



Industry leaders' views on COVID-19 recovery

Following a long period of lockdown and restrictions on construction projects throughout New Zealand due to the COVID-19 pandemic, Trade Leader approached three industry leaders to get their opinion on how the sector will cope with the impact the restrictions have had.

Malcolm Fleming (CEO, NZ Institute of Building), Julien Leys (Executive Director, Construction Strategy Group), Graham Burke (Chair, Construction Industry Council) all have their views on how the industry is currently managing, as well as what can be done to ensure the future of the sector.

Unsurprisingly, the trio agree that COVID-19 has had a major impact in all areas and that the flow-on effect will be significant and, potentially, quite long lasting.

"The COVID-19 crisis, lockdown under Level 4 and working within the limitations of Level 3 will have an impact on all businesses within

the sector and there will be some less resilient businesses which will not make it," Mr Burke says. "Government is assisting with the wage subsidy and loans for cashflow, but businesses will need a good understanding of their position and a sound business plan.

Mr Leys says COVID-19 has had a serious adverse effect on the building and construction sector and that the pandemic will place huge pressure on liquidity because the sector has never been as profitable and productive as it should be.

"Even with the Government's Wage Subsidy scheme, many construction companies are struggling with cashflow and many may become insolvent within the next few months," he says. "Many construction companies will make workers redundant once the Wage Subsidy scheme ends in June and then more once cashflow dries up.

"Most construction and building companies are 10 employees or less and many have a project pipeline that has shrunk dramatically."

Mr Fleming adds that those who were working on a site prior to the



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CEO, NZ Institute of Building



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lockdown, had the certainty of having a project to go back to once sites were able to open at level 3. The uncertainty for business owners and employees alike, he says, is whether there is a project to follow the one that is currently under construction.

“This is naturally creating some anxiety for the construction industry,” he says.

“Given that there are signals from the private sector that projects will be put on hold as a result of COVID-19, whether that be: access to funding has been withdrawn (as it is reported to have occurred with non-bank lenders), or demand for the end product has disappeared, or that property owners with commercial portfolios have lost rent or tenants as a result of the pandemic. “Any combination of those factors makes it difficult for private sector clients to realise projects that they were planning prior to COVID-19.”

WHAT DOES THE GOVERNMENT NEED TO DO?

The role of Government has also come under scrutiny as well and Mr Burke says the Government can play its part by bringing forward infrastructure, housing and civil amenity projects, even though he admits the sector cannot survive on these alone.

“There has been a backlog of work building up for several years; the next year or two will be a great opportunity for consumers to complete projects with less restrictions from skills shortages and associated delays.”

Signals from the Government that they will bring projects to market “at speed” will play a role in offsetting some of the drop-off in private sector projects, Mr Fleming says, adding that approximately 2,000 ‘shovel-ready’ projects have been submitted for the Government’s

consideration. However Mr Leys says ‘shovel-ready’ only focusses on a small section of the industry.

“Most of the 250,000 construction workers in the industry are employed in the vertical, commercial and residential sectors,” he says. “Shovel ready projects and public infrastructure only make up 20% of the sector. The Government has deferred the vertical, commercial and residential sectors to the Construction Accord and its pipeline but this does not address the need for hammer ready projects.

“Many of the big construction companies will downsize and potentially may go into receivership if they do not get a level of confidence from Government and ability to participate in “hammer-ready” projects whether in defence, health or education sectors.

But Mr Fleming comments that, along with horizontal infrastructure projects, there will be some vertical build projects, primarily in the health and education sectors.

“The government is also looking at its own housing portfolio, with programmes to retrofit that stock now well advanced.

“There is a general view that if you are a contractor or consultant who has government work coming through, you are feeling a lot more optimistic than those whose forward workload is reliant on private sector clients. As New Zealand entered COVID-19 alert level 2, there was a high level of pessimism across the industry. That has now changed quite a lot with the industry buoyed by how proactive we have been as a sector in working with the government, and together.”

He said the Construction Sector Accord has played a major role in that positivity and has proven to be incredibly valuable with the representation from both government and industry working together.

“The message is very clear that the government understands how important the construction sector is to the New Zealand economy.”

Mr Burke agrees about the value of the Accord and says we have been very fortunate to have it in place prior to the COVID-19 crisis.

"The CSA has been the interface between the industry and government, with direct access to senior officials and ministers. This has enabled the government to quickly receive feedback from industry through industry organisations and the CSA," he says

"The CSA has also been able to quickly assemble groups to work on issues such as the health and safety protocols for working under Level 3 and advice on how to interpret the contractual effects caused by Level 3 and 4. The Construction Industry Council has several members on the Accord Steering Group and the Accord COVID-19 Response Group, this has enabled us to provide two way feedback to members and keep them updated with the latest information."

WHAT HAPPENS NEXT?

"The industry is concentrating on getting back to work at present and completing projects that are underway," Mr Buke says "We are yet to see what the full effects of the COVID-19 crisis will be, but know we are in for a bumpy ride. It is crucial we learn from previous events such as the '87 crash and the GFC to ensure we don't repeat the same mistakes. Both those events led to a "race to the bottom" with contractors working at cost or less to win work, huge issues with workmanship and loss of skill to the industry, with resulting issues which are still hurting us today."

He says businesses need to ensure they understand their costs and price work according to the risks involved and that the sector must also ensure we retain its current skill base and if possible, grow it in preparation for the recovery which must follow.

Mr Fleming: "From a business owner's point of view, and as an industry, we need to look at how to adjust to the current climate and approach business. While balance sheets are likely to have been shrinking, we need to look at how to maximise margins going forward so we can replenish those balance sheets and have the ability to invest in R&D and become a stronger industry"

He says the key part of this going forward is ensuring that we don't succumb as an industry to a low fee environment because there will be those clients out there who will be looking to cut prices, but that isn't sustainable.

"I expect to see companies within the construction industry take a step-change in the way they adopt and implement technology as a driver to greater levels of productivity. 'Needs must' drives innovation, under level 3 we have been unable to take the traditional approach of getting as many workers onto a site as possible to perform tasks. With the distancing restrictions, companies have

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had to adapt to alternative approaches to achieving the same outcomes, a lot of that has been more efficient and will stick."

He says that working smarter and utilising a greater uptake on the technologies that are already available, and that will be quickly be coming on stream, will lift productivity, that will in turn, aid profitability.

"The industry needs to do both to build a greater level of resilience at both a company and an industry level going forward."

Mr Leys says the building and construction sector has the opportunity to make far reaching changes presented by COVID-19.

"This will be to accelerate some of the reforms identified by the Construction Accord such as improved management of risk, a greater focus on whole of life of the built environment including fair and transparent procurement"

He says the building and construction sector are a powerhouse for the New Zealand economy, contributing \$42 billion to the economy and employing 10% of the workforce.

"It should not be subject to 'boom and bust' cycles but a consistent major contributor to improving New Zealand quality of life and economic wellbeing"

"One final thought is that the construction industry needs to work collaboratively to instill consumer confidence," Mr Fleming says. "Yes, property values are likely to fall in the short-term, though for those who take a longer term view to the property market, it's a great time to be considering a building project, as the industry now has capacity to get to work designing and/or delivering a building project in the short-term, rather than the medium-term horizon line that existed before COVID-19."

