



# REBUILDING GROWTH 2021



A portrait of Sharon Wiltshire, a woman with short reddish-brown hair, smiling. She is wearing a dark top. The background is dark with a red horizontal bar at the top and a red vertical bar on the left.

# FOREWORD

SHARON WILTSHIRE

UK Head of Operations, Bibby Financial Services

**Subcontractors have shown impressive resilience in the face of Covid-19, but continued supply chain disruption in the form of labour and raw material shortages are threatening the sector's long-term recovery. While our research alongside insight from industry experts, Gateley Vinden, reveals how the sector is bouncing back, it is also evident that longer-term issues face construction firms.**

The Covid-19 pandemic has had far-reaching consequences for the UK business community, and the construction sector has endured a challenging eighteen months. However, by and large, it has coped admirably, and green shoots of optimism are emerging right across the sector. This is in part due to the resilient, positive attitude that the industry's SMEs have collectively displayed, but also a result of sector-wide reforms starting to have the desired effect.

It is no secret that subcontractors were beset by disruption during the height of the pandemic. Four fifths (80%) of those we spoke to took at least some form of action to protect their business including furloughing staff (43%), accessing a Government loan (41%), or stopping operations entirely for a period (39%). These issues were compounded by some businesses encountering issues accessing Government loans and grappling with furlough requirements.

However, the industry looks to have weathered the worst of the storm and the outlook has unquestionably improved in 2021. Exactly half (50%) of businesses reported an increase in activity since restrictions began to be lifted in the UK, with less than one in ten (8%) reporting a reduction.

The sector's robustness is reflected further in the volume of work SMEs have in the pipeline. On average, each business currently has sight of 20 weeks of work – a slight increase on 2019, meaning that they have visible work until the end of the year, which would have been unthinkable for some firms just a few months ago.

As positive as this figure is, however, it is still down on the 27 weeks of visible work reported in 2018, a stark reminder that the industry is still hamstrung by supply chain and Brexit-related disruption.

Most notably, the industry is continuing to grapple with a shortage of raw materials, which is threatening to put the handbrake on the long-term recovery. Almost six in ten (58%) report the increasing cost of raw materials as the biggest concern to their business, while the same proportion cite shortages or delays in receiving stock. In addition, Brexit continues to prey on the mind of many. Over half (52%) of the sector want the Government to do more to ensure that tariffs on goods to and from the EU are avoided.

That said, we have been encouraging subcontractors to use the pandemic as a chance to examine their existing supply

chains to see if they can operate more profitably, and plenty are heeding this advice. To offset the shortage in raw materials, four in ten (40%) have looked for new suppliers, while a quarter have either secured new suppliers (25%) or renegotiated with existing partners (24%). However, almost half (46%) have taken no such action and are prepared to pay more with existing suppliers, which may prove more damaging to their bottom line in the long term.

The sector has clearly made strides over the last two years and shown an admirable level of fortitude. A prevailing sense of optimism is palpable, however, it is likely that the true impact of Brexit-related skills and raw materials shortages, and the winding-down of Government support measures, is yet to be realised.

SMEs in the sector should continue to be proactive to ensure they are well equipped to thrive in the industry's new post-Covid landscape. This is not the time to rest on our collective laurels. We need to grab the current momentum and push ahead if we want the sector to come back bigger and better.



# EXECUTIVE SUMMARY

This report identifies two key areas of focus for business owners, advisors, private and public sector organisations to consider over the coming months in order to support and encourage construction sector growth:

## 1 OVERCOMING LABOUR/RAW MATERIALS SHORTAGES

Our report clearly points towards labour and materials shortages as the largest current threat to the sector. This was predicted before the pandemic even began, as any new post-Brexit relationship with Europe would take a period of adjustment. Further global disruption to supply chains and the international economic ecosystem more broadly has only exacerbated those original concerns.

As lockdown restrictions begin to ease, so too are the Government support measures due to come to an end. The end of the VAT deferral, the end of the furlough scheme, and the beginning of interest repayments for CBILs, BBLs and RLS loans are all going to change the business landscape in the UK. While they have undoubtedly eased the peak of economic disruption, they will create their own challenges for the months and years ahead.

