EXPLORING HOW REGIONAL CONSTRUCTION ACTIVITY CAN BE SUPPORTED BY COMMUNITY BENEFIT INITIATIVES

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Despite periodic fluctuations in the economic cycle, construction activity across the UK has experienced strong growth since the 1950's. In particular, there has been consistent growth since the early 1990s. This paper seeks to examine that growth in three northern regions of the UK and to examine the implications of this upon the industry and its capacity to deliver this workload and includes selected 'city' case studies. Due to increasing workloads across the Northern region, there is now recognition of the role that construction plays as catalyst for economic development and job creation, particularly through the resultant training and skills development opportunities that arise. At the same time as benefiting local communities by providing job opportunities, the industry can satisfy its need for skilled people to enter the industry. The study was supported by Manchester City Council and will hopefully lead to a larger and more detailed follow up study of the dynamics of the regional construction markets.

Keywords: Community Benefits, Construction Output, Job Creation, , and Sustainability.

STUDY OBJECTIVES

Achieving Community Benefit from Construction

The research reported in this paper sought to provide an update to a previous 'Review of Construction Activity in Manchester' (Abbott,C., Allen,S., Ong, H.C., 2002) completed by the Centre for Construction Innovation (CCI) on behalf of Manchester City Council's Economic Initiatives Group (EIG) in October 2002. The update was necessary to establish the current situation in Manchester and "competitor" cities so that a baseline can be established against which future improvements in achieving community benefits can be targeted and measured.

- As a local council, Manchester City council wants to ensure that:
- Capital expenditure within the City creates maximum benefit for the local economy and the residents of the City.
- The City has an attractive construction industry, which is competitive and professional and able to offer secure employment
- There is a skilled workforce available within the city

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Methodology

To achieve these broader objectives of the city council it was decided at an initial meeting between the client's representative and the investigators to undertake a broader review of activity across the Northern region of the UK; focus upon some of the core cities; and, consider construction activity how it can impact upon skills development and the achievement of community benefit.

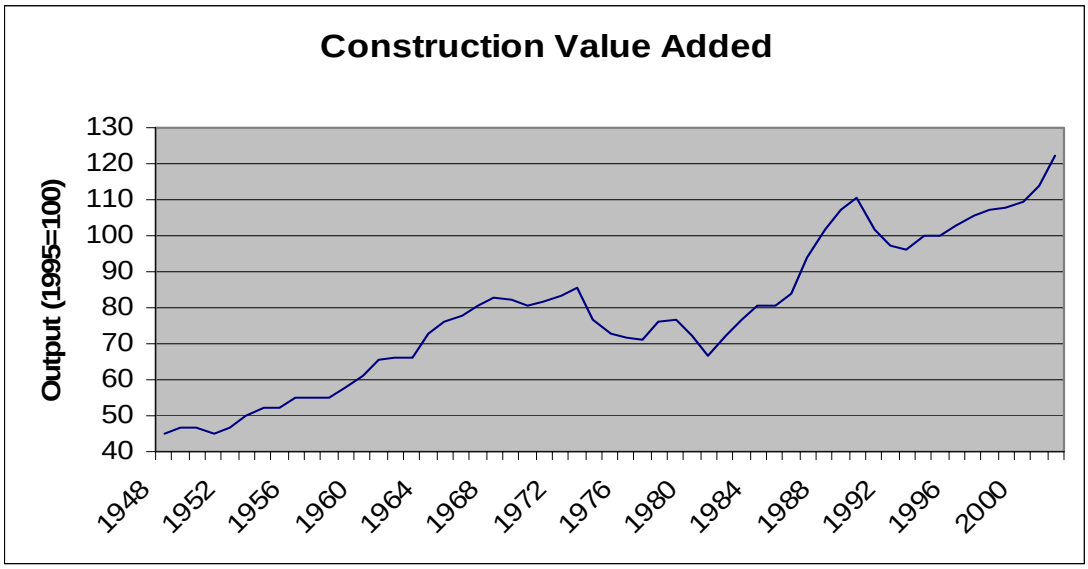
To achieve the above, market intelligence is essential and gathering this information was an important task in this investigation. Regional construction activity, in particular the Northern regions of the UK, was analysed with the aim of identifying trends in workloads and orders. Data was collected from published sources and are presented in this paper.

