Construction

Sector Report 2024 | Vol. 8 | www.rousepartners.co.uk/construction

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Latest updates from our construction sector team.

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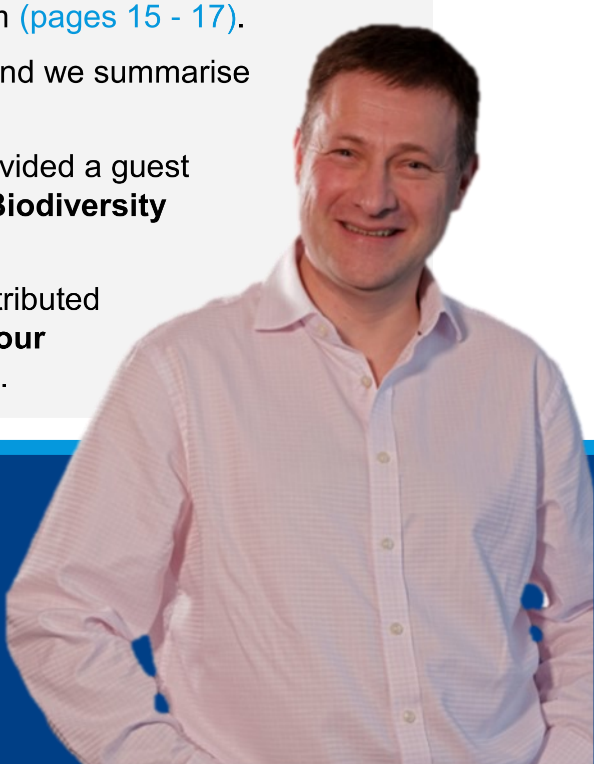
Navigating a testing year in construction

After a strong post-pandemic rebound, the construction sector now faces a series of challenges that could impact demand, operational matters and profit margins.

Material price rises and labour cost / supply issues continue to be topics of concern for construction firms and developers. Meanwhile, the cost of living crisis and interest rate hikes are impacting residential sales and commercial projects, particularly in the retail, hospitality and leisure sectors. Our sector analysis shows why firms should remain cautious in the near term, but remain optimistic on longer term prospects.

To draw your attention to key areas in this report:

- With forecasts of stagnant growth and development opportunities; job profitability and purchasing will become key areas to monitor. We highlight the **industry benchmarks** for costs, profit margins and materials (pages 9 - 13).
- **VAT and CIS** are two areas where firms are having difficulties currently, and HMRC have been clamping down on those making errors. We discuss the common errors and how to avoid them (pages 15 - 17).
- There are **major changes to the CIS** from April and we summarise how you can prepare (pages 20 - 21).
- Thank you to Walsingham Planning who have provided a guest article on what you need to know about the **new Biodiversity Net Gain rules** for developers (pages 22 - 23).
- Thank you also to Blaser Mills Law who have contributed with a guest article providing tips on **protecting your projects** during challenging times (pages 24 - 26).



I hope this report provides you with useful updates and points for discussion. If you have any questions, or to discuss our range of services, please contact us.

David Sharp
Partner, For and on behalf of Rouse Partners LLP

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Construction Industry Insights

Residential performance

		'19-'24	'24-'29
Revenue	£80.6bn	↓ 2.9 %	↑ 2.2 %
Employees	266k	↑ 0.8 %	↓ 2.5 %
Businesses	55,484	↑ 3.2 %	↑ 2.1 %
Profit	£4.9bn	↓ 21.7 %	
Profit Margin	6.1%	↓ 11.8 pp	
Wages	£8.7bn	↓ 1.8 %	↑ 0.6 %

Five-year growth rates display historic and forecast compound annual growth rates. Source: IBISWorld

Warning signs, despite strong return to growth

- Strong growth in house prices boosted average selling prices and investment in new housing in 2021-22.
- The number of housing starts jumped 23% in 2021-22, exceeding pre-pandemic levels. Housing completions increased by 10.7% during 2021-22, just short of pre-pandemic levels.
- Despite a robust post-pandemic rebound in housebuilding activity, tightened planning policy continued to add to the long-term decline in the number of units granted planning permission.

