

HS2 and the UK's procurement dilemma

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HS2 was in the news again this week. This time disgruntled UK construction company Mace is planning to sue HS2 Ltd for missing out on a contract to design the second phase of the London to Manchester line.

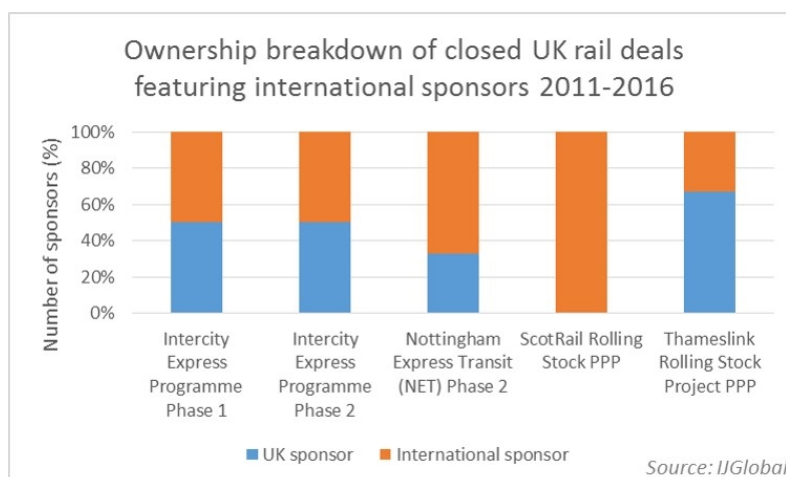
The contract was awarded to US firm CH2M Hill, which worked on Phase 1 of the project, instead.

Nationally significant infrastructure projects in the UK have often been subject to scrutiny if they do not provide business opportunities and jobs for UK companies.

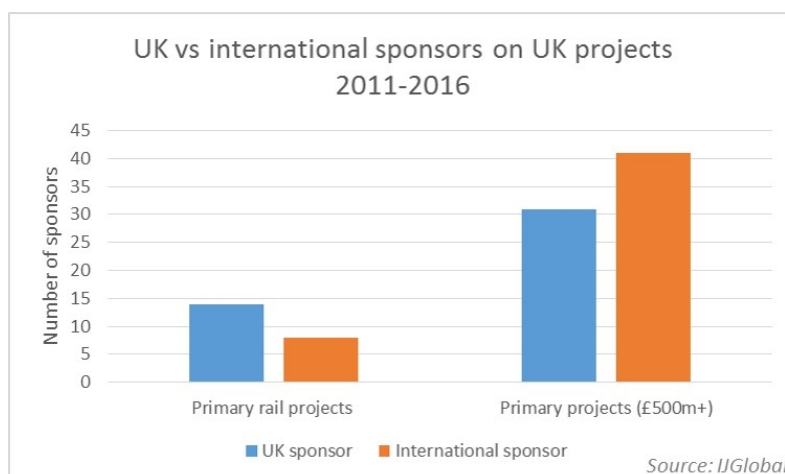
The controversy over the decision to procure the Crossrail rolling stock as a design-build project rather than a PPP in 2014 was in part to ensure Bombardier would win the contract. The Canadian company has a 1,600 strong workforce based in Derby, UK working on the project.

According to *IJGlobal* data 64% of sponsors on new rail projects procured in the UK in the past five years are UK companies.

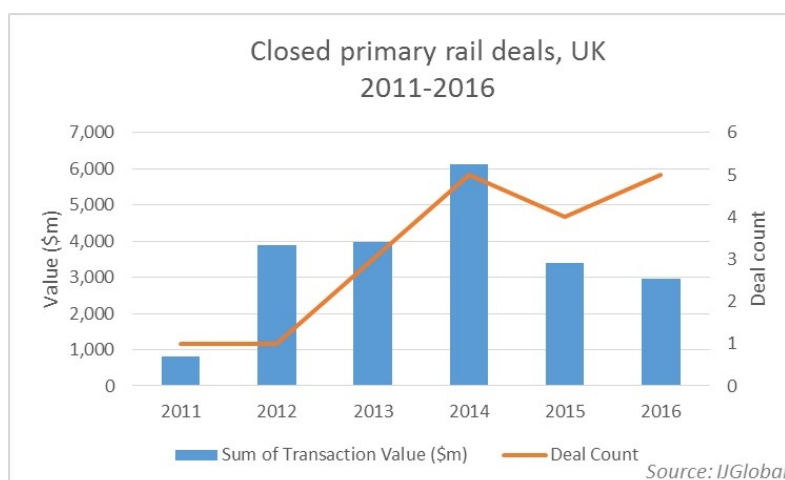
Of the remaining 34%, almost all bring with them local lenders. That is the appeal of many international sponsors: they can bring with them long-term funding from highly liquid global ECAs and commercial banks. A UK based sponsor does not always have the same appeal. So should UK sponsors be favoured by procuring authorities if the financing case is not as compelling as their international counterparts?



In contrast all major (larger than £500 million) new energy projects to reach financial close in the UK in the last five years featured an international sponsor. Many are European companies bringing with them energy expertise and technology: without these sponsors, many of these projects would not get done. Over 57% of sponsors on all primary infrastructure and energy projects to close in the last five years were not UK-based.



There are currently nine rail projects in the pipeline in the UK. Those that have named a preferred bidder have a mixture of UK and German sponsors, and those that have not will certainly be trying to find the balance between creating jobs in the UK and selecting sponsors that can secure financing.



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