



**The Importance of Construction in
Rebooting the Manchester and Greater
Manchester Economy**

May 2020

1. Executive Summary

As a result of COVID-19, Oak View Group's plans for a new arena have been submitted at an unprecedented time for Manchester and the regional and national construction sector.

The £350m private investment in Manchester would directly support 3,350 jobs during construction and more than 1,000 roles when it opens - at Manchester Living Wage or above.

Subject to planning consent, the proposals for the new East Manchester arena will be one of the most significant private construction projects nationally to commence in 2020, with site work starting in September.

Analysis commissioned from Ekosgen and PWC by OVG as part of the planning and design process demonstrates that Manchester will successfully support two arenas. In the most conservative scenario, a second arena would contribute over £1bn GVA to the Manchester economy over 20 years, helping to underpin the entertainment, visitor and hospitality sectors.

However, the Greater Manchester economy, as well as those of the wider region and nation, faces an urgent challenge to prioritise and implement sustainable economic recovery plans that will avoid a prolonged recession.

This paper, commissioned by Oak View Group, sets out the value to the city and regional economy that would be provided by the construction phase of the new arena, in advance of the 2023 target opening date.

The paper also demonstrates the impact of Oak View Group's private investment and construction activities on economic recovery efforts in Manchester, across the North and nationally.

The analysis demonstrates the project can potentially reduce the scale of Greater Manchester's construction industry downturn over the next few years by 20%.

The project would also give confidence to the regional construction supply chain and the labour market that an active pipeline of public and private projects in 2020 and 2021 will contribute towards avoiding a repeat of the crisis that hit the regional construction sector following the 2009 recession.

BAM Construction Ltd has been appointed as the preferred construction partner and is currently undertaking pre-contract procurement to identify sub-contractors for the project. Much of this value will be captured in the local and regional economy.

Work package tenders will be assessed against the commitment to skills development, local employment and procurement. This is now vital as part of regional and national COVID-19 recovery plans.

Key findings:

1. The 2009 recession impacted Manchester's construction sector severely, with an immediate loss of more than 2,000 jobs and seven years before employment returned to 2009 levels.
2. A reduction of construction activity resulting from COVID-19 will have a much greater impact than the direct loss of employment. Every £1 spent on construction creates £2.92 of value to the UK economy.
3. Since 2015, Manchester has benefited from a construction boom including both residential and commercial development, with a 2018 GVA of £750m and employment of over 8,500.
4. A number of the other Greater Manchester local authorities have large numbers of jobs and companies which benefit from construction work in Manchester. This include 1,105 companies and 8,500 jobs in Trafford, 1,040 companies and 7,500 jobs in Salford; 1,520 companies and 8,000 jobs in Wigan and 1,390 companies and 6,000 jobs in Bolton.
5. The exit arrangements from the current lockdown are likely to see the resumption of construction projects which have been paused since early March. These works are likely to continue to until early/mid 2021.
6. To avoid a sustained downturn in the sector it is important to stimulate a pipeline of public and private projects that would be on-site 2021 to 2023.
7. The new arena's construction phase would provide a major and timely boost to the region's construction sector, in the same way that the £199.7m arena, conference and exhibition planned for Gateshead Quays and supported by Gateshead Council is expected to boost the North East's economic recovery.
8. The arena's construction works have a total estimated cost of £288m, making it one of the most significant private sector investments in the region.
9. Conservative estimates of the employment impact of Eastlands construction works is 2,713 FTEs, increasing to 6,591 FTEs when the full supply chain and wage expenditure employment impacts are taken into account. In total, some 700-800 companies will be involved in the construction works supply chain for the new Arena.
10. This multiplier effect is also reflected when the contribution to GDP is assessed, with the new arena construction works contributing some £364m to UK GDP.

