



association of
consulting and
engineering

A nighttime photograph of a cityscape reflected in a body of water. The scene is illuminated by various lights, including purple and green Christmas lights on trees in the foreground and city lights in the background. The water reflects the lights, creating a shimmering effect. The sky is dark, and the overall atmosphere is festive and urban.

consulting and engineering sector COVID-19 implications

about ACE New Zealand

ACE New Zealand is a firm-based membership association that represents consulting and engineering organisations throughout Aotearoa. Founded in 1959, we have more than 200 member firms who employ some 13,000 staff who play a critical role in the design and delivery of our nation's construction and infrastructure sectors.

introduction

In April 2020 ACE New Zealand surveyed its members to ascertain the immediate impacts of COVID-19 on the consulting and engineering sectors in Aotearoa, what is driving these impacts, as well as member attitudes regarding the future of the sector.

ACE New Zealand represents over 200 consulting and engineering firms, ranging from large global firms to employee-owned SMEs. Our members are on the front lines of delivering critical construction, infrastructure and consultancy services and represent the essential expertise that Aotearoa will need as we navigate the current crisis and transition to recovery.

response rate

One hundred thirty-eight member firms employing more than 11,000 staff responded to the survey. This represents a response rate of approximately 64% of member firms and market coverage (as measured by fulltime equivalent employees) of more than 80%.

Firm size ranged from single-person businesses to large organisations employing in excess of 1500 staff

Responses were received from members operating in all regions of Aotearoa, and the distribution was largely consistent with the ACE New Zealand membership profile.



ACE New Zealand key themes

In general, the consulting and engineering sector was strongly supportive of the all-of-government approach to the COVID-19 crisis in protecting the health and safety of New Zealanders while ensuring the viability of our economy. While there are genuine economic and social impacts resulting from the Alert Level 4 lockdown, there was a recognition that a strong and considered response followed by a carefully managed return to activities would likely be more beneficial in the long term.

However, should our nation's response not be effective, and we find ourselves under lockdown or with activities severely restricted for extended periods, then members considered the consequences would be significant.

Members voiced that with many private sector clients cancelling large construction and infrastructure projects, the government's role in ensuring a viable and sustainable sector is more critical than ever. Not only through guaranteeing a pipeline of work across the entirety of the sector, but also in leading sector transformation in line with the principles of the Construction Sector Accord.

Cashflow and continuity of work are considered vital if our sector is to maintain a high-quality and engaged workforce to support our nation's economic recovery. Without this, many firms indicated they might downsize substantially or become insolvent. 44% of respondents reported the potential for job losses, with 53% of these indicating it was likely they would reduce their workforces by between 6% and 20%. Concerningly 13% of firms felt it was possible job losses would impact more than 30% of their current workforce.

There was significant commentary that government policies should enable a considerable amount of credit to be made available to firms that deliver critical construction and infrastructure. It was clear that no matter how good the government's stimulus-response is, some decrease in workload at least in the short term is inevitable. If the government were to backstop and underwrite loans, banks and lending institutions would be in a position to allow firms to retain their expertise and remain operational.

It was very clear from responses that not all markets have been affected equally. In general, members felt far more positive about market sectors which had significant central government involvement, and well signalled forward pipelines and funding. Transport is the most obvious example, with 94% of respondents indicating a positive outlook. The water sector also retained a good deal of confidence (67% positive). In market sectors where the government (either central or local) plays a smaller role, there was significantly less confidence. The most evident examples of this are in the buildings, architecture and design market (43% negative) and land development and surveying (46% negative).

Given the unequal impacts, any government stimulus-response should place additional emphasis on funding projects in sectors with the lowest confidence and most significant extra capacity. Targetting funding in this way will ensure that we have a fair and balanced response, manage capacity constraints in some areas, and importantly keep the maximum number of industry professionals gainfully employed.

