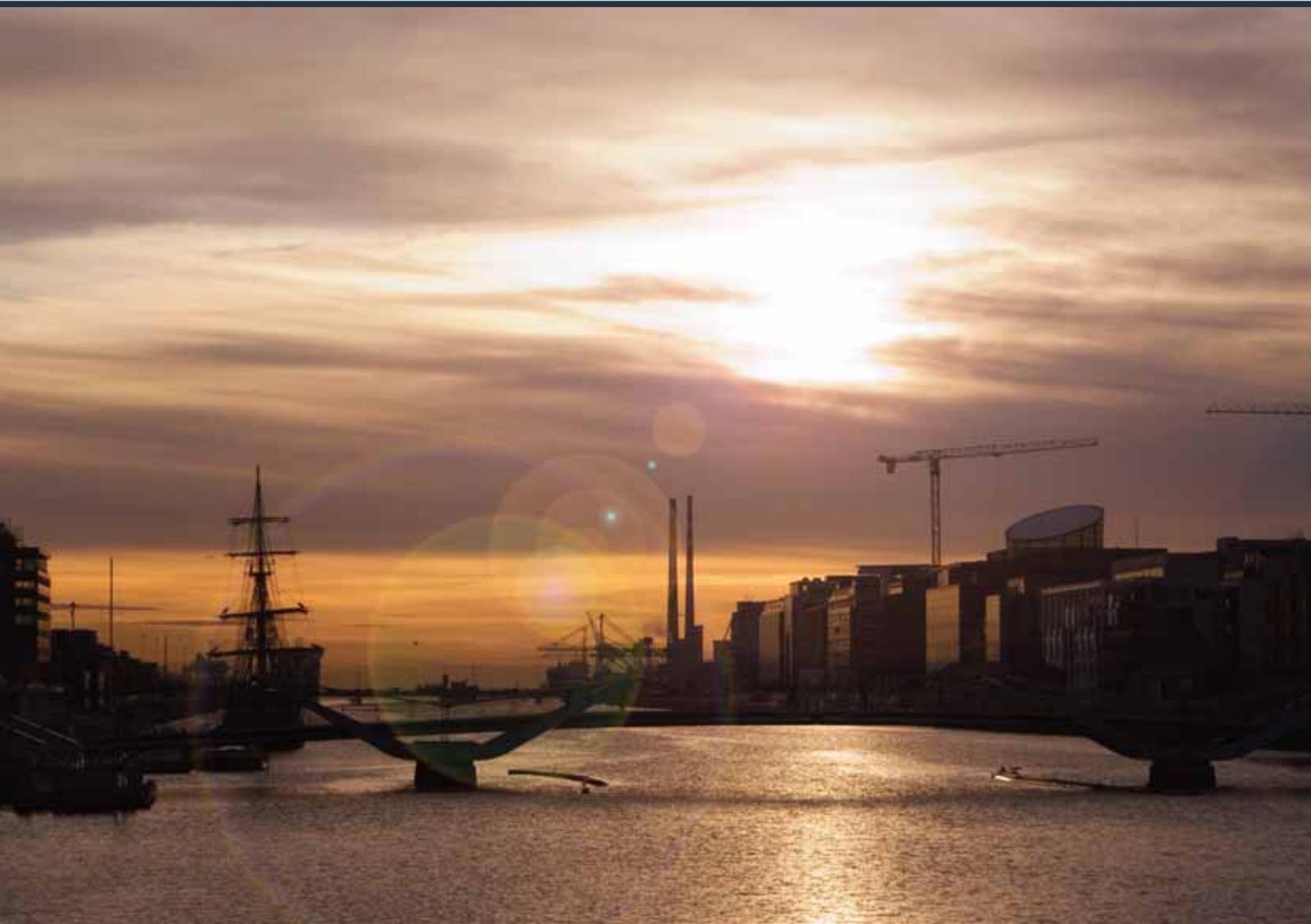




# Building our future together



In March 2009, the Construction Industry Council (CIC) made a detailed submission to the then Government entitled 'Jobs & Infrastructure – A Plan for National Recovery' setting out its vision to save 70,000 jobs over the next three years, maintain highly skilled productive resources in Ireland and deliver necessary infrastructure at excellent value for money for the public benefit, with minimal additional State borrowing.

