



# THE IMPLICATIONS OF COVID19 FOR THE UK CONSTRUCTION INDUSTRY

## LGA Construction Conference

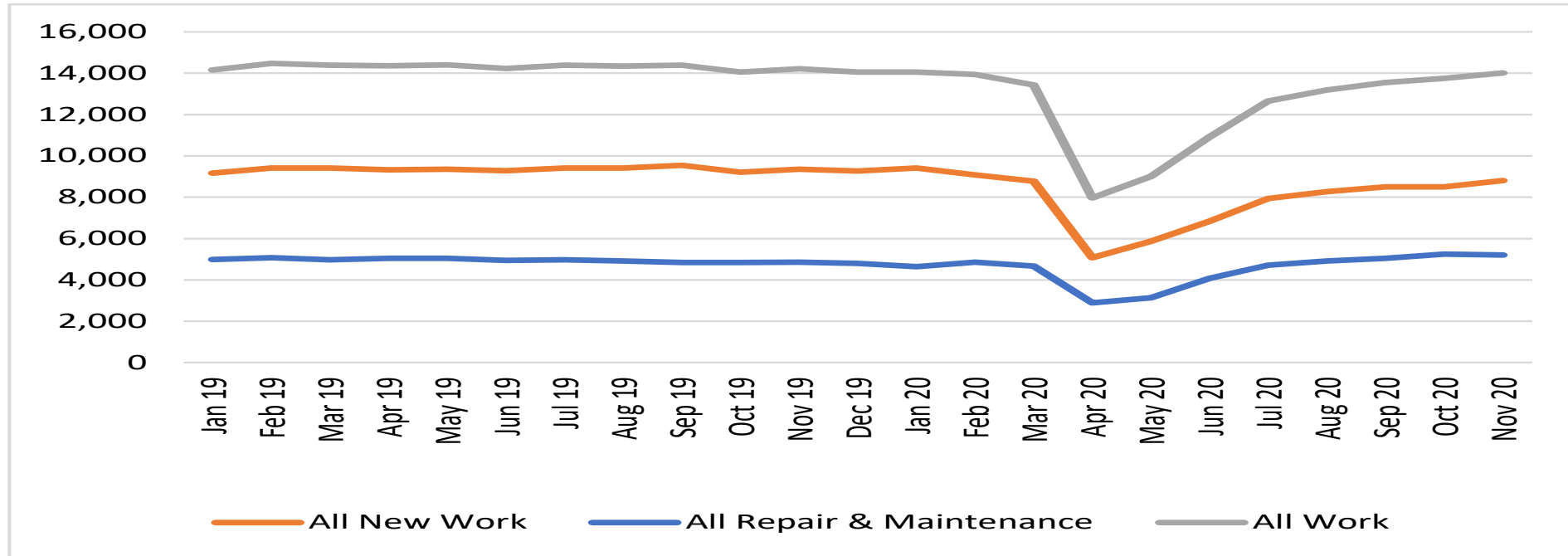
4 February 2021





# Covid19 had a significant impact on construction contracting output

Trends in construction output in Great Britain: Volume Seasonally Adjusted (£millions)



- All Construction Output fell by 41% between March and April 2020 as a result of the 1<sup>st</sup> lockdown.
- The year-on-year growth for between Nov 2019 and Nov 2020 was: All New Work (-6.0%), All R&M (7.3%), All Work in Total (-1.4%).
- Growth in output between Oct and Nov 2020 was: All New Work (3.5%), All R&M (-0.6%), All Work in Total (1.9%).



