PROCUREMENT TRENDS SURVEY

GETTING CLOSER TO YOUR SUPPLY CHAIN

MARCH 2023

RLB Rider Levett Bucknall

CONTENTS

INTRODUCTION

Rider Levett Bucknall's (RLB) Getting Closer to your Supply Chain procurement trends survey provides a snapshot of market sentiment on procurement issues.

This is the fourth survey undertaken and once again market conditions are markedly different in 2023 than at the time of producing our 2022 report.

With the new Procurement Bill expected to gain Royal Assent in 2023 procurement processes are likely to see change. More clients are seeking Net Zero Carbon built assets and so never has procurement activity needed to focus more on delivering successful outcomes as well as a fair and effective process.

As an organisation that sits within this procurement ecosystem offering clients cost, surveying, programme and project consultancy, we look to give these insights context and expert opinion and summarise what these findings mean to our market as well as offering considerations for those within the industry.

We bring our understanding of the longer-term impact of value to help our clients build for a better future by bringing imagination to life.

Methodology:

Our Getting Closer to your Supply Chain procurement trends report was compiled following a survey of key figures across the supply chain, covering a range of sectors, project size and type of contractor, to gain their insight.

The survey was completed by main contractors across the UK anonymously and intended to gain a broad range of views from all parts of the industry and focused on a range of themes around procurement trends.

"Getting closer to the supply chain is fundamental to delivering a successful project. Procurement is a collaborative endeavour working towards achieving client objectives. A procurement strategy should always have in mind that real value is derived from the occupation of the completed project through its whole life and so must be focused on outcomes and not just the process itself."

Andrew Reynolds
Global Chairman and Chief Executive UK & Europe

INTRODUCTION

Survey highlights

22% of work delivered using MMC

27% of projects explicitly communicate sustainability objectives

73% of public sector projects provide value scoring metrics with tenders

25% of projects being awarded through a negotiated route

58% of projects utilising Design and Build contracts

48% of Design and Build tenders utilising Stage 4 information

Key changes since our last survey

▼ Continued **decrease** in the **Fixed Price** periods offered but with expectations easing for 2023

▲ Contractor's primary concerns now **volatility in client pipelines**

▲ An **increased use** of **negotiated** routes to market with a swing towards of 5%

▲ **Increased time** is being spent in **procurement,** most noticeably in negotiated routes

▲ Increasing reliance on **Stage 3 design** being used with a Design and Build Route

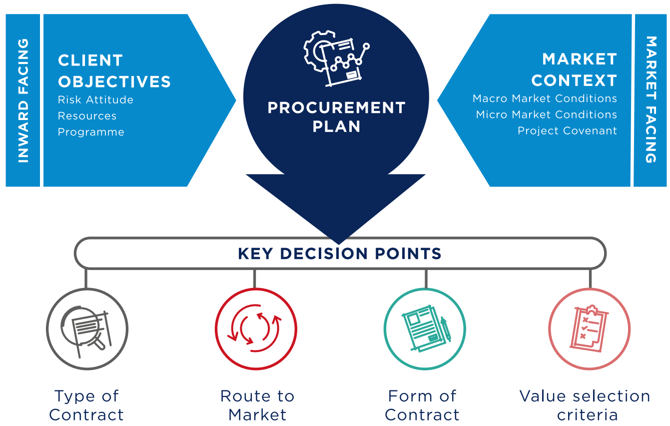
INTRODUCTION

CONCEPTUAL MODEL - PROCUREMENT PLANNING

A successful procurement strategy is an engagement with the market that addresses clients' objectives yet understands what the supply chain finds viable.

This report looks at:

- Macro market conditions with regional pressure points
- Trade capacity both nationally and regionally
- Routes to markets and the tender stage process
- The impact contractor trading conditions have had on the market and its procurement response
- Key factors to be addressed in procurement planning include both clients' objectives and external market factors. This is demonstrated visually opposite.



Paul Beeston
Partner
E: paul.beeston@uk.rlb.com

> **The challenges of procuring projects to achieve more sustainable outcomes do not change the fundamentals of how to run an effective procurement process. They do however require a depth of understanding of those challenges by those leading the procurement. Sustainability challenges may drive a change in thinking so that procurement is seen as an activity beyond the point of entering into a contract.**
>
> **Paul Beeston - Partner, UK**

SURVEY FINDINGS

Rider Levett Bucknall

MACRO MARKET CONDITIONS

Looking back over the previous 12 months, the market has been dominated by a significant increase in input costs which peaked in the summer, before a gentle easing through the autumn of 2022. The rate of input cost rise has been greater than the rise in tender prices.

Deteriorating economic conditions through late 2022 resulted in many contractors starting the new year pensively, looking at client pipelines and matching against their own forward orders. Initial economic data from 2023 has been less gloomy with the prospect of either a mild recession or a flat economy both being forecast.

