European Construction and Infrastructure Roundtable: discussion summary
Introduction

We were delighted to welcome participants to the annual EY European Construction and Infrastructure Roundtable – now in its 15th consecutive year – at our London office on 15 November 2016. Hosted by Ad Buisman, EY Global Construction and Engineering Leader, the day included a lively mix of presentations, panel discussions, and questions and debate from the floor.

The varied and informative agenda covered topics from digital disruption, to the UK’s infrastructure pipeline, to the effect of Brexit on the construction sector. Sessions included distinguished speakers from European International Contractors, Balfour Beatty, and HM Treasury, as well as leading insights provided by panelists from Arup, BESIX, Natixis, Sacyr and Carillion.

Several themes emerged as hot topics on the day: a sense of optimism around opportunities for infrastructure investment in the UK and US; the challenges in sourcing labor in the post-Brexit UK; the continuing global dominance of Chinese construction companies; the effect of new, disruptive technologies on the industry, on the skills base and on the potential for new competitors; and how risk should best be shared between parties in the industry.
Opening remarks

Steve Varley

Steve Varley, Chairman EY UK&I Area Managing Partner, opened the day’s events by emphasizing the importance of infrastructure for the UK Government, as well as across Europe and around the world. The UK expects to spend a huge amount – £0.5 trillion (€0.6 trillion) – on renewing, refreshing and creating new infrastructure. That investment will not only set the UK up for future success, it will also bring phenomenal employment and skills-building opportunities. He went on to note that there may also be a “new era of infrastructure build” across the Atlantic. There are going to be huge opportunities for the industry.

Ad Buisman, EY Global Construction and Engineering Leader and the conference chair, then introduced the day’s agenda and highlighted a number of current industry themes and trends. These included the housing shortage in Europe, which is still impacting many countries and creating tremendous opportunities for the industry; the impact of falling oil prices; and the effect of Brexit and the US election.

He described 2016 as a year of transition. Despite uncertainties, the aftermath of both Brexit and the US election create much-needed opportunities for infrastructure. Construction output is still in a state of very modest growth – 2% to 3% in Europe – far off the levels seen before the financial crisis. And the forecast is for more of the same: modest growth of about 2% to 3%, in line with the gross domestic product (GDP). Across Europe, the construction industry needs to see more growth.

Buisman then talked the audience through the latest EY ranking of the top 30 global construction contractors. Among those companies, average revenue growth is down from 5.1% to 2.7%. Average net margin has increased, predominantly due to a decrease in general and administrative expenses. Profit is up by 8%. He then drew out the following key themes from the ranking:

- The Chinese continue to dominate. Ranked by turnover, the top four companies on the list are all Chinese. And the top seven Chinese companies have a combined turnover of US$500 billion (€463 billion) – equivalent to half of the US market.

- Beyond China, the Far East also dominates: 50% of the top 30 companies are from that region.

- The ranking is stable – there have been few changes over the past two years, and the top eight places haven’t changed at all.

- This is a global business – 65% of these contractors’ revenue is generated overseas. And the European companies are the most diversified: Spanish contractors generate as much as 9% of their turnover overseas, for example.

- South Korean companies have the highest turnover per employee and the largest growth in their order books.

- Japanese companies are moving ahead in their use of disruptive technologies like robotization, artificial intelligence (AI) and drones.

He explained how the ranking demonstrates the “Chinafication” of the global construction industry is swiftly continuing. And, while 90% of Chinese companies’ business is still within China, these contractors are looking to expand overseas. Their success is more than a question of growth; they’re also making a tremendous investment in R&D. On average, European contractors spend three times less on R&D than their Chinese counterparts.

