



Construction Isle of Man | January 2025

The Slowdown in the Isle of Man Construction Industry

Introduction	2
Statistics	3
Contractors.....	3
Commodities and supply chain.....	5
Consultants	7
Government Capital Spend	9
Overall Activity	10
Observations and industry feedback	11
Impact of Government Procurement Procedures	11
Delayed Government Capital Projects	11
Planning and Regulatory Hurdles.....	12
Broader Economic Pressures	13
Anticipated Effects	13
Conclusion.....	17



Introduction

In late 2023 Construction Isle of Man 'CIOM' carried out an industry survey amongst contractors in response to Industry concerns that there is a slowdown in the Construction Sector. Whilst a relatively limited response, this survey illustrated the industry was finding the construction economy challenging, it was clear this was impacting different areas of the sector in different ways.

2024 has been another challenging year and throughout that time CIOM has continued to receive information and comments from the industry that the slowdown is established and is damaging for not only the whole industry but there are long-established companies that are down-sizing or closing down.

In November 2024 CIOM sought information and data from several companies from across the sector, widening the information base to include contractors, supply-chain and consultants, to gauge the impact this is having on the Isle of Man construction industry.

Using the narrative supplied by those contacted, and data collected from the industry this report gives a snapshot of the current challenges faced by the sector.

Companies were asked to supply turnover levels since 2019. Several contributors provided a narrative in addition to the data supplied.



Statistics

Contractors

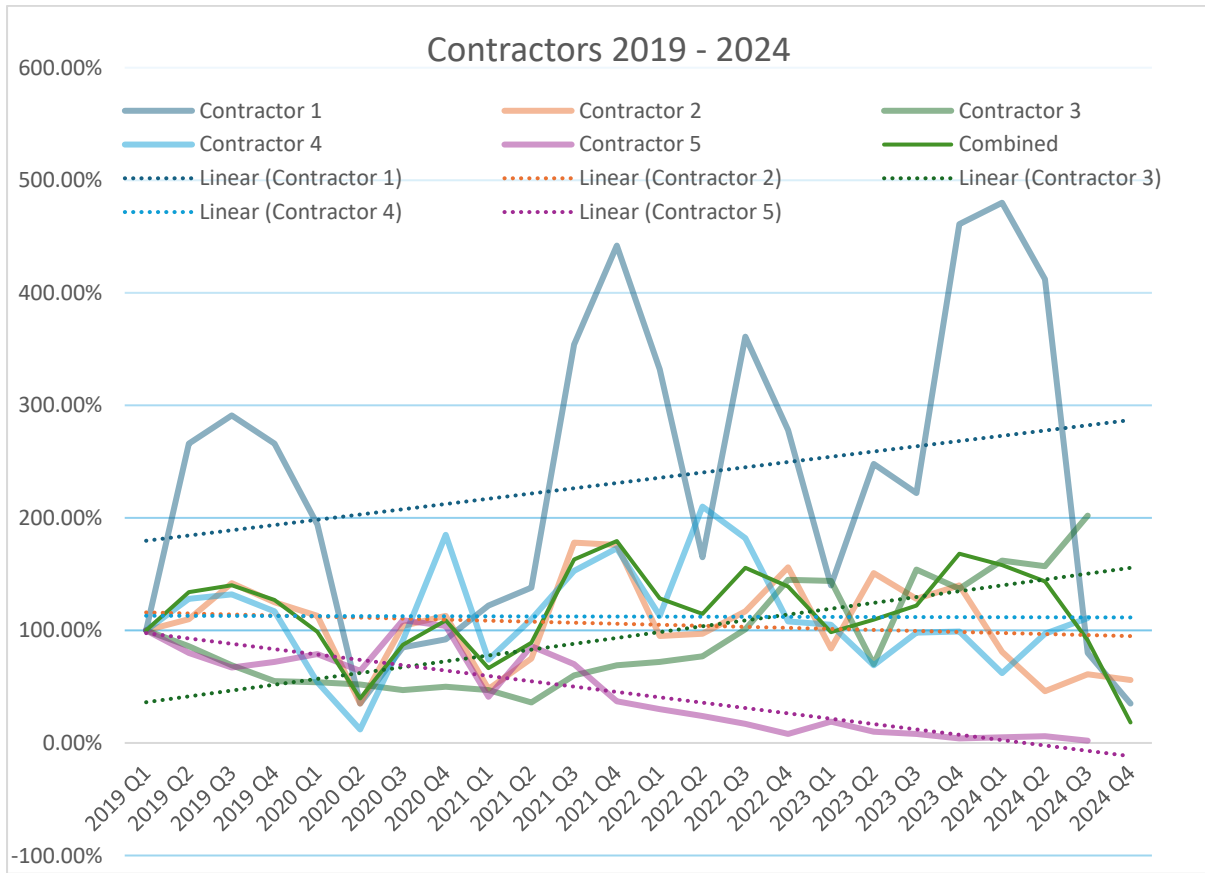
Data was invited from the islands Principal Contractors who are generally considered best placed to deliver any sizeable private and public sector construction projects, noting that this excludes those contractors predominantly undertaking civils/infrastructure works. The work of these Principal Contractors is important not only in their ability to deliver sizeable projects, but they are integral in providing work to the subcontract trades. It does not include private sector Developers who rely on planning approvals to enable them to satisfy their order books.

