

PROFESSIONAL FORUM: THE CONSTRUCTION INDUSTRY

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For the past two years the construction industry has endured a torrid time as private developers struggled amidst the recession. Lancashire Business View and Forbes Solicitors brought together some of the region's leading construction experts to discuss what the future holds for the sector and whether better times lie ahead. Chaired by LBV editor Ben Briggs, the roundtable discussion was held at Stanley House, Mellor.



PRESENT: Ben Briggs Lancashire Business View Robin Stephens Forbes Solicitors Ruth Rule-Mullen Forbes Solicitors Guy Parker Conlon Construction James Webber Barnfield Construction Steve Burke CPMK David Robinson Frank Whittle Partnership Norman Tenray OBAS Ged Ennis Low Carbon Energy Company Adam Scott Croft Goode Architects Richard Bowker Bowker Ltd Steven Padley Vinden Partnership

What is the current state of the construction industry?

Steve Burke: From a contractors' point of view it's inconsistent. We've had more enquiries over the last two or three months than we have had in 18 months. But to win the jobs is something else entirely. Jobs that were being negotiated 18 months ago are now being put out to tender and it's changing the rules for our company and it's changing our approach to how we win work. If we're not careful it's going to end up hurting the industry as a whole and there's going to be a lot of disputes coming up.

Robin Stephens: In the public sector particularly they're under specific regulations that make them put significant contracts out to tender. A recent report said that 70 per cent of local authorities had reported problems with contractors who had suffered from insolvency problems on jobs that were undertaken. That really highlights the point that if they squeeze the contractors down on price so much, they're going to find themselves with contractors who can't survive the process.

Steve Burke: It's not just contractors, its

architects and engineers who are saying that they have won a job and there's no way they can provide a client the service for the price they've gone in at. If everyone cuts things to the bone then that has a knock-on effect for people lower down the supply chain who also suffer.

Robin Stephens: There are specific regulations within the building trade that say a local authority can look at a particular

"There are a lot of firms fighting against each other in the tendering process without a great deal of clarity as to the outcome"

tender and even if it's the lowest one ask the question 'is it sustainable?' Just because it's low they don't have to accept it because it could be an unsustainable tender.

James Webber: One of the difficulties we're finding is that we're struggling to get on to the tender lists with some of the public sector work because the PQQs that they send out are so difficult to fill out and so onerous. In some respects they are not even relevant to the work that you're going to carry out. Sometimes you can't even get your foot in the door for all the red tape that they

put in your way.

Steven Padley: Tender lists are getting longer and longer. It was two or three in the past but you're now seeing five, six or seven going on to them and they're being whittled down and it's a long drawn out process and there's a lot of good quality organisations competing for the same types of business.

Norman Tenray: We supply one man

band operators and SMEs and the story is the same across the UK, but interestingly the picture changes month by month. The feedback we're getting from our customers is that they're very much having to adapt on a daily basis because the rules are changing. What is right today isn't necessarily going to be right tomorrow and we are being pushed every day to cheapen the product, to reduce the pricing and we're finding that people who used to get bulk pricing are now demanding that on smaller jobs. It's getting very, very difficult to meet those standards.

James Webber: That is a trend that will continue in coming months.

Norman Tenray: These things are cyclical. If you go back 10 or 15 years to the last recession everything was about price. It did come round to being about quality and service and that's what we're waiting for again. This is not the first time we've been in this situation but it's been harder this time because a broader spectrum of industries have been affected and it's been more severe than anyone expected. We're all fighting our way through without any sort of guidance or support. If you look at manufacturing and construction they were supposed to be the two main industry sectors that this country was really strong in and there doesn't seem to be any support to get them back on their feet.

Guy Parker: I was at a recent Lancashire Best Practice Club event and the message they were trying to convey to contractors and those in the supply chain was to make sure that we don't fall into the trap of lowest price and make sure we still maintain best value.

"We don't really know if we're out of the recession or whether it's going to be a single dip or a double dip"

We're all concerned that work will come down to who can do it for the lowest price, but the one person that will suffer will be the client, because he'll pay in the long run.

David Robinson: There is a real issue with clients listening to all the bad news about margins being squeezed and that construction is in a mess and they are looking to take advantage of that by putting jobs out for tender. The reality may be that it is them who pay the higher price in the long run because quality is not maintained.

