



**Northern Ireland  
Assembly**

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**COMMITTEE FOR  
FINANCE AND PERSONNEL**

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**OFFICIAL REPORT  
(Hansard)**

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**Construction Industry and  
Public Sector Expenditure**

6 October 2010

**NORTHERN IRELAND ASSEMBLY**

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FINANCE AND PERSONNEL**

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**Members present for all or part of the proceedings:**

Ms Jennifer McCann (Chairperson)  
Mr David McNarry (Deputy Chairperson)  
Dr Stephen Farry  
Mr Paul Frew  
Mr Simon Hamilton  
Mr Daithí McKay  
Mr Mitchel McLaughlin  
Mr Declan O'Loan  
Ms Dawn Purvis

**Witnesses:**

Mr Ciarán Fox            )       Construction Employers Federation  
Mr Nigel Lucas         )

**The Chairperson (Ms J McCann):**

I welcome Mr Ciarán Fox and Mr Nigel Lucas, who are Construction Employers Federation managers. I invite you to make some opening remarks, and I will then open the meeting up to questions.

**Mr Ciarán Fox (Construction Employers Federation):**

Thank you very much for the invitation. Our briefing paper sets out some of the key statistics in

the industry, and, if you are happy for me to do so, I will touch on some of the paper's key points.

As everyone will be aware, the construction industry has had an extremely difficult time, particularly over the past two and a half years. The biggest impact has been on employment. In other industries, a factory may close down and there will be a big hoo-ha about the fact that hundreds of people have lost their jobs, and there will be an immediate reaction. However, the construction industry is unlike other industries in that it is made up of so many small companies that there is a drip feed of job losses. The figures are quite substantial when they are put together. Over the past two and a half years, or 30 months, 21,000 jobs have been lost from construction. That is quite a phenomenal rate; it equates to around 700 jobs being lost a month over that period. The industry has been decimated by around 25%, and various government publications back that up.

I want to add to the paper some comments on where are going from this point onwards. Over the past two and a half years, we have had a very difficult time and our membership is telling us that the future looks bleak, both in the private sector and the public sector. As our paper states, 62% of companies expect a lower workload over the next 12 months. Naturally, that will have a major impact on jobs.

Other than telling the Committee the bad news about where the industry is, one of the key reasons that we wanted to meet you was to explain the impact and the potential impact of cuts on the building and maintenance of our infrastructure. Those impacts are both social and economic. The focus tends to be on economic impacts, but there are also some major social impacts. We often hear talk of the direct job losses of the cuts that will come to the revenue budget, but, let us be clear, there will be job losses from cuts to the capital budget. It may be one step away from the public sector, but there will be job losses, and it is very important to remember that.

However, when it comes to cuts to the infrastructure budget, job losses are only the start. Economically, every £1 that is invested in construction generates £2.84 in economic activity. Of course, lower investment means that that stimulus effect to the Northern Ireland economy is reduced. Figures of potential cuts of 30% have been bandied around, and that would be a major reduction to a driver of the Northern Ireland economy. It is also important to note that the vast

majority of investment in construction infrastructure is reinvested locally, unlike other industries, where, quite often, the money will spread out beyond Northern Ireland.

We are looking at the potential impact of cuts to the infrastructure budget a bit further down the line. If we really are keen to grow our private sector, we need a solid bedrock to do that upon, and infrastructure is needed to do that. If we want to rebalance, investment is key. Major cuts would hamper or hinder efforts to rebalance our economy.

Perhaps most importantly, the impact will be felt on public services. Investment in the building and maintenance of schools, hospitals, road and water networks and social housing delivers tangible benefits to every citizen in Northern Ireland. That is so important. Lots of investment and expenditure through government affects people, but few areas affect people's lives in such a tangible and meaningful way. There is a very direct output from construction expenditure, and there is an improvement to the delivery of public service at the end of that, which is the overriding priority for everyone.

Socially, the construction industry generates great opportunities for people through employment and apprenticeships. We are close to signing off with the various government construction clients on social objectives being embedded into public procurement contracts. A requirement for apprenticeships would be embedded, and there would also be a requirement to give people who are unemployed a work placement. Those social benefits are there to be gained.

Before, we go to questions, I wish to raise with the Committee a couple of issues on which I will be interested to have a discussion. Three years ago, when the Budget was issued, we felt that, because the amount of information that was available to us was so limited, the process did not really enable organisations such as ours to engage fully to provide constructive criticism. To give just one example, we were given figures of net capital investment in the draft Budget, and some of those figures were negative. There was no information available to us to be able to comment or assess whether that was a good or a bad thing, because the figures were quite meaningless.

We would like to see each Department's planned construction spend, capital and revenue, in

the next Budget, which is due in a few months. I realise that that may be a big ask, but it reflects the importance of the construction industry to the Northern Irish economy. The current position of the industry in that it is very reliant on the public sector. It is vital to our economy. This will be a four-year Budget; why not strip those elements out and let everybody see up front what the Northern Ireland Executive intends to do about investing in and maintaining our infrastructure? We could then assess that: we would not say that it was right or wrong; we would just be able to make a proper assessment.

Another pressing issue that has just arisen in the last few days is that of the aggregates levy. The main issue will be driven forward by the Quarry Products Association. However, we would like to add our support to that drive to ensure that the aggregates levy is dealt with in a way that does not impact negatively in Northern Ireland. There is a potential change to the levy that would significantly increase the cost of construction contracts. We have heard of one example, the swimming pool in Bangor, where an additional £70,000 of costs could be incurred because of potential changes to the levy. The Committee's support on that would be very welcome.