This disruption needs to be managed carefully. For subcontractors one of the most important changes will need to come in the form of contracts.

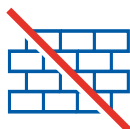
## 2 CONTRACT NEGOTIATION

Contracts in the subcontractor sector typically come in the form of fixed price contracts. These essentially put the onus of risk prediction on the subcontractor and don't provide much room for maneuverer for the rapidly changing prices of materials. This year we've already seen record increases in the price of steel, plastic and concrete, and plywood has doubled in cost in just 6 months.

While it is important to build unexpected costs into contracts, subcontractors also shouldn't be afraid to change their approach to contract negotiation. In the 80s fluctuating price contracts were common and helped to account for sharp changes in the cost of materials. It could be that this year will see them return.

### KEY FINDINGS

58%



of SMEs are experiencing challenges with the cost and lack of availability of raw materials

44%



of SMEs listed a shortage of skilled labour as the greatest threat to their businesses



23 DAYS

is the average time that subcontractors are waiting to be paid (down from 30 in 2019)

52%



of SMEs want the Government to ensure tariffs on goods to and from the EU are avoided

35%



of businesses are reporting fuller order books compared to before the pandemic

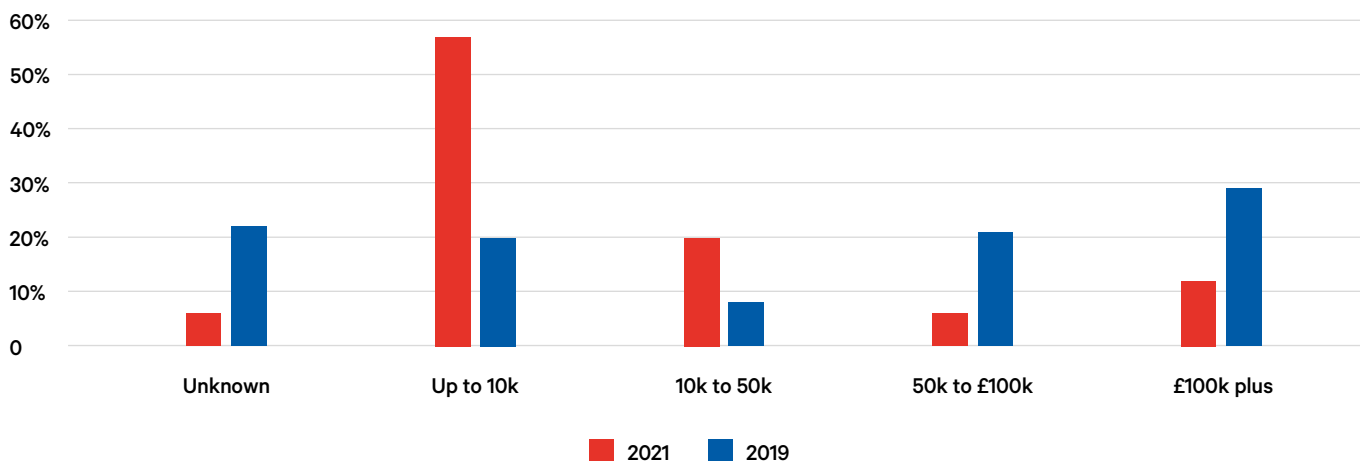
# THE CONSTRUCTION PIPELINE

Firms reported an average of 20.3 weeks work in the pipeline, compared to just 19 in 2019. Additionally, 70% of firms had the same or higher order volumes than before the pandemic began.

The value of new contracts has also soared. In 2019 the average value of a new contract stood at £175,951, and in 2019 it was just £130,968. This year, the average value of a new contract has reached £256,000.

These are strong signs that the sector is rebounding well with higher volumes, of higher paying, longer lasting work, pointing towards a recovery.