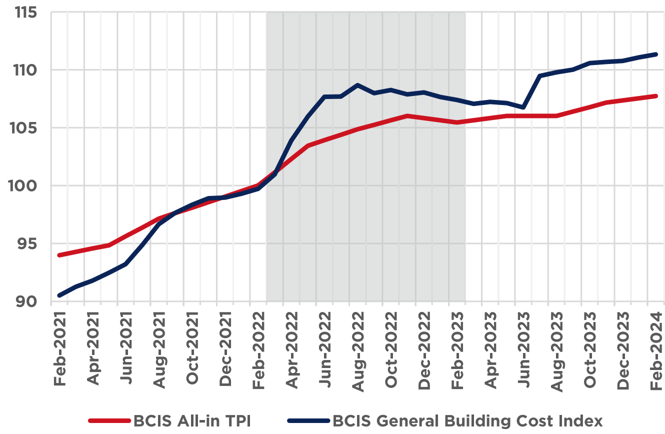
After the disruption of the "mini budget" in the autumn, the new Chancellor's budget appeared to have a welcomed stabilising effect on the market, and the Bank of England's Monetary Policy Report in February 2023 forecast a much shallower decline in GDP than had been predicted at the end of 2022.

Looking at the 2023 procurement landscape, it is therefore a market where main contractors are still seeing downstream input cost pressures and yet smaller increases forecast in tender prices. Volumes of new orders are likely to be less and at best uncertain.

Tender prices and input costs compared

All in Tender Price Inflation (TPI) and General Building Cost Index compared.

Our survey window is shown shaded:



SURVEY FINDINGS

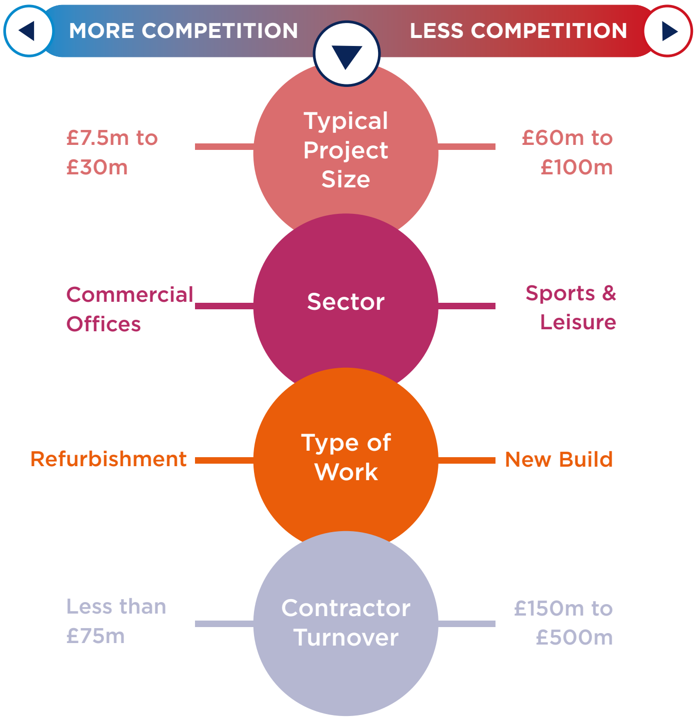
MICRO MARKET CONDITIONS

Our survey reveals the top concerns of contractors looking forward to their next 12 months of pipeline. The top areas of concern are entirely focused on contractor's inputs:

- Volatility in client pipelines
- Material cost and availability
- Supply chain capacity

The survey also tracked a number of attributes and compared these against the competitiveness achieved in procurement activity. Our competitiveness score is a measure of the level of open competition driven through the process, not a measure of the end result, but of the tender process itself. Heated attributes demonstrate less competition, whether through client 'push' or market 'pull'.

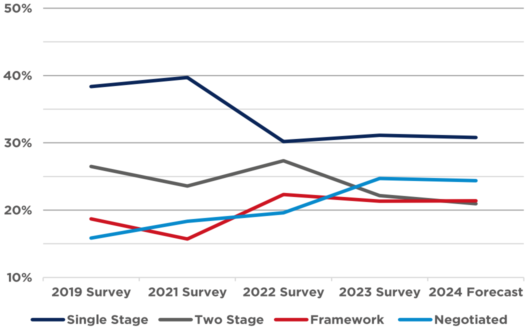
COMPETITIVE SCORE



SURVEY FINDINGS

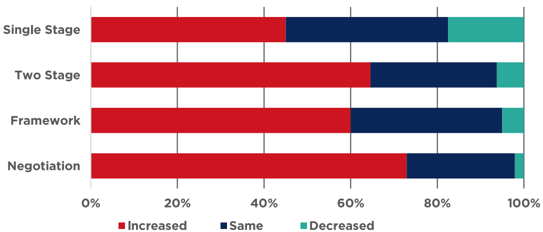
ROUTE TO MARKET

All Responses



Time spent in procurement

For a comparable project, on average how is the time spent on each of the following procurement approaches different this year to last year?



Commentary and observations

Through 2022 contractors' capacity and bidding resource remained constrained. The challenges of landing a successful two stage tender in a market with costs rising rapidly and with prices often being held for days rather than weeks, has seen a decline in two stage tendering in favour of negotiated routes. Single stages route has also seen a marginal increase in adoption.

Contractors were asked to forecast their 2024 split of projects which looks optimistic in light of tightening market conditions and client pipelines.

The time spent in procurement remains varied by the route to market. Two Stages, Negotiations and Frameworks are all taking far longer to convert than a single stage route.

