

Client Sector Opportunities

SAMPLE REPORT

2018/19

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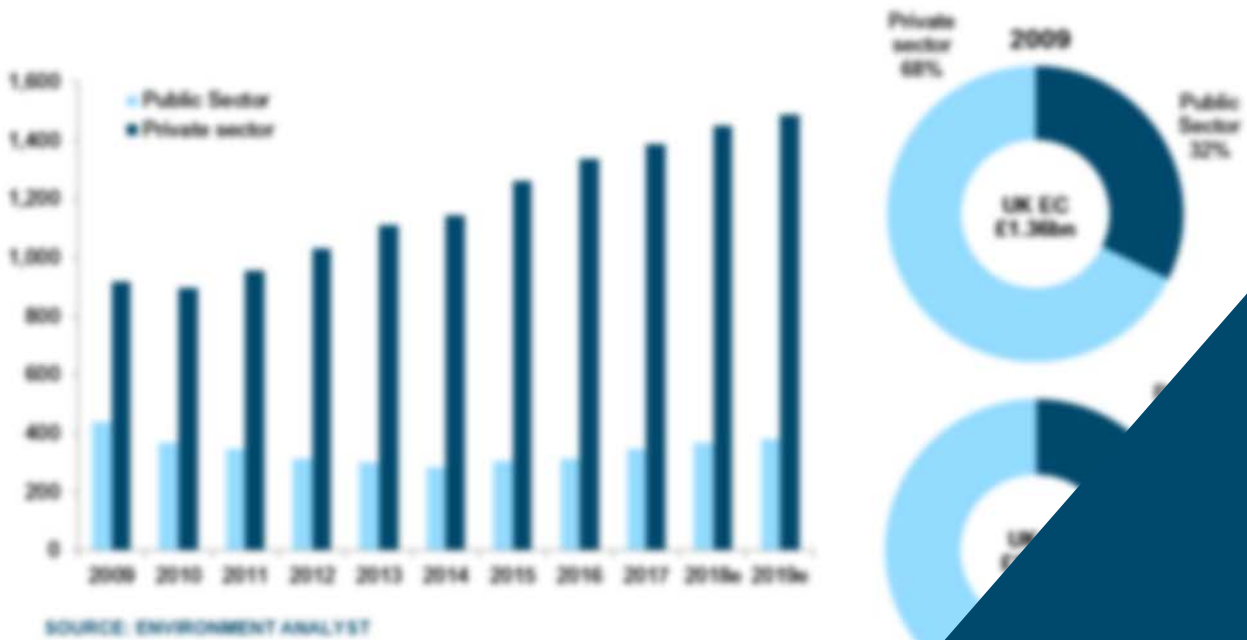
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external assistance from consultants. How sustainable this is under ever-decreasing LA budgets and the increasing use of reserves to fund services, remains to be seen (see Section 5.2).

Fig 1 Public vs private sector UK EC revenue breakdown (£m)



Investment in transport infrastructure on the other hand has been unsuccessful. One of the government's key pledges after the 2010 general election was to set up a new infrastructure system. Over the last eight years there has been a steady stream of announcements with numerous quangos established to strategically deliver the programme and boost national productivity. Of the current £41.5bn national infrastructure programme, the first projects with high-speed rail and highways major focus areas.

Energy infrastructure, meanwhile, makes up 40% of the total infrastructure spend. The private sector has received consistent backing from the government, particularly in the offshore wind sector (new build) other sectors have been stifled by either regulatory uncertainty or fracking and tidal lagoons. But political backing has been inconsistent, with approving a raft of gas power plants around the country. On the other hand, natural gas has not received the backing at the local level. Similarly, the National Infrastructure Authority has been established to oversee the programme and has advised using renewables for power generation. However, the collapse of the UK's pipeline of investment in offshore wind has led to Toshiba's plans for a new plant in the North Sea.

The persistent low oil price has led to a shift in focus towards gas. Optimism surrounded the shale gas boom in the US, which was fuelled by the run of the oil price. However, the shale gas boom has been short-lived, with "super maturity", combined with a global shift towards natural gas extraction. At the same time, the shale gas boom has led to anticipated foreign investment in the UK. However, the energy giant, Shell, has cancelled its plans for a new plant in the North Sea.