I know that the Committee is very interested in procurement, and we would be happy to have engagement around the pre-qualification process. Our members have some strong views on that. I would like to state at this stage that we have a very productive relationship with the Central Procurement Directorate. We have good engagement, and there has been some progress around procurement. There is still a long way to go but, again, we would like to engage with the Committee on that issue.

Finally, while accepting that there is great strain on budgets, we believe it is essential that alternative finance is given real consideration. We have examined various models of private and alternative finance and started to deconstruct them to look at associated problems. In the past, there have been some serious problems where the private sector has made bumper profits. That is not good for anybody except the people making the profits. We have started to try to address those and to put together the bones of a model that would be more socially acceptable. We have engaged with the Department of Finance and Personnel extensively on that issue, and are now in the process of putting together a working sample of how an alternative finance model may work. We are keen to share that with the Committee when it is ready. At this stage, it is really just a

matter of letting the Committee know that that work is ongoing.

**The Chairperson:**

Thank you very much for coming along. I think that everyone on the Committee knows people or local firms in their constituency who have suffered from the economic downturn. The 21,000 jobs that you mentioned are just in the construction industry; it does not even count the number of jobs lost as a result of the initial losses. You have put forward very good points. Hopefully, we will tease them out a bit more during the questioning.

**Mr O'Loan:**

Thank you for your presentation. As the Chairperson said, we are very conscious of the effect that the recession has had, particularly on the construction industry, over the past couple of years. I will endorse a couple of points that you made; first, around clear information at the draft Budget stage. I have concerns about the accelerated timetable and whether it will allow meaningful consultation at a time and for a particular type of Budget that we really need. We need a better quality of consideration than we have ever had before.

You talked about having information to enable you to form an opinion. At a political level, to do our job, we also need the informed view of stakeholders, and if there is no time for the exchange of views based on hard information, none of us can do our scrutiny job effectively. I support your concerns about the aggregates levy, which the Committee should look at after taking evidence.

On the capital side, the indications are that there will be reductions in the order of £500 million, or 40%, unlike on the revenue side, where that order of reduction is likely to be front loaded. That is absolutely massive, especially given the degree, as has been said, to which the construction industry has been hit already. That further cut is very worrying for us all, not just those in the construction sector. Based on recent experience, what percentage of the total capital spend finds its way into the construction industry, because capital spend has a variety of purposes? What effect do you envisage the kind of cuts that have been talked about having on the construction industry?

To some extent, you have already addressed the final point that I was going to ask you about, which was with respect to mitigating measures. I am pleased, therefore, that you are having conversations with DFP. Indeed, I believe that your representatives met the Minister. What kind of reception have you been getting? Have the discussions been open, and is there a willingness for original thinking? In addition, will you give us more specific examples of mitigating measures?

**Mr Fox:**

I will start in reverse order. The reception from the Minister and DFP officials has been positive. There is an acceptance that we have to be creative and look at alternative means of finance. Of course, the Minister, officials and, I presume, the Committee's overriding concern is that we must demonstrate value for money, and we are going to work up a detailed model of how particular projects might work. If value for money cannot be demonstrated for a project, as you will understand, it will not be a runner. A positive reception is the first thing.

We understand that, last year, the level of capital investment was about £1.7 billion. This year, it is expected to be £1.4 billion, so the cuts are starting to come through already and we are over the crest of the hill for capital expenditure. How much of that translates into construction work on the ground has been a bone of contention for us for a number of years, and we have never been able to get a clear picture from the Departments of exactly how much it is. Of course, our members tell us all the time that the figures do not equate with what they see coming out on the ground; they just do not add up. When we look at it departmentally, sometimes it comes down to the fact that a Department's internal costs of running a capital project and what it pays to consultants are packed into capital budgets, so that accounts for a chunk of it. In addition, there are land purchase costs, which, of course, are necessary; however, buying land it is an easy way to spend money quickly if you do not have anywhere else to spend it. Nevertheless, in the long run, it has to happen if you want to build things. To be straight, we do not know how much capital spend translates into the construction industry, because every time we have asked the question, we have never been given a good —

**Mr O'Loan:**

There is also capital expenditure that does not go anywhere near the construction industry.

**Mr Fox:**

Yes, of course, such as spending on IT. We have never been given a definitive list that would give us the confidence to say what proportion of the overall figure goes directly to construction.

Another mitigating factor that is within the power of the Executive is the ability to switch spending from revenue to capital. Our slice of the pie from London comes in two blocks: the revenue block and the capital block, and there is potential to switch some of the revenue to capital. Doing that should be given serious consideration at Executive level and within each Department, because they can also switch. Therefore, given the economic and social benefits, money may be better spent on capital.

**Mr McLaughlin:**

My point is along the same lines. There may be tensions or differences of opinion about how much you can do. Switching from revenue to capital is an available but limited option, because it you cannot do it willy-nilly, and you certainly cannot substitute it for what will be removed from the projected capital spend, going back to 2007 and 2008.

You make a valid point about the lack of transparency around how the spend impacts. Such transparency is important so that people can see their part of the pie. As a result, as well as there being mystery around the situation, people feel that the whole question of value for money and strategic spend, and responses to the significant decline in the market, are not being reflected in the figures.

A global sum is banged out all the time — £1.7 billion — and it sounds brilliant, but people look around them and ask how that helps their industries or sectoral interests. As well as demanding clarity from the Government, it could help if you devised specific questions that would help you understand the situation better, even if they were trafficked through the Committee. It will be in people's interests to get down to the nitty-gritty. However, we do not want to be floundering around in a morass of statistics and figures. If people are spending money, for instance on land acquisition, as part of a capital spend project, that is legitimate.



