

Construction Industry Federation Submission to the Special Committee on Covid-19 Response

“Reopening the economy - the State’s response and support for businesses”

## **Brief Introduction**

The Construction Industry Federation is the representative body for construction companies operating in Ireland. We shape policy for all companies operating in the industry and count over 1400 enterprise in our membership.

During the Covid-19 pandemic, the CIF has made its COVID-19 standard operating procedure and induction programme available to all companies and employees operating in the industry. This was critically important in reopening our industry in the 1<sup>st</sup> phase of the Government's remobilisation strategy.

The purpose of this submission is to highlight the measures required to restart the construction industry. A secondary objective is to demonstrate that an optimally operating construction industry will have significant follow-on positive benefits to the wider economy.

## **Construction Industry Statistics (pre-Covid 19)**

- 147,000 employees (+69% growth since 2012)
- Approximately 47,000 SMEs
- 20% Compound Annual Recorded Growth in Output (2012-2019)
- 21,000 housing output (35,000 houses per year required)
- Investment (Gross Fixed Capital Formation) in 2018 was €26billion
- Fastest growing Enterprise Ireland export category (+22% 2019) to €2billion
- 16% output growth rate in 2019
- GVA increasing steadily since 2010 (+12.4% 2017 to 2018 to reach €8.6 billion.)

The construction industry must form part of the Government's economic renewal strategy. By supporting the industry, Government can increase the level of activity across the construction ecosystem to help the rest of society adjust to the new normal, *and* deliver strategic priorities including: increasing prosperity across Ireland; climate change targets; balanced regional economic develop; and delivering smarter built environment. Finally, it is only through an optimally operating construction industry that the Government can achieve the ambition in Project Ireland 2040.

The Government should consider three phases to repurpose the construction industry so it can reshape Irish society:

- Restart: increase output, maximise employment and minimise disruption (0-3 months).
- Reset: drive demand, increase productivity, strengthen capability in the supply chain (3-12 months); and
- Reinvent: transform the industry, deliver better value, collaboration, and partnership (12-24 months).

Failure to act will miss an opportunity to deliver this, and risks the industry lapsing into a longer term recession, which erodes capability and skills, and leaves a smaller, weaker sector lacking in the capability to help solve Ireland's housing crisis and the infrastructure it requires to make the economy more competitive and productive.

## **Information**

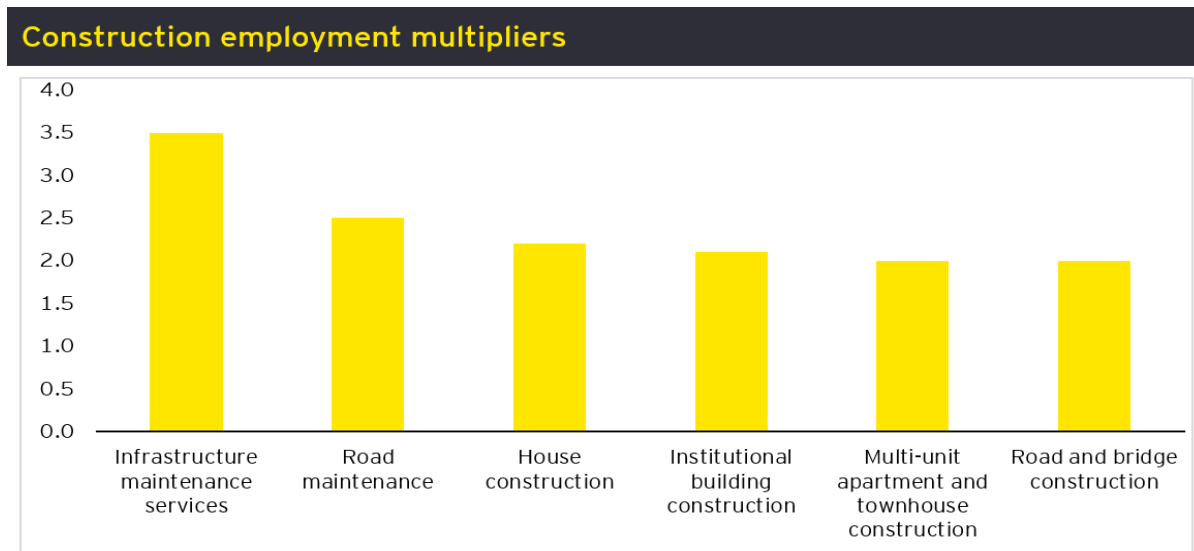
### **Construction Industry: Building Ireland's recovery**

The CIF believes that a Government stimulus package centred on housing and infrastructure will generate income for the Exchequer to stimulate the wider economy, more cost effectively than any other action. Direct support for other sectors will be required but every €1 invested in construction will yield more return than direct 'compensation' to sectors that have been effectively shut down during Covid-19.

In addition, the EU Recovery Instrument, and historically low interest rates (Irish yields are negative out 7.5 years and only .8% over 30 years). Investing now in productive infrastructure such as transport, water, digital and energy is the most cost-effective way to fuel recovery and underpin competitiveness in the Irish economy.

In addition, economic analysis by the World Economic Forum states that 1 job in construction supports 2 indirectly in the wider economy. For sub-sectors, like maintenance, this ratio is 3.5.<sup>1</sup>

Figure 1. Construction Employment multipliers <sup>i</sup>



According to a 2014 study by the IMF, an unanticipated increase in capital spending of 1.0% of GDP leads to a 0.4% uplift in output that same year, and a 1.5% rise four years later.

