



## **Post-Covid Recovery**

### **Welsh Construction and Infrastructure**

In April 2020, RICS partnered with other professional bodies in Wales (RWAS and CIOB) [in writing to Government Ministers](#) outlining collective concerns in the construction sector and proposing pragmatic solutions that can support the industry in the immediacy, and post-pandemic. In this correspondence, the joint institutes highlighted four stand out issues, concerns and opportunities:

- Opening of Construction Sites
- Elongated Recovery
- VAT Rebate for repair, maintenance and improvement
- Public Sector Maintenance Programme

RICS' position has not changed since making these previous representations, but the purpose of the forthcoming recommendations is not to focus on the long term solutions, but actions the Welsh Government can take to rebuild confidence in an industry that is central to economic recovery, and contribute to the aspirant V-shaped recovery.

Indeed, since then, RICS has examined and assessed how Covid-19, and the subsequent lockdown and Government measures (both UK and Wales) have affected and impacted the construction sector in Wales.

By engaging with senior RICS members in Wales, we make the following recommendations which either strengthen or supplement the recommendations previously made.

#### **Government Leadership**

Covid-19 has exposed the limitations of the current construction industry framework. Having navigated the perilous circumstances that arose following the financial crash of 2007/08, the construction industry showed its resilience – housing completions increased (be it gradually), and infrastructure projects were completed. However, this resilience is not something that should be taken for granted; particularly when we consider the industry's well-documented contribution to the Welsh economy.

In the immediacy and short term, the Minister for Economy, Transport and North Wales will need to liaise with construction sector participants – collectively, and individually, and look to rebuild confidence in the construction industry and reactivation.

Furthermore, the Minister should support the imminent return to work for construction operators – across its diverse workforce and professions to hear how Government can provide immediate support for the industry to counter the sudden pause in activity and an elongated recovery that could be devastating for the country as a whole.

In the long term, the Minister should review the *modus operandi* of the construction industry, with a view to modernise and eliminate inefficiencies in practice that are just one of the many harmful traits that damage the industry's reputation, and how it is perceived.

As part of such a review, Government should evaluate the public sector procurement model, to ensure we don't return to a situation where lowest cost wins, at a detriment to quality, standards and long-term sustainability. A procurement model which encourages those who can deliver on the goals of the Future Generations Act would further strengthen a green, economic recovery, while supporting local SMEs and the supply chain.

This project that will require cross-chamber support and buy-in; but a project that will improve industry operation; safeguard the sector's reputation; and, ultimately, enhance industry diversity.

### **Build Back Better**

The foundation of the Government's post-Covid approach to construction should be repair, maintenance and enhancement of existing property; in short, build back better.

The socio-economic benefits of this approach are well known.

The Welsh and UK Governments' support for businesses has come at great cost, but even as we begin to emerge from lockdown, we cannot estimate how much more lockdown measures will cost. More so than ever is the need to prevent the use of cash-in-hand payments, and VAT has often been bypassed through the 'informal' economy. Indeed, cash-in-hand payments do not contribute to the Government's tax take, and this could negatively impact future spend.

- **RICS recommends the Welsh Government explores the benefits of a VAT Reimbursement Fund for repair, maintenance and energy efficiency improvement**

### **Supply Chain Management and Cash Flow**

Cash flow has always been a problem for the industry; and discussions around changes to procurement, retentions and project bank accounts have been going on for a significant period of time. These are not new issues; but they do require consideration in the long term.

An unintended consequence of the furlough scheme is the return to work. Whilst the furlough scheme supports employers to pay employees whilst they do not work (as a means to limit redundancies), the support ends immediately when the employee starts to work again. This means construction companies have no income or assistance until the goods and services they provide are procured.

It is important that an uplift comes before the furlough scheme ends. Not doing so could result in insolvencies and redundancies that cannot be reversed, thus reducing the number of operators. This approaching menace will limit construction output.

We therefore make recommendations that look to support the construction supply chain and spark cash flow; particularly for SMEs.

### **Immediate and Short-Term measures**

Outwith the need for a modernisation of construction industry operation; there are a number of short-term measures that the Government could introduce that can produce an immediate uplift in activity.

The various furlough supporting schemes from both UK and Welsh governments have supported the workforce, but an unintended consequence is paralysis of supply chain; and this will continue as the lockdown is lifted. Indeed, many projects are in jeopardy, even at pre-construction phase, because the supply chain cannot submit quotes and prices. Any delay in project planning and procurement will cause projects to be cancelled, and it could prolong the recovery.