Most contractors experienced a downturn during Covid and have seen fluctuating turnover since, this is inherent in the industry on the island as they have little influence over the available work. Each have their own journey, however there is an overall picture of precariousness with all but one contractor and there are several notable points to consider.

The £70m KG Campus development saw Excel Group withdraw from securing new work to concentrate on the completion of existing projects and on the preparation for KG Campus that commenced in late 2023. The cancellation of the project in Q2 2024, brought about an abrupt halt and a significant reduction in their sales and the withdrawal of a substantial three-year spend across the industry.

Colas Group, has seen a steady decline in construction activities and decided to withdraw from the '*race to the bottom*' construction tendering, and to concentrate on civils works and quarrying; it latterly withdrew from the island completely and has sold the businesses.

One contractor is currently completing several sizeable public sector projects, however in the absence of any significant live government enquiries, has now secured external investment from one of the islands developers to bolster their private sector order book.



Linear = Trend

Whilst all contractors experience fluctuating turnover, as the graph demonstrates, and low margins which brings their own challenges, the graph above shows just two contractors with upward trends. For the majority of the industry participants, particularly those involved in public sector contracting, turnover has flatlined or declined in the period and all those surveyed are expressing concern with a lack of forward orders, a short-term lookahead and anticipate further decline.



Commodities and supply chain

Merchants

Two long established businesses have decided to close within Q4 2024, HSS Plant Hire who consider that operations on the island are no longer commercially viable and MACS Builders Merchants who have had the business up for sale without interest for some time.

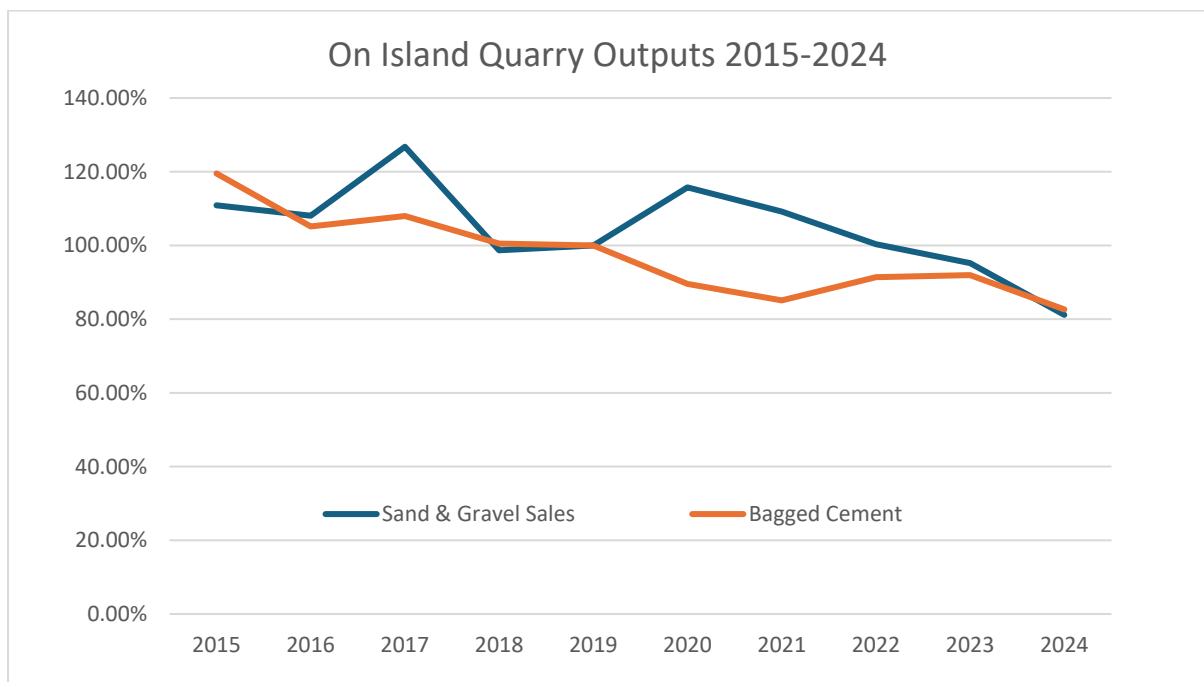
Island Aggregates permanently closed their block manufacturing facility in Q3 2024, noting that there were insufficient volumes to sustain the business.

