

Construction sector

Insight report



Foreword

Although 2020 has to be marked down as a truly tough and troubling year on so many levels, the construction sector has proven that it's commercially robust enough to endure in its core form, and that it could also rise to some of the critical challenges thrown down by COVID-19 ways of working.

Perhaps what 2020 has also proven is that the industry has long been wise to its own developmental challenges, but that it sometimes takes exceptional circumstances to empower individuals en masse as an industry to surmount the traditional contractual boundaries, and natural commercial risk aversion on incredibly tight margins, that may have limited the pace of progress in the past.

With the publication of the Construction Playbook, which echoes many of the best practice sentiments set down in the 2016 Modernise or Die, Farmer Report, and even the Egan and Latham reviews of the 80s and 90s, some may be saying that it's simply a case of 'here we go again'. But attending recent industry events, it's been inspiring to listen to contributors sharing examples of real change, improvement and modernisation, that have been given new momentum and a 'cost blind' licence to plough through, due to COVID-19.

They described how genuine collaborations delivered transformations, from major projects developing new ways of working (to offset COVID-19 delays) that will cut years off delivery timetables, to building conversions like our

Nightingale Hospitals being completed in only nine days. Greater use of digital, and more creative applications of offsite and modular driven by COVID-19 proximity restrictions on site, have all helped the sector accelerate the pace of change.

But for this change to endure, and remain commercially feasible, our survey respondents show a need for recognition that this added value approach comes at a cost. One that can be surmounted at moments of national emergency, because the industry knows what can and needs to be done, but one that can only be hard-baked into a real modernisation programme if the sector can be judged on quality and value, not lowest price, and given longer time visible pipelines and commitments to give the commercial certainty needed to fund further innovation and change. Then we really could 'build back better'.



Caroline Romback
Director of Construction

Key findings

Over a two-month period at the end of 2020 and early 2021 we invited feedback from over 200 contractors from a wide range of organisations, to provide an opportunity for reflection on lessons learned, and to support contractors in 2021 with a shared understanding of where they have landed after such a unique time. Here are the key findings from our research.



Cost concern outweighs COVID-19



Lack of early engagement and procurement limits innovation to offset risk



Impact of COVID-19 not all negative



Positive opportunities to support modernisation momentum from 2020



Balance of risk still with the contractor



Sustainability the biggest driver for 2021

Methodology

Our new Construction Sector Insight Report takes stock of sentiment and commercial perspectives after a unique and incredibly challenging 2020. Over a two-month period we invited feedback from the sector to provide an opportunity for reflection on lessons learned and to support contractors in 2021 with an understanding of where they have landed after such a challenging time.

“We are always expected to add value, and in particular social value to a project. I don’t think some clients fully realise the implications, such as x number of hours of apprenticeships. There is a cost implication to all of this.”

Who responded – over 200 contractors from a range of organisations, from SMEs to major contractors, with the majority describing their work as national/working nationwide. We asked them a series of questions on their views of the market, the impact of COVID-19 and the other key pressures and opportunities that they are facing in 2021.

“Bidding work costs the industry millions and billions of pounds a year, I’m not sure clients always realise this. So if it costed us nothing to bid work, we’d have great profit and our bid prices would be less.”

Shortly after the survey launched, the Government introduced its new Construction Playbook, highlighting many parallels between the challenges and obligations outlined by the sector in this survey, and the heightened expectations of the Government as a major client. In this report we show a sector that fully recognises this modernising agenda but sets it against an enduring pressure from clients to drive down cost.

“Improving the procurement process will play a large part in setting the tone for any construction project. This is where the drive for quality and the required safety outcomes, rather than lowest cost, must start.”

