

Building for the future

Insights on the latest trends and risks
confronting the construction industry



Introduction

The construction industry has had a challenging and disruptive few years with the coronavirus pandemic, ongoing concerns related to Brexit and trade agreements, the Grenfell Tower tragedy and the Carillion liquidation. Facing these challenges and grappling with a number of transformational trends, from innovative processes and materials to increased digitisation, the industry is facing many new emerging risks, but some opportunities also.

In this Insight Guide, we explore some of the issues and risks confronting the sector today, explore what opportunities are on the horizon, and evaluate the risks that firms will need to navigate along the way.

You'll also find some more support for the construction sector in this guide with webinars, risk reports, articles and eBooks from Marsh Commercial and our colleagues in Marsh.

By bringing together market intelligence and our passion for the construction sector, businesses operating in, and supporting, this sector can really start to build for the future.

We will answer in this guide:

- How the industry dealt, and continues to deal with the **impact of the coronavirus pandemic**.
- The **immediate opportunities** in the sector to help businesses bounce back from the fallout.
- What the major **transformation trends** in the sector are, and how they're set to drive innovative and more productive ways of working.
- How nurturing new skills and capabilities, effective risk management and creating the right culture can lay the **foundations for growth**.



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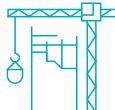
1. Dealing with disruption



The coronavirus impact

The construction industry bounced back quickly following the nationwide lockdown. When it came to re-opening sites, companies were confronted with having to undertake risk assessments, review on-site operations, and implement newly mandated social distancing measures that limit the number of people allowed on-site. All of which has a knock-on effect on productivity and project lead times.

Counting the cost of coronavirus



According to the Office for National Statistics (ONS), **total construction output in the UK fell by a record 40.1% in April 2020.**¹



The fall in **output was driven by a 41.2% decrease in new work and a 38.1% decrease in repair and maintenance** – the largest month-on-month falls recorded since records began.¹



The ONS Business Impact of COVID-19 Survey (BICS) found that **29.1%** of UK construction sector firms surveyed between 23 March and 5 April 2020 had '**temporarily closed or temporarily paused trading.**'²



73% of firms have used the government's Coronavirus Job Retention Scheme (CJRS), introduced in March, to furlough and retain employees during the crisis.³

Looking ahead, those firms that specialised in serving sectors badly impacted by the crisis — like retail or leisure and hospitality — also face the challenge of re-targeting their revenue generation efforts at new markets.

¹ <https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/april2020>

² <https://www.ibisworld.com/industry-insider/coronavirus-insights/shaky-foundations-covid-19-and-the-uk-construction-sector/>

³ <https://www.constructionline.co.uk/insights/news/builduk-covid-19-infographic/>

Practical Guidance on Post Lockdown Strategies — Webcast

Our colleagues in Marsh hosted a special COVID-19 webcast in Q3 of 2020 discussing the key risk challenges that construction businesses are facing. Panelists discussed the Health and Safety legislation, the impact COVID-19 is having on existing construction contracts, key health and wellbeing considerations and mental health and safety. A replay of the webcast is now available to watch here.

