Southern Construction Framework

Market Intelligence

Q3 2024

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Contents

This quarter we reported a conservative 0.9% increase in tender workload, the smallest rise since Q1 2021. However, we also observed significant variation in tendering appetite among businesses, reflecting cautious bidding approaches. Supply chains prioritise projects with high certainty of progression and strong confidence in the reputation and payment terms of main contractors and clients highlighting the importance of effective procurement strategies.

On a positive note, the industry's outlook is optimistic, with the ONS identifying a 6.5% increase in new orders during Q3. Despite this, legacy inflation issues and insolvencies continue to impact suppliers and projects, however, transparent procurement and fair payment practices help mitigate these impacts.

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Data Insights

As part of SCF's commitment to collaboration and transparency, every quarter, SCF main contractors gather market intelligence from the construction industry directly through their trade supply chains. Our intelligence analyses data across 11 key trade packages from across the south of the UK, identifying regional market trends and forecasts for the following year.

Professional consultants from the SCF Consult framework also share their valuable monitoring of the construction market and provide supporting commentary on the returned data.

Data for this report has been formed from over 150 subcontractors from across the south of the UK, providing a real-time indication of market trends from those directly involved with construction. We share this information with our clients to highlight key areas of risk that may impact on project delivery.

SCF Main Contractors, Consultants, and Clients can use this information to predict pressures and opportunities in the market, to make decisions about material specification, construction methodology, off-site or automated construction techniques and project planning and programming, ensuring the best possible decision making to deliver maximum value.

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Tender Workload

Although inflation is relatively stable when compared with recent years, legacy issues caused from past volatility such as the viability of projects and client confidence in investment remained a challenge throughout Q3. Data from the ONS reported construction output to have stayed subdued, with a growth of 1% in August24 when compared to 3 months previous.

This quarter, SCF trades reported tender workload to have increased by a conservative average of 0.9%, the smallest quarterly rise reported since Q1 2021. The trades with the greatest increase include Drylining (4.7%) and Brickwork (4.4%). Average tender workload was 1.4% greater when compared with the same time last year.