Construction Playbook

Section 1

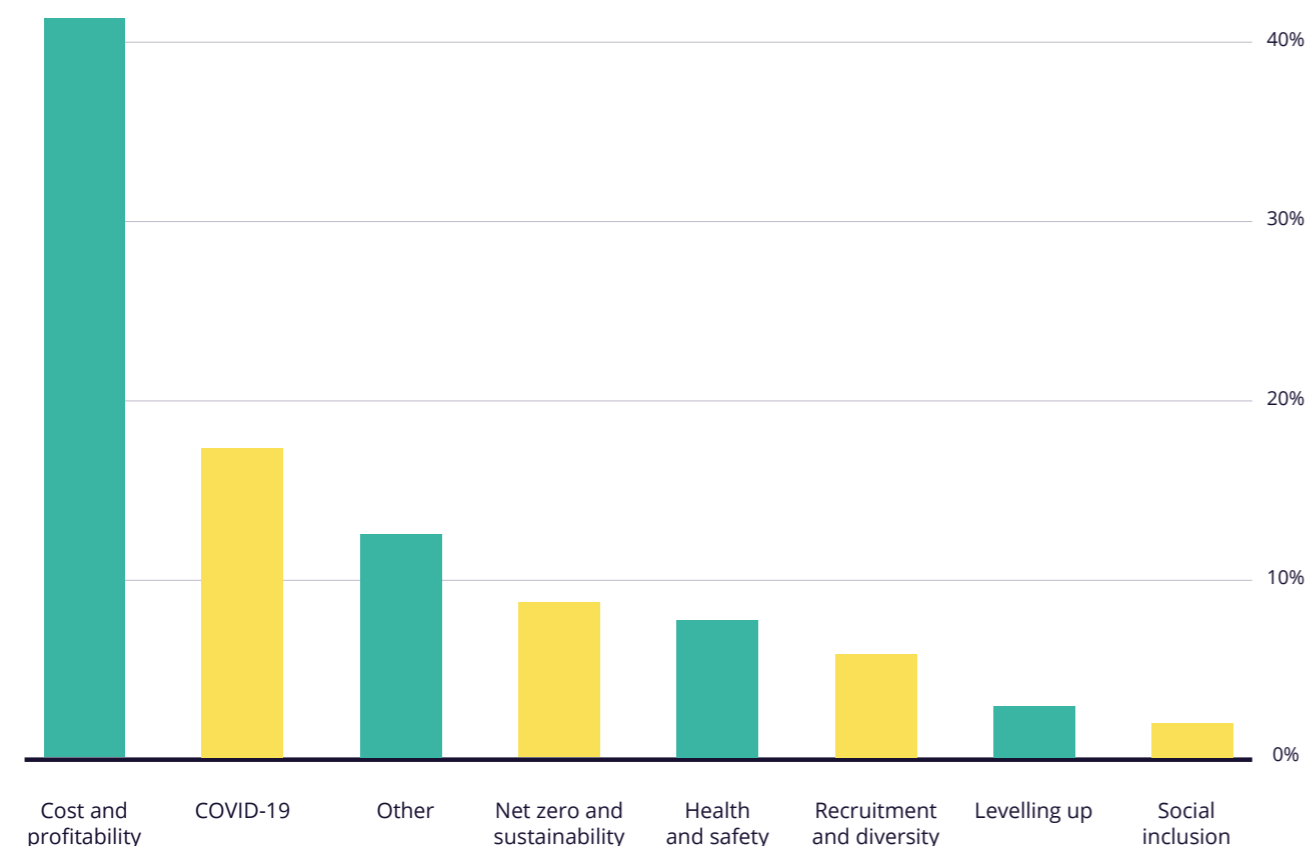
Reflections



Reflections after a challenging year

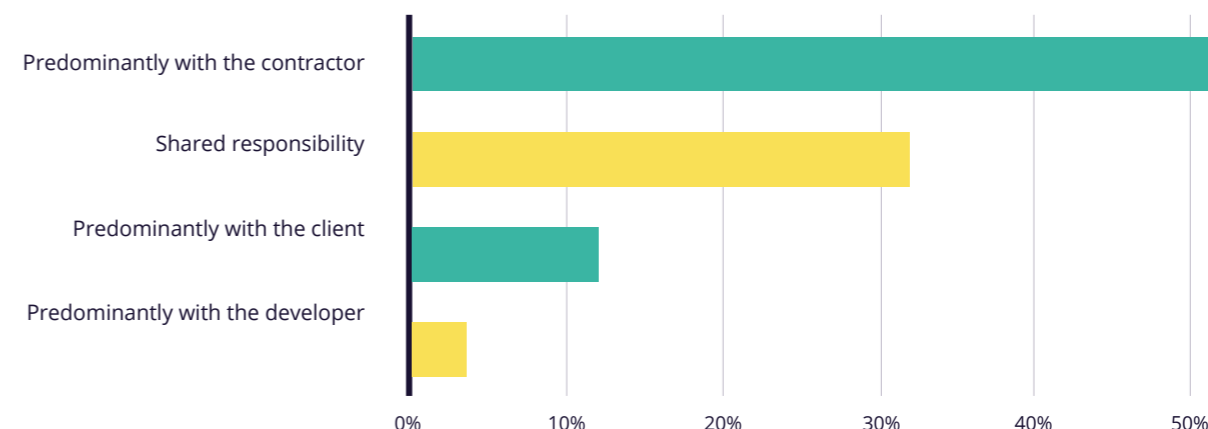
What is the main pressure on your organisation?

