The UK faces the twin challenges of accelerating a slow economic recovery and tackling high unemployment. The construction sector has been hit hard since the initial downturn – and the latest data suggests weak construction activity has dragged the economy back into negative growth. But the construction industry has the potential to help deliver a private sector-led recovery and create new jobs, thanks to its vast value chain, labour intensity and strong regional presence.

Indeed, if the sector were to scale up to its pre-2008 levels of activity, it could potentially employ an extra 215,100 people. It can be done. But the government needs to act now to bridge the short-term gap in construction activity.

Produced under the auspices of the CBI Construction Council, this brief explains the sector’s potential as a job generator. Construction firms stand ready to help create many more jobs – including openings for young people through schemes like the Youth Contract – but this depends on a flow of construction activity. The government can help now by bringing forward repair, maintenance and improvement (RMI) work, for example through the Priority School Building Programme (PSBP) and the upcoming Green Deal. If local government RMI work is prioritised too, we can bridge the current gap.

The recommendations in this brief can also lead to sustainable jobs for the medium to longer term, delivering a renewed built environment – better roads, rail transport, housing, schools and hospitals.

Construction firms know they cannot in future rely on the public sector to fuel their activity. Working with government and institutional investors, the sector stands ready to contribute to – and help shape – new models for private sector investment in the UK’s future infrastructure. By streamlining public procurement and effectively implementing its planning reforms, the government can help the sector fulfil its role as one of the UK’s main engines of future economic growth.

This brief makes the case for an industry-government partnership to plug the current construction activity gap:

- Unemployment – particularly youth unemployment – is a serious challenge
- The construction sector is faced with an immediate shortfall in activity, but it has the potential to generate jobs where they are needed most
- The government can act to bridge the current construction activity gap
- Encouraging investment in the UK’s infrastructure will help secure jobs in the longer term.
Bridging the gap: Backing the construction sector to generate jobs

Unemployment – particularly youth unemployment – is a serious challenge

The number of unemployed people is unacceptably high at 2.6 million, with 886,000 of them out of work for more than 12 months. And youth unemployment remains a particular challenge: it has been rising since 2004, long before the 2008/09 recession, and now amounts to just over one million. In all, more than one in five young people are unemployed and seeking work. The negative ‘scarring’ impact of unemployment – and youth unemployment in particular – is well attested: skills erode, self-confidence fades and attitudes to work become less positive, with a potential slip into long-term inactivity. As the CBI’s Action for jobs report showed, unemployment at the outset of adult life has big negative costs for the individual, such as lower lifetime earnings and a higher probability of being unemployed later in life. Youth unemployment also has negative consequences for the country as a whole: it can breed social problems including community disengagement and ‘generational’ unemployment.

The construction sector is a major job creator:

• The construction sector has a high economic multiplier effect as a consequence of its large value chain, generating £2.84 of total economic activity in the UK for every £1 spent on construction.

• The sector places little reliance on imports, with 93% of intermediate consumption (its supply chain) being accounted for by UK-based suppliers.

• A little bit of construction activity goes a relatively long way in creating jobs, with construction measuring around 40% higher in terms of labour-intensiveness than manufacturing and 75% higher than business services and finance.

• The sector is a major local job creator, with its strong regional presence meaning it can spread job creation through every region of the UK.

• The sector reaches all strata of society by creating jobs at different skills levels. Construction relies heavily on lower-skilled manual workers, with trades and operatives making up 63% of the workforce – roles which can provide opportunities for unemployed school-leavers.

Exhibit 1 The construction multiplier and job creation

The multiplier effect refers to where initial spending on construction projects indirectly generates wider economic benefits (and jobs) through the impact on the supply chain eg manufacturing, real estate, transport, planning and survey services. Via these channels, construction projects send ripples of economic activity through the wider economy.
to be trained on the job. At the same time, the industry generates jobs for many higher-skilled employees: specialist civil engineering work accounted for 18% of sector GVA in 2007 and the sector as a whole employed some 52,000 engineers in 2010.

