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Contents

Foreword

Welcome to the 2020 MHA Construction Sector Report.

Robert Dowling
Head of Construction and Real Estate at MHA

I dislike using the term unprecedented, but the global response to COVID-19 has been unlike anything I have seen in my career. And the impact on the UK construction industry has been no different.

This summer, we interviewed 100 clients from across the UK to discover how they're coping not only with COVID-19, but other key areas including funding, recruitment and technology. If our current survey had been undertaken in the early part of 2020, I wonder how different the results might have been.

The Spring Budget in March 2020, delivered by newly appointed Chancellor Rishi Sunak, was just the start of government support for businesses. The strict national lockdown followed shortly thereafter, the effects of which we are still feeling today and no doubt we will continue to feel for some time to come. The recently delivered Winter Economy Plan offered some further support, but whether it will be enough is yet to be seen.

As a result, this year's Construction Sector Report has changed in scope. Using Companies House data and our dedicated Data Analytics team, the Report includes an overview of the state of the industry over the past year in the run up to COVID-19. We also discuss the results of our survey of construction companies across the UK, to gauge the response of businesses currently responding to COVID-19. Finally, we highlight any regional projects or significant issues that may shape local responses.

Some construction companies are reporting their busiest ever periods and yet many have seen huge threats to their business models, their customers and their very existence. The results of the Report show a stark divide in the sector, between those who were able to capitalise on the opportunities presented and those who struggled to finance their way through lockdown. Will the Government's ambitious infrastructure plans be enough?

By providing this snapshot into the sector's conditions, we aim to showcase ways in which the Government can provide the financial and other support the sector needs to not just survive, but thrive in 2020 and beyond.

Strong start to the year

The industry entered 2020 with strong balance sheets, increased turnover (8.3%) and low debt risk. The largest businesses saw the greatest increase in revenue from the previous year.

COVID-19 divide

The industry is evenly split between businesses with a substantial or critical impact due to COVID-19 (54%), and those with little to no impact (46%).

Build, build, build

The Government's plans to 'build, build, build' is encouraging for civil infrastructure projects. More than half of respondents said infrastructure spending should be the Government's top priority for the sector.

Employment support

Furlough is the word of the year for 2020, with more than 80% of construction businesses taking advantage of the Coronavirus Job Retention Scheme, and a further 70% of those retaining all staff.

The future looks green

Nearly two-thirds of respondents are either planning or considering implementing green technology in the next 12 months.

What happens next?

Nearly 4 out of 5 respondents said the single biggest factor holding back growth was economic uncertainty. With the wind down of government support, and Brexit on the horizon, uncertainty is holding the industry back.

Industry overview

David Price
Finance Editor, Construction News

A sprint followed by a marathon

In the great Coronavirus crisis where do we stand? For the construction industry, and contractors in particular, it is the end of the beginning. The vast majority have adapted well to the many challenges of social distancing and we have so far seen very few insolvencies.

The catastrophe that many feared when the national lockdown was announced on 23 March was averted thanks to the rapid changes the industry made. It was a remarkable sprint to survive, but we are now entering the next phase: the economic downturn. This will be more like a marathon – long, attritional and painful. It will test the resilience of all businesses.

Financial strength

If the pandemic had to come, the sector was in the best position it could be. As the Report shows, the financial strength of the sector has been growing. Crucially, borrowing is down, which has contributed to a rise in net assets.

Post-Carillion, the message from company chiefs was 'we're focused on cash and margins, revenue growth is incidental'. Our recent CN100 showed they had stuck to this mantra as net cash had risen by £300m to £3.6bn.

This financial strength goes someway to explaining why construction firms have fared better than many feared they would. But two other key factors in their success – government support schemes and old jobs – are winding down. Demand needs to pick up soon to fill the void.

Demand – is it there?

Housing demand has proved far more resilient than most expected, but it is questionable whether this is sustainable if unemployment rises.

There is little confidence in the commercial sector due to possible long-term changes in how and where people work, shop and relax, along with the general uncertainty. Clients are sitting on their hands.

Public sector infrastructure work is seen by many as the industry's best hope for an uptick, but a rapid boom appears unlikely. The Treasury's appetite to fund it will probably be weaker given the recent large increase in debt. Local government is not rolling in cash either. We hear the Department of Transport and Department for Health are active in trying to accelerate work, but even so, the number of shovel ready projects are limited – and even those will take months to start on site.

With a short-term boom in demand unlikely, the industry's financial resilience will be tested.

Balance sheet strength

Controlling overheads and maintaining liquidity will be key to avoiding disasters. As the Report shows, firms have been taking on debt to ensure financial headroom, as you would expect in the circumstance. How this unwinds will be crucial and we hope instances of working capital becoming continuously funded by debt are limited.

On the flip side, we could see those with larger cash reserves pulling ahead of rivals as they manage to maintain crucial investment in new technology.

In the marathon that follows the sprint, balance sheet strength will go a long way to determining which firms fall by the wayside, which make it through, and which come out as the real winners.

Data trends

Our Construction and Real Estate team looked at operating and accounts data from over 1,950 construction companies with operations across Great Britain.

By comparing the 2019/20 filing period with the previous year's data, we can see the direction of travel for the industry, and the strength of businesses across all turnover ranges as they entered lockdown in March 2020.

Highlights:

8.3%

Heading into 2020, the sector had increasing **revenue streams,** increasing 8.3%

0.4%

Gross profit margins were squeezed, decreasing by 0.4%

0.8%

Increasing overheads reduced **net profit margins** 0.8%

Contributing to risings costs was an increase in **employee numbers** by 3.6%

The sector had growth in **cash reserves** of 3.5%

Of the 55% of companies with credit scores, **74% have been rated low to very low risk.**

Businesses by turnover

T/O Less than £10m	33.1%
T/O £10-25m	40.0%
T/O £25-100m	23.7%
T/O £100-150m	1.7%
T/O £150-200m	0.6%
T/O More than £200m	1.0%

Overview of findings

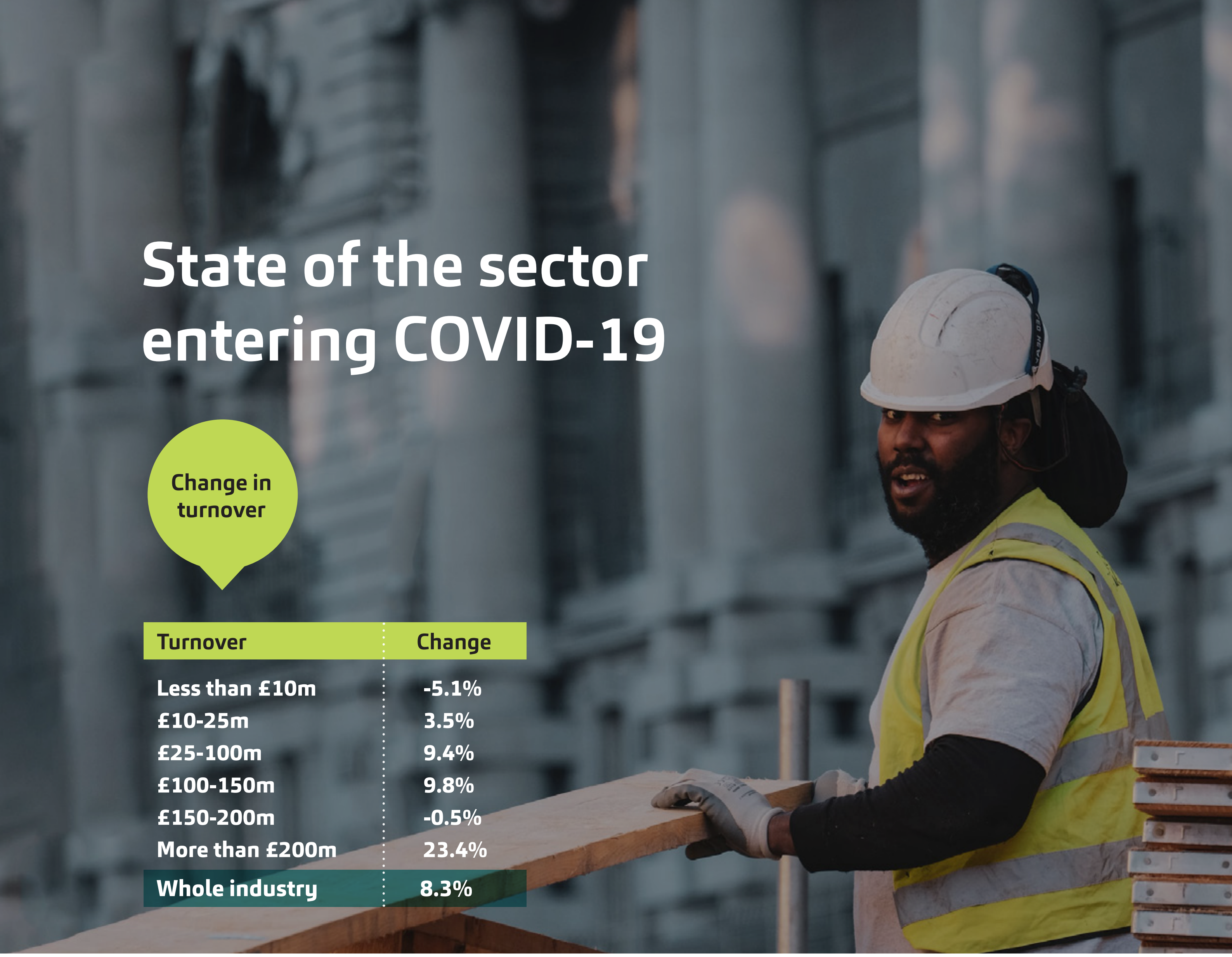
	2018/19	2019/20	Change
Turnover	£45.1bn	£48.9bn	**+£3.8bn**
Gross profit margin	14.9%	14.5%	**-0.4%**
Net profit margin	4.0%	3.2%	**-0.8%**
Net assets	£10.6bn	£11.4bn	**+£0.8bn**
Borrowings	£19.6bn	£18.2bn	**-£1.4bn**
Borrowings compared with net assets	1.85	1.60	**-0.25**
Employee numbers	140,320	145,410	**+5,090**

