



Shaping public construction

SCF well placed to buck the trend in Glenigan Economic Forecast

Glenigans highline heading from their Construction Outlook Forecast for 2018 and 2019 suggested that the construction industry would contract through the latter part of 2018 into 2019.

2018 -6% 2019 -4%

Overall the market is forecast to contract this year and next, falling by 6% in 2018 and 4% in 2019.

‘Whilst overall starts will decline this year, growth is forecast in the education, health and civil engineering sectors. Growth will also be focused outside London and the South East, with project starts in the Midlands and the North of England being the strongest performing regions.’

SCF whilst aware of the slow UK economic growth and political uncertainty affecting the industry at present is confident in its placement in the industry. The framework has consistently delivered £500m / annum of projects since 2006 and currently on target to achieve around £700m / annum during this 4th generation.

SCF being a bold joint venture between Devon County Council and Hampshire County Council, draws on the authorities’ collective strengths and experience of running construction frameworks. This not only provides all public authorities in the South of England an efficient and modern construction procurement vehicle but also a reliable and repeatable service in its chosen market sectors. The continued success of the framework is dependent on the appointed 11 contractors delivering an effective, collaborative construction procurement vehicle to deliver up to £3.9 billion in the four-year life of the framework.

SCF provides one framework of three lots for major projects offering.

- Multiple projects / multiple clients
- Regional spread
- Variable project size and complexity
- Develop and Construct, Construct Only or CDP options



All partners are expected to be able to share the workload, delivering excellent service, and improving the Framework together. Please refer to scfsolutions.org.uk for more information.

The Glenigans report highlights the factors they attribute to having the biggest influence on the construction industry contraction as being the following:

- Business investment hit by slow UK economic growth and political uncertainty
- Weaker housing market activity and slowdown in the office sector
- Increase in logistics projects
- Major projects boost civil engineer workloads

Overall weakening in construction project starts during 2018 and 2019.

‘The value of underlying construction projects are forecast to fall back over the next two years amid persistent political and economic uncertainty and a weakening in housing market activity.’



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Table 1: Value of Underlying Project Starts by Sector
Source: Glenigan

£m	2016	2017	2018f	2019f
Private Housing	21,031	21,212	18,444	17,061
Social Housing	7,974	6,996	6,316	6,406
Industrial	4,364	4,460	4,275	3,880
Offices	5,273	4,444	4,124	4,129
Retail	2,636	2,405	2,128	2,093
Hotel & Leisure	3,305	4,165	3,752	3,545
Education	7,208	5,689	6,329	6,217
Health	2,602	2,155	2,474	2,334
Community & Amenity	1,221	1,513	1,098	1,262
Civil Engineering	7,953	5,663	6,139	6,115
Total	63,565	58,703	55,078	53,042

The report suggests that the weak UK economy will constrain construction activity during 2018 and 2019 undoubtedly caused by the political uncertainty affecting economic confidence. Please refer to **SCF Brexit Survey** on SCF website.

The economic uncertainty has also directly driven the stalling of the growth in real household earnings due to weak wage growth and higher inflation. Whilst real earnings are now rising, growth is weak. This is naturally expected to slow housing market activity and to impact on private housing starts.

Universities investment programmes are forecast to help drive growth in the education sector this year. The Russell Group of Universities is driving this HE spending boom. Glenigan's construction market data shows that construction has begun on 593 projects valued at a total of £4.3 billion for Russell Group members since 2014.

This trend is reflected within SCF range of projects as the table below illustrates during the period 2015 to 2018.

SCF Education Projects Since 2015	Value
Primary School	£231,428,221
Secondary/High School	£158,912,103
Further/Higher Education	£343,376,869

So 49% of all spending on HE construction projects starting in the last five years has come from the Russell Group. Interestingly there are 162 HE institutions in the UK according to Universities UK. The Russell Group make up just 15% of that number but have put in nearly half the capital investment.

Increased investment is also anticipated to expand the secondary school estate in order to accommodate rising pupil numbers, especially in the UK's major conurbations. This expansion is driven by the expanding population and the need for local authorities to provide school places. Councils constrained by limited funding and the availability of suitable sites, are likely to accommodate rising pupil numbers through the expansion of existing school sites. Planning approvals for schools fell sharply in 2016 and 2107, reversing a progressive rise in approvals during the preceding two years. This shrinking development pipeline will restrict new build starts in the near term.

However the first five months of 2018 have seen a 50% rise in the value of school projects securing detailed planning approval. This is expected to support school starts next year. SCF continues to cater for all education projects large and small. This flexibility in capability whilst still delivering repeatable quality procurement processes places SCF at the forefront of education project delivery.



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Case Studies here Withycombe Raleigh small school extension and Canterbury College Block 17 Higher Education project.

Warehousing and logistics premises are forecast to be a growth area as technological and social changes reshape consumers' retail habits and drive the demand for logistics space. Growth in this area will partially offset a weakening in manufacturing investment in factory premises.

Commercial office starts will also weaken this year, especially in London. However a recent rise in planning approvals suggests renewed confidence among investors in the longer term prospects for the sector.

Whilst the above are market sectors that the SCF remit does not cover, SCF benefits from the knock-on effect from funding to Local Authorities from planning approvals given to Retail, Commercial, Office, Warehousing and Logistics developments.

Major infrastructure schemes, including Thames Tideway, HS2 and Hinckley Point, are forecast to drive civil engineering activity over the forecast period. The value of smaller scale civil engineering projects starting on site is also expected to improve, having fallen sharply last year. Heathrow's third runway development, recently given the go-ahead, is not expected to contribute during the period covered by this report with initial works potentially commencing in 2023.