**Mr Fox:**

Absolutely.

**Mr McLaughlin:**

That is just as legitimate as the direct construction costs and the cost of hiring consultancy firms to design the project and project manage it, etc. We would like to see all of those kinds of aspects of spend defined better, and why not? There is no reason to keep them mysterious. It would probably help this Committee and other Committees if they were helped to design the questions in a way that helped them to extract the relevant information. That would nurture a good and mature working interaction with industry representatives.

That could also help to get them into the habit of sharing information, which is important because, without it, the ball keeps being passed around in circles. That is more a philosophical point. We could work together. The scrutiny Committees have some sense of their powers and abilities, but a positive working relationship with industry generally helps everybody, because it frees up any constipation in the system around defining how the spend affects the situation.

Talking to the press after this meeting or reporting back to your members after your meeting with the Minister, what specific suggestion would you make? What message would you want to leave with the Committee, the Minister and your members?

**Mr Fox:**

The key message is the importance of investment in infrastructure. There are lots of things around the edges that could be improved, such as the procurement processes and the level of efficiencies. However, with regard to jobs and the growth of our economy, the key is to try to maintain, as much as possible, the level of investment in the building and maintenance of our infrastructure. That is the real challenge, and it will mean pain. Undoubtedly, those are difficult decisions. We are stuck between a rock and a hard place. Cuts in revenue will mean job losses; cuts in capital will mean job losses, but a lot more than just job losses. That is the difference.

Other than the standard capital investment, consideration needs to be given to other things. Northern Ireland has a massive built environment that is underperforming in energy performance.

Investment in that would reap great benefits, not only in the short term, with the creation of jobs to deliver it, but improvements in energy performance would reduce dependency on fossil fuels, and that would reduce the cost of fuel bills and fuel poverty. There are benefits and win-wins. A small amount of investment by the Executive would produce great societal benefits. We need to think outside of the normal standard strands of capital expenditure.

The Committee will be aware of the energy efficiency homes scheme, which gives people a bit of rates relief. That scheme was devised, and we were made aware of it quite late in the day. It turns out that very few people are even aware of that scheme. On top of that, only contractors who are registered with the National Ventilation Authority are permitted to insulate homes. People in Northern Ireland have not heard of that group; it is based in GB. Contractors and our members are coming to us and saying that they are more than capable of putting insulation in people's attics, but they are not able to do it because they are not registered with that body. The scheme is a good attempt to do something, and although the bureaucracy and administration around it does not render it useless, improvements could be made, which would be of great benefit to the local economy.

**Mr McLaughlin:**

Talking about a rock and a hard place, you mentioned the aggregates.

**Mr Fox:**

Contracts have been signed, sealed and delivered at this stage, and the price has been given to the client. For the Government to change the levy on aggregates after those contracts have been signed and, in so doing, increase the cost significantly, would be to kick the industry when it is down. I know that there is complete support across the board. The MEPs have been involved, and they are going to take the issue to Europe. The Finance Minister is fully supportive of a need to have this pushed back so that when people enter into contracts there is, at least, clarity on what levy will be applied to the aggregates that will be used on the job. In the longer term, it needs to be sorted out so that there is not a legal cloud hanging over it.

**Mr McLaughlin:**

You are obviously familiar with the briefing that the quarry producers have issued. It is a very

good document, but it acknowledges that there is little likelihood of an appeal succeeding. What options does that leave us with?

**Mr Fox:**

The quarry producers are leading on this issue. The only options available are the options that they are taking. They are going straight to Europe through the MEPs and pushing from every angle that they can to look for a delay, at least, in the implementation of the system. To do it retrospectively would have been absolutely crazy and have a big impact on the industry. One contract that I mentioned was for a swimming pool, and the increase in the cost was £70,000. Multiply that across all the contracts that are currently let in Northern Ireland and you will see that it would have a phenomenal impact on the industry. Everyone knows that the prices that have been submitted recently for public sector have been low, because the contractors are desperate to win the contract. To be told that they have to take another slice off would be unfair. It is not about people making a profit; it is about how much of a loss they are making.

**Mr Nigel Lucas (Construction Employers Federation):**

If the scheme is to be withdrawn, it would be unacceptable to give the industry three weeks' notice. The scheme would have to have a phased withdrawal over six months at least, and, as my colleague said, it should not affect contracts that have been signed.

**Mr McNarry:**

When we had the boom, and I assume we had one because people talk about a bust, prices went overboard. I understand how a business mind works, so I mean no disrespect when I say that I did not hear anything from your organisation about prices being too high, about there being too much work or that tradesmen were having to be brought in from all over Europe, and so on. What contingency did you make in event of the bubble bursting?

I strongly support the construction industry. I, like Simon Hamilton, represent Strangford: a constituency that depends on the skilled and unskilled labour of the people who live there. We are mindful of how that contributes to our local economy. I hear that what I would expect to pay for a piece of land now is nowhere near as high as it would have been two years ago. Among my great frustrations with the 2020 project is that prices and the competition for materials are down.

Is that reflected in percentage terms in current tendering? What difference would one expect per square metre, square foot, or whatever? Projects at final costing stage are gathering dust on the shelf. They have gone through all of the process to get there. Can a case be made for having a look at what is on the shelf and comparing the price at inception with what it would be today? That might be helpful.

