



Building for Success – restoring New Zealand’s construction sector

Construction has a key role to play in the recovery to rebuild New Zealand's economy both through direct contribution and providing infrastructure and facilities to support economic activity and growth. The sector represents 6% of GDP, employs almost 10% of the labour force, and research has indicated that for every dollar invested in construction, economic activity in excess of \$2.50 is generated.

Prior to COVID-19 events, plans and initiatives to transform the sector and address past challenges were already underway. With the impact of the pandemic, and the associated lockdown, new challenges have also arisen.

In this paper we outline some of the pathway choices facing the industry and how it can respond to set participants up for a sustainable and prosperous future.

What we're seeing



Pipeline Certainty

There is a high priority need to establish pipeline volume, consistency and confidence. Pre COVID-19 there were supply constraints (including regulatory) and this will require ongoing attention.

The public sector has a significant role to play, with infrastructure, education, housing and health being key areas of opportunity to stimulate activity. The first Government initiative, infrastructure 'shovel-ready' projects, can assist in remobilising the sector, providing pipeline opportunities and instilling confidence.



Project timelines

In the short-medium term there will be extended construction timeframes due to adjustment of workers and programmes to the new operating and economic environment, including associated negotiations in respect of contractual frameworks.

Lags between planning and building are at risk of extension and will flow on into 2021, with a key driver being anticipated difficulties in terms of project feasibility and associated funding issues.



Working capital

Initiatives are needed to ease working capital pressures resulting from both the lockdown period and ongoing project delays/extended time frames. The key objective is to facilitate remobilisation and ensure the supply chain has the capacity to support activity levels which will be a significant contributor to wider economic recovery.



Industry response

A continued focus on positive change activities such as those set out in the Construction Accord Transformation Plan is needed, including proactive industry driven initiatives. Examples of activities in progress prior to COVID-19 include contractor risk management upskilling and development of the "good" construction company assessment programme.



Collaboration

The impact of the pandemic has highlighted the already recognised need for increased emphasis on all project stakeholders working together to achieve "best for project" outcomes, including consideration of alternative contracting frameworks to support greater collaboration.

Improving the performance of construction companies

The observations outlined above demonstrate some of the ongoing challenges faced by the sector.

Before the impact of COVID-19, PwC had commenced work with the Registered Master Builders Association (RMBA) to develop a “good” construction company assessment programme, with an initial focus on the vertical sector. In light of the current issues the sector faces, this framework is more important than ever to assist businesses in identifying areas that require development, support and focus.

The purpose of a programme of this nature is to:

- Build trust by restoring and improving stakeholder confidence in the sector’s ability to deliver;
- Increase business skills and capability through the provision of relevant resources to create healthy and sustainable organisations;
- Shift contracting behaviour to an outcome, not process driven focus;
- Promote consistency and understanding of key drivers of success; and
- Improve workforce development and retention.

In order to build capability and performance levels, construction organisations need to assess themselves, and be assessed, on a broader basis, not just financially. Financial outcomes are not primarily self driven, rather they tend to be the result of core business capabilities. The framework developed alongside RMBA reflects PwC’s existing approach to assessing capability, capacity and viability of a business, with three pillars: Financial, Operational and Commercial.

Financial measures are designed to assess the ability of a company to operate profitably and with adequate asset/equity backing both now and into the future. Financial measures can include the following:

- Position (equity, debt, balance sheet strength/capacity, working capital)
- Performance (trends, profitability, working capital)
- Liquidity (creditor/debtor positions, cash reserves, claims management)
- Facilities (finance and bonding).

Operational measures look at how a company is managing its projects, risk and stakeholders. Operational measures can include the following:

- Portfolio and project management (customer and supply chain relationships, risk register, track record, KPI monitoring, client concentration, operating model, pricing, reporting/programme management)
- Capacity (staffing, pipeline, concentration)
- Personnel (retention, development, wellness, culture).

Commercial measures focus on the structure and compliance attributes of a company. Commercial measures can include the following:

- Corporate responsibility (health & safety, environmental, tax compliance)
- Infrastructure (corporate structure and tenure, insurances, credit rating, systems framework)
- Governance and management (strategic planning & forecasting, governance, organisation reporting)
- Retentions (active management, CCA compliance).

How PwC can help

Deep sector experience

In-depth understanding of the challenges facing the construction sector and the importance of its success to the wider economy.

Strong relevant relationships

Well established relationships and experience working with representatives of key stakeholder groups in the sector.

Data and analytics

Leading-practice data analytics and visualisation capabilities, ensuring our outputs are fit for purpose and can be used easily and effectively to add value.

Collaborative approach and commitment

Focused, partnership approach based on our core principles of trust, independence and challenging insight, with specialist teams tailored to specific client needs.

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