Adam Scott: We're busier than we ever have been. In the last three months we've taken on three more architectural staff and there are still schemes coming through. On our schemes we've not had anyone go bust on us, but the tendering process is a real annoyance for a lot of people. There are a lot of firms fighting against each other in the tendering process without a great deal of clarity as to the outcome.

Richard Bowker: We're going to be squeezed and squeezed on price and it's going to continue that way for some time. We've had three major competitors go bust since Christmas, which has been good for us because we've picked up more work, but there is still that constant squeeze on price. We can only go so far until we say 'enough is enough.' You're taking on work to keep people employed and keep cash coming through the business and it is reaching a stage now where margins are so low that jobs could lose money. There is also another issue in that all our credit ratings are plummeting and that has a massive impact on people's procurement practice.

Norman Tenray: We're finding that our



Steve Burke



Richard Bowker

customers have big concerns about credit risk underwriting. They win the contracts and they've got the ability to produce the work, but what they're finding, despite the fact that they are successful in their own right, is that they are being affected by the

rest of the sector's credit rating. There needs to be some support to top up the credit risk insurance side of the industry and actually give them some confidence to help them carry out the job and therefore create a healthy business.

Richard Bowker: There are a raft of uncertainties that all businesses are facing. Firstly, they are worried about how the government cuts will affect the public sector and, secondly, when are the banks going to start lending to the private sector again? **Norman Tenray:** The banks are back in profit and they've got funds ready to lend. The problem that a lot of the builders I deal with are facing is that it is still incredibly tough to get finance to buy land or property and that is putting the brakes on potential development. All this contributes to the fact that we don't really know if we're out of the recession or whether it's going to be a single dip or a double dip. We're all battenning down the hatches and waiting for the uncertainty to end.

Are commercial and residential projects remaining quiet?

Steve Burke: On the private housing side of things we're starting to see movement. We do building work for a few housing developers and they've got schemes that are going to be on site before the end of the year, whereas for the last 18 months they've been on shut down. That's a positive thing and maybe people on a personal level feel confident enough to go to the bank manager and ask them for a mortgage to buy their new house.

Steven Padley: We've seen schemes



Robin Stephens

that were planned to start in September put on hold because of the change of government. Some developers are not sure of the economic climate and it's a real disappointment because there have been some good schemes that were planned, but they decided to push them back and that's a real shame. These developments were needed and they were going to rejuvenate areas and put investment back into local communities and all of a sudden it stopped overnight. There's some schemes that are still fairly buoyant. There's a lot of high net-worth houses that are still coming through, certainly in the more affluent areas and a lot of contractors are getting involved in those.

Have sustainability and environmental concerns been sidelined as cost becomes a bigger issue?

Ged Ennis: In the last 18 months it was very much the case that a lot of projects were put on hold. Recently, however, we've had a lot more enquiries from developers looking at altering and tweaking projects to make them more sustainable with a view to them coming onto the market. This is because the market's changed and sustainability is becoming more of an issue and people are seeing that as an opportunity.

Richard Bowker: We're finding that sustainable energies are being put forward

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James Webber



David Robinson



Adam Scott



Ged Ennis

then cut later on in the process.

Ged Ennis: What tended to happen, and it is changing, is that the sustainability considerations were stuck on the end of the traditional design programme and as a consequence cost more. Architects are now more aware of the fact that if it's designed early into the scheme then it need not cost more.

Guy Parker: We've found that the carbon targets that the government has agreed to will have to be met so sustainability is bound to become a bigger issue. Another sector that will grow will be the maintenance sector and a lot of contractors are chasing that work, some of which incorporates renewables.

Ged Ennis: You've got to be flexible on the sustainability side. The sustainability targets are enormous but if we don't meet them we are in serious trouble. The issue is that some people buy in to sustainability and renewables while others have to be dragged kicking and screaming.

Adam Scott: A lot of the contractors that we work with are comfortable delivering these projects within environmental frameworks. Sometimes it comes down to price and whether a company is willing to go down the environmental route.

How has the recession affected labour patterns in the construction industry?

Guy Parker: We've invested time and

money on the social side of the business in terms of the communities we work in and have also looked to develop our apprenticeship programme and training scheme because you can see that the industry has got a skills shortage. We need to make sure that when the work picks up we have a workforce that is ready and willing to meet the challenge.

Ruth Rule-Mullen: That's an interesting point because, as an employment lawyer, I expected to see a lot of redundancies during the recession but that has not materialised. Companies seem to have prepared for the future instead of making wholesale cuts.