Three years on, this paper sets out in summary the developments that have taken place in the construction industry during that period, and makes five key recommendations to the Government.

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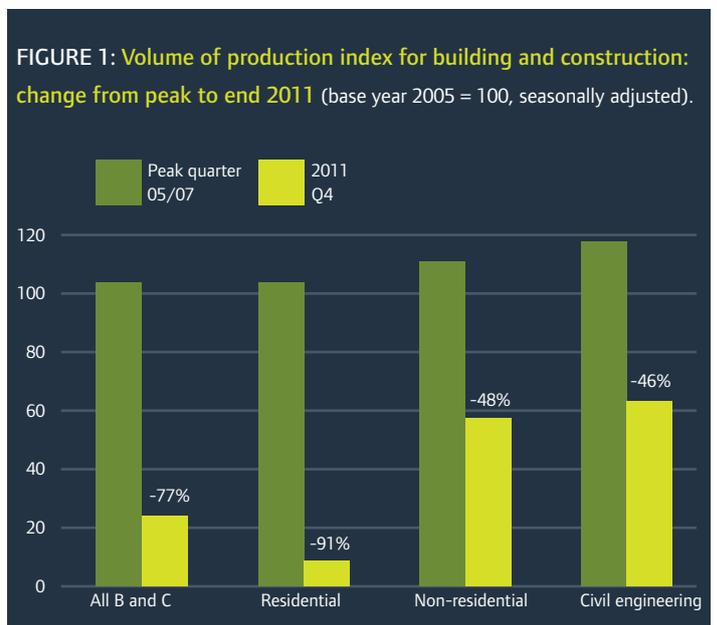
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## Background

All commentators acknowledge that a dynamic economy needs a construction industry that is appropriately sized and internally diverse so that it can make a contribution to economic growth, business dynamism and improved quality of life. The Irish construction industry has endured much criticism in the context of its role in our economic difficulties; the over-supply of certain types of buildings in some areas is often highlighted as the consequence of a sector that outgrew the economy in which it was based. Each component industry within the construction sector has seen its output fall, led by the collapse in the new housing market. Restoration of each of those industries to an appropriate level of output requires a mix of policy interventions. It is vital that a dynamic industry is internally diverse.

Figure 1, taken from CSO's quarterly Production in Building and Construction Index,<sup>1</sup> shows that the scale of the overall contraction in the construction sector since the peak is some 77% up to the end of 2011. The contraction has been most severe for the residential sector, which declined by 91% from the peak to the end of 2011.

The CIC has been encouraged by the recent public statements made by the Minister for Finance,



Michael Noonan, at the Fine Gael Ard Fheis, when he said: "It is vital that we generate activity in the construction sector, which has been blighted by such a sizeable fall in activity right across the country".<sup>2</sup> This submission sets out key recommendations to show how The Government and the sector can work together to restore construction activity and assist it in delivering for Ireland.

### The Irish Construction Industry in 2012

In April 2012, the Society of Chartered Surveyors Ireland published a report: 'The Irish Construction Industry in 2012'.<sup>3</sup> The findings of the report show that:

- the value of construction output will be €7.5 billion in 2012, down from €8.7 billion in 2011 and from €39 billion at the peak of the boom;
- the value of construction activity will fall to 6%

of GNP this year and fall further to 5.6% of GNP next year – less than half the 'normal' level for an economy the size of Ireland;

- at the start of 2012, employment in construction and allied industries is now at 150,000, a dramatic fall from the 380,000 employed at the peak; and,
- in 2012, it is likely that construction of new dwellings could be as low as 5,000 units from around 88,000 at the peak.

<sup>1</sup> The CSO index surveys approximately 2,000 firms each quarter, and uses 2005 as the benchmark for the index. Figure 1 uses the peak of the index for each sector of the industry as its basis.

<sup>2</sup> M Noonan, speech to Fine Gael Ard Fheis, March 31, 2012.

<sup>3</sup> Society of Chartered Surveyors Ireland. The Irish Construction Industry in 2012 (2012).

