



KEB Construction and Development Business Growth

Tuesday 29th March 2011

3pm – 6pm

Channel suite, Leas Cliff Hall, Folkestone

**Kent Economic Board is hosting this event
in partnership with**

The Kent Developers Group and KCC



Programme



3.00 – 3.10	Registration & Refreshments
3.10– 3.30	Welcome and Introductions from Terry Mitchell, Project Director SKANSKA Infrastructure Development UK Ltd and member of KEB Business Advisory Board. Opening remarks from Paul Carter, Leader of Kent County Council
3.30 – 4.15	Examination of investment and development opportunities, critical success factors, and entrepreneurial challenges for this sector – each speaker will give their particular personal and professional perspective » An analyst’s view – trends, prospects for growth and investment opportunities – Dominic Wilkinson, Director, PricewaterhouseCoopers » Market Enablers – the role of planning and other factors – Martin Page, DHA Planning » Construction and Development – investing in the future and still a driver for the economy – Terry Mitchell, Project Director SKANSKA Infrastructure Development UK Ltd
4.15 – 4.30	Q & A session with speakers
4.30 – 5.20	Table discussions – delegates will be invited to discuss and identify the key factors that will promote growth and development for this sector in Kent
5.20 – 5.35	Plenary session with input from the Table discussions – chaired by Terry Mitchell
5.35 – 5.45	Concluding remarks – Kevin Lynes, KCC Cabinet Member for Regeneration and Economic Development
5.45 – 6.00	Networking



Welcome

Terry Mitchell,
Project Director SKANSKA
Infrastructure
Development UK Ltd.





Opening remarks

Paul Carter,

Leader of Kent County Council



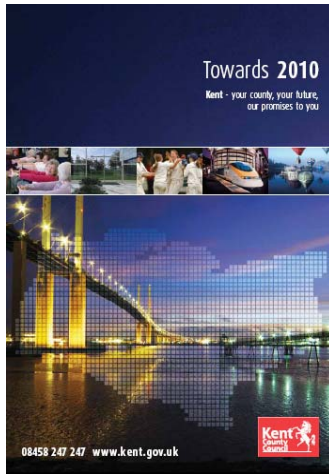
KEB Construction and Development Business Growth Consultation

Paul Carter

Leader, Kent County Council

29th March 2011

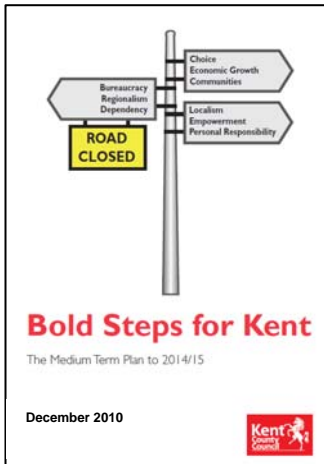




Supporting the Kent Economy



- Economic Success
- Learning for Everyone
- Preparing for Employment
- Keeping Kent Moving
- Environmental Excellence



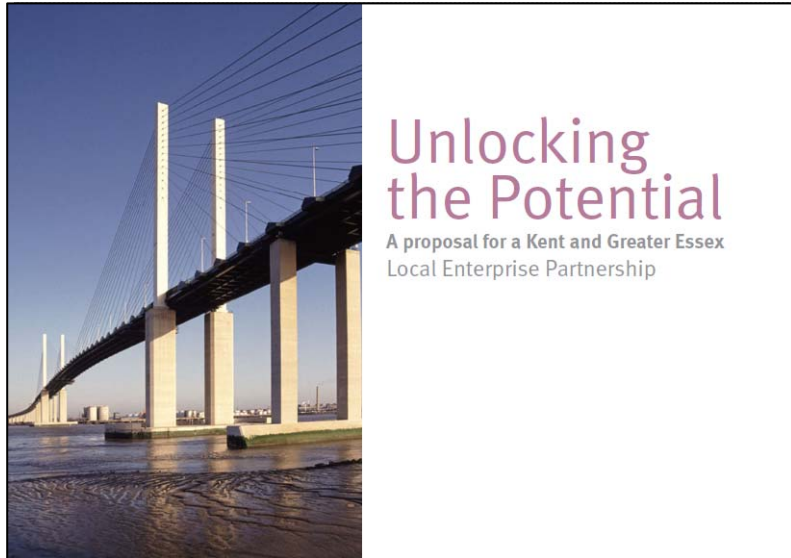
- Growing the Kent economy
- Tackling disadvantage
- Putting the citizen in control



**Solutions –
not just strategies!**



- Sector Strategies
- 14 – 24 Education Skills Strategy
- Growth without Gridlock
- Environment Strategy
- Later Life Strategy
- Housing Strategy



- Growing our Rural Economies
- Unlocking the potential of the Thames Gateway
- Managing substantial housing and commercial growth in Growth Points
- Coastal Renewal

The Government has outlined a new approach to local growth, shifting power away from central government to local communities, citizens and independent providers. This means recognising that where drivers of growth are local, decisions should be made locally.

The Government will therefore:

- Shift power to local communities and business, enabling places to tailor their approach to local circumstances;
- Promote efficient and dynamic markets, in particular in the supply of land, and provide real and significant incentives for places that go for growth; and
- Support investment in places and people to tackle the barriers to growth.

Local growth: realising every place's potential

Sector Strategies

Sector
Conversations:

January

Food production,
Horticulture,
Agriculture



February

Construction and Civil
Engineering



March

Low Carbon/
Energy Production



April

Digital and Creative Media



May

Health & Social Care



The importance of this sector

The construction sector in Kent is worth around £1.7 billion per annum (about 8% of economic output)

38,000 people are employed by the construction sector in Kent and Medway

Construction is important to Kent: directly employing 6% of the workforce, compared with just 4.5% nationally

Since 1995, employment in construction in Kent has risen by over 70% (compared with a total rise in all employment of less than 20%)








£1 spent on construction delivers an additional £2.84 in total economic activity



Massive future opportunity



Our Ambition:

-  KCC's Capital Programme - £500m
-  A21 roads programme
-  Third Thames Crossing – Dover Docks to M11
-  Operation Stack solution
-  The Total Place/ 'Evergreen' concept
-  BSF Judicial Review - protecting the Kent workforce
-  The Kent & Medway Housing Strategy
 - thinking differently



Inhibitors - What's Wrong? *The diagnosis...*

1. Over-regulation: over-zealous compliance
 2. Tortuous planning process: The blockers, rigid 106 requirements
 3. Risk-averse bankers: reluctant to lend to property sector, with onerous lending requirements
 4. Mortgage funding massively restricted
 5. Lack of capital investment through HCA to Housing Associations
-

1980

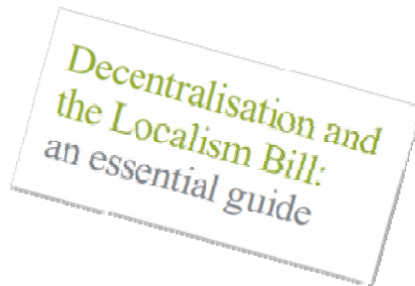
- ✓ Planning Permission
- ✓ Notification to District Surveyor

2010

- ✓ Planning Permission
 - ✓ Building regulation consent
 - ✓ Ecology survey
 - ✓ Site contamination survey
 - ✓ Travel Plan
 - ✓ Waste Disposal plan
 - ✓ CDM
 - ✓ SAP calculations
 - ✓ Air pressure testing
 - ✓ Acoustic testing
 - ✓ 106 agreement
 - ✓ Health and Safety Plan
 - ✓ NHBC certification
 - ✓ Gas Safe certification
 - ✓ NICEIC certification
 - ✓ Sustainability Plan
 - ✓ Party Wall Agreement
 - ✓ U Value Assessments
 - ✓ Economic Impact assessment
 - ✓ Renewable Energy and Sustainability Methods
- AND...
- Self-employment almost impossible
 - Constantly changing building regulations
 - Significant utility charges
-

What Needs to Happen? *The Government's cure...*

- **Localism Bill:** Greater autonomy over the planning system
 - RSSs abolished
 - Infrastructure Planning Committee abolished
 - New, simplified National Planning Framework
 - Right to Bid



The Need for Change...

