Challenges facing the construction industry in London

Summary of an Economy Committee hearing

July 2013
Overview

At our hearing, the Committee identified six key challenges facing the construction sector in London. These are areas where the Mayor, construction firms and other partners could take action to boost the sector and increase opportunities for Londoners.

**Performance and outlook**
Low confidence and falling public investment are limiting output and employment growth in London’s construction industry.

**House building could drive growth**
Large-scale building of new homes could boost the industry but barriers to development have stalled many schemes and need to be tackled.

**Getting Londoners into work**
The Mayor has pledged to create 140,000 jobs over four years through GLA projects, but the total increase in permanent jobs will be much less.

**Creating opportunities for small businesses**
Small and medium-sized construction firms have been hardest hit by economic conditions and need further support to win new business.

**Enhancing skills**
Existing training provision in London is not meeting demand for skills such as glazing, plastering and dry-lining, and access to apprenticeships needs to be increased.

**Investing in retrofit**
Boosting investment in retrofit could create a large number of new jobs in the construction sector, as well improve energy efficiency and reduce fuel poverty.
This is a summary of the findings of the Economy Committee’s meeting with construction industry experts in May 2013. The following guests were invited to discuss challenges facing the sector:

- **Dan Harvey**, Ramboll & Institution of Civil Engineers
- **Brian Green**, Building magazine
- **Richard Griffiths**, Parity Projects & Federation of Master Builders
- **Paul Nicholls**, United House & London Chamber of Commerce and Industry
- **Nicola Thompson**, CITB-Construction Skills

The full [transcript](#) of the meeting is also available.
Performance and outlook

The construction industry has contracted nationally by 7% in the past year, and by 19% over five years. Low consumer confidence and a lack of public sector investment have caused this trend.

“I think it is a combination of poor consumer confidence [and] lack of investment in projects coming forward, particularly from the public sector, that has really caused some of the pain in the last five years and also is going to compromise growth going forward.”
Nicola Thompson, CITB-Construction Skills

New orders

London has a number of long-term major construction projects underway including Crossrail, the Thames Tunnel and Tube upgrades.

However, at least six commercial building projects in the City – such as The Pinnacle on Bishopsgate – have stalled or been cancelled recently.

Office for National Statistics data shows the value of new construction orders has fallen sharply in the past two years. While across England the total value of new orders fell by 12% from 2010 to 2012, in London the total value fell by 24%.

About 260,000 Londoners are employed in construction. The sector comprises 5.2% of the total London workforce and 4.7% of the capital’s Gross Value Added (GVA).

Projections

The Construction Skills Network projects that construction employment will increase by 0.6% per year from 2013-2017. Output in the sector will grow 1.9% per year in this period, but this is uneven across different sub-sectors:

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Annual average construction output growth, 2013-2017</th>
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<tbody>
<tr>
<td>Public housing</td>
<td>-10%</td>
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<tr>
<td>Private housing</td>
<td>-8%</td>
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<tr>
<td>Infrastructure</td>
<td>-6%</td>
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<td>Public non-housing</td>
<td>-4%</td>
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<tr>
<td>Industrial</td>
<td>-2%</td>
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<tr>
<td>Commercial</td>
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<td>Repair &amp; maintenance</td>
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Getting Londoners into work

We heard that large numbers of skilled construction workers are out of work, with significant costs to the public sector. Reducing unemployment is a key priority for the Mayor and his jobs pledge is focused on the construction sector.

Unemployment in construction
The Committee heard from CITB-Construction Skills that approximately 150,000 skilled construction workers in the UK are currently unemployed, costing the state at least £2.1 billion per year in benefit costs and lost revenue.\(^8\)

£385.7 million in lost National Insurance contributions
£445.8 million in lost Employers’ National Insurance contributions
£545.5 million in Jobseeker's Allowance payments
£627.5 million in lost tax revenue

Mayor’s jobs pledge
“I will create 200,000 direct jobs through City Hall programmes, including 32,000 jobs through the Tube upgrade and Crossrail, 10,000 jobs through a genuine Olympic and Paralympic legacy, and 104,000 jobs through my housing programme.”


