



Turner & Townsend

75 & celebrating

Northern Ireland market intelligence survey

Autumn 2021

Insight:
Transforming Health Estates
with a data lead approach

#TTNIMI

making the **difference**

Introduction

“Volatile”. “Challenging”. “Perfect storm”. “Extremely difficult”. These are just some of the words and phrases our responding contractors have used to describe the current market.

The cautious optimism in our previous report has been replaced with an almost universal sense of concern at the conditions, trends and risks that contracting businesses currently face in Northern Ireland.

There are four common themes that are driving this view: material pricing volatility, lead in times for materials, pipeline clarity and labour shortages. Material price volatility has been well publicised and is the primary cause of concern with contractors particularly exposed on fixed price contracts. The support and sharing of some of this risk in selected public sector projects is positive however the practice is not widespread in the private sector. The combination of Brexit, COVID-19 and the spike in costs for some materials has made accurate tendering and management of risk on projects a significant challenge.

The speed at which public sector projects are brought to contract award in Northern Ireland in comparison with other UK regions, is raised as a significant issue for contractors. From what should be a relatively strong pipeline of public projects, there is no clarity on tender pipeline which makes long term planning difficult. Private sector clients appear to have a mixed view of current market conditions. A cautious approach is being reported by some contractors suggesting clients are willing to wait out the current high prices, while others are seeing a reasonable number of opportunities to bid for.

Labour shortages are a major challenge for contractors and their supply chain to manage. While there are differing views on the cause, the result is greater competition in the supply chain for skilled trades and resourcing. There is also a greater recognition that there is a shortage in professional services such as quantity surveying.

Despite these challenging conditions there are good grounds for positivity with both schemes and developers ready to commence. Northern Ireland water are planning to spend £2bn over next six years, the City Deals funding will bring opportunities, the housing sector is growing, schools and health will have opportunities, and there are many developments in the pipeline in the greater Belfast areas and beyond.

[See our insight piece on how one Health Sector is using data to help improve their capital delivery.](#)

Figure 1:
**Tender price
inflation - Annual
percentage change -
(contractor
expectations)**

Northern Ireland	Tender price inflation
2021	11.3%
2022	7.4%
2023	6.2%

Background to this report

Turner & Townsend regularly interact with the supply chain in order to better understand the market dynamics which are fundamentally affecting construction price and cost movements in Northern Ireland. Every six months we collate survey responses from Northern Irish contractors, allowing us to glean a snapshot of the local marketplace. This enables us to provide our clients with the most relevant and up to date market intelligence.

The continued impact of COVID-19

As society adapts to living with COVID-19, the construction industry continues to feel the disruption to the supply chain on projects and programmes.

Productivity continues to be a challenge, with only 40 percent of our respondents reporting productivity levels of 90 to 100 percent of the pre-COVID normal, and a further 47 percent advising they are much lower, at 70 to 89 percent. Almost 62 percent of our contractor respondents predict it will be a further six to 12 months before their own construction productivity levels are restored to pre-COVID levels. Perhaps the cause of the underlying productivity issues is a result of the impact contractors are feeling from construction programme delays and lead in times on materials.

Construction Programme impact: while almost all respondents (93 percent) state programme durations have increased, the estimated impact does vary. From our survey, 20 percent suggest delays are over five weeks, 33 percent say the impact is between three to five weeks delay and a further 40 percent estimating the impact to be between zero to two weeks. Although impact can vary depending on the scale and nature of the works, the data suggests that on average the programmes have increased by two and a half weeks.

Lead in times: this is an ever-present challenge in the current market for our contractors, with all respondents experiencing increases in lead in time over the last three months. 40 percent of respondents reported seeing increases in excess of five weeks, while the other 60 percent advise this is ranging from one to five weeks.

There are difficult decisions ahead for clients and contractors alike. The industry needs to re-think procurement strategies, contract selection and risk transfer to maximise the chances of a successful outcome for all involved.