- Bottom-up planning: flexibility by planners on viability
 - A flexible approach to social housing quotas
 - Talk of de-regulation – A21
 - Making better use of public property assets – The Total Place concept
 - The North West Evergreen Fund concept
 - New Homes Bonus
 - CIL
 - TIFs
-

What Needs to Happen? *The Government's cure...*

National Government Needs to Help By...

- Relaxing pension fund rules on investment and residential properties
 - Business expansion schemes
 - Establishing Enterprise Zones
 - Giving Secretary of State CPO powers
 - Increase social housing rents to 80% of market rent
 - Market opportunities to develop growing private-sector rented sector
 - Depressed land values create new opportunities
-

The Aim...

“Kent County Council taking a lead in promoting an environment that is conducive to existing businesses being able to expand and new businesses to start-up and grow.”

Paul Carter March 2011

What do we need to do to achieve this for this sector?





An analyst's view – trends,
prospects for growth and
investment opportunities.

Dominic Wilkinson, Director,
PricewaterhouseCoopers



www.pwc.co.uk

KEB Construction Business Growth Consultation

29th March 2011



pwc

Why am I here today?

Dominic Wilkinson Director, Corporate Finance

- Lead the Construction and Building Products specialism within pwc's Corporate Finance practice.
- Broad M&A experience, with a particular focus advising on strategic reviews, finance raising and private company acquisitions and sales within the construction sector.
- Frequently work with our Business Recovery Practice and recently assisted the Administrators on the sale of the assets of Oakdene plc and Rok plc

Representative experience:

<p>Lead advisor on acquisition of</p>  <p>by</p>  <p>for £245m</p> <p>Vendor advised by PwC</p>	<p>Lead advisor on the acquisition of a majority stake in</p> <p>Leadbitter Group</p>  <p>By</p> <p>Bouygues Batiment International</p> <p>Acquiror advised by PwC</p>	<p>Sale of</p>  <p>Acted as adviser to the Vendors</p> <p>Consideration of £100m</p> <p>Vendor advised by PwC</p>	<p>783m acquisition of</p>  <p>by</p> <p>Management and Bank of Scotland Integrated Finance</p> <p>BoSIF advised by PwC</p>	<p>Strategic review of</p> <p>Cladedale Homes</p>  <p>Management advised by PwC</p>
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Key messages

The housing storm has abated, dark clouds over contractors are growing, but there remain some bright spots

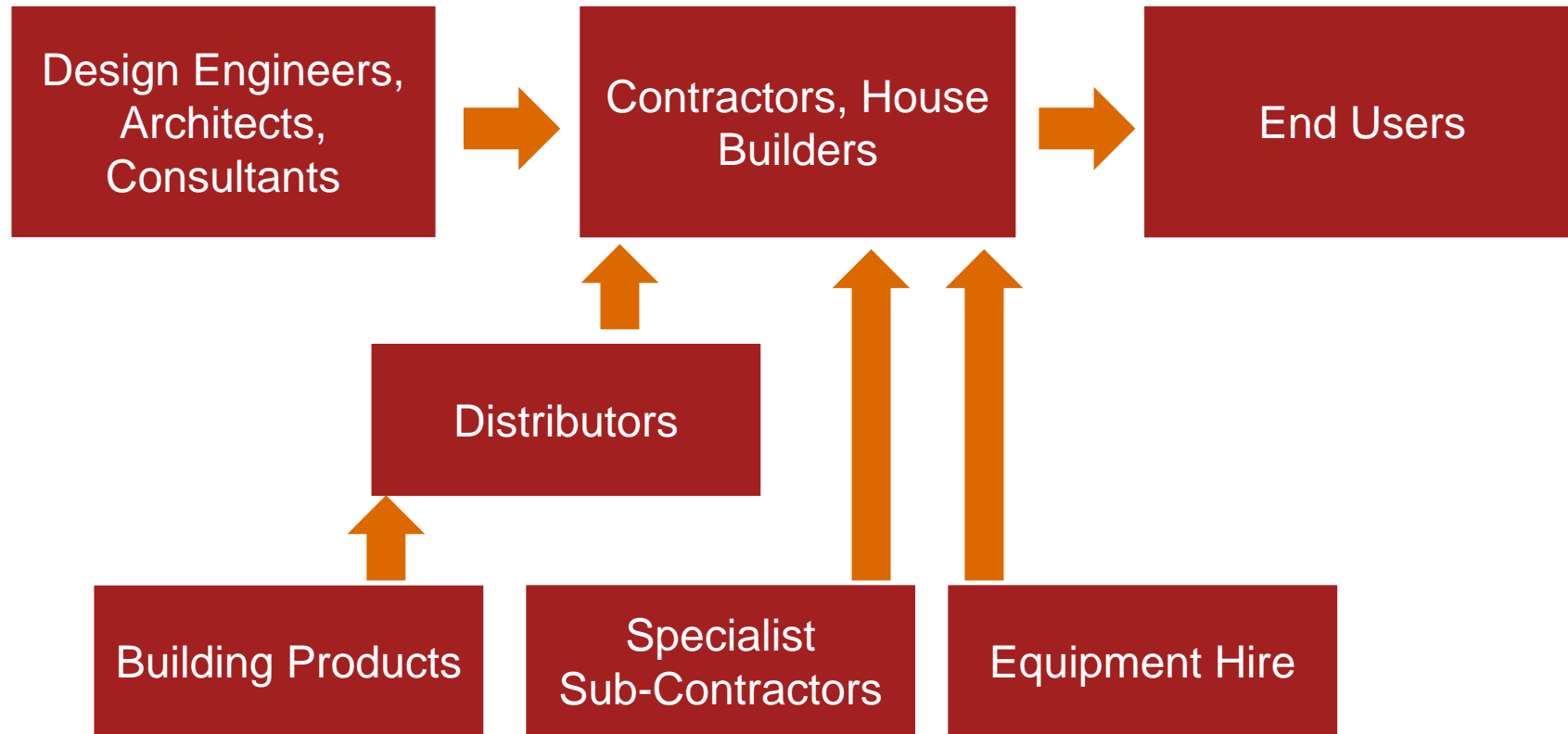
Overcapacity has led to tender prices in the industry falling by 17.5%

Counterparty risk is increasing. Non payments and contract disputes are becoming key issues

The whole industry needs to reassess its way of doing business and drive efficiency gains through the supply chain

There will be innovate winners and losers.....winners will be those that and can adapt to changing market conditions

Why does construction matter?