- **Construction can boost UK exports**, with projected average annual export growth for UK construction services to 2020 of 10.8%. Keeping the UK construction sector strong and healthy will enable it to take advantage of opportunities in the vast global construction market, which is projected to grow by almost 70% to $12 trillion by 2020.

- **The construction sector has the potential to boost growth of medium-sized businesses (MSBs)**, which are too often overlooked in terms of their collective potential. With the right policy framework, the construction sector’s MSBs could make an economic contribution of £1.4 billion to the UK economy, creating many more jobs in the process.

So construction is a major force in the economy – and has the potential to contribute a great deal more to economic growth and job generation. If activity in the sector were returned to 2008 levels, closing the construction activity gap, the sector could potentially generate new job opportunities on a huge scale. Adjusting for inflation, GVA within the sector is now 6.4% below 2008 levels and construction firms employ 15.8% fewer full-time and 17.4% fewer part-time staff than before the financial crisis in 2008. Scaling activity back up to pre-2008 levels would mean the sector could create around an extra 193,200 full-time and 24,300 part-time jobs.

Of course, firms would need time to hire and train new recruits and scale up their work to achieve 2008 employment levels. But the point remains that government action to bridge the activity gap would enable construction firms to be better placed to create jobs and add to growth as the recovery gathers pace.

Indeed construction firms stand ready to respond to an increase in construction activity by creating new jobs, including opportunities for young people. Provided the right levels of work are available, CBI Construction Council member firms, for example, stand ready to participate in the Youth Contract scheme designed to support businesses to get young people earning or learning, with the intention of taking on more 18-24 year olds as employees in the coming 12 months than in the past year. In response to government action to help boost construction activity, CBI Construction Council firms also stand ready to provide apprenticeships places with the intention of offering more apprenticeships places in the coming 12 months than in the previous year and to participate in the Work Programme set up to support jobseekers find employment, with the aim of establishing this as a recognised and ongoing recruitment avenue.

### The government can act to bridge the current construction activity gap

The government has a ready-made mechanism to tackle the current activity gap and create jobs in the immediate future by stimulating repair, maintenance and improvement (RMI) work. RMI work can deliver jobs quickly on the ground across all regions, including creating openings for unemployed young people as its nature offers ‘hands-on’ jobs suitable for school-leavers. In addition, RMI projects generally have the advantage of shorter procurement timescales.

Although RMI work may involve a limited period of employment, it can help people regain work habits, increase confidence, add to skills and improve future employment opportunities. Wates Group, for example, has been able to employ 26 previously unemployed Oldham residents this year to tackle RMI work in the local area. Similarly, Carillion has created openings for young people through regeneration work in Birmingham, having won the contract to refurbish Birmingham Library.

Exhibit 3). To boost RMI work in the short term, local authorities should be looking at how to prioritise RMI work within existing spending budgets – local roads may be a good starting point given a good road network is key to attracting private sector investment while two-thirds of businesses last year said Britain’s local road network had deteriorated in the past five years. Central and local government must also ensure that existing and planned RMI schemes such as the Priority School Building Programme (PSBP) and Green Deal are swiftly and competently delivered. A series of wider policy areas, such as procurement, pipelines of work and access to finance, can also be shaped to support the flow of RMI projects.