As a result of the findings, which indicated growth in market size, there was a need to consider the availability of skills (at both operational & management levels) and approaches to community benefit which may help the situation. In addition, this led to the need to consider how this could impact upon economic factors detrimental to the health and vitality of the industry such as the possible inflation of market prices. The vision is of the construction industry supporting the community and the community supporting the construction industry.

CONSTRUCTION OUTPUT

There is a strong relationship between the business cycle and the output of the construction industry. It is clear that construction activity has a significant impact upon the rest of the economy. In the last 30-40 years, governments around the world have used the construction industry through public infrastructure expenditure and investment as a means of lifting their economies from the low points in their economic cycle. The volatility of these cycles in the UK has diminished recently, primarily due to sustained growth in industry activity in the last decade.

Since the Second World War construction value added has grown despite the fluctuations in the business cycle and this is illustrated in the figure below (Source: DTI statistics).



As a result of this macro economic policy of governments the construction industry can be considered to be a useful economic indicator or barometer for a countries economy. In addition, with an increasing federalisation of European regions and cities within these regions similar trends can be noted in the construction activity of these sub-regions and cities.

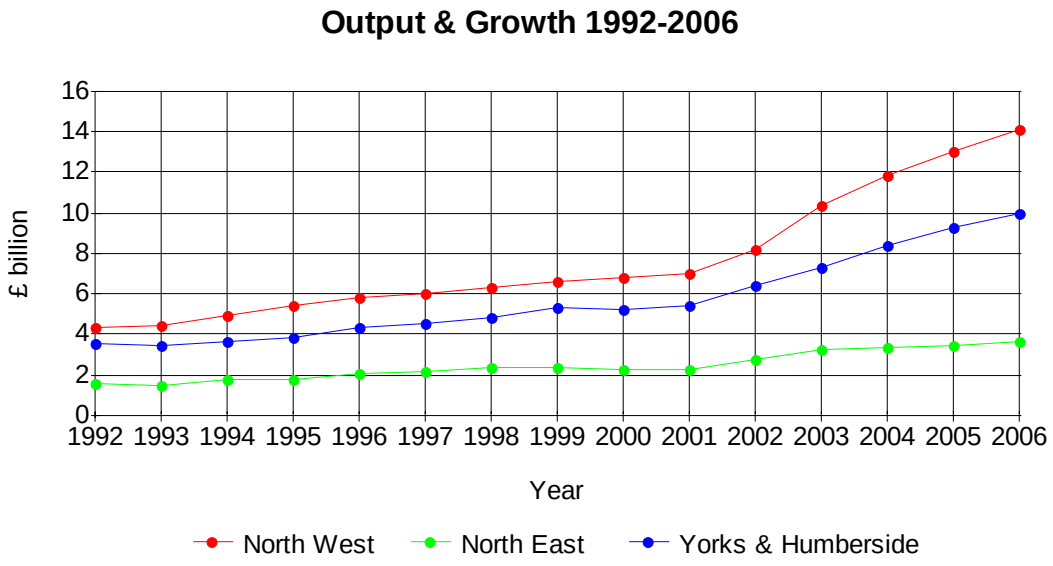
This report provides an overview of recent construction industry activity and order books within three Northern regions of the UK (NW; Yorkshire and Humberside; and the North East). In addition to this overview, the current activity and planned projects in some key cities in this region are considered in greater detail and finally the role of local labour initiatives in providing appropriate skilled labour in these areas to meet the skills shortages that exist which were identified by the CITB (CITB, 2002).