Respondents highlight the pressures of delivering programme obligations from social value delivery and sustainability to offsite and modern methods of construction on very tight margins as cost remains the biggest industry pressure (42%), even during a pandemic, with the next nearest pressure being COVID-19 at only c20%.



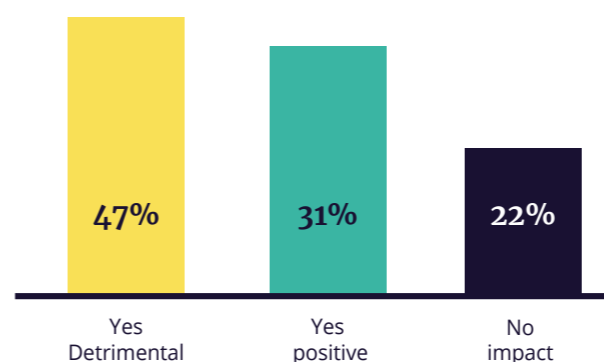
Where do you feel the balance of risk is in the industry now?

Contractors also explain that they feel risk still remains predominantly with them (c50%), potentially a reflection of the growing number of wider programme responsibilities that they are expected to deliver, over and above the build, while around 1/3 do feel it is now shared, hopefully signposting a direction of travel for the sector in 2021 as genuine collaboration increases.



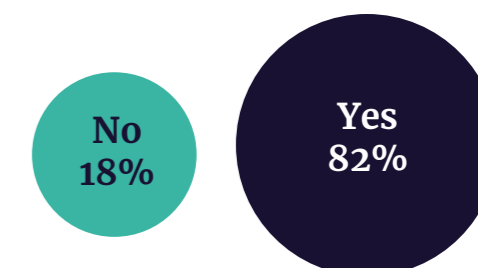
Has COVID-19 had a lasting impact on your organisation?

Although the sector has obviously been hard hit by the pandemic, respondents recounted mixed experiences, with some saying they have gained during this period 31%, while others confirm a negative impact 47% or are neutral 22%.



Do procurement processes force contractors to deliver to programme and cost constraints, rather than encourage genuine innovation?

Contractors also point to the enduring challenge of cost and programme pressures continuing to limit their scope for innovation, with 82% of respondents agreeing.



Section 2

Programme needs and obligations

Respondents highlighted a full range of primary obligations, the biggest being social value delivery, followed by environmental management/mitigation, then communications & stakeholder engagement and under 'other', modern methods of construction/offsite and digitalisation.

And these core programme needs are here to stay as social value delivery, environmental management/mitigation, communications & stakeholder engagement, modern methods of construction/offsite and digitalisation, as well as EDI, are all seen as growing trends for the next five to ten years for the sector too.