The withdraw of these businesses further affects material prices as competition reduces, there is only one block manufacturer left on the island and the sale of Colas was almost immediately followed by a significant increase in aggregate and tarmac rates, which may be reflective of the cost of production.

Quarry Outputs

Quarry outputs are often considered to a measure of both construction and civils/infrastructure. As with all stats in this document a baseline set at 2019 shows a decline post covid for both sand/gravel sales and bagged cement at Q4 2024 at 81% and 83% respectively compared to 2019.

Stats further show that output has been in decline since 2015, with sand/gravel and bagged cement down to 73% and 69% respectively compared to their 2015 figures.

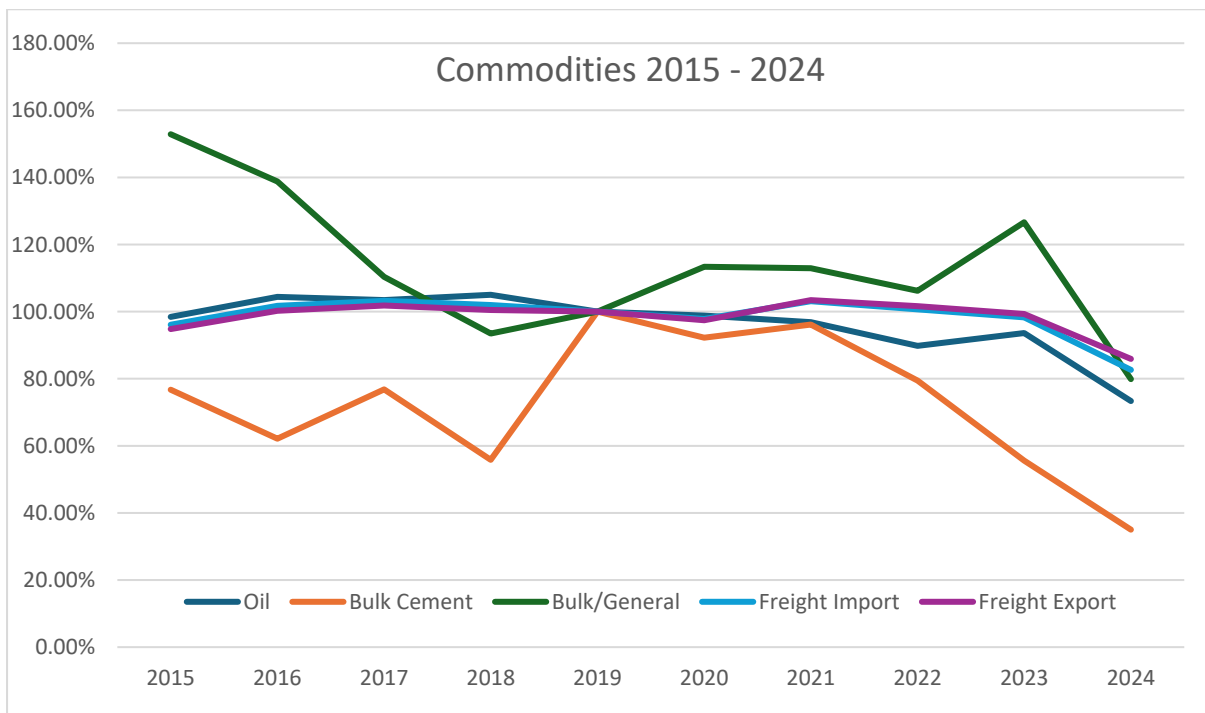




Shipped Commodities

With all but quarried materials most construction materials are shipped to the island, again using a baseline of 2019 and a comparison at Q4 2024, demonstrate an overall reduction as follows:

- Bulk cement is at just 35% of the 2019 figures, a significant reduction.
- Bulk materials have declined to 80% of their 2019 values, and are 52% of where they were in 2015.
- Other freight imports have declined to 83% of their 2019 figures.
- Oil is down to 73% of its 2019 figures.