A Regional Picture

This section reviews current output (in particular output, activity levels and order books) and forecast output for 2003-2006 for the three regions of interest in this investigation. This section focuses upon construction activity in the regions, considering the proposition that the success of regional economies around the UK can be related to the health and vitality of the construction industry. It is hoped that this study is a precursor to an effort to compare the performance of regional economies to that of the overall economy in terms of economic growth and job creation.

Regional Output 1992-2003 & Growth Forecast 2004-2006

The graph below indicates that the North West is the largest market in the North of England, followed by the Yorkshire & Humberside and then the North East. In fact, for the latest year for which information is available, the North-West market £10.368 billion is almost as large as the North East and Yorkshire & Humberside combined (£10.482 billion).



Source: www.statististics.gov.uk – construction statistics and forecast figures extrapolated from Experian Business Strategies (Construction News, 3rd June 2004)

As we can see in the above graph, construction growth and expansion in the North West and Yorkshire and Humberside takes off in the period 2001-2006, whilst the North East is relatively stable. If these forecasts are accurate then the respective growth rates in output terms are 102% for the North West, 84% in Yorkshire and Humberside and 56% in the North East.

In the words of Hollywood film producer, Samuel Goldwyn, "Never prophesy, especially about the future", however despite this advice, forecasts can be a useful tool for strategic planning and preparing to deal with anticipated market activity. We can see in the above graph that the current growth rate will ease in the North-West in the

next 3 years but will maintain a rate of growth comparable to that of other "competing" regions across the North.

This growth needs to be resourced by contractors, sub-contractors and with labour. It is likely a cut-throat market will emerge within the region as developers and contractors compete to resource their projects to deliver for their clients. This could result in an upward pressure on construction costs in the Manchester region.

Further, extrapolating from output and employment figures provided in separate reports by CITB and the Merseyside Construction Initiative a £10 million project will create in the region 160-180 direct jobs. So each increase in output in the North West of £500 million could potentially create a requirement for approximately 10 000 jobs or 7-8% of the current construction workforce. Forecasts indicate an additional £3.5 billion construction spend / annum in the North West by 2006.

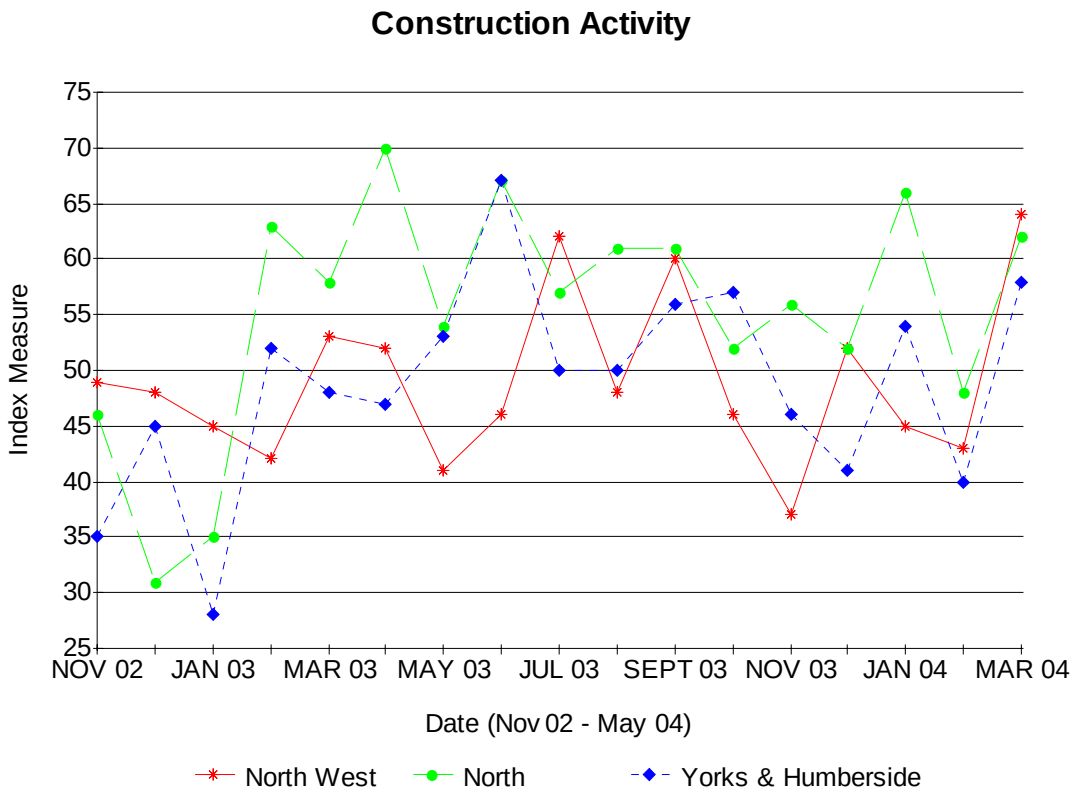
The numbers of jobs that could be created here does not take into account changes in technology, construction processes and working practices. Also, the number of these jobs which would be new jobs is obviously a more complicated matter to predict. If they are new – where will these people come from?