Government procurement was a consistent theme, where members felt the speed and the cost to procure under typical models are untenable post-COVID-19. Members stated that if we are to recover quickly, then we must identify and develop rapid deployment models. While there was recognition of the ongoing need for both probity and taxpayer value, it was clear that typical competitive procurement models would layer unnecessary costs onto businesses when they are already struggling to maintain financial viability.

There was consistent feedback that while large, collaborative models such as alliances may be appropriate in many instances, there is the perception that these models favour large firms. Therefore representation of local small and medium-sized firms should be increased through considering broader procurement outcomes.

Fair and balanced contract conditions and risk allocation were also seen as being critical if projects are to proceed at a pace to allow rapid recovery. In particular, there was strong support for the government to mandate the use of industry-standard contractual agreements with strict limitations on special conditions. Similarly, in alliance type models, the inclusion of no-sue provisions would give participants the confidence to progress projects quickly.

Changes to laws and processes were another area of commentary. Following the Christchurch and Kaikoura earthquakes, such changes were expedited to overcome obstacles to activities progressing. Members felt this streamlining is necessary now more than ever. This could include changes to resource consenting and consultation processes, as well as practical measures such as the removal of winter restrictions on earthworks.

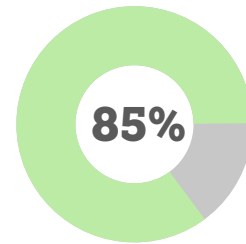
While a direct response from key government clients is vital, members felt the government has a broader role to play by assisting local government. For example, the Auckland Council and its Council Controlled Organisations (such as Auckland Transport) will be central to the economic recovery in our largest region. Members indicated the government must engage with and support these organisations not only with an agreed infrastructure stimulus package but also with operational funding. Such an approach would also be appropriate in other high growth areas where there are significant infrastructure and funding challenges. This could include cities such as Hamilton, Tauranga, Christchurch, Dunedin and Queenstown.

Members considered that past economic challenges had demonstrated the effectiveness of construction and infrastructure as a form of stimulus. Infrastructure's added benefit is its significant and lasting return on investment. Once delivered, these assets continue to enhance our social, economic and environmental wellbeing rather than being a one-time expenditure.

Lastly, members felt there was a need to remain future-focused. Notably, while there is the recognition that a significant immediate investment is required, this should not be at the expense of a long term strategic view. There is a risk that we invest massively now, and then neglect our infrastructure in the years that follow. This boom and bust style approach would be problematic for both Aotearoa generally and also our sector. Prudently investing in infrastructure is a means of growing and strengthening our economy - in addition to all the other societal benefits.



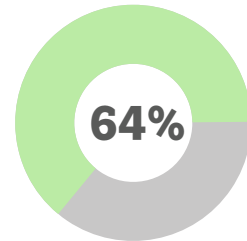
How would you describe the impact of the COVID-19 pandemic and Alert Level 4 lockdown on your business?



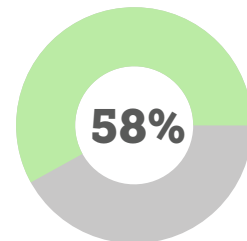
85% of members characterise the effect of COVID-19 as being negative or very negative

In particular, members felt that site activities being limited to essential services was having significant impacts. Other issues highlighted included, both private and public sector clients already halting planned works, as well as considerable uncertainty about the future of particular business lines.

What challenges is the current situation presenting for your business?



64% of members were already experiencing a decrease in service demand. This number increased to 77% when considering future demand.



58% of members were experiencing cashflow or financial issues

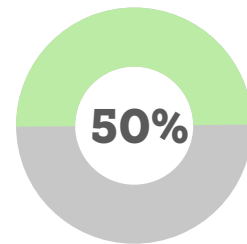
Other matters which members mentioned included the general uncertainty (80%) created by the situation, which severely hampered organisations' abilities to plan effectively. Members also cited staffing challenges (37%), including general declines in productivity, widespread uncertainty and staff wellness.