## TYPICAL VALUE OF A NEW CONTRACT



“THERE’S LITTLE DOUBT ACTIVITY VOLUMES HAVE PICKED UP THROUGHOUT THE SECTOR IN RECENT MONTHS, AND IT’S ENCOURAGING TO SEE SUBCONTRACTORS DRIVING THE INDUSTRY’S RECOVER. BALANCE SHEETS HAVE BEEN SIGNIFICANTLY IMPACTED, HOWEVER, AND THE COMBINATION OF THE PANDEMIC’S IMPACT AND SKILLS AND RAW MATERIALS SHORTAGES ARE LIKELY TO START TO HAMPER RECOVERY OVER THE COMING MONTHS. THESE SHORTAGES ARE LEADING TO SIGNIFICANT PRICE PRESSURE THROUGHOUT THE ENTIRE SUPPLY CHAIN, SO WHILE WORK VOLUMES ARE STRONG, THE ABILITY FOR FIRMS TO FULFIL WORK PROFITABLY REMAINS UNDER THREAT.”



**CHRIS DUFFILL**  
Managing Director  
Gateley Vinden



# FUNDING A GROWING SECTOR



**Since we first started funding the construction sector we have supported a rich variety of businesses, who, in some cases, have had complex funding requirements, such is the nature of the industry. In fact, it is not uncommon for SMEs in the sector to have problems accessing finance. Almost one in six (16%) of the subcontractors we spoke to said access to finance was a significant threat to their business.**

With subcontractors typically asked to pay a large proportion of their costs upfront in the form of labour and raw materials, the two areas we have identified in the report as the biggest threats to the sector, they are dependent on having a working level of cashflow at all times. However, lenders are often unwilling to meet these requirements as it means they shoulder much of the risk. The outcome is that subcontractors end up taking on this risk themselves, often via unsecured forms of finance.

This is a theme reflected in our data. Bank overdrafts are the most common source of funding in the sector, with a quarter (25%) funding their business's operations via these means. This is closely followed by bank loans (24%), before, more alarmingly, personal savings or loans from friends or family (22%) and unsecured personal finance such as credit cards (13%). What's more, despite the proportion using overdrafts falling from 33% in 2019, this has largely been offset by a 5% increase in the use of personal savings over this two-year period. Without the lifeline of Government loans during Covid-19, this rise would almost certainly

be higher.

The sector therefore requires more help to transition to more suitable forms of finance, particularly when bad debt remains such a prevalent issue. Half (49%) of the businesses we spoke to reported writing off bad debt in the past 12 months. This averaged out at £6,500, which, while down on the £10,641 reported in 2019, is likely more of a reflection of a quiet lockdown than it is reason to celebrate.

While we are seeing twice as many businesses use Invoice Finance compared to 2019 (8% to 4%), over four in ten (41%) still do not leverage external funding to support their operations. The likes of Invoice Finance should not be viewed as a lifeline for struggling businesses, rather a vehicle by which to unlock avenues to growth. Making businesses aware of the funding options available to them is particularly important when many are attempting to move away from Government loans, which have been vital in keeping the industry afloat but are not sustainable in the long-term.

Adopting this proactive, collaborative mindset will help businesses propel their own recoveries and plot a path to long-term growth.



**SHARON WILTSHIRE**

UK Head of Operations  
Bibby Financial Services

# KEY CHALLENGES

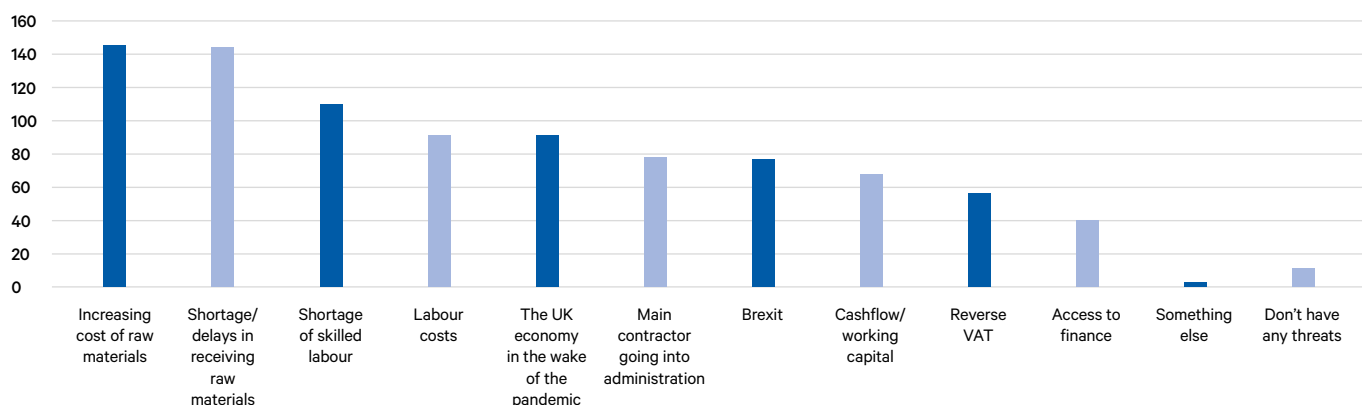
Despite everything which has happened in the two years since our last survey, the threat of Brexit looms larger over the sector than it did in 2019. The number of respondents who said Brexit was the largest threat they faced rose from 25% to 31%. However, while Brexit was the single greatest danger perceived by the sector in 2019, it now ranks just seventh.

