

COVID-19: Building commercial resilience for housebuilders

As a public health emergency, COVID-19 is one of the most challenging periods we have faced. The pandemic is causing widespread disruption, impacting housebuilders' supply chains and labour markets, and interrupting demand. However, there's a new dimension of mid-project stoppages which challenge project profitability. Housebuilders need to move quickly to identify and manage threats presented by the COVID-19 pandemic. This paper outlines KPMG's perspectives of the specific challenges and risks, industry insights, and then practical steps that organisations can take to maintain and protect their commercial resilience around developments.

Challenges and concerns

- Significant working capital and liquidity concerns.
- Early confusion over site closure guidance, contributed to an inconsistent initial approach to shut-down. Many sites closed; some remained open and took steps to follow evolving Site Operating Procedures.
- Accessing government support and other funding.
- Impacts on critical material supplies.
- Remote working, staff sickness and the move to non-core hours impacts decision-making as well as all other activities.
- Delays, productivity impacts and increased project costs puts original profitability assessments under pressure.
- Planning committees in some cases unable to meet to consider applications.
- Impacts of government social distancing measures.

Industry insights

- Many building sites and offices closed with work paused or re-prioritised to projects that can be completed in a manner aligned with evolving safe site operating procedures.
- Land buying activity curtailed.
- Risk of unwind of negative working capital is a major concern.
- Focus on supply chain resilience; looking after the supply chain and trades people, and ensuring critical supplies remain available.
- An opportunity to refine the operating model and cost base.
- Many staff furloughed.
- Governance procedures adapted for remote delivery.
- Project teams reviewing contractual positions, but working collaboratively to develop least-impact solutions.
- Completions continued of available finished homes but impacted by closures of sales offices and show homes, mortgage availability, and housing chain challenges.

1: Short term

- Assess and monitor latest government and industry guidance daily.
- Align site operations and working arrangements with current guidance.
- Establish clear lines of communication including with the supply chain.
- Establish delegated authority in the case of illness for key personnel.
- Ensure a clear baseline exists for sites pre COVID-19 impacts.
- Assess IT infrastructure and construction-specific remote working capabilities across the 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.

2: Medium term

- Use enhanced controls and reporting processes to monitor and assess evolving situation.
- Collaboratively develop least-impact options and build re-mobilisation plans.
- Re-shape operations and align operational structure and cost base to suit the new world.
- Risk assess supply chain resilience and develop mitigation strategies.
- Establish firm controls for cash management and payment terms.
- Re-plan sites including type, mix etc.
- Resolve contractual issues with supply chain and mitigate disruption.
- Clarify contractual position 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.
- Enhance key controls and assurance.

3: Long term

- Assess implications of market changes.
- Align operational structure and cost base with expected new world demand mix; achievable margins and volumes.
- Improve cost and time efficiency, innovation and related reporting.
- Implement new strategy and keep under review – pre crisis norms may not be returned to.
- Assess disruption impacts on current portfolio of sites and re-baseline considering commercial implications.
- Implement re-mobilisation plan of paused and slowed-down sites.
- Negotiate variations and claims that resulted as an impact of COVID-19.
- Robustly manage cash to optimise working capital as business grows.
- Maintain and enhance supplier risk management protocols and develop a 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 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 and 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 site position, including financial, legal, contract and risk assessments, and assessing potential impacts of the crisis.
- Re-planning:** Updating plans for sites that have been put on hold, or future sites 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 control 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.

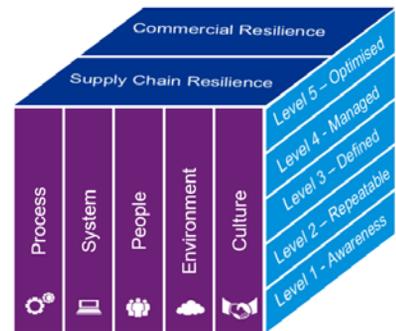
Remote ways of working:

- 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 the 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 housebuilders covered in this document, or to more generally discuss how to respond to COVID-19 challenges, then please contact:



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