



# UK Market Intelligence

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## CRCs – are you ready?

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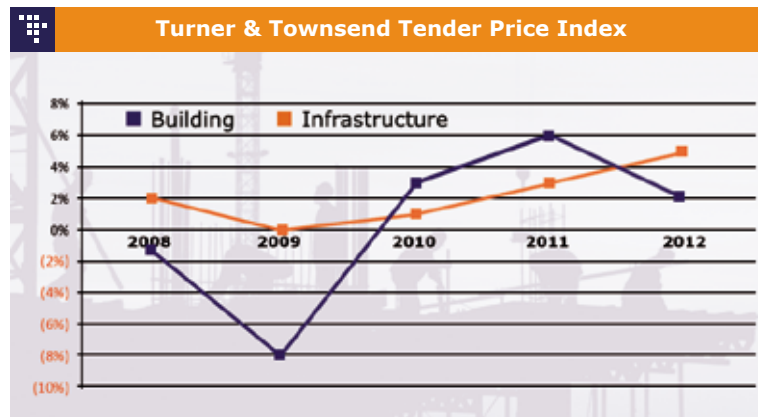
## Post election...

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The Turner & Townsend Tender Price Index (TTTPI) is now forecasting the start of a slow recovery. Levels of profits and costs on building projects are as low as they can realistically go, although prices will only return to the 2007 highs at the back end of 2012. In contrast, infrastructure has experienced less dramatic falls but, moving forward, price increases will be subdued by keen pricing as new market entrants emerge.



Our indicators show that the construction industry in the UK has hit rock bottom and is starting to show mild recovery. Careful procurement will still reap fiscal benefits to clients but risks remain high for those poorly informed or advised.

### Key Indicators



**LABOUR:** A rise in labour rates is due in June 2010. With rates frozen in 2009 a rise must be expected, but the increase will be curtailed as has been seen in other industries.



**MATERIALS:** Supply has been cut to meet the recent low demands of the recession, but renewed global construction activity is boosting demand in excess of current supply.



**PRELIMINARIES:** Machinery rates driven up by the tax hike on diesel should be offset in the short term by competition and efficiency. Any more price rises will mean higher plant rates.



**OVERHEADS & PROFIT:** Profit margins will remain low and below zero for contractors to maintain turnover. Towards the end of the year levels are expected to rise at a moderate rate.

Year	Building TPI	Infrastructure TPI
2008	(1%)	2%
2009	(8%)	0%
2010	3%	1%
2011	6%	3%
2012	2%	5%

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**TPI provides false hope to clients**

**Tender Price Indices have fallen significantly over the past two years and are now at an unsustainable level. Investors need to be aware that while there are opportunities to secure a highly competitive price, they buy with the accompanying risk of potential supply-side insolvencies, post contract claims and degradation of innovation, along with compromised service quality and outputs.**

These current low tendered prices do not represent or reflect final costs and therefore the tender price indices are misleading to less informed buyers.

Competition between contractors remains fierce as they fight to replace concluding projects with new projects for their already reduced order books. However, contractors have scrutinised their overheads and margins. They have reduced them to such an extent that there is evidence that many are tendering to maintain turnover at significant losses, which they aim to recover during the life of the project.

Large construction companies will be able to sustain these losses in the short term, forcing weaker businesses into insolvency and out of the market. This consolidation in the market will also be increased through further mergers and acquisitions.

Wider global economic recovery is increasing demand on commodities and subsequently increasing pressure on prices, which are also rising due to escalating energy costs. These upward cost pressures cannot be suppressed long term by contractors and therefore will ultimately end up being passed through to clients.

**Safeguarding against future fallout**

**Businesses should be wary of exploiting the apparent benefits of the current market and stringently review their procurement strategies. This will ensure that they are safeguarded from, or at least prepared for, problems that may arise from this in the future.**

Increasing evidence is being seen of clients instigating poor practice of short tender periods, onerous contract conditions and substantial risk transfer. This will ultimately promote aggressive commercial behaviour from contractors.

With all major political parties stating that the Government deficit will be reduced, funding cuts will inevitably lead to reduced public sector funded construction works.

Although new orders have reported to have stabilised and hibernating developers are beginning to stir, private sector construction work is now unlikely to match the public sector reduction. This significantly raises the probability of (at least the construction industry) returning to recession.

As clients slowly gain confidence in the wider economy, the increased activity in the construction market is resulting in increased work for construction consultants.

However, this activity will take many months or years to reach the doors of the contractors. As a result, the risk of long term damage being caused to the construction market will be increased through detrimental consolidation as a result of insolvencies and acquisitions.

**2010: Considered procurement and taking good advice will see well informed clients reaping favourable tender prices and outturn prices from constructors.**

**Further Information**

**For further information on our Programme and Project Management, Cost Management and Management Consultancy services, please visit:**

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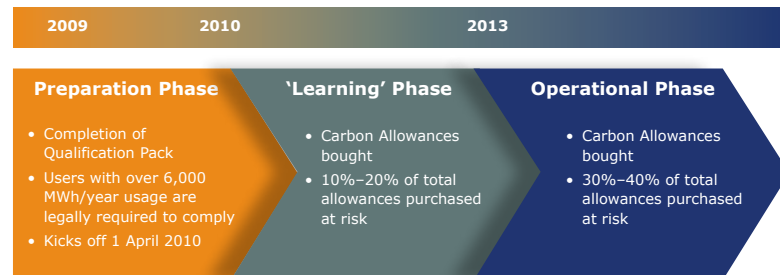
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**CRCs – are you ready?**

**Approximately 50% of greenhouse gas emissions come from the built environment. This represents one of the greatest potential targets for future energy and climate change policy. It also offers some of the best and most cost effective opportunities to reduce emissions.**

Despite the disappointing outcome of the Copenhagen Climate Summit, the UK has already put in place a number of steps to reduce carbon emissions. On 1 April 2010, the CRC Energy Efficiency Scheme came into effect. This is the Government's new mandatory regulatory incentive scheme aimed at improving the energy efficiency of our built environment, which in turn saves significant operational cost. It will effectively provide a financial incentive to reduce energy use by putting a price on carbon emissions.



