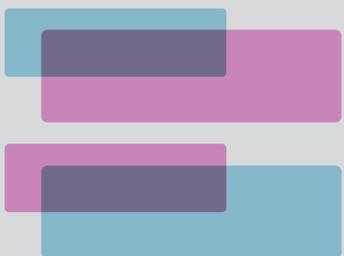


7

CHALLENGES FACED

BY CONSTRUCTION BUSINESSES



TOTAL
ACCOUNTING





INTRODUCTION

Construction is a very diverse industry and is one of the largest in the world. In the UK alone the industry accounts for billions of pounds every year.

The world could not function without the key work of those working in the industry and you could argue that the work completed impacts on each of us, every day. For example, by providing jobs not only for site workers but also the wider supply chain such as architects, designers and even the accountants supporting the businesses. Also consider the buildings where you work, learn, shop and live, all would not exist if it wasn't for the construction industry.

The roles within the industry are very varied and require a range of skills, qualifications and interests. On a construction site it is common to find skilled workers and non-skilled workers, but also management, designers, surveyors, estimators and many more representing various roles.

There are three main sectors within the industry (ref. Government Construction Strategy):

- Commercial and social
- Residential
- Infrastructure

Statistics show that approximately a quarter of construction output is public sector and three-quarters is private sector, with 60% of construction output related to new build, whilst 40% is maintenance and refurbishment of existing.

The industry can be broken down into three main areas:

- Contracting
- Services
- Products

In any industry, problems are inevitable and whether you are a main contractor or a subcontractor, you will face common issues. Here are 7 common challenges faced by our clients and connected businesses in the industry.



1

LABOUR SHORTAGE

Of course, labour is an essential resource for any business within the construction industry but the number of workers in the industry is critically low, to the point where some companies are unable to meet the high demand.

The 2019 State of the Trade Survey by the Federation of Master Builders highlighted that 40% of construction businesses were experiencing their highest shortage of skills since 2013, despite the UK's unemployment levels being at their lowest for many years.

Some of the considered factors impacting on this shortage in the construction industry are retiring workers, a lack of skills and a low interest from younger generations.

Let's look at these three areas specifically.

Low Interest From Younger Generations

It is a worrying fact that an extremely low percentage of school children are interested in going into the construction industry, especially considering the high demand for new workers.

Possibly the main reason for this lack of interest is the common stereotype that the industry has for young people, perhaps supported by some education providers. Is it perceived that the construction industry is simply building things, outdoors, in muddy boots and hard hats? If this is the case, then you can perhaps see why other industries are more appealing! The industry perception of minimal career advancement opportunities and low pay levels are also likely to impact the career choices of young people, when compared to other jobs.

There seems a lack of awareness that if someone is good at mathematics, science, art or most subjects, then there is in fact a role for them in the construction industry.

The Health and Safety 'red tape' does not make it easy to introduce teenagers to the industry, but with an innovative and safe approach, every construction business can contribute to raising the awareness of the varied roles in the industry with young people.

There certainly needs to be a greater focus on construction roles within education. Many careers events have moved away from such traditional skills and seem to be highlighting roles such as science and technology. It is perhaps felt that education providers want their students to strive for other careers and the related academic results. Although it is good to see the Department of Education's benchmark criteria for schools, looking to address this, perhaps as an industry all construction businesses need to come together, lobby and get involved with their local education providers.

As early as possible in a young person's education journey, together businesses need to increase the awareness of construction as a positive career option, by getting more involved with schools and creating relationships with the education providers and their students. Perhaps via engagement programmes, career fair involvement, work experience placements, career talks or site tours. All activity to break down the perceptions and barriers, whilst enthusing the young people to join the industry, when they become school leaver age.

Retirement

For the above reason, then the industry is getting older! In the construction industry, the total of workers over age 60 has increased more than any other age group. Each year, an already low resourced industry feels the impact of those workers retiring, although fewer than ever are perhaps not fully retiring on their official retirement age, due to factors such as affordability and companionship.

For the first time in the UK, there are more people of a pensionable age than children under sixteen (2020). A changing demographic that the Government describes in its Lifetime Homes, Lifetime Neighbourhood Strategy as the biggest challenge of the 21st century

It is widely commented that one of reasons for the high level of retirement today is the impact of the growth in construction workers after the war, during the 'baby boomer' years (those born between 1946 and 1964).

Many in the industry are aware of this ageing workforce, but few are reflecting the needs of the changing population in their projects.

