ARCADIS

Reasons to be cheerful

# Introduction

In our Summer Market View, we suggested that the construction market was at its lowest point and that the only way was up. With the energy of a new government with a huge majority, interest rates falling and a growing new orders pipeline, we examine whether these are reasons to be cheerful.

## Economy bouncing back.

There are growing signs that the construction sector is taking the first steps on the road to recovery. However, timing is everything and there are several barriers that could delay an upswing and with it, future levels of inflation. We examine some of those here, including a closer look at client/contractor risk appetite and at the impact that competency requirements could have on future industry capacity.

The shallow recession that the UK endured at the back end of 2023 seems like a distant memory, with a second quarter of rapid growth of 0.6% in Q2 leading the Bank of England (BoE) to upgrade its forecast for 2024 from 0.5% to 1.25%. However, as previously highlighted, the recovery is consumption-led and construction sector activity was flat, contributing nothing to the UK's uptick in H1. Looking forward, the sector's forward pipeline has recovered strongly in the first half of 2024, with quarter on quarter rises of 17.7% and 16.5% respectively. The orders data confirms the findings of recent sentiment surveys, pointing to better trading conditions in 2025. The August 2024 Purchasing Managers' Index (PMI) from the Chartered Institute of Procurement & Supply (CIPS) scored 55.3 - the fifth successive month of growth and the strongest result since May 2022. Meanwhile, the latest RIBA Future Trends Workload Index showed an overall balance of +4 in June, representing the third successive month in positive territory.

Yet the bigger picture remains decidedly mixed. Contractor new orders volumes have only returned to long-term trend levels, and the latest RICS UK Construction Monitor recorded a net balance reading of zero for Q2 2024, the same as in Q1. Recent trading data highlights a slump in demand for material inputs, with builders' merchant Travis Perkins and brickmakers Ibstock and Forterra all reporting static or declining revenues and a sharp fall in profits. For contractors, performance is also mixed. Whilst Morgan Sindall and Wates reported record sets of results, leading contractor Sir Robert McAlpine joined John Sisk, Willmott Dixon and others in reporting losses; in their case, a shocking £105m trading deficit related to four problem jobs. We investigate what this might mean for future risk appetite and exposure in our Zoom into feature later in this report.

## Impact of interest rate cycle on the housing and commercial markets.

Probably the most consequential development this summer, and one that should make the biggest short-term impact, is the start of the UK's interest rate cutting cycle. The BoE's split decision in August 2024 to cut interest rates ended a cycle of rate hikes that started in December 2021. Positive inflation, earnings and employment data has strengthened the case for at least one further cut in 2024. Even before the cut, conditions were improving. National House Building Council (NHBC) data for new home registrations and completions were up 34% and 29% respectively in Q2 compared to the previous quarter. Lower interest rates should boost improving consumer confidence levels, which will in turn spill over into the housing market. Persimmon, for example, has reported a strong pick-up in enquiries with a net private sales rate since 1st July at 0.69, up 68% on last year. Meanwhile, in another sign that the recovery has started, both Barratt and Berkeley Homes have recently announced an acceleration of land buying.

However, the damage has already been done. Most UK housebuilders forecast that completions for 2024 will be 25-30% below the peaks of 2022 and momentum has slowed since last year. The Q2 NHBC report records a 23% year on year fall in registrations, with new home completions down 6% over the same period. Levels are so low that NHBC can highlight that registration rates will need to double to deliver Labour's pledge of 1.5 million homes.

In the commercial sector, despite orders being up by 5% in Q2, Deloitte's latest London Office Crane Survey shows that investors are still cautious, particularly in connection with large-scale development. High finance costs continue to hamper viability, and developers including Derwent London also find it difficult to sell completed developments to recycle capital. JLL reiterate this point, adding that while investor sentiment in London's office market may have improved, it has not yet been reflected in investment activity, with volumes remaining subdued in Q2 2024. Evidence from European markets does, however, suggest that rate cuts could have an influence. In Ireland, for instance, around the time of the European Central Bank (ECB) rate cut in early June, CBRE reported a near three-fold increase in commercial property investment in the second quarter compared with the first three months of 2024.