Consultants

Consultants are an early indicator of workload and the observations from the island's longest established practices are consistent and demonstrate a significant decline in enquiries and are similarly suffering delays to public sector projects that have stalled along the process, often with no visibility on when or whether the projects will be continued.

These delays that often run into years, inevitably attract inflationary cost increases, and present the Consultants, who are typically small practices, with a financial burden as planned/anticipated income reduces and often inadequate to cover overheads. Some Consultants are forced to look off-island to generate sufficient revenue to maintain their businesses.

A lack of confidence inhibits their ability to invest in recruitment, indeed most have been forced to downsize to ensure viability, with the only recruitment being replacement.

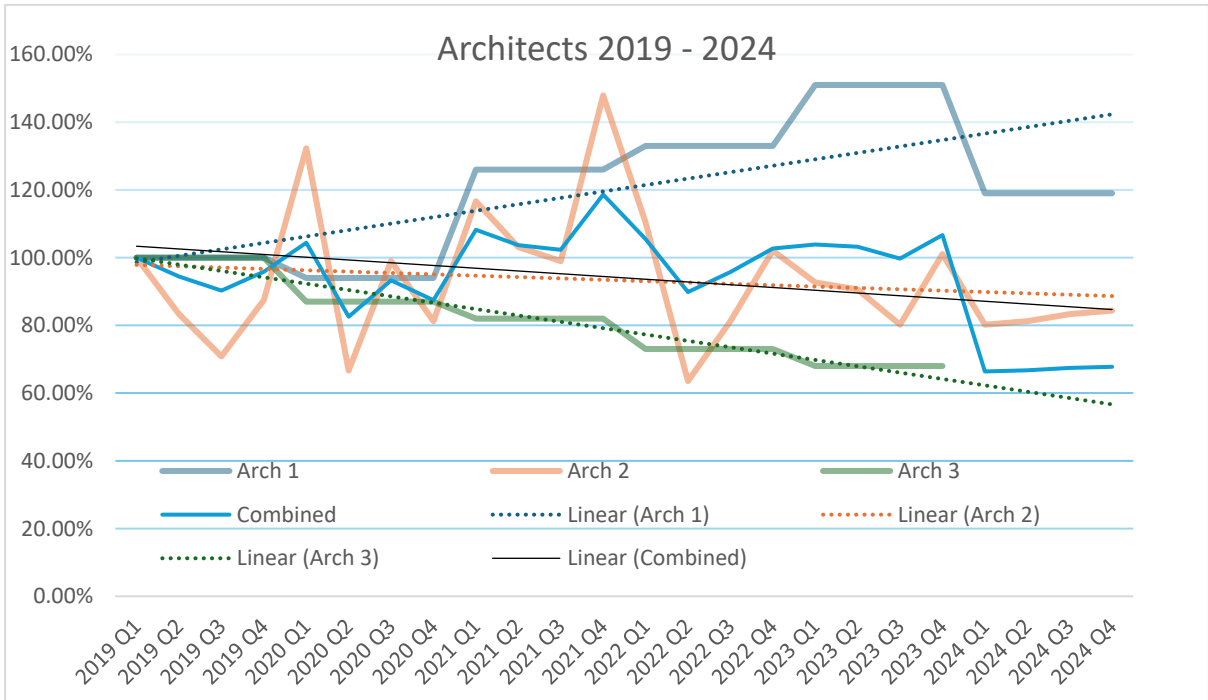
There is anecdotal evidence that redundancies of Architectural Technicians from both professional practices and developers have led to several self-employed technicians working from home and without the overhead of a professional practice/studio are securing more of the domestic residential that is further impacting on practices already impacted by delayed public sector projects.

Architects

One architectural practice supplied a detailed response, highlighting that since 2019 the firm has faced a steady decline in turnover, culminating in a 32% drop by last year, down to 68% of 2019 levels. They link this turnover reduction to a substantial decline in capital investment from the Isle of Man Government, which traditionally is a primary client of many cost consultants and Architects in the sector. To maintain viability, the company has strategically reduced overhead by implementing staff reductions and limiting reinvestment, ensuring that the business remains viable in the current climate.

Another Architect commented:

'The issues with delays of public sector projects have been particularly acute since Treasury adopted a new method of administering capital projects whereby the pink book method was changed to the project development fund route (ie since 2019). Programme delays on large public sector projects significantly reduce the practice's ability to plan future workload and therefore recruitment, training, and investment in the business, particularly when combined with the global pressures of inflation, high interest rates and the cost of living crisis that has reduced our private sector workload too.'



