

East Anglia

**Regional Contractor Survey 2020
Economic Focus**

Norfolk Constructing Excellence Club

Main Contractor Survey 2020



Contractor Survey 2020

Introduction

Oxbury Chartered Surveyors have recently undertaken their 5th Annual Survey of 16 main contractors operating throughout East Anglia. The contractors range from small local firms to multi-national companies, all of whom were asked to respond based on their business within the East of England.

So why did we carry out survey?

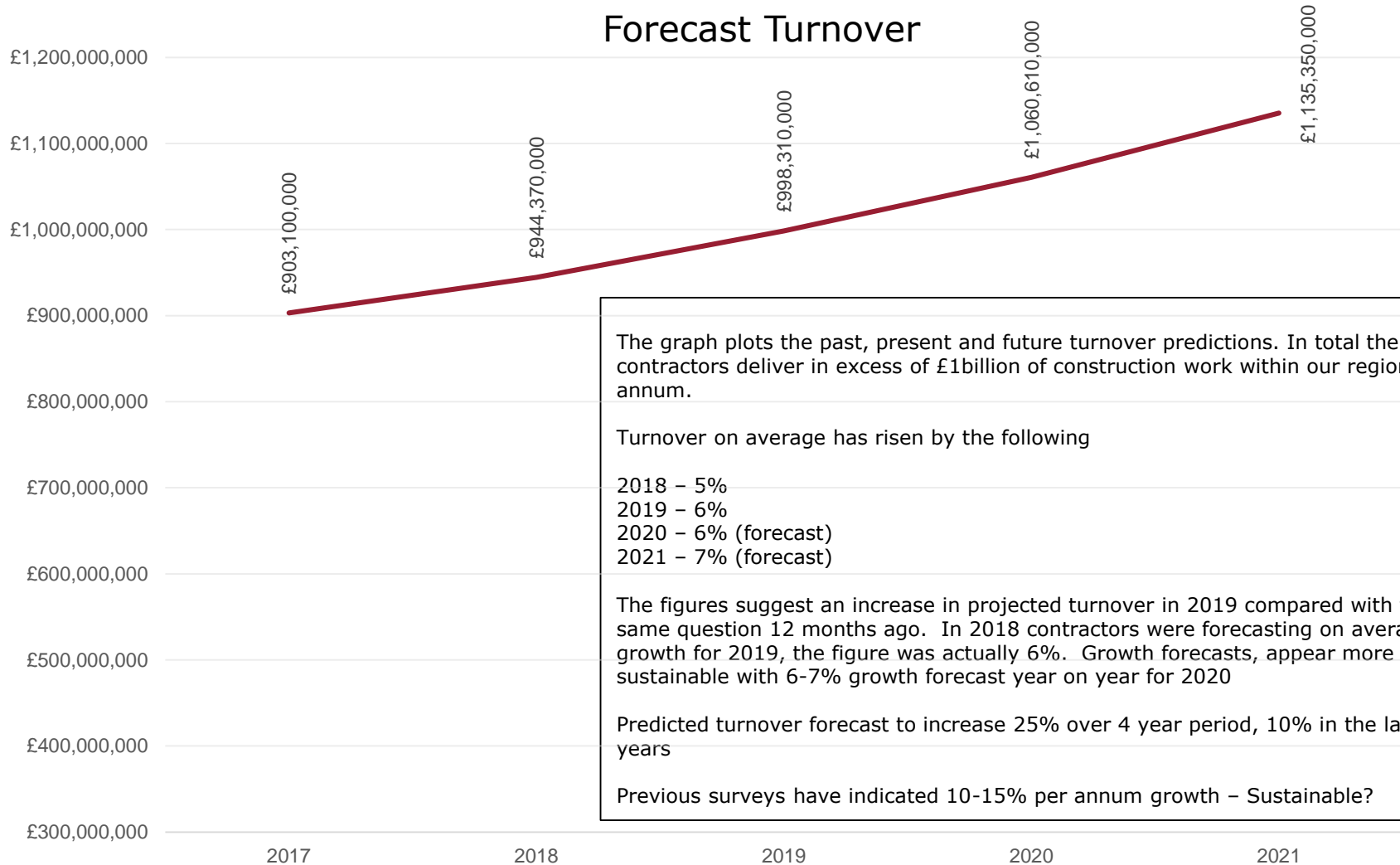
The construction industry has been through a prolonged period of uncertainty in recent years. The cause of this uncertainty has largely been caused by BREXIT negotiations and recent political challenges, including a general election in December 2019. In general we observe a consensus that the industry is busy, however we are still witnessing established Main contractors becoming insolvent. The feedback from the main contractors gives us an insight into the industry from their perspective and provides information we can pass on to clients to seek better value from their projects.

