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REPORTER: Julian O'Halloran

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EDITOR: David Ross

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“FILE ON 4”

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ACTUALITY ON BUILDING SITE

O’HALLORAN: As Britain enjoys a building boom and huge construction projects are underway for the 2012 Olympics, there’s growing evidence in the industry as a whole of contracts being fixed in a way that costs taxpayers and customers well over the odds. File on 4 has obtained extensive inside accounts from the Office of Fair Trading of a series of crackdowns on building cartels, bid rigging and price-fixing - culminating in a huge ongoing probe into scores of companies, and billions of pounds worth of contracts. Cartel and fraud busters tell us they believe this kind of cheating is endemic and widespread and they’re backed by other experts.

BANKS : I’ve been involved in the construction industry all my life and I take no pride in the fact that the industry I’ve worked in has been proven to have areas of it which are, quit frankly, rotten. It’s totally and utterly unacceptable, that’s not what the industry wants and it’s certainly not what UK plc should want.

SIGNATURE TUNE

ACTUALITY OF KIDS OUTSIDE GEORGE STEPHENSON HIGH

O'HALLORAN: I'm outside George Stephenson High School - it's a collection of modern blocks just behind a sports centre in North Tyneside, and there are teenagers arriving for their morning lessons in blue and black uniforms. A few years ago, when the school needed some building work done, North Tyneside Council engaged a contractor, and for the roofing work it in turn obtained bids from specialist roofing firms. With many demands on budgets, the council and the school needed genuine independent bids, so that the job could be done at the best price. But what they got was something very different – a winning bid that turned out to have been cooked up – fixed – between two companies who were in collusion. At least that was the verdict of a later inquiry by the Office of Fair Trading.

JONES: Bid rigging and price fixing distorts competition with the end result that the customer ends up paying a higher price.

O'HALLORAN: Deborah Jones, Deputy Director of Cartel Investigations at the Office of Fair Trading, led an investigation which uncovered collusion between two building sub-contractors over that school roofing job. While apparently putting in separate competitive bids, they had in reality swapped information. In effect the two firms, Roofclad Systems and Briggs Roofing and Cladding Ltd, agreed which of them should be the winner. And that was in breach of the 1998 Competition Act, says Deborah Jones.

JONES: What happened in that case was that Roofclad were hoping to win the contract. Briggs had decided that they didn't want to win the contract and therefore asked if they could submit what's known as a cover price, i.e. they put in a higher price knowing that that wouldn't then win. And in order to do that, they obtained figures from Roofclad, the figures that Roofclad would be submitting to the tender so that they could put in a tender bid that they knew would be higher. They're talking to each other and one party is clearly indicating that they don't want to win, the other party's indicating that they are planning to compete and they're both left with that as a common understanding and exchange the information to put that into effect.

O'HALLORAN: But what do you think is the impact on the cost that the winning bidder is charging if it knows what its main competitor is going to be bidding?

JONES: We can't know for sure, because each of these contracts are priced individually, so we can't compare it to a fair competitive contract and say it's definitely so many thousand pounds higher. But what we can say is, if you as a business know that your main competitors aren't going to be competing against you, you've got every incentive to charge a higher price and know that you would probably be safe to do so, so we can speculate that prices would inevitably be higher as a result of these activities.

O'HALLORAN: Roofclad Systems duly won the job at George Stephenson High. But the deal went further. Both firms were in for a roofing job at another North Tyneside school, Willington Quay. And this time the two companies agreed it was the turn of Briggs to win, as a director of Roofclad admitted in a statement to investigators.

READER IN STUDIO: Essentially this meant that Briggs would tell me what their tender price was and Roofclad would ensure that its tender price exceeded this sum. This would result in Briggs winning the contract. This would mean that Roofclad and Briggs would each get one contract.