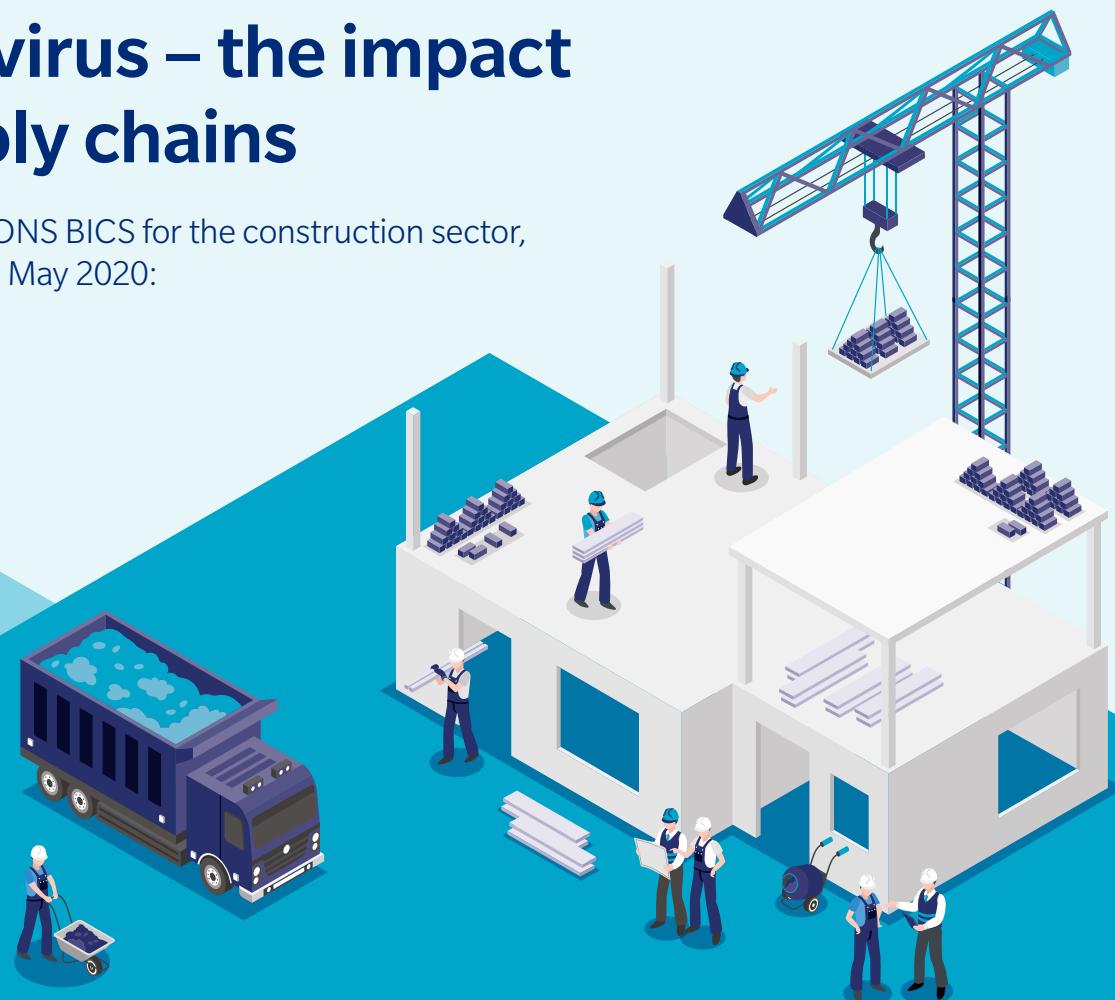
Coping with supply chain challenges

Across the construction industry, concerns about global and European supply chain disruptions were already running high. Overnight, however, the global pandemic resulted in extended lead times for even the most basic construction materials. The prolonged closure of supply merchants combined with problems receiving goods from overseas suppliers, all helped to push up costs. Forcing firms to hunt down alternative suppliers or suspend operations in the face of materials shortages.

As the industry moves towards recovery, firms will need to proactively monitor the resilience of core suppliers and adopt innovative approaches to procurement to ensure potential long-term risks are managed in a transparent and efficient way. That includes reviewing contract clauses to help mitigate short term risk, and moving away from traditional global supply chains to evaluate local partnership opportunities.

Coronavirus – the impact on supply chains

According to the ONS BICS for the construction sector, between 4 and 17 May 2020:



39.1%

were able to get the materials they needed, but had to change suppliers or find alternative solutions⁴

24.5%

of UK construction firms stated that 'prices increased more than normal'⁴

15.3%

of UK construction contractors were unable to source the materials they needed⁴

⁴ <https://www.ibisworld.com/industry-insider/coronavirus-insights/shaky-foundations-covid-19-and-the-uk-construction-sector/>

The rising cost of construction theft

Theft and vandalism costs the UK construction industry millions of pounds worth of losses every year. In addition to the direct cost associated with a crime, the resulting financial penalties – increased insurance premiums and project delays – mean that bolstering security is now a pressing priority for the sector.

The problem was particularly acute during the COVID-19 crisis, with some closed or scaled down sites reporting a 50% increase in theft at the start of the pandemic.⁵

Opportunistic thieves aren't just targeting heavy duty plant or on-site construction materials. Today's tech savvy criminals

are using sophisticated electronic attack tools to circumvent locking systems and perpetrate 'keyless theft' to access or steal commercial vans – and make off with the tools contained within.



Thefts from site rose by **50%** at the start of the COVID-19 pandemic⁵



In 2019, **92%** of all stolen light commercial vehicles (LCVs) were taken without the owners' keys⁶



The **Ford Transit** was the most popular van stolen in 2019⁶

⁵ <https://www.pbctoday.co.uk/news/plant-equipment-supplies-news/plant-theft-covid19/74595/>

⁶ <https://www.commercialfleet.org/news/van-news/2020/04/17/stolen-vans-new-data-shows-scale-and-method#:~:text=The%20Ford%20Transit%20was%20again,million%20pounds%20worth%20of%20recoveries>



Dealing with skills shortages

The coronavirus crisis has only served to exacerbate a long-standing challenge where manpower and skills are concerned.