We focused on four key areas;

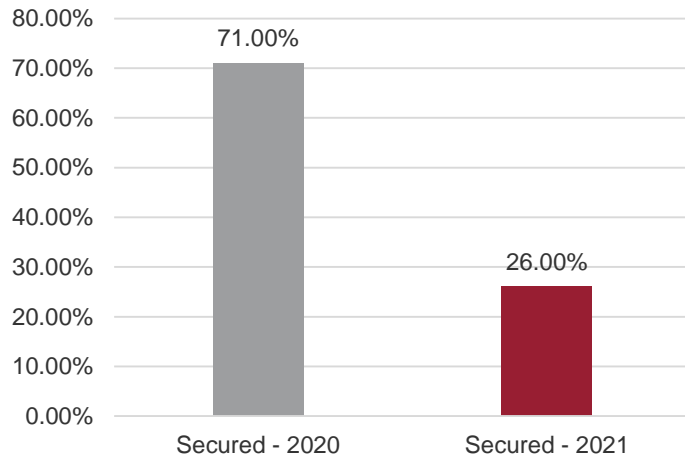
- Market conditions - How did 2019 compare to forecasts from 2018? What does 2020 hold?
- Procurement – What is their preferred method of procurement and why? How can a client obtain best value? What contributes to higher tender prices and causes contractors to withdraw from tender enquiries?
- Economics – What ratio has been secured against target, what is the forecast turnover into 2020/2021 looking like? Which sectors are busy and what is the outlook for each sector?
- Challenges - What do the contractors see as the biggest challenges faced by the industry? How will BREXIT impact on the sector?

Economics

Contractor Survey 2020



Turnover Secured for 2020 and 2021



By the end of January 2020 on average Contractors have secured 71% of their forecast turnover for this year.

Looking further ahead to 2021 - 26% secured.

We have noticed a steady increase in the ratio of secured vs. forecast turnover. In February 2015 only 48% of turnover was secured for the year ahead. However forecast turnover estimates were predicting significant rises of 10-15% in the same period.

Perhaps Contractors are focussing on winning projects and turnover they can deliver (at a profit) without a need to expand the business or take on unnecessary risks?

Tender enquires were up year on year, compared with 2018 a 4% rise to a total of 1,300 across all 16 Contractors (over 80 tenders per contractor on average in a year). This compares to a drop in new tenders by 10% in 2018.

In 2019 we saw an increase in the value of the projects, with a rise in frequency of projects valued between £5m - £20m. This is a change in trend with 2018, when project values were reducing.

In the 5 years since the survey has been undertaken the percentage of projects at less than £5m has been circa 85%

In 2017 this dropped to 82% on average, then 2018 rose to 87% and 2019 reduced to 85%.

