

COVID-19: Building commercial resilience for infrastructure contractors

As a public health emergency, COVID-19 is one of the most challenging periods we have faced. The pandemic is causing widespread disruption and impacting infrastructure contractors' supply chains and labour markets. New site operating procedures, reduced productivity and mid-project stoppages challenge business case viability and project profitability. Contractors need to move quickly to identify and manage the threats presented by COVID-19. This paper outlines KPMG's perspectives of the specific challenges and risks, industry insights, and practical steps organisations can take to maintain and protect their commercial resilience around infrastructure projects.

Challenges and concerns

- Significant cash-flow impacts within a relatively short time-frame.
- Thin profit margins reducing resilience.
- Accessing government support and other funding quickly enough.
- Conversations around re-negotiating payment terms and enabling effective cash flow down through the supply chain.
- Early confusion over site closure guidance, contributed to an inconsistent initial approach to shut-down across the contracting market.
- Availability and cost of certain key material supplies.
- Remote working, staff sickness and the move to non-core hours impacts decision-making as well as all other activities.
- Supporting and looking after critical supply chains.
- Planning and approval delays.

Industry insights

- Site operations variously impacted with some sites paused, some re-opened, others operating in a restricted manner, and some minimally affected. Proximity to London often has an impact.
- Implementation of safe operating procedures in line with evolving guidance including from the Construction Leadership Council.
- Project owners and contractors reviewing contractual positions, but working collaboratively to develop least-impact solutions.
- Pipeline vulnerability influenced significantly by sector exposure.
- Projects making use of e-solutions to continue remote activities, such as design, procurement, creation of operating and maintenance manuals.
- Importance of having an accurate record of status and progress pre COVID-19 to facilitate re-baseline and resolution of contract positions.
- Essential contractor activities to maintain critical services need to be safely sustained.
- Criticality of effective, timely and accurate data and reporting.

1: Short term	2: Medium term	3: Long term
<ul style="list-style-type: none"> Assess and monitor daily the latest government and industry advice and restrictions to ensure compliance. Re-assess site operations, working arrangements and personal protective equipment (PPE) as required. Establish clear lines of communication with the client and supply chain. Establish delegated authority in the case of illness for key personnel. Ensure a clear baseline exists for projects pre COVID-19 impacts. Assess IT infrastructure and construction-specific remote working capabilities across the project delivery team, such as design and contract administration processes. Review cash flow and liquidity; implement effective cash management strategies; consider options to access government funding. Identify potential cost efficiencies. Undertake company-wide review of work in progress (WIP) and accruals. Review and implement business continuity plans and crisis responses. 	<ul style="list-style-type: none"> Use enhanced controls and reporting processes to monitor and assess evolving situation. Collaboratively develop least-impact options and build re-mobilisation plans. Plan re-shaping of operations and alignment of operational structure and cost base to suit the new world. Risk assess supply chain resilience and develop mitigation strategies. Re-review project portfolio to assess actions required and work with clients and supply chain to re-plan projects. Ensure firm cash management controls and renegotiate payment terms as required. Clarify contractual positions and assess commercial implications such as prolongation, materials title and insurance. Assess likelihood and impact of suppliers and subcontractors being unable to comply with contract requirements. Consider critical material supply sources. Identify key fraud risk areas and prevention and detection strategies. 	<ul style="list-style-type: none"> Assess implications of market changes. Align operational structure and cost base with expected new world contract mix, margins and volumes. Improve cost and time efficiency, innovation and related reporting. Implement new strategy and keep under review – markets will change and pre crisis norms may not be returned to. Assess disruption impacts on current portfolio of projects and re-baseline considering commercial implications. Implement re-mobilisation plan of paused and slowed-down projects. Negotiate variations and claims that resulted as an impact of COVID-19. Robustly manage cash to optimise working capital as business grows. Maintain or enhance supplier risk management protocols and develop new approach to commercial controls, expecting a more vulnerable supply chain. Review revenue and cost projections, accuracy, sufficiency and timeliness of reporting, robustness of controls and sufficiency of assurance.



How is KPMG helping?

Enabling you to rapidly assess the commercial resilience of your organisation and develop robust mitigation plans for COVID-19 impact. We are using our Commercial Resilience Pulse Check capability assessment tool to work with businesses to complete real-time assessments, tailored to their specific businesses.

The key areas we are helping clients with our Commercial resilience assessments include:

- Resilience:** business continuity, delay and disruption mitigation, responses to project and site closures, programme changes, working capital management and cost reduction, insurance claims and resource management. Defining and aligning new operating structures and cost bases to the new world.
- Supply chain:** supplier resilience risk assessments, Tier 1 & 2 health checks, critical supplier analysis, and supplier cash flow.
- Project/Contract Management:** governance, sufficiency and accuracy of reporting, WIP and accruals reviews, project review processes, cash flow management, prolongation and disruption claims consideration and fraud prevention and detection approaches.
- Baseline:** Assessing the pre-COVID-19 contract and progress position, including financial, legal, contract and risk assessments, and assessing potential impacts of the crisis.
- Re-planning:** Updating plans for projects or contracts that have been put on hold, or future projects which have yet to commence.

1: Short term

This is the time to complete a rapid assessment, either across the organisation or in specific areas. This highlights whether you have appropriate capabilities in place and are taking appropriate actions quickly enough to achieve commercial and supply chain resilience. Understand the gaps and weaknesses then mitigate with agile, effective and realistically achievable actions.

2: Medium term

Government advice on distancing and remote working may lead to issues in implementing preferred actions. Agility and flexibility is required to assess and adapt plans as the situation changes. You will need to design your new operating model, decide what to prioritise, develop your re-mobilisation plan and act at pace, whilst maintaining effective controls and assurance.

3: Long Term

Businesses should have utilised their time well over the short and medium term to build resilience, manage cash, right-size their business and revise, if necessary, their operating model. They should have created effective re-mobilisation strategies, reviewed the operation of critical controls around their infrastructure projects, looked after their staff and supply chain, and completed effective assurance across key areas. These businesses are likely to have the best chances in their sectors of recovering more quickly in the long term and thereafter.

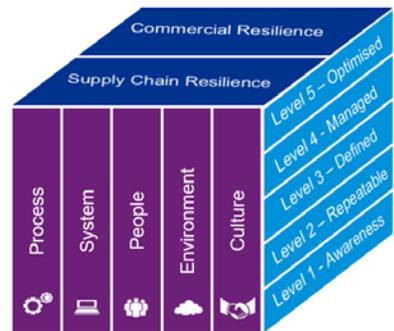
Remote ways of working:

- KPMG has adopted established methods when working with clients remotely, to support ongoing delivery and collaborative working. These are now the norm on all activities in light of COVID-19.
- All team members are familiar and practiced in agile working methods for producing deliverables and maintaining contact. All have laptops, access to required software and to remote back-office support functions.
- We are using Microsoft Teams to create a virtual workspace which allows us and our clients to share, review and edit documents in real-time. We are using file sharing sites e.g. SharePoint and others to issue documents to clients securely.

COVID-19 Resource centre:

- Our latest insights and practical expertise to help you build resilience through this period of extended uncertainty can be found at home.kpmg/uk/covid19
- You can use this link to register for our webinars and insights series, access recordings of previous webinars, and view our weekly Economy Insights.
- Our COVID-19 response assessment is available at kpmgcovid19response.co.uk

KPMG Commercial resilience pulse check



To discuss any of the issues or challenges facing contractors covered in this document, or to more generally discuss how to respond to COVID-19 challenges, then please contact:



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