Methodology:

In order to assess the performance of the Construction sector over the last filing period, we identified companies that met the following criteria:

- Actively trading as of September 2020
- Construction SIC
- Filed full accounts for the last three years

Turnover bands were classified by averaging turnovers over both filing periods.



State of the sector entering COVID-19

Change in turnover

Turnover	Change
Less than £10m	-5.1%
£10-25m	3.5%
£25-100m	9.4%
£100-150m	9.8%
£150-200m	-0.5%
More than £200m	23.4%
Whole industry	**8.3%**

Turnover and profitability

As a whole, turnover in the construction industry increased year on year. However, profitability levels on average were dented across the sector with a slight reduction in both gross profit and net profit levels.

Across the sector, there were clear winners and those not so lucky. In terms of growth over the last year measured by turnover, there was a clear divide based on the size of the business. Businesses with a turnover of up to £10m reported a significant reduction in activity compared to the largest of the construction firms, with turnover in excess of £200m experiencing a surge. In between, businesses in the turnover range of between £25m to £150m have achieved good growth.

However, success can be measured in many ways. Although the smaller firms have experienced less activity year on year, they have remained profitable, albeit at a lower margin. The same can't be said for the largest of the businesses sampled where the bottom-line profitability has moved from a slight profit last year to losses. Those companies with the largest exposure to the sector have suffered due to a potential lack of consumer confidence, Brexit, and external costs pressures.

Businesses with a turnover **over £100m** saw a **14.6%** increase in turnover compared to an increase of just **6.28%** for businesses under £100m turnover.

The tightest squeeze in net profit margins were for businesses **over £100m** turnover, which saw them drop from **1.98% to -0.77%.**

Borrowing, cash and credit ratings

Prior to lockdown, the sector was generally borrowing less than the year before. Continued profitability, albeit at lower levels than experienced previously, and stronger balance sheet positions indicate good collection and management of cash reserves.

Borrowing by companies with a turnover of up to £100m remained fairly stable when compared to last year, apart from a notable dip in the £10-25m range. However, companies in the range of £100m to £200m have borrowed approximately 17% more as major projects being undertaken require significant initial cash outlays.

Entering COVID-19, the credit reference agencies rated approximately 75% of companies as either very low risk, low risk, or below average risk.

Net assets were up 7.6% across the industry, while borrowing was down 6.9%.

Employment

Overall the construction sector employed 3.6% more staff than the year before. Some of the increase in staff numbers would have been necessary to service the overall increased levels of activity experienced by the sector.

An element of the increase in headcount can also be put down to anticipated changes to the IR35 off-payroll rules that were due to be take effect from 6 April 2020, now delayed to 6 April 2021.

General health

Going into COVID-19, the sector as a whole appeared to be in a good state of health, notwithstanding the concerns and uncertainties surrounding Brexit.

Confidence within the sector improved as a result of the Chancellor's 2020 Budget to 'get Britain building' outlining infrastructure spending for the next five years. Chancellor Rishi Sunak had hoped to increase GDP by 0.5%. At that time, the Chancellor was not to know just how drastically COVID-19 would impact the economy, and the construction sector, in the year to come.

Change in borrowing

Turnover	Change
Less than £10m	-1.1%
£10-25m	-25.3%
£25-100m	-5.7%
£100-150m	15.7%
£150-200m	44.1%
More than £200m	-18.5%
Whole industry	**-6.9%**

Credit Rating

Delphi Score	%
Very Low Risk	36%
Below Average Risk	19%
Low Risk	19%
Above Average Risk	13%
High Risk	2%
Maximum Risk	7%
Risk Score Suppressed	3%

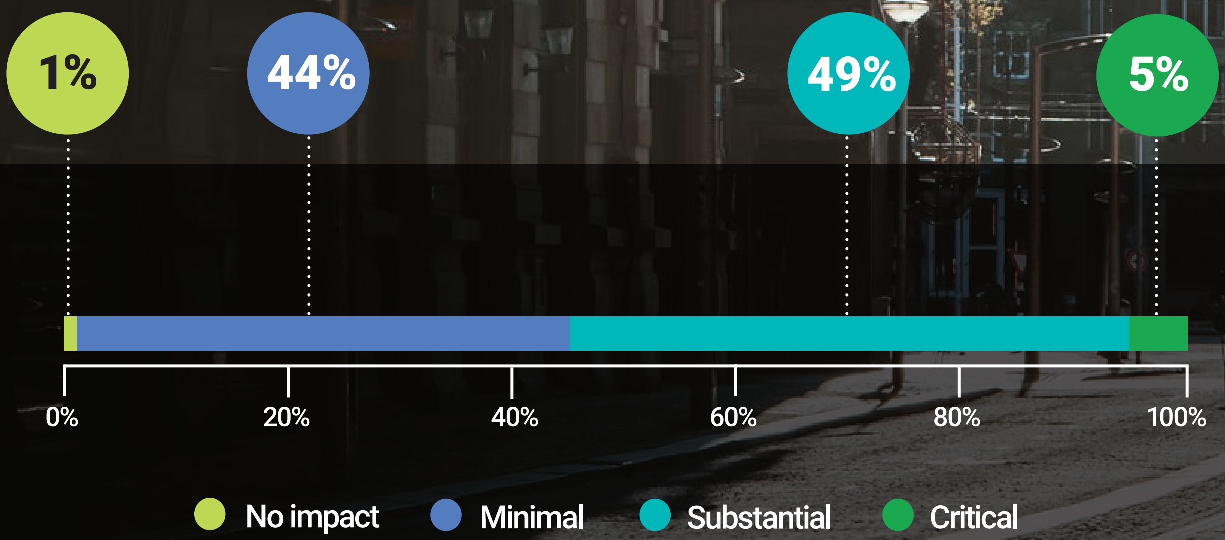
Smaller businesses **under £10m** saw a decrease of **3.3%** in employment figures.

Mid-size businesses **between £25-100m** saw of jump of **7.8%** in their labour force.

COVID-19

The impact of COVID-19 upon the sector was particularly untimely. Only months before, the Government had announced notice of significant infrastructure investments. The sector was primed for a sweet spot of both private and public led contracts to assuage concerns over the potential impact of Brexit.

What has the impact of COVID-19 been on your business?



At the time of writing the latest available ONS statistics indicated that 92% of all construction sector businesses were trading fully and had been for at least two weeks, slightly better than 90% across all sectors. 51% of sector businesses indicated that turnover has suffered through COVID-19, again marginally better than 53% of throughout economy.

Respondents to our survey highlighted the split between businesses which have fared well through COVID-19, and those which have suffered, with 44% citing this as 'minimal' compared to 49% who see a 'substantial' impact.

WHAT OUR CLIENTS SAID

A balanced portfolio of work ensured business disruption due to COVID-19 was minimal.

COVID-19 has been disastrous and hugely costly.

Government support

Coronavirus Job Retention Scheme

The industry was compelled to make widespread use of the Coronavirus Job Retention Scheme in the period to June 2020, as data from HMRC in July demonstrate. Construction has seen over 752,000 employmees furloughed or 59% of those eligible (versus 31% overall), with 75% of employers in this sector making use of the scheme (versus 60% overall). This correlates with our own research indicating 81% of respondents had made use of the CJRS scheme.