Regional Activity Levels

The graphs below present data from November 2002 identifying patterns which are emerging. This data was extracted from information provided by Experian Business Strategies on behalf of the European Commission published at the end of each month in "The Tracker" Series of Building Magazine. (Reports available at www.constructionfutures.co.uk). In the graph below an index measure of 50 indicates no change, a measure greater than 50 an increase, and a measure less than 50 a decrease.

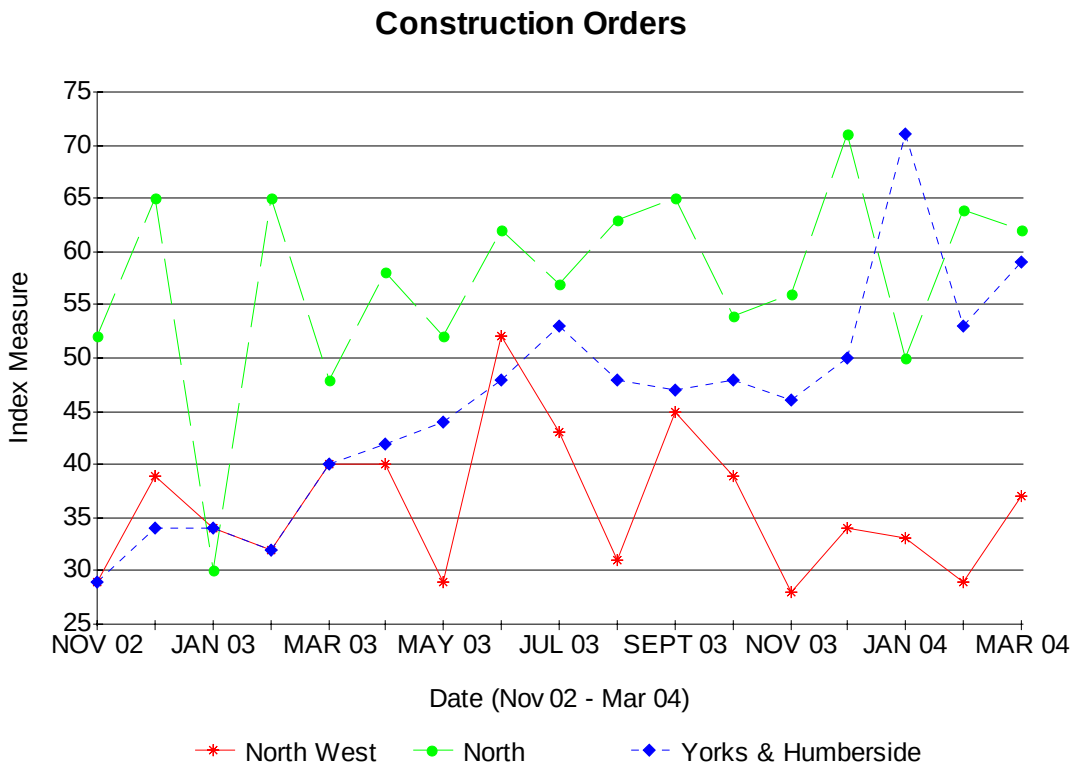
Looking at this alternative data, the graph indicates that activity in the North West has been decreasing since the Commonwealth Games in 2002 and activity in both the North and Yorkshire and Humberside has been increasing. A recent review identified that Leeds has experienced £2.2 billion of property investment in 2003 and the projection is £3.3 billion in 2004 (Thomas, 2004).