Impact of COVID-19 in Northern Ireland

Figure 2:

Assuming pre-COVID-19 productivity levels were 100 percent, at what level is your firm currently operating at, in percentage terms?

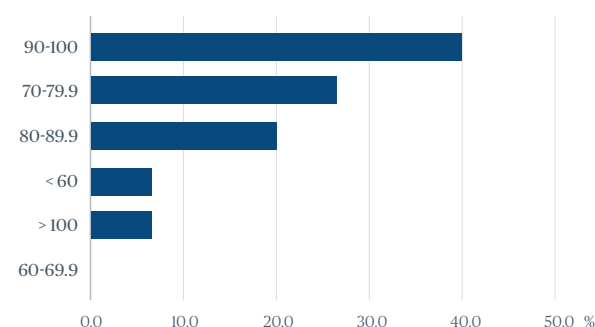


Figure 3:

When do you think productivity will be restored to pre-COVID-19 levels?

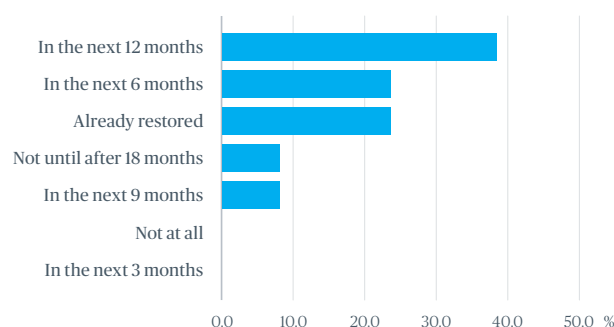


Figure 4:

Approximately how much, in weeks, has programme length increased over the past three months?

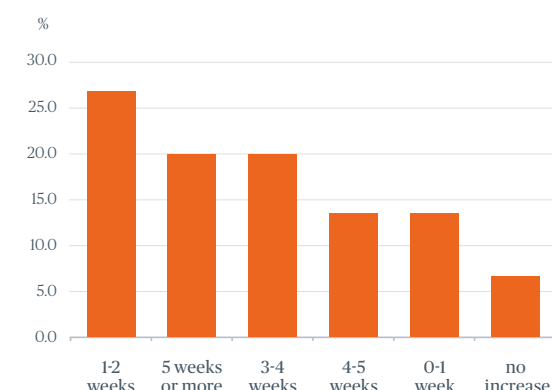
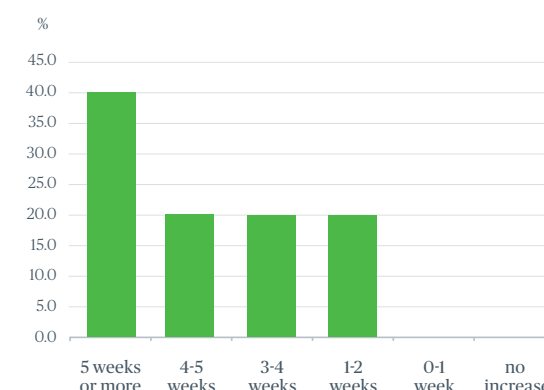


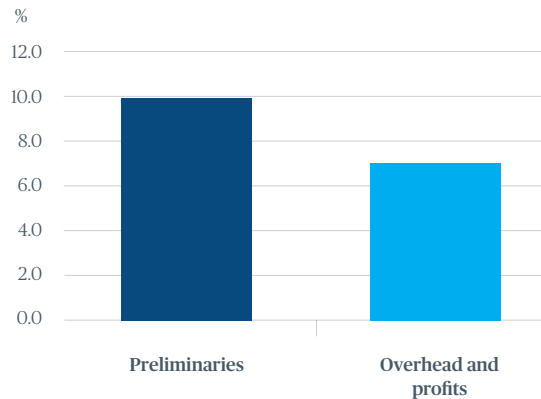
Figure 5:

Approximately how much, in weeks, have lead-in times increased over the past three months?