My line of thought is that you could tell us with how many contracts in the past, say 12 months, have been finalised to costing stage; how many are going forward; and how many have been knocked back. As Declan O'Loan and Mitchel McLaughlin said, the Committee needs to have a picture of that. There is no point talking about billions of pounds; we need to see where is being hit and what is being affected, including sectors other than construction. Is it affecting education? Is it affecting sport? Is it affecting industry? Exactly where are we seeing it? To expect you to have those figures is a big ask. However, what is the breakdown between the public and the private sector?

Finally, the Committee came to know what was going on, particularly among quarry businesses, about the state of the roads industry. Not far from here, we had a road that was not going to be built, even though everybody was ready to build it, and it was half-built or something similar. That is the height of stupidity. Forgive me for again mentioning the constituency that Simon and I represent, but we have the worst roads in Northern Ireland and they are getting worse. What representation is being made, particularly about roads? If our roads get any worse, we might as well blow them up with dynamite and start all over again in 20 years' time. No one would insure our cars to drive along roads like those that we have at present, Simon.

**Mr Hamilton:**

We could use a horse and cart, David.

**Mr McNarry:**

Well, we could do that. My neighbours have those things. Horses are good for the organic vegetables as well.

**Mr Hamilton:**

Back to basics.

**Mr McNarry:**

To put all of that in perspective, when I walk around our —

**Mr McLaughlin:**

There is too much manure in this conversation.

**Mr McNarry:**

When I walk around our capital town of Newtownards, and then go into the capital city, I see too many empty buildings. Those have been built at a price. I have to wonder — you must give me an answer on this — why anybody would want to build any more, particularly in Belfast. How can we ask anybody to give relief money or such effort when there are empty buildings? Have you taken account of the stock of empty factories — I hope that we do not have any of those — and empty commercial buildings? That will do for starters.

**Mr Fox:**

Between us, we will do our best to respond. I believe that I we were asked around 12 questions. I will try to go through them in reverse order.

We fully acknowledge that there has been a great deal of development and, because of that, there will be empty buildings. Our big concern is that the private sector, the private side of the industry, will not pick up and that, therefore, the industry will, in the medium term, be ever more reliant on the public sector. On the public side, there is no doubt that there is dire need for investment. For example, many school buildings need refurbishment. New schools are needed. There is also severe need for works in the health estate. You mentioned roads. The Roads Service's reports demonstrate clearly the percentage of roads in Northern Ireland that are below standard. There is potential for future infraction proceedings if Northern Ireland Water's investment is lowered. Demand for social housing is unbelievable. Right across the board on the public side — stadiums, public realm works, and so on — there is desperate need for building. On the private side, there is a need for house building. In parts of Northern Ireland, houses will

not be built for a long time because there was oversupply in those areas.

**Mr Lucas:**

Another topic that you mentioned was having projects on the shelf that are fully designed and ready to go. That is absolutely true. Specifically, many of the large capital projects that the education and health sectors had planned for 2010 have not been able to start due to cutbacks and lack of money. In education, around 63 new schools were to be built under the investment strategy.

**Mr McNarry:**

I appreciate all that. I have no money: therefore, it is not my money that will be invested. I am trying to get at how well a case can be made to say that now is the time to build because prices are lower.

**Mr Fox:**

Evidence of that is best gathered from public sector clients. In fact, CPD would be able to give you clear information on tender prices that it has received during the latest three-year period. I can guarantee that prices have fallen dramatically. The way that the construction industry works is that everybody now meets quality standards. Therefore, effectively, on many occasions, the issue comes down to price. We are hearing of prices that are well below cost winning work. When that happens, it raises questions about the sustainability of the industry. Of course, when one price is accepted below cost, that becomes the new bar against which everything after that is judged.

**Mr McNarry:**

Do you agree with me that, as Nigel Lucas said, the case could and should be made that, although things are difficult, but, because of the deterioration and the effect on jobs, certain risks should be taken today to protect ourselves coming out of our present financial trouble?

**Mr Fox:**

I fully agree.

**Mr Lucas:**

We very often encourage clients who get a tender price significantly below the estimate to interview the contractor to ensure that they can deliver for that lower price. Given the lack of available funding, clients are tempted to let the contract run at unrealistically low prices.

**Mr Fox:**

I think the point being made is that it can be argued that now is the time to get building because prices are low and great value is to be had. A strong argument can be made that there is great value out there now. That is a fact, and investing now would be better value than doing so at a peak time when people are fully employed and the rate for a bricklayer goes back up to x number of pounds a brick.

**Mr Frew:**

Silly money.

**Mr Fox:**

Silly money; absolutely. However, it is a big decision to get that money in now, but that is the investment that we are calling for. On the specific issue of roads, we have met the Regional Development Minister and we meet the Roads Service regularly. Of course, they continually tell us that they would love to invest more but do not have the money to do so. Again, that comes down to the key issue of funding. Our organisation is pressing for investment across the board. It is hard to distinguish between a school, a hospital or a road that are all in desperate need. It is important to consider them all.

No one doubts that house prices went sky high — well beyond what was reasonable. We feel that house prices have come back down. They have fallen by 35% or 40% to return to affordable levels. The big problem now is that funding from the banks and the lending institutions is not available. The rhetoric is that mortgages have increased, but that is not the experience that we hearing on the ground from builders who tell us that there is great interest in buying their housing; however, when it gets to the stage of getting a mortgage, the requirement for a large deposit is where potential buyers fall down, particularly first-time buyers.

**Mr McNarry:**

What are your members' feelings about the problems or the concerns over NAMA? We are hearing figures of between £3.5 billion and £7 billion in respect of the assets that it will hold here.

