

# UK CONSTRUCTION INDUSTRY REVIEW Q3'23



PMI – Rise to 51.7 vs Jun/23 48.9 = highest level since Feb/23

- House-Building at 43.0
- Commercial at 54.4 = strongest rise since Feb/23
- Civil Engineering at 53.9

CONTRACTOR	NUMBER OF AWARDS IN MONTH	TOTAL (£M)
McLAREN	2	388.0
McLAUGHLIN & HARVEY	3	378.0
SKANSKA	4	219.5
MACE	4	168.9
WATES	10	159.7

BARBOUR ABI DATA

Data from Creditsafe shows 29x construction companies filed for administration or receivership in July

Jan/2018 will forever be remembered for Carillion Grp's collapse but the legacy remains from reminders on impacted projects, questions over financial reporting & reliability of rules, and continued demands for more legality over company owner behaviours & actions which influence failures. On this last point - 5.5yrs on we saw action reported during the month against two influential Grp-board members around the time of Carillion's fall as the Insolvency Service oversaw former Grp-FD Zafar Khan banned from being company director for 11yrs + former Grp-FD Richard Adam disqualified for 12.5yrs

Much like the time taken when investigating company failure fall-outs - UK's drive for enhanced renewable/sustainable energy model follows a similar gradual progression as Jul/23 included multiple developments:

- Tata Grp confirmed £4bn gigafactory plans in Somerset to provide c.50% of UK's battery production needed by 2030
- UK Government support into Nuclear saw: Great British Nuclear official launch 18/Jul; competition for funding & support to develop small modular reactor technology; £170m injected into Sizewell C to quicken project preparation
- BAM Hitachi Energy JV won race to build 2x major converter-stations for the planned electricity superhighway project from Peterhead in Scotland - Drax in Yorkshire. This Eastern Green Link 2 (EGL2) project sees both the longest HVDC cable in UK + UK's single largest electricity transmission project ever. EGL2 is one of 4x Eastern Green Links proposed between England – Scotland
- Energy infrastructure developer Carlton Power got local planning approval to build what is claims the world's largest battery energy storage scheme with its 1GW project at Trafford Low Carbon Energy Park in Greater Manchester
- The Acorn project in Aberdeenshire received funding from Government to become Scotland's first carbon capture facility

But it wasn't all positive project progression as one of England's biggest offshore wind farms halted given 40% cost rises experienced. Swedish energy giant Vattenfall said it was suspending work on its 1.4GW Norfolk Boreas scheme which is first of 3x UK wind farms this Grp has planned totaling c.£10-11bn investment. As we know, cost rises have also been a key drivers for opposition to HS2 project which saw its CEO Mark Thurston announce after 6.5yrs in the position that he would step down end-Sept/23. Other notable schemes impacted by inflation in the month were:

- Lendlease Grp's restoration of Manchester's grade1-listed town hall was now over contingency budget as Grp asked for £29m immediate interim cash for completing some key works needed before being able to produce final cost estimate to City Council which is expected Jan/24
- Developer Sunset Studios' owners said plans were on hold to build its £600m film production base in Hertfordshire after ISG signed Pre-Construction Services Agreement late/2022

And finally, housebuilding challenges impacted supply-chain as Redrow Grp said it would shut 2 of its 14x regional divisions within restructures seeing jobs go "across the business". Materials firms Breedon, Forterra + Marshalls also commented on future results falling given sector's performance with latter 2x Grp's also announcing job-cuts + both closing a factory. All this while Michael Gove made a few announcements which will influence the sector moving forwards:

- Overruled the Planning Inspectorate + rejected Marks & Spencer's plans to replace its Oxford Street store in London given carbon emissions of demolition vs refurbishment = expected to be material in future planning considerations
- 2<sup>nd</sup>-staircase for high-rise residential schemes in England now needed for buildings above 18-metres vs prev 30-metres
- Confirmed "super-squad" team of leading planners & other experts to work address bottlenecks within planning system



PMI – Drop to 50.8 vs Jul/23 51.7 = new orders fall at fastest pace since May/20

- House-Building at 40.7
- Commercial at 54.2
- Civil Engineering at 52.4

CONTRACTOR	NUMBER OF AWARDS IN MONTH	TOTAL (£M)
SIR ROBERT McALPINE	3	458.0
ROYAL BAM	9	312.1
MORGAN SINDALL	15	275.9
WILLMOTT DIXON	8	221.0
ISG	9	186.7
BARBOUR ABI DATA		