‘£1 of construction spend creates £2.84 of other economic activity’

Where have we come from?

	2007	2008	2009	2010
Designers / Engineers (Top 250 firms)	112,000	128,000	107,000	104,000
Public Construction Expenditure (£bn)	32.2	35.7	38.6	36.7
Total Construction Output (£bn)	124.4	126.0	108.8	112.9
New Housing Completions (000s)	211	172	142	128

c. 35-40% of all construction activity is currently driven by government expenditure

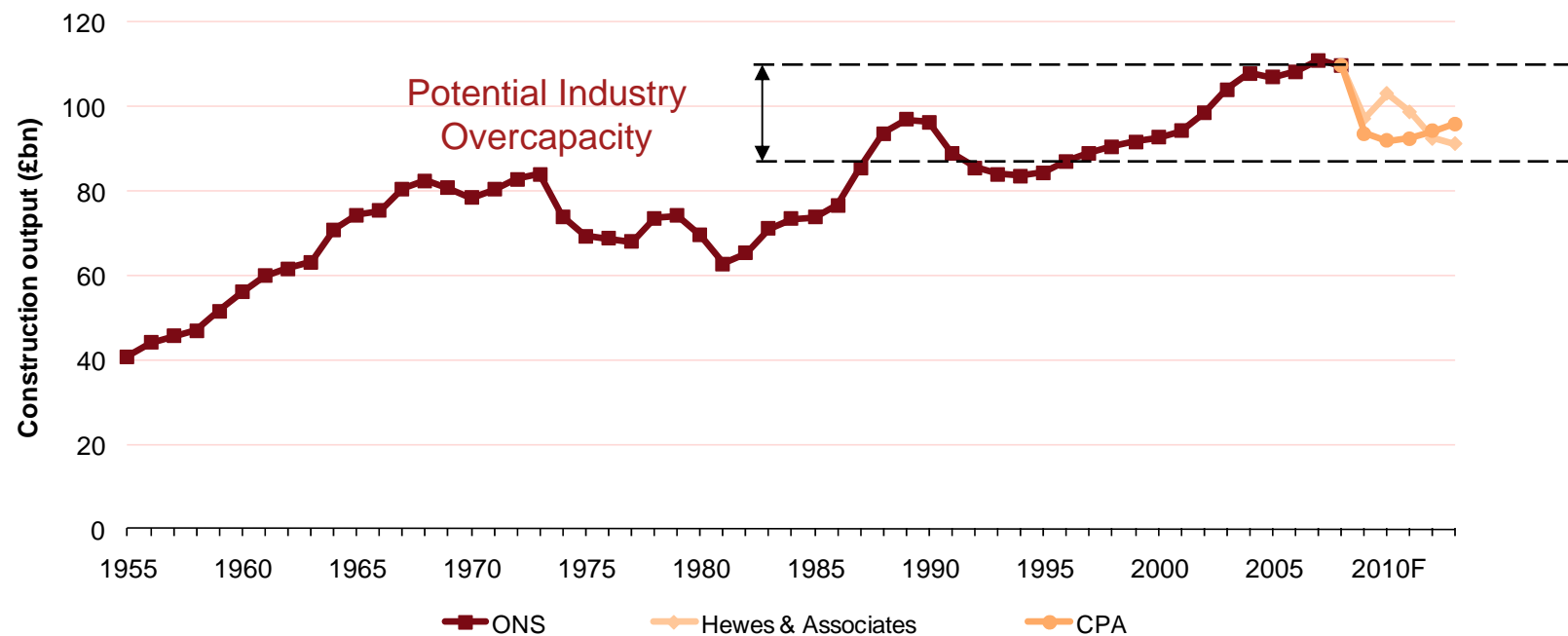
Source: Hewes & Associates, Building Magazine, pwc Analysis

A long term perspective

"The size of the cuts in the CSR means that there will be a double-dip recession in construction."

Noble Francis, CPA

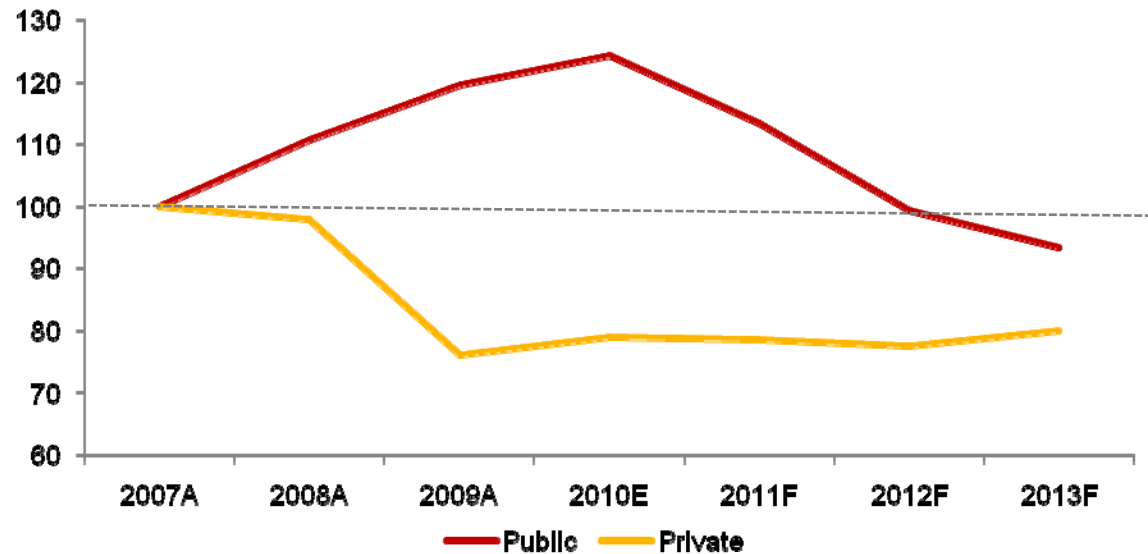
Total UK construction output, 1990-2013F
(2005 prices)



Source: Hewes & Associates, ONS, CPA and, pwc Analysis

Significant deterioration in public sector spending

Sharp decline in public spending...