Longer term construction should benefit from increased public sector investment as the Government seeks to increase capital spending to improve UK competitiveness. Network Rail's £47 billion funding package for 2019 to 2024 is an illustration of the Government's commitment to greater investment in the built environment.

The main concern of the effect of long term major infrastructure schemes is the drawing in of available supply chain resource. SCF have identified this as a major concern for the industry going forward and to that end have carried out a number of supply chain surveys with their 11 contractors. SCF captures market intelligence from key trade packages across their framework projects. On a quarterly basis, information gathered by the contractors through their supply chain provides a snap shot of changes year on year, with a forecast for the coming year. The data provides a high level view of the possible factors that may affect SCF client's projects going forward, and allows them to understand any changes from the previous year.

Central to SCF is understanding the difficulty faced by SMEs and their respective routes to market. The framework's market intelligence reporting helps SCF understand how they compete and how clients can gain access to their skills and experience.

The Government has recently set out new reporting rules as part of a drive to increase construction industry spend with small businesses. The requirements are applicable to projects >£5m for a minimum package value of £25,000.

Please see **levelling the playing field for smaller businesses** on SCF website.

The construction industry is facing challenges from an aging workforce. The UK's impending departure from the EU has thrown the issue into sharper focus given the industry's reliance on overseas labour, particularly in London. Recruitment of overseas labour has already become more difficult following the referendum and the weakening in Sterling.

Reduced labour availability will add to contractors' costs and act as a spur for the greater use of off-site manufacture. To date every SCF project has been required to have in place a bespoke Employment Skills Plan (ESP) with the intention that every project benefits the community it is situated in as well as leaving a legacy after completion.

Additional to each project ESP, SCF contractors have a commitment to provide technical and trade apprenticeships in their businesses for each year of their membership of SCF. This commitment is a requirement for each lot and is a sizeable commitment to the future of the construction industry from the contractors and SCF.

SCF partners with Shared Apprenticeship Scheme providers to ensure that apprenticeship delivery is consistent geographically and across their projects.

Please see Shared Apprenticeship Scheme providers on SCF website

[CoTrain](#)

[TRaC](#)

[Evolve](#)

[SWSA](#)



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	By April 2015	By April 2016	By April 2017	By April 2018
Lot 1 South West	1 Technician Apprentice	1 Technician Apprentice	1 Technician Apprentice	1 Technician Apprentice
		2 Trade Apprentices	No further requirement	No further requirement
Lot 2 South East	2 Technician Apprentices	2 Technician Apprentices	2 Technician Apprentices	2 Technician Apprentices
		2 Trade Apprentices	No further requirement	No further requirement
Lot 3 London	2 Technician Apprentices	2 Technician Apprentices	2 Technician Apprentices	2 Technician Apprentices
		2 Trade Apprentices	No further requirement	No further requirement

SCF recognises that the construction industry needs to do more to address the gender imbalance in its workforce, particularly for the next generation of construction professionals. Statistics show that less than 7% of students on construction courses in further education in 2015/16 were female. (Source: Destinations of Construction Learners in Further Education CITB June 2017).

Please refer to **Championing diversity in the industry** on SCF website.

Key Recommendations

Glenigans Construction Outlook Forecast for 2018 and 2019 makes the following recommendations:

Overall construction activity will weaken over the forecast period, but there will be a sharp divergence in workload across different sectors and parts of the country. Logistics premises, build to rent, student accommodation, health, education and civil engineering are forecast to be areas of strong growth, with the north of England and midlands outperforming the UK as a whole.

SCF is naturally strong in some of the areas identified as potential growth areas for the industry going forward into 2019. Being located in the southern part of the UK naturally restricts access to the areas of strong growth identified. However, the ability to offer procurement of larger and smaller projects in many sectors provides SCF a sustainable pipeline into the future.

Companies will need to closely monitor and respond to shifting market conditions to maintain and build their order books. Investment in an effective CRM, digital marketing channels and a modernised salesforce will help firms to rapidly target emerging opportunities.

SCF captures market intelligence from key trade packages across their framework projects. On a quarterly basis,

information gathered by the contractors through their supply chain provides a snapshot of changes year on year. The data provides a high level view of the possible factors that may affect SCF client's projects going forward and a forecast for the coming year.

SEE link National Framework **Market Intelligence review 2017** and **NACF partner site** on SCF website

The UK's departure from the EU is exacerbating the difficulty in recruiting skilled site labour. This threatens to increase construction costs and disrupt the timely delivery of projects. Companies should invest in design solutions, site operating practices and offsite manufacturing options that reduce the reliance on site labour to safeguard the timely and profitable delivery of projects.

Aware of the need to develop standard design solutions and offsite manufacturing, SCF has developed and offer Class Space. An optimised primary school product was developed in response to the challenge of the rising demand for school places and reduced budgets. This offer is unique, and has been created by SCF for the benefit of schools in the south of England. It is the only optimised product offered by multiple contractors.

SEE link Document **Optimise your new School space** on SCF website



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The fall in Sterling has increased UK product manufacturers' energy and raw material costs as well as increasing the price of imported products. Firms will need to adequately reflect rising labour and construction costs when tendering for projects.

SCF as a NACF partner captures and shares market intelligence from trade packages across their projects. On a quarterly basis, information gathered by the contractors through their supply chain provides a snap shot of changes year on year, with a forecast for the coming year. The data provides a view of the possible factors that may affect projects going forward, and allow clients to understand any changes from the previous year. NACF brings together the UK's largest framework arrangements under a banner promoting good practice and efficiency in public sector procurement.

SEE link **National Framework Market Intelligence review 2017** on SCF website

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