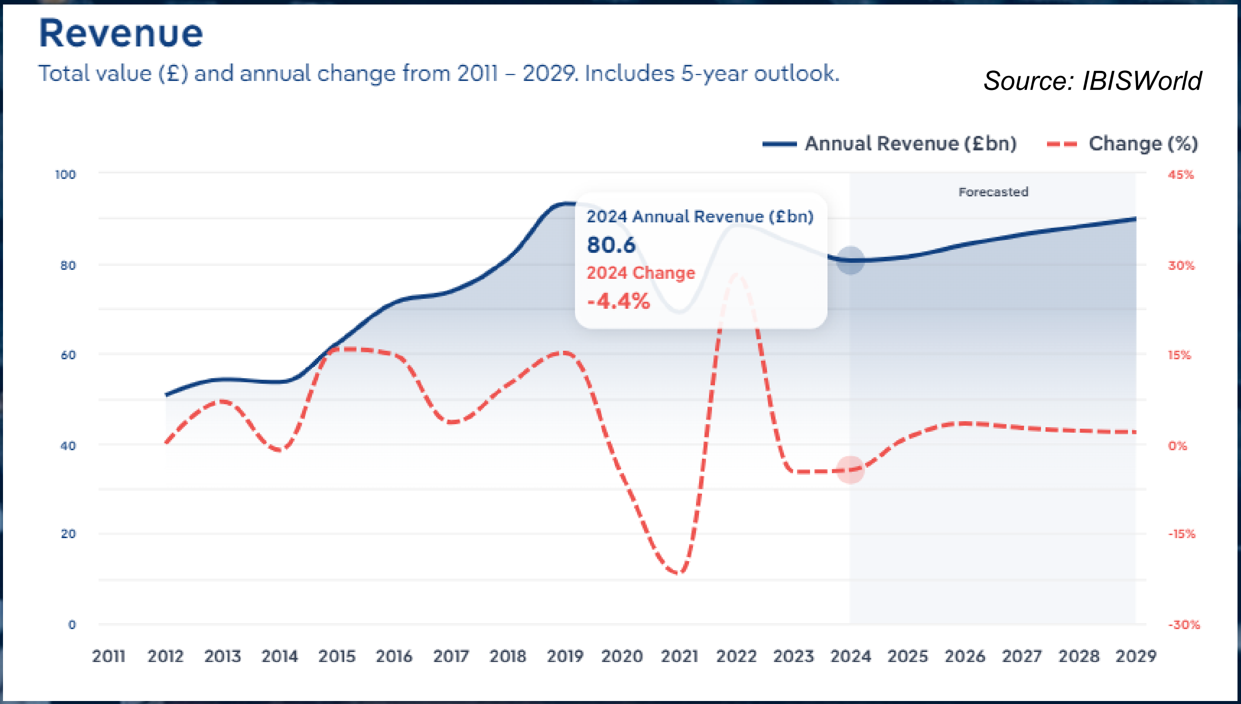
Rising input costs have cut profitability

- The rebound in global construction activity in the immediate aftermath of the pandemic led to fractured supply chains and a shortage of materials.
- Rising input costs were exacerbated by increases in the fossil fuel prices following Russia's invasion of Ukraine, with profitability falling in 2022-23.
- According to provisional BEIS data on Construction Material Price Indices, the average cost of materials used in the construction of new housing increased by 13.1% in 2022-23, on top of a 16.8% rise the previous year.

Uncertainty on economic prospects is weighing on demand

- Interest rate hikes have compounded supply chain issues, with house prices declining and likely to continue on a downward trajectory as increases in the mortgage rate begin to filter through.
- Housebuilders Persimmon, Taylor Wimpey and Barratt Homes have all reported a fall in buyer demand in recent financial reports, sparking concern regarding returns on investment.

Residential outlook



Housing market uncertainty will continue

- With mortgage rates recently topping 6% and little sign of a meaningful drop in the near -term, house prices are likely to come under pressure as fixed-rate deals end.
- Property developers will continue to hold back on new residential developments as challenging market conditions continue to compromise potential returns on investment.
- Recent changes to planning legislation also threaten the viability of significant growth in housebuilding in the coming years.

Support vital for growth prospects

- In the 2020 Social Housing White Paper, the government renewed its Affordable Homes Programme for 2021-2026, with a multi-year settlement of £12.2 billion - the largest cash investment in affordable housing in a decade.
- Budget 2020 confirmed allocations from the Housing Infrastructure Fund totalling £1.1 billion to build 70,000 new homes in high-demand areas across the country.

Environmental requirements threaten profitability

- New environmental standards are likely to push up costs and weigh on profitability.
- Under the Future Homes Standard, all new homes built from 2025 are required to produce 75-80% less carbon emissions than homes delivered prior to 2022.

Commercial performance

Revenue	Employees	Businesses
£21.0bn	129k	19,431
'19-'24 ↑ 0.1 %	'19-'24 ↑ 7.1 %	'19-'24 ↑ 6.2 %
'24-'29 ↑ 1.4 %	'24-'29 ↑ 0.8 %	'24-'29 ↓ 0.1 %

Profit	Profit Margin	Wages
£923.1m	4.4%	£3.9bn
'19-'24 ↓ 11.7 %	'19-'24 ↓ 3.8 pp	'19-'24 ↑ 5.6 %
		'24-'29 ↑ 0.8 %

Five-year growth rates display historic and forecast compound annual growth rates. Source: IBISWorld

Industry faced disruption

- According to the ONS, the combined value of new orders for private commercial and private industrial construction dropped 9.9% in 2020-21, fuelled by a 44.8% year-on-year decline over the three months to June 2020. Prior to this, Brexit-related uncertainty had weighed on new orders from 2016.
- ProCure22 (P22) and the subsequent P23 have ushered in a new cycle of major public investment in healthcare real estate, with an estimated £5 billion worth of works packages delivered between October 2016 and July 2022.
- The £4.4 billion Priority School Building Programme (PSBP) committed bankroll top the rebuilding and refurbishment of 537 schools by the end of 2021.