Aug/23's PMI showed the largest fall coming from residential sector as its supply chains continued taking action:

- Both Travis Perkins + Ibstock saw their H1'06/23 results impacted by the reduced new-build market as the latter Grp also announced plans to shut down 1 of its 37x sites given weakened demand
- Developers Ecoworld London + Bellway both released plans for redundancies with the latter Grp along with Crest Nicholson commenting on intended divisional restructures in line with market conditions

The most spoke about moment came as Michael Gove's stated planned deregulation of rules around nutrient neutrality - with many supporting the move but also opposition arguing environmental considerations shouldn't be compromised

Less contentious however is the drive for renewable/sustainable energy with a very active month seen for the sector:

- Various projects saw good progression: installation of turbines at world's largest offshore wind farm Dogger Bank began; full onshore + offshore development consent gained for £2.1bn EGL2 subsea 2GW power link project between Peterhead in Scotland - Drax in England; Government released further £341m to assist site-preparation for Sizewell C nuclear power-station project; Scottish & Southern Electricity Networks (SSEN) Transmission confirmed 10x preferred bidders for £10bn onshore infrastructure upgrade through its Accelerated Strategic Transmission Investment (ASTI) framework
- It was a different story where Recharge Industries failed to make the final payment to seal their intended purchase of failed battery firm Britishvolt which put serious doubts around the stalled £300m plant in Northumberland restarting
- Claire Coutinho was appointed energy-secretary replacing Grant Shapps who was in the role 4yrs

Q2'23 report focused heavily on struggles seen within Modern Methods of Construction & Aug/23 unfortunately drew the attention back – this time around the legacy work of a failed contractor in Caledonian Modular (now apart of JRL Grp):

- Sir Frederick Gibberd College in Harlow, Essex; Haygrove School in Bridgwater, Somerset and Buckton Fields Primary School in Northampton – all built by Caledonian Modular (CM) were ordered to close following concerns around structural irregularities as technical surveys identified safety concerns
- Following the closures – Government launched an investigation into CM's build quality & practices saying "issues weakened ability of buildings (now closed) all built using modular units to withstand adverse events such as very high winds or significant snowfall" = as a results the Dept for Education was now reviewing their contracts with the bust business to identify where CM may have been involved

Further issues for schools followed as +100x faced threats of immediate closure by Government given presence of Reinforced autoclaved aerated concrete (RAAC) after beams thought safe collapsed at a site during the summer holidays prompting mass concern – the material was heavily used within schools built 1950-90s & hold a life span c.30yrs

There was a similar feel of uncertainty in Northern Ireland as their Dept for Infrastructure put 17 of its 28x planned schemes on pause with all 17x impacted being Road Building + reasoning for decision given both financial & environmental constraints. And celebrations were seen at first after UK Government said its initial plans to enforce switching of CE marking on products & services to UKCA no longer in place with Industry firms now having the option. But celebration quickly became confusion after CPA CEO Peter Capelhorn said announcement did not apply to construction products sector meaning recognition of CE mark for construction products only continued until 30/Jun/25 when UKCA becomes mandatory

Data from Creditsafe shows 44x construction companies filed for administration or receivership in August

PMI – Drop to 45.0 vs Aug/23 50.8 = industry activity declined at fastest pace since May/20

- House-Building at 38.1 = aside from the pandemic – fastest drop since Apr/09
- Commercial at 47.7 = fastest fall since Jan/21
- Civil Engineering at 45.7

CONTRACTOR	NUMBER OF AWARDS IN MONTH	TOTAL (£M)
HIGGINS	2	251.0
MORGAN SINDALL	16	197.0
VISTRY	1	150.0
ROYAL BAM	3	105.0
NEWRY CONSTRUCTION	1	100.0

BARBOUR ABI DATA

Data from Creditsafe shows 28x construction companies filed for administration or receivership in September

Q3/23's final month saw the residential sector grab headlines once more as challenges clearly remained:

- House of Lords voted 203 to 156 against Michael Gove's Aug/23 plans to relax nutrient neutrality rules
- Berkeley Grp admitted to not purchasing any land since 1/May/23 given "uncertainty around regulations & the economy"
- Operational shifts by Vistry Grp + Scotland focused Springfield Properties who both announced removing activity in private housing & attention turning to partnerships + affordable housing sectors respectively. And the attraction of this former segment was further seen as Galliford Try formally announced plans to re-enter partnership housing
- Inland Homes PLC lost its fight to turn things around by filing a Notice of Intention to appoint administrators 27/Sept