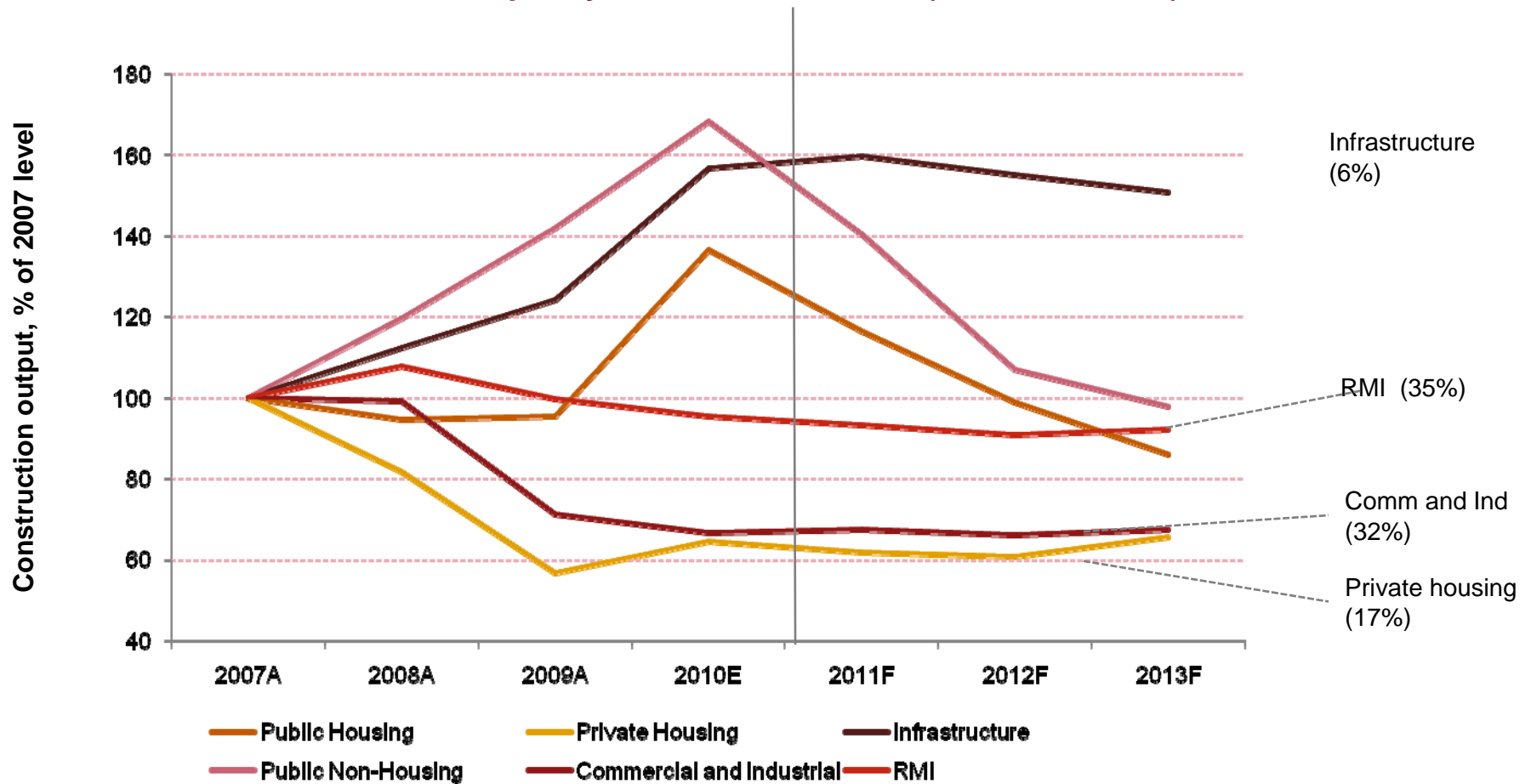
	2007A	2008A	2009A	2010A	2011F	2012F	2013F
Public	26%	28%	35%	36%	34%	31%	29%
Private	74%	72%	65%	64%	66%	69%	71%
	100%	100%	100%	100%	100%	100%	100%

...but no significant recovery in the private sector.

Source: Hewes and Associates and pwc analysis

Sub-sector trends

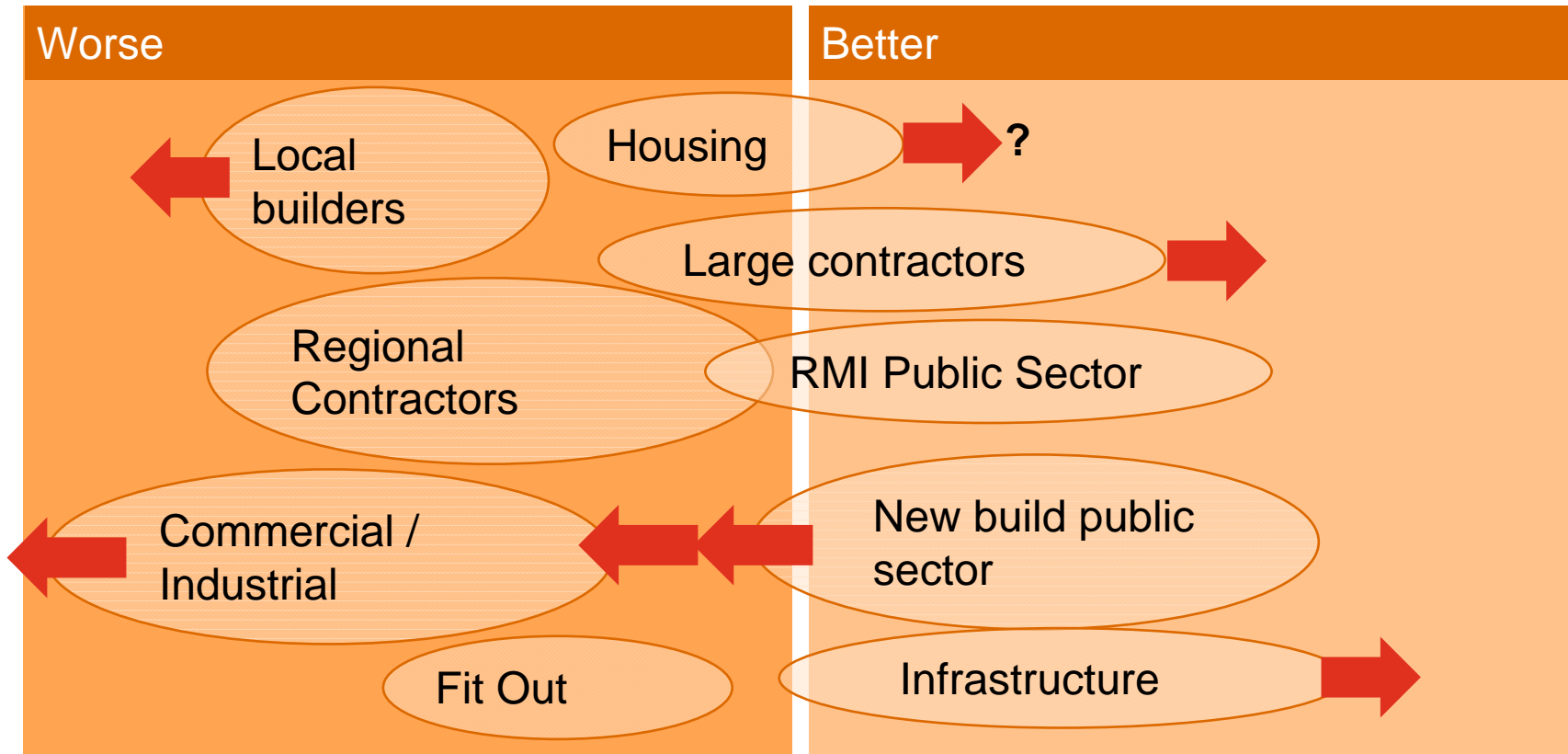
Real UK construction output by subsector, 2007-13F (Indexed at 2007)



Source: Hewes and Associates and pwc analysis

Construction forecast

Housing storm abated...