Meanwhile, the government’s recently launched NewBuy scheme (a shared equity scheme offering a 95% loan-to-value mortgage to first time

<table>
<thead>
<tr>
<th>Exhibit 2</th>
<th>The construction industry has a strong regional employment spread</th>
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<tbody>
<tr>
<td></td>
<td>Construction employment (2010)</td>
</tr>
<tr>
<td>London</td>
<td>149,600</td>
</tr>
<tr>
<td>South West</td>
<td>114,700</td>
</tr>
<tr>
<td>East Midlands</td>
<td>96,400</td>
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<tr>
<td>Yorkshire and The Humber</td>
<td>113,500</td>
</tr>
<tr>
<td>West Midlands</td>
<td>119,000</td>
</tr>
<tr>
<td>North West</td>
<td>153,500</td>
</tr>
<tr>
<td>Wales</td>
<td>64,700</td>
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<tr>
<td>North East</td>
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<tr>
<td>East</td>
<td>134,800</td>
</tr>
<tr>
<td>South East</td>
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<td>135,700</td>
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<tr>
<td>Great Britain</td>
<td>1,352,700</td>
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buyers, and underpinned by a mortgage indemnity scheme into which the builder, lender and government each contribute) will be important to boost activity in the short term, potentially generating 50,000 jobs in the supply chain.\(^{26}\)

**Bringing forward RMI contracts and leveraging the procurement process to create jobs**

Central and local authorities can prioritise and bring forward allocated RMI spend and use the procurement process to encourage construction jobs. The client authority could include specifications about jobs to be created during the delivery of a given project, such as the number of local jobs, number of youth jobs and recruitment of apprentices. Firms of all sizes with a good track record of taking on new staff and trainees would potentially be better placed to win those contracts.

This is not a new approach. The National Skills Academy for Construction client-based approach provides industry-approved benchmarks to inform the appropriate numbers of employment and skills outcomes relative to the financial value and programme of work being procured. The approach encourages a dialogue between client and contractor to achieve this. Guidance offered by the National Skills Academy for Construction supported by CITB-ConstructionSkills offers a comprehensive approach to the procurement process and delivery of employment and skills outcomes.\(^{27}\)

Midas Group, for example, won RMI contracts by taking this approach in the Welsh social housing market, creating 87 local jobs or training opportunities this year, including openings for young people (Exhibit 5). Similarly, in delivering a project to build two new secondary schools BAM Group has recently provided 600 apprenticeships, 230 new traineeships and 60 new local jobs. Over half the contractors it deployed are local SMEs, with just under a third (27%) of site construction staff living within 30 minutes of the site (Exhibit 6).

**Delivering tendering for the Priority School Building Programme by autumn 2012**

The Priority School Building Programme (PSBP), which involves some £2 billion being invested in repairing or refitting around 300 schools, represents a great opportunity for job creation while also improving our schools infrastructure. The CBI urges the government to move ahead with its tendering process as swiftly as possible in the autumn so the PSBP projects can start generating jobs with no further delay.

**Launching the Green Deal successfully this autumn**

As well as improving the energy efficiency of our homes, businesses see the Green Deal as a real opportunity to create jobs. Aimed at making 14 million homes more energy efficient by 2020 through RMI work such as wall insulation, draught proofing and double glazing, it will enable private firms to offer consumers energy efficiency improvements to their homes at no upfront costs and recoup payments through a charge in their energy bill. This gives birth to a new market for Green Deal providers while generating construction work to deliver the upgrades.

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**Exhibit 3 Gateways to Oldham – creating employment through a local authority RMI project**

As a result of a mixture of maintenance and new building work, Wates has been able to employ 26 previously unemployed Oldham residents since the contractor began work on the £113m Gateways to Oldham PFI contract in December 2011.

The work includes building 317 new homes and refurbishing 322 existing ones for Oldham Council. The project also involves delivering recreational facilities – including two new community centres and a retail unit – improving parking, footpaths and street lighting, and management and maintenance of the estates over a 25-year period.

Further opportunities will be created for local people within Wates’ supply chain, totalling more than 1,200 weeks of paid employment and over 300 weeks of unpaid placements. The new training roles created will include junior engineers, site labourers, site administrators, joiners and CAD designers. In the words of Michael Dibden, now a site labourer on the project: “It’s great to be given the chance to work on what is such a big and important project for my home town. I’ve been made to feel really welcome and have already learnt such a lot from the Wates team. This was the career kick-start I was looking for.”