## Covid19 had a significant impact on the industry, but it has recovered relatively well in Q3-4 2020

Monthly index, January 2020 until November 2020, January 2020 = 100



Source: Office for National Statistics - GDP monthly estimate

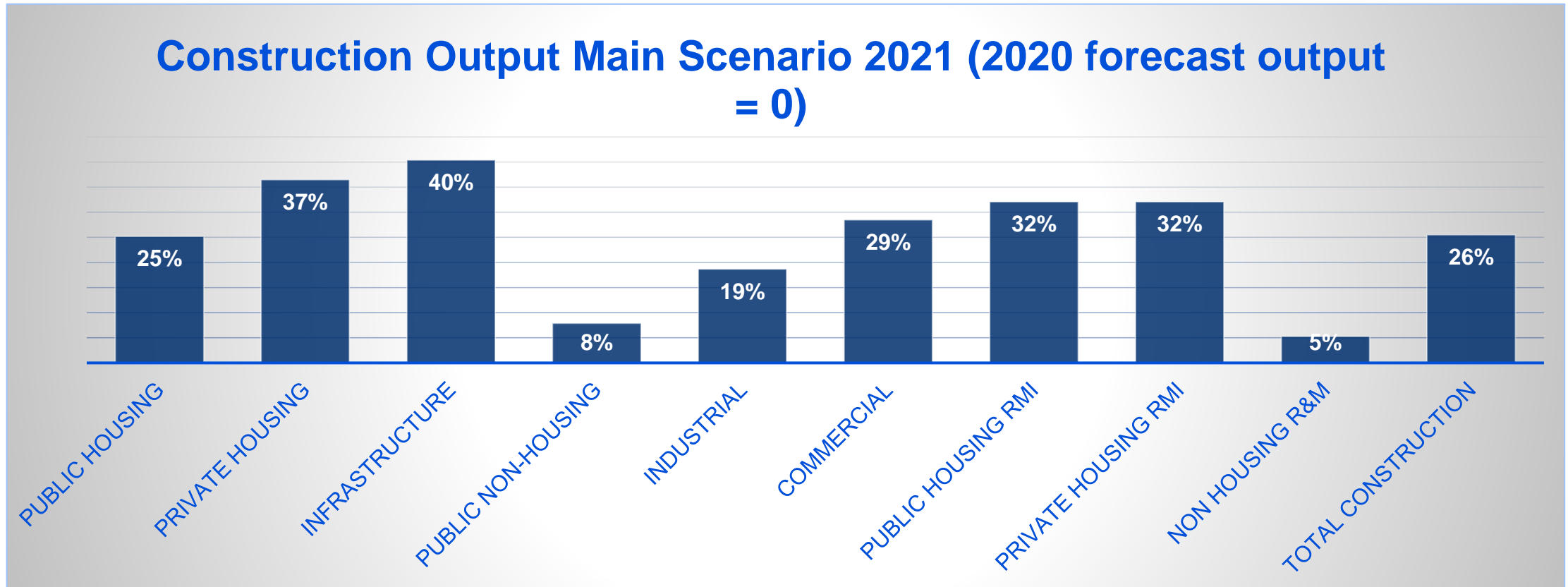
### The second half of 2020 saw a a strong recovery:

- Monthly construction output in Great Britain grew by a **record 23.5% in June 2020 to £10,140m.**
- **November construction output grew by 1.9% month-on-month, which translated into the sector exceeding its pre-Covid-19 levels (February) by 0.6%.** This was the 7<sup>th</sup> consecutive month of growth.
- Firms now report that they are achieving **90-95%** of pre-Covid output on sites even with Covid-secure procedures applied.



## Growth in all subsectors is forecast for 2021

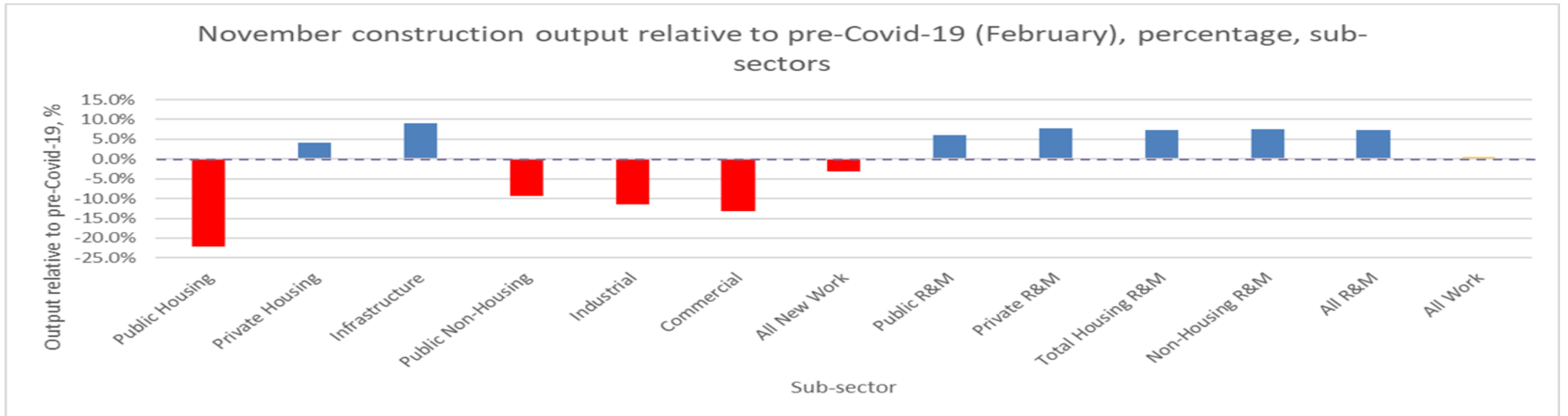
- The Construction Products Association predict construction **monthly** output would return to pre-covid19 levels<sup>1</sup> in late 2021 under the scenarios of main ( V-shaped) and W-shaped recovery.