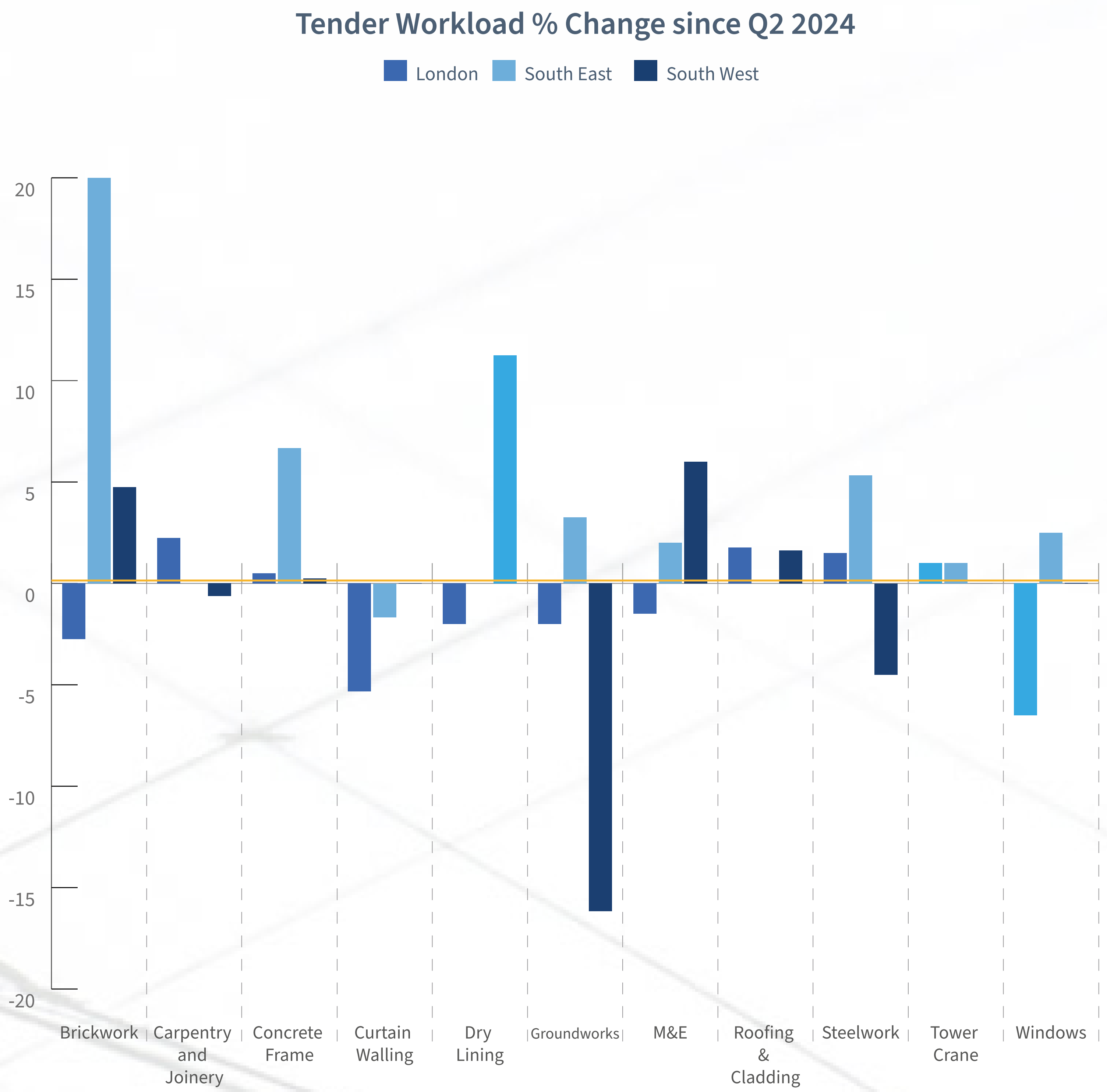
However, it is important to note the extent of variation in appetite for tendering across individual businesses. **This quarter, variation in appetite was significant, with a near split of businesses reporting either an increase (32.7%) or decrease (26.5%) in tender workload** in addition to variance amongst trades and region.

Suggesting, many subcontractors are cautious over the projects they choose to bid often adopting a risk adverse approach that's reflective of how individual businesses are faring. Supply chains are looking to bid schemes with a high certainty of progressing to site and a strong confidence in the reputation and payment terms of the main contractor and client. These conditions reiterate the importance of an effective procurement strategy in derisking delivery.

A demonstration of value for money is critical for public sector projects, it is important that clients take time to consider procurement approaches to help maximise market interest. SCF main contractors report that extensive re-tendering on projects can be costly for suppliers as well as creating greater uncertainty over programme and ultimately payment. This uncertainty makes predicting income and planning long-term resourcing difficult for the supply chain, highlighting the benefit to all in getting projects right the first time.

On a more positive note, the industry's outlook is relatively optimistic with the ONS measuring new orders to be 16.5% greater during Q3 when compared with last quarter, suggesting an improvement over the coming months. This is supported within our own dataset **with trade supply chains forecasting a 5.5% increase in their tender workload** over the course of the next year.

That being said, although workload is expected to strengthen, issues from legacy inflation are still impacting suppliers. According to the Insolvency Service, insolvencies in the industry are now 33.9% greater in Aug24 when compared with pre-pandemic levels in 2019, and the recent high-profile administration of ISG, a tier 1 contractor, will continue to impact the supply chain over the coming months. To aid in mitigating against these impacts, using SCF's transparent procurement portal, the framework continues to demonstrate added value for our clients. We have been able to identify ISG suppliers working across our projects and are supporting clients and contractors to ensure they can minimise their risks and exposure. We have also reviewed and reinforced our strict payment charter to ensure subcontractors are fairly paid, within industry leading timeframes.