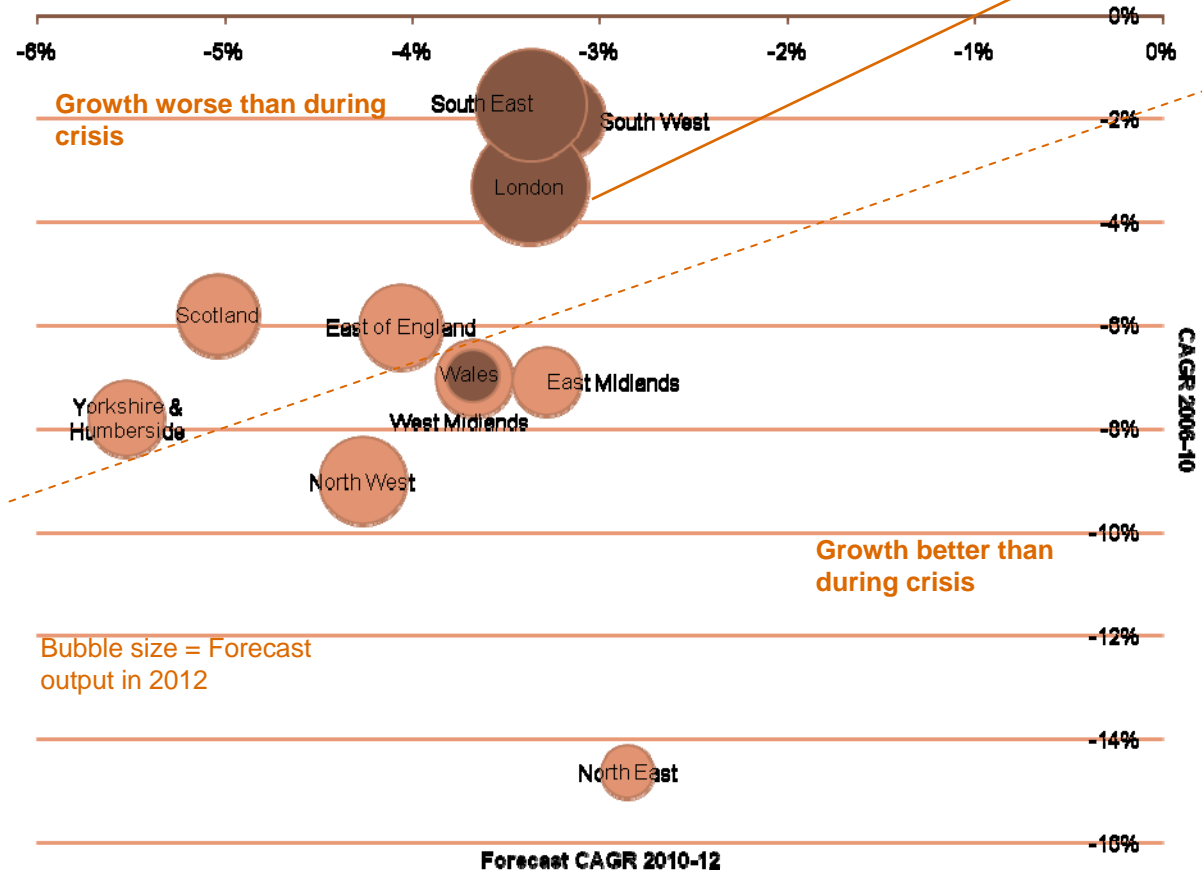


...but dark clouds forming for construction...although bright spots for some.

London and the South offers some of the best opportunities

Total construction output by region

It is necessary to analyse London to take into account the end of Olympic building in 2011-12



Source: Hewes & Associates

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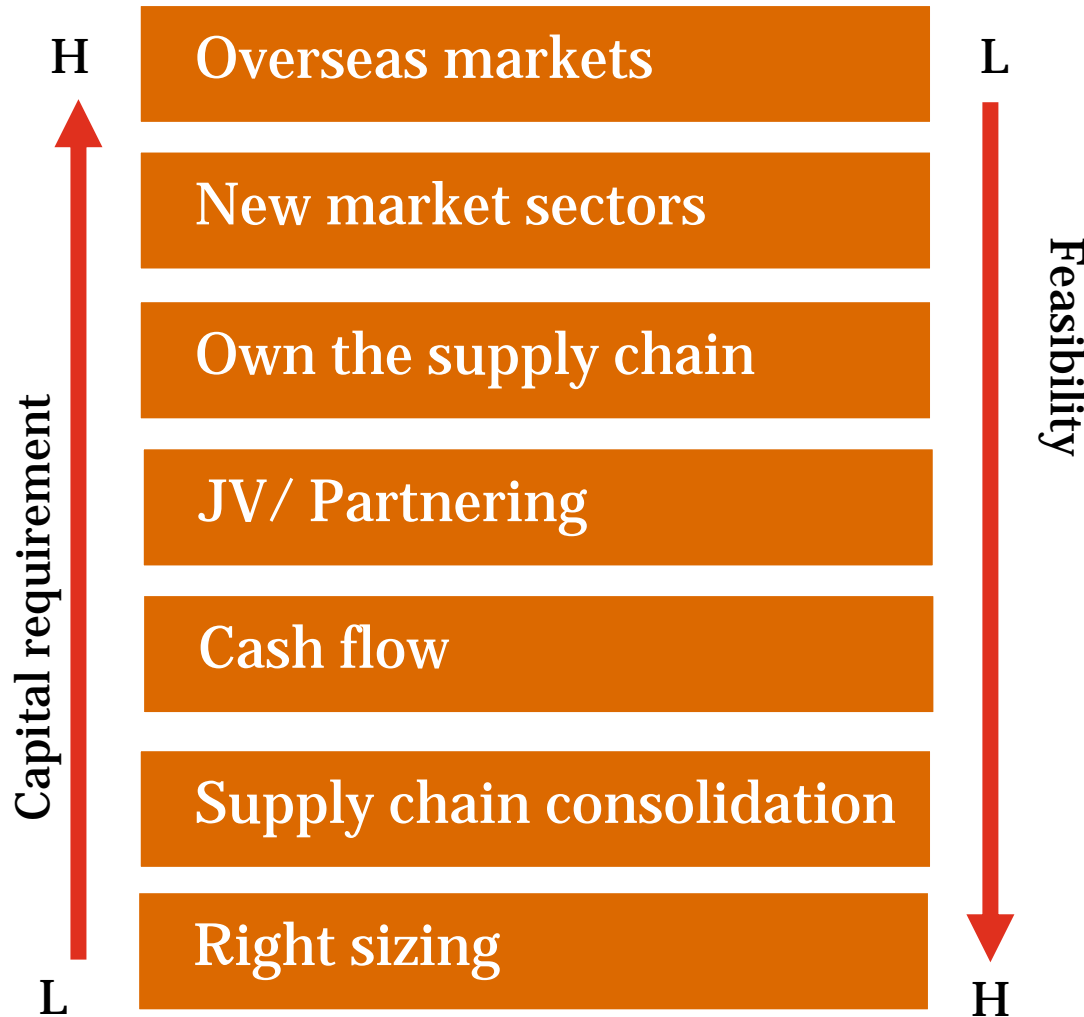
PwC

March 2011

March 2011

27

What can the Company do to address current market dynamics?



