

UK CONSTRUCTION INDUSTRY REVIEW Q1'23

Tryg | Garanti

COST OF LIVING RETENTIONS
COMPETITION
LEGISLATION COMMERCIAL
INFLATION SUPPLY CHAIN
FUNDING **DECISION MAKING**
ENERGY **INFRASTRUCTURE**
DELAYS HOUSE-BUILDING
PAYMENT PRACTICES LABOUR



PMI – Drop to 48.4 vs 48.8 Dec/22

- House-Building at 44.8 = steepest rate of sector contraction since May/20
- Commercial at 48.2 = drop for first time in 5-months
- Civil Engineering at 49.7 = close to stabilisation

CONTRACTOR	NUMBER OF AWARDS	TOTAL (£M)
BALFOUR BEATTY	1	1,200
WINVIC	3	271
WILLMOTT DIXON	20	255
MACE	2	236
ISG	10	168

BARBOUR ABI DATA

Data from Creditsafe shows 15x construction companies filed for administration in January

In the opening month of 2023 Sir John Armitt was reappointed chair of National Infrastructure Commission (NIC) for further 2yrs having served in position since 2018. The NIC is responsible for providing expert advice to UK Government on infrastructure challenges with Autumn set to see its publication around the UK’s long-term economic infrastructure needs through a 30yr strategic vision

Jan/23 current infrastructure project updates included:

- Manchester Airports Grp (MAG) announcing £440m investment in Manchester Airport for the final phase of its 10yr £1.3bn Transformation Programme
- Within the Lower Thames Crossing (LTC) project – Balfour Beatty secured £1.2bn-contract to deliver Roads North of Thames’ package making it responsible for design & build of over 10-miles new highways. This award saw the Grp hit first place in the top 5 contractor awards by value table for Jan/23 (left)
- A Pontins holiday park near the large-scale Hinkley Point C site will now be shut to visitors for the next 3yrs as it becomes home to 900x construction workers while the new nuclear plant continues being built

Progression of these flagship schemes added value to Construction Industry Training Board’s annual Construction Skills Network (CSN) report which showed 44,980 new workers-a-yr needed to meet UK Construction demand between now - 2027

Alongside the volume of labour required, equally important will be the training & skill-set. Jan/23 announced +60k industry skills cards issued under Grandfather Rights process will be expiring 31/Dec/24 & unable to renew. The ending of all CSCS Industry Accreditation cards issued from 1/Jan/20 is part of Construction Leadership Council’s drive for fully trained & competent workforce as these cards could have been received on strength of employer recommendation versus actual achievement of recognised qualification

Focus on productivity, sustainability and overall “greener” Industry is the key driver moving forwards but this requires different skill-sets to the traditional ways of working which needs addressing. In Jan we saw the Crown Estate sign agreements for leasing another 6x wind projects in seas around the UK which have potential to power +7-million-homes. And the Government also announced £1bn to create “sustainable” hospital capacity in NHS England with a report saying local bodies should make use of modular buildings where possible. These less traditional sectors & methods of working will require upskilling to existing workforce & evolved training to entrants

A challenging start to 2023 for the steel sector saw Liberty Steel announce plans to cut 440x jobs & suspend manufacturing at its plant in South-Wales. British Steel said with immediate effect it was placing £75-a-tn structural steel price hike due to continued rising steelmaking-costs. And there were reports UK Government was set to hand both British Steel + Tata Steel £300m financial support each through instalments over next few-yrs. This proposals came with requirements for investment from both around future job security & greener technology adoption

PMI – Rise to 54.6 vs 48.4 Jan/23

- House-Building at 47.4 = output dropped for third consecutive month
- Commercial at 55.3 = steepest growth in 9-months
- Civil Engineering at 52.3 = returned to growth

CONTRACTOR	NUMBER OF AWARDS	TOTAL (£M)
BOUYGUES	2	334
MORGAN SINDALL	20	280
VOLKERWESSELS	3	198
BALFOUR BEATTY	13	177
MACE	2	156

BARBOUR ABI DATA

Data from Creditsafe shows 30x construction companies filed for administration in February

Feb/23 saw UK Government release several proposed reforms to existing payment reporting laws including making main contractors publish retention payment policies & release records + forcing firms to separately report on payment times on disputed invoices. Reminder of how failures impact cashflow came through updates KPMG reached settlement with liquidator of Carillion over its legal battle involving alleged negligence around audits

Current infrastructure projects released updates which highlighted inflationary pressures remained:

- HS2 = reports of further increased costs vs budgeted. Interim-chair Sir Jon Thompson became permanent in role + civils delivery director Mike Lyons stepped-down after +9yrs, replaced by David Speight
- Hinkley Point C = stated cost could reach £32.7bn in developer EDF's annual report vs 2022's figure £25-26bn
- Reported that at London's transport committee meeting in Jan/23 - TfL commissioner Andy Byford said the Body could not afford to finish the Elephant & Castle tube-station £150m upgrade job without capital funding. Along with this - all other proposed capacity upgrades not already started would be mothballed

There were calls from Parliament Members for more urgency to remediate school buildings at risk of collapse following Dec/22's Department for Education warning mainly around schools built 1945-70. Key issues outlined were roofs made of reinforced autoclaved aerated concrete - used regularly in years after World War 2 = weaker vs traditional concrete + expected 30yr-lifespan. Concerns were being recognised around Government funds to act

Cost of living also influenced activity, especially Feb/23's worst performing PMI subsector Residential, which saw:

- Rachel Maclean - MP for Redditch in Worcestershire - appointed Housing Minister following UK Government reshuffle = 6th MP to hold post in past 12-months & took over from Lucy Frazer
- Network Rail + Transport for London released plans to team-up & develop up to 20k new homes over next 10yrs
- London Mayor Sadiq Khan ordered all planning-apps for residential buildings +30m in height need 2nd staircase

Focus on energy + sustainability continued during the month:

- UK PM Rishi Sunak created new Department for Energy Security & Net Zero
- Government formally launched new energy efficiency taskforce to develop plans to reduce energy consumption 15% by 2030 vs 2021 levels across domestic & commercial buildings + industrial processes
- UK Government produced guidance on biodiversity net gain requirements which see from Nov/23 developers of all new housing, commercial + infrastructure developments in England required to assess habitats affected & their conditions before submitting plans - need to show how developers will deliver 10% benefit for nature
- Most major Road building projects in Wales were scrapped after Welsh-Government decided to increase priority to environmental concerns. Led by a Roads Review Panel – there was recognition for a shift in transport towards net zero + moving forwards the Welsh-Government would only consider future Road investment for projects that reduced carbon emissions + supported shift to public transport, walking & cycling
- Scottish Government legislation on energy & environmental standards came in force from 1/Feb/23 requiring all new domestic buildings in Scotland have 32% < carbon emissions vs Section 6 regs back in 2015 + non-domestic buildings must have 30-40% their electricity from renewable or low-carbon sources

PMI – Drop to 50.7 vs 54.6 Feb/23

- House-Building at 44.2 = rate of decline fastest since May/20
- Commercial at 51.1 = signalled increase but rate of expansion eased vs Feb/23
- Civil Engineering at 52.0 = fastest-growing area of construction output

CONTRACTOR	NUMBER OF AWARDS	TOTAL (£M)
GALLIFORD TRY	9	395
WATES	9	306
MORGAN SINDALL	15	269
McALEER & RUSHE	3	240
TILBURY DOUGLAS	7	214

BARBOUR ABI DATA

Data from Creditsafe shows 38x construction companies filed for administration in March

One area of the energy sector which saw key developments during the month was Nuclear:

- Within Mar/23's budget Chancellor Jeremy Hunt launched the Great British Nuclear (GBN) - new body first announced 2022 will support development both small & large projects with initial focus on Small Modular Reactors (SMR). Chancellor added Government would re-rate nuclear projects as sustainable meaning having same investment incentives – such as tax breaks – currently enjoyed by renewable energy projects
- UK & EU-based Newcleo which develops SMRs announced equity raise up to £900m = developing lead-cooled fast nuclear reactors + plans to manufacture fuel from nuclear waste. Firm said it filed application to UK Office for Nuclear Regulation for approving its technology
- Government regulator granted first set of environmental permits for proposed Sizewell C station paving way for NNB Generation Company (Sizewell C) Ltd to apply now for range of environmental permits

Busy month for Competition and Markets Authority (CMA) saw it fine 10x demolition contractors total nearly £60m following few-yrs investigations. It also launched reviews into house-building sector due to worries developers not building enough homes including issues faced by smaller regional firms in England, Scotland + Wales. Although linked – separate CMA scheme opened looking into consumer protection for those renting their properties

Other notable mentions within the residential sector during Mar/23:

- +40x Industry organisations combined to create National Retrofit Hub to “promote best practice among builders repairing old homes” with intention to ensure enough resources to deliver nationwide work required
- UK Government begun consulting on Infrastructure levy which set to replace section 106 contributions for most developments – increases developer funding to Local Authorities supporting infrastructure in areas of their allowed developments with amount calculated once project complete vs when planning permission agreed
- After being sworn in First Minister 29/Mar, Humza Yousaf selected East Lothian MSP Paul McLennan as Scotland's first Housing Minister following decision to make housing brief standalone

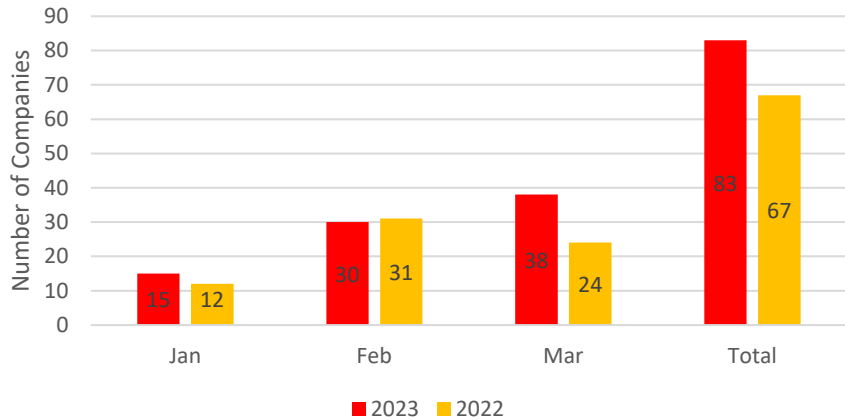
Proposed ban on single staircases in residential blocks +30m was said expected to come into force across UK soon as Oct/20 following London Mayor Sadiq Khan's decision to implement with immediate effect from Feb/23 – impacts seen already this month included: Housing Association Peabody warning short-term delay to c.4k-homes, developer Berkeley saying no longer focusing on tower schemes & build more low-rise developments in future, architect Bell Phillips redesigning 1,100-home Church Street regen-scheme for Westminster Local Authority, developer Landsec submitted revised designs for 1,800-home O2 shopping-centre redevelopment to Camden council

Inflationary concerns saw UK Transport Secretary Mark Harper delay several schemes including £7bn Lower Thames Crossing project by at least 2yrs with Balfour Beatty only being awarded a lucrative contract Jan/23. But it was the HS2 project seeing most publicity:

- £7bn Phase-2a Birmingham - Crewe leg delayed 2yrs casting doubts over Phase-2b Crewe - Manchester plans
- Full operation of London Euston site pushed back in line with delivery alongside Phase-2b

Q1'23 SUMMARY

Q1 Construction Company Administration Filings



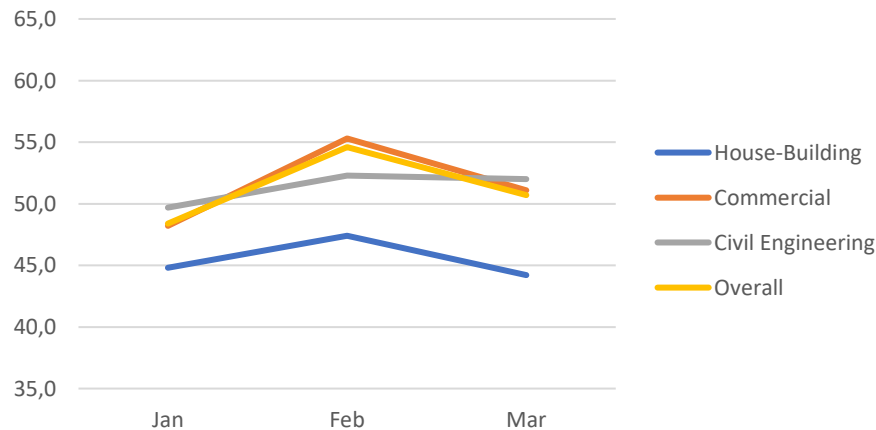
The Glenigan Index showed construction starts during Q1'23 - volume of work beginning on site - at the lowest quarterly return in 10yrs. This Index discounts schemes +£100m in value & adjusts for seasonal fluctuations to provide a more reliable result. It is recognised by many that figures such as this – which sit alongside other concerning Industry stats – are not surprising given challenges seen + outlined within this review