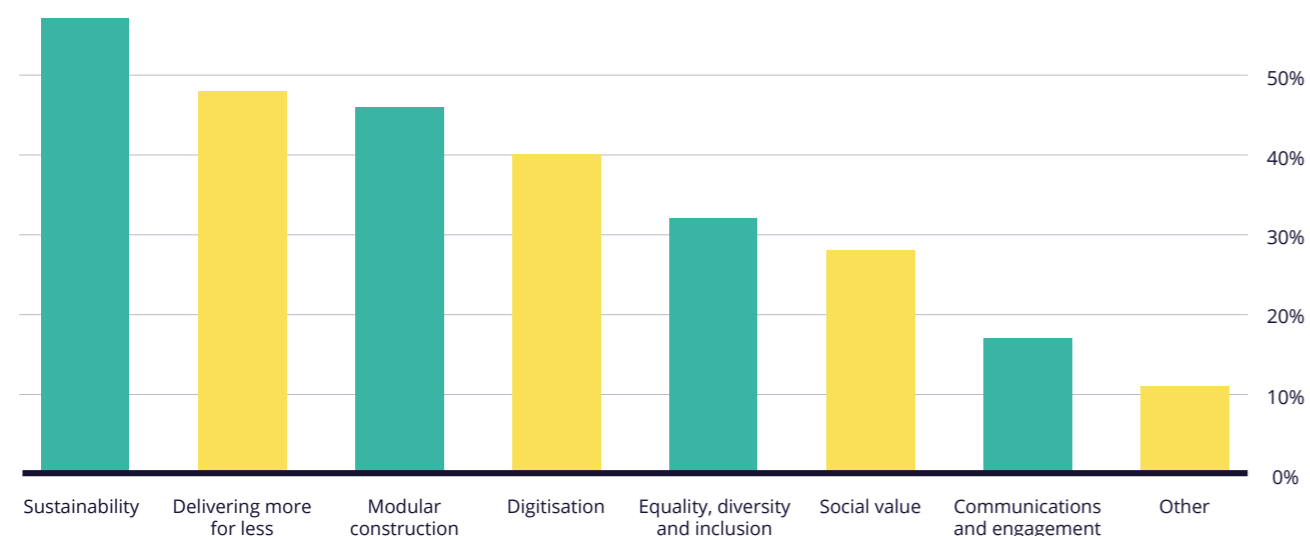
This is echoed by the new [Construction Playbook](#), which also outlines these modernisation drivers as key reciprocal expectations in return for a substantive and visible pipeline of work from

Government and its departments, by way of its major National Infrastructure Strategy and £100bn spend, and other key programmes.

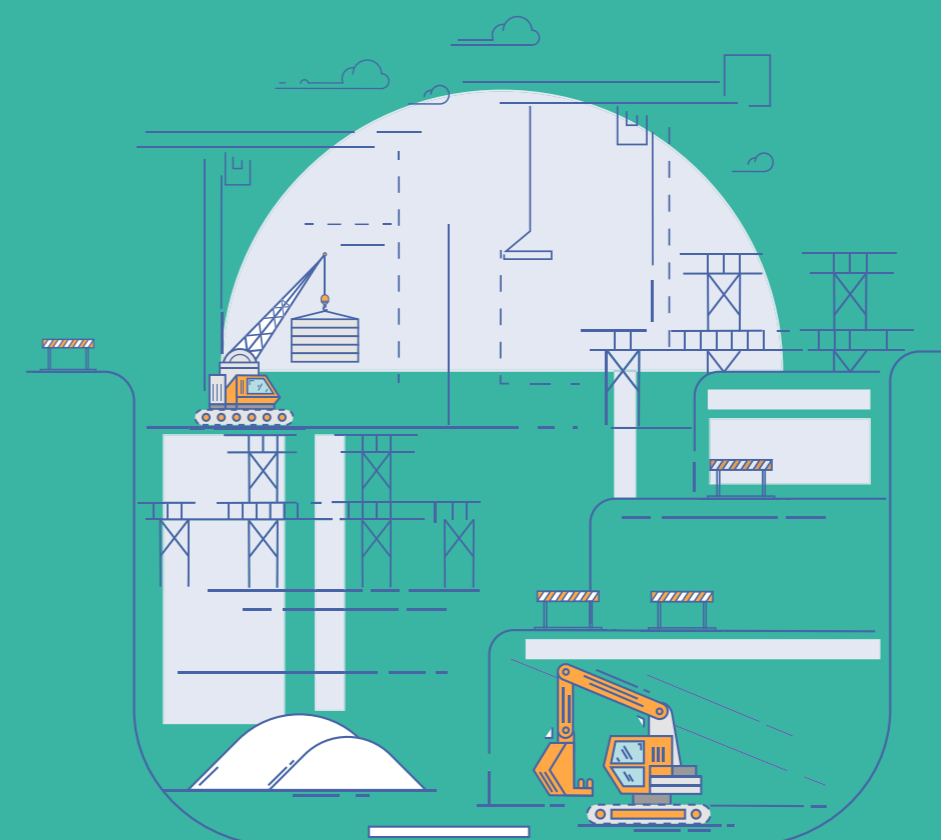
So although the headline is investment in order to restore the economy under the banner 'building back better', it could also be argued that the Government is using its buying power to drive forward a slightly more covert change agenda.