Linear = Trend

Cost Consultants/Quantity Surveyors

The long commented-upon issues with consultants are as acute within the island’s QS practices; rather than growing and recruiting to provide continuity as founding partners approach retirement, most are downsizing and relinquishing office space in the face of uncertainty. This places further reliance on those remaining practices and challenges on limited resources.

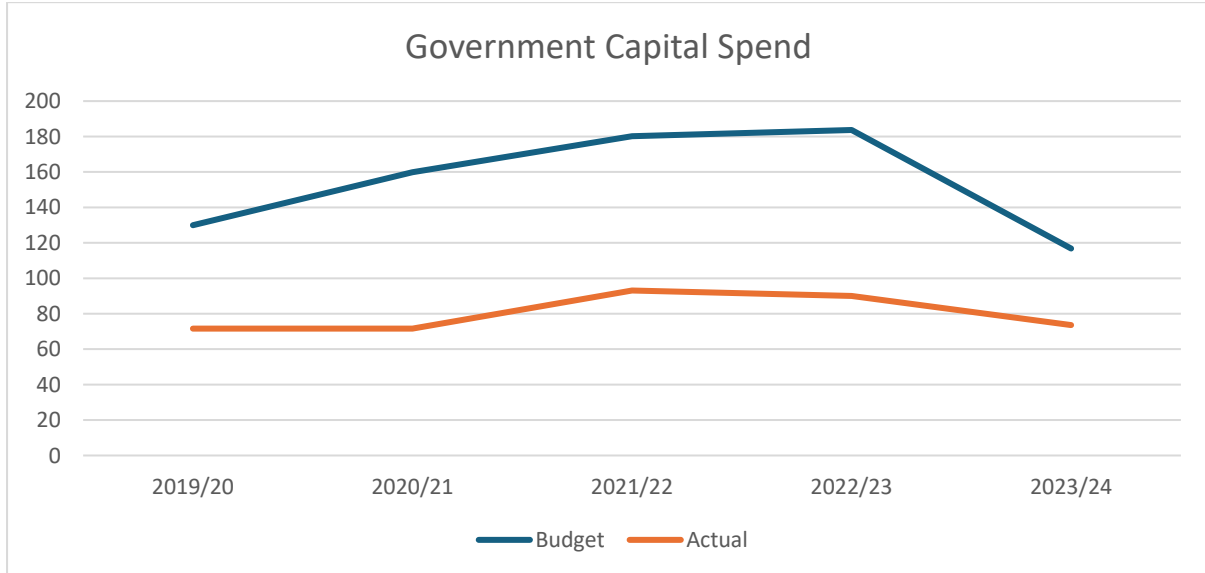


Government Capital Spend

Available data on Government capital expenditure is limited to a total spend over the period, however this provides a distraction rather than informs this paper, as whilst it may represent the total capital spend, it includes costs that do not relate to capital construction projects and includes projects such as Douglas promenade that benefitted a narrow section of the industry and includes considerable off-island expenditure on the Liverpool landing stage that made no contribution to the industry on the island.

It is worth noting that in addition to a significant reduction in overall spend, the effect of considerable inflation during the post-covid period further reduces the real-terms value of the works instructed.

Despite requests for information, no data has been made available regarding contract awards.

