

Playing the long game: Why longer-term contracting is key for driving better, faster, greener delivery



Longer-term contracting isn't a new concept, but it's in the government's Construction Playbook, so what has changed, and why is it important now? Gleeds' Nicola Herring, Dave Corbin and Jonathan Stewart present the case for longer-term contracting, what it enables, what it can deliver and key considerations for successful contracts.

How do you make construction fairer, more sustainable and deliver quality and value for clients? Answer: Longer-term contracting. How do you encourage innovation, make construction more efficient and support SMEs as well as large businesses? Answer: Longer-term contracting.

OK, so it isn't the only answer, and it's not perfect, but longer-term contracting will go a long way to helping the driving better, faster, greener delivery agenda and making construction a better industry.

Longer-term contracts aren't new. There was a period around 10 years ago when five, 10, 15-year contracts weren't unusual. But a cap was put on the length of public sector contracts, shifting the emphasis to 'MEAT' – most economically advantageous tender - which had the effect of making tenders more prone to price point focus.

It often forced a race to the bottom on pricing. This has been hugely detrimental to construction, squeezing already low margins, increasing financial risk and making the investment in new technology and innovation difficult. None of which benefits clients.

But much has changed in the last decade. There have been high profile events such as the collapse of Carillion and the Grenfell Tower fire, which put a spotlight on the construction industry. There is a growing awareness of the climate emergency and social value. As well as advances in digital technology and the acceleration of modern methods of construction (MMC), which are enabling a different approach to building.

Longer-term contracting can play a part in supporting the changing priorities and realising the benefits of technological advances. Having it in the Playbook underlines its importance.

In essence, longer-term contracting is about driving value through relationships. If contractors have the certainty of work over a longer period, it enables them to add more value. It gives room for continuous improvement, investment in new technologies and skills.

Public sector clients are increasingly focused on quality and the overall value of a project. A recent tender for a Central Government Department had a ratio of 80% quality and 20% cost compared to 60% quality and 40% cost in the past. The evaluation structure for the 20% cost element gave a much greater impact than the 20% would lead you to believe.

Longer contracts required more detailed planning and strategy. While the IPA (Infrastructure and Projects Authority) releases a list of forthcoming projects, these are still at the whim of budget allocations and periodic investment decisions.

Publishing detailed commercial pipelines can help contractors make long-term plans and invest in the right technology and skills. With clients and their delivery partners often competing for the same pool of resource it can help to ensure that there is holistically enough talent to deliver programmes.

Within the current public procurement framework, longer-term contracting could work best with long-term programmes, particularly those with repeatable assets. This could be new schools, hospitals or public sector decarbonisation programmes.

The certainty of a pipeline of work provides an opportunity for the construction industry to innovate, invest and drive value, and this is where MMC and longer-term contracting go hand in hand.

Is MMC the answer to successful longer-term contracting?

The government has a presumption in favour of MMC, which is already influencing tenders. Two examples are the Department of Health's new build hospital programme which has a minimum requirement of 70% MMC and the Department of Education, which uses MMC as a starting point to new school and extension delivery.

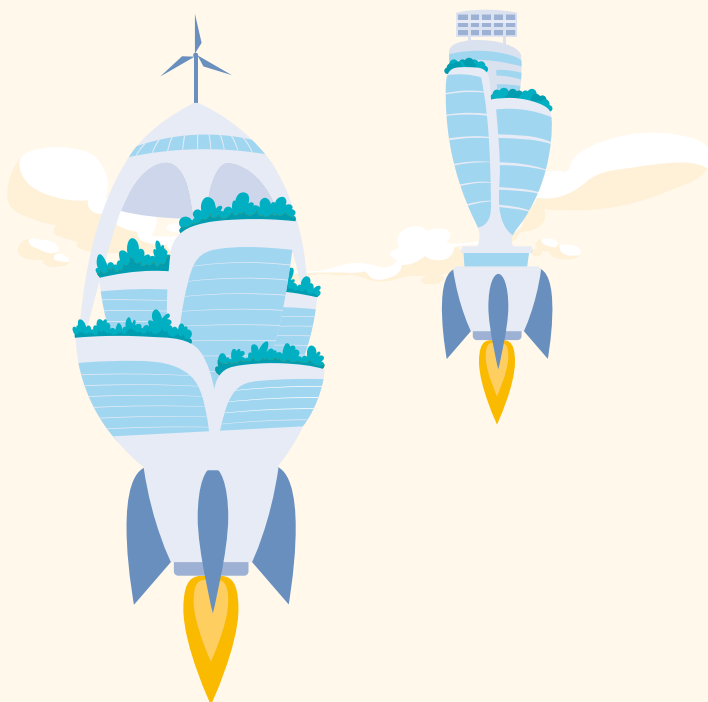
But investment is needed to deliver projects using MMC, and longer-term contracting can help. Factories have to be built, equipped and staffed, and a defined pipeline of work makes that upfront investment less risky and allows the supply chain to input into projects to ensure that the design reflects the process approach of MMC.