O'HALLORAN: Not only did the two firms collude, but Roofclad made a compensation payment to Briggs, rewarding it, in effect, for pricing itself out of one of the jobs. And the payment was disguised in an invoice as being for the supply of building materials. Deborah Jones says bid rigging is often linked to such compensation payments.

JONES: We were told by the parties that these were valuable contracts and as a result they didn't want to give up the chance of winning these contracts without receiving some form of compensation payments. They went on to tell us that the compensation payments were included in the tender price that was submitted to the council, so it was not costing the businesses any money to make these payments, but it did cost the customer - the council in this case. In relation to George Stephenson High School, Roofclad paid Briggs a sum of £4,000.

O'HALLORAN: And was that the only compensation that was made?

JONES: No. Roofclad was winning one of the contracts, Briggs was winning the other, so we see a payment of £4,000 going one way and a payment of £8,000 going the other way, and both of those are included in the tender prices. It suggests to me that the price would have been inflated by at least the amount of the compensation payment. We didn't have direct evidence of this, but it goes without saying that a business is not going to make a payment out of this nature without thinking that it's going to get something back in return, otherwise it would make no commercial sense.

O'HALLORAN: Do you have any idea what percentage of overcharging there may be in all these cases as a result of bid rigging and these associated practices?

JONES: In Cartel cases generally, standard price fixing agreements that are of the type that most people would commonly understand, there've been academic studies in the past that show that prices can be inflated by 10% or more.

O'HALLORAN: Both Roofclad and Briggs declined to be interviewed. And so did the ultimate victim of the deal, North Tyneside Council. But it pointed out in a statement that it had no direct contracts with the two firms involved. They were sub-contractors. And it said it had adopted various precautions to try and prevent such anti-competitive practices. Across the North East of England, the Office of Fair Trading unearthed a series of rigged bids for school and college buildings in a broad investigation. One was for a roofing job at the City of Sunderland College. There, says the OFT, the winning contractor and another bidder exchanged information which again could well have inflated the price of the successful bid. The vice-principal of City of Sunderland College, Peter Wyness, says it knew nothing of the infringement until long after the work had been done.

WYNESS: Well, we just presumed that everything had gone ahead as was originally expected, that we just got a normal response to a normal competitive tendering process, and it was only afterwards with the Office of Fair Trading Investigation that the actual circumstances were revealed.

O'HALLORAN: What was your reaction when you discovered what had happened?

WYNESS: My reaction first of all would be that the college had wasted public money. I frankly find it appalling. Once it's happened it does tend to cast doubt on many things that have gone before. But, as I said, we were unaware at the time that any collusive activity had taken place. It does just make you very suspicious about a process and, in looking to avoid that, it means that you may actually be penalising local contractors, because what we are now looking to do to try and avoid this is to ensure we cast our net a little wider so that the local collusion that may be easier to undertake doesn't raise its head as a problem again.

O'HALLORAN: The two firms which colluded were each fined tens of thousands of pounds over that infringement and several others. All told, the fines imposed by the Office of Fair Trading in the North East came to nearly half a million pounds. And in a series of regional investigations, from the South of England to Scotland, penalties totalled more than two and half million. In several cases the cheated clients were local authorities. Dr Will Hughes, Professor of Construction Management at Reading University, says they need to examine their own procurement procedures to ensure they are not creating conditions which would favour bid-rigging.

HUGHES: I wouldn't defend companies who are engaging in bid rigging, because that's simply a nefarious activity, but I would say that not everything that appears to be bid rigging is in fact bid rigging, because of the structure of the market. If the local authority is too hands off with the local supply chain, if they're not engaging in dialogue with the potential contractors, then it would be much easier for these contractors to pull the wool over their eyes.

O'HALLORAN: Can you think of examples where a local authority or other body has almost appeared to open the door to bid rigging?

HUGHES: Certainly. There's a lot of situations where the local authority officers are acting with no real understanding of what it is they're trying to procure. One of the examples I heard of in the process of doing our research was a local

HUGHES cont: authority who invited contractors to a meeting where there would be discussions about tender lists and who would be included, and this particular contractor found that he was one of forty who were going to be invited to bid for work. And they knew that this was a complete waste of time, trying to put together a sensible bid when you have only a one in forty chance of winning.