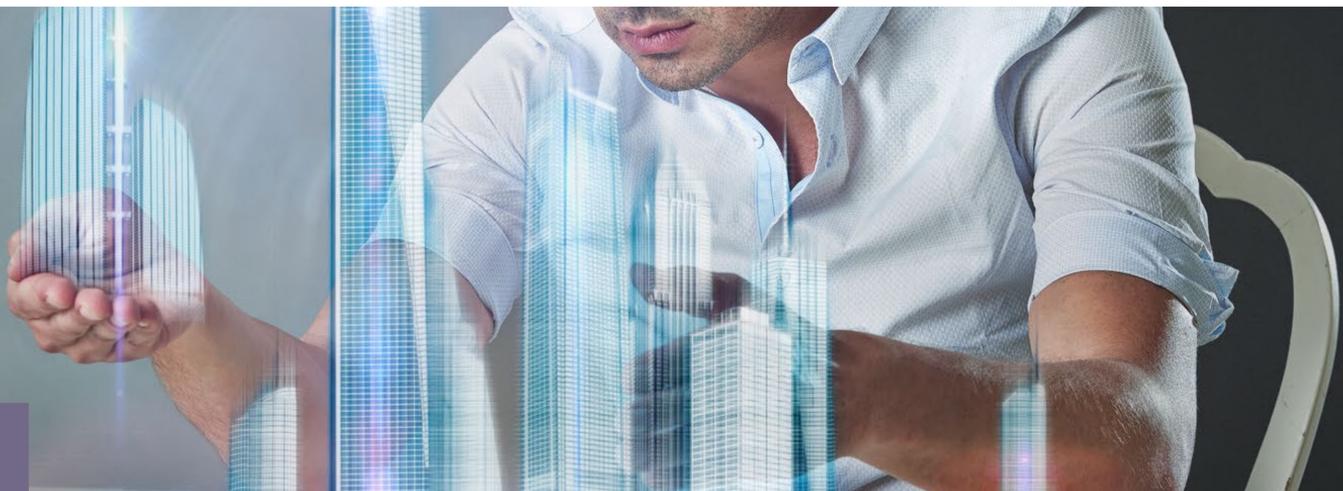
Lack Of Skills

If we combine the first two factors, then due to the aging workforce, the construction industry is set to lose many of its well trained skilled employees. Many of these 'ageing' employees are the most qualified for the jobs, with the experience that supports the continual development of the whole workforce.

The right training, from qualified and experienced people, is essential for the construction industry to support best practice, safety and productivity. The industry has already seen the demand for certain skilled roles sky rocket simply because of the factors mentioned. From the outside, the industry may be considered low skilled, but from the inside it is known that these skills need to be retained and continually developed for the construction industry to continue its role in the UK economy.

Finding workers with the right qualifications is not easy. Despite government initiatives and funding, only a low number of construction businesses take on and train apprentices, or inexperienced staff members. It's a chicken and egg situation, as some businesses don't have the spare resources to invest in the training by their most qualified and experienced team members, but are seeing the impact mentioned on a daily basis.

Apprenticeships are a great way to improve the labour shortage issues as they ensure workers are getting the training and qualifications needed to ensure the quality of work is sufficient and the skills are not reduced or lost in the industry long term. Unfortunately, the industry has a reputation of hiring apprentices for projects and then letting them go once the work is completed rather than using the apprentice as a long term investment.



2

THE ADOPTION OF TECHNOLOGY

The construction industry has been slow in technology development and its adoption. Perhaps an industry that is 'stuck in its way' or otherwise due to demand, tight margins and awareness, has not been able to give enough time to consider the options or test them?

A large number of businesses still rely on paper-based information such as drawings and material management. Many are still completing their estimates, quotes and invoices with a pen and paper. Not all businesses are still using what may be referenced as 'old fashioned' ways of working, as technology such as drones, radar, scanning, smartphones and tablets are becoming more widely used.

It is fair to say that the more innovative individual businesses may struggle to introduce the use of all their desired technology, as the implementation may be dependent on others being open to the use, such as a main contractor or other stakeholders, who may consider them too risky or not 'tried and tested'.

The challenge with the adoption of technology is that it needs investment. Not just the pound cost investment but the training, safety considerations and the time to test for evidence of its value. Due to other challenges faced, very few businesses in the construction industry will be the early adopters of technology and many will wait to see what is 'tried and tested' by others before considering.

This is perhaps an opportunity in attracting and recruiting younger people, as the industry needs more technology experts.