Forecasts indicate that activity in the North-West will pick up again in the next 2-3 years, as major projects in Liverpool begin to impact upon the above figures. This point is illustrated more graphically in the graph below. It will be interesting to see the extent of the upswing that is forecast within the North West in the next two years.



Regional Order Books

In the graph below an index measure of 50 indicates no change, a measure greater than 50 an increase, and a measure less than 50 a decrease



The above graph indicates that activity in the North West has been falling from a high base primarily due to Commonwealth Games building boom that reached its zenith in the summer of 2002. It will be interesting to see how these figures will change in the near future as planned projects, particularly in Liverpool with the redevelopment scheduled in the preparations for the City of Culture in 2008, start appearing in the order books.

SKILLS DEVELOPMENT AND COMMUNITY BENEFIT

Construction Training & Skills

Achieving Community Benefits is a key element of the National Procurement Strategy for England (ODPM, 2003). Although originally introduced to help tackle local unemployment, schemes to include community benefit from construction are now a key element in tackling local skill shortages in the construction industry (Macfarlane, 2000). With workload increasing, education, training and skills development are critical for the success of any regional construction industry. A wide-ranging skills shortage in the region for the industry has been identified (CITB, 2002). This in some part can be related to the growth of activity in the sector – which relates to the demand for construction services but also the availability of new entrants to the industry – the supply side in part due mainly to changes in the education and apprenticeship systems. Specific problems that were identified included:

- Numbers of people entering the industry
- Quality of the people entering the industry
- Retention of trainees in the industry
- Progression of people in the industry

These illustrate the nature of the problems which are faced by the industry and which need to be addressed in meeting the shortage identified by the CITB across the region and within Greater Manchester but considering the numbers currently undertaking training (10000) it is necessary to ask why the current demand according to CITB (2600) cannot be met. Is it a lack of skills or a mismatch?
Some of these problems may be addressed as construction technology changes resulting in increased off-site manufacturing and standardisation of products; and, the move towards the development of new off-site "construction manufacturing" skills which may precipitate a move away from the "traditional" on-site construction trades. Off site manufacturing has the potential to improve the speed and quality of building delivery at a reduced cost and with the creation of less waste. In addition, this approach provides an opportunity for improving the skills of construction workers operating in a controlled environment with a resultant reduction in accident numbers (Gibb, 1999; Ong, 2004).). An increased take up of offsite manufacture will mean jobs are likely to shift from sites to factories. There will be greater emphasis on the builder as the 'retail interface' and the fabricator as the 'supplier of product' (Housing Forum, 2002).

Community Benefit Policy and Process

The lack of a consistent and well-understood front-end process to elicit contractor commitment to the identification and delivery of training opportunities that will deliver benefits to the communities is a missed opportunity for the city. This is related to the lack of a clear policy that supports timely interventions in the procurement process.

There is also a lack of understanding of the key stakeholders, the complex relationships that exist between the parties, what they can contribute and how they can work together most effectively. The complicated nature of achieving community benefit through construction and the creation of jobs and training opportunities can be grasped by the following list of stakeholders: Local Authorities; Industry Clients; Contractors / Sub-Contractors; Educators / Trainers; Trade Organisations; Chambers of Commerce; Job Centre Plus / Connexions / Ambition

There is a need to gain a better understanding of the relationships that exist between the above. A stakeholder mapping exercise will be undertaken as part of the next stage of the project.