Additional measures

Take up of additional government backed financial support appears low amongst our respondents. However, over two thirds took advantange of VAT payment deferrals, due between 20 March and 30 June.

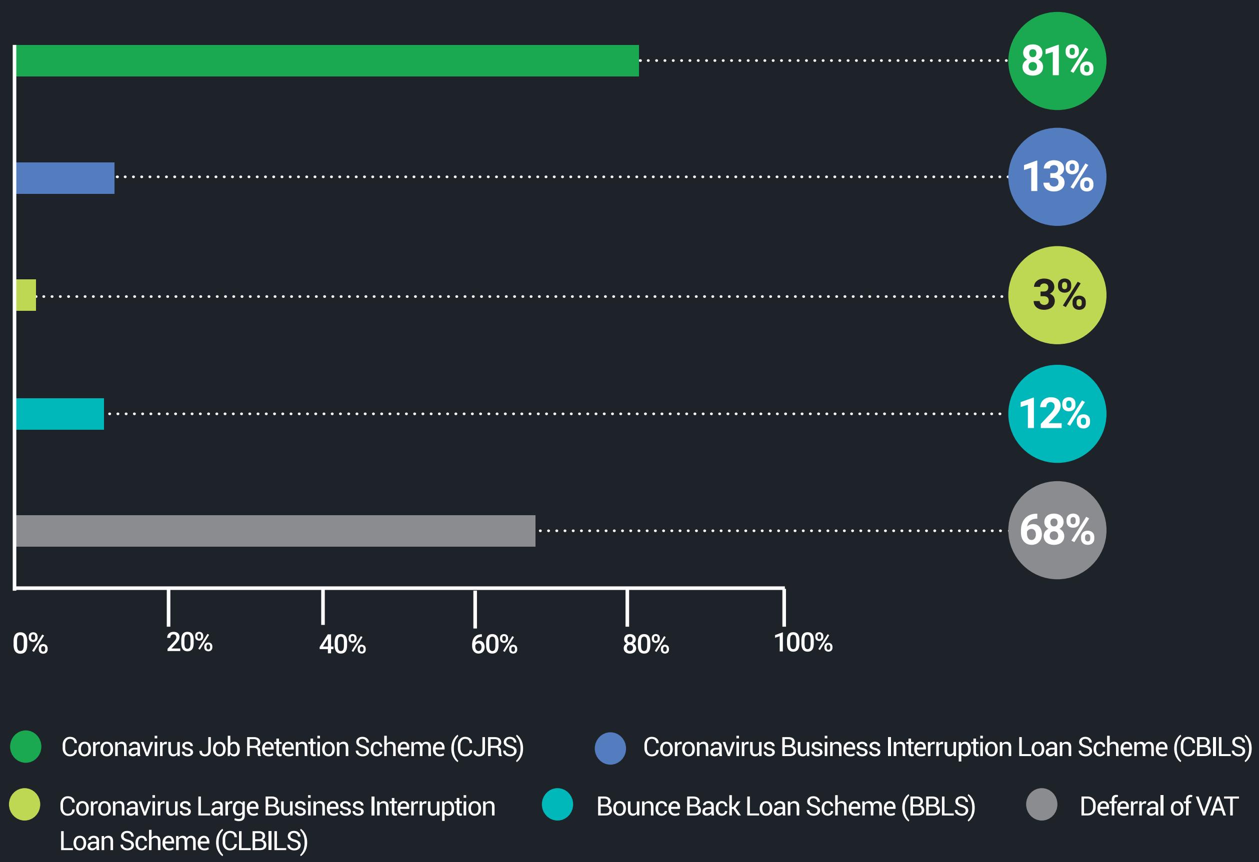
The Chancellor recently announced that businesses will no longer be required to pay a lump sum for the deferred payments, and can instead make 11 smaller interest-free payments during the financial year.

WHAT OUR CLIENTS SAID

It will take us six months to get back to where we were prior to COVID-19. You cannot close down and restart without incurring massive costs.

The real test will be in 6-12 months.

Which of the following government support schemes have you used?



Challenges to the industry

What are the biggest challenges for your business as a result of COVID-19?

61% Economic slowdown

45% Supply chain disruption

38% Social distancing of staff

35% Requirement to suspend site operations

34% Contract issues due to project delays/suspension

23% Cashflow difficulties

Labour

Our respondents have reported a variety of concerns since the pandemic hit. Whilst businesses have successfully implemented remote homeworking amongst office-based staff, there is a clear limit to this at the coalface.

The human element is often overlooked in commentaries of this type. Despite being tagged with key worker status, natural unease within the labour base itself has presented business owners with difficult operational decisions.

Our respondents appear to have overwhelmingly chosen the difficult but sensible option of pausing on site activity to understand the prevailing issues, conduct risk assessments to minimise the potential spread of the virus and therefore placating genuine concern throughout site workers. Actions of responsible employers, putting people before profit, will be remembered favourably and, hopefully, repaid through employee loyalty in future years.

Supply chain

Maintenance of material supply has become a pressing issue. This has been caused through temporary supplier production closures, disruptions to logistic networks and customs delays. Our respondents tell us this has taken up significant management time and where alternate suppliers have been sourced there has often been an additional cost implication. Significant concern surrounding supply chain payment management and evidence of contractors invoking contractual penalties as a default action are concerning business owners.

Recent months have demonstrated the requirement to have complete command over all aspects of contracts which businesses are party to, understanding and actively managing the associated risks of these.

Cash flow

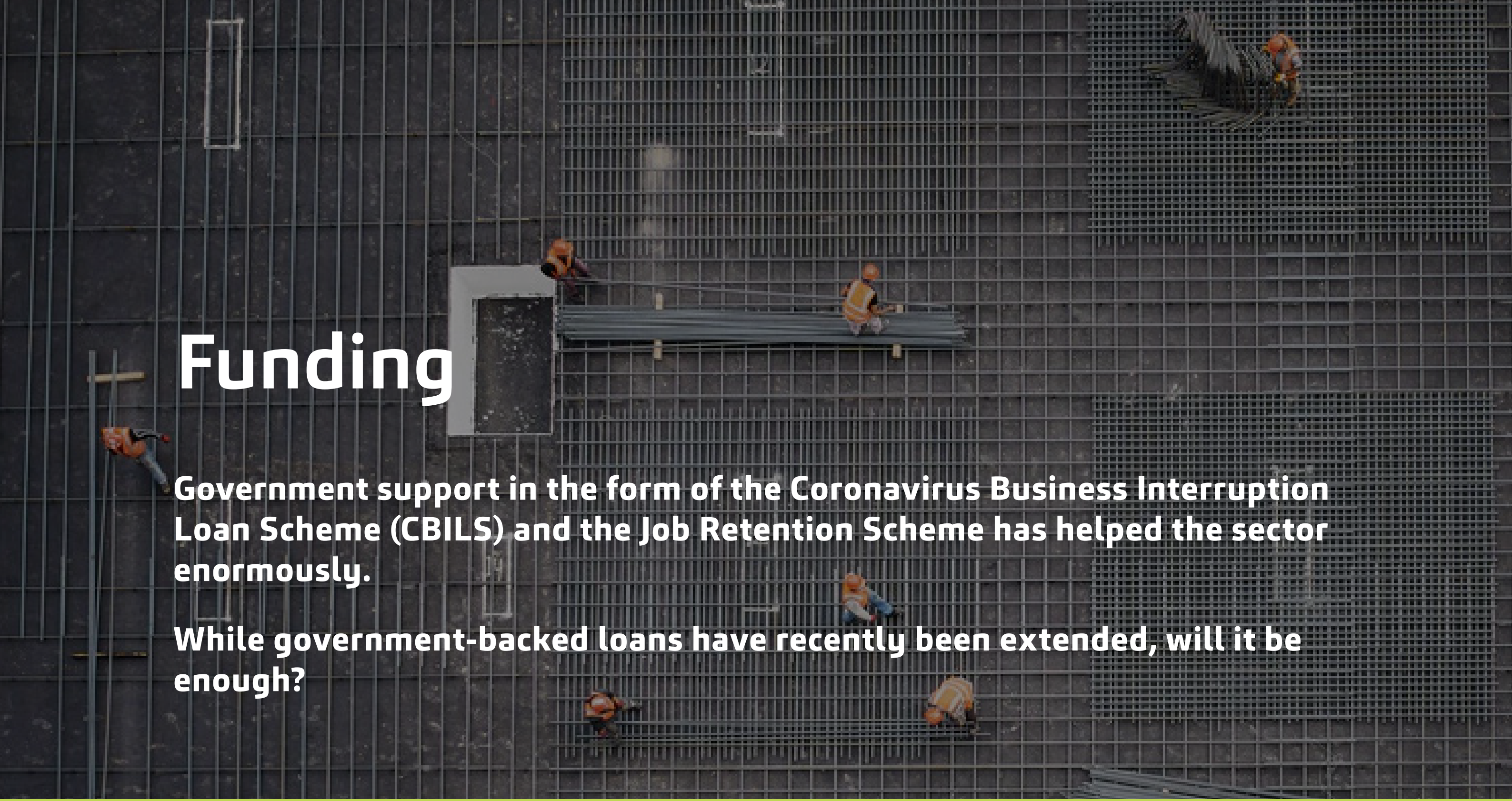
There is no doubt that the movement of cash and general liquidity evidences long term sustainability at both business and macro levels within the sector. Our respondents would like business owners to be conscious of the butterfly effect that knee-jerk reactions over both matters have within the sector.