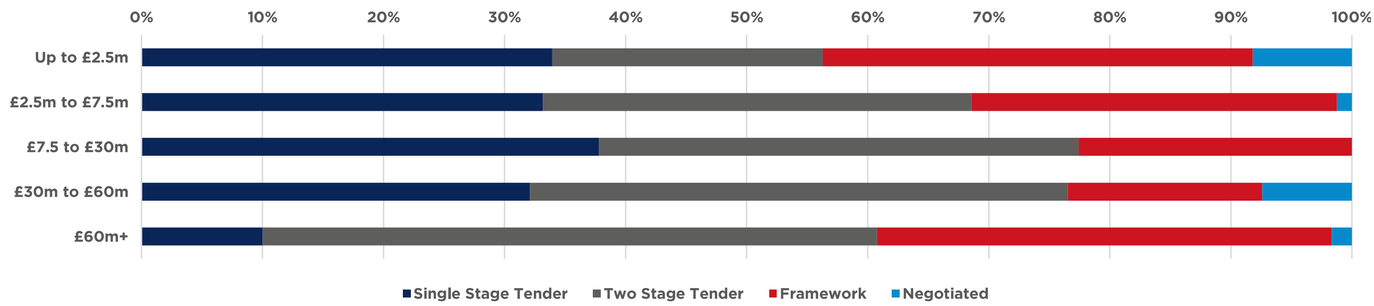
With frequent price increases, and difficulty in supply chain engagement this is no great surprise. A well-designed single stage route, particularly if there is limited competitor involvement may tie up a contractor's bid team for a shorter duration. In the right circumstances, when combined with clearly demonstrated value selection metrics, bidding contractors may prefer a single stage route in favour of a two stage route.

Many clients have seen with increasing frequency two stage routes failing to achieve financial targets set at the first stage and through frustration and disappointment turned to negotiated routes as a potentially quicker way to test the market.

SURVEY FINDINGS

ROUTE TO MARKET

Breakdown by size of project



Commentary and observations

The smallest project ranges are dominated by frameworks. Single stage procurement is still common in mid size contracts, with two stage and negotiation becoming increasingly frequent after £60m in project value. The threshold of project value willing and able to withstand a single stage tender has shifted upwards significantly over the course of the last year.

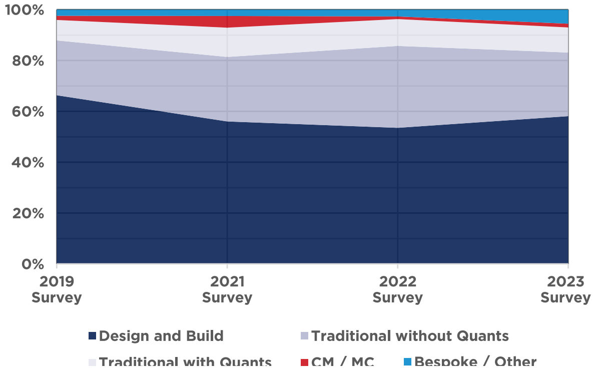
"Projects should be transparent on the security of funding."

Medium sized London Contractor

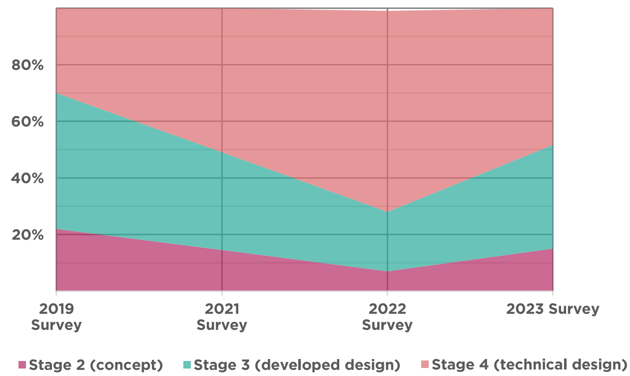
SURVEY FINDINGS

FORM OF CONTRACT

Split of projects



Tender design status on a Design and Build



Commentary and observations

Our survey shows a marginal swing back to Design and Build and decrease in traditional forms of contract. Bespoke forms have also seen an increase, perhaps suggesting that risk sharing and cost plus forms of contract may have seen marginal increase in use through turbulent times.

Traditional with Quantities has remained fairly static through the years of our surveys.

The stage of design at the point of tender on a Design and Build has reversed the swing towards more developed design at tender stage seen last year. Whilst Stage 4 design is still seen in just under half of Design and Build procurements, there has been a return to the splits seen in 2021 suggesting that 2022 was an outlying year.

The impact of The Building Safety Act may start to affect clients' ability to procure taller residential buildings on Stage 3 design. For further information on the impact of The Building Safety Act on Procurement practices, RLB has produced a supplementary publication; to request a copy please contact insights@uk.rlb.com