Tender and market conditions

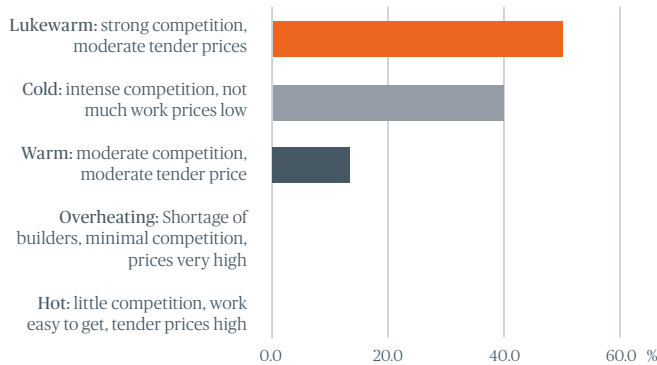
Figure 6:
On a typical medium commercial job (5000m2 GFA), what are your preliminaries and overheads & profit?



One of the most positive statistics in our analysis is that 40 percent of respondents see the market getting warmer, compared with less than 10 percent in our previous report. Indications are that the competition in tendering remains either intense or strong, which is positive in one sense, but a specific challenge for contractors to manage.

Our latest survey sees the top two sectors swapping, with housing being identified as the top performing private commercial sector, followed closely by the private commercial sector. Comparison from our previous report does indicate an improvement in both public works and the infrastructure sector.

Figure 7:
How would you describe current market tendering conditions within your region?



Average contractor sentiment indicates preliminaries and overheads have increased marginally in the last three months, while profits have decreased marginally. This is perhaps an indication that the market is absorbing some of the COVID-19 cost impacts as a result of the risk profile in most contracts.

Order books remain strong for this year with an average 71 percent capacity for 21/22 though a drop off for 22/23 to 44 percent, which is reasonable at this point in the year. Single stage tendering remains the current route in the market at 37 percent, with two stage and negotiated tendering having a similar share at 25 percent and 22 percent respectively.

Figure 8:
Approximately how full is your order book for the following financial years

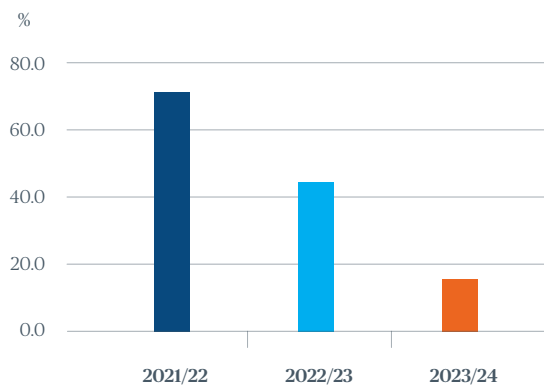


Figure 9:
What capacity (%) is your company currently operating at? (100% = full capacity)



83.6%

Northern Ireland output summary

Following the drop in construction output during 2020 Q2, the market has performed reasonably well despite falling by more than five percent in the quarter. Over the last 12 months, output has increased by 5.8 percent, based on the latest NISRA statistics.

The performance of the housing market was mixed, with an increase in public housing by 8.0 percent on the quarter. Private housing decreased by 15.7 percent over the same period, though has increased overall in the last 12 months.

Overall, the construction market has proved to be resilient showing confidence in the sector. Key factors to continued improvement and growth in construction output will be areas including, planning approvals, the commencement of the waste infrastructure improvements right across Northern Ireland, along with continued public sector capital investment.

Infrastructure saw the largest quarter on year increase of 14.8 percent while all other sectors showed slight positive and negative fluctuations.