In return, MMC can help deliver the quality the public sector seeks with standardised, quality-controlled and repeatable assets. It can also support the levelling up agenda with the location of new facilities. The certainty of work also means cost planning is more accurate; it softens the peaks and troughs of the market, making the business of construction more sustainable.

It allows the industry room to develop better ways of working beyond just the repeatable elements of new buildings but with innovations like 3D printing and smart buildings to better understand how buildings are used and to generate efficiencies.

It can also help the industry address the challenge of making refurbishments more efficient. Currently, 60-70% of asset spend is on refurbishment rather than new build, and as such, it is an area ripe for innovative MMC-style productivity improvements.

In enabling more investment in technology and MMC, longer-term contracting can positively contribute to job creation and training opportunities. This comes back to the overall focus on quality and broader project value.



Competition and the global market for MMC

With the presumption in favour of MMC and more UK house builders turning to MMC, the pressure on resources and delivery is increasing.

It takes time to build the factories and get them up and running, which, for UK projects, may mean looking for capacity at MMC factories in Europe.

This comes as the world moves towards a post-pandemic recovery. The focus is on infrastructure and development to stimulate economies, pushing up demand for construction materials, skilled labour and space on 'assembly lines' in factories.

None of which is good for costs and timely delivery.

There is a silver lining to the cloud if you look further ahead. Investment in MMC factories in the UK, which longer-term contracting will assist, means capacity for UK construction projects but also the potential to compete for work on the global stage.



Make room for SMEs

SMEs play an important role in supporting local economies, and it is great to see that the Construction Playbook specifies that longer-term contracting shouldn't be at the expense of SMEs.

So how do you ensure SMEs get a seat at the table on a longer-term public sector contracts?

One potential solution is collaboration, smaller, complementary consultancies banding together to provide the full range of services on a project.

It has advantages in that you can bring together the very best skills in each discipline to work on a project. It's something Gleeds does with Perfect Circle via the SCAPE consultancy framework.

Perfect Circle, jointly owned with AECOM and Pick Everard, has access to more than 600 expert consultants from small to large. It allows public sector clients to work more easily with a range of consultants and, using the SCAPE framework, deliver and audit social value on projects.

An added advantage is that clients with relatively small projects can plug into something bigger and achieve economies of scale, including the access and capture of data and monitoring of performance goals. So far, Perfect Circle has delivered £45m of social value, and longer-term contracting allows better use of SCAPE, data gathering, monitoring and insight.

Could longer-term contracting help with levelling up?

The construction industry is facing a labour and skills crisis. Even before Brexit started tempting some European construction workers home, there weren't enough new and young people being attracted into the industry.

The problem is partly down to perception; construction is often viewed as an industry that isn't very sophisticated, technological or diverse. Short term contracts, working outdoors, and the need to migrate to where the work is doesn't help. Longer-term contracting might have an opposite effect as only the bigger contractors might be able to sustain a long-term relationship. Therefore, the government needs to incentivise certain regions for the investment, which would support the levelling up agenda.

If longer-term contracting can help unlock the potential of MMC in the UK, this could create more attractive and consistent job opportunities. It could also help target job creation where it is most needed.

With longer-term contracts making the investment in factories more viable, it in turn makes skills development, training and apprenticeships more viable, work comes to the factory, so workers don't have to move to where the jobs are.

MMC factories could be built in areas where there are limited job opportunities and higher unemployment. As well as more consistent and stable work, MMC factories are also high tech which may prove a more attractive proposition to young people.

As the government talks about levelling up the economy, MMC could play a part in creating jobs where they can make the biggest difference.



Driving better, faster, greener delivery

The Construction Playbook warns that longer-term contracting shouldn't stifle innovation, so contracts will have to be carefully drafted to ensure continuous improvement is feasible. This is also important as the pace of change in the industry is increasing. There is a danger that without flexibility written into contracts, long term projects won't be able to take advantage of developing technologies.

Longer-term contracts also need to consider fluctuations in pricing and how this risk is shouldered over the lifetime of the contract. Contracts may need more index-linked price mechanisms to take advantage of free-market conditions – or not be penalised by them.

The role of longer-term contracting in helping to drive better, faster, greener delivery is clear. Still, project pipelines need to be carefully planned and contracts drafted to ensure both the client and the construction industry deliver the full benefits.



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