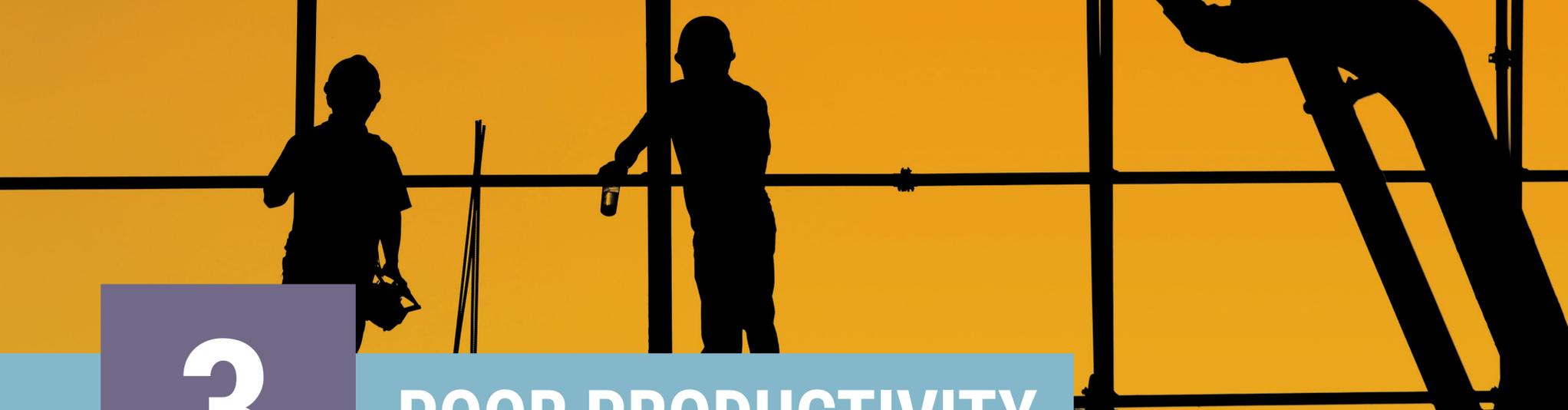
Additional benefits of adopting technology means that the construction industry is likely to be safer for its workers and start to address the skill and labour gap. For example, drones can scan buildings or sites to identify hazards and machines can do more of the dangerous work.

With awareness, better understanding of the benefits and training, businesses will be less reluctant to the introduction of technology, machinery and software, as they will appreciate the ability to increase productivity, by seeing tasks completed easier and quicker.

At Total Accounting, we use Xero as our preferred accounting software platform. This online accounting software can keep your records online to be accessed anywhere, raise your invoices to be sent digitally and streamline your payment processes, whilst bringing greater accuracy when compared to manual systems. Xero has an 'add on' app marketplace, that personalises your set up with additional software solutions for your business such as, job/workflow management, quicker/easier payment methods, document management, HR, inventory management, time tracking, cashflow planning and receipt storage. For examples, see <https://apps.xero.com/uk/industry/construction-trades>

Additionally, such an online system should reduce the amount of paper in any business.





3

POOR PRODUCTIVITY

The construction industry constantly battles with productivity. Globally, productivity increase has been very low in recent decades and many projects are not delivered on time. Yes, the labour shortage plays a huge part in poor productivity and is a reason projects take longer than expected, but many construction businesses are aware they need to be more productive and change the behaviours and cultures inherent in the industry.

A large number of projects overrun as the days to operationally deliver them is found to be longer than the estimator allowed and budgeted for. This may be down to pressures of the profit margin, but often the delivery is still slower than what is expected or considered should be achievable. This often highlights the gap between the attitude of a business owners, who may do the estimating or give the guidelines, versus that of the general workforce. This often sees a disappointed and frustrated business owner, who see their team's performance as less efficient and less committed than themselves. This is a reality factor for all business owners, whatever industry, but still a disappointment as they have trusted their employees and sub-contractors to maximise their time efficiently and to maximise every hour.

Some construction businesses are using incentive schemes for the team to address the working behaviours and attitude. It may be as a bonus or simply an incentive to earn an agreed rate of pay if the job is completed on time with no waste.

Often workers are now travelling further to find the work. This is impacting on the total travel time to jobs, which is increasing and therefore potentially impacting on the number of productive hours on site.

Rework, the act of redoing or correcting work that was not done correctly the first time, is prevalent on construction job sites and is another big reason for poor productivity, some tasks are being done twice, wasting time and potentially with double the materials.