### First steps from a new government

Early July saw Sir Keir Starmer's Labour government sweep to power having promised to "back the builders, not the blockers". The new regime has been quick off the mark, with some early, high-profile announcements. In additional to launching Great British Energy and the National Wealth Fund, a ban on onshore wind development has been lifted and development consent was granted, against the recommendations of planning inspectors, for three solar farms with a combined capacity of 1.35GW. Plans for two giant data centre schemes in the South East have been 'recovered', meaning that the planning process will recommence. Another quick-win that could yield initial results this autumn is a reset to the level of support for renewable energy provided via Contract for Difference (CfD) agreements. With a total of £1.5bn in funding support available and an improving private finance outlook, government should be able to attract licence bids this year after the failure of the 2023 round. By contrast, ahead of a wider review of transport infrastructure projects, and somewhat contrary to the growth agenda, the A303 Stonehenge tunnel and A27 Arundel bypass projects were scrapped, saving about £2bn in Capex.

Given that tight fiscal rules will constrain borrowing for capital investment, a big push to attract private finance has started, with Treasury looking at Public Private Partnership arrangements for the £9bn Lower Thames Crossing project linked to toll revenues. Greater clarity on the funding envelope for capital investment will not come until the spending reviews planned for this October and Spring 2025.

With most announcements focused on planning and finance, it will take a long time to feed through to activity on site. And while the appointment of a new political leadership should provide some stability, there will inevitably be some delays to projects as ministers get to grips with their brief. A review of the New Hospitals Programme will cause a further hiatus in an already delayed programme, while in rail, defence and environment departments, there is anecdotal evidence of a slowdown in project awards as a change of guard in departments coincides with new spending settlements in rail, roads and the forthcoming spending review.

### Plans for planning reform – better luck this time?

Once again, planning reform is at the heart of a new government's 'growth agenda'. Deputy Prime Minister Angela Rayner has moved swiftly to launch revisions to the National Planning Policy Framework (NPPF) with a headline-grabbing pledge to re-introduce a mandatory housing supply target of 370,000 homes per year. Part of the solution will be previously well-trailed reforms to greenbelt and greybelt land, covering previously developed sites and changes to boundaries so long as the greenbelt continues to serve its purpose.

Proposals for land value capture on greenbelt/greybelt land are likely to be as controversial as the land use changes themselves. Housebuilding on greybelt land alone is unlikely to be a game-changer. High-level analysis by consultant LandTech suggests that previously developed land within the greenbelt could deliver between 261,000 and 318,000 new homes – less than one year's supply. This means that new towns and greenbelt boundary changes are likely to play a much bigger role in bringing forward housing land.

Many of the reforms to the NPPF are focused on the local planning process and are unlikely to have much of a difference in the short to medium-term. One exception could be the strengthening of the presumption for sustainable development, which will enable housebuilders to bring forward sites in areas that do not have a five-year land supply in place. This will boost the housebuilders in the short-term and will also encourage the finalisation of Local Plans. Overall, proposed changes to the NPPF will increase the supply of land but may not address all the problems affecting housing supply, including a fall in demand for affordable homes delivered via section 106 contributions. Viability issues remain a concern for many developers which isn't being helped by land values recovering at a faster rate than house prices. Gateway 2 issues remain endemic, with reports of some projects potentially taking as long as 12 months to pass through the process. One issue that the new government may be able to address is support for affordable housing either through capital grants or through changes to land value capture rules. For these we will have to wait for future spending reviews and planned legislation.