The Construction supply chain remains a barrier to growth...

- **68%** of UK deliveries to site are late, **30%** on the wrong day
- Contractors order **15%** average excess to avoid stock-outs
- **>£2 bn** p.a. spent on transport; vehicle utilisation **<50%**
- **20%** of the UK's waste comes from construction – **3x** the amount from residential

What else can be done to address current market dynamics?

- Effective show casing of skills available in the region
- Encourage relationships with broad range of UK and international contractors
- Work to unlock public sector land assets. New ways to fund development are essential
- Ensure effective implementation of any new planning framework
- Transparency over where and when public money will be spent to allow better targeting of opportunities

‘a "hopeless" fifth of the value of the **Kent** wind farm, which opened in September, was channelled into British business’.

David Hodkinson, Head of UK Development,
Vattenfall Wind Power

Ten issues to consider in your business

1 Industry overcapacity and price pressure

2 Supply chain consolidation

3 Consolidating your own supply chain

4 Payment terms, and ability to finance growth

5 Sector exposure

6 Positioning to benefit from 'bright spots'

7 Contractual terms and risk of disputes

8 Counterparty risk

9 Scenario planning

10 Is going it alone an option?

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Market Enablers – the role of planning and other factors

Martin Page, DHA Planning





MARKET ENABLERS

Role of Planning and Related Factors

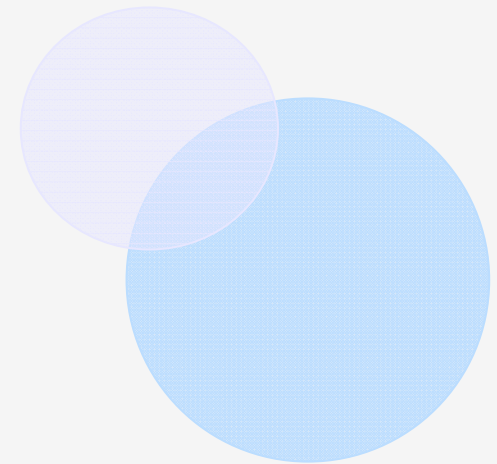
Martin Page

Two overlapping circles, one light blue and one purple, are located in the bottom right corner of the slide.

THE PRESENT FUTURE

Old Certainties

- The protection of rising land values
- The commitment to planning for homes
 - Consistent scale of planning decisions
 - Public engagement – a choice

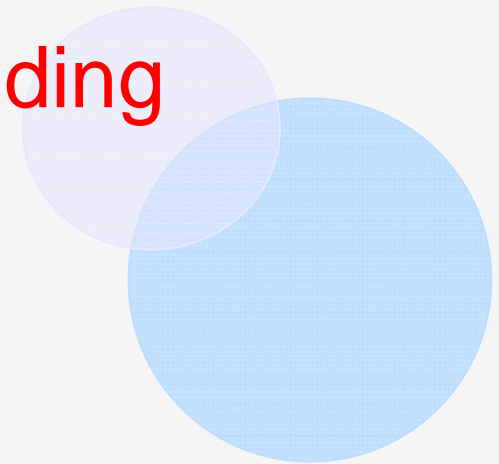


CRITICAL ISSUES

Localism and Abolition of Regional
Housebuilding Targets

New Homes Bonus

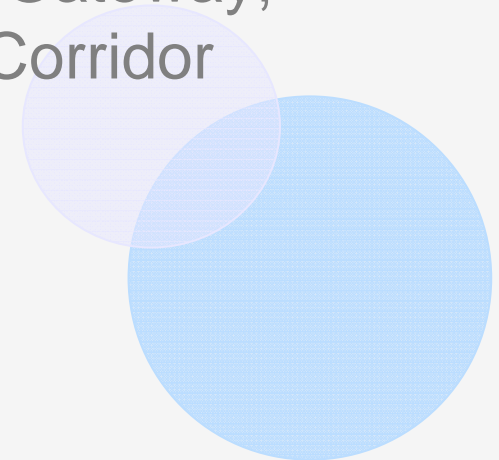
Infrastructure Funding



CRITICAL ISSUES...

Localism and Abolition of Regional Targets

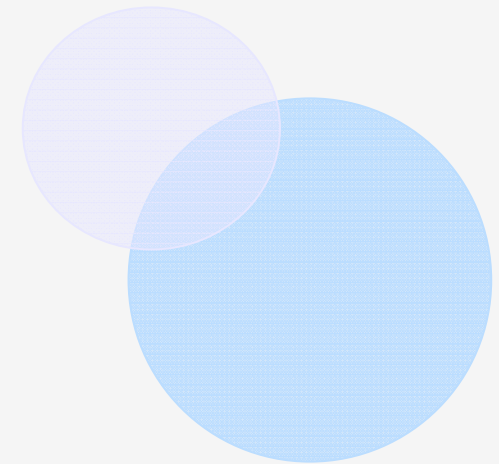
- Immediate reduction in local council housing allocations
 - Localism – the positive and negative
 - Growth Points – Ashford, Thames Gateway, Milton Keynes and Stansted/M11 Corridor



CRITICAL ISSUES...

New Homes Bonus

- What is the National Policy for Housebuilding?
 - Making the Best of the New Homes Bonus
 - High Potential
 - Central Funding Issues



CRITICAL ISSUES...

New Homes Bonus

- Central Funding Issues

FUNDING GAP

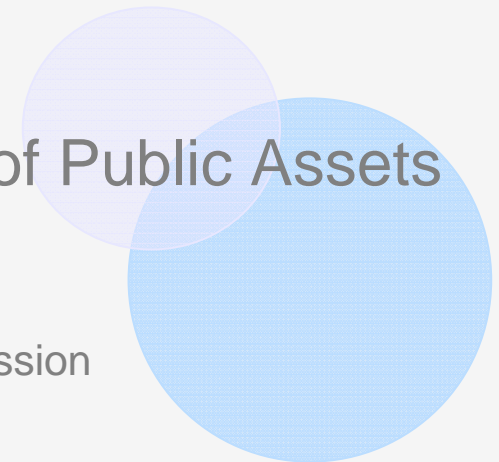
- Estimated cost of bonus
- Funding allocated to scheme



CRITICAL ISSUES...