Wates is operating in partnership with J21, a local labour initiative that aims to address construction skills shortages and support local economies. The company is also working with local training providers including Oldham College and Hopwood Hall College.

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**Exhibit 4 Birmingham Library – Carillion delivering local youth jobs through RMI work**

Winning a local regeneration project with Birmingham Council to refurbish Birmingham Library, Carillion has to date been able to provide 250 employment opportunities for local people and 75 apprenticeship starts. The council stipulated that new local jobs and training opportunities should be created as a result of the project.

The Department for Energy and Climate Change estimates the scheme has the potential to create 250,000 new jobs.\(^{28}\) However, there are a number of issues to iron out to secure a successful launch. The CBI has highlighted the need for a smooth transition between the current subsidy-based regime in the Green Deal and the new market-driven model, as well as the need for an open and dynamic market in which businesses of all sizes can compete.\(^{29}\) The government’s recent final proposals, offering further detail on how the scheme will operate, are
a positive step forward. In the immediate term, the £200 million made available by government for the start of the Green Deal should help to incentivise early adopters as part of a managed roll-out – finalisation of the detail of this is critical to securing effective uptake of the scheme early on, while over the longer term, regulation is likely to play an increasingly important role.

**Exhibit 5** Newport City Homes – social housing RMI work driving local job creation

By demonstrating its ability to create jobs and training opportunities, the Midas Group has won RMI work at local level in the Welsh social housing market, including a refurbishment contract for Newport City Homes. To date this contract has enabled the company to create 87 jobs or training opportunities, including 12 new apprenticeships. In all, 63% of the workforce on the project had recently been unemployed.

The Midas Group has been active in the ‘inform to involve’ (i2i) scheme, which seeks to ensure local authority contracts are targeted on community job creation and that the local workforce is engaged to deliver housing RMI projects. The i2i Can do toolkit, funded by the Welsh Government and managed by the Chartered Institute Housing Cymru, provides guidance to the public sector and registered social landlords on making targeted recruitment and training a condition of housing contracts.30

**Exhibit 6** Bridgwater Schools – apprenticeships and new training opportunities through a local procurement process

A recent project by BAM for Bridgwater Schools has involved the construction of two new secondary schools with a total value of £50m. The procurement process helped to drive job creation by including a requirement for the contractor to produce an ‘employment and skills plan’ with a series of targets relating to the employment of apprentices and trainees, provision of work experience and workforce development. BAM demonstrated it had the right approach to creating opportunities for young people in the local community and was selected to deliver the build.

To date the project has provided 60 new local jobs and openings for 600 apprentices and 230 trainees. In addition, over half the contractors used to deliver the build are local SMEs, with 27% of construction staff living within 30 minutes’ travel time to the site.

**Exhibit 7** Using the infrastructure and construction pipeline to support local supply chain investment

The recently published national infrastructure and construction pipeline alerts firms to when new projects are coming to the market. It allows them to engage early with the local authorities commissioning the projects and enter constructive discussions and planning with their own supply chains. By the same token, localised pipelines would offer investors the chance to plan investment at local level.

Tata Steel, for example, is using the pipeline to identify the type of steel-related products future projects may require. In particular, it is using the pipeline to identify forward opportunities in the energy and power sectors and to plan its involvement in specific sections of those supply chains. This forward planning can help ensure that suppliers are geared up to support delivery of UK infrastructure projects.
Boosting housing by driving forward the NewBuy scheme
The government’s recently launched NewBuy scheme is important to boost construction activity in the short term. Playing a key role in our economy, housing activity last year accounted for 17% of construction industry output, around 3% of GDP and 335,000 direct jobs, with as many as four times that number of jobs in the wider economy dependent on home building.35

The CBI has previously set out the case for a mortgage indemnity scheme with the potential to drive immediate activity in the housing sector.31 To ensure this is not a missed opportunity, the government should continue to monitor uptake of the NewBuy scheme and work with industry to tackle any barriers to its uptake, such as by standing ready to use the strength of government balance sheets to make the scheme more appealing to first-time buyers. Government should also consider how its new ‘funding for lending’ initiative, intended to reduce borrowing costs of banks that engage in lending, could be applied to help secure mortgage finance for borrowers.