Finally, Buisman talked through some of the megatrends affecting the industry – smart construction and smart cities, green opportunities, project financing – as well as a number of sector-specific trends, including workforce shortages, cancelations and delays, and the potential to improve supply chain efficiency.
Economic update

Peter Arnold

Peter Arnold, Director, Economic Advisory, Ernst & Young LLP, gave an update on the UK’s economic outlook. He described how, on paper, the economy looks in good shape. And there are several reasons for the construction sector to feel optimistic. The UK Government has made a strong commitment to infrastructure investment and given the go-ahead to megaprojects like Hinkley Point and the expansion of Heathrow Airport. And numerous other opportunities exist in the UK’s £0.5 trillion (€0.6 trillion) pipeline of infrastructure projects. “On the face of things, it should be boom time for the sector,” he said.

But Peter then set out some reasons for concern. Growth in world trade, which has never recovered to its pre-financial crisis levels, declined in 2016, due in part to issues in the Chinese economy. This has led to a lackluster picture of global economic growth: the long-term outlook for Europe is growth at around 2% to 3%.

In the UK, the construction industry continues to suffer from delays in political decision-making and planning. Recent decisions about high-speed rail, nuclear power stations and airport expansion have been subject to long delays. These issues are not new and represent one of the perennial problems in the UK sector.

Peter then talked through the implications of Brexit for the sector. He described how the post-Brexit economic position of the UK appears stronger than initially forecasted. The stock market recovered, retail sales remained strong, consumers stayed buoyant and unemployment remained stable. In the end, Q3 UK growth was about 0.5% and overall growth in 2016 is expected to be about 2%.

But he explained that 2017 may yet be a challenging year. The consumer picture, in particular, is expected to be weaker. Wage growth is slowing further. The decline in sterling means inflation is likely to increase for both businesses and consumers. While there may be an upside for manufacturers and exporters, consumer spending – one of the major engines of the UK economy – is set to see a significant downturn. House price growth, in turn, is likely to be close to zero. There are signs that business confidence is down too. The EY ITEM Club forecasts GDP growth of just 0.8% in 2017 and 1.5% in 2018.

Peter sees the key long-term question being the UK’s access to the Single Market. There are two likely scenarios. The first is a short, sharp, “hard” Brexit with an immediate move to World Trade Organization rules followed by a slow renegotiation of the terms of access. The second, more pragmatic scenario sees the UK staying in the Single Market for a transitional period while it negotiates full exit. He talked the audience through some of the key drivers for this decision: the types of trade deal struck with the EU and the rest of the world; migration and its implications for labor; the regulatory aspects of trade deals; and government policy on issues like EU-funded projects and state aid rules.

Peter noted that the UK has a balance of trade deficit with the rest of the EU across virtually all industrial sectors. UK consumers and businesses are reliant on and integrated with the European economy. Switching to new suppliers won’t always be easy, especially in highly skilled areas reliant on specialist equipment. Unraveling pan-European supply chains will be a complex process. Brexit is likely to come with a cost. At its worst, it would see about 4% off GDP by 2030.

He concluded by advising businesses to maintain and update some scenario analyses for different Brexit outcomes. For the construction sector, this will be critical around the supply chain and the availability of labor.
The EIC agenda

Philippe Dessoy

Philippe Dessoy, President, and Frank Kehlenbach, Director, both of the European International Contractors (EIC), gave a brief overview of the organization’s key initiatives. Dessoy explained that EIC is a lobbying association based in Berlin, which represents national member federations from 15 European countries. Collectively, these federations represent about 200 contractors with a combined turnover of about €180 million in 2015. Dessoy also noted, with regret, that there hasn’t been any British representation for the past 16 years.

Kehlenbach described the daily work of EIC. The association promotes good business practices among European international contractors, such as fair and balanced contract conditions. It also promotes quality-based procurement rules that consider more than just the lowest price. And it promotes both sustainability and corporate responsibility in construction business models. EIC is also involved in the review of International Federation of Consulting Engineers (FIDIC) forms and lobbies against their misuse.

Procurement is a major issue for EIC: it’s involved with the EU and the World Bank to prevent abnormally low tenders in the construction industry, and has been involved in discussions on the New Procurement Framework. EIC is also helping to shape a new International Organization for Standardization (ISO) anti-bribery management system.