**Mr Lucas:**

There are huge concerns. First, a significant number of our members who have loans that are performing well are concerned that their loans will be taken up by NAMA, because there may be a stigma associated with that. There is no need to take such loans in. The other major concern is that some of the assets taken over by NAMA will result in land being put on the market wholesale. At a time when the industry is struggling to maintain sales, and when maintaining sales means maintaining employment, putting out land at knockdown prices will devastate the market.

**Mr McNarry:**

That is worrying. Thank you.

**Mr Frew:**

I have two comments that come out of that interrogation by David.

**Mr McNarry:**

Wait; there was no interrogation.

**Mr Frew:**

I was only joking. There was certainly a boom in the housing market. The limited boom in Dublin attracted many of our workers and companies, leaving plenty of work for the rest of them up here. However, a limited number of people benefited from that. Brickies and plasterers, who have been mentioned, got extortionate money but nobody else was. The prices charged by commercial and industrial companies reflected the costs of what they paid for materials. The price of copper and equipment that builders bought from the wholesalers went through the roof. Their labour rates stayed relatively the same, so there was no real boom for the person working on the tools.



I agree with the point that you made about tendering and having no prices. It is important for tenders to be fully inspected, and for people not to simply raise their hands and be happy because the tender is so low. There is a number of problems with that, the first of which is standards. Secondly, many companies, out of necessity, are submitting low prices to get jobs, and are asking the companies around them to submit relatively low prices to give them a cloak of respectability. That should not happen, but I can understand why it does.

You have spoken about 21,000 jobs being lost in only 30 months. I totally agree with that figure: it is a fact. However, there is another story with companies going to the wall. When times were relatively good, employees could move from one job to another and from one company to another. When those companies go, the whole landscape of the construction industry will totally change. I can tell you anecdotal stories about companies that have gone into administration or have gone bust, but I know that there are so many others that are teetering on the brink. Can you give us any indication of how many companies are in that position?

When prices reduce, that becomes the norm. Another common practice is companies taking contracts at a loss, because it is cheaper to do that than to pay for redundancies. That may be sustainable in the short term, but it is not sustainable in the current recession, which may last anything between five and 15 years.

**Mr McLaughlin:**

There could also be a double dip on the way.

**Mr Frew:**

Yes. How many or what percentage of companies do you feel are in a terrible position?

I have a problem with the practice of prompt payments not being made throughout the industry, and I think that the Committee should also concern itself with that. We know that most clients, whether in the public sector or the private sector, pay on time, but the main contractors, again perhaps through necessity, hold on to those payments. That practice is placing a stranglehold on the majority of the construction industry, because the main contractor's sub-

contractors, specialist contractors and wholesalers are not paid. That is a major problem, and companies are not going to the wall because of a lack of work, but because of cash flow problems.

There was a debate in the House yesterday on the green new deal and the renewable energy sector. Do not hold your breath, but how well prepared would the industry be if the Assembly were to do something to help the recovery with regards to our infrastructure, energy and power? We cannot go out and build a Hoover Dam, but if we were to do something on a small scale in the field of renewable energy, how prepared is the industry to adapt quickly to take the full benefit?

**Mr Fox:**

I want to pick up on Mitchel's comment about a double dip first. From the point of view of the construction industry, it has been one long slide, and we are still on that slide at the moment. There has not been even a plateau for the industry over the past couple of years.

Companies tend to be very good at keeping things quiet if they are sitting on the brink —

**Mr Frew:**

Yes; they hide it.

**Mr Fox:**

It is essential for the survival of those businesses that people are not aware that they are in trouble, because customers would back out of contracts and others would not be keen to use them. To be honest, we would not have a strong feel for those numbers and anything that we do have would be entirely anecdotal. Like you, we have heard talk and that is all. We do not ask our members if they are in difficulties and, even if we did, they would not tell us. I cannot give you anything factual and can only give you a feel. However, a lot of companies have been in survival mode for so long that it is inevitable that people will set reduced pricing structures for two years in the hope that things will get better, but things are not getting better and prices are not increasing. Indeed, the view is that things are getting worse and it is inevitable that more companies will go bust.

There have been varied attempts to address the issue of prompt payments through the construction industry forum, and the most recent attempt will hopefully be the most effective one. We regularly consult CASEC, which is the representative group for special subcontractors, and we have agreed a policy with them and various clients that the subcontractors must report on the payments that they have received at every monthly meeting. Therefore, it is not the case that subcontractors are telling tales about whether or not the main contractor is paying them, because there is a standard report. It is then up to the clients to use their authority to ensure that the terms of the payment schedules are adhered to.

I wish to pick up on your point that public sector clients always pay on time, because that is not the industry's experience. The Finance Minister requested that final bills be paid within 10 days. However, we have heard that that is not happening across the board. Of course, as with all these things, it tends to get a bit muddy and a bit grey when it comes to the arm's-length bodies. Once a Department gives a grant to a particular group — this is way in which a lot of construction work happens — that group is then given a big set of rules about how to procure and how to pay. However, that set of rules is often set down somewhere and no payments are made. That is causing problems for the main contractors as well as for those right down the supply chain.

As for the green new deal, 13,000 ex-construction workers are currently on the unemployment list. In fact, there is probably more than that because there has been reclassification: people who left construction jobs over the past couple of years and got a job in a supermarket, then went back on the dole are no longer defined as construction workers. There is a massive supply of skilled and unskilled people who are ready to go. The Construction Industry Training Board has the potential to very quickly redirect grant funding towards particular training courses. The federation and other groups have systems in place that can quickly train people at managerial and technical levels. Of course, if something were agreed in the Budget to advance the green new deal, it would not happen overnight. However, we as an industry feel that there would be no difficulty in reacting to that.