At an Irish level, an analysis from the Government Economic & Evaluation Service estimated that a minimum of 12 job years are created in the construction sector for every €1 million of construction investment.

Furthermore, the direct and indirect multiplier associated with a €1 investment in construction raises economic activity by €0.7, where there is spare capacity in the construction sector. When induced impacts are included, the multiplier increases to €0.9. Thus a €1 million construction projects will, on average, increase economic activity by almost another €1 million euro, after all direct, indirect, and induced impacts as well as imports are considered. These figures exclude the economic impact of the infrastructure put in place during its operational lifetime.

<sup>1</sup> World Economic Outlook (WEO), October 2014; Chapter 3: Is It Time for an Infrastructure Push? The Macroeconomic Effects of Public Investment; October 7, 2014

### **Specific recommendations for action by the Government**

Covid-19 has fundamentally altered our society and economy. The collective and collaborative actions of the Irish public have staved off thousands of deaths and untold misery.

During this emergency, collective action, previously considered impossible, has enabled Ireland to manage this pandemic.

The CIF proposes that next Government classifies the next 3 years as a 'recovery' period and introduces emergency legislation and policy mechanisms that will streamline the delivery of housing and infrastructure.

The following should be put in place for the duration of this recovery period:

1. Establish a Strategic Housing and Infrastructure unit to accelerate the delivery of housing and infrastructure under the auspices of the Department of Public Expenditure and Reform and the Department of Taoiseach
2. Introduce emergency legislation to streamline and accelerate delivery of strategic infrastructure and housing projects identified in the NDP
3. Utilise a more efficient procurement systems and contract in delivering these projects
4. Accelerate projects critical to balanced regional growth within Project Ireland 2040
5. Develop implementation strategies for national projects such as Metro, Shannon Pipeline Project, and National Retrofit Scheme and housing projects in conjunction with the industry.
6. Reform and streamline the planning system to reduce unnecessary costs and delays

The Strategic Housing and Infrastructure Unit should have powers to prioritise projects and steward them from concept to construction. It should be established for a three-year recovery period. Its immediate task should be to establish a mechanism to allay the costs of mitigating Covid-19 in the recent past *and* in future projects. Construction companies are currently struggling to absorb these unforeseen costs, and some may face closure without

support. Faced with closure, this will seriously impact construction output and make legal disputes likely between builders and their public sector clients.

Equally, the uncertainty driven by Covid-19 means that construction companies are unable to effectively 'cost' in COVID-19 requirements for future works. In respect of public works, the current PWC contract means that all unforeseen risks, Covid or otherwise, fall on the contractor. Due to this contract, some companies will take this incalculable risk and could lead to further delays, costs, and an erosion of value for money for the Exchequer. This has the potential to undermine the delivery of the Project Ireland 2040.

The CIF believes that increasing public capital investment by €20billion within the existing National Development Plan is an essential part of the 'Restart' phase.

In housing, the gap between the consumers' ability to borrow and the actual cost of delivering housing has been magnified with recent events. The affordability gap remains a key challenge for buyers. A Shared Equity Scheme in conjunction with the Help To Buy Scheme would enable the consumer to secure a mortgage, remove a cohort from the rental sector and those locked out of the market. The Shared Equity Scheme would be a 'loan' and not a grant allowing the consumer to purchase the State equity share (up to 30%-40%) over time. There should be a cap on the value split between houses and apartments. Government, by acquiring a stake in these houses, results in the measure being essentially cost-neutral. These measures mean that the exchequer generates income to fuel the stimulus required for the wider economy. In addition, the output from housing and infrastructure help 'solve' Ireland's housing and infrastructure gaps benefitting all SMEs operating in the economy.

**Other recommendations:**

- Public Sector clients to confirm timescales for public sector near to market schemes across housing and infrastructure. Public sector clients to expedite design and planning phases of projects in their pipeline, and monitor the progress of these
- Extend working hours on sites where reasonable to do so

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- Extend planning expiry dates and explore other flexibilities, so permissions are not lost due to Covid19 disruption, and ensure the planning system continues to operate and facilitate development
  - To encourage apprenticeships in key trade and crafts, allocate funding from the €170million National Training Fund. This funding could be used to reinstate payment of apprenticeship fees in phases 4 and 6. Only 29% of companies can hire apprentices currently, even though 81% employ tradespeople.
  - Make available additional funding (from the NTF) to support SOLAS in recruiting instructors and capital resources to facilitate the increase in apprenticeship numbers.
  - Introduce Safepass virtual classroom to allow SOLAS to administer safepass safely during the pandemic
  - Increase State investment in construction related Research, Development & Innovation. Build on the positive commitment by Government to establish an ambitious Construction Technology Centre focused on modular construction, BIM, green construction, and con-tech. This investment would benefit the third-level sector, construction SMEs and the wider economy as Ireland's thousands of construction companies become more productive.
  - Reintroduce the redundancy rebate or reduce and cap redundancy payments.
  - Progress and finance the forward planning and procurement work for strategic infrastructure projects identified in the NDP and expedite key NDP projects in the regions.
  - Address the critical cost issue of construction and demolition soil and stone treatment and disposal.

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- Increase funding through LIHAF to remove the prohibitive cost that renders development of residential lands financially unviable
  - Increase Funding Provision for the Rebuilding Ireland Home Loan.
  - Bridge the affordability gap for the average home purchase through a Shared Equity Scheme that will see the Government take a small equity stake in new homes.

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<sup>i</sup> [https://www.ey.com/en\\_ie/covid-19/how-infrastructure-spending-help-economies-return-strength](https://www.ey.com/en_ie/covid-19/how-infrastructure-spending-help-economies-return-strength)