

Construction trends 2022: Inflation, staffing and sustainability

By James MacQueen and Nick Innes-Jones

New Zealand's construction sector is strong. The pandemic did nothing to dampen demand, and most businesses have more work than they can cope with. However, uncertainty is on the horizon – inflation continues to affect salaries and materials, business confidence is wavering, and construction companies are finding it hard to get skilled labour.

But, as with any time of disruption, opportunities also present themselves. Demand for green builds will only increase, and construction companies that upskill in this area now will be in a strong position to win contracts as sustainable builds become more widespread.

When it comes to inflation and the talent shortage, there are still steps you can take to ensure you set your construction business up to thrive. Read below to learn more!

Inflation

Inflation is causing materials to increase in price, with these price increases often exceeding the gross margins of many companies. This is leading to contracts having to be re-negotiated, and some dampening of demand among developers and in the residential market due to perceived business risk.

Contracts

Your contracts are where you'll be able to mitigate a lot of these risks:

- Avoid fixed-price contracts
- Include cost-escalation clauses
- Incorporate allowances to cover rising building costs

A piece of good news is that NZS3910 is currently being reviewed, with the final version due to be released in 2023. BDO has been involved in this

review and we are looking forward to seeing how it will help to create a stronger standard construction contract for the sector to use.

Finances

Once you've started the project, your finances are the place to go to both understand and mitigate inflation risk:

- Review your cash flow, making sure you address overheads, review job margins and only incur necessary capital expenditure
- Monitor gross margins and accounts monthly
- Stress test your monthly forecasts against any unforeseen events

Staff

Labour supply continues to be a challenge across the construction sector. Immigration settings remain tough, while many Kiwis will look to leave our shores this year as borders open up.

That said, if a worker is well looked after by their company, it is much less likely they will leave. Find ways to sweeten the deal and tie your staff to your business through considering:

- Making them shareholders so they are tied financially to your business
- Creating clear progression and development paths for staff so they can see a future at your company
- Where cash allows, create bonus schemes and incentives for staff – this doesn't need to cost huge sums, simply showing your employees you appreciate them through bonuses enables you to recognise their hard work

Though we are hopefully beyond peak Omicron disruption, a second wave is expected this winter. To prepare your business for the prospect of mass absenteeism, you can:

Create a contingency plan to find ways to continue to operate with minimal staff, including working out what roles need to change to ensure you can still carry out business critical work. Revisit your business eco systems – there may be several other organisations you work with who can support you and vice versa when anything unexpected occurs.

Review your contractual obligations and be aware of any force majeure clauses that may provide you or your customers with relief.



ESG (Environmental Social Governance)

Demand for green builds is only going to rise, as investors look to the ESG credentials of companies they work with. Likewise compliance is also increasing - tighter insulation rules are due to take effect from this November, in an effort to reduce the energy needed to heat residential homes by around 40%. There are likely to be more rules around this in future.

We know many construction businesses simply don't know where to start when it comes to ESG, and there has been little training from Government on this so far. There are a number of areas you can look at, however:

1. Make sure every decision has a green component in mind – it's not going to be enough to get towards the end of a build and suddenly decide you're going to install a few LEDs. It's important to start the project right by taking ESG into account on every building decision.
2. Undertake cost-benefit analysis on each component of the build (many green options can be more expensive at first but provide much stronger ROI in the long run)
3. Understand the different sustainable options available to you – this may also help with any supply chain issues you are having as you will be able to diversify the types of materials you use
4. Look at your waste – Kāinga Ora has adopted an 80% diversion from landfill target, and with the Ministry of Environment taking a renewed interest in waste and recycling, we expect there to be increasing demand for comprehensive waste management and recycling policies for builds.
5. Make your construction site sustainable – look at your energy usage on the project, and find options for recycling any bi-products that would normally go to waste.

Social and Governance

- Understand the S and G of ESG – we tend to think of sustainability as only environmental, but there is also a social and governance element. For example, how diverse is your workforce? And do you have ethical governance and reporting structures in place?
- Task Force on Climate Related Financial Disclosures (TCFD) reporting requirements are being made mandatory for around 200 NZ businesses – this will likely trickle down to other

organisations soon. Understand your ESG risks and opportunities now – and view our helpful guide on understanding climate-related risks [here](#).



ABOUT THE AUTHORS



James MacQueen
Advisory Partner, BDO Auckland

T: 09 272 0860
E: james.macqueen@bdo.co.nz



Nick Innes-Jones
Advisory Partner, BDO Auckland

T: 09 272 0861
E: nick.innes-jones@bdo.co.nz

This Report was compiled by BDO Construction Sector Specialists James MacQueen and Nick Innes-Jones.

BDO has a specialist Construction division <https://www.bdo.nz/en-nz/construction>.