The pandemic has undoubtedly raised new business concerns and in some cases compounded the threats that many businesses already faced. The cost of raw materials and inability to access them now jointly take the top spot, with over half (58%) of subcontractors struggling to manage more competitive supply chains. This has led to nearly half (46%) of subcontractors paying more with existing suppliers to get what they need - a cost the sector can ill afford.

A further four in ten (40%) have looked for new suppliers, and a quarter (25%) have already signed with new suppliers or renegotiated with existing ones (25%).

A shortage of skilled labour (44%) and the rising cost of available labour (36%) also pose significant challenges. We have seen that labour intensive industries are struggling to recruit the necessary manpower to accommodate rising demand as the UK economy begins to gather pace.

## THREATS TO THE SECTOR



### LABOUR AND RAW MATERIALS CHALLENGES

**58%** saw increasing cost of raw materials as a significant threat

**58%** saw shortage/delays in receiving raw materials as a significant threat

**46%** were prepared to pay more with existing suppliers to get what they needed

**40%** have looked for new suppliers, 25% have signed contracts with new suppliers and 24% have negotiated new contracts

**44%** of subcontractors listed shortage of skilled labour as a threat with a further 36% listing labour costs

**"THE IMPACT OF BREXIT ON THE CONSTRUCTION SECTOR CANNOT BE UNDERESTIMATED.**

**ACROSS THE BOARD WE'VE SEEN CONSTRUCTION BUSINESSES STRUGGLING TO KEEP PACE WITH DEMAND, OWING TO A LACK OF SKILLED AND UNSKILLED LABOUR AND SHORTAGES IN RAW MATERIAL SUPPLIES. WE'VE SEEN PHENOMENAL SUPPLY CHAIN INFLATION IN THE COST OF TIMBER, CONCRETE, PLASTIC AND STEEL TO NAME A FEW KEY EXAMPLES.**

**ADDITIONALLY, THERE'S NOW A SIGNIFICANT SHORTAGE OF BUILDERS, CARPENTERS AND JOINERS. NOT ONLY IS THIS STIFLING THE SECTOR'S ABILITY TO BOUNCE-BACK FROM THE PANDEMIC, IT ALSO THREATENS ITS LONG TERM FUTURE. AS THE ECONOMY REOPENS, LABOUR WILL BE IN EVEN SHORTER SUPPLY AND RAW MATERIALS WILL BE IN EVEN GREATER DEMAND.**

**THOUGH THE INDUSTRY HAS COPED REMARKABLY WELL UP UNTIL NOW, THE COMBINATION OF THE UK'S DEPARTURE FROM EUROPE, COVID-19 AND MORE SECTOR SPECIFIC CHANGES, SUCH AS THE DOMESTIC REVERSE CHARGE, COULD LEAD TO SIGNIFICANT ISSUES FURTHER DOWN THE LINE."**