Common reasons for rework include, missing documents or details, poor quality, poor communication resulting in a misunderstanding of requirements and design changes, or errors. Design implications, established when it comes to the build and install stages are a big factor in rework requirements and reduced productivity.

Labour provision and the adoption of technology together with training will reduce the amount of rework and improve overall productivity. Another way to reduce rework is to review your construction schedules to support any likely labour shortages.

Another huge factor impacting the poor productivity in the industry is idle time, where the workers are delayed, waiting for a variety of factors, such as:

- the delivery of materials
- equipment and machinery breakdown
- poor weather to pass
- rework to be completed
- other trades/stakeholder to complete their planned tasks

These factors are commonplace on a work site for many projects, so do you have a plan B to put in place for such occasions?

When considering the profitability of projects, in addition to those factors mentioned above, then the material costs are a big factor. Often due to project delays meaning the materials are stored on site longer than expected, or by over ordering, this leads to the loss of materials via theft or greater waste.

Many of the factors relating to poor productivity come back to training. With an investment in training, there are more skilled workers, resulting in less mistakes, higher efficiency and less need for rework.



4

HEALTH & SAFETY

The construction industry can be one of the most dangerous industries to work in if safety is not properly considered or respected. Injuries in the construction industry are often more serious than those in many other industries.

A huge number of working days are lost in the construction industry due to injuries in the workplace. Many accidents in the construction industry result in a longer than usual absence from the workplace.

Some of the main causes of the injuries that construction workers experience at work are:

- Working from height
- The movement of objects and the handling of materials
- The effects of Noise
- General Slips, Trips and Falls
- Working with Electricity
- Suicide
- Gases
- Asbestos
- Vibration
- Exhaustion

We mentioned earlier the ageing workforce and many work locations in the construction industry are also seeing an increase in number of incidents due to natural causes.

For many, the surprise on the above list is suicide. Figures from the Office for National Statistics, show the suicide average for low-skilled male construction workers is almost four times the national average. As well as managing the physical health of your workers, it is important to manage their mental health.

The main cause of death and a key safety risk in the construction industry is working at height.

Yes, there is much 'red tape' regulation that needs review and reduction, but compliance to health and safety is not an area to avoid. Ultimately it saves lives. Health and Safety compliance is often like an insurance policy, where you may feel you don't really need it, but when you do, you really do!

Do you have an in-house safety compliance officer, or an external resource, to help you with your risk assessments, safety plan, safe systems at work, standard operating procedures etc and critically managing the compliance to them?

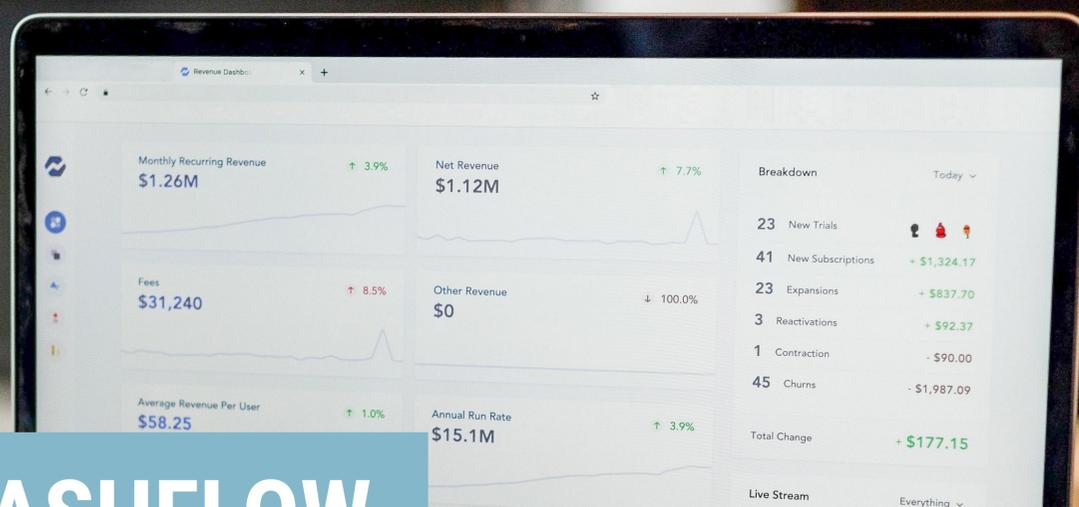
The most basic compliance to safety is to ensure all workers, and visitors, are provided with and using the correct protective equipment, such as helmets, hi-vis clothing jackets, eye and ear protection. Additionally, displaying notices and hazard signs warning of the dangers and highlighting safe working or visitor areas. Not only can this prevent minor injuries, but it will also reduce the risk and likelihood of a serious incident or worst case a fatality.