The launch of DCLG's New Homes Accelerator will have a much more immediate impact than proposed changes to the NPPF. By addressing blockers to schemes that are already in the planning pipeline, such as nutrient neutrality, schemes could be brought forward for development just as the market starts to recover.

In summary, even as underlying conditions improve, it will still be some time before a growing order book feeds through to activity on site and to contractors' bottom line. Moreover, there are still various blockers to an upturn in activity in the near term. We examine a further potential 'iceberg', relating to competence and the workforce, in our Spotlight feature.

# Forecast

Concrete improvements in economic outlook and workload pipeline validate our current forecast and place the spotlight firmly on the pace of recovery and its impact on contractor pricing strategies.

Our introduction highlights that the economic cycle has moved decisively in the past six months. Whilst this momentum is not expected to be sustained into the autumn, wider economic developments are expected to be supportive of growth, including the start of the US's own cycle of fiscal loosening.

The UK can also expect to benefit from a much-needed period of stability. With initiatives aimed at resetting relationships with key trading partners and at attracting new investment into renewable energy and other infrastructure, the construction sector will need to change its attention from survival in the present, to dealing with the consequences of growth in 2025.

### Client confidence is up

Despite the improvements in investor and consumer confidence, construction output remains flat. However, the Arcadis survey of client sentiment is showing its strongest reading since Summer 2022, consistently demonstrating an expansion in client activity throughout 2024.

Markets that have seen the strongest bounce-back include the private sector development market as well as resilience sectors focused on networks including water and low-carbon energy. As highlighted in the introduction, private developers have recommenced their site acquisition programmes, underlining a significant depth of interest in future development opportunities. Transport sectors, by contrast, appear to be exposed to some loss of momentum, triggered in part by the timing of control periods and spending plans. As an example, the National Highway's RIS3 programme is yet to be signed off.

Arcadis data also suggests that fewer projects are subject to delay and a larger number are restarting following the resolution of funding and viability issues.

### Patterns of recovery

At this early stage in the recovery cycle, patterns of growth are patchy both in terms of the sectors benefiting from an expansion in workload but also with respect to the regional distribution of activity. With access to six months of positive new orders, it is becoming easier to spot emerging patterns of demand:

- Housing is largely flat compared to 2023 levels and therefore low compared to pre-Covid delivery levels. Direct development by public sector clients is lagging. Volume sales by house builders into the institutional rental sector may still be contributing to better-than-expected results in 2024.
- Water investments have yet to appear in the project pipeline. Water companies are confirming their frameworks for the commencement of AMP8 in Spring 2025 but have not yet contracted firm future workload.
- Electricity is benefitting from a boost in offshore generation workload that ultimately has minor impact on the conventional construction supply chain. No transmission work has fed through yet, meaning that the impact of network investment is still to come. The £4.3bn Eastern Green Link 2 scheme has received regulatory approval from Ofgem.
- Roads. Recent DCO awards will enable some major £300m+ projects to proceed to construction. With early-appointed contractors, there is generally an extended time lag between team selection and spades in the ground, meaning that this sector will respond more slowly to major programme approvals even as some schemes are cancelled.
- Public sector non-housing. Apart from a small number of large schemes including prisons, the public sector has lagged in 2024. With two spending reviews in the next nine months, new teams in departments and a change to levelling-up priorities, recovery is expected to take longer than more market sensitive commercial sectors.
- Industrial. Factory investment remains flat, in line with disappointing levels of capital investment by the private sector. By contrast, the fast-moving warehouse sector is already seeing a strong recovery in 2024.
- Offices and entertainment have seen a 30% increase in orders compared to 2023. This appears to be a positive sign that stalled projects are moving forward which will help to free up much-needed bid capacity for a next generation of commercial schemes.