As the lockdown is lifted, productivity and turnover will be low, and this could add further debt to construction firms, increasing risks of redundancy or insolvency. This can, however, be stemmed by allowing industry to plan; an injection of cash flow; and advanced payments.

### **Visible Pipeline**

Construction professionals thrive when they are able to plan for the future and advise their supply chain(s) of their requirements. As such, the Welsh Government should do its utmost to provide a clear pipeline of work. This recommendation enhances supply chain management, enabling a higher

proportion of industry participants to plan, order and manufacture supplies for the diverse construction sites in Wales.

The furloughing of many construction supply chain participants will likely mean that cost and time estimates for local authority and national government projects and programmes will need revising, and this should be undertaken as soon as feasibly possible. This revision would firm up the local, regional and national pipelines – outlining what infrastructure Wales intends to deliver – and would create transparency and certainty; both of which would contribute to the stabilisation of market conditions that are important for sectoral confidence.

- **RICS recommends a refresh of the Wales Infrastructure Investment Plan, including National Infrastructure Priorities**

### **Local Authority Budgets**

To complement this infrastructure refresh is a need for local authorities to have sight of their annual funding from national government. Due to the political and economic undulations, this may prove difficult for the Welsh Government. Not least because of the requirement for Welsh Government to follow UK Government budget setting.

However, the sooner the Welsh Government can set its annual budget for infrastructure investment and local authority funding, the sooner decisions around projects and programmes can be made.

- **The Welsh Government should provide clarity on local authority budgets as soon as possible**

### **Advanced Payments and Project Bank Accounts**

RICS recommends the use of advance payment methods and project bank accounts (PBAs) for public sector contracts as a means to reignite the supply chain and kickstart construction.

However, as mentioned previously, there will be numerous national and local Government projects and programmes that will need to have their costs and completion dates revisited in light of lockdown, and post-lockdown, circumstances.

In addition to the review of these projects and programmes, we call on government to consider the ring-fencing of investment for national infrastructure priorities, and the use advance payments or project bank accounts, to kick start the supply chain, and activity on these key projects and programmes.

This reignites activity through the reactivation of the supply chain that has seen extensive furloughing. Even when furloughed staff return, they will need time to manufacture and produce supplies for the construction sector. Unless they are supported upfront, Wales could see an elongated recovery in comparison to other parts of the UK.

This could be particularly impactful in east Wales (Wales-England border) where the attraction of more “open” construction sector in England could entice workforce and supplies.

This approach could provide certainty, a softer landing, and incentivise construction supply teams and workforces to come back to work, and back on site.

At present, there is no mandatory use of PBAs, only guidance. We believe this form of payment protection would be welcomed by sectoral participants.

- **Capital investment should be ring fenced for national infrastructure priorities, with advance payments and project bank accounts offered to projects and programmes that form an extensive post-pandemic recovery (PPR) plan**

### **Capital Investment in Infrastructure**

Many of these recommendations are finance based. This is because there are sectoral concerns as to whether companies will get financial help quickly enough, post-pandemic, and whether banks will be expensive or will ask for personal securities.

We believe there is merit in the establishment of Welsh National Investment Bank to:

- Provide guarantees, acting as a longer-term post-pandemic CBILS, that will encourage investment in Wales' revised infrastructure programme.
  - House the VAT Rebate Funding scheme
  - Work with the newly created Infrastructure Commission to develop and support post-pandemic recovery projects
  - Provide patient capital to encourage private investment in Wales
- **The Welsh Government should establish a Wales National Investment Bank**

### **Public Sector Maintenance Programme**

The purpose of this policy is to set out the framework for a Government-led initiative to encourage a large scale public sector programme of maintenance of its asset base.

This was developed in the view that the current lockdown situation imposed by the Covid-19 crisis meant that the majority of publicly owned buildings, such as schools, colleges, museums and libraries, are vacant, and will continue to be vacant for some time.

This period of inactivity not only increases potential risks that the buildings are being maintained and kept in a condition that is statutorily compliant, nor operating at an optimum level.

- **The Welsh Government should establish a public sector maintenance programme**

The establishment of a large-scale, public sector programme of maintenance would reap significant economic and societal benefits by:

- supporting many SME contractors across the construction industry;
- reducing potential public safety risks;
- saving public sector funds through economies of scale, and
- kickstarting the supply chain

These benefits, along with many others that have not been mentioned, would boost immediate economic output from the sector.