2018

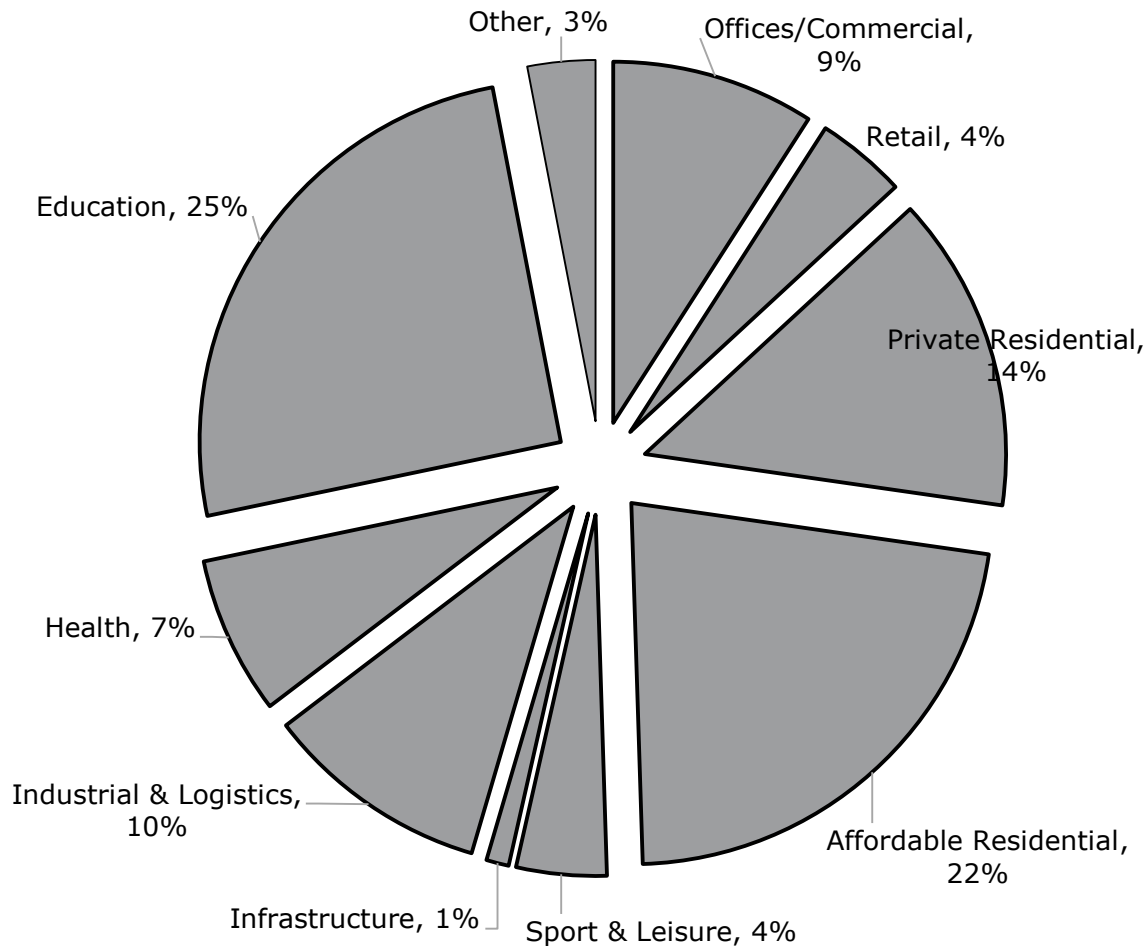
-10%

2019

+4%

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Projects – Split by Sector



The chart represents the split in the current workload by sector.

The top 3 sectors:-

1. Residential – 36% (23% 2019)
2. Education – 25% (25% 2019)
3. Industrial – 10% (16% 2019)

These 3 sectors make up over 70% of the current workload – i.e. £750m.

There has been a significant change since 2018/2019 with the Residential sector accounting for 23% of turnover combined. This would indicate a significant growth in this sector, mainly in Affordable Housing, with 11% to 22% i.e. 100% uplift in growth.

Education remains consistently buoyant representing 25% of turnover over the last 4 years.

