



CONSULTATIVE COMMITTEE ON CONSTRUCTION INDUSTRY STATISTICS

Minutes of the meeting of 20th November 2014

Present

Frances Pottier	BIS (Chair)
Liam Cavin	BIS (Minutes)
James Liley	BIS
Isabel Hacche	BIS
Keith Folwell	BIS
Jacqui Jones	ONS
Kate Davies	ONS
Pete Lee	ONS
Michael Dall	Barbour ABI
Lee Bryer	CITB
Ian Pegg	BCIS
Peter Rumble	BCIS
Alan Wilén	Glenigan
Alberto De Biasio	Aecom
Rhys Pennington	Aecom
Stephen Gruneberg	University of Westminster
James Hastings	Experian
Noble Francis	CPA
Marco Yu	University College London
Alex Murray	University College London
Brian Green	Brian Green Media
Bethan Slater	Health & Safety Executive

Apologies

Adam Valentine	Barbour ABI
David Crossthwaite	Aecom
Jim Meikle	Aecom
Andrew Dixon	FMB
Robert Davis	Glenigan

1. Preliminaries

Members introduced themselves to the group and minutes from previous meeting were agreed. It was noted that the published minutes included formulae which were unreadable.

Action 1: BIS to publish corrected minutes of last meeting on the BIS website

2. Update from BIS on the consultation on the seasonal adjustment of building materials and components statistics.

James Liley presented on behalf of BIS, and advised that the consultation ran from the 15th of August to the 26th of September 2014. In total, 9 responses were received, from business representative organisations, trade bodies, central government, media and undisclosed individuals.

The consultation was structured around 4 main themes:

Scope

BIS suggested initially publishing only high level figures (i.e. total deliveries), which was agreed by the consultation respondents.

Constraining seasonally adjusted annual totals to non-seasonally adjusted annual totals

BIS suggested not constraining totals, as this is considered to be methodologically sub-optimal. However, a majority of respondents preferred totals to be constrained. BIS accepts the wishes of the respondents, and will thus constrain totals.

Revisions

BIS consulted on proposals regarding revisions due to a new data point affecting the seasonal adjustment of the whole series, and also due to periodic reviews of the seasonal adjustment methodology. After consideration of expert advice and international best practice, BIS agreed that for new data points, 12 months of data previous to a new data point would be open for revision (or 4 quarters, for quarterly data). For updates to the seasonal adjustment methodology (to be reviewed once a year), the last 12 years of the series would be open to revision.

Presentation

BIS proposed to publish both seasonally adjusted and non-seasonally adjusted data in the tables of the publication, but to publish only charts using seasonally adjusted data in the commentary. This was largely accepted by respondents, but with the suggestion that both seasonally adjusted and non-seasonally adjusted charts should be published simultaneously for a period of 4 months after the implementation of the new methodology. BIS accepts this suggestion.

Seasonally adjusted data for bricks, blocks, and sand & gravel will be published as part of the March 2015 release, on the 1st of April. Seasonally adjusted data for ready-mix concrete will follow on the 3rd of June.

The full response to the consultation is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377037/bis-14-1216-seasonal-adjustment-of-key-data-series-in-monthly-statistics-of-building-materials-and-components-consultation-results.pdf

Action 2: BIS to publish seasonally adjusted series for bricks, blocks and sand & gravel on the 1st of April. Seasonally adjusted ready-mix concrete data to be published on the 3rd of June.

3. Update from Aecom regarding developments on the Construction Price and Cost Indices methodology.

Alberto De Biasio presented an update, on behalf of Aecom. Reviews conducted by BERR, BIS and the UK Statistics Authority identified shortcomings with the former Price and Cost Indices (PCI) methodology. Thus, Aecom have been working on a new methodology which will be: more robust, transparent, aligned with national accounts/SIC codes, is faster, and is more reliable. The new approach includes direct price observation for the input cost indices (ICI), and a secondary data approach for the output cost indices (OPI).