Infrastructure Funding

- Tax Increment Financing
 - Basis
 - White Paper
 - Treasury Budget White Paper 'The Plan for Growth'
- Community Infrastructure Funding
 - Certainty
 - Capital and Revenue Spending
- Public/Private Partnership & Use of Public Assets
 - Partnerships
 - Public Assets discovery of potential
 - Reluctance to release assets in recession



OPPORTUNITIES & CHANGES

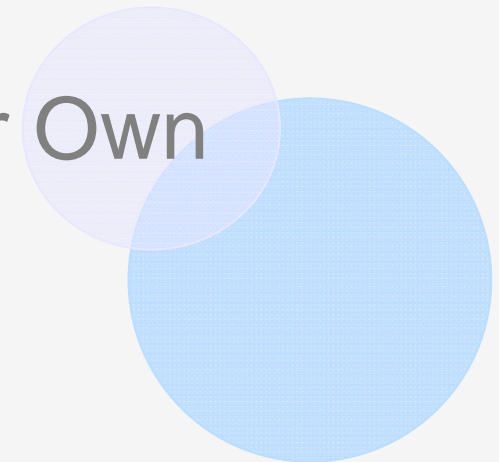
Regional Growth Fund – North/South
Divide

Art of the Possible – Local Initiatives

Embrace Localism – Business
Involvement

– Make it Your Own

Planning Obstructions



OPPORTUNITIES & CHANGES...

Discussion Points

- LEPs to restore connection between households and homes?
- Ideas on infrastructure funding and public assets/partnerships
- Poll on the upcoming consultation on free residential change of use of business premises



OPPORTUNITIES & CHANGES...

2.37 Local Enterprise Partnerships (LEPs) will be able to play a vital role in supporting local authorities plan for key sub national infrastructure. The Government has not prescribed a role for LEPs in this respect, but the Government is discussing a number of potential roles with them, including:

- providing a powerful voice for business in planning system;
- Leading the production of strategic plans that identify and align strategic economic priorities and guide infrastructure delivery;
- Providing a strong business role facilitating for key infrastructure investment;
- Facilitating decision making on complex applications

2.38 This approach provides a framework for local planning authorities and LEPs to work together successfully on sub-national planning issues, including those of major economic significance.



Construction and Development – investing in the future and still a driver for the economy

Terry Mitchell,
Project Director SKANSKA
Infrastructure Development UK Ltd.



SKANSKA

Successful Development Partnerships

Terry Mitchell
Project Director, Skanska



SKANSKA

What is required to produce a successful partnership between the Public and Private sectors to deliver development and construction opportunities at a local level?



SKANSKA

**£1 spent on construction generates
£2.84 in total economic activity**

Source: LEK 'Impact on Economic Growth'



SKANSKA

Three key areas...



SKANSKA

The right policies

The right property

The right people



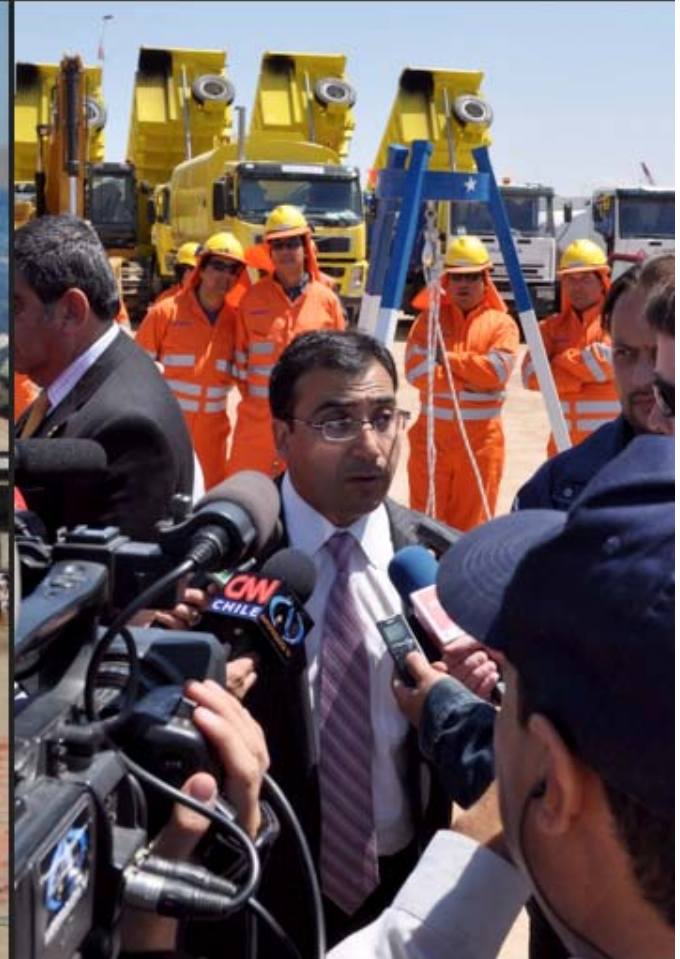
The Right Policies

- Taking a proactive approach to utilising the policy framework available from central government
- Producing the appropriate local policy framework to support sustainable economic growth
- Delivering against the policy and closing the implementation gap (i.e between Council Chamber intentions and practical implementation at the frontline)

The Right Property (land)

- Taking a radical approach to the use of property and land assets as a resource to deliver economic growth.
- Considering the use of Joint Venture models to release value that provides sustainable long term investment.
- Identifying the right property/land assets that will achieve early wins

