



TODAY'S CONSTRUCTION INDUSTRY:

The key risks facing businesses

Construction companies are working in a difficult landscape as they tackle the challenges presented by Brexit, the Russia-Ukraine conflict and the pandemic. A lot has changed in the last two years—including the key risks the industry is facing today.

Last year, the construction industry showed a 15% growth on 2020 following the significant disruption caused by the COVID-19 pandemic. With a further 5% growth estimated for 2022, there is some positivity for the sector, however, construction businesses of all sizes are still experiencing significant challenges due to the high cost of materials, rising energy and fuel costs, and cash flow issues.

How has the risk landscape changed?

In June 2022, Gallagher commissioned research, asking 1,000 leaders at UK businesses to identify the top ten risks affecting their firm. For the construction sector, the key risks identified were materials costs and supply chain

problems—issues closely linked and amplified by a combination of factors, such as Brexit legislation and the Russia-Ukraine conflict.

Pre-pandemic, we saw a very different picture, with those specific risks not seen in the top five perceived threats. Back then, competition within the sector was a company's main risk concern—a factor that no longer even makes it into the top ten. This highlights that the priority of many firms today is simply to survive through these difficult times.

In the tables below, we outline the results of our research. The percentages relate to business leaders saying the risk is one of their top three risk concerns.

Top 10 risks identified by UK construction businesses in 2022

Rank	Risk	% of businesses identifying among top three risks*
1	Cost of materials	56%
2	Supply chain failures	36%
3	Cost of salaries	27%
4	Transportation	26%
5	Late payments	23%
6	Employee retention	22%
7	Debts owed to me	17%
8	Cash flow	17%
9	Servicing debts	17%
10	Cybercrime	15%

Top five risks identified by UK construction businesses—pre-pandemic

Rank	Risk
1	Competition
2	Lack of talent
3	Cash flow
4	Late payments
5	Transportation

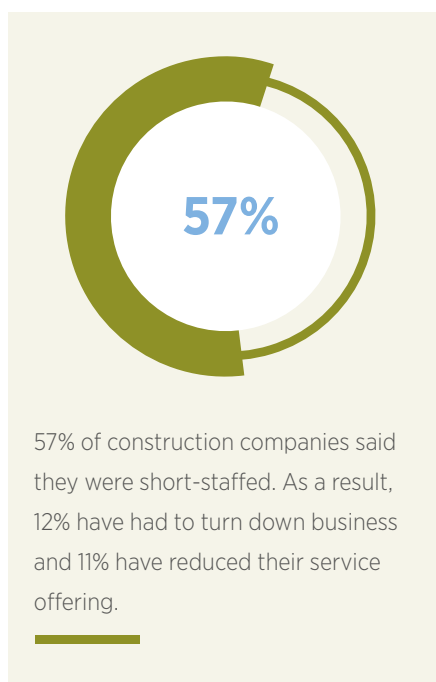
Cost of materials now the biggest threat

The highest perceived risk in 2022—the rising cost of materials—is being attributed largely to the increase in the cost of fuel/energy (48% of respondents), inflation (48%) and the increase in the cost of living (36%). The Russia-Ukraine conflict is close behind at 33%, followed by Brexit and COVID-19 (both at 30%). These results show that events of the last two to three years have had a significant combined impact on the construction industry.

Supply chain failures, too, are being largely attributed to Brexit (44%), the Russia-Ukraine conflict (44%), and COVID-19 (37%), with fuel costs being another key reason (25%). Over half of respondents (54%) said that supply chain issues had become a far higher priority for their business in the last 12 months.

Skilled labour shortages and higher salary expectations

One of the key risks pre-pandemic that still remains is attracting and retaining talented workers, and the cost of salaries is a big concern now that the demand for talent is higher. Others (17%) have invested more money in recruitment or looked to recruit workers from other parts of the UK (10.7%). Lack of skilled workers is costing an average of £32,000 per year across firms of all sizes.



Protecting the bottom line

Cash flow and payment/debt issues remain a significant challenge in the industry and will likely remain so as the cost of fuel and energy continues to rise, inflation soars and the cost of living crisis worsens. However, the top reason given for cash flow problems (44% of respondents) was the pandemic, which still leaves many firms struggling to pay back loans taken out under the Coronavirus Business Interruption Loan Scheme (CBILS). For some companies, their ability to manage tight margins in this environment may be the difference between staying afloat and facing insolvency. According to the Insolvency Service, April 2022 saw 384 firms in the UK construction industry go under, compared with 157 in the same month last year. In addition, construction companies are defaulting on their CBILS repayments twice as much as businesses in other industry sectors.ⁱ



Is cybercrime more than an 'emerging' threat?

Perhaps surprisingly low down the top ten list comes cybercrime. Over the past three years, a number of tier one contractors have been hit by cyber-attacks, including Bam Construct, Interserve, Bouygues UK, RMD Kwikform and Amey.ⁱ Businesses that rely on digital tools, such as using 3D modelling packages, GPS equipment and business management software, can be more susceptible to attacks. However, despite the increasing threat and high-profile attacks, it seems cyber the risk is being overlooked by some firms, possibly because the sector is still not typically associated with a strong reliance on digital technology and so has limited regulation and guidance on cybersecurity.

Despite the increasing threat and a number of high profile attacks, cyber risk is being overlooked by some firms.

Just over half of our survey respondents (53%) said their business was taking steps to be better prepared for a cyber-attack, and in the last 12 months, 54% had provided staff training to identify and help avoid risks such as phishing. There is certainly room for improvement here, and it will be interesting to see where this risk features in the future as construction catches up with other industries in terms of strengthening cybersecurity practices. In our article on cyber risk for the construction industry, you can see a few examples of how attackers are exploiting vulnerabilities in the systems of construction firms.

Moving forwards

It is possible to secure insurance cover for many of the top ten risks we have outlined here and we can advise on appropriate covers and cover limits for your business. We also offer specialist risk management services to help mitigate some of the risks you face so you can minimise the potential for loss.

If you would like us to review your insurance cover, or if you have any questions about how you can manage your risk more effectively, please get in touch with our specialist construction team.

Would you like to talk?

For more assistance, please contact your local Gallagher Construction Executive who will be happy to assist.

ⁱ[Construction insolvencies set to surge despite April decline](#) | News | Building

ⁱⁱ[GCHQ launches cyber attack guidance for construction firms](#) | Construction News

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