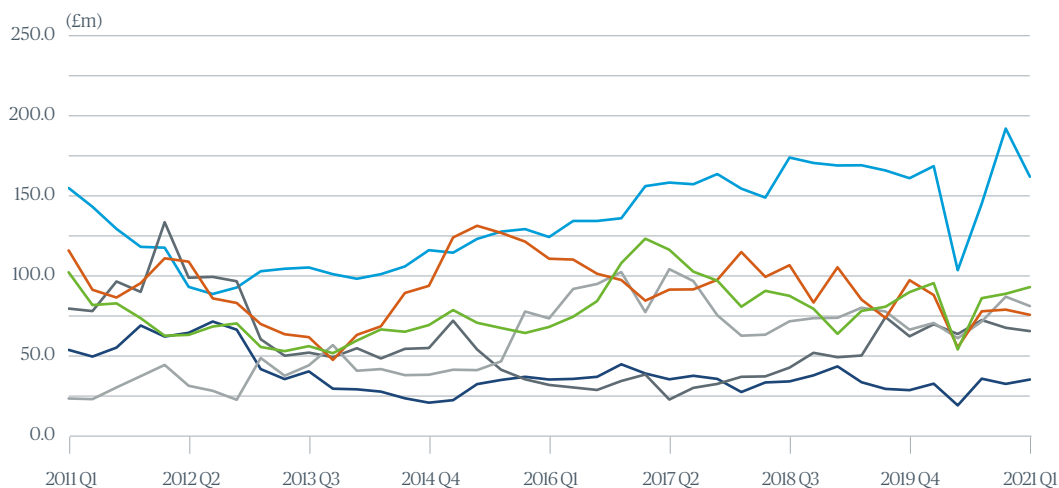


Figure 10:
Construction output in Northern Ireland

Source: Northern Ireland Statistics and Research Agency (NISRA)
- Data as of 2021 Q1

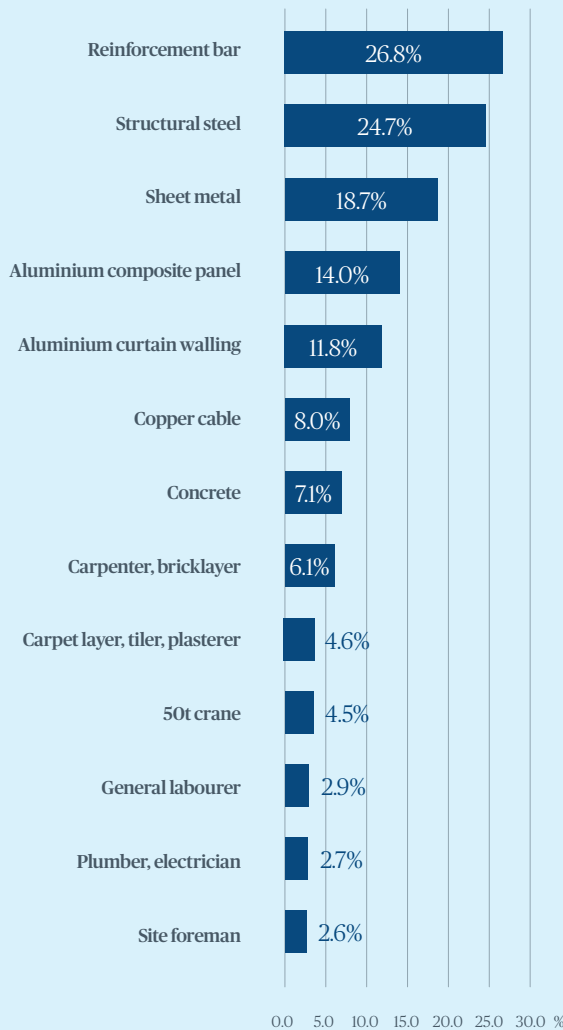
“The cost of materials has increased, and the submitted tender prices could cause major problems for long duration projects.”

