Chain Reactions
A View from Balfour Beatty’s Key Suppliers

October 2017
Our supply chain is much more than a group of individual subcontractors and suppliers: it is a key part of our business, core to our own performance and reputation as a company. Being able to leverage the expertise and scale of our supply chain gives Balfour Beatty a real edge in bidding for and delivering schemes across the UK. We aim to build strong, long-term partnerships with these companies, based on shared values, to help us deliver excellence to our customers. Working in partnership and collaborating relentlessly means we can, together, constantly improve safety, quality and efficiency. These strong relationships are the platform on which the construction and infrastructure industry is built.

For the first time we have undertaken a survey of our supply chain. We want to understand how our suppliers are dealing with some of the key issues that are affecting them, and whether there is more Balfour Beatty can do to remove barriers and support them. Our thanks go to our supply chain partners who shared their knowledge and insight with us. Their thoughtful responses made this an extremely valuable exercise. I hope it contributes to the continual improvement of our relationships with them.

Leo Quinn
Group Chief Executive
Executive summary

Balfour Beatty finances, develops, delivers and maintains some of the largest and most complex projects in the world. Our supply chain, made up of the companies which provide the materials we use and the subcontractors who work on our sites, is critical to helping us deliver them.

The construction and infrastructure industry faces a number of challenges over the next decade, from addressing ongoing skills shortages and managing the impacts of Brexit, to the need to adopt new technologies and become more agile as innovation and disruption take hold in the sector.

This paper considers how our supply chain is dealing with some of these challenges, and how it views Balfour Beatty. The content is based on feedback collated from discussions with our suppliers and data and analysis from market research carried out for Balfour Beatty in September 2017 by ComRes, a leading market-research company.

The research finds that, overall, our suppliers are positive about the current environment they are operating in, but a cautious position over future expectations is not surprising. Existing skills shortages across the sector, along with rising material costs, are beginning to impact profit margins and the majority (86%) of the companies surveyed are making provisions for Brexit.

Suppliers suggest that productivity within the industry could be improved by innovation, something many of them are investing in, as is Balfour Beatty. However, our suppliers say that there is also a need to increase investment in training and development especially among younger workers. A failure to address skills shortages, which may be made worse by Brexit, has the potential to lead to spiralling labour costs and to put at risk both the deliverability of some schemes and the ability of our supply chain to invest in new equipment and technology. Investment in these areas could also be shored up, according to our supply chain, by there being more certainty on future opportunities that are in the pipeline.

More broadly, most of our suppliers feel confident in the values and standards upheld by the UK construction industry, with a majority of those surveyed agreeing that the industry is committed to high standards of health and safety (95%) to diversity and inclusion (85%). However, the persistent gender imbalances and low numbers of those from minority ethnic backgrounds coming into the sector demonstrate that this commitment to diversity and inclusion may not be being effectively communicated, and that outdated perceptions of the industry remain.

Finally, we are proud that our suppliers say they want to work with Balfour Beatty because we work collaboratively with them, seeking to build long-term relationships and providing opportunities to work on large, high-profile construction projects. There is always more that can be done to improve the way we work, but we are pleased that the steps we have taken so far, such as e-invoicing to streamline and speed up payment of our suppliers, and the development of the Innovation Gateway, to ensure we are listening to our suppliers’ ideas, are being welcomed.

We want to build lasting relationships with our suppliers. Strong partnerships are key to our mutual continued success.