Impact

The short term legacy of COVID-19 is generating a background of reduced productivity, increased operating costs, intensified contractual wrangling and deferred contract payments, all undoubtedly causing greater risk in sector operations and forcing management to be both diligent and agile in all areas.

A greater concern however may be future planning in dealing with a wider chasm of the unknown; namely orderbook deferral, future contract terms and the going concern status of main contractors.

So, we come full circle to government promises. It appears critical they are swiftly delivered, engendering confidence within the sector and across all regions, to 'level up' the sector's COVID-19 recovery.



Funding

Government support in the form of the Coronavirus Business Interruption Loan Scheme (CBILS) and the Job Retention Scheme has helped the sector enormously.

While government-backed loans have recently been extended, will it be enough?

What sources of funding have you used over the past 12 months?

27%	16%	14%	1%	23%
Bank loans	Alternative funding	Private equity	Crowd funding	Other

The Government's announcement on 30 June of a New Deal and to 'build, build, build' is certainly encouraging for civil infrastructure projects and many in this sector are still experiencing boom times. We have also seen with clients that many are busy completing what is on their books, but they're unsure of future orders.

With ambitious plans from the Government, what funding is available to the construction industry to see them through the economic uncertainty that lies ahead?

Traditional funding

More than a quarter of respondents have used bank loans over the past 12 months. However, banks are being very selective and focusing on what they see as more resilient sectors, including warehousing and logistics, food stores and the private rental sector.

Where financing support is available from your existing bank, the structure of the debt is conservative and focused on the ability to service debts. They will need to meet loan to valuation ratios, which have worsened recently due to reduced valuations.

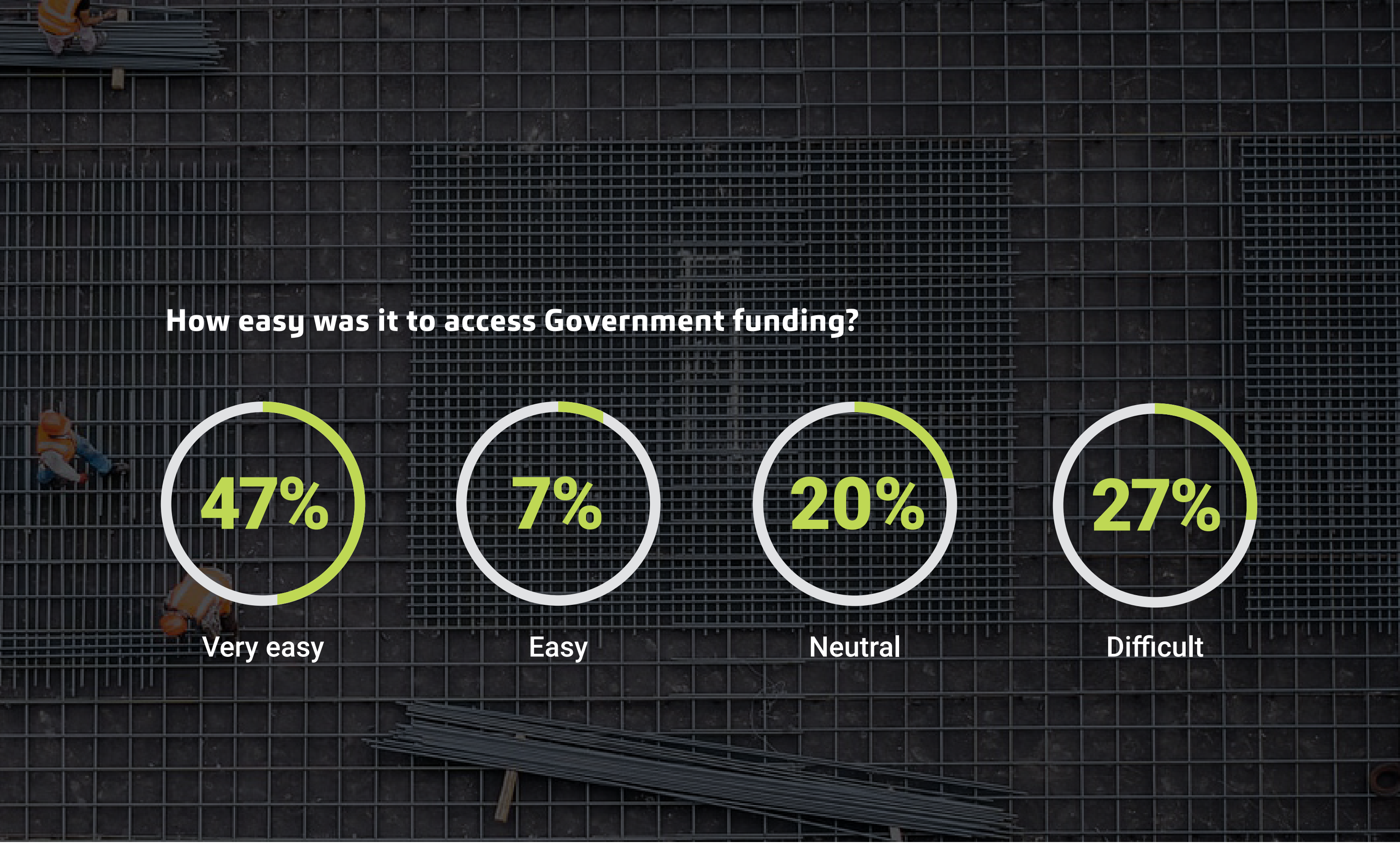
WHAT OUR CLIENTS SAID

As usual, when we were doing well, there was an endless stream of banks and lenders offering us funding. Having had a challenging year, we find the stream is dry!

Alternative options

Alternative lenders can fill some gaps created by the conservatism of the high street banks, especially for developers. They may be willing to support sectors more badly impacted by the lockdown as long as there is a way to improved profits.

Currently, 16% of surveyed businesses are taking advantage of some type of alternative lending, including debt financing, and we may see this rise.



Options for repayment

For some companies, they will be able to repay these loans by making profit and turning that into cash; and most will need a lot of time to do that. The quick fixes of reducing discretionary spending or selling non-core assets will only work for so many.

Another good way to improve your cash is to change the working capital required to run your business. Reducing stock levels and debtor collection days whilst getting longer credit terms from suppliers is always a good idea, and HMRC can help with time to pay arrangements.

But a fundamental review of the way that you operate your business and its working capital may need external advice to allow you to think differently. Your tax adviser may be needed to help find ways to defer or reduce the payments of VAT or Corporation Tax, for example.

WHAT OUR CLIENTS SAID

The Government will have to consider assisting tenants with financing rents as the non-payment will have a major impact on the property market over a long period.

Government Loans

More than a quarter of respondents took advantage of government lending schemes, including Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Larger Business Interruption Loan Scheme (CLBILS) and Bounce Bank Loan Scheme (BBLS). According to the British Bank, the Construction industry borrowed £1.27bn in CBILS loans and £5.1bn in Bounce Back Loans.

Whilst this support from banks has been very welcome, and respondents found it easy to access, it is important to note that this is not free money. The debt raised using any of these initiatives will need to be repaid in some way. This will lead to a wave of refinancing in 2021 and beyond.

Equity investors

Traditionally, finding new equity was not a way for construction services firms to grow as equity investors do not like the lumpiness of projects and instead prefer recurring revenue.

Yet surprisingly, there are more equity investors looking for gains in the construction sector. An analysis of recent deals shows a threefold increase in the number of equity investments in construction in the last two years. This can be largely attributable to the importance of software in real estate asset management and building information modelling.

Seeking funding depends upon the company's market segment, its existing profitability and financial health of the company and the forecast picture of new orders. There is no simple answer for every construction business.