National Rehabilitation Hospital,
(Dublin)



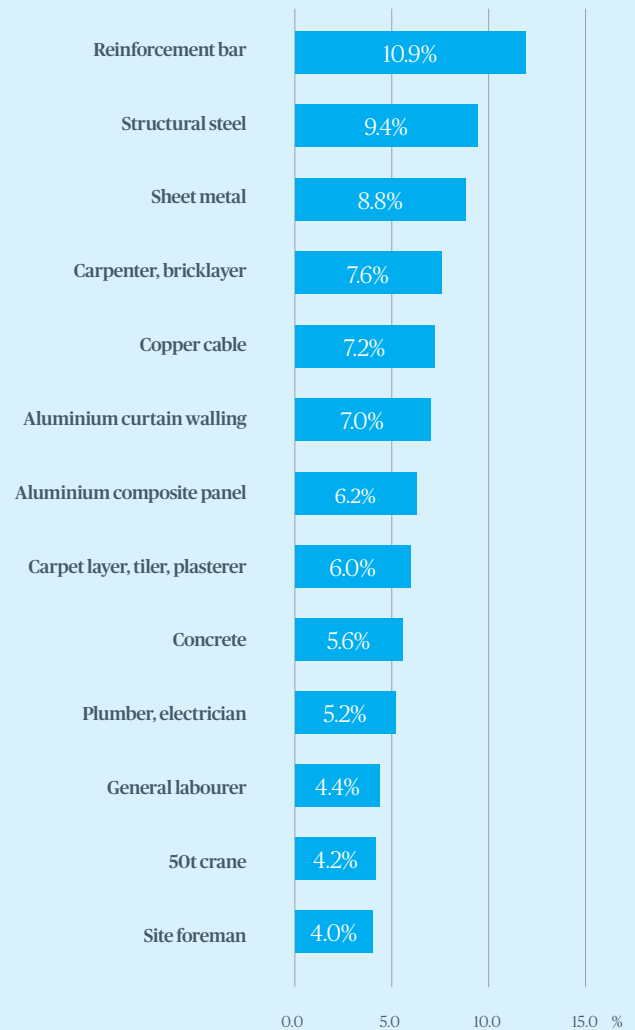
Labour and material inflation

Figure 11:
Percentage increase (in nominal terms) of
construction costs in the last 12 months



Over the last 12 months labour and material items have appreciated by 10.3 percent on average.
Reinforcement bar displayed the largest gain increasing by 26.8 percent.
Site foremen increased the least by 2.6 percent.
On average, labour costs increased by 3.8 percent and materials costs grew by 15.9 percent.

Figure 12:
Expected percentage increase (in nominal terms) of
construction costs in the next 12 months



Over the next 12 months labour, material and plant items are expected to appreciate by 6.6 percent on average.
Reinforcement bar anticipates the largest gain increasing by 10.9 percent.
Site foremen is foreseen to increase the least by 4.0 percent.
On average, labour costs are expected to increase by 5.4 percent and materials costs are estimated to grow by 7.9 percent.

“We are seeing a marked increase in material and labour prices driven by a shortage of supply coupled with rising demand. Tender prices are not currently reflecting this market inflation, resulting in works being secured at fixed rates with little opportunity to recover increased costs. This will inevitably have a detrimental effect on margins.”

Key challenges facing the industry

Rising costs are a massive concern closely followed by labour and lead time challenges