New orders picked up as pandemic -related restrictions eased

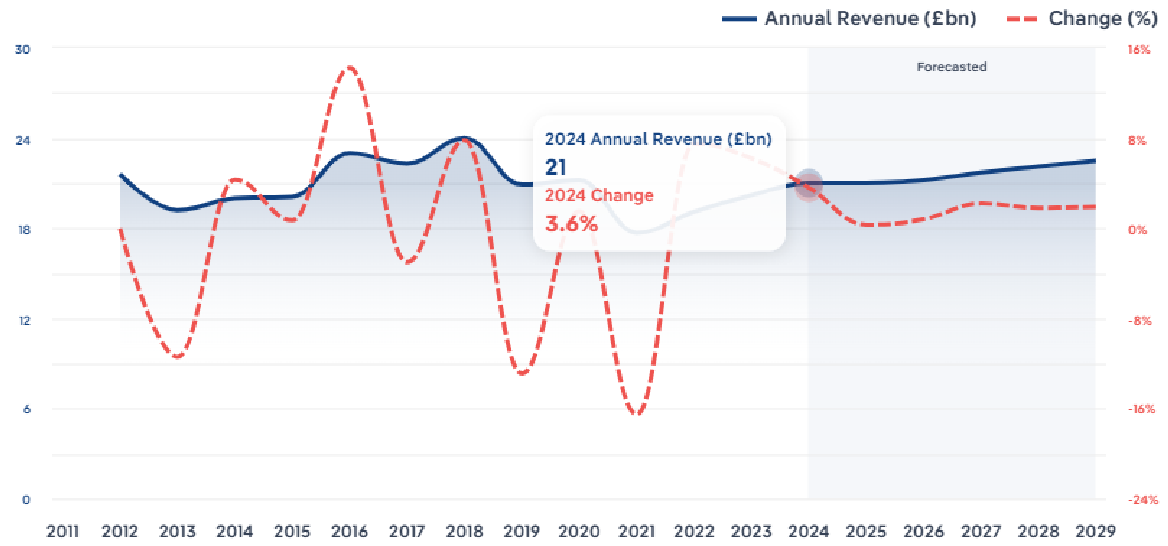
- Lead generation improved in 2022, as the easing of public health restrictions and a stronger than anticipated initial economic pandemic recovery spurred improved sentiment among downstream clients.
- Despite improved new orders, revenue growth remained sluggish, as the effects of reduced new orders and deferred revenue in the previous year kicked in.
- Contractors faced difficulties procuring key construction materials, which pushed up costs and led to higher output prices.
- Russia's invasion of Ukraine exaggerated supply chain pressures, contributing to an 16.4% rise in the annual average ONS material price index over the 12 months to March 2023, following an 18.6% rise over the same period a year earlier.
- Inflationary pressures, interest rate hikes and geopolitical uncertainty combined to spur a reduction of investment in commercial developments over 2022-23.

Commercial outlook

Revenue

Total value (£) and annual change from 2011 – 2029. Includes 5-year outlook.

Source: IBISWorld



Challenging conditions

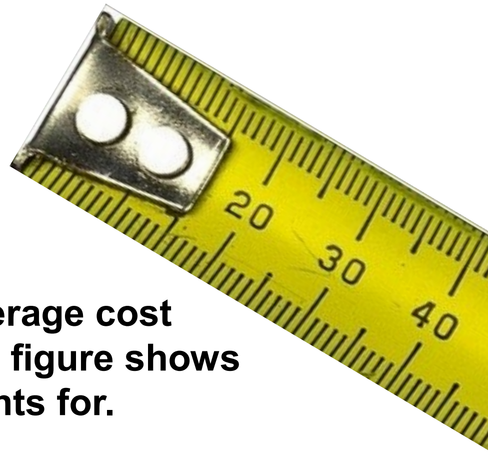
- After the combined value of private commercial and private industrial, new construction orders declined by 4.3% in 2022-23. Interest rate hikes and stubborn inflation will continue to weigh on lead generation in the short-term.
- Input price inflation is set to ease slightly from current levels, though labour shortages and elevated material costs will maintain pressure on margins.
- Clients are likely to continue to scale back spending plans while economic uncertainty remains.