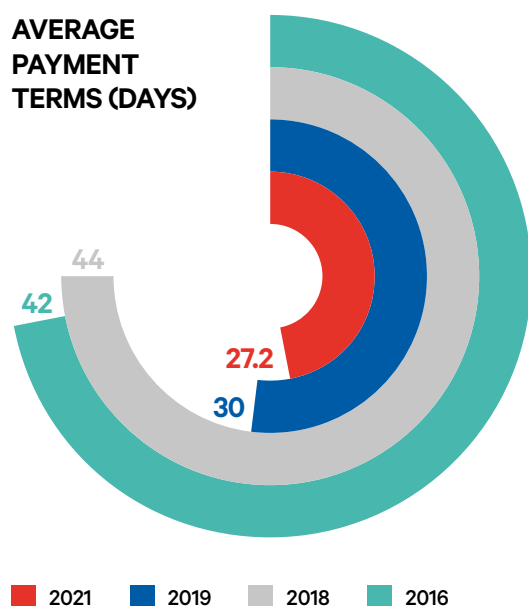


**PETER VINDEN**

Chief Executive Officer  
Gateley Vinden

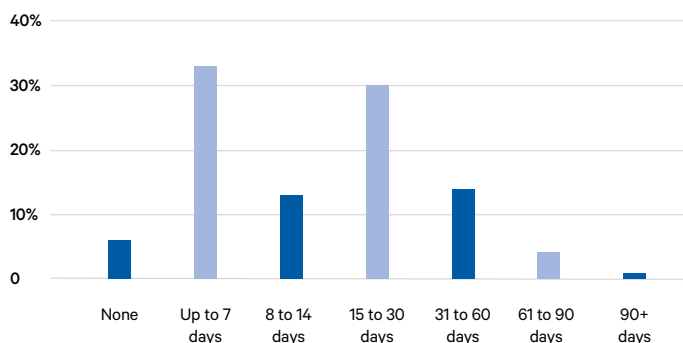
# PAYMENT PRACTICES

## AVERAGE PAYMENT TERMS (DAYS)



This year's research reveals a slight reduction in payment terms since 2019, although the rate of decrease has slowed. This could be because the Prompt Payment Code is finally establishing best practice at around the 30-day mark. However, nearly one in five subcontractors (19%) still have to wait longer than 30 days to actually receive payment once the invoice has been billed.

## DAYS WAITING FOR PAYMENT FROM MAIN CONTRACTOR ONCE BILLED



## BAD DEBT

Despite concerns that the pandemic would see bad debt soar, our research has found that while remaining high the number of businesses facing a bad debt in the last 12 months has remained broadly in line with 2019 (49% vs 48%). The average amount written off as bad debt has also fallen from £10,641 to £6,500.

"IT'S ALWAYS POSITIVE TO SEE PAYMENT TERMS IMPROVING, HOWEVER THERE ARE WIDER CHALLENGES FACING SUBCONTRACTORS WHEN IT COMES TO PAYMENTS. BAD DEBT IS WHERE THE REAL RISK LIES.

WHILE WE ARE UNLIKELY TO SEE ANOTHER CARILLION, WE BELIEVE THERE IS A RISK TO THE TIER 2/3 CONTRACTORS THAT MAKE UP SUCH A CRITICAL PART OF THE ECOSYSTEM. THESE FIRMS DON'T HAVE THE SIZE AND FINANCIAL RESERVES TO INSULATE THEMSELVES IN THE SAME WAY AS THE LARGEST CONTRACTORS, BUT DO HAVE SIGNIFICANT EXPOSURE TO RISK. ANY SUCH COLLAPSES WILL UNDOUBTEDLY HAVE A FURTHER DEVASTATING IMPACT ON A SECTOR THAT IS JUST GETTING BACK ON ITS FEET."



**CHRIS DUFFILL**  
Managing Director  
Gateley Vinden



# CONSTRUCTION CONTRACTS

24%



Nearly a quarter do not always thoroughly check the contracts they're signing, a slight increase since 2019 (20%).

37%



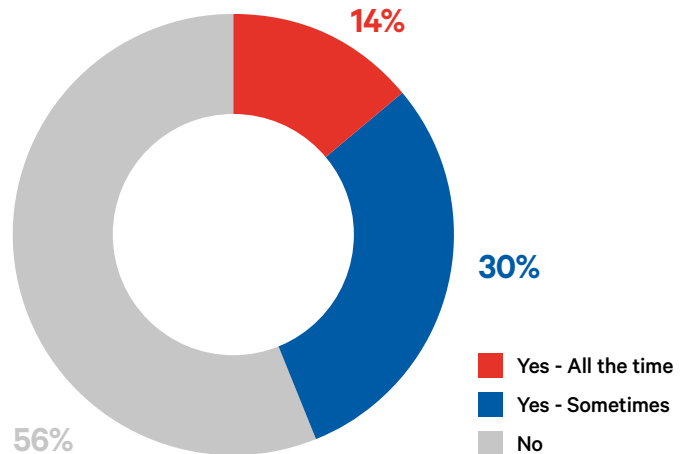
Over a third find contracts difficult to understand, a significant decrease on 2019 (48%).