## However, there are risks for the sector; growth is not balanced and is dependent on a small number of subsectors

- Most of November's growth was due to a 3.5% increase in new work, which was mainly driven by infrastructure growth of 9.6% month-on-month.
- Repair and maintenance (R&M) declining by -0.6% since October, which could be due to household behaviour changing, in response to the pandemic worsening and lockdown restrictions.
- New housing is likely to be influenced by changes to the Help to Buy Scheme from April 2021.
- Longer term risks of skills and labour shortages as a result of leaving the EU.



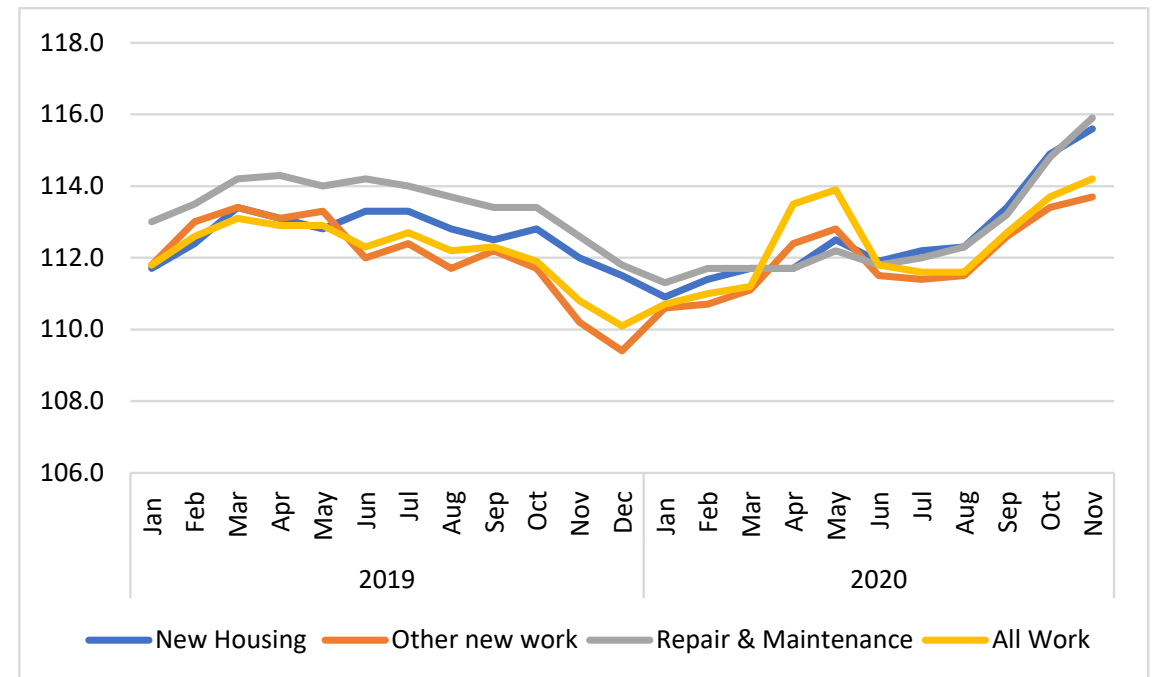
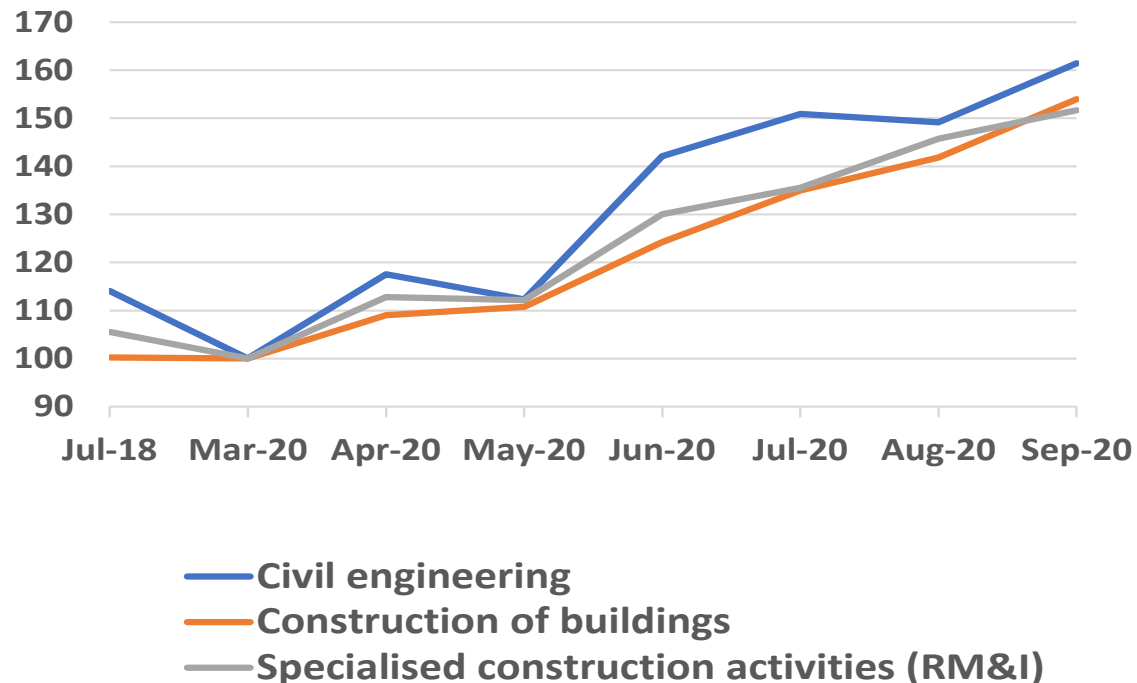