Post-pandemic demand

- Public-sector construction investment was resilient during the pandemic, with post-pandemic stimulus maintaining abundant tender opportunities.
- The construction of 40 hospitals by 2030, as part of the Health Infrastructure Plan (HIP) is set to create £3 billion+ tender opportunities.
- Through the School Rebuilding Programme, the government has committed to a delivery rate of 50 new schools per year and an accelerated spend on healthcare buildings through ProCure23.
- Demand for office building contractors will be increasingly weighted towards fit-out operations in the coming years, as businesses repurpose office space to meet their needs.
- Future demand for office space remains uncertain, with most developers surveyed by Deloitte anticipating a 10% reduction in long-term demand for London office space.

Construction benchmarks

How do your costs and profit margin compare to the industry averages?



Industry benchmarks

We have analysed industry data to compare the average cost base and profit margin for construction firms. Each figure shows the average percentage of revenue that item accounts for.

Residential construction

Year	Utilities	Rent	Marketing	Depreciation	Purchases	Wages	Other costs**	Profit
2024*	1.2%	0.6%	0.2%	2.6%	31.8%	10.8%	46.7%	6.1%
2023	1.3%	0.6%	0.2%	2.5%	31.1%	10.9%	48.5%	4.9%
2022	1.1%	0.6%	0.2%	2.1%	27.8%	11.1%	52.6%	4.5%
2021	0.7%	0.7%	0.1%	1.8%	24.4%	12.5%	54%	5.8%

Commercial construction

Year	Utilities	Rent	Marketing	Depreciation	Purchases	Wages	Other costs**	Profit
2024*	1%	0.9%	0.1%	1.1%	19%	18.5%	55%	4.4%
2023	0.9%	0.9%	0.1%	1.1%	19.1%	18.5%	56.3%	3.1%
2022	1%	0.9%	0.1%	1.2%	17.9%	17.7%	58%	3.2%
2021	0.8%	1%	0.1%	1.1%	15.7%	15.6%	61.9%	1.7%

All raw industry data supplied by IBISWorld.
* Forecast figures for 2024
** Other costs include: Sub-contractors, tax, telecoms, IT services, Insurance.

Industry benchmarks key points

Purchase costs rising

Over the past three years we have seen significant increases in purchase costs as a proportion of revenue, which stand at 31.8% of total revenue in residential construction and 19% in commercial construction in 2024.

This highlights the importance of managing your purchases and suppliers, to ensure that you are getting the best prices.

Maintaining profit margins

In general, construction firms have managed to hold and slightly increase their profit margins over the past 3 years. This is due in part to getting a tighter control on overhead spending and sub-contractor costs, despite rising purchase costs and wage costs.

How do your costs and profit margins compare to the industry benchmarks?

Price watch

Here we list the construction items and materials that have risen most in price in the past year and include some tips on managing price rises.

Rank	Item	Annual price increase
1	Metal doors & windows	+17.49%
2	Ready-mixed concrete	+16.78%
3	Metal products / screws etc	+14.49%
4	Kitchen furniture	+12.06%
5	Gravel, sand, clays & kaolin - exc aggregate levy	+9.72%
6	Blocks, bricks, tiles & flagstones	+7.40%
7	Taps and valves for sanitaryware	+7.32%
8	Electric water heaters	+7.22%
9	Central heating boilers	+6.83%
10	Pre-cast concrete products	+6.46%
11	Plastic doors & windows	+5.65%
12	Cement	+5.28%
13	Sanitaryware	+4.49%
14	Metal sanitaryware	+3.86%
15	Insulating materials (thermal or acoustic)	+3.82%

Source: ONS, Annual price increase Oct 2022 to Oct 2023

How can you manage price rises?

Here are some options to consider:

- **Review your supply chain** and consider if you need to source alternative or additional suppliers.
- **Create a supplier dashboard** where you review the viability of contract terms, the need for renegotiation and the risk of disruptions.
- **Ensure you are pricing correctly** and including any price increases into project costs and quotations.
- **Explain to customers** if there are material delays or cost increases.
- **Plan ahead** to secure bulk purchasing opportunities, however consider the additional storage costs.

Construction updates

Construction firms struggling with VAT and CIS obstacles

By David Sharp, Partner

We recently held a construction seminar for our clients and contacts where I was asked to provide an update on the current compliance issues that construction firms are struggling with.

The two areas which immediately sprung to mind are VAT and CIS issues, which I am often asked about. I am pleased to summarise some of the key challenges and examples which I covered.

Issue 1 - CIS general issues

What's the issue?

We are noticing some construction firms slipping up when it comes to CIS returns. Contractors must always verify sub-contractors before paying them. Failure to do so means that HMRC will seek the tax that should have been deducted from you. They can also issue penalties, which can quickly become significant:

- 1 day late - £100
- 2 months late - plus a further £200
- 6 months late - plus a further £300 or 5% of amount due

An example

- You pay a net status sub-contractor £100 and should have deducted £20 VAT (paying £80 in total).
- But you have not verified them and paid £100.
- HMRC treat the £100 as net, and claim £25 from you + interest and penalties.

