

Construction: what does the Autumn Budget mean for the industry?

On 12 November 2024, BCIS held a webinar entitled 'Construction: what does the Autumn Budget mean for the industry?'. During the webinar, attendees had the opportunity to submit questions.

Below is a selection of the questions that were submitted, with answers from BCIS's Chief Economist, Dr David Crosthwaite, and Chief Data Officer, Karl Horton.

Q: How will the changes to Employers National Insurance contributions be dealt with contractually?

A Under JCT contracts, adjustments for fluctuations in tax, levies, and contributions are usually covered in Section 4 (Fluctuations). Option A (Contribution, Levy, and Tax Fluctuations) specifically deals with increases or decreases in costs resulting from changes in "Contributions required under national insurance legislation" and "Levies or taxes imposed by the government". If this option is included in the contract, the contractor can pass on the cost increases (or decreases) to the employer. This includes changes to Employers' National Insurance contributions, provided they arise from legislative or regulatory amendments.

Q: Do you think that the increase in National Insurance and other potential taxes will slow down house buying market?

A Possibly. The increase in taxes is likely to lead to higher prices as the higher costs of employment are passed on by businesses. This will probably be inflationary and will result in interest rates being held higher for longer, which will impact affordability and may in turn result in lower housing demand.

Q: Will the inflation effect of National Insurance and tax rises slow the rate of Interest Rate decrease reverse the current expectation of interest rate falls?

A Yes, no doubt rates will be higher for longer. Before the budget a further cut was expected in December, but that is now looking less likely.

Q: What fallout is expected from the ISG failure?

A Further business failures as ISG's supply chain will not be getting paid any of the money owed to them. This will have a potential impact on sector output as projects are delayed, while replacement contractors are sought to complete projects that ISG were working on.

Q: As an industry that already experiences skills shortages, how do you expect the budget to affect the construction employment market?

A Probably neutral in terms of capacity, but if there's a lot of construction spending announced in the spending review in the spring then there may be labour shortages and an uptick in wages as a result.

Q: Would removing the right to buy council housing increase house building programmes?

A Potentially, as some housing supply will be removed and kept in the rental sector, but I suspect any impact will be relatively minor.

Q: Can anyone trust any HM Government given the cancellation of HS2?

A The election cycle results in short-term thinking by most governments and what we need is long-term planning for the future.

Q: Will the National Insurance rise be considered in the next BCIS forecast TPI figures?

A We are likely to see increases in inflation across the economy, not just construction. We will be considering every change announced in the budget and their potential impact will feed into our forecasts. The National Insurance increase will come into effect from April next year so our TPI will start to reflect changes from then.

Q: I was left struggling to understand what will happen to the LUF projects / Town Centre Regeneration schemes – do you have any insight?

A The budget seemed to lack much detail about anything to do with construction or regeneration. Perhaps there'll be more in the spending review in the spring.

Q: What are your views on housebuilding costs in 2025?

A They're likely to rise from mid-year onwards.

Q: Labour prices will rise due to the lack of young people not entering the industry. How do we address this?

A Agree, we need to make the sector more attractive to young people as construction has a bit of an image problem. One way would be to have more direct employment, and not so much self-employment, and a career path/ progression through businesses.

Q: How can the construction industry mitigate the increasing number of firms going insolvent and into administration?

A Not sure that it can as this is the nature of capitalism; only the fittest firms survive. Senior leaders need to take some responsibility for the way that businesses are managed and operated. Although lowest price tenders are a sure way to win the race to the bottom. While the number of insolvencies are currently high, they are not as high as they were post-financial crisis in 2008.

Q: ISG has been a mainstream building contractor for more than 10 years. Why did it not survive?

A That's not very long when you consider the age of most Tier 1 contractors. Contracting is about reputation built up over time that ISG did not have in main contracting. Diversifying and acquiring businesses to show growth is not a sustainable long-term business strategy. The same could be said about Carillion.