As our respondent quotes show, this modernisation is not unwelcome or unrecognised. Many contractors are keen to embed best practice more fully, and do drive innovations, but the cost to fully deploy these programmes, over and above the day job of engineering and building, needs to be reflected in the costing of projects, so that quality becomes the marker of value on a project, not price.

What do you think the key trends for the industry will be over the next 5–10 years?



Views on individual obligations



Sustainability

Here respondents share their views on the individual obligations that make up an expanded delivery programme for contractors on most substantial projects, but increasingly on smaller scale developments too. And top of the list from our respondents, not that surprisingly given wider societal concern, was sustainability.

Over half of respondents (57%) saw sustainability as the construction industry's key obligation over the next decade, echoed by a wide range of Government initiatives from the new Ten Point Plan for a Green Industrial Revolution to the new Energy White Paper and our leading role in hosting COP26 in November 2021.

Increasing awareness around sustainability and environmental mitigation is no doubt linked to the urgency of the climate crisis, and the growing advocacy surrounding the issue. Sustainability and environmentalism were not thought of as pressing issues as little as 10 years ago. However, growing awareness regarding the dire consequences of climate change have now filtered through to the construction industry in the form of new expectations.

“It is clear that the built environment produces a significant proportion of the UK’s greenhouse gas emissions and therefore industry has a key role to play in making buildings more energy efficient and reducing their carbon footprint, in order to meet the Government’s target to eradicate the country’s net contribution to climate change by 2050.”

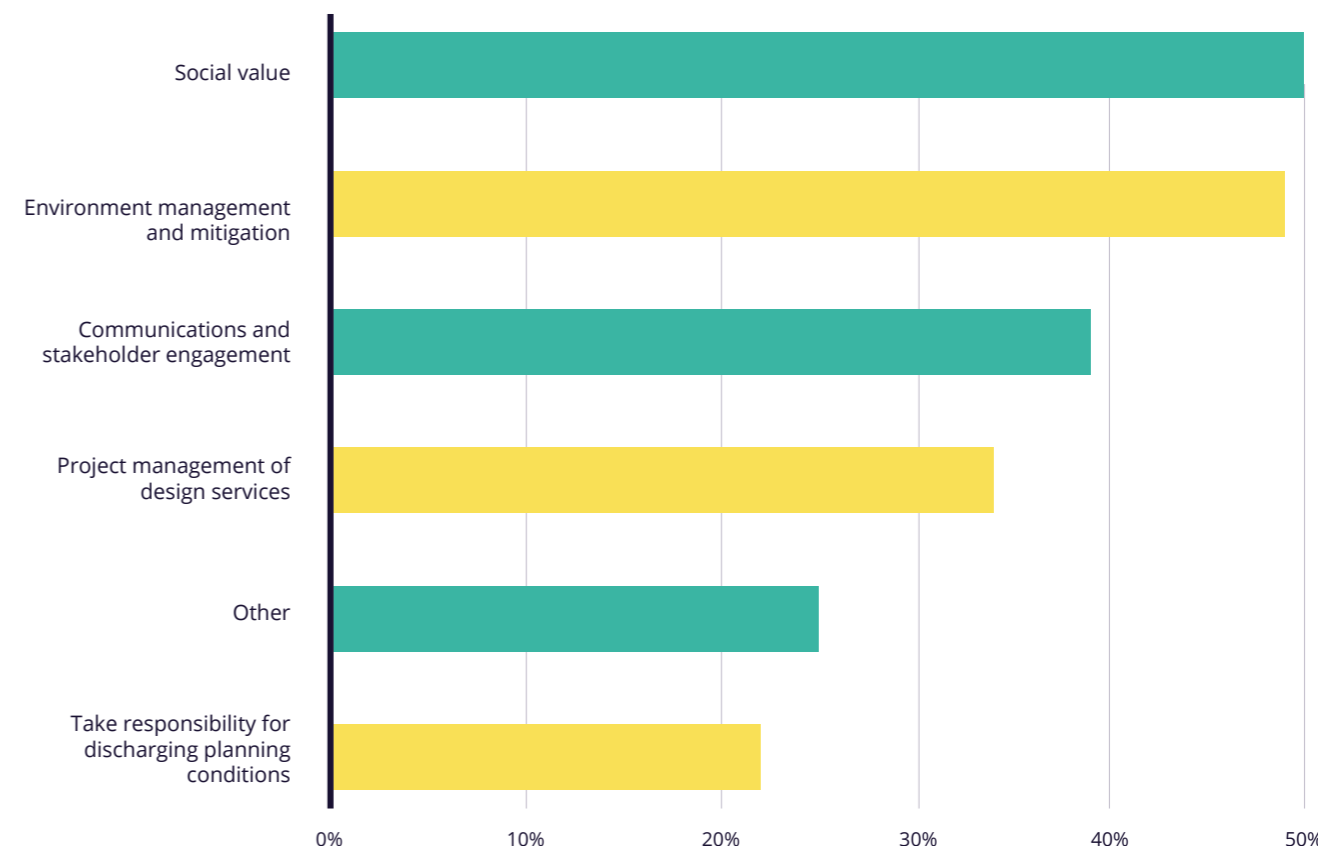
Government review of Modern Methods of Construction, 2017-2019.