## Firms in the sector head into 2021 in a weak financial position. Since Mar 2020, the number of distressed firms in civil engineering has increased by 60%. Material prices have also increased, and further inflation is expected

- Financially **distressed firms** are defined as those with DWS of 1-5 corresponding to 20%-45% of probability of failing in the next six-month period.

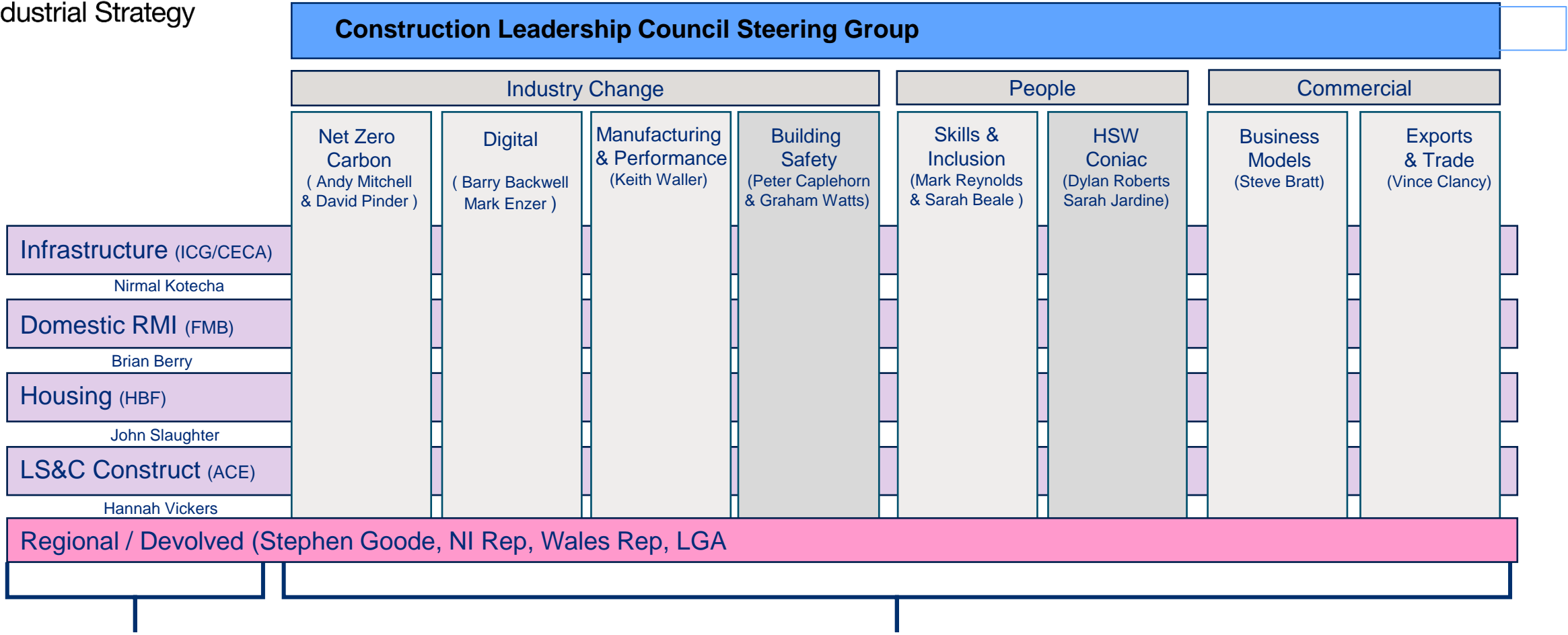
- Prices of construction materials for New Housing, Other New Work and R&M have continuously risen since August 2020.
- In November, the material price index for 'All Work' increased by 2.3% on a year ago.
- In the sub-sectors, the biggest annual increase in Nov was found in R&M (3.5%), followed by New Housing (3.0%) and Other New Work (2.1%).

