

How the Construction Industry can take proactive steps to mitigate the impact of Covid-19 restrictions

As the effects of the Coronavirus are felt around the world, governments and businesses' primary focus is the safety of their people. Whilst this focus will continue, Deloitte is now being engaged to support our Construction clients to assess and react to the significant impact of local and global restrictions.

Even if the spread of the virus is contained in the short term, companies will feel the effect for months to come. We will shortly see the impacts of the Coronavirus in terms of contract and project delays, but also supply chain disruptions.

Assessing the full impact is still premature but if the Coronavirus continues to have a major impact after June 2020 we expect significant delays to major projects. This means Construction companies need to be on the front foot to proactively mitigate the impacts on their business.



Sector Implications:

The impact of Covid-19 will be felt through all segments in the Construction industry, both operationally and financially;

Operational Implications	
Current Contracts	<ul style="list-style-type: none"> • Delays & disruption to contracts • Suspension & termination of contracts • Crystallisation of disputes due to cash demands
Supply Chain	<ul style="list-style-type: none"> • Slowing supply from impacted areas globally • Material, equipment & labour price escalation
Sites	<ul style="list-style-type: none"> • Maintaining site security & managing H&S risks • Holding costs • Materials exposure on closed sites
People	<ul style="list-style-type: none"> • Impact on workforce availability due to illness • Retention of key skilled employees

Financial Implications	
Revenue	Cancelled/delayed contracts will have a medium term negative effect on revenue
Working Capital	Significant stress will be placed on Companies working capital and liquidity position
Funders	Access to new / support capital may take longer than anticipated, therefore early engagement between companies and their funders is essential

Be prepared by undertaking an assessment of the following:

Business Contingency & Continuity Planning

- **Construction Contracts:** Companies need to understand their contractual rights and responsibilities for each project in order to minimise disputes further down the line. In particular, clauses that refer to force majeure, government intervention or legislative changes need to be considered carefully;
- **Customers:** Frequent engagement with customers is key to managing expectations and effects on their projects.
- **Workforce:** Managing staff costs & engagement in the face of business disruption is critical now that all construction sites save for those projects deemed critical have been shut down. Firms need to assess reducing people costs and making payroll. This can be achieved by;
 - Pay alternatives
 - Capacity planning
 - Evaluation of critical staff requirements and retention of key skilled staff
 - Industrial relations engagement
- **Site Security / Health & Safety:** Now that most construction sites have closed for a minimum of 2 weeks (likely longer), it is important that the following matters are considered;
 - Sites have appropriate security measures in place and procedures implemented for maintaining critical site holding infrastructure;
 - Any health & safety risks are mitigated in the short terms;
 - Insurance policies are reviewed in detail to ensure all cover requirements for closed sites are adhered to – if in doubt over any measures, insurers should be engaged with immediately.
- **Supply Chain / Critical Suppliers / Sub-Contractors:** It is critical to constantly monitor the end-to-end supply chain disturbance and how this may affect product scarcity in both the short and medium term. Companies should also draft alternative supply contingency plans and pro-actively search for alternatives for critical goods and services in order to have options once sites reopen.

Financial Planning

- **Reforecast trading and cash flows:** Companies should review, in detail projections for the next number of months and identify what mitigating actions can be taken to preserve cash in the short/medium term;
- **Complete scenario analysis:** Test and challenge all assumptions and run downside scenarios given the current number of unknowns, to help understand actual/potential financing needs;
- **Review lending documents:** Ensure a clear understanding of the key terms, covenants, headroom and any flexibility in existing banking and financing documents;
- **Proactively engage with funders:** Forecasts may indicate a potential breach of financial covenants. By proactively engaging with funders, businesses can look to negotiate covenant waivers or covenant resets, helping to prevent any breach;
- **Identify additional sources of capital:** Should cashflow forecasts suggest that liquidity is or will become an issue, businesses should assess options for raising new funds including arranging temporarily larger facilities, introducing new equity and considering asset based financing;
- **Demonstrate ability to recover:** It is important to demonstrate to funders the ability of the business to return to something approaching its original underwrite within a reasonable period of time.

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