# 1

## Identifying a lead body to deliver a clear and consistent vision for the construction industry

The CIC wants to see the restoration of an appropriately sized and diverse construction industry that can aid Irish economic growth. But this will not happen without leadership and a road map. The fragmented nature of the industry has blighted the construction sector for many years past, both in terms of delivery and governance. This has meant that:

- there is no overall vision for what a healthy, dynamic construction industry should look like;
- responsibilities and accountabilities are separated from each other within Government departments, agencies, and regulators, with little coherence or connectivity across the network of networks; and,
- no one has responsibility or accountability for looking across the construction industry as a whole, i.e., across the network of networks.

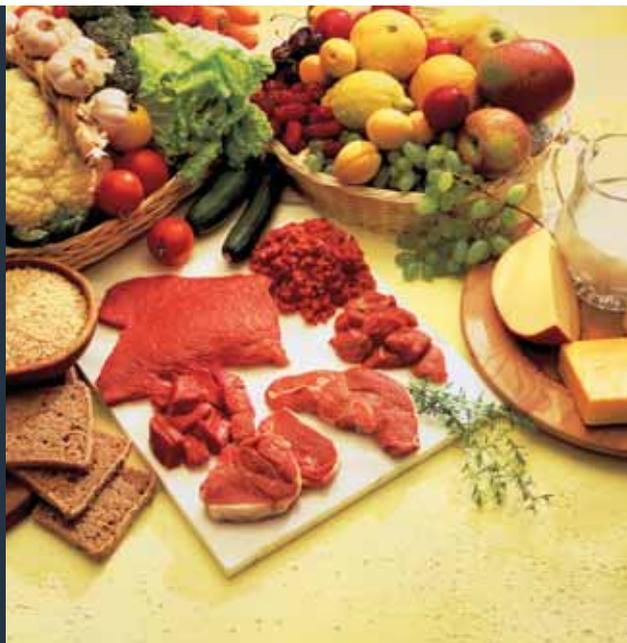
In 1996, an attempt was made by the then Minister for the Environment to address this challenge. A Strategic Review Committee was established by the Minister to develop a strategy for the construction industry up to the turn of the century and beyond. It reported in June 1997, in a document entitled 'Building our Future Together'.<sup>4</sup> This report

contained 86 recommendations, including the creation of the Forum for the Construction Industry. The Forum was tasked with the responsibility for overseeing and advising on the detailed implementation of the recommendations. The Forum failed, however, owing primarily to the lack of a single point of responsibility within Government to have the authority and take responsibility to make decisions and implement action. Decision-making for the sector remained disjointed and patchy.

It is essential that the Government works with other partners to create a clear and consistent vision for the future of the construction industry. This vision should be delivered by a lead body which has a track record of delivering public buildings, and which can champion the role the industry can play. It is important that certainty is created for the remaining domestic enterprises, by addressing both both short and longer term pressures and changes in the industry, attracting investment to Ireland, and exploiting opportunities to increase the export potential of the industry, all with the common aim of creating sustainable jobs.

### Example from the agri-food sector

The Irish agriculture and food industry has successfully overcome a similar challenge to that faced by the construction sector. According to Teagasc, the agri-food sector in Ireland contributes a value of €24 billion to the national economy, generates 6.3% of gross value added and provides 7.4% of national employment. When employment in inputs, processing and marketing is included, the agri-food sector accounts for almost 10% of employment. Undoubtedly, the continued success of this sector is significantly helped by the fact that the sector is championed by a Government Minister, Department and an agency, Bord Bia, whose role is to act as a link between Irish food, drink and horticulture suppliers, and existing and potential customers throughout the world.<sup>5</sup>



Action by the Government is required in order to finally address the manner in which the construction industry is governed and strategically developed. Until such time as this central governance point is addressed, the industry will be unable to re-assert itself appropriately as an important contributor to economic recovery. This means that unemployment in the sector will remain stubbornly high, the silo approach will continue, creative funding opportunities will not be fully exploited and national economic competitiveness will erode.

The CIC welcomes the Government's recent jobs initiative<sup>4</sup> and notes the important potential role of the construction industry in delivering new jobs and an enterprise culture. Through governmental innovation and better governance structures, the CIC believes that construction can lead in building Ireland's competitive advantage (Section 1) and developing and deepening the impact of foreign direct investment (Section 5).