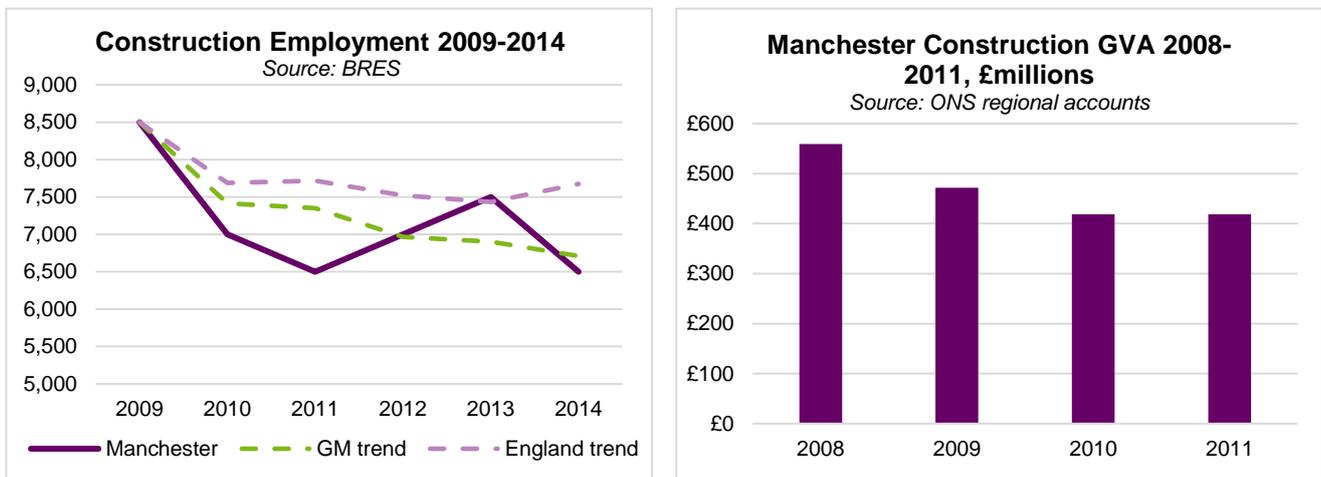
2. Learning from the 2009 downturn

Beyond the healthcare and social challenge, COVID-19 is having a profound effect on the UK economy. The major challenge now facing local and regional economies is the extent to which economies recover in 2021, 2022 and 2023, avoiding the long-term recession which impacted on regional economies after the most recent recession of 2009-2013.

The 2009 recession had a major impact on the Manchester and Greater Manchester economy, with a prolonged downturn for many sectors.

Manchester witnessed a particularly severe downturn in its construction sector between 2008 and 2011, with GVA falling from £550m in 2008 to £410m in 2011.

The effect on employment was also severe, with an immediate loss of over 2,000 jobs and it was seven years before employment returned to 2009 levels.



The construction sector was affected by financial institutions unable or unwilling to lend in a market where demand for residential and commercial properties was uncertain, and developers unable to secure pre-lets and pre-sales to support investment.

These factors are likely to again influence how the construction sector fares over the next two to three years in light of the new uncertainty.

The reduction of construction activity in Manchester will have a much greater impact than the direct loss of employment.

Recent research has found that for every £1 spent on construction creates £2.92 of value to the UK economy [CBI and Oxford Economics, Fine margins, Feb 2020]. It has also been estimated that for every £1 spent in construction at least 90% stays in the UK [CBI, Construction bridging the gap, June 2012]

Contractors on the CBI's Construction Council have researched across recent projects to determine just how many businesses can be involved in a supply chain. For contracts between £50m – £100m in value, these frequently leverage a major subcontractor base of between 40-60 additional firms per project.

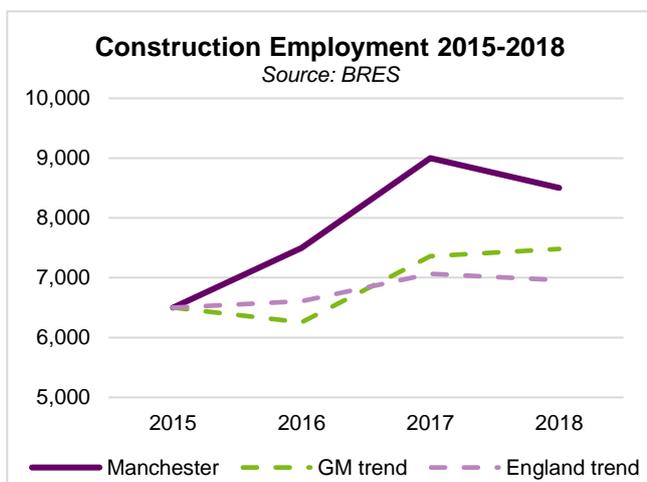
This number increases significantly when the suppliers to the leading sub-contractors are taken into account, with major construction projects supporting several hundred companies in the extended supply chain.

The UK has put in place measures to help companies furlough employees and provided a mixture of grants and loans to help businesses deal with the immediate impacts of the lockdown and downturn in the global economy.

While these measures are invaluable, businesses need the demand on which they depend to return to pre COVID-19 levels as soon as possible to ensure they can repay loans and return to sustainable levels of employment, turnover and profitability.