56%



Over half do not seek professional support in checking contracts, a similar proportion to 2019 (58%).

## SEEK PROFESSIONAL SUPPORT IN RELATION TO CHECKING CONTRACTS



## A CHANGING POWER DYNAMIC?

Since 2019 there has been a significant change in the power dynamic between subcontractors and contractors. Whereas our previous survey found that over half (55%) of subcontractors felt like they had to accept contract terms or risk losing business, that number has now fallen to under a third (31%). This is broadly consistent regardless of turnover, again bucking the trend that smaller subcontractors were most likely to accept poor contract terms.

The collapse of Carillion may be the cause. Since the contractor's demise, over four in ten (45%) subcontractors are more concerned about the financial stability of their contractors. This has likely changed the power dynamic that exists in the sector and caused subcontractors to more carefully consider partnerships and the risk they pose. This concern is likely to be heightened following high profile contractor failures in 2021. This includes the collapse of Wolverhampton-based AM Griffiths in August, WRW Construction in July, and Cleveland Bridge and Pollards Construction in recent months.

"THE SECTOR NEEDS TO RECOGNISE THAT THE LANDSCAPE HAS FUNDAMENTALLY CHANGED IN THE LAST 12 MONTHS. THE PRICE OF RAW MATERIALS IS RISING DRAMATICALLY AND TRADITIONAL FIXED PRICE CONTRACTS AREN'T DESIGNED TO ACCOUNT FOR THIS NEW REALITY. THE RIGIDITY OF THESE CONTRACTS MEANS THAT AS PRICES RISE, SUBCONTRACTORS AND CONTRACTORS ARE FORCED TO SHOULDER THE COSTS OF MATERIALS THEMSELVES, WHILE THE MAIN CONTRACTOR IS INSULATED.

WE'RE SEEING A RISE IN CONTRACT DISPUTES ALREADY, AND IF THE SECTOR DOESN'T BEGIN TO APPROACH CONTRACT NEGOTIATION DIFFERENTLY, THIS NUMBER WILL LIKELY CONTINUE TO RISE."



**PETER VINDEN**

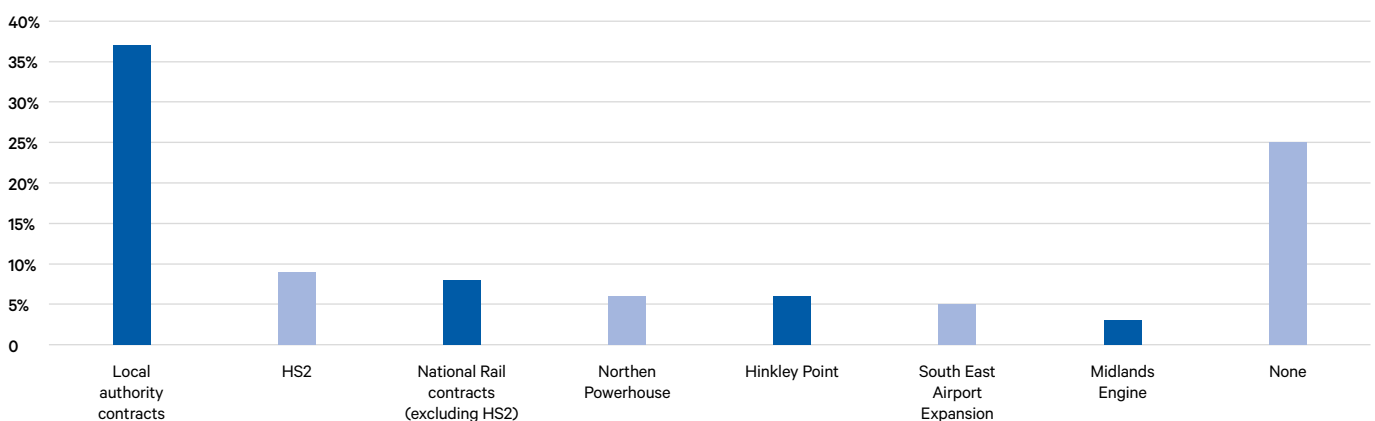
Chief Executive Officer  
Gateley Vinden