Key findings

1. Skills shortages in the construction industry are a long-standing issue which is having a significant impact on the financial health of our suppliers.
2. Increases in the costs of raw materials since the Brexit vote are impacting profitability, resulting in companies being squeezed from both sides.
3. We encourage companies in our supply chain to consider setting up apprenticeship schemes to train the next generation and future-proof their businesses and the sector as a whole.
4. Balfour Beatty will use the full flexibility in the Apprenticeship Levy to transfer unspent digital funds to our supply chain. However, we are also encouraging the Government to increase the amount larger companies can transfer to their supply chains to ensure that the money stays in the sector.
5. 96% of our suppliers surveyed agree that further development of technology and innovation within the UK construction industry will improve the productivity of the industry, and most are themselves embracing new technologies.
6. We are making it easier to work with us and receive payment through measures such as the introduction of mandatory electronic, or “e-invoicing” for all suppliers to streamline the process so our suppliers get paid on time.
7. 85% of our suppliers surveyed say that their business is up to date with the latest opportunities in the UK construction industry pipeline, however, the level of detail provided is not always enough for companies to make the significant investments they might otherwise commit to.
8. 95% of suppliers surveyed state that the UK construction industry is committed to high Health and Safety standards, while 81% agreed that Balfour Beatty is leading in Health and Safety in the UK construction industry.
9. We were pleased to find that 83% of those surveyed feel that the industry is committed to diversity and inclusion. However, given the proportionally small number of women, for example, and those from black and minority ethnic backgrounds, working in the sector, this highlights that we must do a lot better at ensuring that the industry’s image reflects this, so we are able to attract people from all genders and backgrounds into careers in the industry.
10. It is extremely positive that our suppliers are confident in their ability to deal with Modern Slavery in the workplace, with 88% of those surveyed saying that they would know what actions to take.
Brexit and skills

Long-term stability is critical to a sustainable supply chain. However, skills shortages in the construction industry are a long-standing issue which is having a significant impact on our suppliers. With demand for workers outstripping supply, wages are driven up, impacting the ability to deliver schemes to budget and putting margins under strain. In some cases, a shortage of skilled labour puts at risk the deliverability of schemes.

Increases in the costs of raw materials since the Brexit vote, owing to the fall in the value of sterling which has pushed up the cost of imports, are also having an impact on profitability, resulting in companies being squeezed from both sides.

The survey of our supply chain showed that while 86% of those surveyed are making provisions for Brexit, only half (51%) feel that there is currently enough being invested in skills across the sector. Many of them consider that skills shortages are not being adequately addressed and that we need a stronger pipeline of talented individuals coming into the industry. This is especially the case given the army of skilled workers that will be needed to deliver the 500 infrastructure projects in the National Infrastructure and Construction Pipeline (NICP) with a value of almost £500bn, planned for the UK over the next decade, which does not include schemes such as Heathrow’s proposed third runway, and the Lower Thames Crossing for example.

Balfour Beatty aims to play its part in ensuring its supply chain has the capability and capacity to meet future demand for skilled labour and that the sector more broadly has access to the skilled domestic workforce it needs. We believe that a strong and resilient construction industry needs a robust domestic skills base. The projected need across the sector is for over 250,000 construction and over 150,000 engineering construction workers by 2020, driving a need to recruit and train nearly 100,000 additional skilled workers by the end of the decade. If the EU workers in the industry were to leave in the short-to-medium term, the number of new workers the sector would need to recruit and train would be undeliverably high.

As a British company with a hundred-year legacy in the UK, Balfour Beatty is committed to addressing the skills shortages in the UK and investing in home grown talent. Balfour Beatty employs over 150 apprentices each year in the UK in addition to the 330 currently under training in a diverse range of roles across the business. We employ around 700 more young people on graduate and part-time higher education/degree schemes. Balfour Beatty is also a long standing member of The 5% Club, an employer-led organization set up by our Group Chief Executive, Leo Quinn, four years ago, aiming to address the skills gap by getting more young people into earn to learn opportunities, encourage businesses to take the lead on training and promote apprenticeships as a positive career decision.

However, two-thirds of all apprentices in construction receive their training via SMEs, which dominate the sector. Smaller businesses have a prominent role in the UK construction market and a significant role to play in the continued health of the sector and the wider economy.

The skills shortage across the construction industry is such that all the Apprenticeship Levy being paid by construction companies must be reinvested in high quality construction apprenticeships. We therefore welcome the fact that from April 2018, larger UK contractors including Balfour Beatty, will be able to digitally transfer up to 10% of the levy funds entering our digital account in a given year to our supply chain. This means that our sub-contractors will be able to use our unspent apprenticeships funding to train more apprentices themselves.

Balfour Beatty will use the full flexibility in the Apprenticeship Levy to transfer unspent digital funds to our supply chain. However, we are also encouraging the Government to increase the amount larger companies can transfer to their supply chains to ensure that the money stays in the sector and is used to deliver the maximum number of construction apprentices and a strong pipeline of talent rather than being redeployed to other industries.