O'HALLORAN: To help councils in their dealings with the construction industry, there is a body called the Local Government Task Force, sponsored by the Department of Communities. However its director, Peter Bishop, believes bid rigging is a rarity.

BISHOP: Actually local authorities are involved in about £14 billion – I'll just repeat that, £14 billion worth - of construction work every year. So it is a huge, huge market, and I think what you've identified is possibly one small area of potentially negative activity. And we mustn't walk away from it, we need to address it. But it is a relatively small part of the overall picture.

O'HALLORAN: But where bid rigging does happen, where it's been proved to happen, where companies and quite a lot of them have been fined, what view do you take of that whole process of pulling the wool over the eyes really of the clients, including a number of local authorities.

BISHOP: I think that's fairly emotive language, I don't think they've necessarily pulled the wool over anyone's eyes. We know that the construction industry is very buoyant at moment.

O'HALLORAN: Do you mean that the local authorities knew this sort of thing was going on?

BISHOP: Absolutely not. Absolutely not. I've been involved with the local authority construction market for forty years and I've never ever been involved or been aware of a cartel, and I've spoken to a number of my board members as a result of this, and they feel similarly.

O'HALLORAN: But those contractors who did rig bids - and that is the conclusion of the OFT - they did pull the wool over someone's eyes, they deceived their clients, did they not?

BISHOP: Again I wouldn't use that language. I don't think it's a question of rigging bids. I think what they did was decide ...

O'HALLORAN: Ok, but bid rigging, according to the OFT is exactly what this is all about.

BISHOP: I accept that it has happened, I accept that there is potential for it to happen, and we would want local authorities to be vigilant in their practices and procedures to stop that happening in the future.

O'HALLORAN: But where bid rigging cases are fairly blatant, where they have clearly resulted in some level of overcharging, one might expect you to be a bit more indignant about that kind of cheating on behalf of the local authorities?

BISHOP: The role of a local authority is to represent their community as they see fit and it would be pompous of me to sit here and tell a local authority how they should arrive at a judgement. I'm suggesting to you that they need to look at the circumstances in their particular locality and decide, on the merits of the case, how they should deal with individual contractors.

O'HALLORAN: It's not just the public sector, of course, that is at risk through bid rigging. In another OFT probe, which this time began in the West Midlands, there was a rigged contract for roofing work on the New Bull Ring shopping centre in Birmingham. It's a big building and this time a lot more money was at stake. It was among several jobs investigated that were won by Rock Asphalte Ltd, says Deborah Jones, and evidence was found of compensation payments from Rock to three other companies, including Prater Ltd and Briggs Roofing and Cladding.

JONES: The contract was for 16,000 square metres of mastic asphalt, it's certainly a larger contract than many of those we looked at in the North East investigation. The value of the contract was around £1½ million in total. In the case of the new Bull Ring there were, in effect, three separate agreements going on between Rock, who eventually won the contracts, and three other companies, and in each case Rock agreed it would submit a low winning tender and the other three would submit high cover bids. For one company we had very clear evidence that a compensation payment was paid to Prater in order that they would not further lower their bids to stop Rock winning. Rock paid Prater £35,000.

O'HALLORAN: A lot of money.

JONES: A lot of money. We can presume that the Rock would have sought to recover that money by inflating their tender bid, otherwise there'd be no commercial rationale for them to make those kinds of payments.

O'HALLORAN: So once again, the client would end up paying for that £35,000 quite illegal compensation payment?

JONES: That's certainly has to be our assumption. It's possible in this contract that payments were also made to Briggs. We certainly have evidence of Briggs receiving payments in relation to a different car park contract from Rock, and Rock and Briggs were agreeing in the Bull Ring contract.