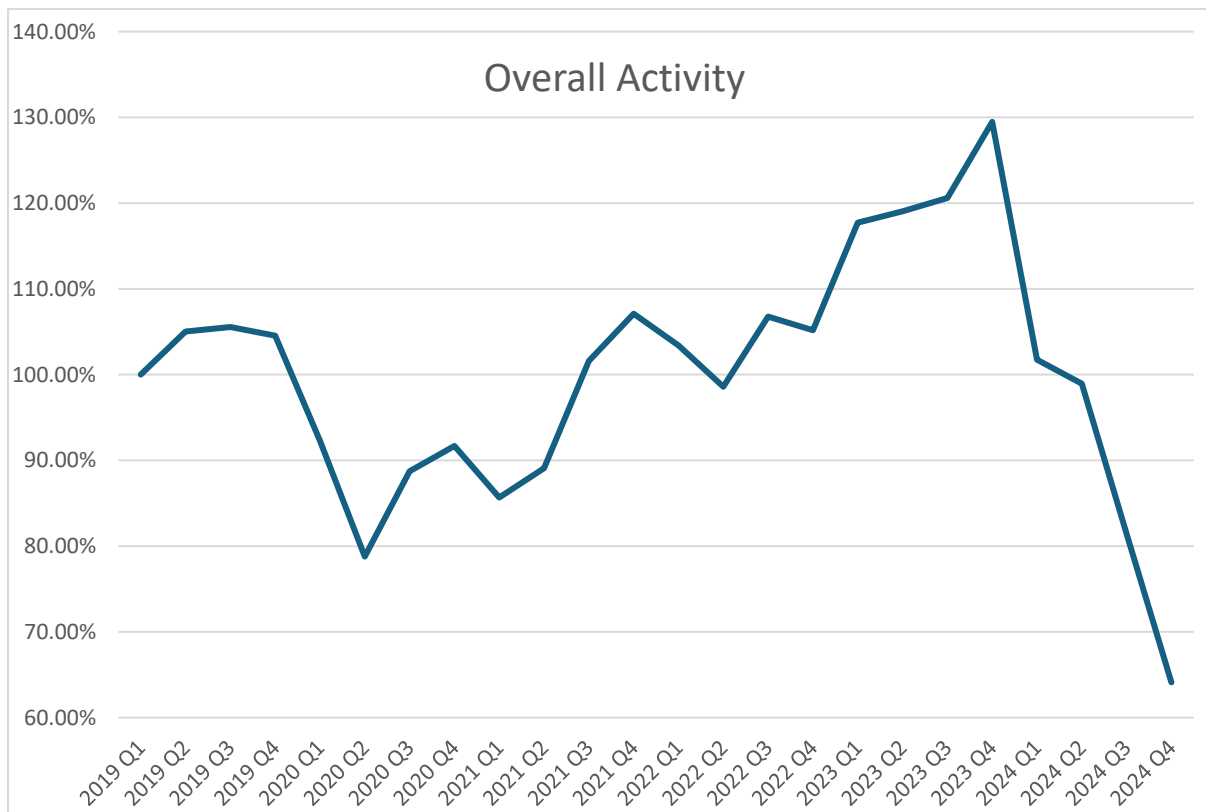




Overall Activity

A summary of all activity across the sector, including consultants, contractors, supply chain, waste management, commodities, construction jobs, building control activity; some of which are not specifically commented upon, but all contribute to the overall health of the sector and are included.

The graph clearly demonstrates a general reduction in output during Covid followed by a period of growth before a sharp and significant decline.





Observations and industry feedback

Impact of Government Procurement Procedures

The Isle of Man's construction industry faces significant challenges due to the limited progression of government-driven projects. Currently, only repairs, maintenance, and utility works are sustaining the sector, with an absence of major capital projects. This stagnation in capital investment not only impacts current workloads but signals a prolonged lag in industry recovery, as architects, engineers and quantity surveyors are not engaged in significant pipeline projects.

The sustained decline in Government capital expenditure on the island over the last five years has weakened local practices ability to handle large government projects. By redirecting significant commissions to UK-based firms, the IOM Government has not only reduced the economic opportunities for local companies but has also inadvertently impacted service quality. This shift limits competition and undermines the development of local expertise, a critical factor for the construction industry's resilience, growth and sustainability.

Compounding this is a procurement approach that prioritizes cost over quality under the guise of a cost-quality matrix. This '*race to the bottom*' results in substandard design information from project teams, escalating out-turn costs, and undermining the capacity to train future professionals due to financial constraints. Further there are examples of unsuccessful and incomplete delivery of services from off-island that can be quoted.

Delayed Government Capital Projects

The industry slowdown is evident in numerous delayed Government projects, which have stalled for up to five years past their initial bid dates. Examples provided by three consultant practices suggest projects with a combined value of over £80m have been instructed only to be put on hold or delayed, which in addition to impacting Consultants' businesses, starves the industry of work and invariably increases project costs.

Practice 1 - Value of capital works delayed/on-hold £25m

- Civil Infrastructure Project (Bid July 2019) – Over a five-year delay to reach only Stage D1.



- Major Capital Project (Bid July 2020) – Four-year delay, stalled at the revised business case stage.
- Major Education Capital Project (Bid April 2021) – Over three years delayed, only reaching Stage D1.
- Civils Infrastructure Project (Bid April 2021) – Over three years delay, now at stage I2
- Civils Infrastructure (Bid October 2022) – Nearly two years delay.
- Local Authority scheme (Bid May 2019) – Over five years delay with no progression.
- Local Authority scheme (Bid April 2022) – Over two years delay with no progression.

Practice 2 - Value of capital works delayed/on-hold £20m+

- Government Project A – Circa £11m (Appointed June 2020) - On hold since: May '22
- Government Project B – Circa £7m (Appointed July '2020) - On hold since: Aug. '21
- Government Project C - Circa £2.5 (Appointed 2012 - On hold since: varies. Latest hold since May '23.

