## **Consultative Committee on Construction Industry Statistics (CCCIS)**

Minutes of meeting held on Monday 28th October 2024

**Venue: Online** 

For queries regarding the Consultative Committee on Construction Industry Statistics, please contact Frances Pottier: <a href="mailto:frances.pottier@businessandtrade.gov.uk">frances.pottier@businessandtrade.gov.uk</a>

### **Attendees List**

Name	Association
Frances Pottier	Department for Business and Trade
Krzysztof Pukacz	Department for Business and Trade
Michael Twist	Department for Business and Trade
Alex McCallum	Ministry of Housing, Communities and Local
	Government
Darren Lee	Ministry of Housing, Communities and Local
	Government
Melanie Richard	Office for National Statistics
Naomi Thomas	Office for National Statistics
Rob Bucknall	Office for National Statistics
Katherine Chant	Office for National Statistics
Gayle Mackie	Scottish Government
Sandy Stewart	Scottish Government
Aeli Roberts	University College London
Marco Yu	University College London
Stephen Gruneberg	University College London
Les Ruddock	University of Huddersfield
Steve Ruddock	University College of Estate Management
Noble Francis	Construction Products Association
Brian Green	Brickonomics
Ian Pegg	Building Cost Information Service
Martine Damon-De Waele	Building Cost Information Service
Kseniya Savelyeva	Building Cost Information Service
David Crosthwaite	Building Cost Information Service
Cos Kamasho	Building Cost Information Service
Joe Martin	Building Cost Information Service
Stephen Shelley	Barbour ABI
Ed Griffiths	Barbour ABI
Lee Bryer	CITB Research
Alicia Pentelow	CITB Research
Aurelie Delannoy	Mineral Products Association
James Donald	Mace Group
James de la Salle	CIL Management Consultants
Lorenzo Rodrigues-Fernandez	Experian
Doug Forbes	WLC Ltd.
Sree Vinayak	Invennt Ltd.
Hugo Bessis	Oxford Economics

#### Welcome, Introductions and Apologies

Frances Pottier (FP) welcomed attendees to the meeting. It was agreed that, instead of an introductions round, attendees may introduce themselves when they speak due to the large number of attendees in the meeting. Apologies were received from Fergus Harradence (DBT), John Kelsey (UCL), and Neil Higgins (MHCLG).

#### Minutes from last meeting

There was one action from the previous meeting, held in March 2021, which was for FP to arrange a future meeting.

#### Update on repair and maintenance prices

Melanie Richard (MR) (ONS) provided an update on how the ONS measures repair and maintenance prices and outputs, and what improvements are being made to improve the reliability of these statistics. Summary of presentation below:

- The ONS produces a <u>Monthly Construction Output</u> publication which uses survey data and price indices as deflators to report on construction output, split across two sectors: new work and repair & maintenance (r&m).
- For both sectors, the deflators used are Material, Labour and Plant Hire costs.
   While Material and Plant Hire are treated similarly for both new work and r&m,
   Labour costs are accounted for differently. For new work, average weekly
   earnings (AWEs) for the construction sector are used, while for r&m, four
   consumer price indices (CPIs) decorators, electricians, plumbers and
   carpenters are used.
- There are a number of issues with how these four CPIs are used to account for r&m labour costs.
  - It is unclear if the four CPIs used provide sufficient coverage to give an accurate picture of labour costs in the r&m sector
  - The same CPIs are used for both housing and non-housing r&m, which includes infrastructure projects such as roads.
- The Construction Output Team is working on ways to overcome the issues surrounding r&m labour cost deflators, including:
  - Exploring using a weighted combination of CPIs and AWEs, used for new work, to account for labour costs
  - Including other CPIs for labour costs, such as bricklayers
  - Use of the Annual Survey of Hours and Earnings (ASHE), developed using job numbers and work hours in specific SICs which would describe r&m.

#### Comments/questions:

- Stephen Gruneberg (SG) asked, referring to a chart presented showing a time series of construction output indices for new work and r&m, why is the index for new work increasing at a higher rate than r&m.
   MR responded that the chart represents data deflated for Material, Labour and Plant Hire costs, and that often the combination of these is much higher for new work than r&m. However, this may show that there is also an issue with how Labour costs are accounted for in the r&m sector.
- Aurelie Delannoy (AD) pointed out that, in the same chart, there is an increase in costs around Q3 2023, which correlates with some increases in material price indices. This may be due to increases in aggregate prices, which are predominantly used in new work.
   MR responded saying that, while the current work in this area is focusing on labour costs, there will also be work done to make sure the Materials component is accurately split between different sectors.
- Noble Francis (NF) highlighted concerns about the robustness of construction output data, especially r&m. Private housing r&m is currently diverged from other indicative datasets reflecting activity in that sector. NF presented a chart showing that, historically, there is a strong correlation (65%) between housing r&m activity and the number of property transactions, but around the middle of 2021, this trend was completely reversed to a negative correlation of -79%. These discrepancies suggest that are more issues with r&m outputs which need to be investigated, and that the number of firm losses in the past few years may be leading to survivorship bias in the surveys affecting outputs.
  MR responded saying that there may be a number of different issues leading to uncertainty in the data which need to be dealt with, including the number of business insolvencies in the sector.
- Marco Yu (MY) observed that, from an economic perspective, the rate of inflation in the new work sector should be lower than that in the repair & maintenance sector, due to the new work sector having more potential for productivity growth and increased efficiency.
- Brian Green (BG) asked if there may be a bias due to the use of the Inter-Departmental Business Register (IDBR) in the construction output surveys, where companies which have ceased their work or are not undertaking any work are still included. In addition, the issues seen may be a result of unusual levels of inflation being experienced in previous years, which may be another factor. MR responded saying that the team will have a look at the selection of construction companies used for the surveys, as small and medium-sized businesses may be especially affected by insolvencies. In response, NF pointed out that the majority of the lost construction businesses