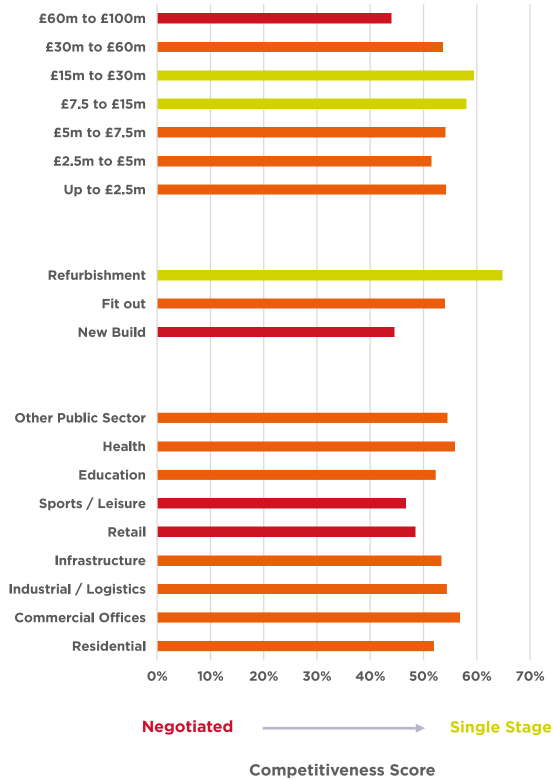
SURVEY FINDINGS

DETAILED HEAT MAPPING

In this section we map our competitiveness score to microlevel project attributes. Our competitiveness score is a measure of the level of open competition in tender processes and identifies the likely market acceptance against each project type.

Lower values (shaded yellow) are a reflection of less competition such as negotiated routes to market and deemed more heated. Higher values (shaded red) reflect more competitive routes to market such as single stage tenders.

The level of competition may be a factor of both client 'push' and market 'pull'.



SURVEY FINDINGS

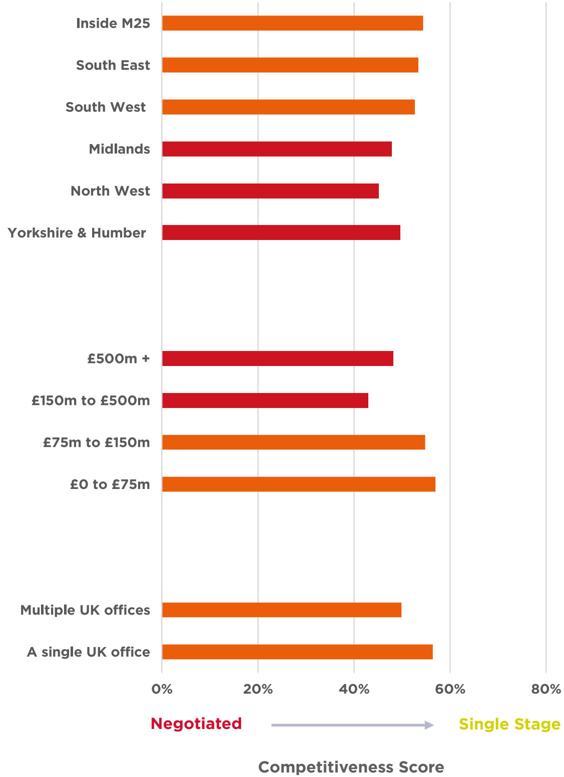
Commentary and observations

Sports, Leisure and Retail projects are looking particularly heated, which is a likely result of more specialist contractors operating in the sector and, in the case of retail projects, the relative speed to get to site.

Larger turnover contractors are utilising competitive tenders less often to secure their pipeline, however, there remains plenty of single stage activity for projects of £7.5m to £30m turnover. Smaller projects are seeing a less competitive tendering environment – partly driven by the use of frameworks for projects of this scale.

There is a North-South divide evident in the overall competition driven through procurement activity when reported by region. The Midland, North West and Yorkshire & Humber all showing a more heated market.

There is evidence of less competitive tendering in new build projects where capacity is expected to be shorter than for refurbishment projects. Typically, refurbishment projects may suit a two stage approach to enable contractor de-risking prior to entering into contract.

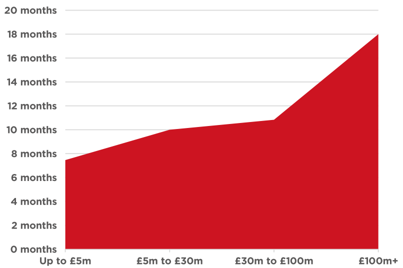


SURVEY FINDINGS

FIXED PRICE

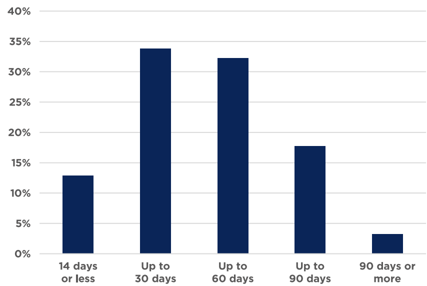
Duration by size of contract

(Average length of fixed price offered by contract size without fluctuations or some other risk sharing in place)



Average tender validity

(Period tender is held open for acceptance)



Commentary and observations

2022 was dominated by extreme price volatility. It is no surprise that fixed price durations (the period which contractors were prepared to offer fixed price contracts for without some form of fluctuations or risk sharing) came down significantly. The fixed priced durations that our contractors responding suggested they were offering is significantly less than the average durations for those project sizes. It would suggest that the majority of contracts have some risk sharing being deployed. Whilst such approaches have been evident in the market, we have seen clients succeeding in securing significantly longer fixed price durations than contractors are reporting.

When asked to forecast the coming 12 months, our 2022 survey showed just 25% of contractors expecting fixed price durations to increase, whereas this year 41% of respondents are expecting them to increase.