For years, the UK construction sector has been facing a perfect storm when it comes to addressing a looming skills crisis. This is thanks to an ageing workforce that's set to retire in the next few years, a lack of interest among young people in acquiring the specialist trades skills the industry needs, and the potential post-Brexit loss of up to 165,000 EU nationals currently working in UK construction roles.

Gearing up with the right skills and workforce capacity will be critical if the sector is to take advantage of new opportunities on the horizon. Capitalising on government funded green initiatives and 'Build Back Better' regional and national construction programmes means the sector will need to find the right people and re-skill workforces fast.

Addressing the skills shortage



Engaging with schools and FE colleges – and funding new apprenticeship opportunities for young people who are now actively seeking alternatives to a university occupation.



Promoting the industry to women, highlighting what a career in construction might look like.



Extending recruitment budgets to attract more skilled professionals.



Investing in upskilling the existing workforce and providing access to high quality and relevant training for managers in technical and digital expertise.



The cash flow conundrum

The coronavirus pandemic has had significant repercussions where cash flow is concerned. With many projects delayed, subject to review or cancelled, construction firms are now having to deal with a raft of cash flow issues – thanks to delayed payment schedules, potential contractual issues and heightened operating costs.

Without strong cash reserves and balance sheets, many smaller firms will have been impacted by lenders rejecting their COVID-19 Business Interruption Loan applications. And short term cash flow challenges could impact the ability of businesses of all sizes to keep supply chains intact should clients withhold or delay payments.

Identifying what mitigating actions can be taken to preserve cash in the short and medium term will be a critical first step. As well as undertaking a scenario analysis to test all assumptions and identify potential financing needs.

Interested in learning more?

Our colleagues in Marsh analysed the top construction companies in the UK to discover how they perceive, quantify and manage the risks to their businesses. The results can be found in the Contractor Risk Review 2020 (CRR), the new white paper from Marsh JLT Specialty's Construction, Infrastructure and Surety Practice, which is available for download now.



2. Preparing for the bounce back



Having quickly reopened for business following the nationwide lockdowns, indications are that productivity is recovering faster than expected as sites re-open and projects get back on track. Sustaining a long-term rebound, however, depends on the industry taking full advantage of the immediate opportunities on the horizon.

Top opportunities on the horizon

Going green

The increased need for renewable energy storage and systems in domestic and commercial buildings represents a rich opportunity for the sector. In November 2020, the government extended its £2 billion Green Homes Grant scheme to help households make energy efficiency upgrades. The scheme aims to create new work for accredited tradespeople in green construction, and will support 100,000 jobs.⁷

Build back better

In June 2020, the government committed to a £5 billion programme of capital investment in infrastructure projects. The programme includes £100 million for road network projects, over £1 billion to fund a 10-year school rebuilding programme, £1.5 billion for hospital projects, £142 million for the refurbishment of court buildings and £900 million for local projects – as well as £96 million accelerated investment in town centres and high streets through the Towns Fund.⁸

Strategic regional initiatives

In June, the Mayor of Liverpool announced a five-year £1.4 billion post-COVID recovery plan to boost the region's recovery. Providing an additional 12,000 construction jobs and 9,700 apprenticeships, the scheme's projects include the construction of a new cruise terminal, a major housing development, and a new science and technology innovation centre.⁹

Meanwhile, the West Midlands Combined Authority (WMCA) has unveiled its bespoke Construction Gateway programme, which aims to create 100,000 opportunities for trained workers in the construction industry over the next 10 years.¹⁰

Industrial planning approvals

The huge spike in the value of major industrial planning approvals show a bright future for the industrial construction sector. Planning approvals in the sector grew a massive 168% year on year (YoY), with a total value of £2,863 million. This is largely due to the spike in major projects which have been granted detailed approval. With a total value of £1,639 million, major projects gaining approval saw a huge gain in comparison to last year.¹¹

⁷ <https://www.gov.uk/government/news/green-homes-grant-extended-for-extra-year>

⁸ <https://www.gov.uk/government/news/build-build-build-prime-minister-announces-new-deal-for-britain>

⁹ <https://www.pbctoday.co.uk/news/planning-construction-news/liverpool-post-covid-recovery/78209/>

¹⁰ https://news.ukconstructionweek.com/en/article/90061?utm_source=Mailjet-ukconstructionweek&utm_medium=newsletter&utm_campaign=ukconstructionweek-2536-t-en-250920

¹¹ https://news.ukconstructionweek.com/en/article/90245?utm_source=Mailjet-ukconstructionweek&utm_medium=newsletter&utm_campaign=ukconstructionweek-2555-s-en-290920



3. Getting future fit for growth



The COVID-19 crisis has accelerated a radical shift in the way construction is done, as firms adopt some major transformational trends that are set to drive innovative and more productive ways of working.