SCF Top Tip

When reviewing a procurement route, ensure to select a framework that prioritises fair payment practices. Although financial monitoring is useful in establishing supply chain health, forewarning of financial stress can be seen through slow supply chain payments and negative behaviours. As a result, the SCF continues to monitor payment time on its projects, take a look at our Fair Payment Charter to learn more.

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Building Cost

Throughout Q3, building cost has remained relatively stable when compared with recent times with an average increase of 1.6% across all trades. The trades with the largest increase include:

- **M&E 3.6%**
- **Drylining 3.5%**
- **Brickwork 2.5%**

Our Q2 report detailed the challenges the M&E market is currently facing such as a spike in copper prices and a significant labour shortage; unsurprisingly these issues have remained prevalent throughout Q3 and are still reflective in package prices. M&E build costs are now 5.5% larger than this same time last year, and for a package responsible for such a large proportion of a construction contract it is important that clear procurement strategies are defined early for this key package.

In comparison to the Consumer Price Index, annual inflation in Aug24 was at 3.1%, with our trade suppliers reporting building cost at 4.5% greater when compared with the same time last year.

The trades with the greatest annual increase include:

- **Brickwork 7.7%**
- **Roofing & Cladding 7.2%**
- **Drylining 6.6%**
- **M&E 5.5%**

With the Department for Business & Trade reporting material prices for All Work construction falling by 1.1% over the course of the year to August 2024, this suggests that a rise in build cost is being triggered by other factors such as labour. According to BCIS, the Labour Cost Index is expected to increase by 16% from Q3 2024 to Q3 2029.