- have been self-employed, and that these will be skewed towards repair and maintenance.
- MR responded saying that self-employed businesses will also be considered, and that the new Statistical Business Register (SBR) will also help with this.
- Lee Bryer (LB) noted that the emergence of new businesses replacing the lost businesses could have changed the outputs, saying that there may be different pricing models at play.

#### Update on new orders from Melanie Richard

MR then presented an update on new construction orders, and what work has been done on understanding of the divergence between the value of new orders and value of construction outputs.

- A 2018 publication from ONS explored the reasons for the gap between new orders and construction outputs. These differences may be due to projects under £100,000 not being included in the new orders.
- Recently, this divergence has been becoming wider. The analysis done for this article was replicated on data up to 2023 to help understand why this happens.
- The divergence is primarily driven by the housing and infrastructure sectors.
- There are a number of potential reasons for this increasing gap, including a potential increase in the number of projects below £100,000 (for example, an increase in work done by smaller businesses), an increase in the cancellation of large infrastructure projects (including part of HS2 and the Stonehenge Tunnel) and an increase in the lag time between contracts being awarded and work being done.

#### **Questions/Comments:**

- Joe Martin (JM) asked how new orders are classified on large projects such as HS2, and what scale of order are these projects broken down into.
   Steve Shelley (SS) responded saying that individual contracts as part of HS2 are being considered as new orders.
- Lee Bryer (LB) asked how additional work is done as part of contracts considered.
  - SS responded that new orders are considered as a snapshot at a certain point in time, within the quarter that it is awarded. Any additional changes to the contract will not be picked up as a new order.
- BG asked if it would be possible to measure the difference between orders and output by individual contract, which would be a useful indicator of how these differences arise in the construction sector.
  - MR responded saying that this has been discussed with colleagues, and there is

- a system in place where a contract can be tracked in more detail, but currently this would only be possible for the largest projects.
- NF asked, building on BG's question, if it is possible to monitor changes in building specifications during large-scale projects.
   SS responded that this would be a difficult thing to track, and that only changes picked up by additional planning applications will be noticed.
- NF followed up by asking how long-term frameworks (used increasingly in regulated sectors such as water and sewerage) are handled in terms of estimating new orders.
   SS responded that individual contracts as part of the framework are picked up, rather than the whole framework.

# Update from Michael Twist and Darren Lee on Alignment of Construction Product Statistics

Michael Twist (MT) began an abridged presentation about an ongoing project around the alignment of construction project statistics.

- There is currently a problem surrounding the definition of the construction products industry as different lists of Standard Industry Classification (SIC) codes are used to define the sector, and depending on which codes are used for analyses, different results are seen.
- One potential solution to this is to define a set of SIC code "catchments" by cooperating with construction industry stakeholders and agreeing on a set of SIC codes which can be used for consistent analysis. This will involve setting up three groups which vary in their levels of preciseness, and with a trade-off with uncertainty. This means that the more specific the estimate, the less certain it is.
- The main ask of this presentation is to gather interest in discussing the issue further with other stakeholders.

Darren Lee (DL) then explained the details of how these three groups will be set up.

- <u>The current "Big construction" definition</u> will contain the construction industry as well as unrelated industries such as demolition and site preparation, which are still relevant to construction.
- A new "Core construction" definition which contains only the construction product manufacturers as captured by an agreed list of SIC codes. Each code will also be assigned a proportion value which reflects which proportion of that SIC code reflects construction activity.
- A new "construction products sector" which also includes value adding areas
  and harder to assess areas of construction related activity. This would include
  import and wholesale activity, product installation and usage and similar areas.

#### **Questions and comments:**

- NF said that, despite most of the CPA's work involves construction contracts rather than products, but that the Cabinet Office has been in contact wanting to know about construction products, and if he could pass this on to MT.
- In addition, a number of attendees indicated they would like to be included in that discussion, and the action was left for MT to contact them separately.

#### Any other business

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#### Close

FP closed the meeting by thanking all attendees and suggesting the next meeting should be sometime early next year (2025).