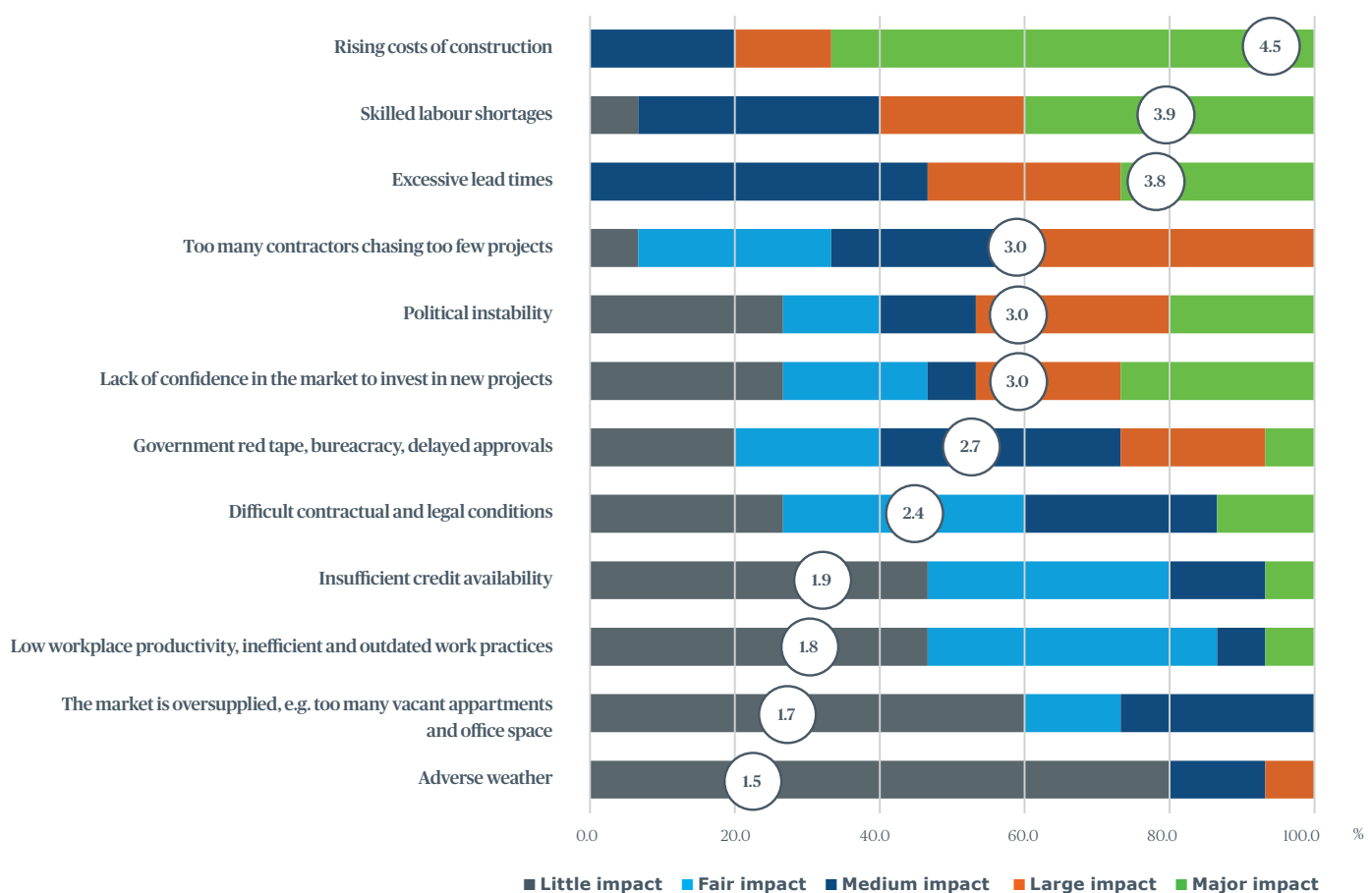
Our latest survey has seen the 'rising cost of construction' leapfrog to the top of the key challenges for the market, having previously been a mid-table concern. 'Excessive lead in times' have seen a similar rise, giving further evidence to demand currently outstripping supply.

Skilled labour, while always sitting in the top quarter of our table, jumps to the second biggest challenge for our contractors. Collectively, these three issues put strain on live fixed price projects and will inevitably be reflected in current tendering.

This data is collated at a point when the entire world economy is emerging from 18 months of a pandemic and is now trying to catch up with itself. The coming six to 12 months will show how Northern Ireland's construction industry is able to mitigate and manage these issues, and what the long-term impact will be for clients when their affordability levels and programme aspirations are tested to the full.

“The NI Market still suffers from unreliable and unpredictable market conditions that react very quickly to any economic changes. This makes it difficult to strategise long term in the region.”

Figure 13:
Supply chain challenges



The coloured bars in the chart above represent the proportion of respondents indicating whether a particular challenge is having a: little impact; fair impact; medium impact; large impact; or major impact on delivering construction works. The challenges are then ranked, on a scale of 1 - 5, according to their response.