Kehlenbach went on to explain some of the issues that EIC sees around the so-called “local cost rules” and described recent EIC workshops on hot topics for the industry. These have included project financing, the African construction market, supply chain responsibilities and smart cities.
Life in a digitally disrupted industry

Dominic Thasarathar

Dominic Thasarathar, Dominic Thasarathar is Autodesk’s primary thought-leader and evangelist for the global Construction and Natural Resources industries, gave an illuminating talk, combining highly engaging visuals, on disruptive trends in the construction industry. His presentation offered a framework for how to think about the technological changes set to disrupt the sector.

He explained that today’s challenge is the number of technological changes acting all at once. Cloud computing, robotics, drones, augmented reality, the Internet of Things (IoT), machine learning, big data, generative design, and more, are converging and giving rise to three significant disruptions in the construction industry with respect to: the means of intellectual and physical production; the nature of demand for construction services; and the nature of products.

Infinite computing in the cloud is fundamentally changing the design process. On-demand access to parallel processing means tasks like simulating wind flow through a complex urban environment can be done very quickly so that they align with the design process. Design is thus “shifting from a best practical approach to a best possible approach.” Rapid prototyping means options can be explored in ways that weren’t possible before. And generative or evolutionary design means algorithms can design against a set of output criteria without any preconceived idea of what the final output looks like.

Thasarathar described some of the other ways technology will impact intellectual design. Big data is coming to the industry, and with it some “eye-watering cost savings.” Collaboration within the sector is set to be radically enhanced. And the real and digital worlds are colliding, making it easier to get the physical world into a silicon environment. This will impact laser scanning, 3D modeling and the ease and frequency of surveys. Pushing the data back out through augmented and virtual reality is also now viable, with huge possibilities for utility contractors and training exercises. And gaming engines enable the industry to model complex phenomena like crowd behavior, weather patterns and physics.

He described the revolution that’s happening in manufacturing. Digital technology is making it far easier to optimize and standardize components. Unique designs can be turned into real-world things with a single touch of a button. And there’s scope for a “new era of localism” through neighborhood microfactories equipped with high-end digital fabrication technology.

He explained how technology is changing the nature of demand for services. Urbanization, population growth and economic growth are creating an insatiable demand for more buildings and more assets. By 2030, the global construction market will be 85% larger. Expect contractors to turn to big data and predictive analytics to help them answer what to build, how to build, where to build, or indeed whether to build.

Thasarathar also described how technology is disrupting products. Sensors are now cheap enough to literally sprinkle into concrete, for example. The industry will be able to optimize the use of built assets by understanding how they’re really being used. And the gap between what we think we need to build and what we actually need to build will be closed. The industry will have opportunities to use the Internet of Things to spot emerging trends, predict future pipelines and invest with confidence.

He ended with his view that disruption is bringing about “a new competitive landscape for the industry.” Any company of any size and any capitalization is going to have access to four new capabilities:

1. Unlimited amounts of processing power to solve incredibly complex challenges
2. The ability to connect talent together in real-time collaboration
3. The capability to collide and play with the digital and physical worlds
4. New sources of capital from phenomena like crowdfunding
Opportunities and challenges for the sector

Leo Quinn

The CEO view

Leo Quinn, Balfour Beatty Group CEO, set out his view of the opportunities and challenges for the construction sector and answered numerous questions from the floor. He described construction as “the best industry on the planet” because, in his words, “it’s an industry that bends skylines and empowers communities.”

But the challenge, for Quinn, is the business model. Construction companies take inordinate risk at very low margins, with ever more difficult contract conditions in an increasingly punitive legislative environment. Quinn took the audience through some recent contracts that Balfour Beatty has bid for, noting the vast differences in bid values. These illustrate a lack of rationality in the market.

He described the problems of “forced growth,” in which a company continues to grow its top line, whether through acquisitions or international expansion, to stay ahead of its cost curve. This approach can lead to profit warnings when growth stops but costs continue to grow because they haven’t been integrated properly. Ultimately, Quinn believes it’s all about cash. Construction companies are kept in place by banks who provide credit lines and money. Indeed, this explains why the biggest construction companies in the world are Chinese – they seem to have an infinite capacity for cash.