The rise of modular construction

Modular construction is seeing a steady rise in the UK, thanks to advancements in Artificial Intelligence (AI) – like Building Information Modelling (BIM) - and improved offsite manufacturing capabilities. Offering developers the benefit of high levels of quality assurance and fast construction speeds, the ability to deliver mass customised buildings and repeatable elements is driving a wider use of these methods and technologies.¹²

Sustainability rises up the policy agenda

Alongside carbon reduction, firms increasingly need to consider the environmental impact of supplies and materials. Similarly, when working on-site, water consumption, dust, noise, and waste will become increasingly critical factors. Last year the UK (UKGBC) Green Building Council launched its Climate Commitment Platform, which represents the building industry's response to climate change and carbon reduction targets.¹³

As well as stimulating raised awareness of the urgent need for change among designers, developers, contractors and investors, there's evidence that support for enhanced sustainability is already translating into public policy. In 2019, the Welsh government announced over £30 million for innovative housing in Wales – part of a £90 million fund to test new approaches to developing sustainable social and affordable housing.¹⁴

¹² <https://www.pbctoday.co.uk/news/modular-construction-news/permanent-modular-construction/71050/>

¹³ <https://www.ukgbc.org/news/ukgbc-launches-climate-commitment-platform-for-built-environment-mobilises-members-for-global-climate-strike/>

¹⁴ <https://gov.wales/new-projects-inspire-social-housing-future-announced>

¹⁵ <https://www.mckinsey.com/~media/McKinsey/Industries/Capital%20Projects%20and%20Infrastructure/Our%20Insights/The%20next%20normal%20in%20construction/The-next-normal-in-construction.pdf>

Get ready to deliver digital

Whether that's implementing the advanced connectivity platforms that make it easy to engage in collaborative contracting and digital project scheduling. This will enable firms to deliver projects faster, to a higher quality, and at a lower cost.

Or harnessing innovations like Building Information Modelling (BIM) or exciting new developments in smart and sustainable building materials. All of which make it possible to simplify engineering processes, minimise construction errors and delays, and enable a new era of highly sustainable buildings that require minimal external energy input.

Prepare for greater specialisation

The move to a more 'industrialised model' will see firms increasingly focused in target niches and segments (luxury single-family housing, multi-storey residential buildings, hospitals, schools) where they can build true competitive advantage. As a result, they will specialise in using different materials or methods of construction and will work in partnership with other collaborative contractors and specialists. For some, the focus for revenue generation will shift from the initial project to capturing long-tail additional opportunities like maintenance and facilities management.¹⁵



4. Sustaining the opportunities



Capitalising on both the short and longer term opportunities on the horizon depends on taking steps to lay the foundations for growth – nurturing new skills and capabilities, effective risk management and creating a culture that supports the long-term change vision.

People

Training the workforce in appropriate environment and sustainability practices and communicating the future overall strategy of the business will enable firms to execute their business strategy effectively – and minimise the risk of potential compliance breaches.

Similarly, providing senior management with the skills they'll need to focus on health and safety issues will be mission critical. Alongside creating targets for accident-free workplaces, supported by a zero-tolerance approach to unsafe practices, firms will need to assure subcontractors comply with a relevant safety scheme in procurement (SSIP). And finally employee health and benefits packages may also need to be re-visited as part of a future-proofed people strategy. Failure to attract high-quality employees could affect the ability to win or perform contracts, grow a business, and meet objectives. High staff turnover could also undermine market confidence. Moreover, a non-inclusive environment could result in cases of discrimination and harassment, resulting in reduced employee engagement and productivity, and reputational damage.

Data governance and cyber security

Construction's growing reliance on digital technologies means that hazards like cybercrime and GDPR non-compliance now represent a growing risk. Strengthening endpoint protection and data back up procedures is just the start. Alongside ensuring they can withstand a cyber-attack, prevent service failures, and recover systems promptly, staff will need training on data protection, cyber security and the importance of preserving the data of suppliers, customers and employees.

Preserving financial security

A lack of financial robustness could result in defaults, an inability to compete for long-term contracts, or to win work. In these difficult times, managing liquidity and financial liabilities will be vitally important. It will be critical, for example, to accurately profile new opportunities to ensure they meet profit expectations. Similarly, monitoring key areas like overdue work in progress, debtors or retentions will help keep trading results and balance sheets in good order.

Mitigating risk

No one can predict the future. But taking a strategic approach to risk management can help mitigate damage to relationships with clients and supply chains – and minimise potential financial losses.



Behind the scenes backing you to succeed with refreshingly human advice and support.

If you wish to discuss any of the topics in this insights guide, please contact your Marsh Commercial adviser, or get in touch with an expert near you by visiting:

marshcommercial.co.uk/for-business/construction

Say hello to helpful.



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