Insight

By Claire Colgan Director, Consulting

Five ways to transform healthcare estates with data led decision making.

The Health sector in Northern Ireland has had to rapidly adapt to the challenges that COVID-19 has caused on operational services. The existing trends towards centralised acute care with community led services have been accelerated in the region with clinical providers adopting technology to support improved patient care and experience. Managing data better can help healthcare providers in the region to transform their estates and make the best, evidence-based decisions.

Large organisations with multiple built assets are invariably awash with data about their estate. From taxpayer-funded bodies with an eye on public accountability, to private companies focused on shareholder value, most will collect data as a matter of course about how their assets are performing and being used. Whatever the sector, the primary reason is the same – the knowledge that good data will enable them to make better decisions about their estate. This applies equally to ongoing estate management and capital investment programmes.

Diagnosing data poverty

Successful data collection and management is especially important for public healthcare providers. As they grapple with the ongoing pandemic and its knock-on effects, many NHS trusts are also engaged in a long-term overhaul of their estates as part of their respective Integrated Care Strategies (ICS).

Together with the Health Infrastructure Plan – which is due to see 48 hospitals built by 2030 – an ICS's goal is to modernise the patient experience, facilitate new care programmes and implement innovative ways of working.

“Faced with these multiple challenges at the same time, estates departments can derive crucial insights not just from data collected by their own trust, but that of others too.”

However, data collection around the country can vary. Some trusts simply don't have the resource or focus to collect the essential data, while others collect reams of data, but struggle to manage it successfully. Whether collecting too little, or too much data, the net effect is similar – the estates team will be 'data poor', meaning its ability to make robust, evidence-based decisions is constrained.

Data poverty has a direct impact on the 'business as usual' of estate management. Crucial information, from facilities not working to health and safety incidents, may be missed. A lack of vital intelligence can also put the estates team permanently on the back foot, limiting it to responding reactively when things go wrong.

From day-to-day data to driving change

By contrast, teams that have ready access to the most relevant data can act proactively, pre-empting problems before they impact operations, and delivering better on their overarching aims – from compliance to progress towards net zero and defined, measurable Environmental, Social and Governance (ESG) outcomes.

“Poor data can also be a major obstacle for capital investment programmes. Comprehensive, accurate data is a pre-requisite for a strong business case in any sector.”

It is especially crucial for NHS trusts, which as public bodies are required to make a Green Book-compliant business case when applying to both the HM Treasury and the Department of Health & Social Care for capital funding. The best business cases will identify and quantify success in both operational performance and patient outcomes, and measure commercial, clinical and strategic metrics, including speed of care resolution, overall wellbeing, and staff retention and satisfaction.






However, where key information is missing, such as maintenance backlogs, granular detail on running costs and accurate energy performance data, it can be much harder to build up a successful business case.

Model behaviour

The NHS's data strategy is not lacking in ambition. Its Model Hospital is a digital tool designed to help NHS trusts benchmark quality and productivity and has the potential to be a beacon of best practice in the collection and use of real-time data to inform business cases and estate strategies. Used correctly, Model Hospital should be a critical asset for the NHS and an example to other large organisations with complex estates – a single source of reliable, robust data that can inform better decisions.

Five ways to demand and get more from your data

Even the most powerful tools are only as good as the way they are used, maintained and deployed. Here are some examples of best practice that can be applied to built asset strategy in any sector.