Sector funding

Currently, the vast majority of UK construction businesses (84%) have said lack of funding hasn't impacted their ability to work. However, more than a quarter of respondents felt there was need for a sector specific funding scheme, with a further third unsure.

Although COVID-19 funding has tapered, the Government should do what it can to maintain the momentum of the sector and support the industry through the economic uncertainty felt across the UK.

WHAT OUR CLIENTS SAID

It's not our sector we're concerned about; it's clients needing to spend on their workspaces, and many don't know what working will look like for them.

Employment

Trying to make sense of both the immediate and future levels of employment seems almost impossible in the current situation. There are many aspects to consider and no two businesses – despite being in the same sector – are the same.

Recent statistics published by the ONS indicated that 83,000 fewer people were employed in this sector for Q2, April to June. However, the total employed in the industry was 2.24m, which is relatively high compared to past performance. The ONS indicated that year on year the industry had 124,500 job losses in the sector, which is surprising given many companies looked to re-categorise workers as employees in anticipation of the IR35 roll out (now due April 2021.)

Impact of the CJRS

The consensus is that the Government Coronavirus Job Retention Scheme (CJRS) reduced many potential redundancies.

Indeed, our survey confirmed that around 80% of respondents used the scheme, and less than a third made redundancies. ONS data also shows the construction industry on average had double the amount of workforce returning from furlough (13%) than any other industry.

However, the real picture will not be clear until the scheme closes in October, where the Bank of England is predicting a rise in national unemployment rate to 7.5%. The recenly announced Coronavirus Job Support Scheme may help stem the tide.

The good news from our survey, however, is that 71% of businesses expect to bring all staff back following furlough.

WHAT OUR CLIENTS SAID

The IR35 changes will challenge our future ability to manage seasonal fluctuations as we will need to have more staff in full time employment. This will result in lower total numbers being employed by the business and additional stresses such as requesting longer working hours in peak periods being imposed on our workers.

IR35

When questioned on the effect of IR35, 55% of respondents thought the changes coming in April would not impact their employment policy, whereas 20% said it would.

Perhaps more worrying is that 25% said that they were unsure, which is something to be further addressed and understood. Our view is that IR35 could be a real issue for some businesses who have used this as a basis for their costing structure and flexibility.

Assuming IR35 is implemented, a relatively level playing field should prevail, with margins hopefully improving. Improvements in profitability should lead to increased employment and financial security of businesses thereby protecting and safeguarding access to much needed skills often in short supply. .

Market outlook

Short term it looks as though the smaller local SME builder expects the market to be relatively buoyant. The COVID-19 staycation has increased home improvements, as well as the desire to move, which also leads to expenditure on property. UK tradespeople remain optimistic for near-term workloads despite the economic havoc triggered by the pandemic.

A survey of over 1,300 builders, electricians, plumbers and other tradespeople conducted by builders' merchant Travis Perkins found half of the respondents believe their workloads will increase over the next two months. The poll found 72% think work will come from domestic repairs and maintenance. This compares to 16% from new build housing, 15% from commercial and industrial activity and 15% from public sector work. Just 2% of respondents believe work will come from infrastructure projects.

Training

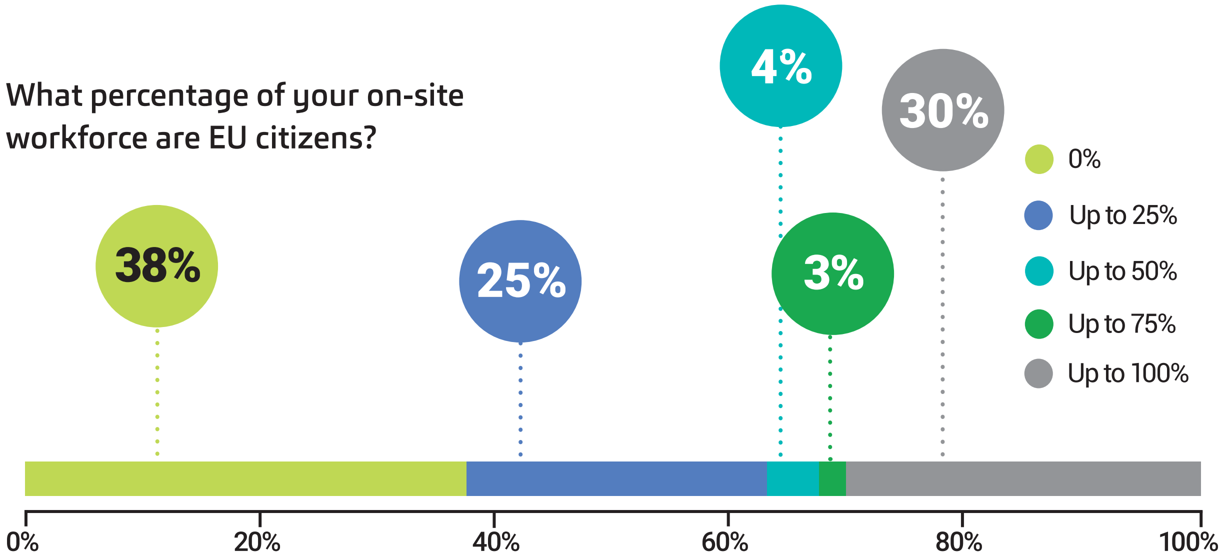
Although a key focus at the moment, keeping people employed is only half the picture. Going forward, making itself an attractive career path is essential for the construction industry. Recruiting a good number of high-quality apprentices is important to factor into business plans, as is continuous development of staff for retention, and retraining of staff when technology replaces a role.

Despite unemployment levels in the UK, the construction industry still recruits EU nationals due to the investments required for retraining people in this country.

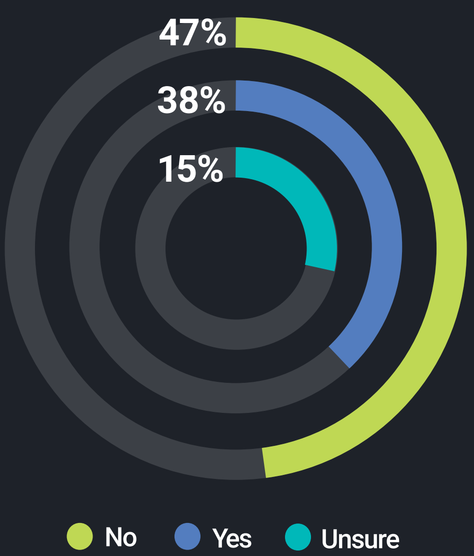
With businesses needing to keep overheads to a minimum more than ever, there will remain a skills gap for the short to medium term.

With nearly 40% of respondents looking to hire in the next year, and a further 15% unsure, now is the right time for the country to address working in construction and real estate in this country and making it a more attractive career for UK jobseekers.

What percentage of your on-site workforce are EU citizens?



Do you expect your labour requirements to increase over the next 12 months?



WHAT OUR CLIENTS SAID

Training, particularly for young people, needs to be at the forefront of government efforts.

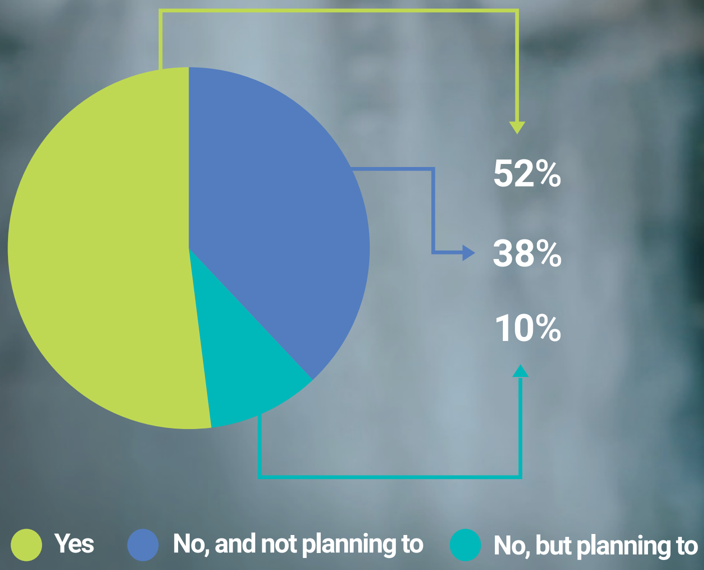
I'm very concerned about not having sufficiently trained tradespeople. The supply will reduce, and prices will rise, and therefore our profits are likely to be negatively impacted.

Technology

Our survey focused on the extent to which technology was being used by the industry and whether COVID-19 has changed this.

There will probably always be elements of the industry's workflows that will depend on traditional methods. Those businesses heavily involved in the more traditional projects and areas of construction are less likely to have widely embraced technology. This is supported by the fact that nearly a third of respondents reported never having used any of the technologies we asked about.