From a regional perspective, the orders pipeline was quite weak in 2023, and as a result, most regions have started the year quite strongly, with only Wales showing signs of a contraction in early 2024. Yorkshire and the Humber and the East and West Midlands all started well with growth rates 15 to 25% higher than 2023 driven in part by industrial investment. However, these regions have lost momentum in the second quarter according to ONS data. Interestingly, both London and the South East have picked up strongly and continued at pace in Q2, driven by a combination of commercial and industrial workload. It is too early to

be certain, but it looks as though the focus of growth in UK construction markets may be moving away from regions in the North towards London and its hinterland. This could have implications for a future differential in inflation rates across the UK.

## Materials inflation remains in check

Materials price rises across many product categories have been filtering through for 2-3 months. In the initial phases of recovery, whilst labour markets remain in balance, materials are the most likely driver of inflation related to actual price increases and project de-risking. With some sub-contractors nursing heavy trading losses, bidders will seek to add contingency pricing as soon as conditions permit or to negotiate inflation risk sharing mechanisms. In our survey, most projects covered have risk sharing terms in place – typically using provisional sums.

In our summer forecast, we reported that prices as measured by Department of Business and Trade (DBT) were moving upward across all four categories including non-residential new build. Based on latest data, full year increases of 0.7% have been recorded against both the housing and repair and maintenance segments. However, for the time being at least, the non-residential segment is still benefitting from some downward price pressure associated with steel prices. Looking at categories in greater detail, greatest inflationary pressure, equivalent to 2.5% a quarter, has affected the following categories:

- **Sawn softwood -** +3.3%
- **Plastic pipes -** +3.1%
- **Ready-mix concrete -** +2.0%

By contrast, the steel market continues to show some signs of spare capacity for standard sections. Whilst fabricators – Including industry leader Severfield- have seen their workload increase, risking capacity-driven inflationary pressure at the top of the market, the market for standard sections remains soft. According to Steelbenchmarker for example, average hot rolled section prices across Europe are down 10% since the beginning of 2024 and are 5% down year-on-year. For structures, matching fabricator capacity to job characteristics will be a major challenge for clients and their teams.

In summary, materials inflation has re-emerged as an inflationary driver. Some clients are concerned that as demand recovers, gaps in production capacity will emerge. Manufacturers are reasonably confident that they can reestablish production capacity in mothballed plants within 3-6 months. As a result, so long as the pace of recovery is steady, volume material production should keep pace. Fabrication capacity rather than primary manufacturing could be a bigger problem if workload grows quickly.

### Labour costs – shifting balance.

The Arcadis view is that labour costs are likely to be the main source of inflationary pressure in the next construction cycle. This is due to conflicting trends of increasing workload, tightening competence requirements and reduced opportunities for the sector to secure additional labour from overseas.

None of these factors have materially changed, although the government has made it harder for construction firms to access overseas labour using the skilled foreign worker route, by eliminating Shortage Occupation discounts to the salary threshold of £38,700. Sector average earnings are roughly £40,000 per annum, meaning that a substantial number of roles in the industry will pay wages below the skilled worker limit.

There are some signs of a tightening of the labour market also, even as workload levels remain flat. Labour market data must be viewed with care due to survey quality issues, but the latest ONS release should ring alarm bells. Overall, the net change in workforce over 12 months is a reduction of 2.5% to 1,800,000. Long term comparisons are currently not possible due to changes in the data, but it is worth noting that the workforce numbered 2.3 million before the pandemic. Trends are going in the wrong direction and with a deep contraction in the self-employed sector, the industry may well be losing long-term flexibility and resilience and the ability to respond to a change in workload.

Construction wage growth has lagged the wider economy since Q3 2023, underlining the relative weakness of the sector's labour market. Recent positive data showing that the pace of national wage growth is slowing to below 5% has also seen construction earnings growth edging up to 3.9% excluding bonuses. This is a small but positive change, and whilst this data point doesn't suggest that a labour shortage is imminent, the recovery in wage growth is a sign that the recovery may already be driving up earnings. Hays data from Q2 2024 for site rates is less clear cut, with unskilled workers seeing rates increase at 8% per annum compared to 5.1% for skilled grades.