Encouraging investment in the UK’s infrastructure will help secure jobs in the longer term
Most companies rank the quality and reliability of our infrastructure as at least a significant factor in their investment decisions – but the UK’s current infrastructure is creaking.36 The government itself estimates that £250 billion will be needed in the near future to upgrade it and – with public spending constrained – most of this investment will need to come from private sector finance.38 To upgrade our energy infrastructure alone, over a fifth of current generating capacity will come offline in the coming decade so investment of up to £150bn will be needed over the next 20 years to replace it.39

The construction sector recognises it will not be able to rely as heavily on public sector investment in the future. So it is seeking to help shape private sector infrastructure funding solutions as a critical part of the growth and jobs agenda. Reform of the Private Finance Initiative model (PFI) and new funding arrangements to attract institutional investors must be part of the answer.

At the same time, policy certainty will be critical to securing the necessary private sector investment across all infrastructure. In the case of energy, the current electricity market reform will secure investment, jobs and a low carbon future. For example, Edf estimates that the construction phase of a new nuclear plant at Hinkley Point will create around 25,000 jobs.37

Wider policy issues must also be considered through an investment lens: for example addressing the attractiveness to investors of the UK procurement process, reshaping our education and skills system to offer the right future workforce and supporting apprenticeships effectively. Action in the areas outlined below will help stimulate private sector investment in infrastructure and shape the policy landscape to maximise construction activity.

Clarity over future funding models is needed without delay
Working with institutional investors and the infrastructure value chain, the CBI has identified current barriers to private sector investment in UK infrastructure.38 In particular, four transformational steps are needed:

• Targeting specific projects to enhance their credit rating, making them more attractive to investors
• Moving beyond the Pension Infrastructure Platform to foster pooling of local pension funds for infrastructure investment
• Commercialising the public sector’s approach to infrastructure and creating a single ‘shop window’ for would-be investors
• Ensuring Solvency II legislation for new capital adequacy requirements among insurance companies does not act as a barrier to investment.

It is also important to clarify the future of PFI following the Chancellor’s call for evidence.39 PFI has been an important lever for private sector investment in social infrastructure over recent decades and the construction sector needs clarity on its future. New funding models must also cater for activity at local government level, for example exploring how the Tax Increment Finance model can be applied (where funding is borrowed by the local authority against increased future tax revenue resulting from the upgrade of a neighbourhood).

Improved procurement processes will speed up construction project flow
Procurement in the UK is 20% more expensive than elsewhere in Europe, according to the government’s 2010 infrastructure cost review.40 Reasons include the procurement process being over complex, expensive and adversarial. The Treasury’s April 2012 update on action to address the problems shows some progress, but more must be done.

Implementing the government’s construction strategy to improve the procurement process will be paramount. For example, the trials for the ‘lean client procurement’ models – proposed by the government’s Procurement Lean Client Task Force41 and designed with industry input – aim to improve the system by bringing down costs through improved supply-chain collaboration. These trials should be swiftly analysed this summer and, if positive, the models should be adopted without delay and rolled out as good practice.

In addition, upskilling central and local government procurement teams to speed up procurement processes without compromising on quality will help accelerate construction work flow and job creation. The Cabinet Office-led lean sourcing pilot training programme is a good example of tackling this issue head on, giving industry the chance to help train government procurement teams.
An effective planning system will boost construction project flow
Implementing current planning reforms effectively will help shape a system that favours development while striking a fair balance between economic, social and environmental considerations. In the case of major infrastructure planning, reducing uncertainty at the pre-application stage, simplifying the non-planning consent landscape and introducing more flexibility and a sense of urgency into the system would help restore investor confidence in the major planning system.43

In local planning, the new National Planning Policy Framework (NPPF) and Localism Act must be effectively implemented to avoid ‘Nimbyism’ unnecessarily blocking development, holding back investment and job generation. The CBI supports handing local planning decisions to local communities – they are best placed to decide what will be required. But it will be important that in implementing the reforms, planning inspectors and local communities favour – rather than block – development as long as environmental and social factors are respected.