The effectiveness of the Developer Agreement / Section 106 Agreement procedure for local labour in the City needs to be reviewed in conjunction with the Local Labour Monitoring that is undertaken. Manchester Enterprises provide a service to the regeneration partnerships in areas such as North Manchester and East Manchester. Also, across the Northern region similar activities operate in places such as Salford, Liverpool, Sheffield, and Hull.

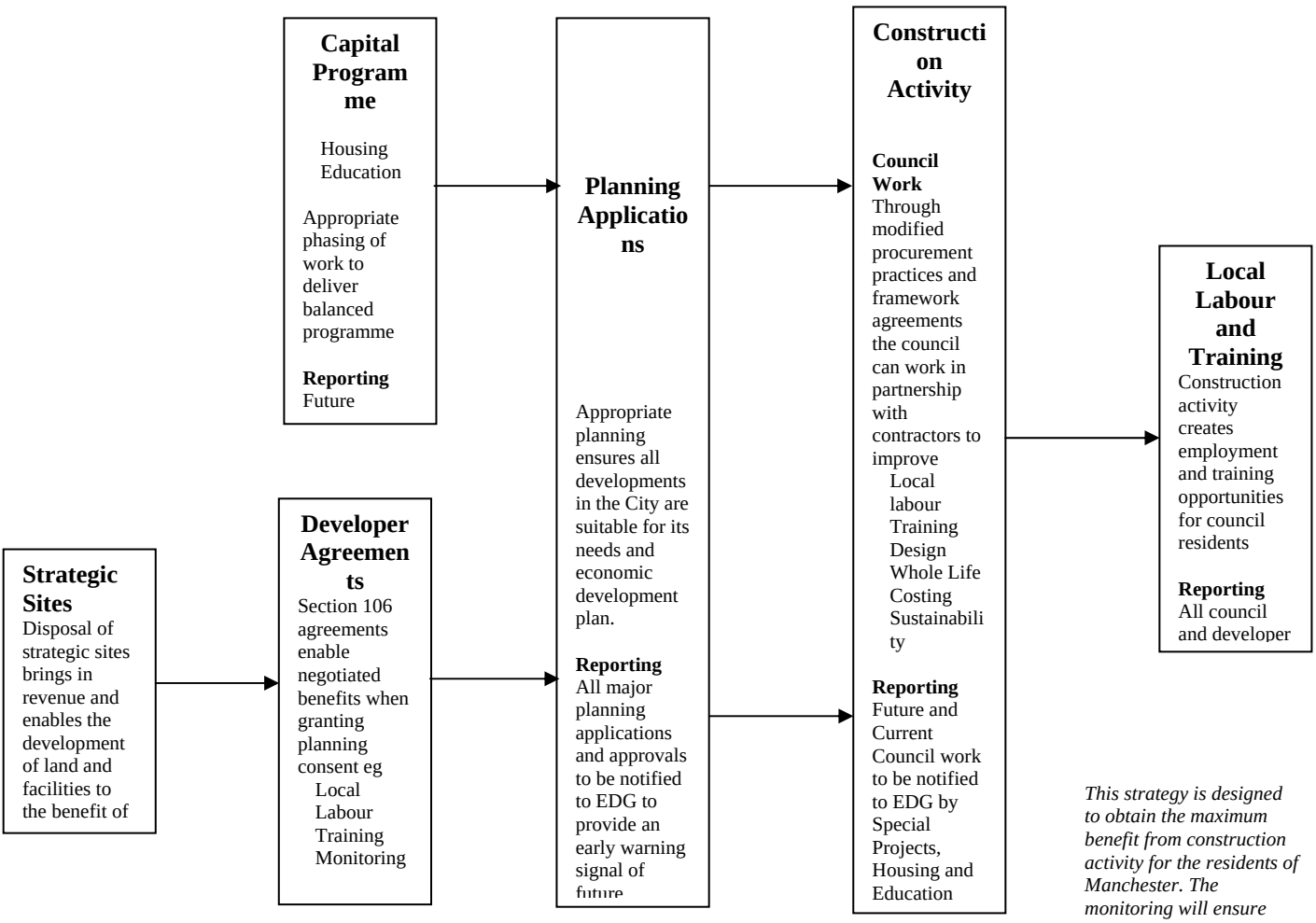
Within Manchester City Council, an attempt has been made to address this issue at the front-end of project procurement, for instance with the selection of the education framework contractors, for whom local labour was one of the assessment criteria.