One new dimension to the consideration of workforce capacity is the issue of industry competence levels. These will come under further scrutiny with the completion of the second phase of the Grenfell Inquiry. New competence thresholds are a crucial element of post-Grenfell reforms, but their introduction could result in an unplanned constraint in available capacity if not managed carefully. Recent changes introduced through the new Registered Building Control Inspectors scheme, under which most work must be signed-off by senior Inspectors illustrates the risks of a competence related capacity crunch. We examine the background to forthcoming changes to competence regimes in our Spotlight feature.

### Forecast – positive news confirms the inflation outlook

The past quarter has confirmed the resilience of the UK economy and a strengthening construction recovery. Workload has not increased yet but the foundations for a better 2025 are falling into place.

Even with the improved order outlook, we do not expect to see a significant upturn in work on site before mid-2025, reflecting challenges in bringing forward residential projects under the new Building Safety regime, and the timescales needed to bring forward the next phase of commercial and public sector schemes.

However, ahead of a material uptick in construction prices, we are seeing a further toughening of contractors' commercial approach to tenders, with most survey respondents highlighting that the current tendering market is more challenging than at the beginning of 2024. Discussions remain focused on risk allocation and contractual terms, although price levels are becoming a more common point of difference. A lack of availability of Performance Bonds continues to be reported on many projects but so far, teams appear to be successful in agreeing a compromise position – either by reducing cover or by finding an alternative form of guarantee. Few projects so far report the need to change contractors in response to Performance Bond risks.

We continue to predict lower inflation in buildings markets up and until early 2025 and reiterate our higher inflation forecast for late 2025, 2026 and 2027. London and the South East are getting busier and although we have not altered our regional forecast for London yet, this may be necessary if the market continues to grow at the current pace.

For infrastructure, we keep our view that the sector will see a 'K' shaped inflation trend, with relatively low levels of inflation in the rail and road sectors and higher levels of escalation for networks, driven mainly by demand and scarcity as large-scale programmes start.

**Our Our Autumn 2024 forecast is set out in the table below:**

| | Regional Building Construction TPI | London Building Construction TPI | National Infrastructure Construction TPI |
|---|---|---|---|
| 2023 | 2% (2%) | 2% (3%) | 5-7% (5-7%) |
| 2024 | 1-2% (1-2%) | 1-2% (1-2%) | 3-6% (3-4%) |
| 2025 | 3-4% (3-4%) | 3-4% (3-4%) | 3-7% (3-7%) |
| 2026 | 5-6% (5-6%) | 5-6% (5-6%) | 4-7% (4-7%) |
| 2027 | 5-6% (5-6%) | 5-6% (5-6%) | 3-7% (3-7%) |
| 2028 | 5-6% (5-6%) | 5-6% (5-6%) | 3-8% (3-8%) |
| Total | **21-26%** | **21-26%** | **21-42%** |

| Inflationary drivers | Deflationary drivers |
|---|---|
| • Elevated levels of workload in network infrastructure. | • Order book replacement across most sectors |
| • Lack of capacity in bid teams resulting in low levels of competition | • Attitude to work winning |
| • Supply chain consolidation | |
| • Attitude to risk transfer | |
| • End of structural deflation cycle | |

# Zoom into: Contract risk appetite and risk exposure

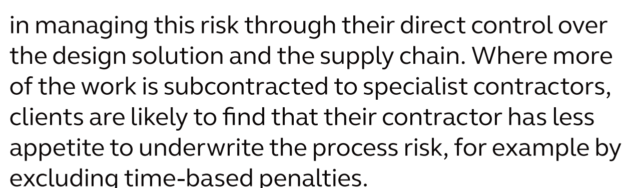
## Contractual risk and appetite

One of the paradoxes of the current market is that, even as work opportunities have remained thin on the ground, contractors have maintained a tough stance on their contract terms. Our analysis considers why this is happening and how risk exposure can be managed to make projects work.