## RECOMMENDATION

1

The Construction Industry Council urges the Government to address the core governance issue and assist the industry in delivering for the Irish economy by engaging with all stakeholders to develop a coherent strategy for the industry that sets out a vision, to be implemented with clearly defined milestones.

<sup>4</sup> Department of Environment and Local Government. Strategic Review Committee (SRC) Report: Building Our Future Together (1997).

<sup>5</sup> Department of Agriculture, Fisheries and Food. Annual Review and Outlook for Agriculture, Fisheries and Food 2010-2011 (2011).

<sup>6</sup> Department of Jobs, Enterprise and Innovation. Action Plan for Jobs (February 2012).

# 2

## Addressing the public infrastructure deficit

In February 2012, for the second year running, Engineers Ireland produced a report entitled 'The State of Ireland – A review of infrastructure in Ireland'. This annual report sets out the priorities for infrastructure investment in accordance with a grading system based on the quality of what is currently in place and the consequent investment need.

The Government's priorities in the Capital Investment Programme focus on four capital spending areas:

- education (new school buildings and extensions);
- health (hospitals and primary care centres);
- enterprise; and,
- environment (local government infrastructure, water and waste water).

TABLE 1: Exchequer Capital Investment Framework 2012-2016.<sup>7</sup>

Year	Forecast capital spend (€ billions)	Estimated % of GNP
2012	€3.9bn	3.1%
2013	€3.4bn	2.6%
2014	€3.2bn	2.4%
2015	€3.2bn	2.3%
2016	€3.2bn	Not available

The overall total for the Exchequer Capital Investment Framework for 2012-2016 is estimated at €17 billion (Table 1), with the core focus of capital investment geared towards the upkeep of existing infrastructure, rather than investment on new projects.

Maximising value for money and ensuring the strongest economic and social impact are the primary objectives behind the current investment policy. The CIC notes that the increase in unemployment and the weak economy have put additional pressures on current expenditure, and regrets that this has been to the detriment of continued capital spending, which has been repeatedly cut (Figure 2).

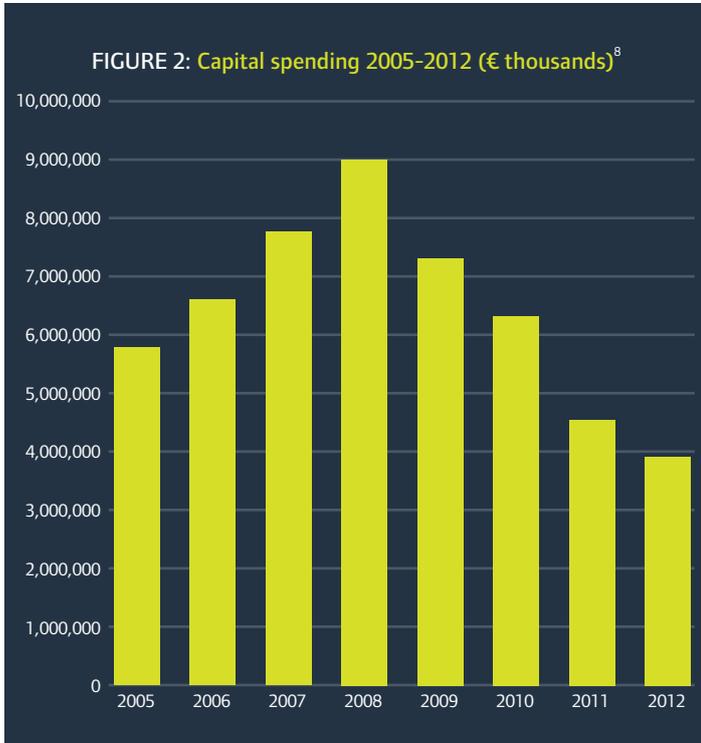
*The CIC supports the Government's focus on maximising economic and social output and employment creation.*

Infrastructural development is central to economic prosperity. If Ireland is to prosper through reduced transport costs, new inward investment and domestic expansion, infrastructural development across every aspect of the economy will be an essential part of the process. Our prosperity depends on the continued ability of this country to attract inward investment and to trade our goods and services internationally. In both cases, our economic competitiveness is paramount and is hugely dependent on the quality, efficiency, age and reliability of our infrastructure.