Typical tender validity periods have decreased. It has typically taken contractors longer to get to agreeing contracts as they have sought to back off fixed price down the supply chain for major packages. Short tender validity period has placed pressures on client decision making. There are however signs of improvement.

Change in fixed price expected in next 12 months

INCREASING 41%

DECREASING 59%

SURVEY FINDINGS

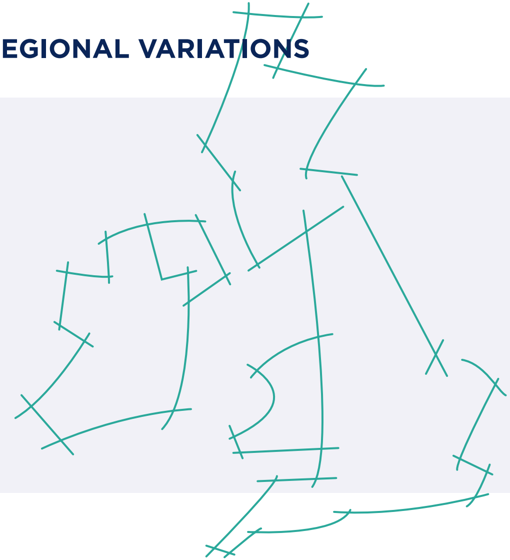
TRADE HEAT MAP

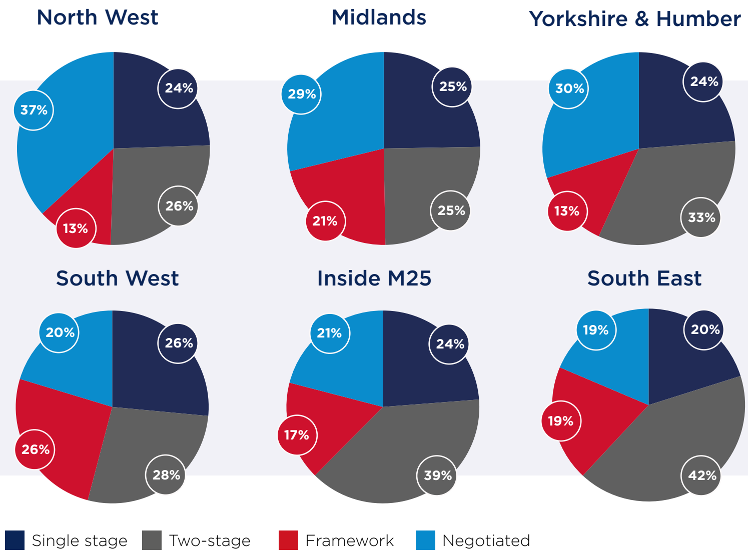
This table represents the percentage of respondents who identified the least trade capacity. The higher percentages (and red shading) show those most heated trades with least capacity.

Trade	Yorkshire & Humber	North West	Midlands	South West	South East	Inside M25	UK
Groundworks	14%	13%	6%	20%	7%	2%	9%
Piling	0%	4%	0%	20%	0%	2%	3%
Steelwork	13%	2%	6%	20%	0%	2%	5%
Concrete Frame	14%	4%	0%	19%	14%	4%	7%
Facade & Curtain Walling	7%	11%	13%	21%	14%	22%	14%
Brickwork / Blockwork	15%	20%	19%	0%	29%	7%	15%
Dry Lining	14%	13%	25%	0%	14%	9%	13%
Roofing	7%	9%	0%	0%	7%	13%	8%
MEP	7%	7%	25%	0%	0%	17%	11%
Finishes	0%	7%	0%	0%	0%	2%	3%
Bespoke Joinery	0%	7%	6%	0%	7%	15%	9%
General Joinery	7%	2%	0%	0%	7%	0%	2%
Architectural Metalwork	0%	2%	0%	0%	0%	4%	3%

SURVEY FINDINGS

REGIONAL VARIATIONS





Commentary and observations

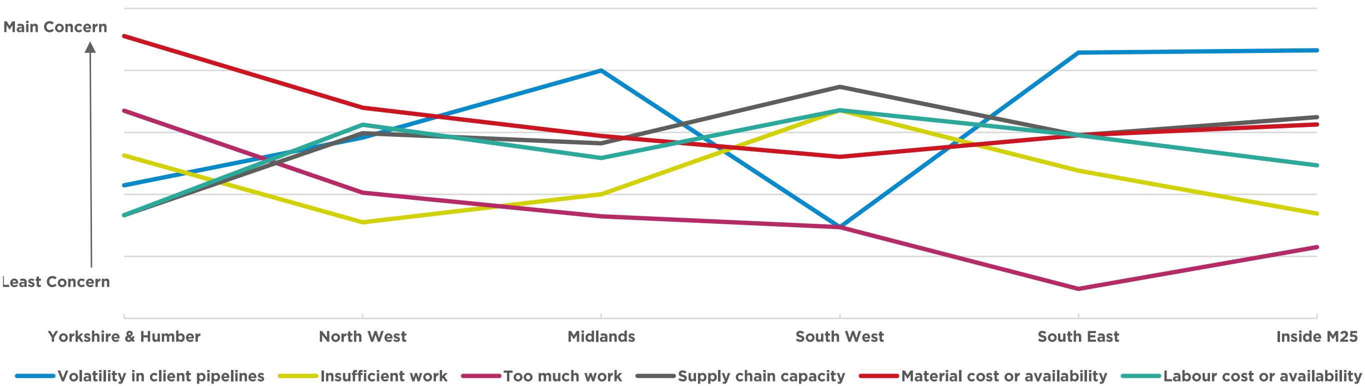
As in previous years, there remains significant variations in regional approaches to procurement. Regions with significant outliers include the North West, which is far more dominated by negotiation and the South East including London where those we surveyed were seeing far more two stage projects.