O'HALLORAN: And again, tens of thousands of money involved in compensation payments.

JONES: We've seen invoices totalling £50,000 between Rock and Briggs.

O'HALLORAN: Rock Asphalte was fined just over half a million pounds for seventeen infringements. The company went into administration two years ago and a new company that's bought the assets - Rock International Holdings Limited - says it would not take part in or condone any breach of fair trading. Prater Ltd are still trading

O'HALLORAN cont: but chose not to comment. Briggs Roofing and Cladding, also ruled to have rigged bids in the North East, would have faced penalties of well over £300,000. But the firm was granted total immunity under a leniency programme, because it went to the OFT and admitted its role at an early stage. A number of firms that were fined refused to be interviewed. A trade association, The Flat Roofing Alliance, also rejected our request for an interview. But it did make some comments to File on 4 on the rulings against many roofing companies over bid rigging.

READER IN STUDIO: Our members should not be involved in this practice. We were dismayed that some of our members were involved - but one of them was the whistleblower. We have obviously talked to our contractor members firmly and we have ensured that it won't be happening again. Part of the defence they raised was that it happens everywhere.

O'HALLORAN: But even if it does, it may rarely come to the attention of the Office of Fair Trading. That's the view they take at Haymarket Management Services, a company with experience of investigating fraud, corruption and anti-competitive activity in building projects. Haymarket's managing director, George McKillop, says bid rigging can lead to massive overcharging.

MCKILLOP: We had a case where it was agreed in advance between a number of tenderers, who were bidding for construction maintenance contracts with a supermarket chain, who would win the bid in each of the regions. The supermarket's maintenance was broken up into regions in the UK and these national contractors had decided in advance which one would win the contract in each of the various areas. It was professionally organised between them.

O'HALLORAN: And what were the sums of money that may have been involved there?

MCKILLOP: Well these were sort of three year contracts that were being bid for, maintenance contracts, and they were multi million pound contracts in each of the regions.

O'HALLORAN: So what percentage of overcharging do you think may have been going on as a result of that ring of companies doing the tendering?

MCKILLOP: In that case the over-charging sort of ranged between about 30 and 50 per cent.

O'HALLORAN: That sounds like a very great deal of money, that could have been overspent by the client?

MCKILLOP: It was a huge overspend and of course it was facilitated because they did have a quantity surveyor who was there to police the cost of materials and labour, but in this case unfortunately the quantity surveyor was corrupt and he was paid off as well.

O'HALLORAN: Can you remember very roughly how much you felt the company might have been overcharged as a result of all those contracts being rigged?

MCKILLOP: Yes, it was somewhere in the region of about £5 million in all.

O'HALLORAN: And that would affect really the prices that customers pay in the end, would it?

MCKILLOP: Of course it ends up with the customer in the street.

O'HALLORAN: However even the size of that case may be put in the shade by a current investigation underway at the Office of Fair Trading. It involves alleged bid rigging in construction contracts on a greater scale than anything seen so far. Scores of companies are under scrutiny. Yet it all began with what seemed at the time like a limited local inquiry in the health service.

ACTUALITY IN HOSPITAL

WOMAN: Hello Resusc. If you could spare one nurse that'd be fantastic. Thank you, bye bye.

O'HALLORAN: I'm in the main reception area of the Queen's Medical Centre in Nottingham, it's a very busy acute teaching hospital, there are people visiting sick relatives and friends, and outpatients on their way to and from clinics. Now it was here in late 2004 that an NHS internal audit came across evidence of some serious irregularities relating to building projects. The Office of Fair Trading were called in and they began an investigation into contracts worth tens of millions of pounds. More than two and a half years later, what they found here is still shrouded in a good deal of mystery. But a statement to File on 4 from the Nottingham University Hospitals NHS Trust, which runs the hospital, did suggest the scale of the problems.