“Clients’ need for environmental mitigation and sustainability commitments are likely to remain at pre-pandemic levels. Pressure moving forward will be shifted towards the need to demonstrate value for public funds along these lines, as well as demonstrating productivity.”

When asked what was now expected of them which was not previously, 50% of contractors pointed to environment management and mitigation. Environment management and mitigation came neck and neck with social value, further demonstrating the changes in terms of what is expected of the construction industry.

“I think the things clients wanted pre-COVID-19 haven’t changed, like environmental positions.”

What are contractors expected to do now that they were not expected to do previously?



Social Value Delivery

For nearly a decade now, organisations seeking to win public sector contracts have had to commit to delivering social value (Public Services Social Value Act 2012) as part of their project programme. And that legal obligation is reflected in respondents' views, as 47% point to a current and ongoing need to deliver social value as part of a project build programme.

In the new Construction Playbook (November 2020) the Government now drive home the importance that they place on social value as a key by product of the build programme, giving it a new 10% weighting in contract award criteria, to ensure that the process of building generates a proportion of benefit realisation, not just the completed development.

Whilst this clear indication should signify a departure away from lowest price bidding, echoed by other recent reforms to the Green Book to broaden the definition of value, there remains a concern in industry that cost is ultimately the deciding factor in the tender process.

Regardless of how the cost of delivery is addressed, social value and the tender process now go hand in hand. We also know that where the public sector leads, the private sector often follows, and with a strong and growing agenda from investors for Ethical, Social, Governance (ESG) assured activity, it may not be that long before social value becomes a universal obligation.

“Promoting social value will help local communities recover from COVID-19, tackle economic inequality, promote equal opportunities and improve wellbeing.”

Construction Playbook

“COVID-19 will force our industry to ramp up responses to social value. We need to be teaching people within the construction industry about the environment and wider social issues.”

Contractors have become familiar with using apprenticeships, local employment opportunities, school outreach, volunteer time banks for their employees and supply chain and donations of resources and materials, in whatever form they felt best, to meet that obligation.

But now, with a clear desire to use their substantial spend in the built environment to support COVID-19 recovery and 'build back better', the Government has escalated their focus on social value delivery. With the launch of a new Procurement Policy Note 06/20 (September 2020), they have defined a new Social Value Model, with five core themes to ensure all organisations structure their social value contribution in the same way, to maximise targeted benefits.

“Social value is a real big one that's come to the fore recently and we're finding it in bids now. We did a bid recently where 40% was your price, 40% was your quality and 20% of the overall assessment of the tender was social value.”

The model award criteria (MAC) specifies expected deliverable activity for each of the model themes, which then needs a supporting method statement for how you will deliver your MAC obligations and a timeline and project plan. This increases the complexity, reduces the potential flexibility and adds more work to the already growing task list of contractors trying to get projects built.

“We need to look at community engagement roles as being almost as important as an engineer – part time or daily. Communities need to be spoken with in languages they understand. We need these roles to be created.”

Over time this methodology will become familiar and less resource intense, but to start with this will add yet more to an ever growing list of contractor obligations.