### Change in numbers of distressed firms (DWS 1-5) by subsector, 2020 Mar=100





# The Construction Leadership Council has established a Task Force to coordinate the industry response



**IRP Working Groups** (industry led to interpret / implement workstreams for each sub-sector)




**CLC Workstreams** & Liaison with endorsement of Industry initiatives ('specifiers')





# The Task Force has developed the *Roadmap to Recovery*, and worked with Government to implement a range of initiatives

## THE PLAN

PHASE	ACTIONS
 <b>RESTART</b> (1-3 MONTHS)	1. <b>Restart work</b> on all projects and programmes, and increase this to the highest level possible consistent with Government guidance.
	2. <b>Maximise employment</b> of all of those working in the construction industry and supply chain.
	3. <b>Minimise disruption</b> due to contractual disputes.
 <b>RESET</b> (3-12 MONTHS)	1. <b>Demand and pipeline</b> - demand and supply-side measures to increase workload across infrastructure, construction, housing and domestic new build and RMI. Develop a robust pipeline of work across the whole construction eco-system, including contracting, SMEs, merchants and manufacturers.
	2. <b>Productivity</b> - new approaches will be needed to compensate for the loss of productivity due to the requirement to implement Government guidelines across construction and the built environment.
	3. <b>Professionalism</b> - investing in training, collaborative business models, fairer contracts and payment.
 <b>REINVENT</b> (12+ MONTHS)	1. <b>Transformation</b> - sustain economic growth through the adoption of digital and manufacturing technologies to consistently deliver low carbon, sustainable and better quality outputs and outcomes.
	2. <b>Value</b> - adopting procurement models and approaches across the industry and clients to deliver better value and whole life performance.
	3. <b>Partnership</b> - stronger partnerships between the industry and its clients, supply chain firms, and investment in upskilling the workforce.

- The Government has announced an accelerated pipeline of **340 projects worth up to £37bn** from the National Infrastructure and Construction Pipeline, including investment in transport infrastructure, schools and local growth projects.
- The CLC has published the **Site Operating Procedures** to help construction sites operate safely, as well as other guidance including **Branch Operating Procedures** for merchants and suppliers. CITB produced a range of Covid-19 safety checklists and forms and toolkits, published on the CLC website.
- The construction industry and Government have developed the **Construction Playbook**, to develop a more consistent approach to the procurement and management of government construction projects.
- The **Green Homes Grant** will invest £2 billion of grants to support households to improve energy efficiency, as well as a £1 billion investment in retrofit projects to improve the energy efficiency of public sector buildings such as schools and hospitals.
- The **Talent Retention Scheme (TRS)** provides a portal for the construction workforce to showcase their experience, expertise and skills to firms recruiting staff.
- Two sets of **contractual best practice guidance** have been issued by the Government and the CLC, with some progress in resolving contractual issues before these escalate.