Midlands based contractors are seeing the fewest two stage tenders, of all regions with a corresponding increase in frameworks and negotiated routes. Yorkshire and Humber has the second highest reliance on negotiation as a route to market of all the regions.

The survey data will be reflective of both the activity and bid capacity in a region but also the relative public / private sector splits.

SURVEY FINDINGS

REGIONAL PRESSURE POINTS - KEY ISSUES IN NEXT 12 MONTHS



Commentary and Observations

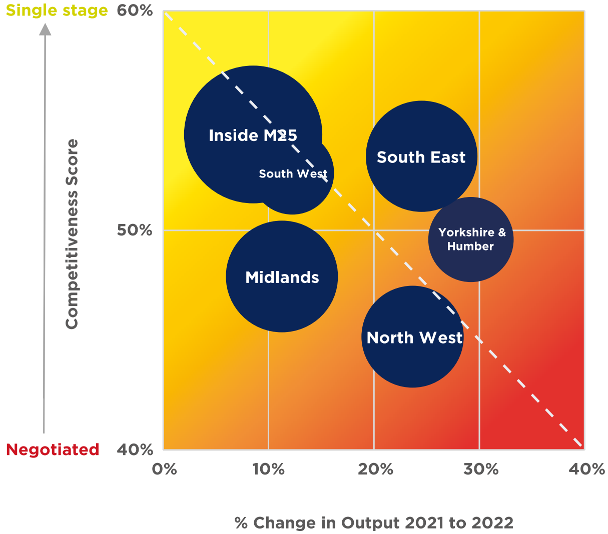
This year's survey is perhaps illustrative of an industry feeling apprehensive at what may be to come in 2023. Whilst the South West has some concerns on insufficient workload, many regions are more preoccupied by volatility, as uncertainty and slippage have become the norm. This is most marked across the Midlands, South East and London. Contractors' input risks have not waned though with supply chain capacity, labour and materials all fairly prominent in concerns.

It is generally material availability and costs that still dominate over labour availability and cost, with the exception of the South West where the concerns are reversed.

There is a North-South divide in the availability of work with pipeline concerns greater in the South with Yorkshire & Humber and North West as pre-occupied on the abundance of workload available.

SURVEY FINDINGS

REGIONAL COMPETITION AND CHANGE IN NEW ORDERS



Size of bubble represents construction output for that region (2022).

Output tracks 12 months to end of 2022

Source: ONS February 2023.

Commentary and observations

With significant growth in output over the period of the survey, the industry has done well to respond to the procurement activity that resulted.

The graph opposite shows regions with their procurement competitiveness score plotted against output.

Those regions bucking the expected trend line are the Midlands (relying on more collaborative procurements than the change in output would suggest) and the South East which is seeing more competitive routes being followed despite the growth in output in the region. This results from both bid capacity and forward looking pipeline concerns.

"The procurement landscape has changed significantly since the pandemic with increased volatility and uncertainty. Particularly on large infrastructure, energy and defence projects, it is essential to undertake market engagement to gauge the interest, capability, capacity, availability and appetite for risk. Those advising on procurement need to be inherently aware of the market appeal of the solutions that they put forward."

Aziz Mehtajee – Partner, Contract Advisory, UK

SURVEY FINDINGS

VALUE SELECTION CRITERIA

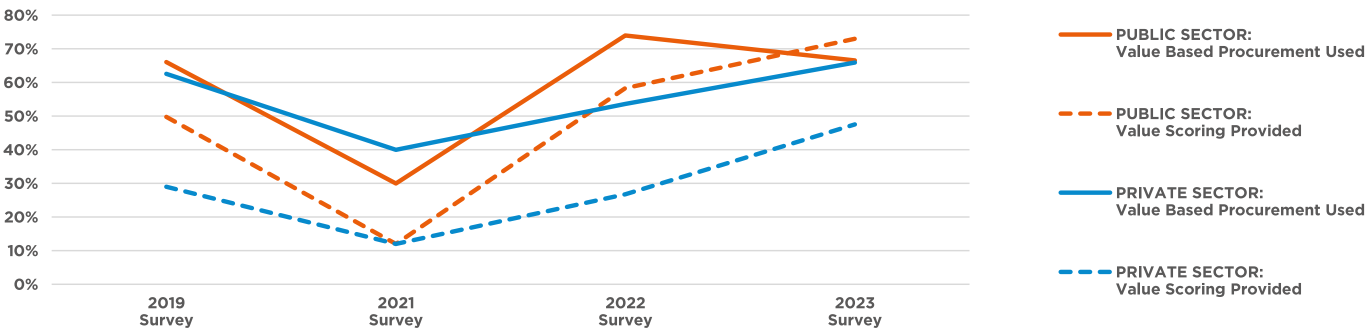
Value based selection in procurement is now embedded in Government Policy and with more to come in the new Procurement Bill in 2023 and with the Private Sector Construction Playbook released in November 2022.