The consulting and engineering sector was well placed to transition to remote working, with only 19% of members stating technology issues were having an impact on their operations.

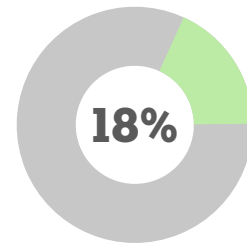
How do you feel about the future of your organisation?

We asked members how positive they felt about the future of their organisation under several scenarios.

If the Alert Level 4 lockdown ended as planned and at least a partial return to work was possible.



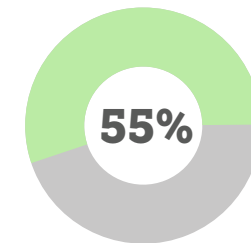
50% of members were either positive or very positive



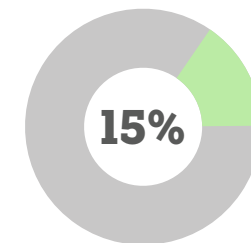
18% were negative or very negative

However, if the lockdown period was prolonged member sentiment changed markedly.

Members noted that the longer the lockdown continues, the more significant the negative impacts are likely to be. In particular cashflow and continuity of worked were sited as critical issues.



55% of members were either negative or very negative

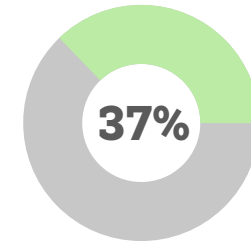


Only 15% remained positive

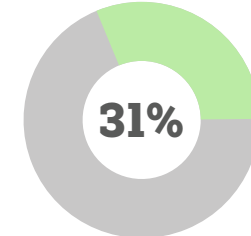
How long after the lockdown ends do you expect your business to return to normal?

There was a high degree of uncertainty around how long it would take member businesses to recover. Most notably members commented that this would be influenced by how long the Alert Level 4 was in place, the limitations on working and productivity at other Alert Levels, and most notably how both central government and local government responded to give confidence to the market.

Many members commented that there was likely to be a considerable structural change to our economy, and it could take five to ten years for our sector to adapt fully.

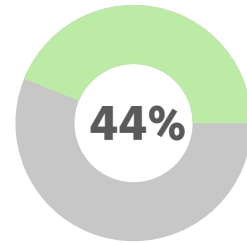


37% of members felt business would return to normal within six months



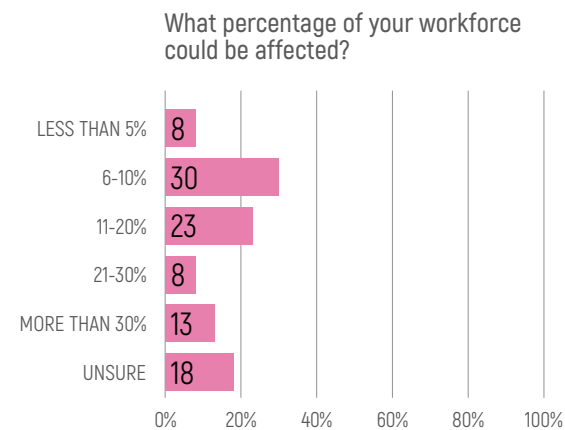
31% of members felt it would take more than 12 months to return to normal, with 5% considering that their business will not ever fully recover

Do you envisage job losses as a result of COVID-19?



44% of members felt it was likely there would be job losses in their organisation over the coming year

Of those who felt job losses were likely, they were asked what percentage of their workforce would likely be affected. The results were as follows.