Have you implemented new technology as a result of COVID-19?



Existing and new technology

It is also clear from the responses that a wide range of technology and innovation was already well embedded and being extensively used throughout parts of the industry. Nearly a quarter of respondents reported the use of drone technology and a significant number were already using collaborative technologies such as online staff communication hubs and camera facilitation of off-site working. Nearly a fifth were already using a range of construction methods off-site.

The survey confirms our expectations that COVID-19 has accelerated the use of many of these technologies and this is entirely consistent with what we have seen across all sectors. Well over half of the survey respondents reported that they had either implemented, or intended to implement, new technology and methods as a result of the pandemic.

These changes were not just confined to the predictable increases in use of communication technologies such as Zoom and video links to sites, but also covered a range of other technical and operational areas.

Innovation

Clearly many construction companies are using the pandemic as an opportunity to innovate and re-engineer the way they do business. Construction has struggled with attracting and retaining a strong and diverse talent pool for years and hopefully some of the changes being driven by COVID-19 will help address this.

As the industry sees a return to sites and offices, many employees are wondering how much of the work-from-home and other changes that they have created will be retained, and the early signs are that in many areas there genuinely will be permanent change.

WHAT OUR CLIENTS SAID

We were already geared up for remote working and cloud-based storage, so have managed work place disruptions effectively.

Research and Development

Another area our survey looked at is the use of Research and Development (R&D) tax relief in the sector. There are two valuable reliefs available here, one for SMEs and one for larger companies. Both can drive additional returns and cashflow benefits. It is encouraging that nearly half of all those businesses that took part in the survey reported that they had either already successfully claimed or intended to claim R&D tax relief.

It is important to remember that within construction a whole range of costs are potentially eligible as the basis for a claim. R&D need not just relate to the development of brand new areas. A range of activities contributing to the continuous evolution of existing technology and practice could well qualify and can be found across all stages of construction, from conceptual design right through to commissioning and testing.

Examples include:

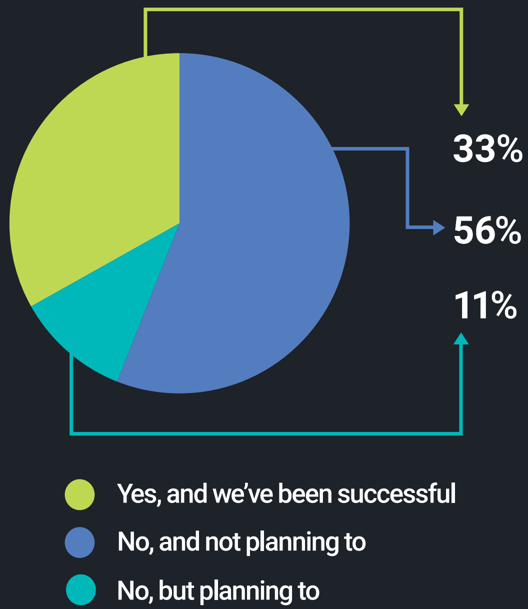
- using new materials or techniques
- developing energy and carbon technology
- developing the application of digital technology
- innovating to solve complex problems with particular sites or projects

Get Britain building

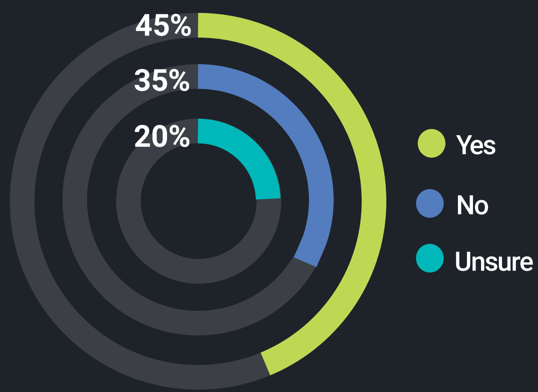
The Government's promise to 'get Britain building', and the anticipated ramping up of investment in infrastructure, must surely mean that further developments in technology and innovation will continue to be a key focus for the industry.

Given that half of our respondents report that they have not made any claim for R&D tax relief, we would encourage all businesses in the sector to take a close look at what they are doing and speak to their adviser to make absolutely certain that they are not missing out on the possibility of claiming, or indeed of making further successful claims for this valuable benefit.

Does your business currently claim R&D tax relief?



Does your business have plans to invest in green technology?



WHAT OUR CLIENTS SAID

Our business plans to bring zero carbon designs to market in the near future.

Looking forward

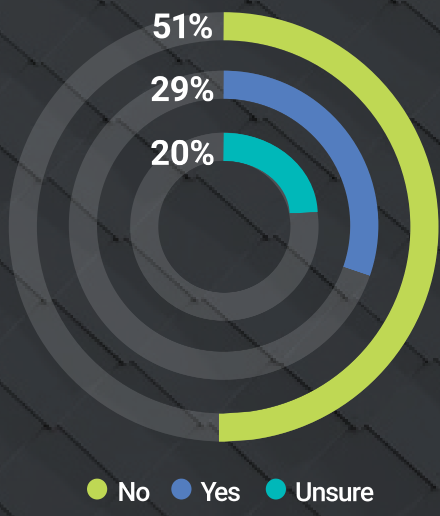
The COVID-19 pandemic has had a significant effect on all economic activity in the UK and across the world. With the construction sector being a traditional bellwether for the economic cycle in general, the results of our recent survey are all the more insightful.

Are you planning to make any significant capital investments within the next 12 months?

29%

Less than a third of our respondents indicated that there would be any significant capital investment in their businesses within the next 12 months, with a further 20% unsure.

With nearly 60% of respondents expecting no revenue growth within 12 months and 60% of businesses not expecting profitability to return to pre-COVID-19 levels for at least 6 months, it's no surprise that investment decisions are being postponed.