Alongside partnerships/affordable housing - another asset class viewed holding value is Purpose Build Student Accommodation (PBSA) with lack of stock to meet demand a known issues = Sept/23 key project progressions include:

- Developer Urbanest selected JRL Grp's Midgard to deliver the largest PBSA-scheme in Europe called Urbanest Canary Wharf with £250m trio of towers which will also become Europe's largest Passivhaus development
- RG Grp was awarded 660-bed 45-storey PBSA-scheme in Leeds called Cirrus Point by developer Olympian Homes + investor Cain International which will be the world's tallest PBSA building + tallest building in Leeds
- Other mentions: Q Developments gained planning approval for 540-bed 27-storey Salford Steps; Investor Tri7/developer Fusion Students JV submitted plans redeveloping The Core shopping centre in Leeds incl 807x student-beds

Development of infrastructure to support targeted increased renewable/sustainable energy usage was making the news:

- UK Government's annual auction event saw no new offshore wind projects bought by developers as disputes continued over prices set for electricity generation making sites unviable. Deals were secured for solar, tidal + onshore wind
- Better showing for existing offshore schemes was seen as the biggest renewable energy infrastructure investment in Wales for +10yrs was approved by Government with Awel y Môr project off coast of Llandudno
- UK's Prime Minister confirmed current "ban on onshore wind" lifted following Energy Bill amendments. Redesigned build rules which originally saw English Local Authorities able to reject applications with even 1x sole objection now requiring whole community considerations + allowing developments brought forward in multiple ways vs solely through local plans
- £2.5bn Eastern Green Link 1 project appointed US based GE Vernova / Greek engineer Mytilineos JV to build 2x major converter-stations for transmission cable project from Scotland to Durham
- National Grid appointed Arup + Aecom to deliver management of environmental impact assessment for it's Grimsby to Walpole £1bn upgrade project where new high voltage overhead-line is being built in Lincolnshire

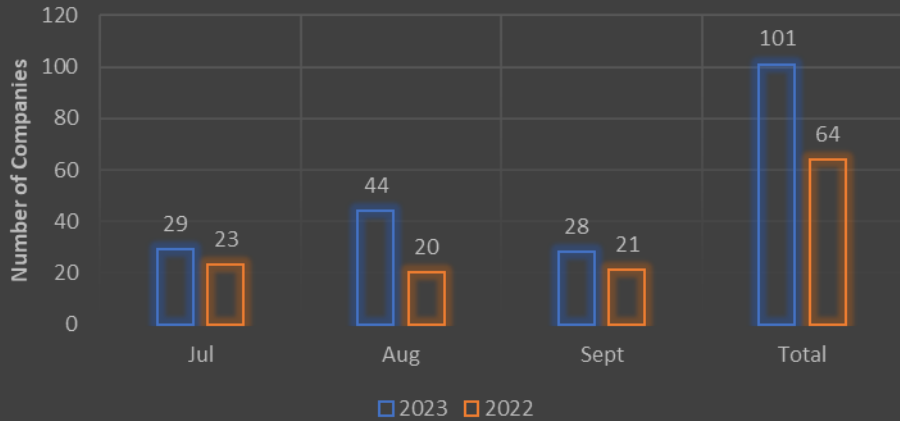
But Sept/23 did see Industry stakeholders complaining about high-profile ongoing & decisions creating overall uncertainty:

- Construction Industry Training Board (CITB) said next vote on plans for its levy set Feb-Apr/24 will now be held 2025 after an ongoing review by Whitehall into its future needs - releases its findings Jan/24
- Dept for Environment, Food & Rural Affairs (Defra) confirmed leaked reports UK Government delaying introducing mandate to deliver 10% Biodiversity Net Gains on all sites contained in 2021 Environment Act to Jan/24 from Nov/23
- UK Prime Minister first announced relaxed UK net-zero emissions by 2050 targets bringing serious questions over the intent by Government + impacts to projects. And then refused to commit HS2's Birmingham to Manchester segment adding further anger & questions to the Industry's overall pipeline moving forward