Quinn talked the audience through his cultural transformation of Balfour Beatty in his two years as CEO. Recruitment was his number one priority. He described how he put in place a transformation plan, called “Build to Last” made up of four planks: lean (operational efficiency and the importance of cash), expert (world-class technical solutions), trusted (delivering on promises) and safe (safety is a company’s license to operate).

He sees the outlook for infrastructure and industry as buoyant. In the UK, the Government is committing to large-scale infrastructure projects like High Speed Two, Heathrow and the fantastic achievement of Crossrail. There are large sums to be spent on UK motorways. He views power, too, as an interesting sector: ElecLink is set to connect the UK, through the Channel Tunnel, to the French National Grid. There are similar plans to connect the UK to Norway and Iceland.

In the US, the Fixing America’s Surface Transportation Act will provide US$ 300 billion (€278 billion) for surface transportation infrastructure planning and investment. And the new US president may increase infrastructure spending further. Quinn thinks the US market will be very buoyant.

He then pinpointed a major challenge for the construction industry: there aren’t enough people in the country to do the work. He described his role in The 5% Club, an association of 200 companies who make a public declaration that they aspire to have 5% of employees made up of apprentices and graduates. This is a way of giving something back to the next generation and getting people into value-added jobs.

He finished by answering a variety of questions from the audience, delving further into issues around the construction business model, international expansion and competition from overseas, encouraging apprenticeships, how to manage risk and maintain margins, and the importance of company values.
Opportunities and challenges for the sector

Mike McCartney

The EY view

Mike McCartney, EY Capital and Debt Advisory Director, Ernst & Young LLP, provided EY’s perspectives. He started by describing a number of recurring themes for industry professionals. These include government policy and the need for fiscal, rather than monetary, stimulus to drive the growth that has been missing in recent years; political change in the UK and US and new plans to invest large sums in infrastructure; and a strong focus within the Eurozone for sustaining investment in European infrastructure.

McCartney then went into greater detail on some of the key themes for the industry. He described the macroeconomic picture and the upward inflationary pressures created by foreign exchange rates. Financing costs have been exceptionally low for a number of years, which has helped fuel some investment in the construction sector. But larger M&A activity has been suppressed. McCartney expressed his hope that more certainty from government policy will lead to a return in confidence and willingness to invest.

He then took the audience through issues around business strategy, capital and people. On strategy, there is intense competition for megaprojects and sustained pressure on margins. There’s an expectation that the sector will see some consolidation, with the second or third tier of subcontractors likely to be a focus. And there are vertical integration opportunities across certain subsectors, particularly in specialist areas like rail, nuclear and water.

On capital, the record low cost of financing is a clear opportunity. But this in turn imposes financial pressures further down the line. And there is some speculation about how rating agencies have impacted joint venture investments. Projects like Hinkley Point have been hindered by issues about what guarantees the UK Government could legally provide.

And on people, a country’s attractiveness for talent is an increasingly important consideration. As high-skill, high-mobility talent considers its career options in the UK, the EU and beyond, retaining talent is becoming an issue. EY sees talent mobility increasing the medium term.

McCartney also briefly talked about the Brexit factor. There are issues around project delays and cancelations in private sector real estate investment and general uncertainty for housebuilders. This can be tracked back to uncertain consumer confidence and much depends on what happens when the reality of Brexit becomes clear. There is clear potential for confidence to evaporate further.

He went on to describe some of the other concerns and challenges for the sector. Cost inflation, and the ability of a low-margin business to pass costs through within existing contracts is a fundamental concern. There is a need to educate buyers to procure smartly. On cash, there’s a clear focus on getting smarter and transforming the industry culture so that everyone understands its importance. And there’s a hope that margins will see an upswing led by increases on the demand side.