The IPI follows a basket of goods approach, in line with CPI. Individual sub-sectors of construction work are aggregated using a Jevon index combining materials, labour and machinery. Finally, the all construction index is calculated using a Laspeyres index, as expenditure weighted measure of the sub-sectors.

The approach to calculating the OPI has been based on the approach outlined by the ONS in their response to the consultation on the new PCI methodology. It is assumed that the output price charged by a contractor reflects the costs incurred, plus a mark-up. Thus, the difference between OPI and IPI can be attributed to profit margins, productivity and overheads. This was modelled as a Cobb Douglass function, to represent the output, as a function of labour, fixed capital and intermediate goods as inputs and their respective elasticity. All of the data used to calculate the OPI are published collections available through official sources.

As regional variations in materials and plant costs are not expected to be large, regional costs variations are largely expected to be due to differences in earnings. Using ONS data on regional variations in earnings at the whole economy level, 11 regional factors were used to create regional input series for each type of construction.

A wider discussion of the proposed methodology followed:

Marco Yu questioned the assumption of the constant elasticity of consumption, pointing out that this is true where the function equals 1, but that the method used assumes a value of 0.4. Alberto De Biasio referred to the new methods documentation, advising that elasticity is now not assumed to be 0.4: instead it is now 1 as per Cobb Douglas.

Noble Francis noted the assumption that there are no regional differences in materials costs. Is it true that brick costs are the same in London as in Northern Ireland? Alberto advised that this is most likely not true, but that labour costs are the main driver of regional variation in costs.

James Hastings asked whether the regional series would be used by the ONS to produce regional output figures. Kate Davies advised that this would not happen, as the deflators are not of sufficient quality. Frances Pottier advised that this had previously been looked into, but that it was not possible.

Marco Yu asked how Aecom proposed to deal with lag. Alberto advised that they did not intend to lag input costs to derive output prices. One quarter's ICI would be used to calculate the same quarters OPI. James Hastings pointed out that most projects are less

than £20 million in size, and that most small projects would start and finish in 1 year. Annual data would be sufficient, although quarter on quarter results might be affected. Noble Francis argued that the lag between new orders and output was 12-18 months.

Stephen Gruneberg commented on using input prices to calculate output costs: this alters over a cycle. Will Aecom alter their calculations to account for this? Alberto advised that construction is pro-cyclical, and margins/overheads are pro-cyclical. Once Aecom obtain the mark-up, this is also pro-cyclical. Back casting shows that profit margins were reduced in 2009, and began to pick up after 2010.

James Hastings asked how much the new method would affect the historical output data, and when would the revised data be published. Alberto and Kate Davies advised that the new PCI data would be published on the same day as the new construction output and new orders data on 12/12/2014, and the effect of the new method will be seen then. This will include revisions to output data from 2013 onwards. In 30th June 2015, 2005 onwards will be open for revision.

Ian Pegg expressed concern that the formula chosen might not hold in the long term due to changes in productivity and technology. Alberto assured that by monitoring inputs they will see any changes in the industry and will revise the formula if input changes are seen. The basket of goods will have its prices updated quarterly, and will be fully updated once per year.

Action 3: BIS to publish the new Construction Price and Cost Indices on 12th December 2014.

4. Update from Glenigan on the re-launch of Construction Industry KPIs.

Alan Wilén presented an update on the re-launch of Construction KPIs on behalf of Glenigan. After a double dip recession in construction activity, there has been a gradual recovery of the private sector. Whilst volumes have risen, so have costs. The government is looking to the private sector to lead the recovery, and this is evident particularly in the recent upturn in housing construction. With this as an economic backdrop, Glenigan have published new Construction Industry KPIs. These provide a valuable set of indicators on how recent challenges have affected the industry. The 2014 KPI report is based on projects completed in 2012 and 2013.