In his 2012 manifesto the Mayor pledge to create at least 140,000 jobs in construction by 2016. Many of these jobs are in schemes that are already underway.

For the purpose of measuring progress against the Mayor’s pledge, the GLA has defined a permanent job as a newly-created, paid post that is expected to last at least 26 weeks (six months).\(^7\)

The definition of a job means that there will not be a corresponding rise in the total size of the workforce, even if the Mayor is successful.

Forecasts from GLA Economics suggest that the total number of construction employees in London will rise by only 5,000 between 2012 and 2015.\(^6\)

About 15% of construction workers nationally are paid below the living wage (£8.55 in London).\(^9\) The Economy Committee has launched a new investigation into low pay in London.
Enhancing skills

Construction can provide jobs with good rates of pay and career development. But there are significant skills shortages among London’s construction workforce, with existing training provision not meeting the demand for particular skills.

Skills shortages

CITB-Construction Skills told the Committee that London has skills shortages in specific occupations, particularly **glaziers, plasterers, dry-liners and building envelope specialists**, with inadequate training provision in London for these areas.

United House suggested one of the key problems was that in manual trades – in contrast to professional occupations like architecture – there is no continuing professional development (CPD) so workers are not supported to develop new skills during their career.

Apprenticeships

The Mayor wants to boost apprenticeships in London, pledging to create 250,000 places over 2012-2016.

CITB-Construction Skills told the Committee that the number of apprenticeship places it was delivering nationally had fallen from 15,000 per year in 2008 to 7,000 per year now, because of employers’ concerns that apprentices may not be able to complete the training.

The Committee heard that better coordination was needed. The developer United House said employers faced a potential minefield in dealing with the apprenticeship system, and needed a **one-stop shop**. CITB-Construction Skills argued that **shared apprenticeship schemes** were needed. This would allow people to begin their training on one project and transfer to another when it finishes, rather than every project recruiting new apprentices.

Local workforce

The Committee heard that London construction firms tend to employ relatively low numbers of local workers. CITB-Construction Skills highlighted that across the rest of the UK about 70% of a construction firm’s workforce will be local, **while in London this is just 46%**. About 16% of the construction workforce in London is from overseas.

The London Enterprise Panel is developing proposals for a **£1 million investment in a two-year construction skills programme**, which would be match-funded by CITB-Construction Skills.
House building could drive growth

Large-scale building of new affordable homes could help address London’s housing shortage, as well as boost the economy by stimulating the construction industry. However progress in this area is slow, with action needed to ensure schemes can go ahead.

Planning permission exists in London for 210,000 new homes. Over the next three years up to 70,000 of these homes could be built if stalled schemes get underway immediately.12

“I would say about the 210,000 sites with planning permission is that 45% are not owned by developers. So nearly half are owned by investors, foreign interests, the public sector, and they sit around for a long time because their motivations are different to either developers or house-builders or perhaps local government.” Paul Nicholls, United House

Barriers to housing delivery

GLA research12 and other evidence identify various reasons why permitted houses are not constructed such as:

- Public investment in affordable housing being limited by local authority HRA borrowing caps;
- The large number of sites owned by ‘non-builders’;
- The difficulties obtaining funding for middle-market schemes, leading to targeting of high-end ‘investor buyers’ who can buy ‘off-plan’, but may not occupy their homes; and
- Particular financing difficulties for smaller firms.

The chart below shows the number of new homes started in London over the past seven years.13

Compulsory Purchase Orders

Brian Green told the Committee that greater use of Compulsory Purchase Orders (CPOs) is needed to ensure new developments go ahead, citing the London 2012 Olympics as a successful example.

In May the Mayor told the Assembly he was prepared to use CPOs more widely to build houses, arguing: “I do think that to constrict supply in order to push up prices by land banking is plainly against the economic interest of this city.”14
Creating opportunities for small businesses

Eighteen per cent of all small and medium-sized enterprises (SMEs) in London are in the construction sector. These firms have been hit hardest by recent economic conditions. Business support and innovation in procurement could help SMEs win more contracts.