3. The impact of a vibrant construction sector on Manchester

Since 2015, Manchester has benefited from a construction boom including both residential and commercial development, with a 2018 GVA of £750m and employment of over 8,500. The supply chain impact and wage expenditure would have considerably increased the economic benefit to the city.



A number of the other Greater Manchester local authorities have large numbers of jobs and companies in the construction sector, many of which benefit from construction work in Manchester. This includes: 1,105 companies and 8,500 jobs in Trafford; 1,040 companies and 7,500 jobs in Salford; 1,520 companies and 8,000 jobs in Wigan; and 1,390 companies and 6,000 jobs in Bolton.

4. How the construction sector needs to emerge from COVID-19

The exit arrangements from the current lockdown are likely to see the resumption of those construction projects which have been paused since early March. These works are likely to continue until early/mid 2021, although phased projects may postpone later phases.

Increasing number of company failures, rising unemployment, the likely closure of restaurants, retailers and bars and uncertain demand for office accommodation are likely to impact on the commercial and residential markets.

In addition, increasing pressure on university finances and the international student market could impact on new capital investment by higher education institutions. These new factors mean that Manchester is now facing the possibility of a major and sustained reduction in construction activity and employment.

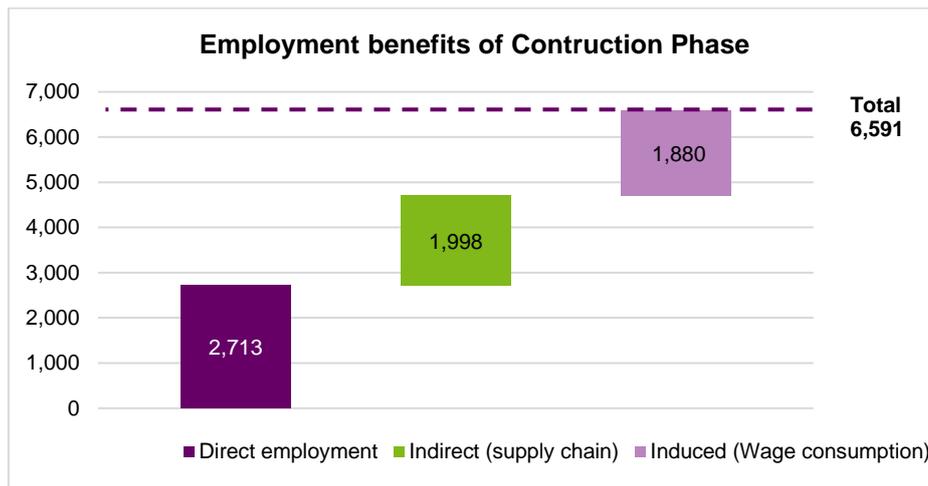
UK Government is hoping to provide a boost to the construction industry by bringing forward major infrastructure works, such as HS2. It will however be several years before Manchester benefits from the construction works of some of the national infrastructure projects.

The recently agreed Northern Gateway HIF Investment (£50m) and other capital works to the City Council’s own estate and infrastructure assets; and major private sector investment where the finance is in place to allow for early construction works as vital sources of 20/21 impact.

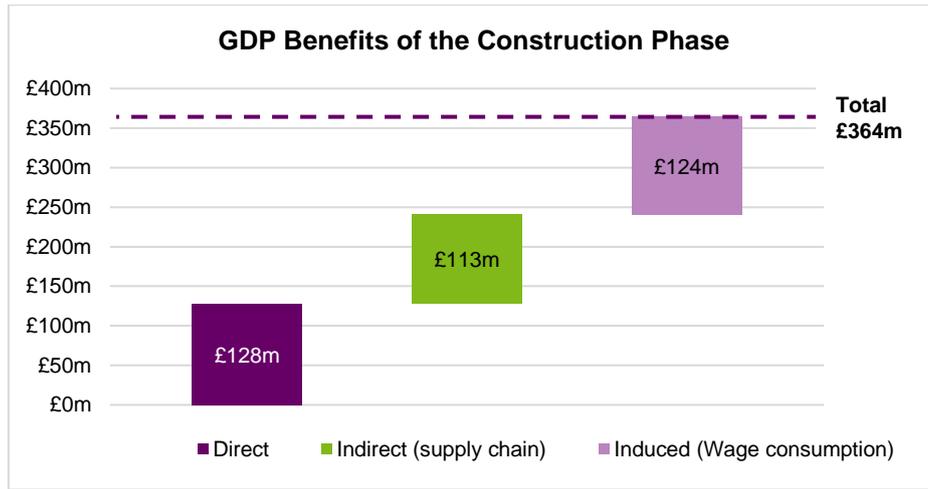
However, a combination of both public and private sector investment will be required to avoid a long downturn in the construction sector and to provide the volume of activity needed to support the thousands of smaller construction companies that make up the wider supply chain in the city and across the Greater Manchester conurbation.