To take advantage of this, we encourage companies in our supply chain to consider setting up apprenticeship schemes to train the next generation and future-proof their businesses and the sector as a whole. The construction industry skills gap will only be bridged if more employers take on apprentices.
Improving productivity in the sector

Productivity in the construction industry has been almost flat over the past two decades. This is due to a number of factors, from the cyclical and fragmented nature of the industry, to low profit margins resulting in a lack of investment in new machinery and equipment. And yet infrastructure construction and housebuilding are at the heart of the Government’s plans to boost economic growth across the country, so the productivity of the sector is of key importance to the UK economy.

There are two key ways to improve productivity: investing in better machinery and equipment; or improving processes to allow a worker to increase the speed or quality of what they are doing. In the construction industry, this largely means embracing improvements in technology and new methods in construction, techniques which have driven productivity improvements in other sectors. Technologies that offer particular promise to increasing productivity include off-site fabrication, robotics, mobile technologies, BIM, and augmented reality. Of specific benefit in the construction industry is the ability to share data in real time across the supply chain, allowing for a more collaborative, streamlined approach to projects, reducing costs and boosting productivity. This is because digital technologies offer the ability to provide early insight of job and production status, enabling the most effective deployment of labour and materials. For example, if real time updates are available, site managers will have more accurate information about when deliveries are expected. Traffic management can be reduced or used on other tasks if it is known and guaranteed that no deliveries are taking place after a certain time on a specific day, benefiting site efficiency. Similarly, knowing that a delivery is arriving at a specific time means that everything can be in place to unload the product, removing wait time, making it more efficient for the supplier.

Almost all our suppliers surveyed (96%) agreed that further development of technology and innovation within the UK construction industry will improve the productivity of the industry, and most are themselves embracing new technologies. For example, those surveyed are most likely to have implemented or be in the processes of implementing an Internet of Things network of any technology tested (61%), while a third (34%) have implemented or have plans to implement Big Data and predictive analytics in their business. Balfour Beatty itself has made significant progress in its vision to become a truly digitally empowered business. Development of internal expert capabilities such as the training of new Drone Pilots, a digital surveying team with full laser scanning service, a high-end visualisation team and a significant increase in BIM-related skills has shown an increase in quality, a leaner approach and a safer working environment. In 2016, we undertook global collaboration in the fields of Virtual Reality and construction robotics, using skills from the UK, USA and Hong Kong. Both technologies are vital to the future of Balfour Beatty and the industry as a whole.

Encouraging innovation in our supply chain

Balfour Beatty aims to make continuous improvements to our products, services and processes. We are keen to nurture and unlock innovation wherever possible, with the goal of improving the efficiency, safety and delivery of our work for the customer. Our suppliers are market experts and often have the specialist knowledge to enable us to invest in new products, materials and services once they are ready for market. Innovation that helps to differentiate Balfour Beatty or make us more efficient, encourages growth and in turn provides more opportunities for our suppliers. We want to encourage suppliers to generate new ideas and share them with us. Our “Innovation Gateway” is a tool that allows suppliers to put forward innovative ideas relating to products, materials and services, with a supplier feedback process in place that keeps suppliers informed. This could be a big, “game changing” idea or something which brings about an incremental but important improvement in the way we deliver our projects. We evaluate the ideas and engage in constructive discussion about them. If the ideas are workable, we will pilot them before making them available across our projects. This is just one of the many ongoing improvements that we are currently making to encourage innovation within our supply chain.

4 ONS, Productivity Handbook, April 2016
5 http://www.balfourbeatty.com/SupplierInnovation
Visibility of future opportunities

Across the supply chain, having visibility and certainty of future work is of vital importance. Future opportunities must be communicated early and in enough detail to enable individual suppliers to make investment decisions on skills, capability, equipment and production. In contrast, a lack of certainty around the future pipeline of work can be a disincentive for firms to invest in new technology and in other areas. This is why Balfour Beatty aims to provide our suppliers with as much visibility of our pipeline of work as possible. However, we recognize that there is always room for improvement, and we keep the ways in which we communicate future opportunities to our supply chain under constant review. We are currently considering how we can better communicate the opportunities we have in our pipeline to our supply chain. While it is positive that 85% of suppliers surveyed say that their business is up to date with the latest opportunities in the UK construction industry pipeline, it is important to note that the level of detail provided is not always enough for companies to make the significant investments they might otherwise commit to.

