office of Fair Trading into cover pricing, do you believe it is a practice still prevalent in the construction industry?

■ YES – 45.2%
■ NO – 26.1%
■ I DON'T KNOW – 28.7%



¹² http://www.of.gov.uk/shared_of/reports/Evaluating-OFTs-work/oft1240.pdf



CONCLUSIONS AND RECOMMENDATIONS

- Clients should have a greater understanding of the procurement process in the construction industry – the CIOB recognises that, in order to facilitate this, accessible information and guidance is necessary. 77% of respondents have indicated that clients do not have a sufficient understanding of construction procurement. In addition, the vast majority of comments from respondents have highlighted that clients are often unaware that accepting an uncharacteristically low bid (“suicide bidding”) can have hugely detrimental effects on both projects and contractor, which filters down to affect subcontractors and all involved in the construction process. In the words of one respondent, we must “educate the [clients] who believe that buying a building is the same as buying paperclips”.
- The CIOB supports the Government’s recent announcement to simplify the pre-qualification questionnaires (PQQs) via the voluntary PAS91 standard. However, much more can certainly be done to promote the standard in the short-term, and simplify the PQQ process further in the long term. This is particularly prominent as 55% of respondents from this survey have indicated that simplified PQQs are vital to increasing competition levels for contracts. In addition, waste from the procurement process, more significant than ever on the Building Schools for the Future (BSF) programme, can be reduced through simpler pre-qualification.
- The CIOB supports research into, and adoption of, innovative methods of procurement. The majority of respondents have indicated that current procurement methods (most prominently Traditional) have directly contributed to projects overrunning in terms of cost and time, suggesting that those methods are unsuitable for a modern, progressive construction industry.
- CIOB respondents have shown that standardisation should become a priority in public sector procurement. Not only would this decrease overall cost, but it could facilitate a more integrated supply chain and result in a decrease in waste. The BSF programme was criticised heavily for some of its bespoke designs that ultimately compromised the projects and drove up cost. If standardisation was set out at tender stage and communicated effectively to contractors, projects could benefit immensely from standardised costs and less risk throughout the procurement process.
- Half of respondents have indicated that a lack of communication is the most significant problem arising during the procurement process. Greater integration and communication has been recommended for the industry as far back, officially, as the Latham report in 1994. 46% of respondents also highlighted alterations to client requirements as the second-largest problem arising during the procurement process. This can be mitigated with input from contractors at the planning and design phases on the feasibility of client requirements.
- Sustainability is now incorporated in construction projects of all size, type and value – it is therefore unsurprising to see 41% of respondents highlight it as a key priority in public sector procurement criteria. The CIOB supports evaluating bids based on, among other criterion, the sustainability criteria of contractors. This also takes strides in cementing the Government’s commitment to reduce carbon emissions, providing value for money in this sense.