You need to do regular checks and inspections on all tools and equipment to ensure that they are safe to use. Broken machinery and tools, however small, creates an increased risk and likelihood of an injury.

Health and safety training is important for obvious reasons. It needs to be taken seriously and needs to be an on-going investment to emphasise its importance to your workers.

It may be site specific training, so that the workers are aware of the hazards and risks, or compliance / regulatory training such as the use of equipment, or a toolbox talk around a specific factor. Your team of employees and subcontractors may not show interest in some training, especially if it is felt repetitive, but you can never do too much safety training. Don't just do the training, ensure you have a record of what training was given and who attended.

Ultimately the leadership and behaviour around health and safety will impact your reputation, recruitment and retention of customers and workers.



5

CASHFLOW

The vast majority of businesses in the construction industry have problems with cashflow.

The main cause for cashflow problems in the industry is often quoted as the late payments from the client or main contractor (when applicable).

Often it is found that if you want to be awarded the work or want to be successful in a tender, then you have to accept the payment terms offered, often dictated by the client or main contractor. This will mean that the terms you quote have no impact on when you actually get paid. The government is looking to address the problem of late payments, but have been for some years, although they have changed the process for public contracts.

One big factor for the industry is the payment of materials, which despite negotiated credit terms, is often ahead of the related income being received from the client or main contractor. Try to negotiate longer payment terms with your suppliers than with your customers.

Although most businesses factor for retention monies in their pricing or tender process, the withholding of such monies can have an impact on later cashflow expectations. Ensure that your retention terms are clear and concise with no ambiguity, to ensure that it is easier to comply with such terms and receive your monies when due.

Cashflow has obvious implications for the day to day running of your business such as the payment of your workers and for the materials required. It also ultimately impacts on the capital that the business has available for further, future investment in other projects and business growth.

Another reason is within the control of your business, your own invoicing.

Construction businesses can be slow in raising an invoice for the work completed, as the administration is often one of the last things to be done. Although it is obvious that if you don't invoice, you won't get paid, the timing of that invoice can impact on the payment date. Some organisations pay invoices at the end of the month following receipt of the invoice ignoring the terms you state!

A very real problem and one that places pressure on a business's cashflow is bad debts. A business failing to pay your invoice, when you have already paid for your resources can have a huge impact on your own business. How are you managing the money owed to you and ensuring you are paid as soon as possible and ideally within the agreed terms?

- Are you credit checking any new customers?
- Are you monitoring the credit position of your largest debtors?
- When you invoice, are you checking that it has been received and agreed ready for payment?
- Considering when the invoice is due are you reminding them a few days before it is due and chasing the day after?
- Are you persistent with your chasing of your monies?
- Will you stop work on site if related to a stage payment?
- Do you have a collection policy for late payments? Will you issue court proceedings or charge late payment interest?
- If the materials have not been paid for, will you keep off site until needed?

Do you forecast your cashflow? Many businesses create a budget or forecast their profit, but fewer link this to a cashflow forecast in consideration of the payment terms. This can give you an insightful view of your business and the ability to trade as and when you desire. Cash is king, so we advocate a forecast that considers your cashflow as much as your profitability.

A big frustration in the industry is the delayed payment from a main contractor, despite them receiving monies from the end client, as they are managing their own cashflow. A suggested solution could be for the client monies to be ringfenced by the main contractor, perhaps via a finance professional, and distributed to subcontractors as per agreed stage payments in line with the work specification and contract agreed.



6

THE COST OF MATERIALS

The rising cost of materials has been a frustration for many construction businesses in the last decade.

As an example, we saw the price of copper rise to higher than expected levels around 2012 & 2017/18. In 2018, the price of steel was impacted due to production demand for China imports. In 2019 bricks were like gold dust, due to the amount of new housing to be undertaken, and any availability had a premium price attached.