Some key results from the report are a decrease in productivity: median productivity down to 2.1%, compared to 2.7% in the 2012 survey, and 9.9% in 2009. Staff turnover was low: 7.7% of firms' direct employees had left during the period surveyed, with less than half of those being replaced. Client satisfaction with service and the finished project was unchanged compared to the 2012 KPIs. Clients' perception of value for money slipped to in the lowest level since 2008.

A wider discussion on the latest KPI results followed:

James Hastings pointed out that there was evidence that construction employment had not fallen as much as expected after the recession. Alan stated that generally the best and

most productive staff had been retained. Turnover has fallen, and staff were not being replaced. It will be a great challenge to hold on to productivity gains through the recovery. Brian Green wondered if we could expect staff turnover to begin rising, as employees might feel more comfortable moving during the recovery.

Noble Francis commented on the increase in BIM use, from 4% in 2012 to 9% in 2014. He asked which sectors used BIM most. Alan advised that this was hard to ascertain from the data, but that he would expect public sector construction to account for much of it, and possibly supermarket construction also. Stephen Gruneberg asked whether the data gave any insights into any benefits of using BIM. Alan advised that this would require a widening of the scope of the survey.

Noble Francis noted that whilst the proportion of projects completed on time had improved, they still accounted for less than 50% of all projects. Alan explained that there had been big gains in construction time, but less so for design. He hypothesised that this might be due to clients dragging things out due to the recession.

James Hastings wondered if the results for social housing projects might reflect a lack of expertise in managing projects and contractors. Brian Green thought that Housing Associations might be more interested in quality.

Alan Wilén highlighted the good results on energy consumption across sectors, with plaudits to be shared between industry and regulation.

Alex Murray enquired what the coverage ratios are for the survey, and how close the data was to panel data. Alan advised that the KPI survey was not an attempt at panel data, with the unit of analysis being individual projects. Brian Green and James Hastings noted that companies which used KPIs had better KPI outcomes, and wondered whether this was cause or effect? Perhaps the cohort was self-selecting. Alan advised that Glenigan took great care to ensure that they did not only survey projects where KPIs had been used.

Brian Green asked to what extent KPI survey data was tested against other Glenigan data. Alan advised that the KPI survey was pre-populated as much as possible using existing Glenigan data, in order to minimise the burden on respondents.

Alex Murray and Noble Francis were interested in whether Glenigan could provide input into discussion with researchers using financial statements, on profitability. Alan agreed that this was worth doing, and will take action on producing a paper on the consistency of using financial accounts data, and the benefits of doing so.

Action 4: Glenigan to produce a paper on the use of financial accounts data.

5. Update from the ONS

Kate Davies presented an update on behalf of the ONS. She advised that the ONS was currently assessing how the new PCIs would affect the construction output data series. The ONS responded to request for longer chained volume measures (CVM) data, advising that they are confident that this would be extended back to 1955 soon. Additionally, on the

12th of December, new orders data will be released as CVM and as volumes. Users will be consulted on whether CVM will suffice in future, or whether CVM and volumes should both continue to be published.

6. AOB

Concerns over infrastructure data were raised. Noble Francis advised that there was some survey and anecdotal evidence that infrastructure data does not match what is really happening, and thus the CPA forecast diverges from the ONS data. Brian Green suggested that this may be due to some work being classified as engineering projects (e.g. windfarms). Jacqui Jones advised that some of this will be picked up on the expenditure side by gross fixed capital formation, but there is an issue regarding how this is treated within National Accounts. Peter Lee some will be in the annual GDP data, where things such as secondary products of various industries will be recorded. Noble Francis suggested that a short paper dealing with these issues would be very helpful - Kate Davies agreed to take this on.

Action 5: ONS to produce short paper explaining the issues affecting infrastructure data.

6. Date of next meeting

6.1 The group agreed that the next meeting should take place in spring 2015. BIS will be in touch with members nearer the time to agree an appropriate date.