Department for Business Innovation & Skills

CONSULTATIVE COMMITTEE ON

CONSTRUCTION INDUSTRY STATISTICS

Minutes of the meeting of 31 May 2012

Present

Keith Folwell	BIS (Chair)	**Apologies**	
James Liley	BIS (Minutes)	Richard Field	DCLG
Nikos Tsotros	BIS	Noble Francis	CPA
Jacqui Jones	ONS	Jerry McLaughlin	MPA
Stephen Curtis	ONS	Lee Bryer	Construction Skills
Tony Crook	ONS	Robert Dent	BCIS
Gareth Powell	ONS	Sue White	BCIS
Ian Murdoch	NSCC	John Stewart	HBF
Charles Lound	ONS MAS	Jonathan de Souza	Constructing
Ian Pegg	BCIS		Excellence
Allan Wilen	Glenigan	Ian Maclean	World Trade
Robert Davis	Glenigan		Stats
Paul Jackson	ECA		
James Hastings	Experian		
Stuart Martindale	DCLG		
Kelly Forrest	CPA		
Julia Evans	NFB		
Brian Green	Brian Green Media		
Stephen Gruneberg	University of Westminster		
Rob Garvey	University of Westminster		

1. Preliminaries

1.1 Members introduced themselves to the group and minutes from previous meeting were agreed. There were no matters arising.

Action 1: James Liley to publish minutes of last meeting on the BIS website.

2. Building Material Statistics Methodology Improvements

2.01 Charles Lound gave an overview of a project lead by the Methodology Advisory Service (MAS) at the ONS to advise and assist BIS with the implementation of three recommendations from the 2010 review of the Monthly Statistics of Building Materials and Components. These recommendations (1, 3 and 9 from the review) were as follows:

1. The coverage and accuracy of the sample panels used in the data inquiries should be regularly monitored and checked against other sampling frames and with relevant trade associations to ensure the representativeness of the data.
3. Methodologies used to process survey results should be improved.
9. Provide statistical quality information which could be documented in the form of metadata or quality reports.

2.02 The first part of this project was published on BIS's website in July 2011 (http://www.bis.gov.uk/assets/biscore/statistics/docs/b/bisreportfinalrev711.doc) and the final part is currently with BIS to be published imminently.

2.03 Answers to questions raised, comments and debate in the group following the presentation are summarised as follows:

- Standard errors are available from the July 2011 report.
- Regarding the recommendation to investigate making the Concrete Blocks collection a monthly census, it was highlighted that data supplier burden is taken seriously amongst members of the National Federation of Builders (NFB) and that the impact of increasing burden will be felt more by those with fewer back-room staff. The point was made that data suppliers tend to be users of the data and that it would be surprising if suppliers did not already have data on production to hand. Users will be consulted before any decision is made on whether to adopt this recommendation.
- BIS had produced a statistical commentary of the data each month since January 2011 and there is a case for focusing on materials in more depth to tell a story and BIS will aim to introduce this into the commentary.
- There are some material types not covered that BIS had looked into including, such as Timber, Steel and Glass, but for various reasons there were difficulties concerning the inclusion of these materials. For example, some information on timber production is available but not specifically on timber used for construction.

3. ONS Construction Statistics update

3.1 Relationship between Output and New Orders

3.1.1 Stephen Curtis presented analysis of the comparison of the expected value of output modelled from new orders data against actual recorded output. Using data for 2005 to 2007 from the probe survey, information on the value of work as valued at the time it was reported a new order (i.e. the initial value of a contract) and information on the number of quarters taken to complete the work was used to calculate the proportion of work completed in the same quarter that the new order was reported (N) and the proportion of work completed in subsequent quarters (N + 1, N + 2,…, N + 10). These proportions were then applied to new order contract values from 1980 to 2011 to model expected output from all works and various break-downs (e.g. public new housing, private new housing). The actual series and modelled series were plotted for all construction and the various break-down.

3.1.2 Stephen outlined possible reasons for recent divergence between actual output and output modelled from new orders and invited the group to speculate on the possible reasons they thought were causing the two series to diverge and what further investigative work may be worthwhile. He added that this analysis is intended for publication but the

views of the group would be appreciated prior to publication. The research was prompted by the pattern of divergence between new orders and output being observed around 2008-2009 and a desire to better understand the reasons for this.