Modern methods of construction

MMC, such as digitalisation, modular methods and offsite construction, are viewed by Government and articulated in the Playbook as being key to the modernisation of the construction sector. And many contractors agree that it is a logical and very necessary evolution, often being honest and critical of the sector that they work in.

And their honest self-reflection is echoed in data, with a recent index from McKinsey ranking construction as one of the least digitalised industries, above only agriculture. For an industry that accounts for 6% of the national economy and hires as many as 8% of the entire UK workforce, the lack of digitalisation and uptake of these modern innovations may seem surprising.

But if you come back to the context of cost, which on extremely tight margins becomes key, it is less cut and dried when looking at offsite and modular, as well as digitalisation. If theoretically it costs £5,000 to employ a trade to build a garage on a housing development, but £10,000 to manufacture offsite, and you are limited by the value gained from volume production, by the pace of the build programme on the development and how many garages you can install, you can understand why a lack of change is not about luddite resistance, but a much more fundamental overhaul of process, while the existing process still works.

“Whilst technical software and innovations such as BIM, the use of drones, and offsite construction are certainly becoming more commonplace, the construction sector remains one of the least digitalised industries.”

However if we don't look at approaches like MMC as blanket solutions but apply them where appropriate, we may well see more rapid adoption. The Government's new schools programme could provide an ideal platform for offsite and modular delivery, as designs can be standardised and packages of schools delivered by one contracting team to give an ability to mass produce at a viable cost and a quicker pace of delivery.

Almost half of respondents point to an increasing obligation to deliver MMC and digitalisation - 45% of respondents mentioned modular construction, and 41% said digitalisation

“The Government have been looking at delivering modular, asking the question is it cheaper? It's not cheaper but it's quicker”

“We have tried it with a hotel scheme which was all factory ready, we did one and it went live within 24 hours of completion. But the project didn't make us money, the cost of the modules was too great with not enough orders.”



Recent research shows that among the top 100 contractors, the average profit margin was just 1.5%.... Lower profit margins mean less money for investment in digital innovation, which in turn harms productivity. The UK government estimates that this productivity slump could be costing the industry as much as £15bn a year.

Early Contractor Involvement (ECI)

Given the wide range of added value obligations placed on contractors, as outlined earlier on in this report, we wanted to understand if contractors were being given adequate opportunities to work with their clients more closely at an earlier stage. To collaborate on an added value programme and for important project benefits like being able to inform a workable design, bring insight to cost and risk modelling and other wider mutual benefits of earlier involvement.

Respondents were, however, largely unanimous in agreement about the fact that they are still not engaged early enough, with 82% saying they are not, given that early engagement opportunities can support the planning and design development stages.

When set out contractually, Early Contractor Involvement (ECI) provides a structure that involves an integrated contractor and design team appointed under an incentivised, two-stage contract. The sooner a contractor can be involved in any project, the higher the potential benefits of ECI. Through this process the contractor can contribute during the design phases and work to deliver more innovative solutions, a better and more insightful cost model, more accurate project timescales and a secure supply chain ready to deploy on site.

“Early conversations and engagement are incredibly important. They allow the deliverability and feasibility of the scheme to be considered, revisions to be made at an early enough stage and better outcomes for the project can be realised.”

The ECI concept has been championed by a range of Government bodies, some with substantial build programmes like Highways England. In their Project Control Framework (PCF), Highways England and the Department for Transport outline how they manage and deliver road projects that meet the needs of communities, cost effectively and efficiently from start to finish, by bringing contractors into stage 5 of the PCF, enabling them to inform design and programme development.

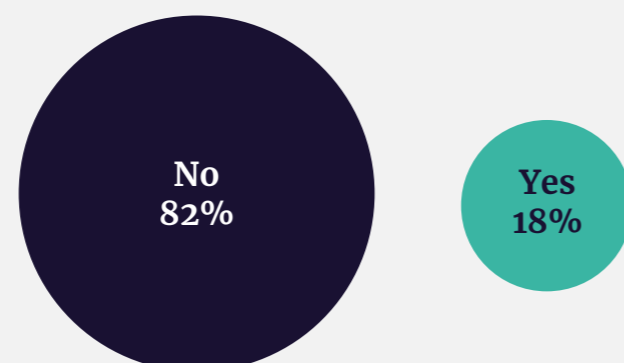
“Engaging early with the supply chain and developing clear, appropriate outcome-based specifications are critical factors in achieving timely and cost-effective delivery.”