Recent headlines have highlighted a growing problem with the allocation of contractual risk. In the Central London commercial market for example, there is a growing mismatch between the risk exposure associated with large office tower proposals and the availability of Tier 1 contractors with the appetite, skills and balance sheet strength to do the work. This situation is partly a result of the scale of projects that contractors are expected to deliver, but also the consequence of bruising trading conditions since 2020 which have left many contractors nursing multi-million-pound losses.

Large high-value projects are hardly a new phenomenon in the UK, but the geographical spread of large building contracts has expanded, particularly on the back of residential and build to rent developments in London and regional cities. Large projects concentrate both opportunity and risk for UK contractors; those with a turnover of more than £1bn accounted for 62% of income for top 100 contractors in 2023, compared to 55% in 2018.

Size is not the only factor affecting project risk. New gateway processes for high-risk residential buildings have introduced substantial new binary risks. At the time of publication, no Gateway Two assessments have been completed. Clients and contractors might share the risk associated with the time taken for the Gateway Review, but the consequences of delay resulting from a failed assessment will sit with the supply chain. Contractors with a large market share in residential towers have by necessity needed to be more proactive



in managing this risk through their direct control over the design solution and the supply chain. Where more of the work is subcontracted to specialist contractors, clients are likely to find that their contractor has less appetite to underwrite the process risk, for example by excluding time-based penalties.

The welcome trend towards retrofit and circular economy principles has also seen far more work with a building condition risk exposure, particularly in the commercial sector. Deloitte's May 2024 London Office Crane Survey recorded five times as many retrofits as new build schemes on site in Q1 2024. Retrofit schemes are typically procured using a design and build contract with the expectation that typical existing building problems associated with fabric condition, obstructions, asbestos contamination and temporary works will be underwritten by the contractor and the supply chain. As the competition for contractors willing to carry these risks increases, clients may find themselves having to share some of the existing building risk or having to invest in advance in risk-reducing survey work.

Finally, a surge in insolvencies in the sector in the last 12-18 months has had far more impact on main contractors than clients as they manage the impact of subcontractor failure against the background of fixed cost and time programmes. Latest Insolvency Service data shows that business failures in the construction sector remain at an elevated level, with 397 insolvencies occurring in June 2024 alone – 40% above the long-term average. Many of these will involve sub-contractors.

Main contractor insolvency is of course a critical concern for many clients but is a relatively rare event. By contrast, the probability of sub-contractor failure is much greater and the management of impacts more complex, particularly as guarantees become more expensive and harder to obtain against smaller contractors.

The overall result is the potential for less industry capacity in terms of contractors willing and able to bid for projects. This could also result in a concentration of risk on a smaller number of contractors with the financial strength to thrive. Well positioned, profitable contractors with a strong balance sheet will increasingly be able to negotiate on their commercial terms, meaning that over time a more balanced risk transfer will evolve. This could either be based on the procurement route adopted such as Construction Management vs. Design and Build or through the detailed terms of the agreement and the carving up of the risk allocation associated with ground condition, relevant events, allowable change and other known unknowns.

### Steps to optimise the risk allocation.

Clients will have to work hard to secure their preferred risk transfer in a market where the supply of high-risk opportunities can be expected to exceed the capacity of the supply chain willing to take on the liabilities. As protections available to clients such as Performance Bonds provide less cover, the result will be a rebalancing of risk transfer. Steps that clients can consider to balance risk appetite and exposure include:

1. Early market testing. Proactive marketing of the project as an opportunity, including the testing of different contract models.
2. Contract design. Consideration could be given towards a balanced risk transfer in a lump sum contract, for example in connection with payment or with respect to sub-contractor exposure to indemnities and liabilities.
3. Contractor selection. Financial due diligence can be undertaken in greater detail including reference to current trading as well as published accounts. The willingness to accept a contractual risk balance could also be evaluated.
4. Active de-risking. Including the completion of surveys and /or site investigations as part of the procurement process to reduce the extent of open risk exposure in the contract and the inclusion of inflation sharing mechanisms including provisional sums.