This issue has been raised before but in a different guise. When the first investment strategy was launched, people said that it was an awful lot of money for the Northern Ireland construction

industry. They questioned whether the industry was capable of meeting the challenge, and the industry consistently said that it was absolutely capable. It said: “Put the challenge down in front of us and let us see what it is. Be clear about what you expect us to deliver, and we will prepare ourselves to deliver that.” Of course, the industry geared up for that, only to have the rug pulled from underneath it. The green new deal is very similar. People will react if clear goals are set for what the industry needs to achieve. The industry will react quickly.

**Mr Lucas:**

I wish to pick up on Paul’s point about companies on the brink. Although we cannot provide figures for the number of companies in the house building sector specifically that are in that situation, there are clearly quite a lot. When the market was rising, the banks were very keen to lend money to companies to buy land in order to create deals. However, when the markets collapsed during the credit crunch, house prices adjusted and fell by 30% or 40%. The danger now is that once house prices start to show upward movement again, some banks will be tempted to cut their losses and foreclose businesses. However, we believe that they should instead show some responsibility and try to help to nurture those companies back to full health.

**Mr Frew:**

I agree.

**The Chairperson:**

As you know, those issues were raised in our discussions with the banks, and we will continue to raise them.

**Mr McLaughlin:**

On that point, the banks are clearly monitoring underpricing very carefully. Companies, particularly small contractors, are being summoned in front of their bank managers and are being asked to either reconfigure their facilities or, in some instances, submit a new business plan. Some viable business and those that are capable of surviving the downturn are in danger of being driven out of business. They are not on the brink because they cannot manage their way through the crisis; they are on the brink because, in some instances, banks are, effectively, closing them down.

**Mr Lucas:**

Banks are pressurising businesses because they are trying to recapitalise themselves. One way in which they can do that is, as you said, by reducing clients' banking facilities and, at the same time, increasing significantly the charges that they apply to small businesses.

**Mr McLaughlin:**

My supplementary questions relates to government business. I am thinking particularly about arm's-length bodies, some of which have legal autonomy. That makes it difficult, for instance, for a Minister to make interventions that could help you. Have you commented on or considered the move to measured-term contracts by many of those arm's length bodies and quangos across the board and in different Departments, and how that affects micro-business? Many contractors are facing the wall because the threshold has simply been set beyond their ability to compete or even to co-operate with each other successfully in order to compete.

**Mr Fox:**

Our view has consistently been that public procurement should be about opportunities for all. We believe that that should be looked at throughout the public sector. Northern Ireland Water might say that for its business to run efficiently, it cannot put out individual contracts of £100,000 every time; it has too many contracts, too regularly and, therefore, needs to have measured-term contracts. That is fair enough if there is a good economic reason. If it is for efficiency and delivery, the industry can buy that.

A couple of years ago, there was a drive for major frameworks. We were on the brink of having an educational framework, which every single school would have gone through, and a massive CPD framework, which would have captured many other projects as well. I believe that it amounted to £800 million. Now, we have moved away from that. The current process is that individual schools come out one by one. Clients report that that process is, obviously, administration heavy, bureaucratic and slow in getting work out. It is probably not the most efficient way to procure. However, at present, it provides great value for money because tender prices are very low.

A balance must be struck: when you look at the full armoury of procurement methodologies, ensure that you use balance. Tenders for some schools could be part of a mini-framework. Tenders for others could be individual competitions. We have been keen to look at a rota system for projects in the health estate, whereby any company that is capable of, for example, doing minor works would be able to get onto that rota. It would be clear what companies had to do to get onto the rota and how often the list of companies would be refreshed. Therefore, it would not be a closed shop. Clearly, if the rota were to start today, any work that went out to tender up to a certain value would go through it. After, let us say, a year, that would be closed and the rota would reopen.

That would be efficient in so far as there would no requirement for constant prequalification. At present, we are working with CPD on the potential for the use of random selection as a way to try to short-circuit the process. If you imagine that — and this is happening across the board — a small, let us say, £200,000 job is advertised and 60 companies are interested, probably 50 of them are more than capable of doing the job to the exact standard that the client wants. How is the client supposed to choose five of them from which seek tenders? Under the current process, that would require a full pre-qualification document from all 60 companies. The client would then have to mark those documents and assess all of those companies. That is very bureaucratic and potentially gives larger contractors, who have great systems and people who are dedicated to writing those documents, a better opportunity or increased chance of winning.

We are moving towards the potential use of random selection in limited circumstances for contracts that are below £500,000, although none of that is agreed yet. Those contractors who are interested would answer a basic pre-qualification notice. From them, 10 would be randomly selected and assessed. The top five from those 10 companies would tender for the work. We believe that that would be a way of increasing opportunities for smaller companies. However, it needs to be looked at in full across the public sector. Although some clients can say, rightly, that frameworks — even larger ones — may be appropriate for them, the case is not quite so justified for others.

**Mr McLaughlin:**

The issue for us is compliance with EU competition law, and to give indigenous enterprises the

opportunity to compete and to ensure that there is no inbuilt disadvantage. You have described the minor works and the higher capital works. However, there is a significant market in the maintenance sector for the existing estate. Again, small contractors, some with decades of experience, are more than capable of doing the work but are not capable of meeting the thresholds in respect of those measured-term contracts. In a sense, they are being legislated out of the market, and where else have they to go but to the wall? We are losing a lot of skill and capacity. Have you submitted a presentation on that overall situation?