James Webber: Our company has adopted the same approach. We've looked at our labour force and anybody who's shown enthusiasm and willingness to progress are the ones we've given the opportunity to attend college courses. We want to bring those people through and make the company better equipped when the market really picks up. It's better for morale within the company and certainly for the guys out on site. If they see people progressing they feel happier about their own employment and their time at work.

Norman Tenray: Because of the severity of the downturn we've been through over the last two and half years what you're finding is that the workforce is far more understanding of issues the company might be facing. If you are demonstrating that you are investing in

"Another sector that will grow will be the maintenance sector and a lot of contractors are chasing that work"

training, that you're supporting your staff, that you're developing them and sending them to college you get a lot more support and loyalty from them. We couldn't have achieved what we've achieved over the last two and a half years in a normal climate and if we can hold onto our workforce and continue to reward them then we will take off at a great rate. The difficulty in previous recessions was that we forgot the loyalty and the trust that was built up with those people.

Robin Stephens: The educational establishment has also acknowledged that there is a need to train people who are ready for the world of work. That could provide huge opportunities for industries like construction as students are provided with the skills the sector requires.

Richard Bowker: There's not many apprenticeships out there, which is a concern, so there is going to be a big skills shortage in two or three years. That means it is even more important to invest now in staff because, in two years, we'll need them.

Ged Ennis: We work far closer with the local college than we were three or four years ago. They have a course which will start in September which will retrain or up-skill an electrician or a plumber into a renewable position where we can use him as an accredited installer. Previously we would've had to have gone through the NVQ route which would've taken three or four years instead of just a week.

Ruth Rule-Mullen: Businesses have decided that they need to keep people and not shed them because when the upturn comes around they need to have things in place to take advantage of the opportunities offered to them. Employees have been particularly understanding because they know that if there's an alternative to them losing their job they're prepared to do it.

One of the things that I've seen quite a bit of is short time working, reductions in pay and

reductions in hours. In previous recessions you might not have seen that, but employees understand that the alternative is being out of work and into a job market that's absolutely saturated.

Richard Bowker: We use agency workers to top up if we take on extra work. That's easier than us recruiting new electricians and, whereas you used to struggle to get good agency staff, they're now queuing up for the work.

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Guy Parker



Norman Tenray



Steven Padley

Ruth Rule-Mullen: That's going to be quite interesting as well, because the Agency Workers Directive looks like its coming into play next year. That's going to give more rights to agency workers which could have an impact on your costs because you're giving rights to people who perhaps wouldn't have had rights before.

"Scrapping the NWDA might help towns and cities in Lancashire that got ignored as cash was pumped into Manchester and Liverpool"

Is the construction sector on the verge of an upturn or has the abolition of the Northwest Development Agency (NWDA) been a big blow to potential projects?

David Robinson: Scrapping the NWDA might help towns and cities in Lancashire that got ignored as cash was pumped into Manchester and Liverpool.

Richard Bowker: It will be interesting to see what happens. The private sector's got to get going to generate the tax to put back into the public sector but it is not guaranteed that we'll see that happen quickly.

Norman Tenray: There's genuinely been an increase in activity in recent month from developers. If you go back a year there weren't as many tenders floating around.

There is a little bit more confidence out there. I'm seeing a lot more building going up across the UK.

Steven Padley: I deal with the two biggest warranty providers, NHBC and Premier Guarantee, and they are now at their busiest in terms of quotes coming through. What we can't establish at the moment is whether

that upturn is associated with construction projects that have been put on hold for two years or new sites coming through. Both companies have seen an increase in the number of sites that are being registered and developments that are being registered, so that can only be taken as a positive. There's green shoots starting to come through, albeit very, very slowly.

Steve Burke: Our enquiry levels are higher now than they have been for probably 18 months. There are developers who shut the shop 18 months ago who are now bringing the shutters back up. Some of the house builders are also looking to have completions for next year. I'm seeing the private sector starting to move now.

Steven Padley: Care homes are a big area



Ruth Rule-Mullen

for growth as well as small enterprise parks aimed at SMEs. There's quite a few of those coming through.

Richard Bowker: People are looking. We work up in the Lakes and there's a lot of people wanting to do alterations on hotels, but they're still cautious. They've got the money because people are staying in the UK, but they are just holding back in terms of what they're doing. Things are more optimistic than they were but people are still cautious for the time being.

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