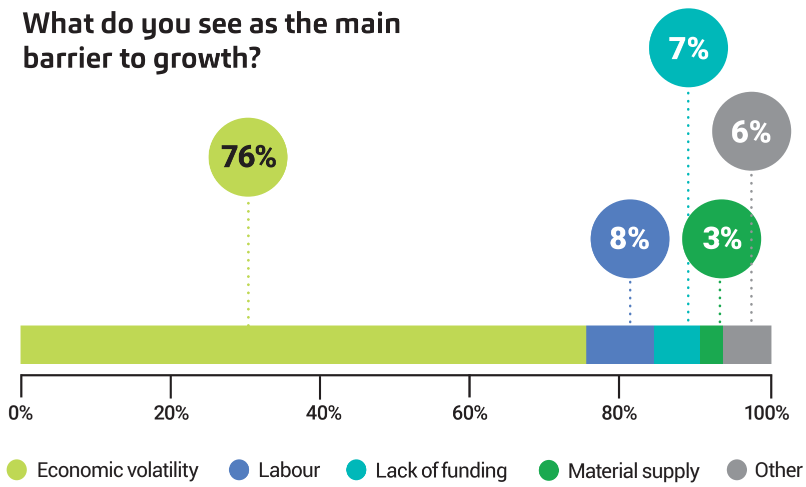


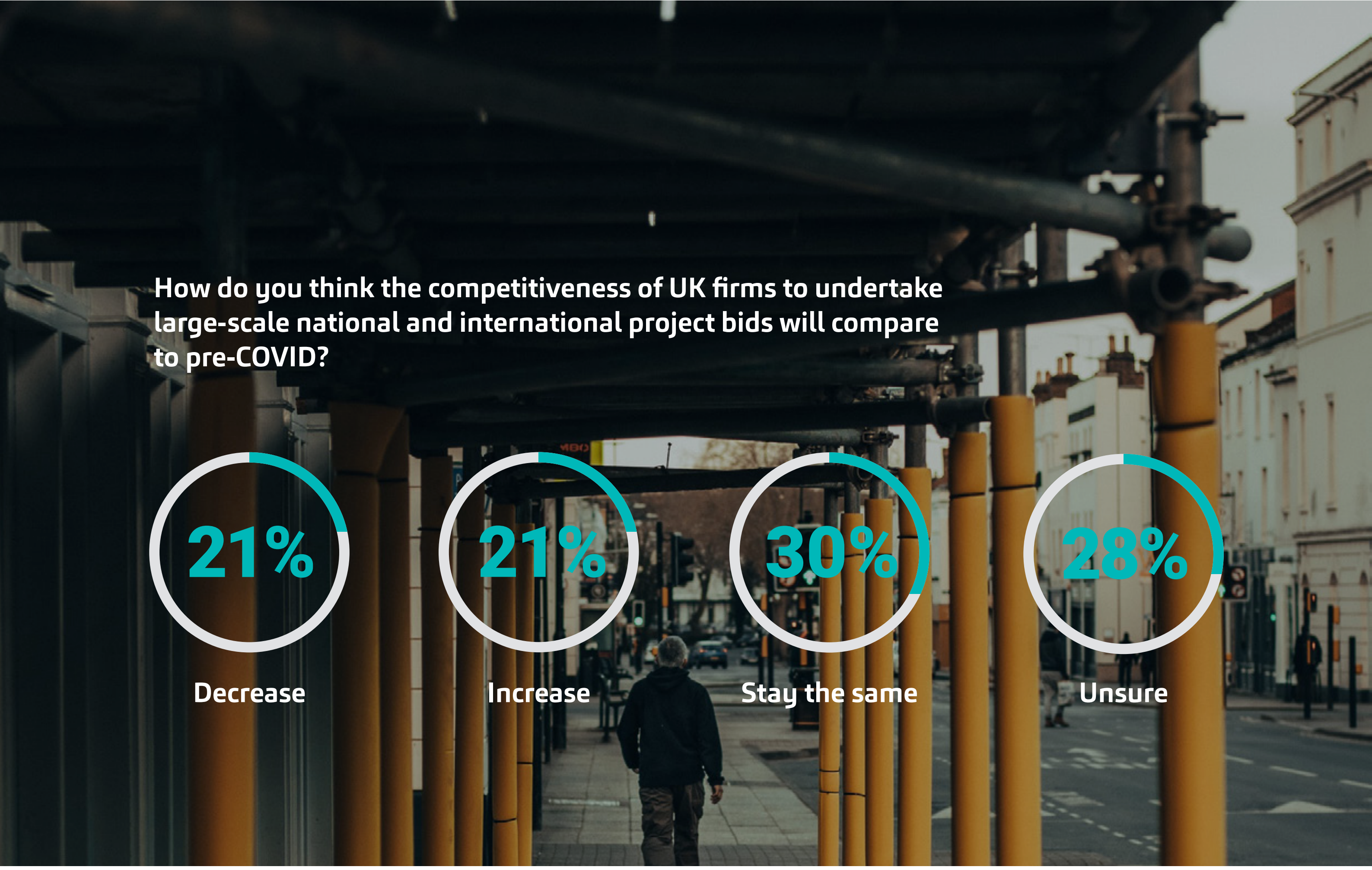
How do you think the next 12 months will be for revenue growth?

21%	20%	18%	13%	20%	8%
More than 10% growth	1 – 10% growth	Flat	1-10% decrease	11-20% decrease	More than 20% decrease

In fact, the single biggest factor holding back growth was economic volatility, with 76% of respondents saying this was the largest factor. This has a massive knock on-effect for the sector as other factors are tangentially affected by this uncertainty – labour supply, material and supply chain security, and of course the financial security of funding lines.

What do you see as the main barrier to growth?





How do you think the competitiveness of UK firms to undertake large-scale national and international project bids will compare to pre-COVID?

- **21%** Decrease
- **21%** Increase
- **30%** Stay the same
- **28%** Unsure

Government support

The majority of respondents would like to see more government support through infrastructure spending, and nearly one quarter want further funding to be made available to 'fire up' that future growth.

However, 30% of respondents were unsure how COVID-19 would affect UK firms' ability to undertake large-scale national and international infrastructure projects. 21% felt that the ability to deliver those projects had decreased, so delivering those large-scale projects may be more difficult than the Government is prepared to recognise.

And herein lies the conundrum. Most of the Government support measures are scaling back:

- the Coronavirus Job Retention Scheme is being wound down. Even with the new Coronavirus Job Support Scheme, redundancies are expected with proportionate reductions in demand, particularly for housing;
- although recently extended, the Government backed loan funding schemes (CBILS, Bounce Bank) will end soon, so our respondents wish for security of funding looks to be falling on deaf ears.

And as much as the Government has been making positive noises about infrastructure spending, these large projects tend to occupy the big players, with the smaller players in the construction market not engaged.

Larger projects also tend to suck in labour and materials, which in itself will adversely affect the rest of the market creating shortages and driving up costs.

Residential accommodation

There have been welcome proposed relaxations in planning laws with permitted development rights being expanded in two areas – two-story extensions on homes are now allowed, and commercial buildings can now be demolished rather than converted to make way for new housing. Much as these are to be applauded there are wrinkles.

Research indicates that developments under the permitted development rights rules are more likely to be of lower quality and potentially poorly designed, so is this relaxation actually a 'race to the bottom' for housing standards?

These adjustments to the planning regime will certainly help, but probably only at the margin, so more far reaching measures are almost certainly needed. These include a review of the Green Belt and development zones where development is allowed according to economic need rather than adherence to outdated Council local plans.

Much as the large housebuilders balance sheets are stronger than at the time of the last crisis in 2008 with less debt and interest rates are lower in a more stable mortgage market, there is still the looming fear of the unknown in the UK economy. This will no doubt be prompting housebuilders to finish sites off rather than start new developments, meaning even if new sites were under way now, with an average build time of 5 to 6 months. completions this side of Christmas 2020 are unlikely.

WHAT OUR CLIENTS SAID

Infrastructure spending should be reviewed urgently to address local scale needs rather than large UK wide projects such as HS2.

Government procurement for infrastructure should positively weight British based bids to promote jobs growth.

How is the Government going to pay for all the recent spending? Confidence will not appear on a balance sheet.

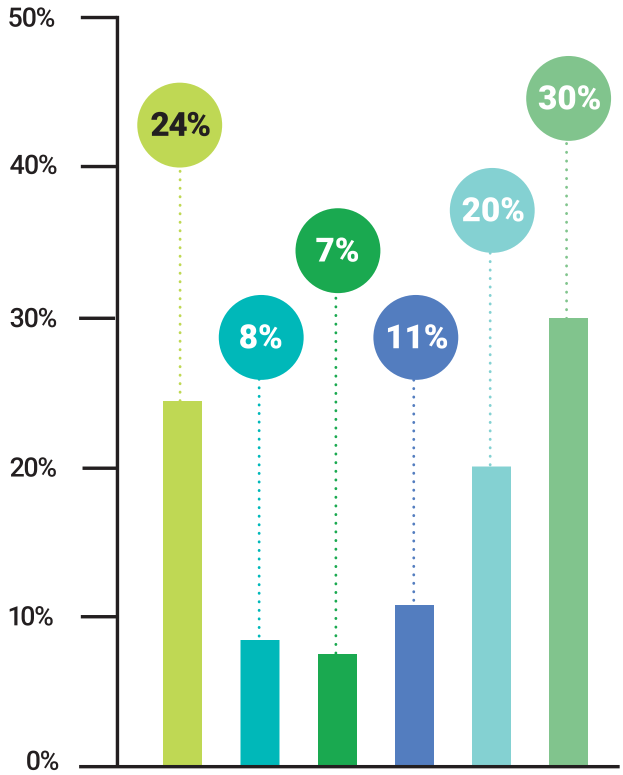
An uncertain future

Economic uncertainty has been a theme of this survey and much as nearly one third of our respondents felt business activity was back at pre-COVID-19 levels, which is encouraging, more than 50% felt it would take at least six months to bounce back to that level.

As to what the future holds, the best we can conclude is that in the short term the uncertainty and withdrawal of government support will adversely affect the market.

But if the Government's stated desire to move forward large infrastructure projects and implement substantive, radical changes to the planning system (whatever they may look like), 2021 should see a return to what may now be seen as the halcyon days of 2019.

When do you anticipate a return to the level of business activity pre-lockdown (March 2020)?



- Back at that level already
- Very nearly back at that level
- 0-3 months
- 3-6 months
- 6-12 months
- Over a year

Regional outlook

East of England

The region continues to have a good pipeline of construction projects with an expectation that this will be further boosted by the Government's pledge to increase infrastructure spending. Tech-driven growth in Cambridge continued with approval for a £400m investment in the new Huawei R&D park.

The region also continues to benefit from some major offshore projects. Despite COVID-19, the major new wind farm East Anglia One was recently commissioned, with plans and consultations for others.

London

London should be particularly resilient due to its attractiveness to overseas investors, in addition to being a liquid market for investors. This ought to mean that the construction market should eventually continue in the capital reflecting the positive ripples felt around the region and throughout the UK. However, social distancing is detrimentally impacting timelines in the city.

Midlands

Business is slowing down in the area. Businesses at all layers of the supply chain have had commercial developments pulled which were planned for the next few months. Many are also now looking at further redundancies.

On the bright side the student accommodation sector (PBSA) remains very strong with new developments forging ahead.