Streamlining payment

In an increasingly competitive environment, the cash flow impact of a reliable, timely invoicing process has never been more important. This is why Balfour Beatty, listening to our suppliers, is making it easier to work with us and receive payment. One of the ways we have done this is to introduce mandatory electronic, or “e-invoicing” for all suppliers (excluding sub-contractors) early in 2017: to streamline the process from the point when we receive the invoice, to payment – so our suppliers get paid on time. We are committed to paying suppliers promptly and in accordance with agreed terms. E-invoicing is faster, easier, more precise and saves both Balfour Beatty and our suppliers administrative hassle. It does this by standardising the format invoices are received in, meaning that they can be processed more quickly and with fewer errors and delays, rendering redundant the time and costs associated with other ways of invoicing, ensuring prompt payment of our invoices.

The programme, called Procure to Pay (P2P), is a key part of Balfour Beatty’s strategy for building our relationship with our supply chain. It is run via Tradex’s secure online platform. Since Tradex is the largest construction-based e-trading connection in the UK, using it means that suppliers are able to use the same system of paperless invoicing with other customers.

Health and Safety

Construction is a high-risk industry and Health and Safety is an essential consideration on any project. Nothing that we do is so important or needs to be done so quickly that it cannot be done safely, and it is right that this issue is prioritised. 95% of suppliers surveyed stated that the UK construction industry is committed to high Health and Safety standards. Those surveyed were very positive towards Balfour Beatty’s performance in this area: 81% agreed that it is leading in Health and Safety in the construction industry in the UK. We are proud that our suppliers recognise our commitment to health and safety. However, the figure also demonstrates that there is still room for improvement. The health and safety of our employees and everyone else affected by our activities is fundamental to the success of our business. We invest a lot of time and expertise in ensuring that our supply chain works to the same high Health and Safety standards as we do. We share with our suppliers our vision of a Zero Harm culture6 and the importance of delivering a ‘right first time’ approach to safe working. We work closely with them to continually improve our safety culture.

We require that everyone who works for or with us:

- Embeds health and safety as core elements in all they do
- Takes a lead in requiring and delivering excellent health and safety
- Works with us to eliminate the risk of serious harm from all our activities
- Upholds and promotes our policies and expected behaviours
- Is intolerant of unsafe behaviour, short cuts and unplanned work
- Supports those who challenge these unsafe practices, and holds people to account if they don’t conform
- Insists that everyone is involved, informed and engaged
- Challenges, learns and innovates to reduce risk
- Reports potentially unsafe incidents and injuries, and investigates fully to learn lessons
- Comes to work in a fit condition

6  http://www.balfourbeatty.com/HealthandSafety
Diversity and inclusion

While the UK workforce as a whole is more diverse than ever, the construction industry does not reflect the makeup of the general UK population, either in terms of gender, ethnic background, sexual orientation or those with disabilities. Not only should the industry work to better represent the society it serves, but in failing to attract and retain people from all genders and backgrounds, employers are missing out on a significant proportion of the skilled workforce. This is particularly pertinent for the UK construction industry, which is currently facing a skills shortage that is predicted to worsen in the coming years.

We were pleased to find that 85% of those who responded to the survey feel that the industry is committed to diversity and inclusion. Ensuring a more diverse and inclusive culture across the industry is one of the ways of attracting people from a broader range of backgrounds into the industry, and ensuring that they continue working in it. However, given the proportionally small number of women, for example, and those from black and minority ethnic backgrounds working in the sector, this highlights that we must do a lot better at ensuring that the industry’s image reflects this, so we are able to attract people from all genders and backgrounds into to careers in the industry.

Diversity and inclusion are central to Balfour Beatty’s way of working. We value diversity and celebrate individual differences, believing that our inclusive culture helps the business continue to grow as a strong, dynamic and innovative organisation. Our Group Chief Executive, Leo Quinn, is the board-level sponsor for diversity and inclusion. He has established a new steering committee to govern strategic diversity and inclusion across the UK, tracking progress against a three-year blueprint.