Solution

Always verify sub-contractors before paying them.

Issue 2 - VAT Reverse Charge challenges

What's the issue?

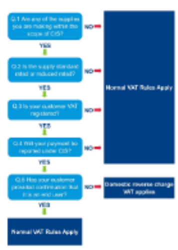
The end user must notify subcontractor in writing they are end user and reverse charge does not apply.

An example

- End user correctly charged 20% VAT, so claims back from HMRC.
- But the end user didn't notify the sub-contractor they're the end user.
- In this case, HMRC say the end user shouldn't have been charged VAT - so they cannot claim it back, even though no actual loss to the exchequer!

Solution

Ensure you always state on your invoice if the reverse charge applies and if you are the end user ensure you notify contractors in writing of this fact.



We have a **VAT Reverse Charge Flowchart** to help clients assess whether to apply the VAT reverse charge.

Contact us at info@rousepartners.co.uk to request a copy of our flowchart.

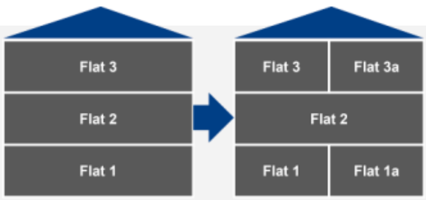
Issue 3 - VAT rates dilemma

What's the issue?

There are various VAT rates for construction work (20%, 5%, 0%) and it can be difficult to determine which is applicable. For example:

- 20% - as a general rule all work is standard rated
- 5% - e.g. non residential to residential conversion or change in number of dwellings
- 0% - e.g. new builds, charity buildings, hospice etc

An example



- 3 flats are converted to 5 (see diagram).
- Work in respect of flats 1, 1a, 3 and 3a can qualify for 5% VAT
- Work in respect of flat 2 will remain at 20%

Another example

- Converting commercial property back to residential
- VAT rate should be 5%
- But you can only claim back the VAT you are charged if it has been non-residential for at least 10 years.

Solution

If in doubt with any CIS and VAT issue, speak to your accountant as getting it wrong can be costly.

Do you have a VAT concern?

We have specialist VAT consultant and vast experience in assisting construction and property clients to overcome these VAT hurdles and more.

Contact our team on 01494 675321 or email info@rousepartners.co.uk for a no obligation quotation or to discuss how we can help.

What was in the Spring Budget for construction

By David Sharp, Partner

The Chancellor Jeremy Hunt delivered his Spring Budget for 2024 on Wednesday 6 March and here, David Sharp provides his summary and reaction for those in construction.

“Whilst there were some welcoming tax breaks and incentives for business in general, it was surprisingly light on targeted measures to support the construction sector.”

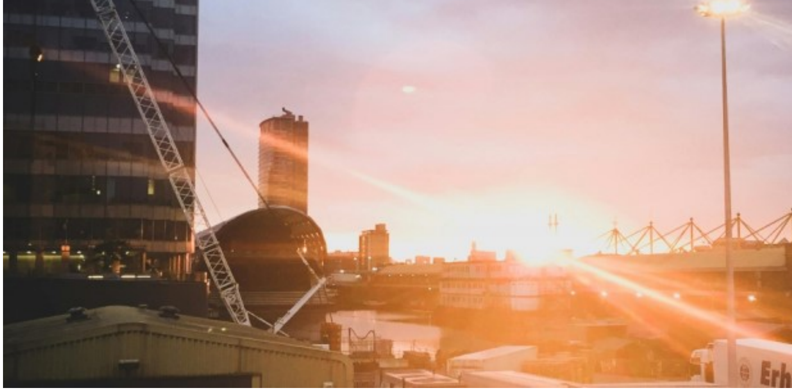
“According to a recent Begbies Traynor report, the sector now has the highest percentage of companies in financial distress. With rising fuel and material costs, interest rates, inflation, late payment cycles, planning delays and the impact of the VAT Reverse Charge, there is pressure growing for many construction firms.”

“I was therefore disappointed that the Chancellor did not do more to address these specific concerns, or provide updates on new home targets or new infrastructure projects. Even more so, as the government is unlikely to meet its own target of 300,000 new homes a year, and there was nothing in this Budget to suggest any plan to remedy this situation”, says David.