The impacts of these pressures being experienced have resulted in unfortunate failures – the below outlining one of the names for each month this Quarter within Creditsafe's results which is graphically presented on the left:

- JAN/23 – S & I GROUNDWORKS, ENGLAND, WEST-MIDLANDS = cited impacts of Covid-19 pandemic, war in Ukraine, cashflow pressure caused by cost inflation + increased competition for key staff as reasons for its financial difficulties. According to its website the Burton-on-Trent based business worked on projects with leading housebuilders including Barratt Homes, Crest Nicholson, Vistry + Gleeson
- FEB/23 – TOLENT PLC, ENGLAND, NORTH-EAST = administrators said Grp been "battling severe headwinds" including rising costs, labour shortages + failures within their supply chain "all of which unfortunately resulted in one of its major contracts becoming loss-making" which is the £85.5m Milburngate development in Durham. These losses were said to have "profound impact on Working Capital" of Grp which with FYE'12/21 consolidated turnover £198m placed it 67th in CNPLUS's Top 100 UK contractors table 2022
- MAR/23 – JESSELLA LTD, ENGLAND, EAST OF ENGLAND = specialised in facade contracts up to £15m having worked on number of major residential jobs across London + South-East regions. Within the latest FYE'03/22 filed in Dec/22 the firm recognized its projects impacted by "inflationary increases in staff & materials costs" + struggled with "increased use of subcontractors to help fulfil contracts"

Q1'23 PMI Breakdown

Score >50 = Growth since previous month



One common theme for these failures is cost rises – also behind the weakest sub-sector performance within Q1's PMI breakdown (left) in House-Building as "respondents cited fewer tender opportunities as rising borrowing costs + subsequent slowdown in new projects". Despite the weak residential performance its worth noting Mar/23's PMI showing further uplift in total new work received by construction companies with rate of rise the 2nd-fastest since Jul/22. This ties in with comments within Construction Leadership Council's latest product availability statement – where the Grp said construction firms had dealt with Q1'23 demand higher vs predicted at close of 2022

Large funds were announced by UK Government during Q1 to support energy efficiency drives to Local Authorities + Housing Associations across England. Alongside this - further support through Public Sector Decarbonisation Scheme to focus on buildings such as schools + hospitals. As shown throughout this report – clear focus is being placed on energy & sustainability with Commercial sector showing enhanced offerings to projects this Quarter

But the key will be decision making & policies. In Mar/23 a Victorian Society director said "existing tax regime includes 0% VAT on demolition & rebuild vs 20% VAT on Repair & Maintenance = perverse incentive for landowners + developers". Industry operators need the business model to support their cash-flows not weaken them. And finally, commitments to infrastructure are key to ensure the current leading sub-sector Civil Engineering continues its growth, monies flow through supply-chains + confidence provided to allow positive business decisions

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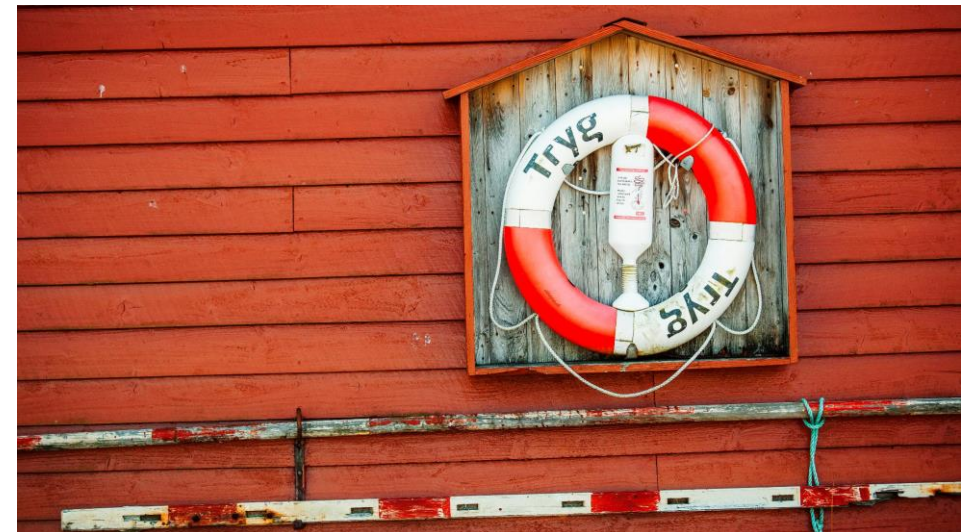
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