**Mr Fox:**

No, but we would be happy to have give the Committee our overall views on the breadth of procurement. If we have raised any issues today on which you would like a more detailed follow-up paper, we would be happy to provide that. We see this as the start of a dialogue over this difficult period for the industry.

**The Chairperson:**

It would certainly inform the Committee.

**Mr McKay:**

Many of my issues have been covered. However, from the perspective of the Committee and the Assembly in general, we need to halt the slide before we can recover. It is disconcerting that there are still 700 job losses a month. If a company were losing that many jobs, it would be on the front page of the paper. I am thinking of the effect that Quinn Insurance had on the entire community. It is death by a thousand cuts, and it is having a big impact on rural communities. David referred to the Strangford area. The need for fewer construction workers is having a big impact in north Antrim and, probably more so, in mid-Ulster, together with all the services that have been affected, such as filling stations, etc, that no longer see the white transits lined up outside the door.

The banking issue has been covered already. Whatever the rationale may be for the aggressive banking practices, it is certainly having a huge impact. We have only had a general picture so far with regard to how many businesses are being pushed to the wall. Do you have any figures or any idea that would give the Committee a general impression of the scale of businesses

that are being pushed to the wall on the basis of loans and overdrafts that are being called in, etc?

**Mr Fox:**

We do not have the figures for the specific element of why companies being driven to the wall, and I do not think that it is available.

**Mr Lucas:**

It would be difficult to be exact. People would just regard it as being commercial job losses.

**Mr McKay:**

How big a factor is it with regard to the overall job losses?

**Mr Fox:**

From what we can gather, a lot of the job losses are from companies that still exist. A lot of companies have the ability to almost hibernate. The ribbons of the businesses have been cut and they have been strimmed right back to their bare bones for survival: that is where a lot of companies are. Even those who are still working are working short weeks, and that is not reflected in any figures. Nevertheless, it is reflected in people's pay packets, and they know all about it. That makes it difficult to get the real hard sense of it.

**Mr McKay:**

How constructive have your engagements been with the banks?

**Mr Lucas:**

The banks tell us that they are open for business and ready and willing to lend, particularly in the house-building sector. However, when we talk to them, they say, first of all, that they are looking for a loan-to-value rate of around 75%. In other words, if you want to buy a house at £100,000, you have to put down a £25,000 deposit. I do not know too many young people looking for starter homes who could put down £25,000. The next thing is that, if a bank does give you a loan, the interest rate will be significantly higher than the current base rate. The base rate is 0.5%, but the interest rate for mortgages for first-time buyers is around 6.5% or 7%.



The third and crippling factor is that, if a young couple applies to a bank for a mortgage, instead of, as in the old days, applying the prudent three times the first income test and one or two times the second income, the banks now put couples through a stress test. Three years of bank statements are looked at so that the bank can see a couple's income, expenditure and outgoings, to determine how much is spent on loans and other commitments, such as food and going out. If the bank finds one example of a missed payment, for example, of a credit card or utilities bill, that is enough for it to turn that couple down. That is why houses are not being sold at the moment. Our members have plenty of demand from young people wanting to buy houses, but they just cannot get the mortgages.

**Mr McKay:**

I spoke to somebody who had reapplied for a mortgage in the past four or five months. Everything was going fine until something came up in a credit check. However, the banks are refusing to tell that person the specific reason. It is case of going from one extreme to the other. Is that happening across the board? Are some banks better than others? A couple of weeks ago, four banks came before the Committee, and some said that they were doing more than others.

**Mr Lucas:**

Over the past 18 months, we have, on three or four occasions, met all the major local banks. The scenario has been the same as that which I have just described. The banks say that they are open for business and ready and willing to lend. However, the reality is very different.

**Mr Fox:**

We must remember that the majority of mortgage lending does not come from local banks in Northern Ireland. We have to ask how much influence those banks that are lending mortgages have over policy in Northern Ireland.

**Mr Lucas:**

That is the biggest problem. The Northern Ireland market is perhaps less than 1% of the UK mortgage market, and the policies on bank lending are being set in London.

**Mr McKay:**

Has the rate of young people coming through apprenticeships in the colleges and techs been affected? Are people deciding to go down another route? Is there a stream of young people coming out the other end of those courses with nowhere to go?

**Mr Fox:**

That is a major problem for our industry and for society. We track, through our stated trade, the proportion of apprentices to employees. Over the past two or three years, that has gone from a high of around 6% to the current figure of just above 2%. That shows what is happening in the industry. Companies have shrunk their businesses, are holding on to the people who are skilled and able to do the work, and have not been able to hold on to their apprentices. Most people that I hear from would love to be able to take on apprentices, and it is with great regret that they cannot. However, when it comes to business decisions, companies have to try to survive. It is at those times that apprentices are let go.

As you would expect, fewer people are coming through the system. However, we are very keen to try to raise the bar for the industry. The Construction Employers Federation's role is about not just representing our members' interests, but about driving the industry in a positive direction. We have been working very closely with government construction clients to agree that any company wanting to work for a government client should be able to demonstrate that 5% of its workforce is made up of apprentices, and our aim is to try to sign off on that by around 13 October 2010. Therefore, it will not just be the companies that win government contracts that will have to meet the 5% target, but any company that is even going for a contract. If companies want to work for a Northern Ireland government construction client, they will have to demonstrate a commitment to apprenticeships through that 5% ratio, which is 1:20. That will be very healthy for the industry and good for public expenditure, as well as delivering a very positive social benefit.