Key Budget announcements

Here is a summary of the announcements most relevant for those in construction:

- The higher rate of **Capital Gains Tax** (CGT) for residential property disposals will be cut from 28% to 24%,
- The abolition of the **Furnished Holiday Lettings** (FHL) tax regime
- The abolition of **Multiple Dwellings Relief** (MDR)
- A 5p decrease in **fuel duty** and extended freeze on fuel duty
- Allowing **full expensing** - which lets businesses offset investment in items such as new machinery and equipment against tax - to apply to leased assets
- The **VAT registration** threshold will rise from £85,000 to £90,000 in April.
- £120m allocated for **green industries** to develop technologies like carbon capture / storage and offshore wind.
- AstraZeneca plans to invest £650m in the UK, expanding its presence on the Cambridge Biomedical Campus and establishing a **new vaccine manufacturing** hub in Liverpool.
- £160m will be spent on **two nuclear sites**, with one located in North Wales, and the other in South Gloucestershire.



Planning reforms already announced by the Chancellor

Whilst there were no further updates in the Spring Budget, it is worth remembering the intended reforms to UK planning system, which were announced in November's Autumn Statement, which included:

1. A streamlined planning process

The reforms will allow local authorities to offer guaranteed accelerated decision dates for major applications in exchange for a fee, which will be refunded if the timelines are not met. An investment of over £32m was also pledged to alleviate the planning backlog and facilitate new housing developments in city hubs like Cambridge, London, and Leeds.

2. New permitted development right to be introduced

A new permitted development right will allow any house to be converted into two flats, provided the exterior remains unaffected. The timescale for this to be introduced has not yet been announced. The permitted development right will be particularly beneficial for smaller and medium sized developers, as only 5% VAT will be payable on the costs of creating the homes.

3. Accelerating affordable housing delivery

New measures to speed up the delivery of affordable housing, acknowledging the urgent need for accessible and reasonably priced homes across the UK. To unlock over 40,000 new homes, the Chancellor pledged an investment of over £110m next to tackle the impact of nutrient pollution rules which the Home Builders Federation (HBF) has said is holding up more than 150,000 homes. The reforms incentivise developers to allocate a specified percentage of their projects to affordable housing.

4. Local authority empowerment

The Autumn Statement gave local authorities a more active role in planning, by granting them greater control over development policies and decisions. As part of these measures, the Government has allocated £450m to the Local Authority Housing Fund to deliver approximately 2,400 new homes.

5. Environmental sustainability and green initiatives

The planning reforms announced also included environmental considerations, aiming to promote green initiatives, sustainable building practices, and environmentally friendly design principles.

The CIS: Major changes coming from April

By Paul Brannan,
Outsource Manager

The government is soon to roll out major changes to the Construction Industry Scheme (CIS) and Gross Payment Status. Here, we summarise the changes.

The CIS currently

Gross Payment Status

Gross Payment Status (GPS) helps sub contractors to improve cash-flow, business reputation and paperwork.

Under the current CIS rules, contractors must withhold deductions at either 20% (standard rate) or 30% (if the recipient is not registered for CIS or cannot be verified) from payments made to subcontractors who do not hold GPS.

In effect, HMRC are trusting those businesses with GPS to pay this via their end of year taxes and NIC liabilities. To earn this trust they must pass HMRC tests.

Currently, to obtain and retain the gross payment status, subcontractors must pass three tests annually:

- **Business test** - You must prove you operate a business carrying out construction operations, or supplying labour for construction operations, through a UK bank account
- **Turnover test** - Your net turnover for the previous 12-month period must be at least £30,000 per director or partner, or over £100,000 for the whole company or partnership
- **Compliance test** - All CIS and direct tax returns and payments (excluding certain income/ corporation tax self-assessment payments) must be correct and submitted by the applicable deadlines.

Once granted, HMRC performs an annual automated compliance check to establish whether the subcontractor still qualifies for GPS.

The CIS from April 2024

What is changing?

The following changes to GPS will be introduced from 6 April 2024:

- **VAT returns and payments** will be brought within the compliance test for GPS status. This must be obtained and maintained by a subcontractor; and
- **GPS can be immediately removed** in cases of fraudulent returns or information provided in respect of any VAT, corporation tax Self-Assessment, income tax Self-Assessment or PAYE obligations.
- Any **VAT failures** that arise after 5 April 2024 will be considered as grounds to cancel or refuse GPS for existing GPS holders or new applicants.

We recommend that subcontractors who currently hold (or plan to apply for) GPS should review their VAT compliance procedures to check whether they are at risk of having their GPS withdrawn or application refused post-April 2024. Any VAT errors identified should be disclosed to HMRC and corrected.

Further GPS changes

There are also other GPS changes which will be implemented from 6 April 2024, including:

- **Reducing the time for first compliance checks** for GPS holders, from 12 months (currently) to six months after application
- The **introduction of digital applications** for GPS and ceasing to accept telephone applications (except for those who are digitally exempt).
- The introduction of regulations to remove the majority of **payments from landlords to tenants** from the scope of the CIS.