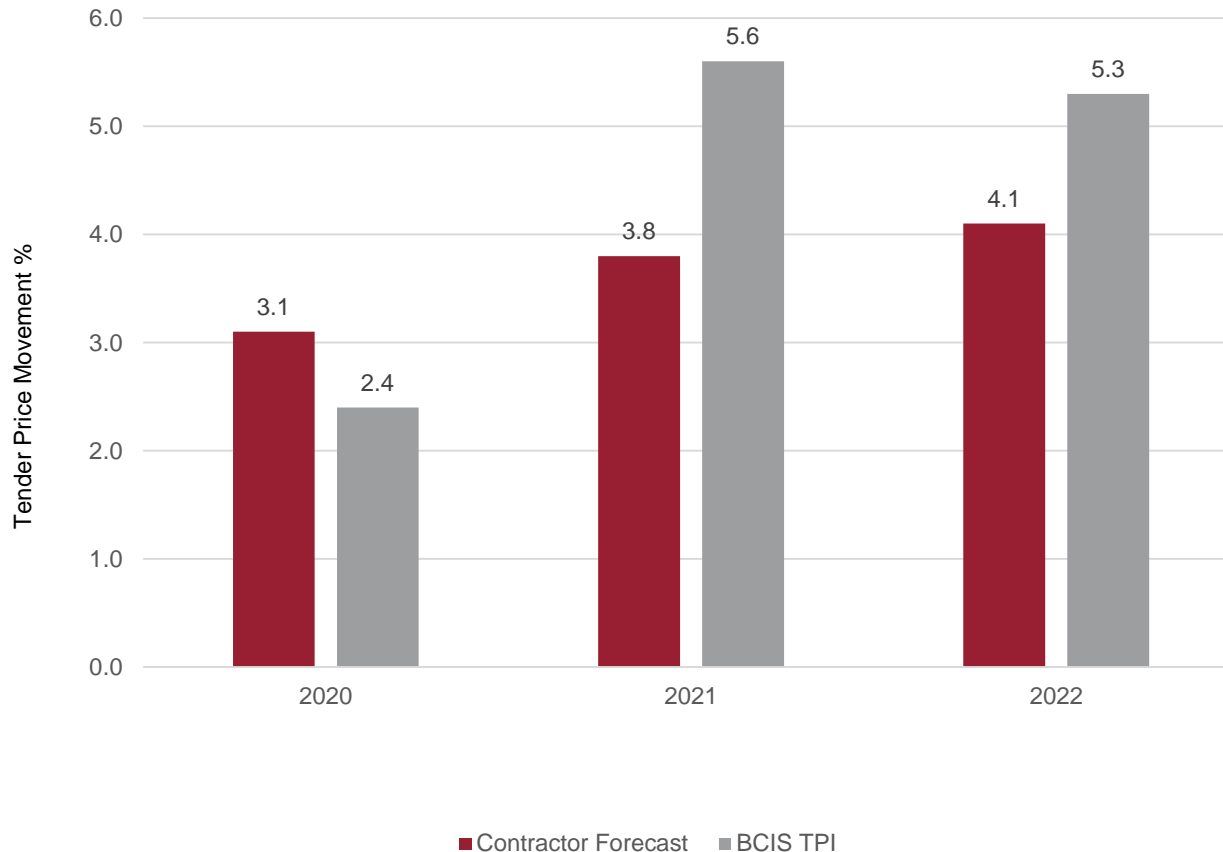
Industrial workload has decreased year on year, having seen a growth in the last survey to 16%.

Other sectors to see a decline are Sports & Leisure, dropping from 9% to 4% this year.

Over 90% of the Contractors predicted the same growth in 2020/2021 in Residential and Education.

Forecast declines in Commercial, Retail and Leisure were also a consistent theme.

Tender Price Indices – Year on Year



Tender Price Indices have improved over last 12-24 months. The Contractors are predicting lesser increase in tender prices than BCIS. Both sets of figures predict a rise in 2020, this is less than last year with contractors forecasting 3.3% growth and BCIS predicted 4.4% growth during 2020.

Contractors continue last years predictions of more cautious increases than the BCIS.

In previous years the Contractor confidence on tender prices rises has been over and above that of the BCIS. Added to a reduced forecast turnover year on year, equates to a more cautious outlook ahead.