McCartney concluded his presentation by summarizing the outlook for 2017. While political risks remain, and increased volatility in capital markets is inevitable, the acceleration of megaprojects in the UK, together with expected announcements about more immediate, shovel-ready projects, should improve confidence and, in turn, private sector investment into next year.

Prompted by questions from the floor, McCartney also talked through some of the reasons why working capital management is such a perennial issue for the industry.
Panel: megatrends and challenges in a Brexit environment

Erin Roberts, EY Americas Construction and Engineering Leader, hosted an informative and timely panel discussion on the trends and challenges for construction in a post-Brexit world. Taking part were Mats Persson, Executive Director at Ernst & Young LLP, José Manuel Loureda, General Manager at Sacyr; Philippe Dessoy, General Manager at BESIX; and Matt Tweedie, Group Finance Director at Arup.

Roberts opened the discussion by reflecting on a sense of discontent in the marketplace and recent global political upheavals. But he also noted reasons for optimism, especially around future investments in infrastructure. He talked through several key trends for the sector in the Brexit environment and asked the panelists to pick out the issues they were most focused on.

While the panel agreed Brexit itself was a major factor, those from outside the UK were not overly concerned about it, in part because their companies are not focused on the UK market. Persson gave a fascinating account of his experience of being in Downing Street on the night of the vote. For him, Brexit is about more than the EU; it’s about the whole structure of the UK economy. The UK Government’s relationship with Europe is likely to be only its third priority, behind rebuilding trust in Britain and forging a new immigration system. The Government is starting fresh with its industrial strategy, and this should be a focus for the sector.

The panel agreed that uncertainties about immigration and the free movement of labor are key factors for the UK in the post-Brexit era. Persson stated his view that the one thing the construction sector can be sure about is that labor won’t be as easy to get to.

Tweedie gave his view that there’s an important question for industry in how infrastructure projects become more than single solutions, and become “broader solutions for cities and a more inclusive society.” He highlighted technology, and its capacity to completely change what the industry does and how it does it, as a key factor. As entire cities are digitally modeled, and as digitalization brings huge volumes of data, a completely different skillset is needed.

The panel also discussed the importance of innovation in their businesses. Loureda stated his view that technically innovative solutions are now key to the industry and described Sacyr’s sponsorship of an innovation award. Tweedie was of the view that designers have a critical role in driving innovation. His organization is clear that “there’s a need to keep moving up the chain of innovation to stay relevant” – a lot of focus at Arup is on what’s new and what’s next. He talked through the importance of data modeling and innovation in some recent Arup projects where the solutions were much broader than the initial questions posed. The panel also discussed how innovation is funded in their businesses.

Roberts asked the panel for their views on consolidation, the M&A environment and the integration of the supply chain. The view was expressed that bigger firms don’t necessarily benefit clients in the long term. The industry is changing radically, and the future is likely to lie in more strategic partnerships rather than consolidation.

Responding to questions from the audience, the panel ended by discussing the willingness of design and engineering firms to enter into joint ventures with constructors, and where the risk-reward balance should lie between parties in the industry. There was agreement that the question needs to be seen in a larger context than individual projects – a broader assessment of strategic partnerships needs to be made.
EIC position on corporate responsibility

Wouter Remmelts

In an entertaining and thought-provoking presentation, Wouter Remmelts, EIC Board Member and Managing Director of BAM International, provided an insight into corporate social responsibility. His view is that European constructors have high standards, and corporate responsibility that has the potential to be used as a business case.

He described how the issue has evolved over the past 40 years. These days it’s considerably more complex than it once was, ranging across ISO anti-bribery, Organisation for Economic Co-operation and Development (OECD) guidelines, health and safety and labor conditions, sustainability development goals and climate change.

Remmelts demonstrated EIC’s sustainability matrix, which structures issues in corporate responsibility around people (labor conditions, health and safety, human rights), planet (climate change, greening operations, resource efficiency), prosperity (adding value in local communities, engaging stakeholders, continuous learning and know-how transfer), and governance (business ethics, supply chain management, anti-bribery).