READER IN STUDIO: The total value of the contracts investigated was around £30 million for major capital building projects. The Trust's system for awarding contracts was rigorously audited and actions identified to address weaknesses that could have allowed for the corrupt award of contracts.

O'HALLORAN: That NHS Trust suggests the problems have been effectively dealt with, but it says it's still keeping a careful check on its building and capital spending programmes. But what Office of Fair Trading investigators found at that hospital has led them in many other directions, says Sean McNabb, now leading the OFT's biggest ever inquiry.

MCNABB: The investigation started pretty limited to a set of contracts for one particular purchaser, the Queens Medical Centre. As we conducted the visits, we found that that the type of activity we were investigating involved other companies, involved other contracts and it spread into other areas. For example, we found that it spread into the South Yorkshire area and so on, and it's increasingly spread throughout England.

O'HALLORAN: Now how many offices have you actually been to, have you raided?

MCNABB: To date we have visited 57 companies using our formal powers under the Act. We've also received a total of 38 applications for leniency, and that is where companies approach the OFT and admit their involvement in bid rigging activities in return for a reduction in any financial penalty which the OFT may impose, which is unprecedented for an OFT investigation.

O'HALLORAN: We could be looking at nearly a hundred companies under investigation at one stage or another here?

MCNABB: That's a possibility in this investigation, and in all we have obtained evidence, we believe, of bid rigging in thousands of contracts throughout England and ...

O'HALLORAN: Just let me stop you. You have evidence of bid rigging in thousands of building contracts throughout England?

MCNABB: Yes, we have evidence that gives us reasonable grounds to suspect that thousands of contracts have been subject of some form of bid rigging.

O'HALLORAN: In the last few months, some of the biggest construction companies operating in Britain have told shareholders they are under investigation. And Sean McNabb says contracts worth more than £3 billion are under scrutiny. At one stage, teams of investigators were raiding several companies at once.

MCNABB: We're investigating cartels, there's a number of companies involved in cartels colluding with each other, so therefore we are always doing, in terms of using our formal powers, we are always doing coordinated visits, where we are entering the premises of four, five, six companies at the same time.

O'HALLORAN: There are some very large companies, very well known building names that have had to go to the Stock Exchange to their investors recently and say, 'Yes, we are being investigated by the Office of Fair Trading.'

MCNABB: The information that we are collecting suggests that that bid rigging is a widespread practice, that it goes on throughout the construction industry in England, and that it involves companies of all sizes - and we are investigating companies of all sizes. The evidence that we have collected during our investigation suggests that bid rigging in the form of cover pricing certainly it endemic throughout the construction industry in England.

O'HALLORAN: In the past, even relatively obscure companies have been fined thousands, tens of thousands, even hundreds of thousands, so is it possible that this investigation is going to lead to fines involving millions of pounds?

MCNABB: It's a bit early to state at this stage, because the investigation stage is still ongoing. We are investigating a large number of companies and some of the companies are quite big companies. So there is, I think, the distinct possibility that the fines in the construction industry investigation which is ongoing will be higher than the fines that we're seeing in the previous roofing cases.

O'HALLORAN: So it is possible that there could later be criminal prosecutions, so arrests or whatever?

MCNABB: That's possible, yes.

O'HALLORAN: We wanted to talk to a representative of the construction industry, and many of the companies caught up in this inquiry are represented by the Construction Confederation. But they rejected our request for an interview. However, a member of the all party construction group in Parliament, Labour MP Gordon Banks, says he is very concerned about what the OFT has been uncovering, and he's been in the building supplies trade for four decades.

BANKS: I've been involved in the construction industry all my life and I take no pride in the fact that the industry I've worked in, prior coming to the House of Commons, has been proven to be, have areas of it which are, quite frankly, rotten. Like I say, it does the sector no good, it does the construction industry as a whole no good, because people then obviously start to scratch their head and think, well is it only in Sector X or is it in Sector A, B and C as well.

O'HALLORAN: So some parts of the industry have been, in your words, rotten?