The CIC recognises that in these times of economic hardship in Ireland, not all infrastructural programmes can be supported. However, sustained capital investment across sectors and regions is vital to meet the Government's desire to stimulate the economy.

TABLE 2: Capital and current spending 2006-2011.<sup>8</sup>

Year	Current (€ bn)	Annual change	Capital (€ bn)	Annual change	Total expenditure (€ bn)	Annual change
2006	€43.3	10.6%	€6.6	13.2%	€50.1	10.9%
2007	€48.6	12.1%	€7.8	17.4%	€56.1	12.8%
2008	€53.3	9.8%	€9.1	15.2%	€62.3	10.6%
2009	€55.7	4.4%	€7.3	-18.6%	€63.1	1.1%
2010	€54.2	-2.6%	€6.3	-14.7%	€60.5	-4.0%
2011	€52.8	-2.7%	€4.6	-25.2%	€57.5	-5.0%



## RECOMMENDATION

2

The Construction Industry Council urges this Government to ensure that investment through the Public Capital Programme is targeted where it delivers the greatest returns in improving Ireland's economic performance.

The CIC recommends that if the Government makes a commitment to spending a certain sum of money on a specific area in each year, this money should actually be spent. At the end of 2011, some €114m in scheduled capital investment was carried over into 2012. At the end of May 2012, capital expenditure was some 6.3% behind profile. While €978m was profiled for expenditure between January and June 2012, only €917m had actually been spent.<sup>10</sup>

<sup>7</sup> Department of Public Expenditure and Reform. 2012 Revised Estimates for Public Services. Appendix 9: Multi-Annual Capital Investment Framework 2012 to 2016.

<sup>8</sup> Department of Public Expenditure and Reform (<http://per.gov.ie/expenditure-trends>).

<sup>9</sup> Department of Public Expenditure and Reform Databank ([databank.per.gov.ie](http://databank.per.gov.ie)).

<sup>10</sup> Department of Public Expenditure and Reform. 2012 Revised Estimates for Public Services. Appendix 9: Multi-Annual Capital Investment Framework 2012 to 2016. Department of Finance: Exchequer Statements. Analysis End-May 2012 Voted Expenditure (June 2012).

# 3

## Accessing funding for capital projects

Ireland's banking sector remains dysfunctional. While Ireland is not alone in this regard, the extent to which the state of the Irish banking sector has had a negative impact on the construction industry cannot be overstated. The process of restoring the banking sector to some semblance of normality is likely to be protracted and this is undermining the financing of otherwise viable building projects. Until such time as the banking sector is repaired, the CIC recommends that efforts are made to secure alternative sources of funding for capital projects.



Michael Noonan TD, Minister for Finance.

© Photo Council of the European Union.

The recent remarks made by the Minister for Finance, Michael Noonan TD, at the Fine Gael Ard Fheis in relation to funding solutions for capital projects were encouraging:

"Apart from NewERA, there are other forms of financing also available to fund capital projects and we are actively working to leverage these. The National Pension Reserve Fund has €5 billion of funds that could be made available to fund projects. It could also be leveraged up if there are private investors who seek to provide capital in order to earn some of the commercial return.

Other funding sources include the European Investment Bank and possible pension fund investment. The European Investment Bank is already financing road projects, schools, and it is providing funds to AIB and Bank of Ireland for lending to SMEs. We are investigating the possibility of pension funds participating in large-scale infrastructure investment. Such projects can represent an attractive proposition for pension funds as they yield a consistent return over a long time period.

By utilising these funding sources and identifying projects, we can put demand back into this economy. This is to all our benefits as it will create activity throughout the country".<sup>11</sup>

In November 2011, the following article by Josephine Cumbo appeared in the *Financial Times*:

"The [British] government has signed a memorandum of understanding with two pension scheme bodies that will see millions of savers funding the roads, ports and other infrastructure projects of the future. The National Association of Pension Funds represents 1,200 pension funds and its members hold about £800bn in assets, while the Pension Protection Fund protects 12m pension scheme members and has an investment portfolio worth more than £6bn.