## KEEP SUPPORT LOCAL

A major part of the Government's focus has remained on large campaigns to promote economic activity, such as the Northern Powerhouse and the Midlands Engine. However, for subcontractors, the single most beneficial thing they believe could improve the construction sector is the unlocking of local authority contracts (37%). Over three quarters (78%) didn't believe that national infrastructure projects would benefit them at all, and a range of widely publicised projects similarly fell flat, including HS2 (9%), Northern Powerhouse (6%), and the Midlands Engine (3%).

### WHICH PROJECTS WILL MOST BENEFIT THE SECTOR

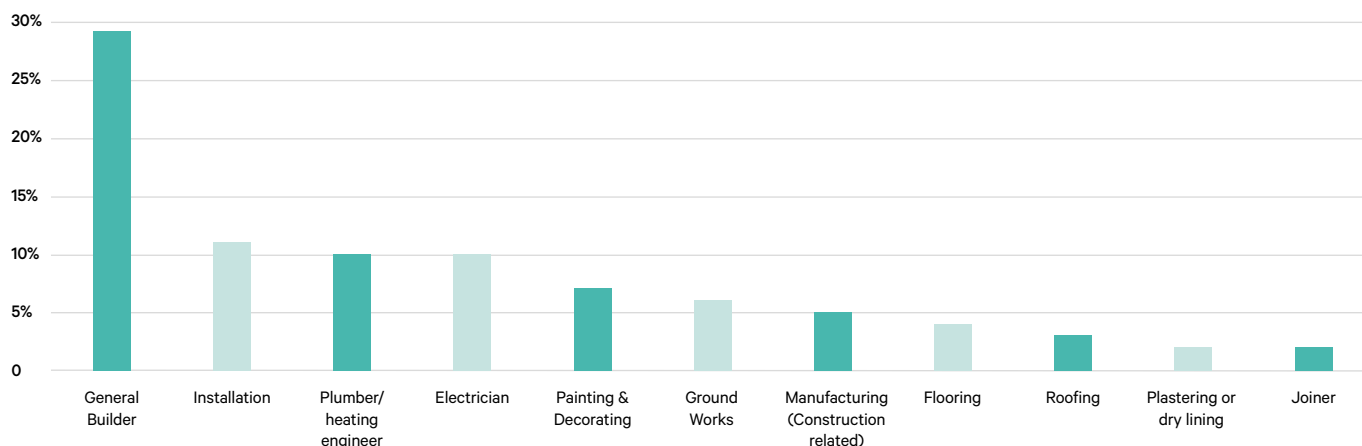


# METHODOLOGY

Fieldwork was conducted between 16 June to 5 July 2021 by an external research agency, Critical Research.

250 telephone interviews were carried out among 250 subcontractors. The average turnover of these businesses was £1.95m.

## BUSINESS ACTIVITY



## ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services (BFS) is a leading independent financial services partner to over 9,000 businesses worldwide.

We provide specialist and adaptable trade, asset and working capital finance, FX and insurance services helping businesses to grow in domestic and international markets.

Formed in 1982, BFS is part of the Bibby Line Group (BLG), a diverse and forward-looking family business delivering personal, responsive and flexible customer solutions for over 200 years.

To find out more about Bibby Financial Services, visit:  
[www.bibbyfinancialservices.com](http://www.bibbyfinancialservices.com)

## ABOUT GATLEY VINDEN

Gateley Vinden has operated in the property and construction marketplace for over 25 years.

Our services include dispute management, quantity surveying, project management, bank monitoring, building surveying, sustainability, corporate services and insurance services. We have varied and extensive project experience which crosses many sectors including residential, education, affordable housing, industrial, office, retail, health and hotels/leisure.

Gateley / VINDEN  
incorporating Tozer Gallagher

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