BCIS previously forecast increased tender prices for 2022 @ 6.40%, reduced to 5.30%.

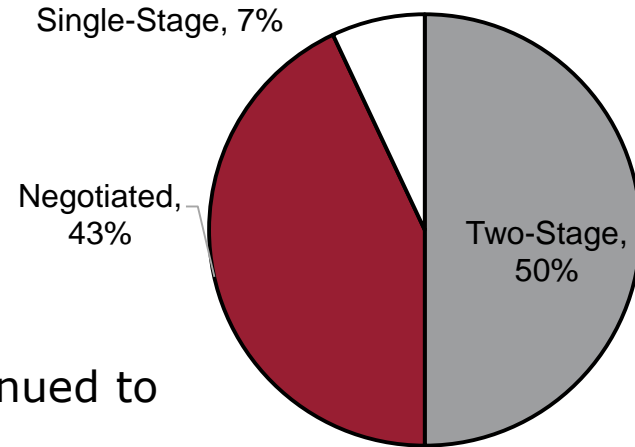
Contractor forecast rises are more in line RPI growth between 3-4% year on year over the same period.

Procurement

Contractor Survey 2020

Preferred method of procurement?

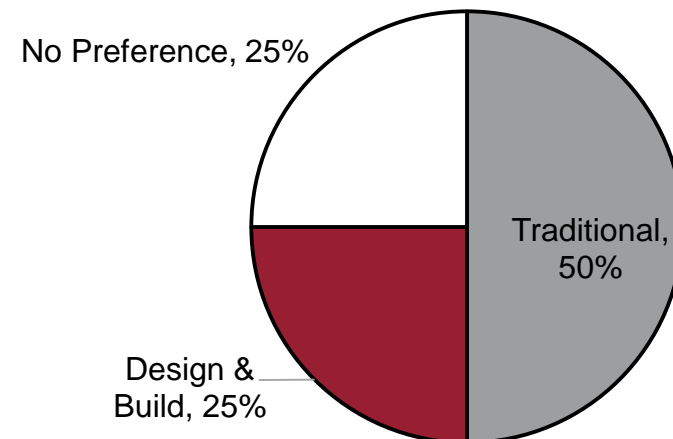
- 50% - Two-Stage
- 43% - Negotiated
- 7% - Single-Stage



Year on Year Two-Stage Tendering has continued to be the favoured method of procurement by Contractors closely followed by Negotiated. There is still a perception from clients and professionals that this procurement method is not as transparent as it ought to be.

What is the preferred form of Contract?

- 50% - Traditional Contract
- 25% - Design and Build
- 25% - No Preference



Top Five Reasons Main Contractors Decline Tenders

- 1. Client Reputation** – 63% said they consider the potential clients financial standing and reputation
- 2. Tender Period** – 56% said an insufficient tender period is a reason to decline or withdraw from the process
- 3. Contract Amendments** – 50% said clients regularly request bespoke contract amendments to the standard forms, if these are perceived to be too onerous contractors will withdraw
- 4. Risk Transfer** – 50% said clients can seek to transfer unacceptable risks to the main contractor
- 5. Design Quality** – 44% said that an assessment of design information may reveal concerns on un-coordinated information and pose unacceptable risks

Other Reasons – **Capacity** (estimating and ability to deliver if successful), **Number of Contractors** (too many contractors pricing tender), **Location** (Vicinity of the site to Contractors office), **Unrealistic Budget** (clients aspirations for low tender price)

Greatest Economic pressures on Contractors at present?