He then talked the audience through some examples of leading practice:

- The Green Line Metro project in Doha – more than 16km of twin-bored tunnels and 6 underground stations – had a team on-site conducting daily training to implement health and safety policies. The result was 18.3 million man-hours without a major accident.

- The project to design and build two cable-stayed bridges over the Rio Wele in Oyala, Equatorial Guinea, adopted a mixed-team policy to set up an exchange of knowledge and skills between local employees and experienced foreign coaches.

- Ecoshape, a public-private partnership, is building an innovative coastal defense system on Java, Indonesia. It’s using dams, land reclamation and new mangrove forests to build with rather than against nature and protect 6,000 villages along a muddy coastline.

Remmelts concluded by encouraging constructors not to be modest about their corporate responsibility successes – it’s one way of attracting younger people to the industry. It’s also something that can give European contractors a competitive edge globally. And he described how EIC is lobbying to incorporate social responsibility issues into bid award criteria.
He began by explaining the origins of the UK’s National Infrastructure Delivery Plan in the aftermath of the financial crisis. The plan, the first ever of its type in the UK, set out to join up the pieces within economic infrastructure (energy, transport, telecommunications, water and waste). It has since evolved in two ways. First, the definition of infrastructure has been widened to recognize social infrastructure, science and technology infrastructure, and, most importantly, housing. Dance described housing as “the new infrastructure” in the UK. Second, there is now a greater emphasis on productivity, and the need to make smart investments with lower levels of financial commitment. This is going to mean leveraging the UK’s skill base, leveraging research and technology, and being more efficient in joining up the different parts of the UK economy.

Dance explained how the UK’s infrastructure pipeline is designed to give confidence to the construction industry that “there is a long-term, sustained commitment to very substantial infrastructure investment in the UK.” The pipeline is a list outlining more than £480 billion (£559 billion) of public and private sector investment, including nearly £300 billion (£349 billion) of investment to 2020/21, and reflects the UK Government’s commitment to spend £100 billion (£116 billion) on infrastructure by the end of this Parliament.

He also gave a perspective on longer-term infrastructure plans. The UK is setting up the National Infrastructure Commission to provide long-term objective assessments of what infrastructure will be needed in the period through to 2050. The role of the IPA will be to advise the Government on how the commission’s recommendations can be delivered.

Dance offered his views on the strengths of the mixed-model approach to funding and financing infrastructure in the UK. The Thames Tideway Tunnel was cited as an example of innovation. There, a new separately licensed regulated entity was created and sold to investors in the open market without ever touching the government as a funding institution. About 50% of the infrastructure pipeline to 2020/21 will be financed and delivered by the private sector.

He then went into further detail about housing and the growing recognition that the issue is about more than just acquiring land, using the greenbelt or giving a few more planning permissions. Rather, it’s about establishing a clear link between infrastructure and housing. This means programming not just transport, but utilities, power, broadband and flood defenses. Investors, contractors, planners, landowners and government need to think about these issues as a holistic package. The UK needs to think of housing as “part of the fabric of the nation” in the same way it thinks about roads and railways and broadband networks.

Chris Lewis’s view is that developing against the pipeline offers a level of visibility and clarity that isn’t available anywhere else in Europe. But there’s a need to shorten development cycles, and the industry needs to be offering different solutions and working in different ways. New, modular, lower-risk solutions are required.

Finally, Dance answered numerous questions from the audience, offering his insights on how contractors can manage risk in different types of infrastructure, how the pipeline is prioritized, and the pros and cons of “benefiter pays” models of funding.
Middleton began by noting the sense of optimism in the construction space, a common theme of many speakers on the day. Infrastructure, and the rebalancing of economic policy toward fiscal policy, is a trend in many relevant markets. He noted that some upcoming megaprojects, particularly in the UK, are unique in their challenges. They’re going to require the market to respond differently.