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Fig 6 Client sectors annual revenue growth, 2013-2017 (£m)

Annual growth (£ million)	2013	2014	2015	2016	2017	2016-17 change
Government & agencies	-13.3	-19.0	20.4	10.4	35.5	↑
Regulated industries	5.2	2.7	28.6	29.5	-33.0	↓
Extractive, manufacturing & processing	10.5	-8.6	16.5	17.6	-22.0	↓
Infrastructure & development	52.1	34.6	30.7	27.0	60.4	↑
Financial & service sectors	4.9	6.4	18.9	15.3	10.2	↓
Others	6.6	-2.6	23.9	-14.2	13.8	↑

Fig 7 Client sectors annual revenue growth 2013-2017 (%)

Annual growth (%)	2013	2014	2015	2016	2017	2016-17 change
Government & agencies	-4.2	-6.3	7.2	3.4	11.3	↑
Regulated industries	1.2	0.6	6.3	6.2	-6.1	↓
Extractive, manufacturing & processing	5.5	-4.3	8.5	8.4	-4.1	↓
Infrastructure & development	19.3	10.8	8.6	7.0	13.2	↑
Financial & service sectors	5.8	7.0	19.5	13.2	10.2	↓
Others	15.1	-5.2	49.8	-11.1	13.8	↑

Fig 8 Client sectors 5 year growth, 2015-17 (£m)

5 year growth (£ million)	2015	2016	2017	2018	2019
Government & agencies	10.4	10.4	35.5	35.5	35.5
Regulated industries	28.6	28.6	-33.0	-33.0	-33.0
Extractive, manufacturing & processing	16.5	16.5	-22.0	-22.0	-22.0
Infrastructure & development	30.7	30.7	60.4	60.4	60.4
Financial & service sectors	18.9	18.9	10.2	10.2	10.2
Others	23.9	23.9	13.8	13.8	13.8

Fig 9 Client sectors annual revenue forecast, 2018-19 (£m)

Revenue (£ million)	2018	2019
Government & agencies	35.5	35.5
Regulated industries	-33.0	-33.0
Extractive, manufacturing & processing	-22.0	-22.0
Infrastructure & development	60.4	60.4
Financial & service sectors	10.2	10.2
Others	13.8	13.8

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5. Government & agencies

Historically many UK environmental consultancies have benefited from very close relationships with the public sector – with some including the legacy firms of **ADAS** (now part of **RSK**) and **AEA (Ricardo Energy & Environment)**, as well as **Cefas** originating from state-run entities – working closely with national government bodies together with local authorities in a range of advisory roles. However, following on from the recession the pot of money available for government organisations to spend directly on consultants was significantly eroded as a result of austerity measures from 2010. And it is only in the last couple of years things have started to look more promising again in this sector.

Fig 14 EC revenue from government & agency clients (£m), 2009-2019e



Fig 15 Top 20 EC firms working for government & its agencies, 2015-2016

Firm	Revenue (£m)
Jacobs (inc. CH2M)	21.8
Ricardo Energy & Environment	25.1
Mott MacDonald	1.5
SNC-Lavalin Group	
WSP	
Arcadis	
RPS Group	
Wood, E&S	
AECOM	
JBA Consulting	
Arup	
Capita Real Estate & Infrastructure	
Black and Veatch	
WYG Environment	
RSK Group	
Bureau Veritas	
Cefas	
Royal Haskoning	
Peter Brett Associates	
Environment & Infrastructure	
Other companies	
Total	

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Wider EA Company Survey data suggest almost two-thirds of EC income from the public sector was from national government clients in 2017 (Figure 19); however, these figures should be treated with caution as questionnaire samples differ year on year. It also suggests national government revenues made up a decreasing proportion of revenue between 2016 and 2017.

Opportunities and outlook

In terms of the outlook for central government spending on EC services, we distil some key pointers from the currently available budget figures from recent spending reviews. With the next five-year review due this year the UK only has budget forecasts up to 2020. From 2017/18 to 2019/20 departmental spending is projected to increase from around £358bn to £370bn, with big increases in spending from the DfT (+43%), DfID (+11%) and BEIS (+7%) (Figure 20). This is a result of Phillip Hammond's first Autumn Statement as Chancellor of the Exchequer under Theresa May where he "reset fiscal policy" and eased austerity; something May reiterated in her Conservative Party conference speech in 2018.