HMRC has said that there will be appeal rights and gross payment status is not removed where there is ‘reasonable excuse’ for any compliance failures. These are expected to be set out in the detailed regulations which will be released shortly.

CIS returns: We can help

If you would like an experienced team to look after preparing and submitting your CIS returns, please contact us for a quotation.

Guest article

What you need to know about the new biodiversity net gain rules for developers

By Sophie Matthews, Walsingham Planning

The introduction of biodiversity net gain (BNG) from 12 February 2024 is the biggest change to planning regulations in decades.

This new law, as part of the government's Environment Act, aims to leave the natural environment in a measurably better state than it was before development.

In this guest article, Sophie Matthews from Walsingham Planning summarises what developers need to know and shares her top tips for meeting the new rules.

What are the new biodiversity net gain rules?

Under the new BNG rules, all new building projects must achieve a measurable 10% net gain in biodiversity or habitat. For example, if part of a woodland is destroyed by a road, another needs to be recreated. This is calculated using an official DEFRA metric. This can happen either on site or elsewhere.

However, Sophie recommends always checking with the local Council, as some have higher percentage requirements, for example Guildford requires a 20% BNG.

The requirement became mandatory on 12 February 2024 for larger sites and will be come into force on 2 April 2024 for smaller sites.

Are there any exceptions?

The BNG rules do not apply for householder applications, such as small projects like home extensions, conservatories, loft conversions, nor does it apply to small scale self-build and custom-build projects.

It is also possible to 'screen out' certain smaller proposals if it does not impact a priority habitat and impacts less than 25 square metres (5m by 5m) of habitat, or 5 metres of linear habitats such as hedgerows or watercourses.

Guest article

(continued)

How to achieve 10% biodiversity net gain

There is a hierarchical approach to achieving 10% BNG on your developments, which is as follows:

1. Firstly, achieving BNG on-site, with improvement secured for 30 years through a S106 agreement.
2. If this is not possible, achieving BNG off-site, via an offset provider secured for 30 years through Conservation Covenant.
3. Finally, if options 1 and 2 are not feasible, then BNG can be achieved off -site, via statutory credits. There is no requirement for a legal agreement, but this can be very costly.

How to report that you have met the requirements

There is now a minimum requirement to submit a Biodiversity Statement with planning applications, including details of the site's pre-development biodiversity value.

How you achieve the 10% uplift will be backloaded to be dealt with through a Biodiversity Gain Plan at a later date via planning condition.

Sophie adds, "You should now factor in that this will add a minimum 8 week period to the planning process before you can start on site."

BNG top tips

Sophie shares her top tips for developers on meeting the new biodiversity net gain rules:

- Don't ignore it! It is now mandatory for larger developments and comes in for smaller developments from April 2024.
- Involve an ecologist as early as possible.
- Avoid removing habitat and ecological features as much as possible.
- Think carefully about your site's red line boundary – don't include land that you don't need to.
- Appoint a landscape architect to work with an ecologist to get to 10% BNG on-site if possible.
- If 10% BNG is not possible on-site, look at local offset providers to 'top up' – but factor this into site valuation.
- Allow more time for projects, as there is a minimum 8 weeks to discharge a BNG pre-commencement condition, plus securing a S106 agreement.

Further information

If you have any questions or would like to discuss BNG in further detail, please contact us by email at info@rousepartners.co.uk and we will be pleased to make an introduction to Sophie Matthews at Walsingham Planning.

Guest article

Insolvency in the Construction Industry and how to protect your project

By Lewis Cohen, Partner, Blaser Mills Law

Insolvency in the Construction Industry is on the rise and the impact is being felt in and around Buckinghamshire. Lewis Cohen, Partner and Head of Construction & Engineering at Blaser Mills Law, looks at the impact and how you can protect your project.

South Buckinghamshire is a green and affluent part of the country, but late last year, the Construction & Property sector was rocked by the news that Inland Properties PLC (and various subsidiaries) had appointed Administrators.

Inland, based in Beaconsfield, is a major brownfield developer with a portfolio of successful residential projects across the South-East of England. In addition, the very large and respected M&E Engineering Sub-Contractor, M J Lonsdale Ltd, headquartered in Slough, and Staines based Richardson Roofing (Industrial) Ltd both also appointed Administrators.

In total, according to a report in Construction News, 37 construction related companies appointed Administrators in October 2023 compared with 19 in October 2022, with the year-to-date total at 312 which is a 58 % increase on the same period in 2022.

Whilst less than 500 Administrations is not a significant number, it has to be understood that Administration is only suitable for a small number of insolvent companies and that the vast majority go straight into liquidation.

Far more worrying is a report from Insolvency Practitioners, Begbies Traynor, who run the Red Flag Alert reporting system. They have advised that almost 6,000 construction related companies are close to being insolvent.

The current level of interest rates which has significantly increased the costs of borrowing, and inflation, both in general and in relation to Construction Industry specific materials have made it much harder to finance developments.