3.1.3 Summary of group discussion on possible reasons to explain the divergence of the actual series and modelled series seen in the graphs:
- Changing procurement methods.
- The values of big projects are not being recorded in the new orders data but are subsequently being counted in the output figures.
- Firms are 'suicide bidding' for work - putting in bids close to or at cost (working to thin margins). Increasing the costs of works later on may result in higher values of output than would be expected from the new orders data.
- The Kickstart Housing Delivery programme, introduced around 2009, may explain the divergence as it boosted stalled works which may have resulted in higher output values.
- The product mix has changed and that the model may be underweighting for smaller projects.
- Procedures have become more complex and costly.
- Firms may have been more capable of completing projects on time as generally they had fewer orders on their books.
- Specifically with regards to the pattern of break-down trends, it may be that there are issues around the categorisation of works, with the same works being categorised in one way as a new order and then categorised another way as output.

3.1.4 The group also made the following observations:
- The opposite pattern to that observed for New Private Commercial may be expected given the amount of stalled works in that sector.
- The probe survey, which is the source of the information on the time lags between when a new order is made and when it is recorded as output, has been discontinued. Thus similar analysis in the future will not be possible.
- Looking at the recording patterns of an individual contractor may aid understanding.
- It would be worth seeing whether the probe survey collected any data on different procurement methods.
- The recession would have started hitting around 2009, where divergence is first seen on many of the graphs, but a similar pattern of divergence was not seen around the time of previous recessions.

3.1.5 Keith Folwell thanked the group for a lively discussion and encouraged the group to play around with the probe survey figures themselves.

3.2 Reporting on Unrecorded Output

3.2.1 Tony Crook spoke to the group about which aspects of output are not recorded, how unrecorded output is defined (i.e. the activity of businesses that are working in construction but are below the VAT threshold and are not part of the PAYE scheme) and the ONS's estimation of unrecorded output in 2011Q2 using figures from the Labour Force Survey (LFS) and Construction Output survey. This estimation was shown to be similar to previous estimations by BIS of unrecorded output from 2005 to 2009.

3.2.2 Answers to questions raised, comments and debate in the group following the presentation are summarised as follows:

- It was agreed that this estimate of unrecorded output was useful to know and that the method used by ONS seemed to be the best way.
- Migrant workers may be less likely to be recorded on the LFS as Houses of Multiple Occupation are not picked up well by the survey.
- Those not part of the PAYE scheme or below the VAT threshold may be more likely to work part-time.
- Experian have estimates of black market private repair and maintenance (R&M) from a survey conducted in 1996. The estimate was around 38% higher than the official estimate. It was suggested that the estimate of unrecorded output may pick up some black market works as respondents are somewhat more likely to give honest responses on social surveys such as the LFS. Sometimes two quotes are given for works; one including VAT and one without VAT.
- Figures are in current prices and not seasonally adjusted. It's likely that there are seasonal factors.
- The construction industry has high levels of self-employment and is fairly unique in this aspect.
- This work on unrecorded output could be checked against past work presented at CCCIS.
- Research by the University of Salford recently estimated the construction industry's contribution to the economy including some of the sectors that ONS do not include in their GDP estimates, such as quantity surveyors and architects. The ONS estimate that construction makes up around 7-8% of GDP whereas the research (which tries to include the missing sectors) estimates that construction makes up around 18-20% of GDP.

3.3 Update on volatility of non-residential Repairs & Maintenance data

3.3.1 Gareth Powell gave a presentation on the volatility of non-residential R&M at the regional level, which served to address action point 2 from the previous meeting in November 2011. At the last meeting, James Hastings presented a graph illustrating the volatility of the regional break-downs and questioned the cause/s of the volatility. Gareth presented sampling errors for infrastructure, public R&M and private R&M output from October 2010. He also presented figures on sample panel sizes by region, with an analysis of sample size growth from quarter to successive quarter in 2011. Finally he explained that the regional splits are based on the addresses of the Reporting Units (which is likely to be the location of the firm's headquarters) and that the sample is not stratified regionally.

3.3.2 Answers to questions raised, comments and debate in the group following the presentation are summarised as follows:

- To make the regional figures more robust, the Reporting Unit (RU) could be asked to specify the location of the works but this would be burdensome on RUs. It was also suggested that an assumption should be made that small firms tend to take jobs in the same region as their RU is based, but large firms could be asked to report detail on the location of their jobs as this assumption is less likely to hold for large firms.