At Balfour Beatty we are always looking to improve our approach to diversity:

- To support our diversity and inclusion initiatives, we created four employee-led Affinity Networks: Women in Business; Lesbian Gay Bisexual Transgender and Allies (LGBT+); Ability; and Multicultural.
- In 2014, we became one of the first major construction companies to join Stonewall’s Diversity Champions programme.
- Diversity and inclusion are key components of all our talent management activities and leadership development programmes.
- Our commitment to a truly inclusive working culture has been recognised by a number of awards. For example, since 2015, Balfour Beatty’s LGBT & Allies Affinity Network has achieved a total of seven high-profile awards for its contribution to diversity in the workforce, including the Inspiring Change Award, the Outstanding Future Leader List and the Rainbow List One to Watch.

Modern slavery

Modern slavery is a largely hidden crime. Between 11,000 and 13,000 people are estimated to be trapped in modern slavery in the UK. While most of the people working in the construction and infrastructure industry are doing so legitimately, the sector faces a number of challenges in rooting out the problem where it does exist, due to fragmented supply chains and high reliance on migrant labour.

It is extremely positive that our suppliers are confident in their ability to deal with Modern Slavery in the workplace, with 86% of those surveyed saying that they would know what actions to take. Balfour Beatty is committed to ensuring that there is no modern slavery or human trafficking in our supply chain or in any part of our business and that no one who works for us either directly or indirectly, is exposed to exploitation and abuses of their human rights. We have a zero tolerance to modern slavery and aim to take a proactive approach to tackling hidden labour exploitation.

Our Anti-slavery Policy reflects our commitment to acting ethically and with integrity in all our business relationships and to implementing and enforcing controls to ensure slavery and human trafficking is not taking place throughout our supply chain.

Anti-bribery and corruption

The integrity of both our employees and our supply chain is something Balfour Beatty takes very seriously. We expect all those working for and with us to meet the highest standards of business conduct. Corruption and bribery are unethical and illegal and can include false invoicing, kick-backs and facilitation payments. These practices distort the market and undermine the law; they must be given no place in how the construction industry operates.

Balfour Beatty’s position on anti-bribery and corruption is set out clearly in our Code of Conduct, which has been communicated to our employees, clients and supply chain. The company’s board and senior management actively lead the implementation of our Code. We also have in place risk assessment and due diligence procedures which apply in relation to the appointment of agents, joint venture partners, sub-contractors and suppliers. Our pre-qualification questionnaires and audits include questions about bribery to satisfy ourselves that our supply chain complies with the UK Bribery Act.

Balfour Beatty’s position is also set out in its Code of Conduct for our sub-contractors, suppliers and partners. The principle that guides us on this issue is that we will not offer, give or receive bribes, or make or accept improper payments to obtain new business, retain existing business, or secure any improper advantage, and we will not use or permit others to do such things on our behalf. We believe it is better to miss out on business than compromise our integrity, and we expect our suppliers to meet the same standards. We are committed to ensuring that those who provide goods and services to us do so with integrity and we make this clear in our contracts and dealings with them.

Anyone in our supply chain who has a serious concern that something may not be consistent with the Code of Conduct should feel confident to raise it with Balfour Beatty senior management. We will treat the issue seriously and follow it up conscientiously, discreetly and without bias. We also have a widely publicised confidential hotline: Speak Up. This helpline is secure, confidential and independently operated by a separate company. Employees, partners and suppliers can use this service to raise concerns about ethical conduct or possible breaches of the Balfour Beatty Code of Conduct and be assured that the issue will be appropriately investigated and dealt with. We will always support our suppliers for doing the right thing.
Conclusion

We value our supply chain. We want to be their customer of choice, establishing strong, mutually beneficial long-term relationships enabling their businesses and ours to grow and develop together. It is through a strong, resilient supply chain that shares our values that Balfour Beatty delivers excellence.

The 2017 ComRes survey and the discussions we have had with our suppliers on the issues that are impacting them at the moment, help us both to better understand our supply chain and to ensure our own processes and support are as helpful as they can be.

We will continue to look at better ways to inform our suppliers about the contract opportunities ahead and to ensure that we are helping them to innovate and employ high standards in everything they do, from Health and Safety to diversity.

Working in partnership, we will close gaps in skills, capability and competitiveness so that together we can deliver the infrastructure of the future.