A separate group of UK pension funds and infrastructure fund managers, representing at least £50bn under management, is also working on proposals for early-stage institutional investment in greenfield infrastructure".<sup>12</sup>



In March 2012, UK media confirmed that “British pension funds aim to launch a multibillion-pound infrastructure fund next year that will invest up to £4bn in government projects from roads and high-speed rail lines to power stations”.<sup>13</sup>

In a presentation to the Oireachtas Committee on Jobs, Social Protection and Education in February 2012, the Irish Brokers Association confirmed that following a survey of its members, “98% of respondents confirmed that their pension fund clients would consider allocating up to 5% of their pension fund for Irish infrastructural investment. This indicates a capital resource of up to €1.4bn could be available as a stimulus to the domestic economy”.<sup>14</sup>

It is a matter of extreme frustration to the CIC that despite this idea being first mooted in Ireland in 2009, little progress, if any, is apparent to the industry on this front. To date, all stakeholders have expressed a positive attitude towards the initiative, noting that further explorations and clarity were necessary to ensure that it could work in Ireland.

## RECOMMENDATION

3

The CIC recommends that the Government’s Expert Group, which has been researching alternative funding solutions, urgently completes its task, and that the Government implements an alternative funding solution for Irish infrastructure.

<sup>11</sup> M Noonan, speech to Fine Gael Ard Fheis, March 31, 2012.

<sup>12</sup> Josephine Cumbo. ‘Q&A: Pension funds to finance infrastructure’. *Financial Times* (November 29, 2011).

<sup>13</sup> Dan Milmo. ‘Pension funds back George Osborne’s infrastructure plan with £4bn’. *The Guardian* (March 4, 2012).

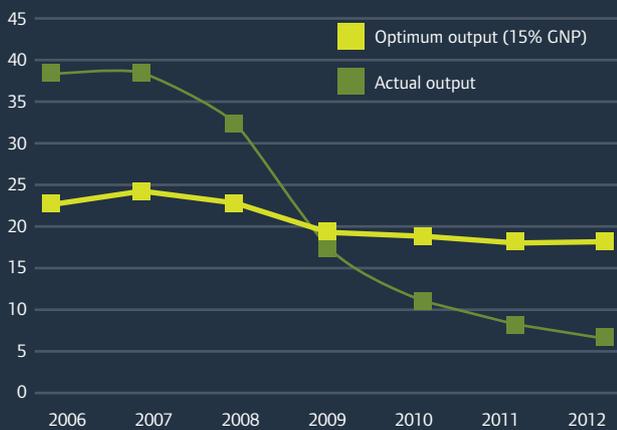
<sup>14</sup> Irish Brokers Association. Presentation to Oireachtas Committee on Jobs, Social Protection and Education, Wednesday, February 8, 2012 (2012) – [www.iba.ie](http://www.iba.ie).

# 4

## Creating sustainable employment in the construction sector

In Figure 3, the green line represents the output of the construction sector in billions of Euro. The yellow line represents the Euro value equivalent to 15% of Irish GNP, which is accepted as the optimum size for the Irish construction sector. The data shows that in 2006, while the output of the sector was €38.6bn, its optimum size was a little over half that amount at €23bn.

FIGURE 3: Optimum and actual construction output (€bn).<sup>15</sup>



As the Irish economy slowed and entered recession, the value of GNP also declined. Had the industry followed its optimum course over the period 2006-2012, the output would have declined by around 20% rather than the actual decline of almost 80%.

Based on the latest estimates of GNP for 2012, the optimum size of the industry is currently €18.7bn; however, the actual output is not expected to exceed €7.5bn. In the period 2006-2012, the industry has moved from being almost twice its optimum size to half its optimum size.

This dramatic and painful decline in output has had a significant impact on the numbers of people working in the construction sector.

Table 3 shows the effect of two years of the construction downturn on the existence of construction enterprises. In 2008 there were 14 companies employing over 500 people; by 2010 that had reduced to four. Between 2008 and 2010, 15,000 construction micro-enterprises went out of existence, accounting for the bulk of job losses in the construction sector. This includes a large number of small professional service providers such as architectural, engineering or surveying practices, as well as building materials providers and small contractors.