Encouragingly, the value of an early engagement approach is echoed in the new Construction Industry Playbook, which also recognises the importance of Early Supply Chain Involvement (ESI), which comes as a potential ripple benefit of ECI. It also recognises the importance of long-term visibility of projects in a procurement pipeline to give the sector confidence to invest and engage. It will be key to see how some of these Government commitments to an exemplar approach as a model client translate into their new programmes, as this should set the benchmark from which a wider ripple of change could follow.

“Investing time in ESI can lead to more effective designs, reducing changes and potential cost increases downstream. This results in faster delivery when construction starts.”

Construction Playbook

Are contractors brought in early enough to help design and planning processes?



Conclusions and recommendations

Over 2020 the construction sector has not only proven that it is resilient and commercially driven, and decades, if not centuries, of risk management have given a tremendous grounding in how to endure arduous market conditions, but it has also proven that it is capable of substantive leaps in modernisation, when cost is no longer the sole driver.

With the introduction of the Construction Industry Playbook, the Government has an incredible opportunity to help to deliver a modernisation programme on the back of 2020 momentum. However, this will only work if there is a genuine equation of give and take, rather than the only 'give' being a programme of work, without cost pressures and unrealistic expectations being addressed. This would do little more than hold the sector to ransom, if it perpetuates a race to the bottom on cost, whilst reeling off a shopping list of programme obligations.

Mechanisms like early contractor involvement and engagement could be used to better model design and cost, to generate savings that could then underpin the funding of those wider obligations. It would also reinforce aspirations to share long-term visible pipelines of major projects by way of early engagement dialogues.

And with earlier engagement for the main contractor also comes the opportunity to pass this benefit down the supply chain in ESI. If our survey respondents are correct, the wide range of modernisation obligations built into projects are here to stay, and joint ventures and major contractors can play a strong role in sharing best practice, upskilling the supply chain and helping that modernisation agenda to ripple through the wider sector. A more insightful, rather than blanket approach to the shopping list could also help.

A tailored approach to mandating Modern Methods of Construction (MMC) in sectors like housing and education, where standardised design can make good use of offsite manufacturing methods, could be preferable, rather than a forced adoption across all markets. Forcing full adoption without time and funding to support the innovations needed to make MMC commercially viable risks bringing further cost pressures and a race to the bottom on those wider programme obligations like sustainability and social value delivery.

While times are still incredibly tough, the sector has demonstrated confidence and has entered 2021 on the front foot. If we can continue to collaborate and learn from 2020, we have the opportunity to deliver lasting change and modernisation for the benefit of all.

About Copper

A strategic consultancy partner with more than 25 years of experience providing communications and stakeholder engagement for highly complex economic and social infrastructure, and major projects across the UK.

We specialise in delivering campaigns that build acceptance and excitement around the world of infrastructure development and construction. Communicating complex concepts, often in challenging political, social and environmental situations, we enable projects to gain consensus and to take shape.

At Copper we are purely focussed on the built environment, and our practice structure echoes that of the project lifecycle. This enables us to provide support at every stage from outline development and master planning stages, to securing engagement and support at the Development Consent Order (DCO) and Town and Country Planning Act (TCPA) planning stages, to fulfilling those engagement commitments and communications best practice at the construction and commissioning phase of the project.

This seamless end to end offering gives us the ability to transfer knowledge from each stage to the benefit of the client, the contractor and the communities and stakeholders affected by the project. And we value our role as part of the wider team, coming together with clients, consultants and contractors, sharing insights, expertise and experience in great collaborations to deliver highly successful projects.

But we also appreciate the challenges of tight margins, complex and changing programmes, the need to model risk and use it to inform the commitments/KPIs made on a project, through to well informed mitigation strategies to manage those risks and avoid delivery disruption, increased costs and reputational damage.

So we pride ourselves on being your complete construction delivery partner, and we look forward to working with you...

An example range of Copper services

- Corporate and B2B communications
- Stakeholder engagement, including perception studies and reports
- Community relations
- Social Value Delivery and legacy management
- Bid support
- Messaging and narrative building
- Public affairs
- Reputation management
- Copywriting
- Media relations
- Crisis and issues management
- Social media strategy
- Event management
- Graphic and web design



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