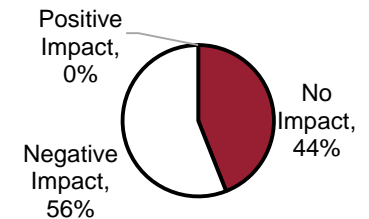
- **Skilled Labour** – Shortages for key trades, impacting on subcontract prices and availability. Pressures on lowest price is preventing contractors from investing in future skilled labour
- **Material Costs** – Price rises and availability of materials sourced from Europe post-EU, with trade agreements unknown, Sterling £ against EURO €
- **Salary Inflation** – A problem effecting the entire industry both 'white' and 'blue' collar workers, reduction in newcomers to the industry causing salary inflation
- **Lack of decision** – Delayed commencement of project, due to client indecision, planning, statutory authorities etc.
- **Design co-ordination** – Increased impetus on contractors to take responsibility for design and co-ordination
- **BREXIT** – Unknown risks on future economy, making long term planning difficult

BREXIT....

Impact of BREXIT?

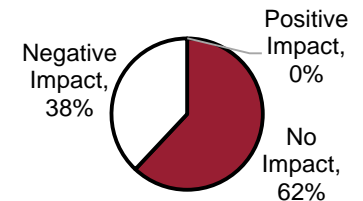
Did protracted BREXIT negotiations/decision have an impact on your business?

- 0% - Positive impact
- 44% - No impact
- 56% - Negative impact



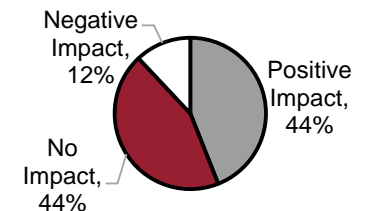
Do you anticipate an immediate/short-term impact on your business?

- 0% - Positive impact
- 62% - No impact
- 38% - Negative impact



What impact do you think the General Election result had on your business?

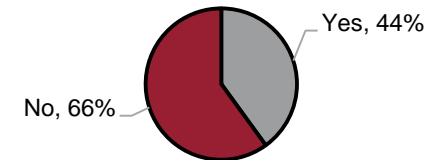
- 44% - Positive impact
- 44% - No impact
- 12% - Negative impact



Building Information Management (BIM)

Are your projects utilising BIM?

- 44% - Yes
- 66% - No

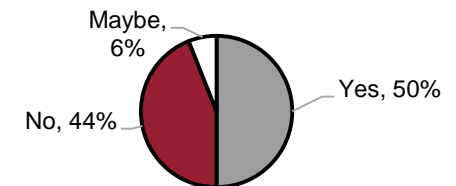


Percentage of your projects using BIM (i.e. of those contractors using BIM)?

21%

Do you believe BIM remains the future adopted method for delivering projects?

- 50% - Yes
- 44% - No
- 6% - Maybe



The use of BIM has only increased by only 10% since 2015, so we are yet to see a mass adoption of this method of delivery across the industry.

Positive outlook?

- Only 56% of Contractors believe our region is as busy as the rest of the UK, this is the lowest vote of confidence in our region since 2015 (peaked at 75% in 2017).
- Overall 80% of Contractors are optimistic about the future (same as 2019).
- Continued growth forecast for 2020 and beyond, a stronger set of growth figures compared to 2019 where a number of contractors were forecasting reduced turnover year on year. All contractors predicting growth ahead!
- The Housing Sector looks set for significant growth, driven by a legacy of housing shortages (both private and affordable).
- Government plans to invest in Healthcare, Education and Infrastructure have been promised.

Summary

Main Contractors continue to increase turnover year on year, albeit arguably at a more 'sustainable' rate of increase, with more growth in 2019 than previously forecast and 5-7% growth in the coming years.

The impact of the protracted BREXIT negotiations had an impact on the majority of Contractors, however the December 2019 election provided some stability moving forwards.

The future economy retains some uncertainty with future trade deals with Europe and the world economy to be agreed.

Tender prices are forecast for a continue to rise above inflation, largely driven by the lack of skilled labour and professionals, material costs and overall capacity.

Clients might wish to consider some of the reasons contractors choose to decline tenders, with the most frequent reason being the reputation of the client. Contractors are seeking more collaborative methods of securing work and avoiding the 'design and dump' principles.

Overall there is still optimism for the future and a more sustainable period of growth.

Thanks



Tim Boucher, Director of Oxbury Chartered Surveyors, MRICS