As most small companies are regionally based, the CIC calls on the Government to ensure that opportunities exist for construction firms of all sizes to compete to undertake public-funded projects. The CIC therefore urges the Government to recognise the importance of micro-enterprises within the construction sector, both as a source of valuable employment and as a key contributor to

### Micro-enterprises

The CSO defines a micro-enterprise as a company that employs fewer than ten people. In 2010, the date for which the most recent data is available, there were 32,300 companies working in the Irish construction sector, of which over 95% are classed as micro-enterprises.

The combined turnover of these companies exceeded €9.1 billion in 2010, and together employed 94,600 people. According to the CSO, the output of these micro-enterprises accounted for 38% of construction output in 2010.<sup>16</sup>



the economic performance of the sector and the wider economy. Support should be given to small businesses, micro-enterprises and sole practitioners to maintain the viability of their company through up-skilling, diversification and promotion of international trading of services, and thereby preserve the sector's skill sets and capacity.

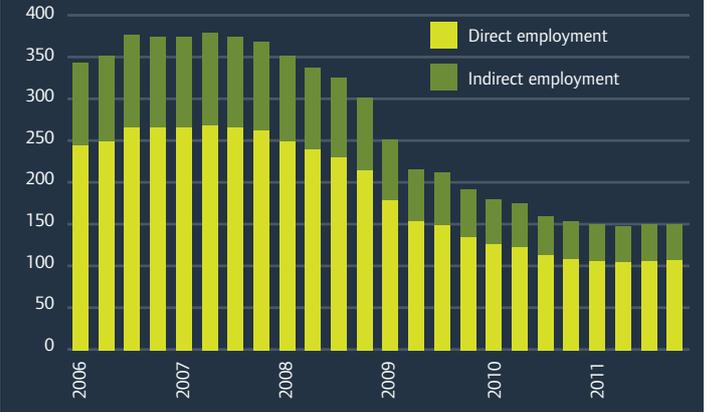
## RECOMMENDATION 4

The CIC recommends that the Government's Capital Programme is re-prioritised to ensure the delivery of projects and thus the creation of jobs within the construction sector and the wider Irish economy.

TABLE 3: Number of construction companies in Ireland

No. of employees 2008	2009	2010	
Under 10	45,930	35,840	30,809
10-19	384	373	864
20-49	621	407	454
50-99	356	258	114
100-199	161	73	28
200-249	22	8	7
250-499	30	15	13
500 and over	14	13	4

FIGURE 4: Direct and indirect employment in construction 2006-2012.<sup>17</sup>



The 2009 CIC report showed that for every 10 jobs that exist in the construction sector, a further four jobs in the wider economy are dependent on the construction industry. Taken together, there were 377,000 people directly or indirectly employed in the sector. There are currently fewer than 150,000 people in the sector. Since the peak, there have been 162,300 direct job losses and 65,000 indirect job losses.

Promoting labour-creating capital investment works does not solely create employment during the course of construction, but creates a legacy of work elsewhere in the Irish economy.

<sup>15</sup> Optimum size of the industry = 15% GNP (ESRI, CSO). Actual size of the industry from DKM.

<sup>16</sup> CSO Building and Construction Enquiry 2010. Turnover of companies is a different measure from construction output used elsewhere in this report.

<sup>17</sup> CSO QNHS (2006-2012). Indirect employment is calculated at 40% of direct employment.

# 5

## Identifying export opportunities for the construction sector

The Master Builders and Contractors Association produced a report in January 2012 entitled 'A Strategy for the Construction Industry: Construct 21'. It notes:

"Despite the current economic difficulties, the country's leading building, civil engineering, mechanical and electrical, and specialist contracting firms represent a key competitive advantage for the Irish economy and an opportunity to develop a global construction services centre in Ireland. The potential return to the Irish economy can be measured by the fact that, globally, today's construction market is worth an estimated 5.51 trillion Euro or 13.5% of total GDP. Already, in many European countries up to 50% of total construction turnover is accounted for by exports.