Practice 3 – Value of capital works delayed/on-hold £41m+

- Government Project A - Circa £14m – On hold since 2022
- Government Project B – Circa £4.5m – On hold for circa 18 months, expected to restart – date unknown
- Government Project C – Circa £3m - On hold for 6 months, expected to restart – date unknown.
- Gov Civil Infrastructure Project - Circa £20m- Delayed by Planning Appeal

Over reliance on private-sector projects

It is apparent that there is an over reliance on private sector developments to fill the gap left by the reduction in public sector capital schemes, many of which are at various stages of the planning process and of those that have received planning approval, some now face significant viability challenges as a result of the time taken to get through the planning process, including delays in section 13 agreements, appeals and pre-commencement conditions.

Planning and Regulatory Hurdles

Regulatory hurdles in the planning process have also inflated project costs and timeframes - for example, a condition imposed by the Planning Department that they estimated would



attract a cost of circa £5K ultimately added £250K to the project, deterring contractor bids and jeopardising project viability.

Delays in planning including the time taken by AGC's to draft section 13 agreements, the time taken to discharge conditions, many unnecessarily imposed as pre-commencement, ever-changing building regulations, an inconsistent approach to policy, construction cost inflation and increases in development finance, all impose further financial pressure and challenge the viability of projects. The financial cost of delay can kill a project.

Planning approval being contingent on section 13 agreements being agreed and in place, is a significant burden and unnecessary delay when they can be dealt with concurrently with the discharge of conditions.

Comment: The cumbersome planning process exacerbates delays and costs. Lengthy timescales, bureaucratic hurdles, and costly impositions deter investment and stifle progress.

Broader Economic Pressures

Several economic factors compound these industry-specific challenges, including the recent cost-of-living crisis and tax increases with little time to adapt. These have affected disposable income and increased businesses operational costs. Increases to Personal taxation have added to the cost of living on the island that has further hindered an already challenging environment to recruitment for those roles that remain in demand.

Anticipated Effects

Historically, slowdowns within architectural practices impact contractors approximately two years later. Details supplied by one Consultancy with a turnover decline of 30.73% from 2022-2023 and projections indicating a further 34% drop in 2024-2025, concur that this is already being felt by contractors and a proportionate downward trend will undoubtedly continue. This decline, exacerbated by a decrease in industry confidence, suggests that the entire supply chain will be increasingly affected, reducing the sector's operational capacity to take on future projects should the economy improve in future years.

Strategically, the industry's recovery must account for its unique dynamics. Construction is not an industry that can scale up quickly without significant cost inflation, particularly if multiple projects are launched simultaneously. Effective planning and a steady flow of projects are essential to avoid depleting resources and compromising value for money.



Recommendations and Considerations for Sustainable Recovery

The construction industry requires a measured approach to recovery, as a rapid increase in project flow could lead to sharp price rises and suboptimal value. To ensure a sustainable recovery the following is considered necessary.

- **Strategic Project Phasing:** Release of stalled/delayed projects and introducing new projects and in a phased, predictable manner will stabilize the market and ensure sustainable capacity development, avoiding the cost inflation associated with multiple project launches.
- **Forward view:** Provide clarity to consultants on timescales on stalled/delayed projects. Lack of visibility of future capital spend also sees contractor's order books yo-yo and widely varying tender-returns as procurement cycles rarely balance supply and demand; currently the lack of tenders further encourages unsustainable OHP margins and inadequate preliminary allowances further jeopardising the successful delivery of a project.

This volatility is also a barrier to investment, as companies will only invest in training, employment and equipment if they have the confidence of a forward order book.

- **Stabilise regulation and costs:** Cease imposing further financial burden on the industry, by way of increases to waste disposal levies and consequential costs, royalties on aggregates, employment legislation, changes to taxation, inconsistent application of planning policy and undertake meaningful dialog with the industry before the imposition of further legislation change.
- **Infrastructure upgrade:** It is apparent that the cost of upgrading an aging infrastructure is increasingly being passed to the private sector with MUA's changing policies on the separation of drainage, attenuation and the role-out of the reduction in water pressure; the upgrading of electrical supplies and provisions of sub-stations, DOI's reluctance to accept coal-tar road arisings all attract costs that should be borne by the asset owner/service provider.
- **Reduction of freight costs:** Other than some aggregates and a limited capacity of pre-cast and block manufacture, most construction materials are shipped to the island and typically via the Steam Packet; the cost of shipping is a considerable contributory factor in the 15-20% premium to IOM construction costs in comparison



to UK. This route is critical infrastructure for an island and is supporting a critical sector and charges should reflect that principle.