# Q3'23 SUMMARY

## Q3'23 Construction Company Administration/Receiverships



This report started by recognising the legacy of Carillion + within increasing failures seen during Q3'23 (top-left graph) we saw the biggest hit in UK contracting since its collapse as Buckingham Grp Contracting entered administration 4/Sept. Key driver here was issues on large-scale projects impacting cash-flow. The collapse will draw attention to schemes holding long durations, large volume supply-chains + material liquidated-damages consideration – is the level of risk comfortable? More focus should also turn to receipt payment structures vs timings of payments to supply chains – is the job's cash-flow cycle workable? Administrator update late-Sept showed fallout including roughly £86m of potential bond claims from around 52x uncompleted contracts

Issues were not only seen on the private side as 5/Sept/23 saw reports of Europe's largest local authority Birmingham City Council issue section 114 notice effectively declaring itself bankrupt & stopping all new spending. This latest Council casualty was blamed on £760m bill for equal pay claims, installation problems with new IT system + £1bn cut-backs from Government support over past decade. And it's important to identify levels of work Industry collapses had in the public sector given the impact that ultimately flows - Jul/23 saw East-Midlands J. Tomlinson enter administration with analysis by Government contracts monitoring service Tussell showing that same month it had 24x live public sector contracts under way holding a combined value £235.6m

Importance of appreciating project risk being taken on, ensuring right price for sufficient margin generation + robust supply chain have been recognised in multiple reports released this Quarter. Companies taking on work offering thin margins + higher-risk supply-chain & project structures are being mentioned to face issues raising bonds necessary from surety providers

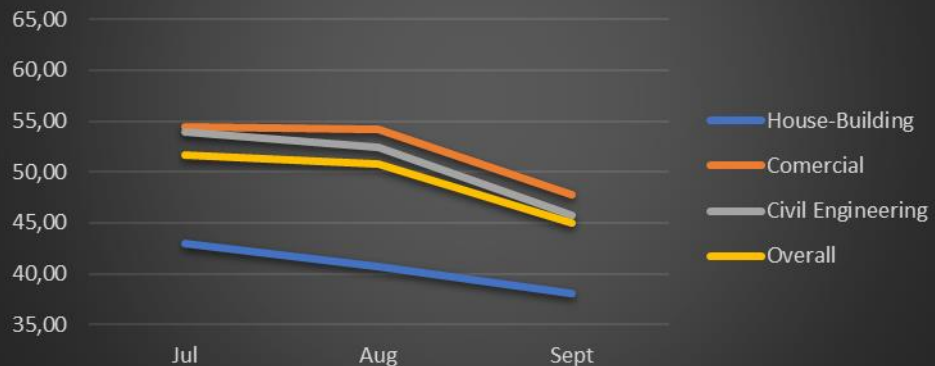
When decisions are made like the Marks & Spencer's Oxford Street redevelopment judgement, Biodiversity Net Gains ruling or changing height thresholds behind 2<sup>nd</sup> staircase requirements in residential projects – full understanding is important as impacts are felt for both current & future works. When further changes/amendments are seen down the line this only increases unease

This consistency is also needed in the drive to improved renewable/sustainable energy which saw multiple developments taking place but can't afford situations where lack of clarity impacts growth. Take the current Government strategy to reach net zero by 2050 = 25% of UK energy is still driven from oil & gas with emissions removal supported by Carbon Capture Storage facilities. The policy of Labour meanwhile is to stop all new drilling should they win the next general election. And Sept/23 saw current UK Prime Minister announced more relaxed UK net-zero emissions by 2050 targets vs earlier Government plans. Examples like these place serious question marks for investors & business commitments which impact scaling up & supply-chain developments

As residential sector's supply chains restructure to face uncertainty, from an operational side it also appears more confidence in affordable vs private developments. Relations formed with associations + local authorities offer combined wider skill-sets which only help combat various hurdles being seen at different stages of project cycles

UK Construction's health + challenges now & expected moving forwards were behind some global names announce structural reforms. Q3'23 closes with serious questions over flagship schemes such as HS2 developing as initially outlined which only supports caution seen by these company leaders. Industry needs more support & commitment from key clients like the Government to ensure no other sectors fall to performance lows being experienced within residential (bottom-left graph). Eyes are focused on key upcoming Government decisions as Industry also continues addressing fire-safety + RAAC legacy reworks

## Q3'23 PMI Breakdown Score >50 = growth since previous month



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