To come back to what I said at the start, that is another example of a tangible benefit that investment in construction can deliver. The benefit is not just economic but societal.

**The Chairperson:**

You made your point well about apprenticeships, given that recent reports illustrate the unacceptable numbers of young people who are unemployed and who will continue to be unemployed. Those young people perhaps left school with no academic qualifications, and learning a trade through an apprenticeship is a way for them to go back to further education and skill themselves up to create better employment opportunities. That was a very good point.

**Mr Frew:**

On the electrical side of things, and the mechanical too, I imagine, you used to have to pay everyone off except your apprentices. That made it very hard for companies to survive; if they hit a bad patch, they basically had a workforce that could not do the job. I think we have to be very careful about how to proceed.

**The Chairperson:**

We are talking about creating opportunities for young people in particular.

**Mr Hamilton:**

The circumstances are well known; there has been an awful coincidence whereby lots of things have happened at the same time. The private house-building bubble has burst and issues around borrowing are not helping us to get out of that. On the public side of things, we are facing the reality of reductions. That is viewed by the Treasury as an easy target. The orthodoxy is that if you do not build a school — it was not there to begin with — then nobody would miss the school that was never there. People will notice the impact it will have on the construction industry right down to retail and professional services.

I have two questions; one is on planning. The sad reality is that some frightening figures are being bandied about regarding the level of cuts in, say, capital expenditure. Even if they are not as bad as the really bad ones, they are still bad. I do not want to invite you — or me — to be impaled by Justice Girvan, but one way of getting out of this is private investment. There are significant projects across Northern Ireland. I am not thinking of some of the big ones that are in the news headlines, but smaller ones that have been stuck for a while. What discussions have you had with the Planning Service and maybe with the Department to try to improve that situation? I

know that there have been significant improvements over the last couple of years, but we need to try to continue to drive further improvement into the system.

I have a quick question on a complex issue. We have talked about alternative funding models; have they been a variant on the traditional alternative method of PPPs, which were on major infrastructure like roads, schools and hospitals, or have you looked at public sector housing as well? I think there is greater potential there because you would be building an asset that has a steady income stream, rather than just have something coming out of the revenue side.

**Mr Lucas:**

I will address the issue of the planning system first. We have been working closely with senior officials at Planning Service headquarters over the past 18 months or more to try to improve the planning system as it stands. That was in advance of the review of public administration. We have had a number of successes in getting rid of the backlog by taking minor planning applications out of the system through the principle of delegated powers, whereby they just go through local councils on the nod. That allows the Planning Service to concentrate on the more significant planning applications.

However, the difficulty that we have found is that, although there is absolute commitment at headquarters level to deliver those changes to the planning system and have a change of attitude within the Planning Service, that message seems to get dissipated and dissolved before it gets to divisional level. Our members tell us that there has been very little improvement at divisional level. That has not been helped by the fact that the Planning Service has suffered a loss of staff recently, which again means that its workload is significantly more than it should have been. They were struggling to maintain output even in these difficult times with the industry slowing down. We do not see any significant improvement in the figures coming through the planning approval system. That all creates uncertainty. An efficient Planning Service is a key factor in attracting inward investment. There is also uncertainty about what is going to happen post RPA.

**Mr Fox:**

Our figures show that, since 2006, our members have consistently reported that it takes an average of 18 months from planning application to planning decision. To be honest, the variation

is massive. Some people say the process has improved quite a bit, others that it takes a lot longer, but the average period of 18 months has not changed. That is surprising because we hoped that the changes that Nigel Lucas described and the interaction that we have had with them, along with the general thrust for reform, would help us to see some benefits come through. However, the consensus is that there has not been any real improvement on the ground.

Regarding private finance, in short, we are looking at social housing as well. We use the word “alternative” because we are looking at any way, other than the traditional public money route, to bring in money. If any Committee members have any suggestions or would like to assist in that work, we would be keen to involve them.

**Mr Hamilton:**

We will certainly do that.

**The Chairperson:**

Before I bring in Mr McNarry, members are very interested in some of your alternative finance proposals.

**Mr McNarry:**

My question was on planning and it has been dealt with adequately.

**The Chairperson:**

That ends members’ questions. I thank the witnesses for a very informative evidence session. A few issues were raised about which we wanted more information, such as the measured-term contracts around procurement and the alternative finance model. If the witnesses have any questions that they want to factor into other Departments’ thinking, they can use this Committee to ensure that those get through.

**Mr McNarry:**

It would help to have the federation paint a picture of what it knows about projects that are in the system but will not go ahead.

**Mr Fox:**

I suggest that the best people for that are the clients, because they have better information than us. Ours would be scabbled together, whereas they would have it in front of them.

**Mr McNarry:**

I understand that, but the clients do not appear here, you do. You represent the federation.

**Mr Fox:**

OK. I am sure that we can get that information from the clients.

**The Chairperson:**

Thanks very much. If you have anything to add, feel free. The Committee has no more questions.

**Mr Lucas:**

In closing, I reiterate what Ciarán Fox said at the start of the session. We may hear of a manufacturing organisation putting two or three people on the dole in one week, but the nature of the industry is so dissipated that losses in construction far outweigh the losses of an individual manufacturer, simply because unemployment in construction is rising at the rate of six jobs here, four jobs there and a few jobs elsewhere. Collectively, over the past 18 months, we have hit nearly 30,000 unemployed. That is staggering, so anything that the Committee can do to address that issue would be very welcome. We thank you for the opportunity to be heard.

**The Chairperson:**

Certainly. Thanks very much.