United Kingdom
Opportunities and barriers to inbound construction

Overall G20 Attractiveness Rank for Inbound Construction Activity: 2

G20 rankings & data

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<th>G20 heatmap rankings</th>
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<tr>
<td>Construction industry health</td>
<td>Construction industry value</td>
<td>9</td>
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<td></td>
<td>Construction industry, real growth</td>
<td>5</td>
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<td>Announced spend on construction in next 3 years</td>
<td>7</td>
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<td>Country financial health</td>
<td>Budget balance</td>
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<td>Overall announced fiscal stimulus</td>
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<td>GDP/Head</td>
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<td>Credit ratings rank</td>
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<tr>
<td>Ease of doing business</td>
<td>Doing business overall rank</td>
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<td></td>
<td>Dealing with construction permits rank</td>
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<td></td>
<td>Business transparency rank</td>
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<tr>
<td>Tax regime</td>
<td>BDO overall tax rank</td>
<td>6=</td>
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<td></td>
<td>World bank – paying taxes rank</td>
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Financial metrics

- Total fiscal stimulus announced: £20bn
- Announced spend on construction in the next 3 years including fiscal stimulus to construction: £48bn
- Construction industry value – 2009: £65.28bn
- Main corporate tax rate: 28%

Construction sector metrics

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<tr>
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<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tr>
<td>Construction industry value, £bn</td>
<td>69.8</td>
<td>67.8</td>
<td>65.3</td>
<td>66.3</td>
<td>69.9</td>
<td>76.9</td>
<td>83.9</td>
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<tr>
<td>Construction industry, real growth, per cent y-o-y</td>
<td>5.5</td>
<td>-9.2</td>
<td>-1.5</td>
<td>1.5</td>
<td>5.5</td>
<td>9.6</td>
<td>7.8</td>
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<tr>
<td>Construction industry, per cent of GDP</td>
<td>5.0</td>
<td>4.7</td>
<td>4.6</td>
<td>4.7</td>
<td>4.8</td>
<td>5.1</td>
<td>5.3</td>
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BDO review of tax

- Relatively low headline rate of corporate tax by G20 standards
- Comprehensive thin capitalisation regime with no formal ‘safe harbours’
- No tax depreciation for the majority of building costs
- Some useful tax incentives including environmental measures

Overall scoring: 6/10
6= out of the G20

BDO ease of doing business

There are no barriers to inbound construction activity

1 Very easy
2 Quite easy
3 Average
4 Quite difficult
5 Very difficult

Top construction firms and dominance

- Balfour Beatty
- Laing O’Rourke
- Carillion
- Costain
- Kier
- Morgan Sindall

NB Focus on Non-Residential firms
Opportunities and barriers

Reasons the UK is attractive for inbound construction activity

- Fiscal stimulus – A total of £1bn of transport investments are due to be brought forward to 2009 in an attempt to stimulate the UK’s economy. The announcement formed part of Chancellor Alistair Darling’s 2009 pre-budget report, which listed a £20bn investment into the UK’s economy in order to stimulate growth. According to New Civil Engineer, £300m of this investment will go toward increasing capacity on key roads connecting to ports and airports and offering more environmentally friendly freight transport modes. Around £700m will go to easing congestion and increasing capacity on the UK’s transport network.

- The run-up to the 2012 Olympic Games is a golden opportunity for Britain’s construction industry with £17bn being spent on improving London’s transport. Some of the key transport infrastructure projects included in programmes associated with the 2012 Olympics Games are: Ten railway lines serving the Olympic Park; extension and capacity enhancements to the Docklands Light Railway, including to City Airport; development of a new metro line to link north, east and south east London; capacity enhancements on two major underground lines serving games venues; The Olympic Javelin, a new high-speed shuttle service from central London to the Olympic Park; refurbishment and modernisation of London Underground stations, including step-free access; two major park-and-ride sites and a ‘park-and-rail’ site for the Olympic Javelin.

- Infrastructure, is expected to perform especially well as a result with output rising 40 per cent between 2009-2011.

- Significant existing overseas presence – Although a considerable number of the significant entities in the UK construction sector – including Balfour Beatty, Laing O’Rourke, Carillion, Costain, Kier, and Morgan Sindall are UK construction firms, subsidiaries of overseas construction group also have a significant presence, such as Vinci and Skanska. UK entities are not very dominant in the total market allowing easy inbound activity.

- Highly competitive sector with relatively low barriers to entry – Due to the ease of doing business and tendering process, low corruption scores and the best ‘doing business overall rank’ in the G20, the UK is highly competitive. In addition there are few regulatory barriers to inbound construction activity.

Barriers/challenges to construction activity

- Immediate outlook for private commercial construction is negative – In contrast to the public sector driven construction programme, private construction output is forecast to be 20 per cent lower in 2011 than it was in 2008, as the office and retail sectors fare especially badly during the downturn.

- UK’s growing public debt is a cause of concern – HM Revenue and Customs announced public borrowing of £173bn in 2010 – there is some question about whether a new government would seek to cut back this debt faster.

Sources: BMI UK infrastructure report Q1 2009, UK Trade & Investment, BDO Stoy Hayward FT and Bloomberg articles, www.building.co.uk/journals

BDO viewpoint and advice

Pitfalls to avoid when doing business in the UK

- A significant amount of new work will come from public or quasi public sector agencies. Companies which fail to pre-qualify for this work will find it more difficult to tender.

Practical advice for inbound construction activity

- Initial access to quasi public and public projects can be via consortia. This will enable new entrants to develop a track record with procuring authorities.

- Pre-qualification for this type of work involves demonstrating a track record and high credit scores.

- Companies new to the UK should also be sufficiently capitalised to meet pre-qualification criteria.

- PPP or Private Finance Initiative (PFI) as referred to in the UK is very well established in the UK (PFI was created in the early 1990’s) and there are currently 629 PFI projects in the UK. Those which are currently operational amount to £49.9bn. The largest programs are transport projects in London.

Useful tax and other incentives for inbound construction activity

Main depreciation rates:

- Plant and machinery – 20 per cent reducing balance.

- Buildings – Integral feature (e.g. fixtures & fittings) – 10 per cent reducing balance.

Other incentives:

- Land remediation relief allows for enhanced tax relief for up to 150 per cent of qualifying costs incurred on contaminated land.

Richard Kelly
Partner, Head of Construction

Stephen Herring
Tax Partner, Real Estate and Construction

“The UK offers a good opportunity for inbound construction activity. The Olympics and fiscal stimulus will provide a good throughput of projects in the next 3 years despite the extensive UK public debt. Construction companies which avoid the possible pitfalls can enjoy relatively few other barriers to entry.”