Spend from the MHCLG will fall 19% to £5.5bn over the next three-year period, with knock-on impacts to the local authority sector (see Section 5.2). Spend from Defra meanwhile is still forecast to fall by 13% to £28.5bn (Figure 21). With half of Defra's funding coming from the EU (particularly for agricultural and environmental work through the Common Agricultural Policy) the decision for the UK to leave the EU will have a major impact on this department's future financing. A no-deal Brexit will mean it not only has to find a replacement to the CAP, but it will also need to find around £3.3bn of funding to fill the hole it leaves. The government's Agriculture Bill aims to fill part of this gap with 'payment for public services' which will see farmers paid not by how much land they own, but by how they improve and care for the land they have with rewards for improving soil, water and air quality.

DECC spend was due to fall 20.4% to £2.9bn by 2019/20; however, the government's decision to call a Brexit vote and subsequent merging of this department with Greg Clark's BEIS department has changed waters here. Instead we know BEIS spend is due to increase by around 7% between 2018/19 and 2019/20 equivalent to around £1bn.

The standout area as far as environmental consultancies are concerned will be the Department for International Development and the Department for Transport whose budgets are projected to rise by 43% to £11.7bn respectively by 2019/20 (Figure 21).

Environment Analyst's 2018 EC Market Trends Survey undertaken in partnership with the EA Company Survey, the growth prospects – as gauged by consultants themselves – are expected to be the lowest in the EC sector of all the major client areas. Responses to the survey suggest a projected growth of five years at a subdued 3.3%.

Fig 20 UK total government departmental spending forecasts in real terms (£bn)



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Together the regulated industries account for 27% of total UK EC income, down from a peak of 31% in 2016 as a result of over £30m being shaved off the market value in 2017 – a decline of 6.5%. Despite the fall, this area as a whole remains one of the largest and most consistent revenue streams of the five core client sectors analysed in our UK EC market assessment (Figure 27). Despite the decline in 2017, the regulated industries' consistent performance over the last decade is also notable. **RPS, Jacobs** and **RSK** top the leader board in EC revenues sourced from the sector as a whole (Figure 28).

6.1 Energy

Energy policy has been fairly dynamic in recent years as the government is attempting to counterbalance a trilemma of energy issues in the UK: security of supply, affordability and decarbonisation. However, big policy changes and the absence of an energy white paper (the last was in 2011), has created an air of uncertainty in the energy markets. Severe subsidy cuts to renewables, the announcement of a total shut down of coal-fired power plants by 2025, the hiatus around Hinkley Point C (not to mention the abandonment of other nuclear new build plans at Moorside, Wylfa Newydd and Oldbury) and the rejection of government support for the Swansea Bay Tidal Lagoon project has left observers perplexed. Not least because in 2018 BEIS estimated the UK needs to deliver around 43 gigawatts equivalent of new build power producers by 2025. With 14 GW of this due to be interconnectors the concern of the UK's energy gap has come to the fore again.

There is a spike in the need for EC support from energy clients at the start and end of an asset's life cycle, although ongoing permitting, monitoring, compliance and optimisation activities provide a consistent stream of opportunities for consultancies to get involved in-between these two phases. Environmental impact assessment is a key feature of a project's planning application while investigations and decommissioning help take the asset out of service. With a significant volume of North Sea oil & gas infrastructure, coal-fired and nuclear power stations reaching their end of lives, a new wave of generation capacity is needed to replace them, so the short- to mid-term drivers of the conventional energy sector are the need to decommission, the rise of renewables and drive for decarbonisation.

6.1.1. Oil, gas & nuclear

State of the market

Long-term climate ambitions have the UK set on a path to decarbonise its energy sector. Although carbon technologies not quite at grid parity, there is still a large role for fossil fuels in the UK's energy mix. In 2017, 70% of the UK's electricity was generated by fossil fuel-fired generators (226 terawatt hours); however, the proportion is expected to fall to 25% by 2030.

Fossil fuel sources remain the cheapest form of energy generation in the UK, but the government's commitment to the UK's carbon ambitions with the need to ensure a secure and affordable energy supply until recently – nuclear emerge as government favourite. In 2016, the government's decision to fund Hinkley Point C until recently – nuclear emerge as government favourite. Amber Rudd hammered the last nail in the coffin for coal-fired power plants when she announced that coal-fired, non-carbon capture storage power plants would not be funded. The government backed a new wave of nuclear power plants, but the cost of Hinkley Point C is still not at grid parity.

However, the delivery of a nuclear power plant is a complex and costly process. The cost of Hinkley Point C that dogged the commissioning of the plant has been a major concern, and the project is still not worth a penny more, and the cost of the plant is still not at grid parity.