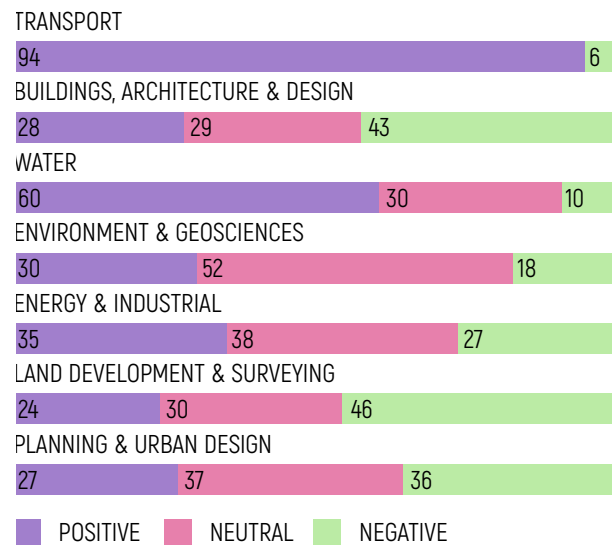


18% were unsure of the scale of the impact, as that will be determined by the length of the lockdown and the economic response which follows.

53% of firms who envisaged job losses felt it was likely they would reduce their workforces by between 6% and 20%.

Somewhat concerningly, 13% of firms felt it was possible job losses would impact more than 30% of their current workforce.

Members were asked how confident they felt over the next 12-24 months about a range of market sectors. The responses were as follows:

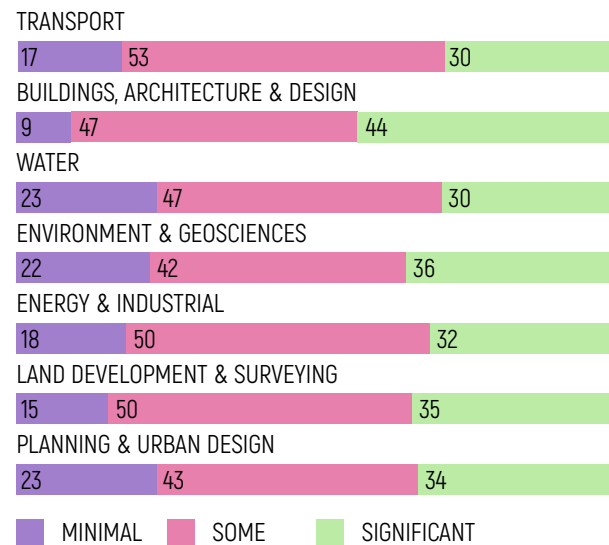


In general, members felt far more positive about market sectors which had significant central government involvement, and well signalled forward pipelines and funding. Transport is the most obvious example, with 94% of respondents indicating a positive outlook.

There was less certainty where the central government has less direct involvement. While 67% of respondents still had a positive view of the water sector, there was somewhat less confidence when compared with transport. This is likely because the water sector has a significant local government funding component, and the local government sector is facing its own constraints resulting from COVID-19.

In market sectors where the government (either central or local) plays a smaller role, there was significantly less confidence. The most evident examples of this are in the buildings, architecture and design market (43% negative) and land development and surveying (46% negative). This reflects that the private sector is in many cases already deferring or cancelling previously planned activities.

Members were asked how much capacity for additional work they had over the next 12-24 months across a range of market sectors. The responses were as follows:



While there was still capacity for additional work across all market sectors, it was evident that not all markets have been affected equally. In line with the market confidence findings, the capacity for additional work was lower in areas with significant government involvement, well-signalled pipelines, and funding. Transport and water were the most prominent examples.

In market sectors where the government plays a smaller role, additional capacity was markedly higher. The most evident example of this is the buildings, architecture and design market where 91% of firms indicated they had additional capacity, and concerningly 44% of firms had significant extra capacity. Areas with excess capacity are those most likely to be impacted by job losses.

Given the unequal impacts, members considered that any government stimulus-response should place additional emphasis on funding projects in sectors with the lowest confidence and most significant extra capacity. Targetting funding in this way will ensure that we have a fair and balanced response, manage capacity constraints in some areas, and importantly keep the maximum number of industry professionals gainfully employed.



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