North East

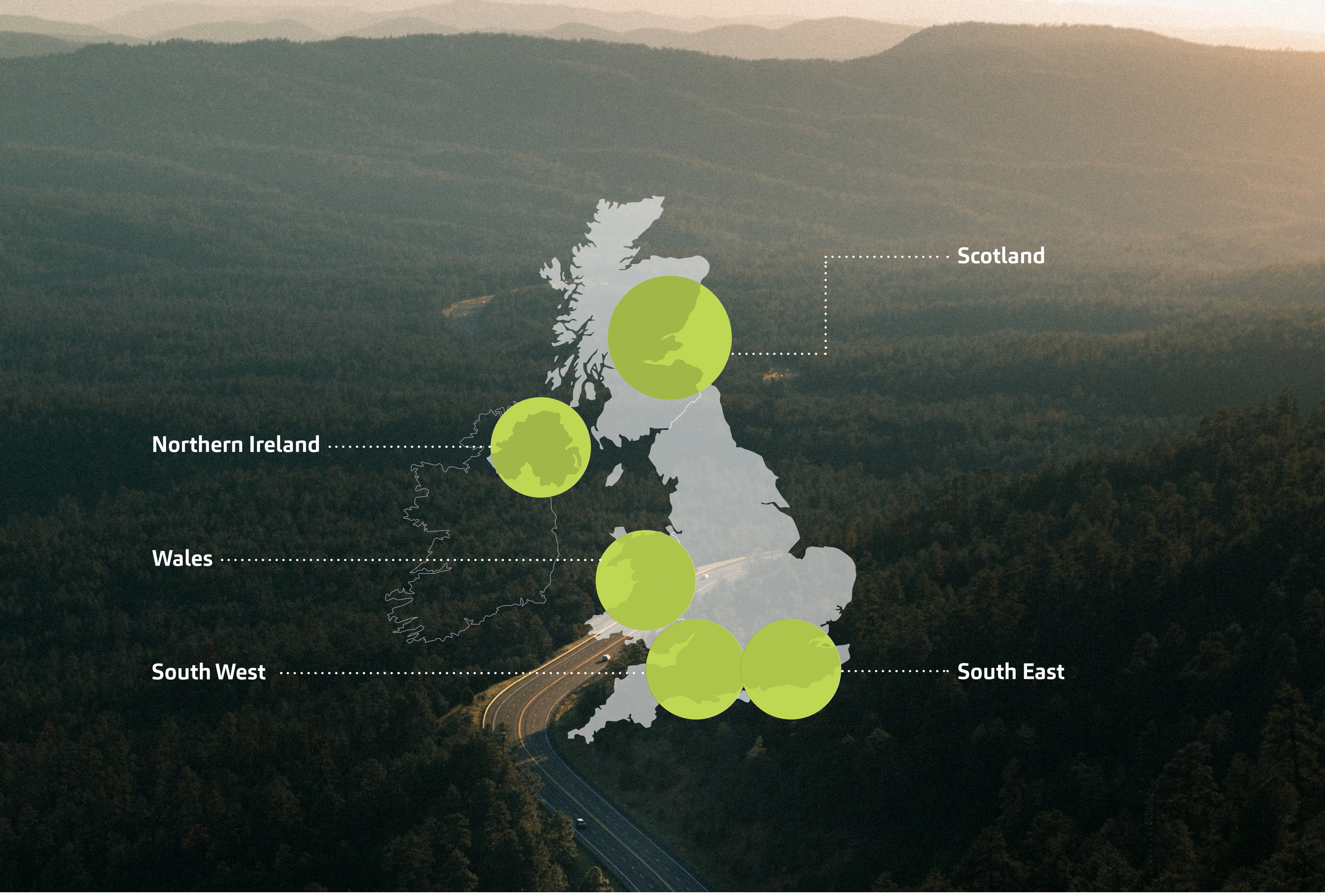
In the Teesside area the recent announcement of a £4.5m manufacturing zone on the site of the former SSI steelworks in Redcar – and the 9,000 jobs this is likely to create – will provide another boost to the regional economy. The Government have also announced the North East Local Enterprise Partnership will receive £47m for 'shovel ready' infrastructure projects in the Tyne and Wear region, which can be undertaken before the end of 2021.

Both initiatives are the beginning of much-needed investment for the area as part of the 'levelling up' process promised by the Government and should be a real boost for local SME contractors.

North West

Work in the North West still appears abundant across the region, but safety measures are having a major impact and stunting productivity.

Businesses are reporting concerns over assessing contractor financial stability and we have already seen the collapse of some since the onset of COVID-19.



Northern Ireland

The year began with local Ministers returning to Stormont after three years of Westminster rule. With an increased capital budget and a fund of one billion to support the New Decade, New Approach initiative, signs for the construction industry were positive. Recently announced support for Apprenticeship schemes is welcome news in the region. Ultimately the sector would undoubtedly benefit if the allocated budget was used, helping to alleviate years of underfunding in roads, water infrastructure, social housing, hospitals and schools.

Scotland

Scotland has maintained plenty of activity across both residential and commercial environments, with new projects being approved regularly. Furthermore, the housing market remains very buoyant, with local businesses able to sell their plots off plan. The challenges facing the regions remain the same as pre-COVID-19: mobilising the local councils and getting planning permission through for new development sites which can be quite a painful process. The remote working capabilities of the councils is making this even more of a challenge at present.

South East

Construction businesses in the South East have generally adapted well since lockdown was lifted. They are managing sites to ensure activity can continue, whilst adhering to social distancing measures by spreading workforces around sites.

Inevitably there are delays and completion dates are being put back, which in turn is expected to have some impact on funding by increasing the cost of capital.

South West

Construction work has continued largely unabated across the South West. Major infrastructure projects in particular such as the new nuclear power station at Hinkley Point C in Somerset, which is now projected to cost up to £22.5bn, have remained ongoing in spite of the COVID-19 pandemic. This will undoubtedly continue to utilise workers from the construction trades from around the region. Housebuilding also appears to be continuing in spite of house prices having fallen slightly over the last 12 months.

Wales

The Construction sector in Wales rebounded heavily in the later summer months, as businesses restarted activity that had stalled in previous months. House prices have also remained buoyant in the area, with the Land Transaction Tax threshold increase helping to stimulate the market in the short term.

The Welsh Government recently extended measures to protect commercial tenants from eviction until the end of 2020. The impact for commercial landlords and developers remains to be seen.

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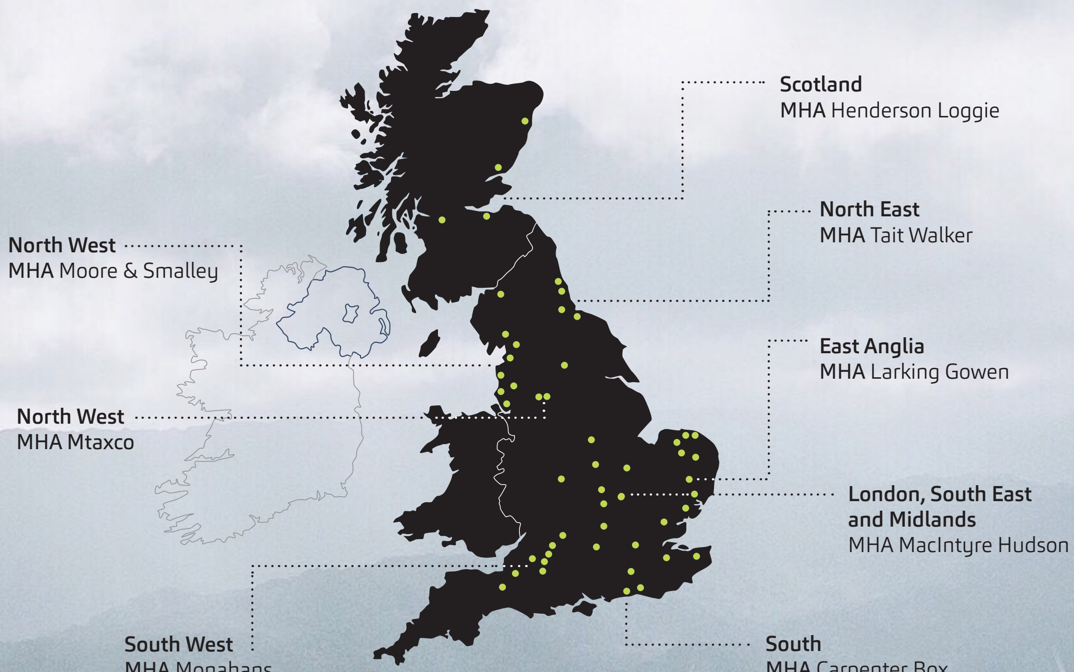

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