“The smaller firms take the bigger hit at the moment. Partly you have to look at the shape of orders. There were an awful lot of big orders in and around 2005 to 2008... they are big orders, they last a long time. So when the recession hit you heard two noises: one the large firms saying, ‘Everything is okay’, and the small firms saying, ‘This is carnage’.” Brian Green, Building

SME workloads
The Federation of Master Builders regularly asks small construction firms to report changes in workload. Recently London SMEs have consistently reported falling workloads. The chart below displays the balance of responses from firms in London and across England: this shows that negative responses have significantly outweighed positive responses for the past two years.

SME opportunities
CITB-Construction Skills told the Committee that SMEs could compete against larger firms by collaborating on bids for projects. SMEs will require support to do this; funding advice to SMEs is being considered by the London Enterprise Panel as part of its proposed joint investment with the CITB.

The Federation of Master Builders and United House argued that in housing development there needs to be a shift toward a steady release of smaller development sites, rather than releasing entire, large sites at once. This would help SMEs compete as projects would be less complex and funding easier to obtain.
Investing in retrofit

The Mayor and government have invested in retrofitting homes. Expanding this has the potential to boost the construction industry further, as well as improving energy efficiency and reducing fuel poverty.

Economic benefits
The Committee heard that there is significant growth potential in the retrofit sector, and that investment in this area could provide significant economic benefits. Consumer Focus research has found that investing the proceeds of new carbon taxes – approximately £4 billion per year - in improving homes’ energy efficiency would create up to 105,000 jobs in the industry nationally by 2027. The chart below shows the specific areas where jobs would be created.

“In terms of potential, retrofit is absolutely enormous... 80% of the houses that are going to exist in 2050 have already been built. If you are looking to boost the construction market, the big opportunity, the huge win, is in making sure that we retrofit the homes we have already.” Richard Griffiths, Parity Projects

Investment in technology and skills
United House told the Committee that construction firms have sought to invest in new technology necessary to expand the retrofit market, but that this is difficult to do because of tight margins on projects.

The Committee also heard about a skills gap in the sector, among property assessors. Parity Projects explained that people employed to assess homes for energy efficiency under the Government’s Green Deal scheme receive only five days’ training, which is insufficient time to develop the necessary expertise.

“If you are trying to scale up retrofit or scale up and mass-produce these solutions, there is a resistance to that because the money is not there within the businesses to do the research and development.” Paul Nicholls, United House
Conclusions and next steps

The construction industry is a vital part of the London economy. We found that the sector is recovering in London but growth in output and employment will be slow in the coming years. Smaller firms are particularly struggling.

There is capacity in the sector, and with costs below 2008 levels, public sector investment could have a significant impact on boosting jobs and growth. Housing offers the biggest opportunity to improve the sector’s performance, both in building the new homes London needs or retrofitting existing homes.

Boosting construction skills will improve prospects for the industry and for Londoners. The number and quality of apprenticeships needs to be increased, with coordinated action required. The Mayor can and should play a key role in this.

Next steps

Following our hearing the Committee has decided to focus on the issue of apprenticeships, and will launch a new investigation on this topic in autumn 2013. We will review the work the Mayor and the London Enterprise Panel in encouraging apprenticeships in the construction sector and in other parts of the London economy.

The Committee will also continue to scrutinise the work of the Mayor’s office, including in regular meetings with Kit Malthouse AM, Deputy Mayor for Business and Enterprise. Our priorities will be to examine the success and impact of the Mayor’s pledge to create thousands of new jobs in the construction sector, and the support being provided to small and medium-sized enterprises.
4. *New orders in the construction industry, Q1 2013*, Office for National Statistics, June 2013
7. Written response to Stephen Knight AM, 19 December 2012 [Question 3897/2012]
8. Data provided by CITB-Construction skills, 15 May 2013
11. London Enterprise Panel meeting, 4 June 2013
13. Response to Nicky Gavron AM, London Assembly plenary (Mayor’s Question Time), 22 May 2013
14. *Table 231: Permanent dwellings started, by tenure and region*, Department for Communities and Local Government, May 2013
18. The GLA funds the RE:NEW programme, aiming to improve the energy efficiency of homes in London.
19. *In from the cold*, London Assembly Health and Public Services Committee, March 2012