BANKS: Well, I think where there's, where there's bid fixing and unfair practices, I don't think you can describe that as anything other than rotten. It's totally and utterly unacceptable, that's not what the industry wants and it's certainly not what UK plc should want.

O'HALLORAN: So it affects everyone at the end of the day?

BANKS: Yeah, it affects everyone who pays tax at the end of the day, and when it's in the private sector it's arguable that it could affect every one of us again, because, you know, if we're buying a product, are we paying more for our product, whether it be a new house or whether it be a product that's manufactured, in a commodity that's being constructed at excessive prices?

O'HALLORAN: So, to what extent could the OFT investigations bring a reduction in the price of building contracts? Professor Will Hughes of Reading University takes a cautious view about the gains to be had from clamping down on bid rigging.

HUGHES: There is a problem, that even though bid rigging might be taking place, eliminating it may not reduce the price we're paying for our construction work. It is a very competitive industry and the problem that contractors have is that because they're all buying their supplies from similar places and paying similar amounts for their supplies, the real element of competition is on a very small proportion of the overall contract sum, which is the management and supervision overhead. So they don't have much to play with when they're trying to pare their prices down.

O'HALLORAN: So do you mean that if the Office of Fair Trading successfully got rid of bid rigging, then other extra charges would be coming in to the prices quoted by the building contractors and no one would really save any money in the long run?

HUGHES: I think that's right, but at least there would be a little more transparency about the process. We definitely must get rid of bid rigging, because it brings the whole industry into disrepute and it's simply not an honest thing to be doing. But having got rid of bid rigging, I don't believe we'd see prices fall by very much.

O'HALLORAN: However, there is evidence from the Netherlands which may lead to a more optimistic forecast. In the last six years there, the authorities have conducted two very large investigations into construction cartels and bid rigging. About 1,400 companies have been fined, and the penalties imposed are the equivalent of over £200 million. Dutch Competition Authority Chairman, Pieter Kalbfleisch, believes it's all had a beneficial effect on the industry. Before the crackdown, he suggests, anti-competitive practices were rampant.

KALBFLEISCH: We were known in the Netherlands for being a cartel paradise, but it turned out to be a huge cartel and we were helped enormously by a whistleblower, which enabled us to prove our cases up to court level.

O'HALLORAN: What have you learned about the extent of overcharging that may have resulted from this enormous amount of cartel activity?

KALBFLEISCH: There was a parliamentary inquiry and they found out that at least 10% of the turnover of the cartel was an increase of the price, which was not, was illegal in fact.

O'HALLORAN: So to be clear about that, the cartel activity had resulted in overcharging of 10% or more?

KALBFLEISCH: Yes, that's quite correct.

O'HALLORAN: It's widely accepted that prices have come down in the construction and building industries as a result of all this?

KALBFLEISCH: Yes, I think that you can say that prices have come down seriously. You see it in single words, but you see it also in annual reports, not only annual reports from companies but also from tendering authorities, and that's, I think, a very good sign. So it is, in fact, contributing to consumer welfare as a whole.

O'HALLORAN: While the Dutch believe they have made real progress, back in Britain the work of the OFT is not the only area of evidence suggesting this country may still have a way to go. Back in the 1970s, backhanders in building and development hit the headlines day after day, as the web of corruption woven by Yorkshire architect John Poulson unravelled. Poulson was jailed and his case brought down many others in local government and politics. Neill Stansbury of Transparency International says that, although there has been no such striking case in recent times, there is information from within the building industry suggesting that all is far from well.

STANSBURY: There's been a survey done by the Chartered Institute of Building in the UK last year on how common corruption is within the UK construction sector and what the perception of that corruption is within the sector, and this has shown up some quite remarkable findings. For example, they asked a question of 1,400 construction professionals at a senior management level in the UK, how common was corruption within the UK construction industry? And 8% said it was extremely common and 43% said it was fairly common, so therefore 51% of professionals think corruption is common in the UK, which is a major shock I think to many people. The survey in relation to cartels asked the question, have you personally come across a cartel activity in the UK construction industry? And of the 1,400 senior professionals surveyed, 34% said they had come across cartel activity in the UK industry.