- **Revise Government Procurement Policies:** Shifting from a lowest-cost procurement approach to one that considers quality and value will improve project outcomes and provide cost certainty, enhancing both client satisfaction and local capacity-building.

Simplifying the financial capital procedures will assist bringing projects to market earlier and avoid some of the inflationary pressures associated with the current protracted procurement periods.

- **Streamline Planning Processes:** Addressing delays, consistency of approach of the compulsory consultees and application of planning policy, and the high-cost of compliance in planning will encourage private sector participation and facilitate a smoother project flow. Reducing these barriers will improve the sector's responsiveness and enhance economic impact.

Despite initial positive dialog with Planning, there appears little evidence of any constructive and tangible change, productive feedback, or the adoption of a pro-development mindset within the department. Consideration should be given to transferring the responsibility for planning to a department more focused on pro-development and economic growth in support of Government strategy, ie Department for Enterprise, whilst retaining DEFA as a statutory consultee and continue their delivery of Building Control.

Reducing time taken in the Attorney General's Chambers to draft section 13 agreements and remove the requirement for it to be agreed pre-approval; a reform of the third-party right of appeal will also significantly reduce the period to planning approval.

- **Reinvest in IOM companies:** Prioritising local architectural, QS and Structural Engineering practices in government projects will help rebuild sector strength and reduce reliance on external firms. This investment will support training, local job creation, and competitive pricing.

Readdress the assumption that large-scale capital projects can only be delivered by off-island designers and contractors. This is a self-perpetuating prophesy, the current environment is not conducive to investment and IOM principal contractors and designers are faced with survival in a vastly fluctuating and volatile cycle, an



effectively managed release of public sector capital projects would provide a foundation for investment.

A revised approach to evaluation and tendering of design works, that sees practices involvement in a 'competition' rather than a solely fee-based evaluation. Off-island awards should provide a demonstrable local benefit, eg a partnering arrangement with a local practice for delivery to enable the development of on-island skills and future capacity.

Additionally, the appointment of off-island companies who are not invested in the IOM, whether through employment, training, apprenticeships and tax revenue, directs capital away from the Isle of Man economy. This approach typically also introduces higher costs and additional commercial risks, challenging the PMU's capacity to effectively manage the contractual and commercial complexities associated with Tier-one off-island contractors.

Low Carbon Heating Scheme: This needs progressing with some urgency as the delay to developing, legislating and rolling out the replacement for the expired Green Living Grant, is already being felt within the industry; companies that have invested and geared-up to deliver against the legislation changes face a significant downturn, as potential clients continue to hold back on committing to purchase.

- **Island Infrastructure Grant:** It is essential that the island infrastructure grant is continued if private sector brownfield development is to be made viable.
- **MDC:** It is apparent that MDC are frustrated in their endeavours to progress projects and Government, often the owner of the assets should provide every assistance to facilitate their development.
- **Public sector assets:** Review the ownership and management of public sector assets, whilst there are currently few capital projects being instructed, the bureaucracy and complicated framework of stakeholders and the approach to delivering a typical Government capital project imposes an unnecessary level of complication, delay and cost.
- **VAT on refurbishment:** Bring refurbishment/construction works on existing separate buildings into the scope of 5% eligible VAT to release domestic projects currently rendered unviable by 20% VAT.



Conclusion

The industry is facing a very challenging economic environment that is seeing long-established businesses across the whole sector (consultants, suppliers, merchants, contractors and tradesmen) downsize or cease trading, and with it a further fragmentation of an essential industry.

There is a real risk that the industry will decline and fragment to the extent that the only way of delivering construction projects of any scale, will require the employment of off-island consultants and contractors that will see a further decline in local providers, profits will leave the island rather than circulate within the Manx Economy; all of which is contrary to the Government's long-term economic and sustainability goals.

If the industry is to be able to deliver against the potential of the private sector projects that are integral in providing the infrastructure outlined in the Islands Economic Strategy, and thereby continue its considerable financial contribution to the IOM economy; it is essential that Government assist in delivering against the recommendations outlined in this paper.

The challenges faced by the IOM construction industry require coordinated, strategic responses. By implementing policy changes that support local expertise, streamline planning processes, and address procurement issues to properly balance quality with cost, the industry can stabilise, and reinvest in its development and growth to provide the sustainable, quality delivery needed for future growth.