Commentary and observations

The overall adoption of value based selection of contractors remains high, with the gap between public and private sector having closed. There has been some minor decrease of adoption in the public sector, but the movement not considered significant.

There has been continued progression towards best practice with around 75% of those projects in the public sector adopting value based procurement also now specifying the value selection criteria. There is a more marked gap in the private sector where approximately 50% of projects provide selection criteria. This is also continued progress against adoption of best practice.

The private sector's adoption of value based procurement is partly market driven – designing procurement routes that are attractive to the market – but also driven by the increased focus on ESG targets across the sector and the recognition that supply chain can play in achieving these objectives.



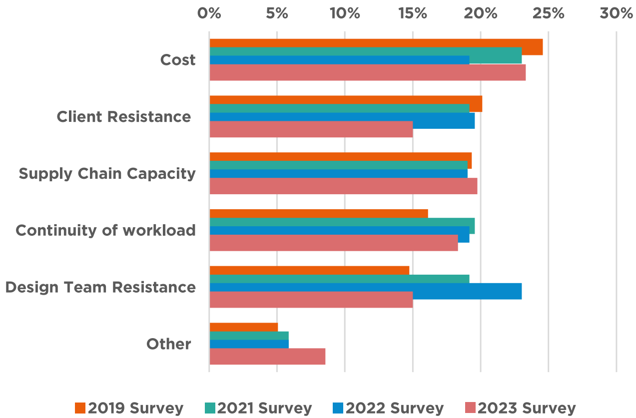
SURVEY FINDINGS

MODERN METHODS OF CONSTRUCTION

Work content utilising MMC

2019 Survey	2021 Survey	2022 Survey	2023 Survey
22%	24%	23%	22%

Barriers to adoption



Comments and observations

Average adoption rates of MMC have fallen back marginally since our last survey; still at nearly a quarter of projects. Despite focused government strategy and growing industry awareness the adoption rates appear stubbornly unchanged. A focus on the barriers to adoption must surely be where industry progress needs to be made.

Looking at those barriers to adoption, cost, continuity of workload and supply chain capacity are the current major drivers. It is perhaps reassuring that client and design team resistance are both falling.

It will be interesting to see if the Construction Playbook's focus on pipelines, effectively replicated in the new Procurement Bill will increase confidence in investment in the MMC sector and wider adoption of Design for Manufacture and Assembly (DfMA).

SURVEY FINDINGS

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THE NEW PROCUREMENT BILL

The Public Contracts Regulations Act 2015 is set for retirement as the Brexit inspired Procurement Bill has progressed through Parliament with Committee Stages and Royal Assent awaited. Timescales for implementation are tied to Royal Assent and some additional secondary legislation is required.

Royal Assent	Secondary Legislation	Six months' notice of coming into force
Expected Spring 2023	Expected Summer 2023	Expected late 2023/early2024

The new regulations are more evolution than revolution, with a few changes around the edges, but without wholesale replacement of the basic principles of public procurement. Many of the principles of the new Procurement Bill can be seen set out in other elements of recent Government policy including the Construction Playbook.

Our survey results:

67% of public sector projects use value based procurement

Nearly 75% of these provide the value scoring metrics with the tender

Key differences

	The Public Contracts Regulations 2015	The Procurement Bill
Basis of selection of contractor	**MEAT** Most Economically Advantageous Tender	**MAT** Most Advantageous Tender
Timing of Contract Award Notice	**After** the contract has been entered into	**Before** the contract has been entered into
Timing of Contract Award Notice	Debrief letters	Award summaries
Timing of Contract Award Notice	Open procedure Restricted Competitive dialogue Innovation partnership	Single stage (Open procedure) Other competitive tendering procedure considered appropriate
Timing of Contract Award Notice		For contracts in excess of £2m at least three KPI's set and certain details on performance published
		Max 30 day payment terms
		Pipeline notices for spend >£100m per annum

For more information on the new Procurement Bill please contact insights@uk.rlb.com

SURVEY FINDINGS

GREEN PROCUREMENT

This year's survey looked at Green Procurement practices as clients and project teams look to transition to Net Zero Carbon. The results show significant gaps in procurement practices across the industry.

86% Reassuringly 86% of responding contractors considered that projects achieved sustainability objectives and yet

25% Fewer than 25% of projects involve the contractor in objective measurement of objectives at PC

17% And just 17% at end of defects.