scf Consult

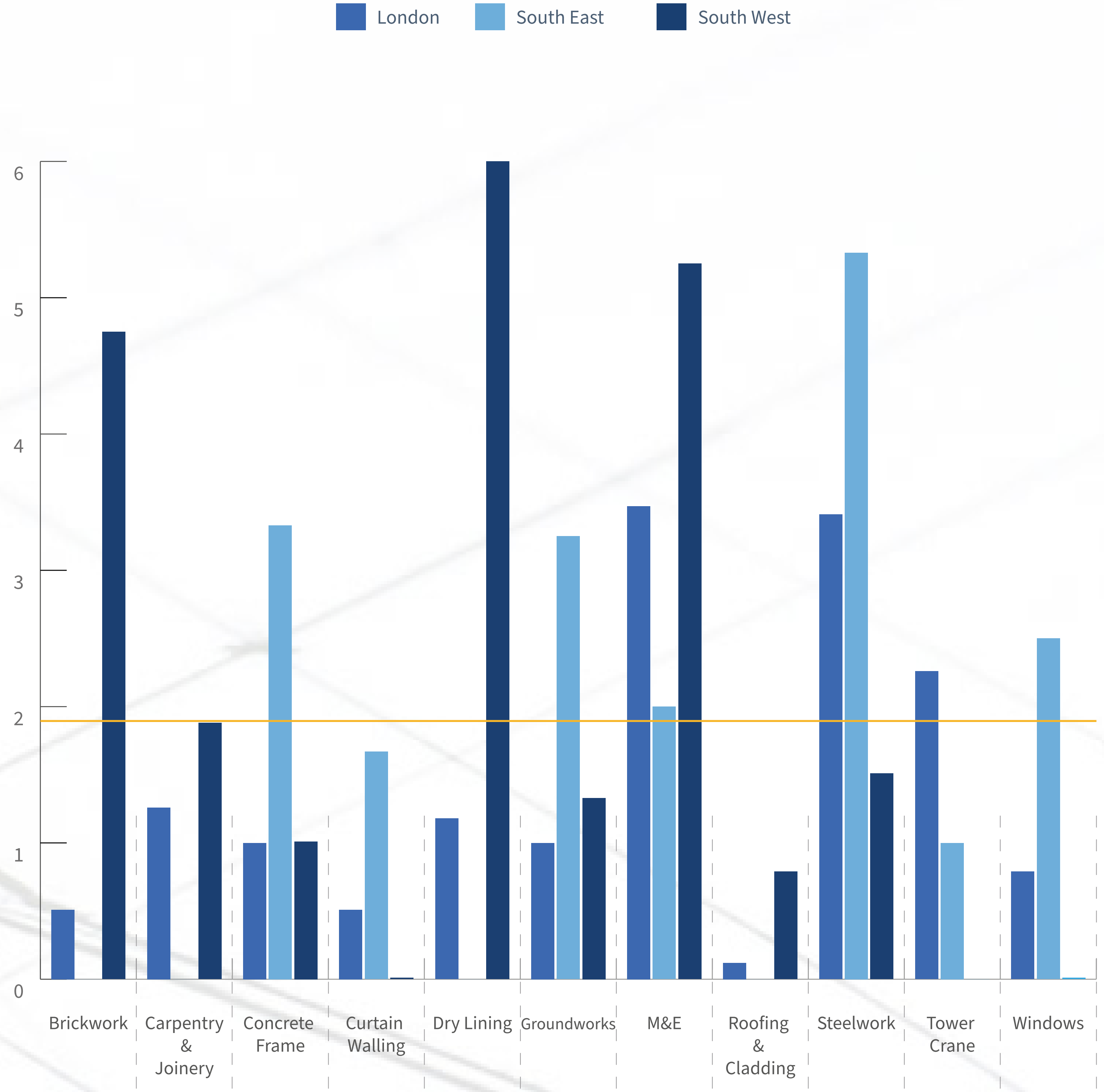
Corstorphine & Wright

One of the biggest factors affecting the viability of construction projects is the ability to move quickly and avoid cost increases due to construction inflation, which in turn reduces confidence in the supply chain. To mitigate this risk, we recommend the following:

- ☑ **Early engagement of the consultant team:** Utilise the framework to appoint quickly.
- ☑ **Early engagement with contractors:** Demonstrate traction and positive messaging to the supply chain.
- ☑ **Consider surveys from the inception:** Reduce planning delays.

The Building Safety Act is putting increasing pressure on program timelines and risk allocation by contractors. By securing a competent BSA Principal Designer (PD) appointment at RIBA stages 0-1 (ideally from your architect), you can mitigate this risk and associated costs, allowing the project to run smoothly.

Building Cost % Change since Q2 2024



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Employment

Employment increased by an average of 1.5% when compared with the same time last year. The trades with the largest annual rise were:

- **Groundworks 9.7%**
- **Carpentry & Joinery 2.1%**
- **Concrete Frame 2.1%**
- **Steelwork 2.1%**

Although an average increase in employment may suggest growth, it is important to note that similarly to measured tender workload, change in employment across different businesses was highly variable this year. This likely reflects the diverse approach of businesses in their appetite for tender workload.

In addition, with a high number of businesses entering into administration and workers forced to seek employment elsewhere, our data will also capture those workers finding re-employment with other businesses rather than indicating only an expanding workforce.

This quarter, **M&E firms reported the largest increase in employment at 3.5%**, this is alike last quarter which too found M&E to be the greatest employer.

Analysis by Mace Consult has shown the workforce in the industry continues to age. An aging workforce poses the ongoing question of how the construction industry will meet its skills gap in the coming years. SCF continues to mandate employment and skills plans on all projects to provide opportunities for those within the community and has seen the potential of new T-Levels supporting young people to get into construction. In line with this, SCF trades forecast an increase in employment of 2.9% over the next 12 months.

