

# CONSTRUCTION INFLATION: is delivery a problem?

On 28<sup>th</sup> June 2023 BCIS held a webinar entitled ‘Construction Inflation: Is delivery a problem?’. During the webinar attendees had the opportunity to submit questions, but due to the volume of questions asked, time ran out for BCIS to provide answers.

Below is a selection of the questions that were submitted with answers from BCIS.

**Q:** What is your forecast for new construction output within the third sector? i.e. care homes etc?

*A: Probably a growth scenario given the ageing demographics of our society, but funding will be an issue.*

**Q:** What is the second staircase rule? How does this result in products needing to be redesigned?

*A: New rules were introduced to mandate second staircases in new residential buildings over 30m (where previously one was required), to make buildings safer. The rule change was introduced on 10th February and applies to any fresh planning application for residential schemes of more than roughly **ten** storeys.*

**Q:** New housing: supply currently exceeds demand? Affordability is the issue here, there is an underlying demand which exceeds supply.

*A: Perhaps, but in purely economic terms property developers will rein in supply if they believe there's less demand (and therefore lower prices) for their products.*

**Q:** In relation to specific materials - are they stabilising at the same level? As the rates which are stated in this table are not consistent with specific materials. Many suppliers are not willing to hold prices. How is this reflected?

*A: The [Price Adjustment Formulae Indices](#) reflect materials used in specific trades.*

**Q:** Should employers take account of the rising prices and be more flexible to the contractors, as the suppliers and operatives are not so willing to hold prices in the current market, and the risks are being borne by the contractors and subcontractors?

*A: Equitable sharing of inflation risk is an important factor, see our webinar '[Are you using the right index? How to manage inflationary risk on construction projects](#)' for more on this. The use of price adjustment clauses is one way to mitigate the risk.*

**Q:** What is the outlook on the stability of construction?

*A: The labour issue is probably a bit of a red herring now, given that demand is falling. Construction has a great way of reaching equilibrium somehow or other.*

**Q:** In regards to the number of employed in construction, do the figures reflect non-UK resources?

*A: They reflect all those employed (both direct and self-employed) in the GB construction sector as measured by the ONS.*

**Q:** Do we know why and how the productivity has increased?

*A: There could be several contributing factors that would require further detailed research, but we suspect sustained growth in the infrastructure sector might be a factor, given that Civils tend to have higher productivity levels than construction generally. Also, the increased use of MMC might be impacting on-site efficiency.*

**Q:** Are there any significant differences in prices/workloads/labour shortages etc. expected between regions?

*A: London and the South East tend to bear the brunt of any capacity issues given heightened demand levels, but the current issues appear to be quite widespread throughout the country.*

**Q:** Have any increases in interest rates been factored into the future outlook?

*A: Yes.*

**Q:** Could you explain a bit more about what you think will happen with new build private housing over the next few years?

*A: New build private housing is predominantly provided by property developers. With house prices falling, interest rates rising, and mortgage offers declining there is no incentive for property developers to continue building at the volumes that they have in the recent past. The large property developers can control their supply to match demand and at the same time control the prices they sell at; it already looks like there is an oversupply of properties in the market that are finished and not yet sold so it would make sense for them to rein in their activity so they can maintain shareholder return.*

**Q:** What are colleges doing to increase training?

*A: Good question, put simply probably not enough. CITB's remit is currently being reviewed by the Government to ascertain its usefulness. However, the industry needs to work on making a career in the sector more attractive to new entrants.*

**Q:** What data series was used to identify the amount of output?

*A: Construction output (ONS: Quarterly volume, seasonally adjusted £m) - <https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/datasets/outputintheconstructionindustry>*

**Q:** Do you find the number of the self-employed has decreased due to the uncertainty of regular income?

*A: Probably. The pandemic and Brexit no doubt had an effect with those self-employed looking to secure a more regular income. Anecdotally, many have switched from construction to the logistics sector i.e. delivery drivers for online shopping retailers.*

**Q:** Could the rise in productivity be due to more activity in the civil engineering sector (which is typically more productive)?

*A: Good point, this could well be the case. As you say historically the Civils sector has much higher productivity levels than construction generally because of the increased use of machinery **and** equipment and higher skill levels in the provision of infrastructure.*

**Q:** What is the definition of 'labour costs'? Does this include professionals as well (i.e. surveyors working for the main contractor) or just the supply chain?

*A: Our labour cost indices are based on **n**ationally agreed wage agreements for specific trades which are mainly on-site labour costs, i.e. trade based. We also publish indices for Professional Services and Management and Administration.*

**Q:** Will the government trainee/apprenticeships system be enough to fill any gaps and level the labour shortage?

*A: CITB's remit is currently being reviewed by the government to ascertain its usefulness. The main issue with training is the length of time taken to realise fully trained tradespeople and whether demand levels will then match the new supply. This is one reason why construction historically uses immigrant labour from abroad and why the government has added some construction trades to the Shortage Occupations List to allow overseas workers to obtain working visas.*

**Q:** In terms of other government projects, such as programmes for hospitals, schools and prisons, do you see those pushing up prices for limited resources (materials, labour) and resulting in longer delivery completion times and overall cost increases?

*A: Possibly, depending on the timing of projects. We have already seen that the government is prepared to amend schemes and postpone start dates with a view to saving money. It will be interesting to see what the government does to its pipeline of future projects which is currently being reviewed, an announcement is expected in the Autumn.*

**Q:** Has MMC (Modern Methods of Construction) made an impact on productivity? Interestingly, many of the factories don't seem to last/be viable?

*A: You would expect MMC to have a positive impact on productivity but it's incredibly difficult to measure as there are currently no official data sources. Over the years there has been a drift to more offsite manufacturing at the component level.*

**Q:** Do these forecasts take into account unexpected and continued interest rate rises and the possible impact on developers starting new work?

*A: Yes, our predictions take into account expected changes in those variables.*