- There has been a shift in recent years in large firms taking on more R&M work. Firms with 100+ employees account for around 40% of R&M firms.
- It was suggested that sampling should be regionally stratified. Others added that the regional split is important to the industry as most firms have a local focus.
- Robust regional data would be especially important for Constructing Skills (unfortunately no-one from CS was present to comment) and general demand for these figures is expected to increase.
- It is difficult to get hold of old snapshots of the Interdepartmental Business Register (IDBR) so the best way forward would be to make users aware of the caveats of the data with a view to making improvements against other priorities.
- Confidence intervals from the presentation are published, although not in graphical format. Additionally confidence intervals for regional data may not be possible.

3.3.3 Jacqui Jones concluded that ONS could initially do some feasibility works on the regional data and brainstorm options, possibly working with the ONS Methodology Advisory Service, before making any significant changes to methodologies.

4. **Private Housing Repair and Maintenance Price Indices**

4.1 Ian Pegg gave an overview of the methodologies for collecting and compiling the Private Housing Repair and Maintenance Price Indices, also outlining the coverage and limitations of the indices.

4.2 Answers to questions raised, comments and debate in the group following the presentation are summarised as follows:
- One of several differences between the BMI All-in Maintenance Cost Index and BMI Private Housing Repair and Maintenance Output Price Index could be due to process changes (people doing jobs differently). Ian offered an example of this where increased health and safety is meaning that scaffolding is used for roofing jobs, adding to the cost of the work.
- Response rates tend to vary between trades.
- No trimming is done during the compilation of the indices.
- There may be a 'wishful thinking' bias whereby respondents are providing quotes based on prices they would ideally charge rather than realistically what they receive on average.
- The mix of jobs had changed and whether non-professionals were becoming more competent at DIY may affect the indices. 'Quotes' for the same jobs are asked in each period so it could be the commonality of the job type that is changing.
- Response rates for those joining the panel are less than 10% but higher once they are established on the panel.
- Not a lot of migrant work is picked up as the sample comes from directories.
- There is no regional stratification and as long as inflation is consistent across regions then this should not have much of an effect.
- For Public R&M and Non-housing R&M, BCIS have indices that are based on schedule of rates (based on term contracts). It would be interesting to see if this could be applied to the insurance sector.

5. NSCC State of Trade Report

5.1 Ian Murdoch outlined the history, methodologies and results of the National Specialist Contractors Council (NSCC) State of Trade Report. This survey captures the mood of specialist contractors and gives indicators for various metrics. Ian invited questions and comments from the group.

5.2 Answers to questions raised, comments and debate in the group following the presentation are summarised as follows:
- Data can be split out by trade.
- Regarding adjudication, there are questions on the survey about the minimum value of outstanding money that would force a firm into adjudication and whether firms would adjudicate themselves or get a professional to do it.
- It is too early to see any effect of the introduction of the Construction Act, which outlawed payment-paid.
- It probably takes respondents more than half an hour to complete the survey.
- Firms going bust are not captured.

6. Update from BIS

6.1 Keith Folwell explained that the UK Statistic Authority's assessment of the Building Price and Cost Indices (PCI) was outstanding but that there is a possibility that the PCIs will be badged as National Statistics again in the near future. Several documents relating to this will be published shortly.

6.2 Keith explained that the CCCIS huddle group had suffered due to web security restriction difficulties so BIS are looking to start a Royal Statistical Society (RSS) Stats User Net group, which should be accessible to all members. Keith has asked the RSS to set up a construction statistics community.

Action 2: Keith Folwell to circulate joining instructions for the new RSS Stats User Net group for the CCCIS once the construction statistics community has been set up

6.3 Keith added that the Statistics User Forum (also run by the RSS) has various user groups for different industries. The main SUF group has said our new Stats User Net group could become affiliated with the SUF to facilitate wider discussion. The group agreed that this was a good idea.

Action 3: Keith Folwell to get the group affiliated

7. Any Other Business

7.1 Gareth Powell asked the group whether, from the latest Output release, they found the comparison of the Output survey to other similar surveys useful and whether similar analyses would be useful in the future. The group agreed it would.

7.2 Kelly Forrest asked the ONS members whether there are plans to rebase statistics to 100=2010 anytime soon. Tony Crook explained that Eurostat regulation says that this is not formally required until 2014 and rebasing will happen around this time.

7.3 The next meeting will be held in November 2012 and further details will be sent nearer the date. Keith Folwell ended the meeting by requesting that members get in touch if they would like to present papers at the next and/or future meetings.