# Spotlight on: Managing the transition to a competence-led construction sector.

Everyone would agree that a focus on qualifications and assured competence is a vital step in the development of construction's skills base. However, managing the competence cliff-edge could result in some unexpected challenges. Raising the profile of competence schemes will be the best way to avoid future disruption.

Accredited qualifications, skills and competences are the foundation of a well-managed and productive industry like construction. However, in the wake of the Grenfell disaster, the construction sector's skills base came under review, triggering the introduction of new competence frameworks and in some cases, new mandatory requirements such as those for Registered Building Control Inspectors (BCI) under the Building Safety Act.

Difficulties faced in implementing the new Building Control Inspection system have caught the industry and its clients by surprise. These included difficulties in incentivising the workforce to complete their training, with a consequential knock-on effect on inspection capacity. With multiple competence schemes coming on stream in future years and with a forecast skills crisis for the industry, what lessons need to be learned to avoid a future competence crunch?

The construction sector has been working towards an accredited, skill-based industry for many years. In 2015, 600,000 workers had no qualification. Most of these have now secured minimum National Vocational Qualifications (NVQ) to demonstrate competence, but the industry landscape is changing. There are two major drivers behind the push towards mandatory competence schemes.

- The first is a long-term push to eliminate Industry Accreditation, a practice whereby employers have been able to vouch for operative competence based on an informal recommendation rather than a formal qualification. This initiative will be completed in December 2024, when the last generation of CSCS cards issued using 'grandfathered rights' of employer's accreditation will expire.
- The second set of competence frameworks were developed in response to the Grenfell disaster. The competence framework made mandatory for BCIs is an early sight of requirements that are being developed for many groups of industry specialists including installers, fire engineers, project managers and procurement specialists.

The implementation of the BCI scheme has been challenging. Full implementation was delayed from April to July 2024, and although more than 4,000 qualified staff are now registered, there are insufficient BCI qualified at senior levels for the new system to work efficiently. This is partly due to the demands of the new competence system. Some approved inspectors chose not to requalify – particularly those approaching retirement. However, no system was in place to ensure that a pipeline of senior BCI qualified ahead of time, resulting in new capacity constraints.

With the Grenfell Inquiry due for publication on September 4th, focus is likely to return to a wider range of industry competences, looking beyond those already established for BCIs and Building Control Principal Designers and Contractors. A great deal of work has been undertaken by the Industry Competence Committee and its associated Industry Competence Steering Group since May 2018. This means that further competence schemes, backed by training and qualification will be progressively introduced to the industry over the next few years.

For higher-risk buildings, the requirements and the qualification standards are both expected to be more stringent. Individual sectors have taken ownership of the development of the competence frameworks. For clients and their advisors, the future challenge will be to keep track of these developments – not only to make sure that they are effectively implemented on projects, but also that potential cliff edges affecting labour availability are navigated with minimum disruption.

The next of these cliff edges occurs in December 2024 when CSCS cards issued using grandfathering rights finally expire. At the last count, it was estimated that 35,000 operatives could be affected by this step. It's a small number, but big enough in the context of the industry to have influence – particularly if experienced operatives are lost to the sector at the start of a recovery.

A successful conclusion of the grandfather rights transition will provide an encouraging sign that the industry is able to navigate its skills transitions. However, with many more competence frameworks under development, the process of reskilling the industry has just begun. As a result, contractors and their clients will need to stay alert for the consequences of unexpected capacity crunches.

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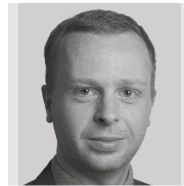

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## Arcadis

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