Quarterly Report

A regular Quarterly Report is an essential activity for gathering market intelligence and understanding the market. Used properly, this data provides important information for developing a strategic overview on which to base decisions. The output of this activity would be the major contribution to the creation of a database of construction activity in Manchester, Greater Manchester and the North West.

This process, illustrated in full in Figure 1, will start to develop the culture of collaborative working and sharing of information which already exists within Manchester City Council but will pull it together so that a strategic overview can be provide. A previous study (Abbott, C., Allen, S., Ong, H.C., 2002) outlined the nature of this report but the procedure proposed is re-produced in this document, below.

Manchester City Council Strategy to Maximise the Benefit from Construction Activity in Manchester



This strategy is designed to obtain the maximum benefit from construction activity for the residents of Manchester. The monitoring will ensure adherence to the strategy and provide the intelligence required for realistic target setting, training needs analysis, and continuous improvement

CONCLUSION & SUMMARY

This section provides a review of the key findings in this investigation, in particular relating to output and activity, and training and local labour. The key conclusion from the report is that the construction industry can provide work opportunities for local communities who in return can address the manpower needs of a growing industry. Developing a methodology to do this successfully is the big challenge ahead.

Output and activity

Nationally construction output has moved away from the traditional boom / bust cycle and has grown in real terms for the last 12 years.

Regionally the picture is similar across the Northern region (covering North West; North; and Yorkshire & Humberside).

Construction activity in the NW has grown during the same period and it is forecast that the NW region will grow in the next 3 years, particularly considering the amount of development planned in Liverpool and the Merseyside sub-region.

The North West region is forecast to outstrip activity levels in Total in North and Yorkshire and Humberside. Forecasts would indicate that growth rates will fluctuate and percentage growth may be higher in these other regions.

An increase in construction output in the North West of £500 million could provide approximately 10 000 jobs or 7-8% of the current construction workforce.

Training and local labour

There is a lack of integration between the variety of providers and facilitators for education, training and work opportunities. A consolidated and more integrated forum is required to achieve full benefit from any such initiative and local labour monitoring activities that exist. CCI may be an appropriate vehicle by which this can be done.

Evidence from a recent CITB skill foresight report indicates that there is a skills shortage in the NW region and this may be exacerbated as activity increases in the next few years. This is despite the fact that the numbers of people being trained exceeds the numbers required. The question remains, is there a lack of skills or a mismatch between skills required and the training that is taking place?

To date, local labour initiatives have not been as effective as advocates would like due to the difficulties that exist in identifying real outcomes arising from the initiatives and given the nature of the industry. Are the numbers claimed really local and what level of skills has been attained? These are difficult questions to answer that require more focused investigation.

There is still massive scope to achieve extensive training outcomes and community benefit from construction activities in Manchester if appropriate policies are developed and implemented. To achieve the results that are possible, Manchester City Council needs to get to grips with local labour monitoring activities.

In addition there is the need to consider the increasing use of standardised construction components, off-site manufacturing & pre-assembly technologies and even the use of robots that will augment the traditional set of skills required for construction.

New technology will place increasing demands upon UK construction workers and traditional tradesmen will require new skills for off-site “construction manufacturing”.

Geographically flexible and integrated teams

Despite the above points, the industry is quite well integrated with teams of construction operatives and specialist sub-contractors travelling between the major centres across the region. Additional in-depth research would be necessary to determine the full extent and pattern of these movements.

The fluidity and geographical mobility of the industry is a strength, but it can be a weakness as labour "re-locates" to projects that provide them with greater financial returns. The geographic proximity of the major centres in the region and the ease of commuting due to the transport links in place facilitates this.

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