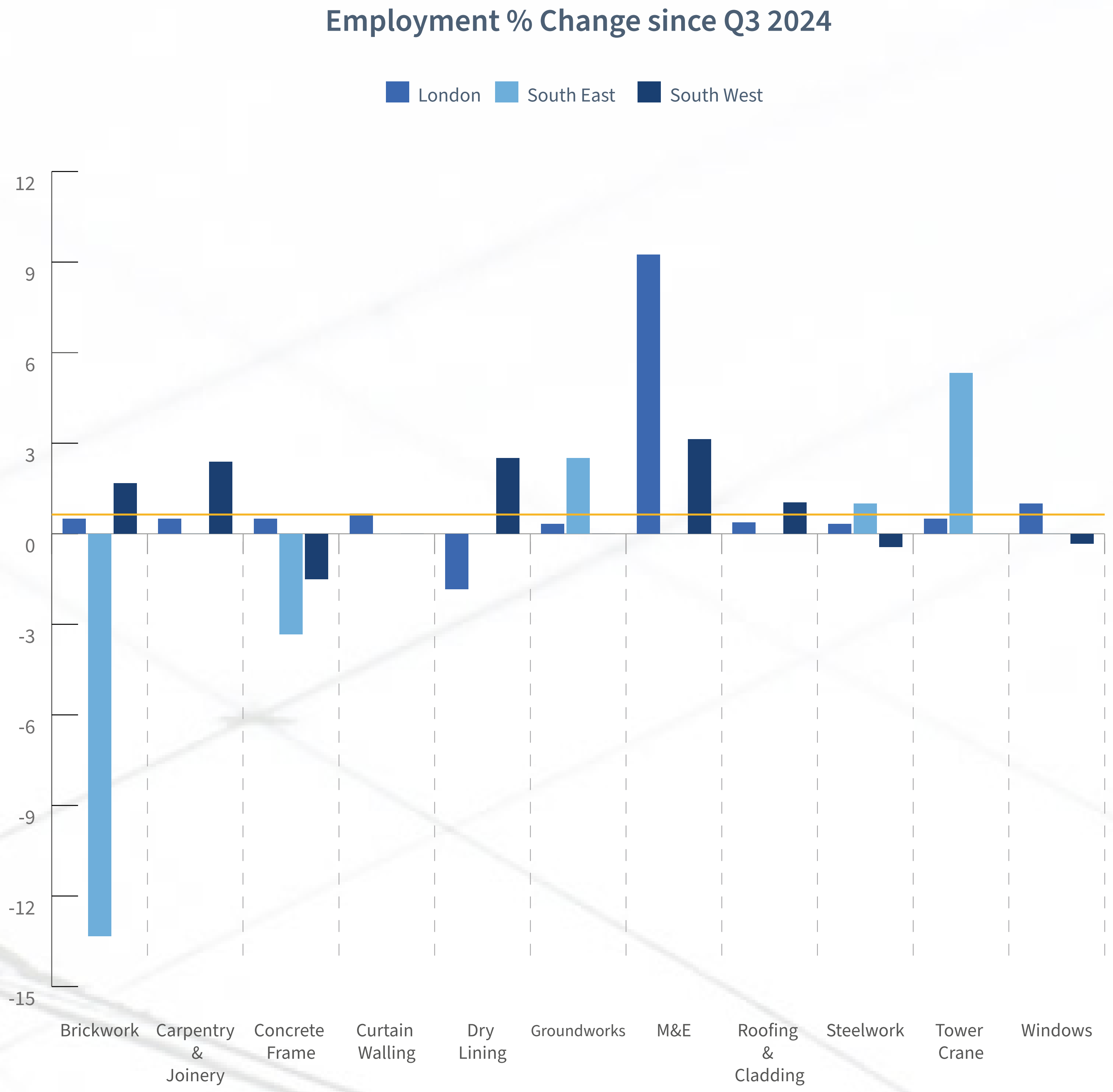
The trades with the largest anticipated increase include:

- **Brickwork 4.8%**
- **M&E 5.0%**
- **Tower crane 4.1%**
- **Groundworks 3.6%**

This anticipated rise in brick workers is likely derived from the expected 8.2% increase in tender workload for the trade. Although recovery of the private residential sector has been stifled by high interest rates this past year, the sector is expected to improve come 2025. In addition, the government's plan to invest £500m into the Affordable Homes Programme will help contribute to recovery.