By 2020, the global market in construction services will be worth an estimated 9.5 trillion Euro. The internationalisation of Ireland's construction industry is underway. Over recent years, we have seen a refocusing within the industry on overseas construction services, particularly among high-end contracting firms, which, it must be acknowledged, has been supported by Enterprise Ireland. Already, FDI companies operating in Ireland use Irish construction expertise for building facilities abroad. However, firms are being hindered in their attempts

to internationalise both by the growing fragmentation and break-up within the home market, which is acting as a major constraint on the ability of firms to exploit identified opportunities abroad, and by systematic problems such as, for instance, the demonstrable market failure in the provision of construction bonds as a result of the economic/credit crisis".<sup>18</sup>

One of the key recommendations is for the development of a vibrant global construction services centre in Ireland, building upon the country's key competitive advantages in the design, financing, management and construction of complex building, civil engineering, and mechanical and electrical processes.

Forfás produced a report in 2008 entitled 'Catching the Wave' that set out an overview of the services sector in Ireland.<sup>19</sup> The report noted that services account for 43% of exports from Ireland and that Ireland in 2008 was the 10th highest exporter of services in the world, with a 2.7% share of world services exports.

The report states that: "Services drive economic growth in all modern developed economies. Ireland is leading the way in this regard ... Services also provide high quality employment. Almost 40% of workers in services are classified as high skill. The services sector also makes a very substantial contribution to the Exchequer in terms of corporation taxes, and to the Irish economy in terms of domestic expenditures. And every 100 employees in internationally trading services firms support a further 99 jobs in ancillary and downstream services in Ireland".

Construction services can also be defined as 'knowledge intensive business services (KIBS)', services and business operations that are heavily reliant on professional knowledge. The business services sector has been growing rapidly in most OECD countries.



A survey of quantity surveying practices based in Ireland showed an increase in the value of turnover from work undertaken for overseas clients; roughly half of surveyed quantity surveyors based in Ireland have undertaken work overseas in 2011 and 2012. For those firms, the percentage of their total turnover that is generated outside of Ireland may be as high as 50%.<sup>20</sup>

A similar pattern can be seen in Irish architectural practices, many of which generate up to 25% of their fees from work undertaken outside Ireland. International comparisons show that the Irish architectural sector is one of the most open in terms of cross-border work.<sup>21</sup>

In the engineering sector, discussions between the profession and the Government are at an advanced stage regarding the development of overseas marketing tools, using a combination of State agencies and international organisations such as the World Bank, Asian and African Development Banks and Middle Eastern agencies. The CIC therefore recommends that the Government explores the creation of an export-directed trust fund, including, where appropriate, funds from the Irish overseas aid budget, to develop the ability of Irish construction firms and professional service providers to market their skills to international clients.

## RECOMMENDATION

5

The CIC recommends that an expert group is established to harness the professional skills and expertise of the Irish construction sector and that the Government champions these skills overseas.

<sup>18</sup> Master Builders and Contractors Association. A Strategy for the Construction Industry: Construct 21 (February 2012).

<sup>19</sup> Forfás. Catching the wave: a services strategy for Ireland (September 2008).

<sup>20</sup> Society of Chartered Surveyors Ireland. Results of Surveys of Building and Quantity Surveyors on the Construction Sector in 2012 (April 2012: Unpublished).

<sup>21</sup> The Architectural Profession in Europe 2010 (Mirza and Nacey Research, 2011).

## Conclusion

The unsustainable construction boom has left Ireland with an oversupply of the wrong type of buildings in the wrong locations, but its sudden collapse creates a potential undersupply of the right type of buildings and infrastructure in growth areas. Without good governance and a clear path to recovery, the construction industry may be unable to meet the challenges of providing buildings and infrastructure in those areas.

The CIC remains concerned at the poor engagement between sectoral actors, and between the Government and the construction sector.

The CIC has once again come together and seeks the support of the Government to develop a new direction for the Irish construction sector.

The construction sector, at its peak, was twice the size it should have been. In 2012, it is less than half the size it should be. The construction sector believes that with clear policy direction from the Government, and a set of performance indicators to properly measure activity levels, the construction sector can return to sustainable activity, and provide a dynamic, diverse and directional industry, which can deliver economic growth and improved quality of life for Ireland.

The CIC believes that the professional skills within the Irish construction sector, built up during the construction of world-class infrastructure and amenities, should be marketed abroad as part of Ireland's economic renewal.

The CIC looks forward to working with the Government in delivering a new direction for the construction industry and for Ireland.

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