5. The impact of the Eastlands Arena

The new Arena works have a construction cost of £288m (of the total estimated cost of £350m) making it one of the most significant private sector investments in the region. Applying the recent metrics produced by the CBI and Oxford Economics in their report, Fine Margins, gives some idea of the full impact on the national economy.



The employment impact of the construction works includes some 2,731 FTEs, increasing to 6,591 FTEs when the full supply chain and wage expenditure employment impacts are taken into account. In line with Oxford Economics assumptions, this multiplier effect is also reflected in the contribution to GDP, with the new arena construction works contributing £364m to UK GDP. In terms of the supply chain, several thousand companies will benefit from the full economic impact of the construction works. In terms of the supply chain, several thousand companies will benefit from the full economic impact of the construction works.



The new Arena construction phase will provide a major and timely boost to the region’s construction sector, in the same way that the £199.7m arena, conference and exhibition centre planned for Gateshead Quays and supported by Gateshead Council is expected to boost the North East’s economic recovery.

In terms of responding to the need to support the economic recovery in response to the COVID-19 pandemic, at a Greater Manchester level, the new arena will reduce the scale of the potential construction industry downturn over the next few years by 20%, a major contribution from a single project. In the process, a number of the smaller suppliers (a feature of the supply chain) will be able to maintain employment levels and in some cases, avoid business closures.

6. Unpacking the Eastlands Arena Supply Chain

Significant expenditure with design and technical companies has already taken place, with a total project budget of £43.4m in addition to construction expenditure.

The main build and work packages contracts are expected to be contracted by September/October 2020, allowing major contractors to provide notice of the new works to their wider supply chains.

These contracts will provide an early boost to sub-contracting companies concerned about the supply of new work in 2021 and 2022. This will be vital in helping them plan by giving successful bidders more certainty and enabling them to make informed decisions about resource and workforce for the coming years.

There are four major construction work packages, supporting a large workforce and a diverse range of businesses in the supply chain. In total, some 700-800 companies will be involved in the construction works supply chain for the new Arena, of which 50-60 will play a major role in the works.

The work packages and range of activities required are summarised below.

New Arena Construction Works		
Sub Structure	48.9m	Includes remediation, bulk excavation, piling, and sub structures
Superstructure	£124.9m	Includes superstructure concrete, structural steel, drainage, cladding and roofing
Mechanical and Electrical	£79.8m	MEP services, lifts and escalators
Fit Out and	£34.8m	Includes seating, flooring, hospitality space, lighting and stage

While competitive tendering will be used to appoint sub-contractors and supply chain companies, Greater Manchester has a considerable number of companies in all of the specialist areas required to support the construction phase, including manufacturers of materials and equipment, plant hire and production, and installation and testing services. The construction supply chain will however include companies from across a numbers of regions, reflecting the scale of investment and the need for specialist equipment and supplies.

The UK construction industry has now started to establish work practices which can comply with PHE guidelines, allowing sites to begin reopening as restrictions are eased. At the same time national bodies are currently reviewing Government finance and support schemes to ensure they assist the industry and are working with manufacturers and builders merchants to assess the impact on materials.

The scale of the immediate impact of COVID-19 on the industry is huge and if large projects do not come forward quickly, the downturn in the sector will be deep and prolonged. However, if they do come forward across the country then the resulting activity will significantly reduce the impact of the current situation and safeguard jobs.

The re-energisation and functionality of the construction industry and the supply chain is now a national priority.

While the relaxation of the lockdown will see construction re-commence on existing sites, new works commencing in 2021 and 2022 are critical to avoiding a prolonged downturn in the industry and wider economy. In summary:

1. The new Arena would be the largest commercial construction project in the North West and would enable many businesses to remain operational and reduce the number of business failures in the construction supply chain. This will be essential in maintaining the skills base of the sector in the medium term.
2. The construction works direct supply chains of circa 700-800 companies would support small businesses across Greater Manchester and beyond, while the sub-regional impact will be important to the economic recovery.
3. The full economic impact of the construction works would support a much large numbers of jobs, worth over £0.36bn to the national economy and help to reduce business failures and jobs losses across a wider range of sectors. As such, it will be important to the national recovery planning and employment and business retention efforts.

Finally, the sight of construction cranes on the East Manchester skyline will send a very visible signal of the economic recovery in Manchester and its leisure, hospitality and tourism business base.