In the last 12 months the Blaser Mills Law team has advised a number of developers and contractors where these factors have contributed to substantial delays and in some cases stalled projects.

How to protect your project

Employers

Employers must be cautious. Gone are the days of a quick turnaround.

First, and perhaps most obvious is do not overreach:

- Make sure that there is plenty of contingency in the budget;
- Keep your funder involved at all times; and
- Set realistic estimates on timescale for completion and the expected profit margins.

Secondly, go out to tender with open eyes:

- Do not award the contract on price only. If one contractor is 25% cheaper than the others, that should set alarm bells ringing;
- Do not be scared of asking for a Parent Company Guarantee or a Performance Bond; and
- In this market, look for contractors who are busy and have a track record.

Thirdly, remain involved during the construction phase:

- The terms and conditions are to protect both parties. Too many developers do not adhere to the contract and fail to give appropriate notices – especially Payment Notices;
- If the Contractor is falling behind or the Contract Price is increasing, you need to step in and take control and not let matters drift; and
- Ensure your professionals are fully engaged and not delaying the project.

Contractors

For Contractors, the advice is similar. First, and as with Employers do not over commit:

- Do you have both the requisite skills and capacity to undertake the Contract?
- Is the project viable? and
- What cash reserves do you need if any?

Secondly, be realistic when tendering:

- Do not discount the tender if you cannot complete the work at the bid price;
- Make sure the timescale for the project is viable; and
- Do not be afraid to award to push back on punitive contract terms and in this climate, ask for an agreement on price fluctuations.

Thirdly, remain involved during the construction phase:

- As above, the terms and conditions are to protect both parties. Record all instructions in writing and give notices of delay in compliance with the contract;
- Look ahead and order materials in good time. Likewise review the design in advance and make sure that the design is sufficiently detailed. If not raise this with the design team; and
- If the Employer falls behind in making payments or issues spurious pay less notices do not be shy in issuing a Notice of Intention to Suspend or commencing an Adjudication.

Insolvency

There are rigorous requirements on Directors to ensure that they are not trading insolvently. This requires proper accounting methods and regular reviews of cash flow and turnover. Do not ignore early warnings. If there are any doubts consult your accountant. Finally, if a contract is in difficulty take legal advice to protect your position and where possible enter into dialogue to negotiate a positive outcome for all involved.

Further information

For further information and advice, please contact us by email at info@rousepartners.co.uk and we will be pleased to make an introduction to Lewis Cohen at Blaser Mills. This article is for general information only and does not constitute legal or professional advice.

A reminder: Stay vigilant for invoice fraud

The risk of invoice fraud continues to plague construction firms.

A recent report suggested that businesses stung by invoice fraud lost on average £27,700. However, in one case, a construction company was defrauded of £1.1m and the banks are often not prepared to compensate the losses.

Invoice redirection scams happen when a fraudster tricks you or your customers into changing the bank details for payment on an invoice. These criminals target businesses by posing as suppliers, or customers pretending to be their construction firm. They'll often ask the recipient to update their records with new payment information and insist the invoice is paid urgently.

How can I protect myself?

There are ways that you can defend against scams and here are some tips from the Federation of Small Business:

- Make sure your customers are aware of this risk and that you will never contact them to change bank details, unless via a pre-agreed method.
- Check any requests to change payment details before making payments. Remember, emails can be hacked and invoices made to look very similar. Contact your supplier using a trusted phone number.
- Beware of any requests for urgent payments, especially if you weren't expecting an invoice. Even if they appear to have been sent from someone in the business, you should always exercise caution.
- If you have staff who process your invoices, make sure they're aware of the warning signs of scams and how to raise any concerns.
- Email attachments that appear to be invoices shouldn't be downloaded from unknown senders – this is a common phishing technique. Instead, double check whether your supplier has sent an invoice.
- Compare the invoice with ones you know are genuine. Often, it's easy to spot if it's a fake invoice e.g irregular formatting or blurred logos.
- Be mindful of information on your website or social media. Fraudsters can use publicly accessible information, such as the suppliers you use.
- If you're paying a new supplier, consider transferring a small amount first and confirming the payment has been received.

Our services

Services for construction firms

At Rouse we are well known for our specialism within the construction and property industries.

We offer the core accounting and tax services you need to run your business, as well as a range of specialist services and advice, exclusive to accountants specialising in construction.

We assist businesses of all sizes; from independent, family owned businesses through to projects for nationally recognised, household names in the construction industry.

Services include

- **Year end accounts** with pre year-end planning advice and recommendations to help you make the right financial choices for your business;
- **Tax** including VAT advice, tax return filing and advisory projects;
- **CIS scheme** set-up and filing;
- **Payroll services** including sub contractors;
- **Bookkeeping** and cloud accounting set-up;
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