O'HALLORAN: So a third of all the respondents?

STANSBURY: Had personally come across a cartel activity, which is extremely high. I think the industry itself needs to get together to speak out more publicly against corruption, government must take action, bring this all out into the open, confront it publicly – let's talk about it, let's see what the issues are. What we're trying to bring about is a change of practice in the industry, so that there's no corruption in the future.

O'HALLORAN: That view is strongly supported by George McKillop of Haymarket Management Services. He says bid rigging in construction contracts can be facilitated by corrupt project managers and quantity surveyors, the very people who are supposed to be policing contracts and making sure the clients get value for money.

MCKILLOP: We've investigated several cases in recent years where project directors have, in advance of tendering, agreed what their pay-off will be in return for accepting high bids. And in some cases these kickbacks are paid in different ways. It could be some private building work done for the project manager, it could be cash paid to the project manager. And it should be remembered as well, that some people will say, well, he only got an extension on his house, it's not a huge kickback, but the kickback is only ever a fraction of the over-charge

O'HALLORAN: So these investigations by the Office of Fair Trading, how significant do you think the sums of money are there compared with the total amount of fraud, corruption, unfair trading or anti-competitive practices that may be going on around the UK?

MCKILLOP: I think it's probably just the tip of the iceberg. Our experience is that fraud in the construction industry is widespread and this covers all sort of new build contracts, refurbishment contracts, maintenance contracts - where there is opportunity for overcharging to be disguised within invoices, where there is no opportunity or very little opportunity for it to be detected through normal audit. And it's important to say that in quite a lot of the cases that we investigate, we will recommend to the client that they go for criminal prosecution, but in quite a number of cases the settlement is actually reached out of court in a civil negotiation and they don't actually reach criminal court. There's very much a sort of attitude of, well, let's quietly sweep this under the carpet and say no more about it, but no will to call in the police at any stage to begin criminal proceedings.

O'HALLORAN: Again, we would have liked to talk to the Construction Confederation, but they would not be interviewed. The building industry is now enjoying a boom, with huge construction projects underway linked to the 2012

O'HALLORAN cont: Olympics in London. But a new warning has come today from the Commons Public Accounts Committee that costs could spiral out of control without further stringent measures to keep them in check. And as the pressures for completion increase in the next five years, George McKillop says there will be growing risks.

MCKILLOP: It is alarming and it's very important that the authorities who are involved in the construction development for 2012, that they have very, very clear and defined processes in place to minimise the risk of fraud by contractors, to minimise the risk of collusive bids, to minimise the risk of kickbacks being paid to internal parties.

O'HALLORAN: So as we get closer to 2012, how are the time constraints going to impact on the situation, do you think?

MCKILLOP: Well, as we get closer to 2012, as we've seen with other major construction projects in recent years, as the deadline approaches there is a tremendous pressure on the contractors to complete the work on time. There's no question that the work for 2012 has to be completed on time. If it's running late then there is going to be the opportunity for massive charging to complete the work in time. And with deadlines like that there is always the opportunity for overcharging.

O'HALLORAN: The Olympic Delivery Authority says its team has a wealth of construction and procurement experience. It says it has consulted the OFT and police about the risks of cartels and price fixing and has put in place rigorous procedures to minimise those risks. The Office of Fair Trading is working with legislation less than ten years old, which gave it new powers of investigation, search and enforcement. Those powers are gradually revealing a disturbing picture of shady deals, which allow public and private sector customers to be cheated. It's a subject on which those we've approached in, or representing, the building industry, have been notably reluctant to answer questions. A silence which suggests they may have no very compelling answer to the allegation by the cartel busters of widespread malpractice in the industry.

SIGNATURE TUNE