SCF Top Tip

In collaboration with Local Supply Chain portal, our framework partner Kier developed an Apprentice functionality on the portal designed to attract and record apprenticeships. This tool not only facilitates more apprenticeship completions but also ensures better matching of apprentices to opportunities. By leveraging this Apprentice functionality, we can better support the evolving needs of the construction industry, ensuring a skilled and adaptable workforce for the future.



Material Availability

Material lead times have remained consistent over the last quarter with 8 out of 11 surveyed trades reporting no change. The trades with the largest increase include Brickwork (+1.5 weeks) and M&E (+ 1 week).

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Looking Ahead

Tender workload

Tender workload is forecast to increase by 5.5% by Q3 25. The trades with the largest expected increase include:

- **Brickwork 8.2%**
- **Windows 8.1%**
- **Curtain Walling 6.7%**
- **Groundworks 6.5%**

The rise in Brickwork can be attributed to the anticipated recovery of the private residential sector.

Employment

Trade suppliers forecast employment to increase by 2.9%, the trades with the largest increase were:

- **M&E 5.0%**
- **Brickwork 4.8%**
- **Tower Crane 4.1%**
- **Groundworks 3.6%**

Building Cost

Building cost is anticipated to increase by 4.3%, the trades with the largest increase included:

- **Brickwork 6.3%**
- **Windows 5.8%**
- **Drylining 5.8%**
- **Curtain Walling 4.4%**

Material Availability

Material lead times are expected to remain constant over the next 12 months with 7 of 11 trades forecasting no change in material lead time. The trades with the anticipated increase in lead time are Carpentry & Joinery (+ 2 weeks) and Windows (+ 1 week).

SCF Consult: Look Ahead

Despite the ongoing fiscal tightening expected over the next five years, October's Budget provided a significant boost in capital investment. While this tightening means that conditions for the public sector will remain challenging, there will be more opportunities for new construction projects than seemed likely following the previous Budget. Over the next five years, capital investment is due to rise by over £100 billion, including a 9.9% real terms increase in 2025-26. We will have to wait until next Spring's Spending Review to get more detail about the split across different departments, but for the next fiscal year health and education will both see double-digit increases. By contrast, the real terms capital expenditure budget for Housing, Communities and Local Government will only be 0.9% higher in 2025-26 than 2024-25. As a result, new education and health projects are much more likely to occur than those linked to MHCLG. Overall, both the Bank of England and the Office for Budget Responsibility expect near term growth to pick-up as a result of the Budget. The OBR is particularly positive, and forecasts GDP will grow 2% next year, well above the Bank's revised up 1.5%.

Yet while the government's plans on increased investment are welcome, there are also concerns around what some of the other announcements will mean. In particular, the rise in Employers' National Insurance will hit the labour market. With increased employer costs, demand for staff is likely to ease, with firms similarly keeping a lid on any pay rises. Businesses will also try to respond to higher costs by increasing prices. However, how much they will be able to pass on such price increases is unclear, and the Bank of England suggests that current demand in the economy limits the potential for it. Nonetheless, along with other announcements in the Budget, such as the rise in single bus fares, the Bank has noticeably updated their inflation forecasts. By increasing peak inflation by around 0.5% and pushing back when inflation will sustainably ease to the 2% target, the likelihood is that interest rates will stay higher for longer. As well as housebuilding being particularly sensitive to higher interest rates, tighter credit conditions, which are one of the reasons for the recent increase in insolvencies, will continue to pose challenges to firms dependent on borrowing.