SKANSKA Antofagasta Highways



Marcelo Consolo talks to the press after the First Stone Ceremony



SKANSKA Midtown Tunnel Project



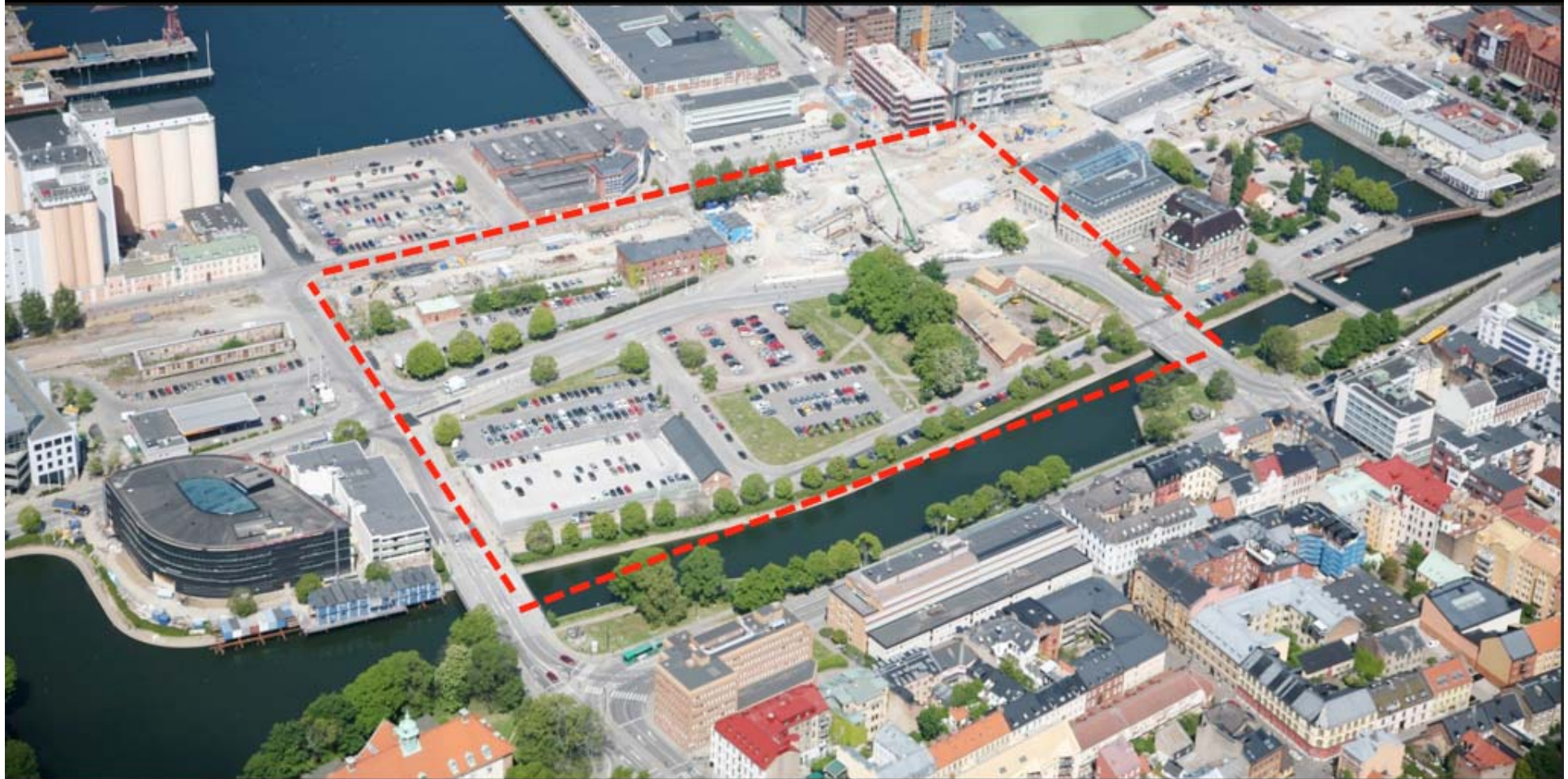
SKANSKA Midtown Tunnel Project



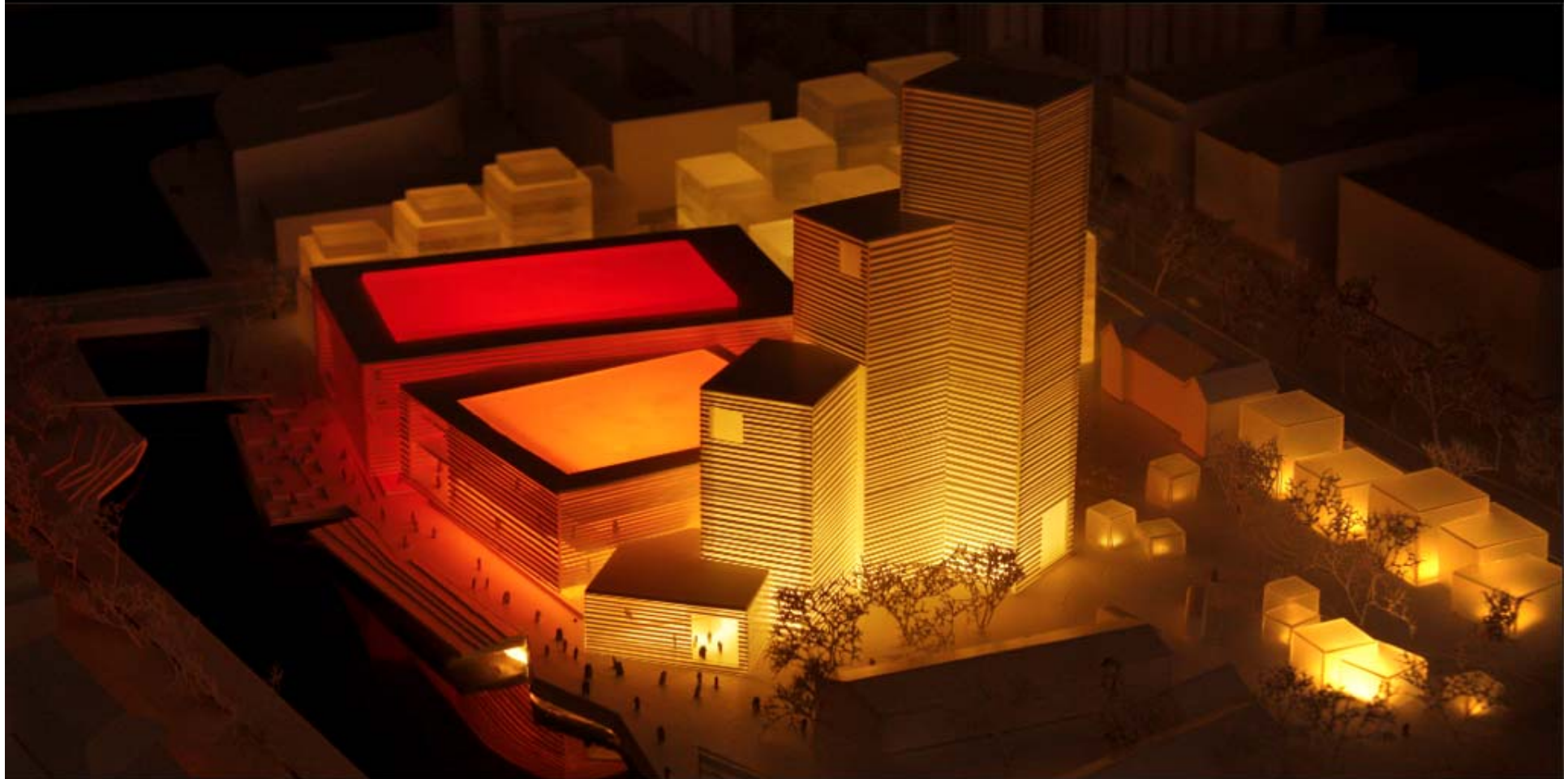
SKANSKA Ronald Reagan Parkway Extension



SKANSKA Concert Hall, Conference Centre & Hotel (KKH)



SKANSKA Concert Hall, Conference Centre & Hotel (KKH)



Design and Site Development
Competition in Malmö

The Right People

- Skilled and competent to work in partnerships to achieve a shared vision
- Leadership that sees beyond the detail to the bigger vision.
- Behaviours and values that model honesty and integrity

SKANSKA

In summary

Successful Development Partnerships are delivered with...

The right policies

The right property

The right people



SKANSKA

**£1 spent on construction generates
£2.84 in total economic activity**

Source: LEK 'Impact on Economic Growth'





Q & A session with speakers

- Terry Mitchell
- Paul Carter
- Dominic Wilkinson
- Martin Page



Table discussions

1. What do you think are the key issues to address to unlock potential - what are your top 10?
2. To address concerns about the planning system - what are the key aspects that are needed to support construction & development in the County?
3. Where do you think the key opportunities for growth lie for this sector – how can business support be targeted to encourage growth.
4. What are the keys obstacles to effective procurement and how could these be addressed to open up opportunities?



Concluding remarks

Kevin Lynes,

KCC,

Cabinet Member for Regeneration
and Economic Development





Forthcoming Business Growth Events

- 23rd May, Low Carbon and Energy Production
- 13th June, Health and Social Care
- Starting summer 2011, online interactive Digital and Creative Media workshop
- See www.keb.org.uk for full details

Please complete your feedback questionnaires and return to a member of staff.