**Carbon Reduction Commitment (CRC) involves a three stage approach that will impact all UK energy users with annual energy consumption of 6,000MWh (circa £500,000 per annum).**



**A recent report from the Environment Agency indicates that the CRC scheme has the potential to cut up to 11.6 million tonnes of CO<sub>2</sub> a year from this sector by 2020 (approximately 28% reduction of emissions from this sector compared to 1990).**

The pressure is on companies to reduce their carbon footprint and many recognise that there is a significant competitive advantage

to be gained by implementing the right measures to reduce energy use. Any company ill prepared for the post Copenhagen environment will be starved of necessary Government support and private investment and could ultimately be penalised, if liable, under the CRC scheme. A league table will identify the high performers and there will be financial, brand and marketing, and corporate social responsibility benefits to the organisations participating.

Turner & Townsend's Whole Life Cost, Energy & Climate Change team are increasingly being commissioned to carry out energy reviews for clients aiming to gain momentum. A recent pilot study carried out for a building society, which targeted all revenue expenditure across their UK estate, set in place a range of performance targets to drive efficiency savings of around £2m per annum, equivalent to over 3,500 tonnes of CO<sub>2</sub>.

Whether or not Copenhagen has provided regulatory certainty, an organisation has the best chance of capitalising on the potential benefits by acting early and implementing energy efficiency measures to reduce CO<sub>2</sub> emissions. The year 2010 must be the turning point in how business responds in planning a route to a low carbon world, if not for environmental reasons then to better their bottom line.

**CRCs – Making the most of the opportunity**

**To find out more about CRCs and how this affects you, please contact Nevin Sood on 0207 544 4000, or email him at [nevin.sood@turntown.co.uk](mailto:nevin.sood@turntown.co.uk)**

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**Time for an efficiency healthcheck?**

**'Efficiency' is today rapidly becoming a hackneyed word. Almost every organisation is looking for ways to increase efficiency – to become more competitive, stay afloat or respond to shareholder and regulatory demands.**

Achieving sustained efficiency improvement is an easy and laudable aim, but often far harder to achieve in practice. In these challenging times, the first round is often focused on arbitrary "cut 10% from the supply-chain" savings. Many organisations have already achieved this. With tender prices at rock bottom and savings achieved through all tiers, is our industry geared up to find further efficiency savings? And does it have the maturity of approach required to deliver the £400-£500bn of infrastructure assets that Lord Davies believes the UK requires in the next decade?

Our research from over 100 programmes across the world reveals that the difference between efficient and inefficient programmes can be up to 30%. Diagnosing and treating the causes of inefficiency in capital projects and programmes can have a huge impact on cost.

Unfortunately, in most cases little structure or learning is applied to this process, so organisations revert to scope or specification stripping to achieve their target cost savings. The result is lower value built assets and higher than necessary capital costs.

So how can an organisation improve its approach to diagnosing and treating inefficiency and thereby achieving the next 10% in capital cost savings?

At Turner & Townsend, we measure maturity against a structured efficiency framework that enables us to diagnose and treat inefficiency in capital projects and programmes, targeting improvement where the biggest impact can be achieved and delivering previously unrecognised savings. These range from improved project control toolkits or revised governance processes through to complete organisational redesign.

**If you would like to know more about our efficiency consultancy services, please contact Neil Bullen on 0207 544 4000 or email: [neil.bullen@turntown.com](mailto:neil.bullen@turntown.com)**

**The impact of a change in Government**

**The UK recovery is in limbo as pre-election activities have continued to restrain growth.**

As the UK deficit remains high and with borrowing in excess of forecasts, existing proposals will fall short of reducing this trend in the long term. Wishful thinking maybe, but post-election perception should improve morale, release the brakes and see the implementation of recovery plans. Regardless of who is in the driving seat, their success will depend on their ability to prove maximum impact by leading in efficiency savings.

**Efficiency savings** are the answer, propelled by Asset Driven Transformation, namely estate rationalisation and workspace efficiency programmes (more of the same) to assist in recouping the government deficit. The UK is leading the world in taking the strategic carbon reduction programme and is increasing confidence in industries investing in low carbon technologies.

**Commitment to infrastructure** has balanced the downturn in public spending to date by investing in the future, but a revisit to the 2009 budget decisions cannot be ruled out. Reduced expenditure on major programmes is a risk if the deficit cannot be recouped elsewhere.

**Global influences** are key to boosting recovery and attracting investment. Financial markets have suffered a sustained period of stress and instability of late. The government has already taken steps to prevent the collapse of the UK financial system and expect some form of methodology for regulating financial markets to be set out for the longer term.

Real uncertainty remains as to how strategy will evolve post-election. The risk of a double dip recession remains. In any case it is without doubt that seeing is believing. Success will be proven by the government that can demonstrate real – and measurable – efficiency gains.

**If you would like to discuss your market response solutions, please contact Mark Deakin on +44 (0)114 272 9025 or visit our website: [www.turnerandtowntsend.com](http://www.turnerandtowntsend.com)**