



Focus On: Construction

September 2011

Welcome

Welcome to Banks & Co's latest Focus On...bulletin looking at news and information relevant to specific business and industry sectors.

This Focus On Construction bulletin takes a look at some of the issues affecting the engineering sector, including continuing difficulty in sourcing finance and a call to use VAT as a way to re-energise the sector.

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Banks still reluctant to do business, says FMB

A third of small construction businesses have seen access to credit restricted as a result of banks' prejudice against construction businesses, according to a leading trade body.

Brian Berry, director of external affairs at the Federation of Master Builders (FMB), said: "The banks have decided that the construction industry is high risk and good firms with exemplary credit histories are having facilities withdrawn and prices raised as a result.

"More than a third of FMB members have seen access to credit restricted and nearly half have had the cost of it increased. Banks have also restricted the availability of credit to construction clients, with nearly two-thirds of our members saying that access to credit is also hampering the commissioning of work by clients.

"The small building firms, that the Government needs to deliver many of its objectives from

economic growth to green deal, are being prevented from doing so because of a blind prejudice by the banks against construction firms and it has to stop."

The FMB hit out as Gordon Banks MP raised the issue of lending to businesses with Business Secretary Vince Cable in June.

Mr Banks said that difficulty in sourcing bank lending was being felt most acutely in the construction industry. He said: "High rates, high set-up and management costs are all impacting negatively on the sector.

"What the banks and indeed the Government fail to grasp is that a strong construction and indeed housing sector is necessary for economic growth in the UK. The industry is

also a major skills provider and without bank lending into the industry, skills targets will not be met and the UK economy will be all the poorer for this failing."

Mr Banks meeting came shortly after it was announced that Britain's five largest banks fell short of their lending target for small and medium-sized businesses, agreed as part of the Project Merlin deal with the Government, by £2.2 billion in the first quarter of 2011.

Banks & Co partner Mark Taylor said: "It is disappointing that FMB members are continuing to report difficulty in sourcing the funding they need, but working with experts in corporate finance, like the Banks & Co team, can help to open doors to finance that might otherwise have remained closed."

Strategy targets 20pc cut in construction costs

A government office has published a new strategy for the way it procures construction projects designed to cut costs by up to 20 per cent by 2015.

The strategy says that the construction sector is a major part of the UK economy, involving around £110 billion in expenditure each year. Some 40 per cent of that total is in the public sector, with central Government the biggest customer.

Launching the strategy on 31 May, Cabinet Office Minister Francis Maude said: "The public sector needs to be a better, more informed and strategic client.

"The construction industry, in turn, will benefit from a more collaborative working relationship with the public sector, allowing for innovation, increased efficiency, and delivering better value for money."

The strategy includes the setting up of a Government Construction Board, chaired by the Government's Chief Construction Adviser Paul Morrell. He said: "We will work with the Government and the construction industry to

enable more effective relationships between the two in order to enable growth and sustainability across the sectors."

The Cabinet Office will also publish quarterly, from autumn 2011, a rolling two-year forward programme of infrastructure and construction projects where public funding has been agreed. The strategy says that this will allow the industry "to make its own judgments and plans for investment in skills, products and services aimed at that programme".

The National Federation of Builders (NFB) welcomed the strategy as signalling the start of a more collaborative working partnership between industry and government.

NFB chief executive Julia Evans said there was "much to applaud" in the strategy, including the clearer indication of future work. She added: "However, we should not

underestimate the scale of the task ahead, which will require many companies to change the way they do business.

Mark Taylor of Banks & Co said: "The strategy identifies the benefits to the construction industry as including improved growth and increased competitiveness through elimination of waste and greater innovation. However, with the Government expecting substantial savings from the strategy, it will be challenging the sector to deliver cost reductions, including through supply chains.

"Whether construction businesses are involved in Government and public sector work or not, maximising efficiency and minimising waste make sense, and it may be a wise move to work with professional advisers, like Banks & Co, to identify and implement ways to improve performance."

VAT offers 'road to recovery'

The Federation of Master Builders (FMB) says that changing the rules on VAT could give a major stimulus to the construction industry.

FMB director general Richard Diment, speaking after official employment figures released in June showed that 24,000 construction jobs were lost in the first quarter of 2011, said that members were telling the FMB the market was "the toughest they have ever known".

Coupled with the failure of banks to meet their Project Merlin lending targets and an expected fall in construction workloads in the second quarter, he said the indications were for "a painfully slow recovery for small construction companies, who remain very

concerned that households will continue to put moving house or having home improvements on hold due to their own financial worries."

He added: "The Government has the power to put money back in the hands of homeowners and landlords by allowing a reduced rate of VAT on all home repair, maintenance and improvement work. Research commissioned last year by the Cut the VAT Coalition shows a cut in VAT to five per cent on this type of work has the potential to

create tens of thousands of jobs over the next decade."

Mr Diment said the government should consider the case for a targeted VAT cut "as a matter of urgency".

Mark Taylor said: "Whether or not the Government is willing to consider such a move, it is a wise move for construction businesses to ensure that their VAT affairs are in the best possible health. At Banks & Co, our expert team can provide comprehensive VAT services and advice."

Workplace deaths increase

The construction industry continues to have the highest rates of fatal injuries, according to new figures from the Health and Safety Executive (HSE).

Provisional figures for the year from April 2010-March 2011, published on 28 June, showed that the total number of workers killed in Britain was 171, an increase on the previous year, when 147 died - the lowest number on record. The rate of fatal injury is now 0.6 per 100,000 workers, up from 0.5 per 100,000 workers the previous year.

In construction, there were 50 fatal injuries, a rate of 2.4 deaths per 100,000 workers, compared to an average of 61 deaths in the past five years and an increase from the 41 deaths (and rate of 1.9) in 2009/10. Elsewhere, there were 27 fatal injuries in manufacturing, 47 in the services sector and 34 in agriculture.

The HSE said that while the increase was disappointing, the UK still had one of the lowest rates of fatal injury in Europe. Based

on the available data, Britain continues to have the lowest rate of fatal injuries to workers among the five leading industrial nations in Europe - the others are Germany, France, Spain and Italy - for a six-year period.

Mark Taylor said: "These figures are very clear reminder that no business can afford to let its attention to health and safety slip at any time. The consequences of an accident causing an injury or death can be devastating, for the individuals involved and their families, for the reputation of the company and even for its survival, if it suffers a substantial fine that could have severe implications for its financial health.

"Although it makes sound business sense to always operate as cost-effectively as possible, this is one area that must remain a priority."