Late in 2018 Toshiba's £1.2bn bid for the Sizewell B nuclear power plant failed to find a buyer. The bid was effectively a loss for Toshiba, and the bid was effectively a loss for Toshiba. The bid was effectively a loss for Toshiba, and the bid was effectively a loss for Toshiba.

Assessment which identified the key risks to the project, including the need for a new nuclear power plant. The assessment identified the key risks to the project, including the need for a new nuclear power plant. The assessment identified the key risks to the project, including the need for a new nuclear power plant.

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Fig 68 UK manufacturing output, 1990-2017 (indexed 2016=100)

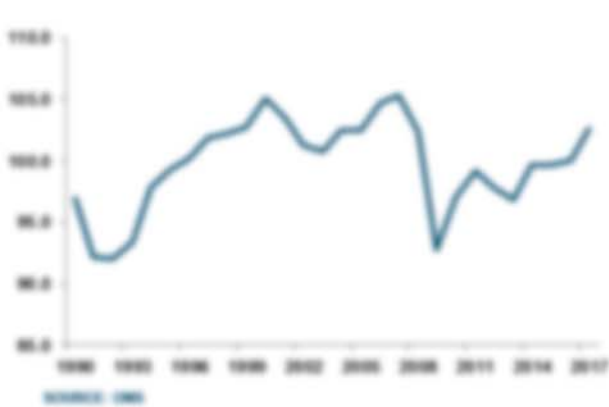
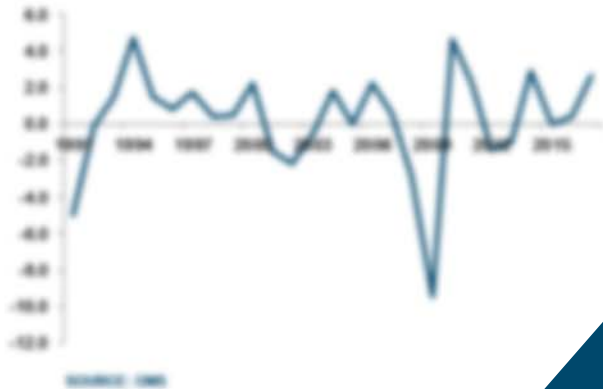


Fig 69 UK manufacturing output (value added % of GDP) between 1990-2017



Mining and quarrying in the UK suffered badly in the 1970s and 80s as relationships between trade and the then Conservative government reached an all-time low. However, there was something of a renaissance in mining and quarrying during the first few years of the current decade helped by the global commodity price cycle just prior to the recession and then again between 2011-2013 (Figure 71). Mining and quarrying in the UK reached to reach £36bn in 2008 and £32bn in 2011. However, the commodity price crash in the sector slide to £18bn in 2016 (Figure 70). There has been a slight recovery in 2017 but it remains historically low for this millennium. Around 85% of the UK's non-energy minerals are produced by the aggregate industry with 1,300 quarries and 28 marine aggregate dredgers producing 100 million tonnes of aggregate a year.

Fig 70 UK mining & quarrying output between 1990-2017 (£bn)

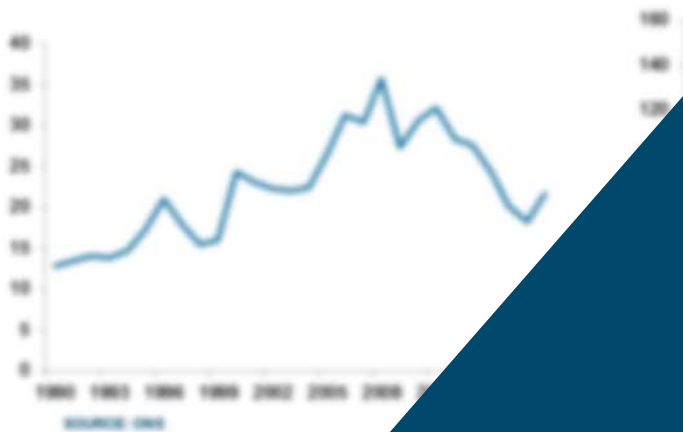


Fig 71 Key commodity prices (dollar)

By contrast, the chemicals & pharmaceuticals sector has grown significantly in value added over the last few decades, while the value added in the sector has grown in value added a year (Figure 72). Most of the value added is in chemicals.

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