Summary of recommendations to government

In the short term:
1. Bring forward RMI contracts and leverage the procurement process to create jobs
2. Deliver tendering for the Priority School Building Programme by the end of 2012
3. Deliver a successful autumn launch for the Green Deal
4. Bring forward ‘localised pipelines’ to attract investment
5. Improve finance options for construction SMEs
6. Boost housing by driving forward the NewBuy scheme

In the longer term:
7. Develop new finance models and conclude the PFI review with no further delay
8. Improve procurement processes, including implementing the government construction strategy
9. Implement planning reforms so planning favours development at major and local level, as long as social and environmental considerations are respected.

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The CBI Construction Council

Offering a voice for the construction sector, the CBI Construction Council brings together circa 30 chief executives from across the construction supply chain. Chaired by Steve Hindley of Midas Group, the Council’s membership includes smaller contractors, such as Midas Group and Henry Boot Plc, as well as larger contractors, manufacturers, aggregates, house builders, consultancy services, architecture and the professional services. Council members are as follows.

*Aggregate Industries Ltd – Bill Bolsover, Non Executive Chairman
*Balfour Beatty Plc – Ian Tyler, Chief Executive
*BAM Group (UK) Ltd – Martin Rogers, Executive Board Director
*Barratt Developments Plc – Mark Clare, Group Chief Executive
*British Gypsum Ltd – Mike Chaldecott, Managing Director
Carillion – Richard Howson, Chief Operating Officer
CEMEX – Jesus Gonzalez, UK President
Clegg Group Ltd – David Short, Chairman
Costain Group Plc – Andrew Wylie, Chief Executive
Galliford Try Plc – Greg Fitzgerald, Chief Executive
*H+H UK Ltd – Mark Oliver, Managing Director
Henry Boot Plc – Jamie Boot, Group Managing Director
Herbert Baggaley Construction Ltd – Ian Baggaley, Managing Director
Interserve Plc – David Paterson, Executive Director of Interserve Plc and Managing Director of Interserve Project Services Ltd
J C Bamford Excavators Ltd – Philip Bouverat, Director – Global Accounts
Kier Group Plc – Paul Sheffield, Group Chief Executive
LaFarge UK Ltd – Dyfrig James, Regional President Northern & Central Europe
Leadbitter Group – Bob Rendell, Group Chief Executive Officer
Lend Lease Ltd – Dan Labbad, Chief Executive
Mactaggart & Mickel Group – Ed Monaghan, Group Chief Executive

**Midas Group Ltd – Steve Hindley, Chairman
Miller Group Ltd – Keith Miller, Chief Executive
Morgan Sindall Group Plc – John Morgan, Executive Chairman
Mott MacDonald Group – Keith Howells, Chairman
NG Bailey – David Hurcomb, Chief Executive
Pinsent Masons LLP – Martin Roberts, Partner
Ryder – Mark Thompson, Managing Director
Simons Group Ltd – Paul Hodgkinson, Chairman & Chief Executive
Sir Robert McAlpine – Cullum McAlpine, Director
Skanska UK Plc – Mike Putnam, President and CEO
Speedy Hire Plc – Steve Corcoran, Chief Executive
Taylor Wimpey Plc – Pete Redfern, Group Chief Executive
URS Corporation – Jerome Munro-Lafon, Managing Director, UK & Ireland
Vinci Plc – John Stanion, Chairman & Chief Executive
*Wates Group Ltd – James Wates, Deputy Chairman
**Council Chairman
*Council Vice-Chairman

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