<p>1. Transparent data</p> 	<p>Elevate the data collection and management function within the estates team. Rather than serving as a retrospective box-ticking exercise, it should be front and centre of the estate and capital management programme. Team members should be trained to use data to identify operational issues so they can be addressed before they become serious. Decision-makers must be equipped with a constant flow of trustworthy data they can access easily and rely on.</p>
<p>2. Resource budget</p> 	<p>Fund the data team adequately. Just as the collection of data needs to be resourced with trained and well-briefed staff, it also needs to be sufficiently well financed.</p> <p>Whether budget is allocated from existing op-ex or factored into the cost of building a business case, the investment should be seen as a long-term one. The creation of a strong data management capability now, will futureproof things as the volume of data collected rises – either from expansion of the estate or from the wider use of smart IoT sensors.</p>
<p>3. Intelligent computer-aided facilities management</p> 	<p>Ask the right questions when selecting a Computer-Aided Facilities Management (CAFM) system. CAFM software is a powerful way to capture, hold and analyse estates and facilities data sets, but it can be poor value if users aren't given the training or time to understand its full potential.</p> <p>Software alone does not plug data gaps and cannot update out-of-date data sets, so data teams should ask themselves the following:</p> <ul style="list-style-type: none"> ■ What information do you need to know, and how do you collect it? ■ Do you have a complete, accurate baseline? ■ Do you have the resource to manage the migration to a new software solution? ■ Do you have the resource, processes, and procedures to manage and keep a database up to date? ■ How will you use the data?
<p>4. Benchmarking data</p> 	<p>Benchmark against other comparable assets and projects. The richer the data used to draw up the baseline, the more accurate and reliable it will be.</p> <p>“Our Benchmarking App enables our staff and project teams to precisely compare each individual cost to those incurred on similar capital programmes elsewhere”.</p> <p>The app, which uses artificial intelligence software bespoke to our business to interrogate 160 data points quickly and provide consistently detailed information, allowing clients to distil and learn from best practice locally or nationally.</p>
<p>5. Buy-in from stakeholders</p> 	<p>Change the way data is seen by decision-makers. Even the best-planned data strategies require buy-in from the organisation's leadership team to succeed.</p> <p>In practice this means more than just placing data 'at the top table' but also driving a permanent shift in attitude.</p>

Opportunity, not an obligation

Trusts should start by establishing what datasets they currently hold and what they lack, deciding which are the most useful for benchmarking performance, implementing a reliable and adequately resourced CAFM system, and to inform capital investment business cases.

Above all, capturing and managing data insights should be viewed by the estate's team not as an obligation, but as an opportunity to measure performance, ensure compliance and enable leaders to make better decisions that ultimately lead to better outcomes.

The ultimate goal should be to make data more than a mere record of the past. Instead, it should be a powerful tool for managing, measuring and driving future change.

About Turner & Townsend

Turner & Townsend is an independent professional services company specialising in programme management, project management, cost and commercial management and advisory across the real estate, infrastructure and natural resources sectors.

With 112 offices in 46 countries, we draw on our extensive global and industry experience to manage risk while maximising value and performance during the construction and operation of our clients' assets.

We've been working in Northern Ireland for over 50 years. From our Belfast office our project, cost and advisory specialists work across the island applying our global expertise on local projects.

Our team



Conor Kelly
Associate Director,
Cost Management
e: conor.kelly@turntown.com



Kevin McNaul
Associate Director,
Project Management
e: kevin.mcnaull@turntown.com



Andy Outram
Director, Real Estate and
Strategic Lead NI
e: andy.outram@turntown.com



John Robinson
Director, Infrastructure
Cost Management
e: john.robinson@turntown.com



Tom Carey
Director, Advisory
e: tom.carey@turntown.com



Kris Hudson
Associate Director, Economist
e: kristoffer.hudson@turntown.com

Belfast office:

Arthur House
41 Arthur Street
Belfast,
BT1 4GB
t: +44 (0)28 9044 6999

www.turnerandtowntsend.com

© Turner & Townsend Limited. This content is for general information purposes only and does not purport to constitute professional advice. We do not make any representation or give any warranty, express or implied, and shall not be liable for any losses or damages whatsoever, arising from reliance on information contained in this document.

It must not be made available or copied or otherwise quoted or referred to in whole or in part in any way, including orally, to any other party without our express written permission and we accept no liability of whatsoever nature for any use by any other party.

VN/12/05/RE/165/1