The panelists set out some the opportunities and challenges they see in the industry. Gupta sees positives around the convergence in the UK of the asset classes of infrastructure, real estate and housing, and around the demand for capability that megaprojects in the UK will create along with the advantage this will bring for larger, established players. Gupta also sees challenges in financial investors’ moves to greenfield assets – construction companies may have to accept a greater proportion of risk – and the increasing complexity of megaprojects. As the scale of these projects increases, the sector will likely see more competition from overseas.

Other panelists noted that they expect to see a greater number of financiers and stakeholders involved in transactions. Booth highlighted issues around housing in the UK, including planning, the need for land bank access and compulsory purchase programs. She also raised the issue of whether the supply chain can cope with the capacity needed for forthcoming megaprojects.

In response to questions from the audience, the panel discussed whether contractors can take on more risk. The view from the contractor side was that, at current margins, more risk is unsustainable. The structure of the Thames Tideway Tunnel project was cited – there a series of alliancing contracts for component parts of the build acts to minimize the risk for each individual contractor.

The fact that companies hired on megaprojects are mostly from outside the UK and the lack of UK companies with balance sheets large enough to take on risk was noted. This prompted a wide-ranging discussion between the panel and audience members. One explanation provided was that a lack of capital in construction means the necessary investment in innovation hasn’t been made, something that is unlikely to change until margins go up. The question of whether bid-scoring is too focused on price was also discussed.

Middleton offered his view that construction companies should be de-emphasizing the balance sheet, because the most important factor is the ability to deliver on time and to budget. He noted that none of the UK construction companies have an investment-grade credit rating, and none are even close to achieving one. The mentality in the sector should be – how are we helping the credit matrix of the project?

The panel went on to discuss issues around the funding model of the Heathrow Airport expansion and whether it could be extended to other areas not traditionally treated as network assets. It was felt to be potentially relevant to large projects that incur huge capital costs and extended construction periods, and from which revenue only flows several years into the project – nuclear power stations being a good example.

The question of how to get an investment-grade credit rating for project vehicles, particularly in relation to megaprojects, was also debated.
Summary and closing remarks

Ad Buisman

Ad Buisman, EY Global Construction and Engineering Leader, concluded the conference by summarizing the main themes of the day. He reminded the audience that two years ago he had described 2014 as showing “light at the end of the tunnel” and that last year he had called 2015 the year when “the wait was finally over.” But he admitted that summarizing 2016 was more of a challenge – a “year of transition” was the perhaps the most accurate way to describe it.

He highlighted the following important takeaways from the conference:

• While the post-Brexit environment might seem like business as usual, it’s early days and that impression might be deceptive.
• The main risks for the industry arising from Brexit are skills, shortages of labor, access to resources, cost inflation, foreign direct investment attractiveness and the loss of EU funds.
• Disruptive technologies are changing products, changing production, and changing demand, whether through the cloud, the Internet of Things, augmented reality or virtual reality. This is creating a new competitive landscape in which disruptive technologies will be available to anyone – there will be low barriers to entry.
• While the infrastructure and construction industry is the best industry on the planet, it comes with few rewards. Construction companies take all the risk with very low margins. So why do we continue to do it? Because we love the industry.
• The biggest challenge, besides low margins, is the lack of skilled labor in the sector. And in the UK, post-Brexit immigration changes are likely to make that challenge greater.
• Other trends in the post-Brexit environment include optimism that innovation will help improve margins within the industry; that international expansion and consolidation of the supply chain are still high on the agenda; and that design and construction should work more in partnership.
• There is a business case for corporate responsibility, and potentially a competitive advantage, so companies should “be good and tell.” If the sector doesn’t do it itself, then government will.
• The UK’s £400 billion (€466 billion) investment program is going to bring many opportunities to the construction industry. But the number of megaprojects in the pipeline will bring challenges – how is the industry going to deal with them?
• Questions about UK and European companies’ balance sheets, the lack of investment-grade credit ratings, and how risk can and should be shared between parties in the sector are clearly hot topics for the construction industry.

Buisman finished by thanking participants for their insights, enthusiasm and interaction during the conference.
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