Key differences

Define

Only 27% of tenders explicitly communicate the sustainability objectives

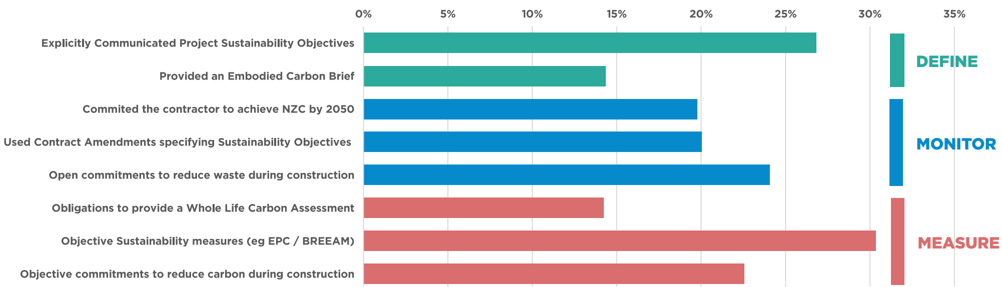
Monitor

21% of projects have contract amendments specifically dealing with sustainability

Measure

Less than 15% of projects undertaking a Whole Life Carbon Assessment

Percentage of Contractors Reporting that Tenders



To support clients through Greener Procurement, RLB will be publishing a Net Zero Carbon Procurement Guide in April 2023. To request a copy contact insights@uk.rlb.com

EXECUTIVE SUMMARY

As a result of our survey and analysis, the following provides an overview of the issues raised together with some proactive measures to facilitate the best procurement outcomes.

Key findings	What it means to you	Consider the following
Whilst contractors still have concerns on material and labour cost and availability, pipeline concerns are evident	Increased caution may be required on underbidding and lowest priced tenders	▪ Review bidding contractor's ability to deliver for the price submitted ▪ Consider performance and security protection in place through contractual arrangements
Increased adoption of value based procurement	With a transition in the Procurement Bill from "MEAT" to "MAT" it will be increasingly important to communicate Value Metrics and assess them rigorously	▪ Adoption of the Value Toolkit as demonstrable best practice approach to Value Selection ▪ For the private sector consider how Value based procurement could improve attainment of ESG targets ▪ Whilst appetite for single stage procurement may return in a quieter market, contractors bidding capacity is constrained in many places. Well communicated Value based selection criteria is likely to improve market reach
Net Zero Carbon and Sustainability is not central to many procurement processes	NZC is often perceived as a design issue and not a procurement one. Bringing sustainability central to the procurement processes will result in better outcomes	▪ Consider a Net Zero Carbon strategy for your procurement process ▪ Monitor and measure outcomes as part of the procurement process ▪ Prepare a Net Zero Carbon brief ▪ Consider contractual obligations for sustainability measures

EXECUTIVE SUMMARY

Key findings	What it means to you	Consider the following
Fixed Price Durations are still presenting challenges for contractors who are forecasting them to decrease	Contractors may not be willing to enter into fixed price durations, particularly in a tightening market where bidding strategies may involve reduced risk and Overhead and Profit allocations	▪ Sufficient time in procurement programmes to allow contractors to back to back fixed price arrangements down the supply chain ▪ Phasing works to mitigate cost risk (e.g. enabling contracts)
Volatility of client pipelines is the largest concern for contractors in the next 12 months	Openness and transparency are key to any procurement in more turbulent times Consider how your project will be perceived in the market. Supply chain may be more hesitant of committing significant bidding resource and want to understand funding and governance / decision making	▪ Sharing details of pipeline, risks and drivers of uncertainty in your own plans ▪ Openness in funding process and status ▪ Contemplate other ways of securing early contractor input to projects including Pre-Construction Services Agreement
An increase in Stage 3 design being used for tender purposes on Design and Build projects	Projects may get to tender quicker. Risk profile for both contractor and client needs to be understood Tender periods for projects at an early stage of design need to be appropriate	▪ Consider the impact of the new Building Safety Act and its Gateway Approvals ▪ Contractor’s Proposals for projects based on earlier stages of design in Employer’s Requirements may require increased vetting
Static adoption rates of MMC and DfMA	MMC adoption rates are intrinsically linked to procurement strategy and may dictate a departure from linear 'design-procure-construct' thinking	▪ Utilise pipeline management to make the most opportunity of MMC and consider how that can be linked to procurement strategy ▪ Capture hidden cost benefits and value improvements that accrue from adoption of MMC

SETTING THE AGENDA

Procurement has a key role to play in shaping the future of our industry. It can lead, support and change industry practice for the better.

Here are four key industry themes where procurement plays a significant part in setting the agenda.

Procuring for Value

Achieving better outcomes from procurement

Great progress has been made with value based procurement. As the new Procurement Bill transitions "Most Economically Advantageous Tender" to "Most Advantageous Tender", it is time to focus on the clarity and effectiveness of the value selection criteria, a team's ability to objectively assess them and the outcomes that flow from them.

Modern Methods of Construction (MMC)

Harnessing the benefits of MMC

We would like to see procurement discussions embedded earlier in projects and undertaken iteratively with design options.

Successful MMC delivery and in particular platform based Design for Manufacturing and Assembly (DfMA) requires an iterative understanding of both design implications and procurement options and payment cashflow.

Net Zero Carbon

Delivering more sustainable outcomes through effective procurement

Procurement can play a huge role in closing the performance gap between design and "as operated" energy usage.

Adopting the tools for digital procurement requires a shift in approach and those advising on procurement developing a greater understanding of the BIM environment.

Embedding Quality

Embedding the 'Golden Thread' in procurement planning

As the Building Safety Act is embedded we would like to see the 'Golden Thread' of quality woven intrinsically into procurement routes. Procurement should be about achieving outcomes, not just delivering a signed contract.

Those assessing tenders owe it to clients to not only ask how contractors will build in quality, but to verify it is appropriately resourced and set the quality agenda in procurement planning.

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