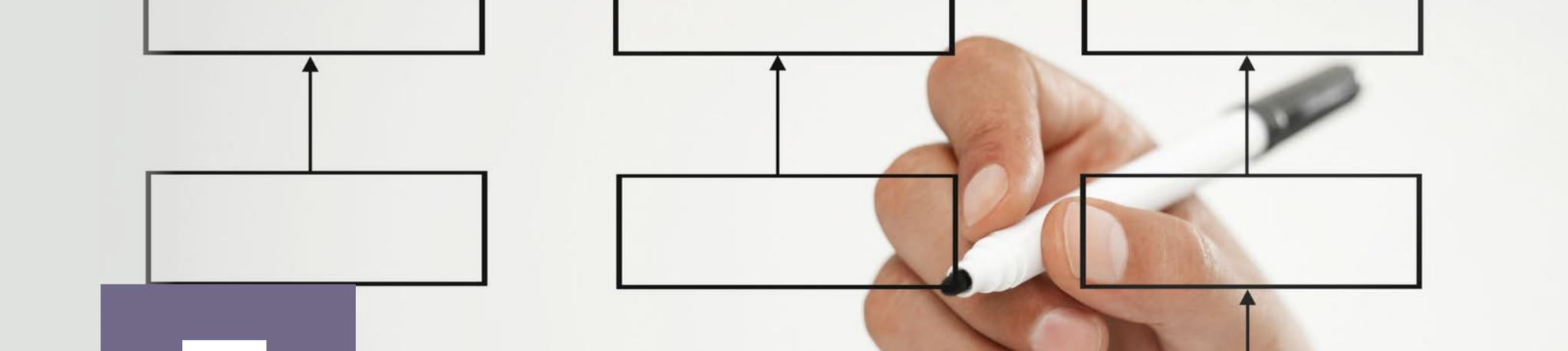
The pain is felt by the business, as often the price rise is felt after the quote has been accepted and during the project period, meaning that the business has to absorb the increased price and reduce their profit margin for that project. Some businesses have been successful in passing on the increased cost of materials, so consider building such an agreement into your negotiations and contracts, where possible.

Quite often the purchase price of materials will be impacted by the ultimate availability of the raw materials, fuel costs and the strength or weakness of the pound.

Supply and demand will also impact the price of your materials also. Therefore, if the UK has a building boom or slump, then that will impact the price. There can also be an impact in the summer, as sites are open for longer daylight hours and the demand for materials increases.

Any rise in the cost of materials will impact the pricing of future work. For residential work, that may present a price higher than expected. For commercial work, especially tenders, it may impact your competitiveness, especially if you are pricing against a business that has stored up a volume of materials over the years.

Keep your ear to the ground, understand the factors impacting on your material costs, look at the trends and use this information to make informed decisions for your business. You may not be in control of the prices you are required to pay if you need the materials, but it will of course impact your profitability. So the consideration to delay a purchase or stock pile many of the common items, when the price is beneficial to do so, may be good long term decisions.



7

ORGANISATIONAL STRUCTURE

A construction business organisational structure includes both an arrangement of the various job roles/responsibilities and the reporting or operational relationship between them.

The structure of a construction business will vary depending on the size of the business and the kind of work they do. Across the industry, you will see different types of construction businesses, each with different organisational structures. Often it is finding the structure that works for you, your type of work and the type of clients you work for.

Reporting to the top of the structures hierarchy is the management team and their respective departments. Depending on the size and focus of the construction business, the management team may be headed by individuals who are responsible for:

- Estimating
- Project management
- Client / Account management
(including quality control, pre-commissioning and hand-over)
- Materials purchasing and control
- Engineering
- Health and Safety
- Human resources
- Finance
- Marketing
- Community relations
- Business development
- Sales
- Logistics and operations
- Risk management and insurance

In smaller businesses, one person, maybe the owner, is doing all of these things!

Many construction businesses are project-oriented based, managing a portfolio of various projects at different stages of completion. The structure should provide a unified approach to deliver the quality of each project, but also across the portfolio as a whole, with consistency.

It is often a challenge for businesses in the construction industry to implement the structure that provides for the supervision and management required, especially in the smaller businesses.

This is often due to tight margins, which means that more often than not, the workers are doing the work rather than working within a structure that provides resources for managing and supporting. Even with larger contractors, this is difficult on smaller jobs or projects.

Within the construction industry it is common to find that proactive performance management and the support for personal development is less than as seen in other professions, with the exception of the requirements for compliance and regulatory training. Also it is often felt unnecessary by the workforce, which then impacts any good intention to deliver these aspects.

Creating an organisational structure with supervisors and managers, allows you to manage and supervise both the effective working practice of your people, but also manage the project workflow efficiently. It is often considered an additional cost, against the bottom line, to have such a proactive role on a project, but consider that investment against the cost of lost time or dealing with the productivity issues mentioned in section 3.

Supporting construction businesses like yours

Here at Total Accounting Kent, one of our specialist areas is working with businesses in the construction industry.

Our team can assist with your

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