



# Summary of Construction Industry Council Submission to Government, March 2009

The Construction Industry Council made a submission to Government. This summary provides an overview of the submission to encourage the Government to invest in a stimulus package

In March 2009, the Construction Industry Council (CIC) completed their submission to Government, with its stated aim: *“to save 70,000 jobs over the next three years, maintain highly skilled productive resources in Ireland and deliver necessary infrastructure at excellent value for money for the public benefit, with minimal additional State borrowings”*.

Essentially, the Report proposes a plan for national economic recovery, which will deliver the necessary infrastructure for the public benefit while maintaining a highly skilled productive workforce. The report highlights the concerns of the CIC about the future prospects for construction in the absence of government policy intervention and calls on the Government to give serious consideration to the CIC plan.

## Summary of the report

The construction industry was a key driver of economic growth over the decade to 2007. By the end of 2007 the industry had reached a value of

€38.5bn, 24% of GNP, and employed around 400,000 people. The CIC recognises that an industry of this size was unsustainable and believes that in the medium term Ireland should have a construction industry that is larger than the EU 15 average (circa 12% of GDP) because of its infrastructure deficit. Construction output should be at least €18bn for a number of years, equivalent to 12% of 2008 GNP, in order to ensure that Ireland does not continue to fall behind the rest of the EU.

The National Competitiveness Council has stated that our infrastructure deficit still places Ireland at a material disadvantage to other EU countries. The National Development Plan (NDP) 2007-2013 was designed to address this deficit; however, the serious deterioration in the Exchequer finances is now making it difficult to deliver on the NDP. Notwithstanding this deterioration, the removal of infrastructure deficits in our economy is essential in our efforts to raise competitiveness and boost economic growth.

## What is the Construction Industry Council?

The Construction Industry Council (CIC), representing approximately 43,000 members, was established in February 1991 with the objective of dealing with issues of common interest for the construction industry in relation to overall policy issues. The Council acts only on the basis of consensus and all decisions and policy statements published are agreed by the member organisations.

Membership of the CIC consists of:

- The Society of Chartered Surveyors (SCS);
- The Royal Institute of Architects in Ireland (RIAI);
- Engineers Ireland;
- The Association of Consulting Engineers of Ireland (ACEI);
- The Construction Industry Federation (CIF); and,
- The Building Materials Federation (BMF).



Without a Government stimulus, output in the construction industry looks set to record the biggest contraction in 30 years. Projections suggest that the industry will already be below its optimum size of €18bn by the end of 2009. The industry could shrink to €12.3bn by the end of 2010, 33% below its long-term optimum size, and to €10bn in 2011, 43% below its optimum size. The CIC believes that a decline in the industry below €18bn will result in unnecessary job losses and an erosion of essential long-term productive capacity, and further undermine our national competitiveness.

Total employment in construction was down 33% by February 2009 from a year earlier. Without a Government stimulus, total employment (direct plus indirect) in construction could decline to 126,000 by the end of 2011, back to 1994 levels.

According to the Society's index, tender prices are down 20% from the peak in 2007. There is now a window of opportunity to roll out infrastructure projects, given the excellent value for money that is available combined with high productivity and an abundance of skilled resources.

*€5bn per annum will save 70,000 jobs and maintain an important skills base.*

Improving infrastructure generates additional benefits to competitiveness and economic growth as well as providing an important public benefit. The ESRI has calculated the positive long-run effects on GNP are that for every €1bn spent on infrastructure, GNP increases by €0.4bn per annum in the long run. The quality of infrastructure is improved for the population as a whole, while the positive effects persist in the economy long after the money is spent. From an economic point of view, investing in infrastructure makes sense as long as the return on that investment is greater than the cost of funding it.

### Investment proposed

The CIC is proposing to Government that the investment of a stimulus package of €5bn per annum (in addition to the Public Capital Programme) over three years will save 70,000 jobs and maintain an important skills base. A Government stimulus will help to restore confidence to the private

sector and the indirect and induced impacts will generate substantial benefits for the economy over the medium term well in excess of €5bn. The source of part of the funding suggested is a combination of private pension funds and other 'off balance sheet' structures. The CIC believe that the Pension Funds of Ireland may fund up to €2bn. The balance would be funded from the European Investment Bank. In terms of this €5bn stimulus package the CIC has provided an indicative list of capital projects, based on consultations with the main infrastructure spending departments, which should now be considered for funding. However, given the rapid economic downturn, the CIC is keen to ensure that the best projects are prioritised on the basis that they:

- are employment intensive;
- generate an economic rate of return above their costs;
- add to the productive potential of the economy; and,
- minimise the external leakage of funds.

Stimulus Package	€5 bn
Total Jobs Created	70,000
Tax Take @ €15k pp	€1.3 bn
Social Welfare Saved (@ €18.5k pp)	€1.3 bn
Total Avoided cost	€2.6 bn
Net Additional cost	€2.4 bn
Funded by Private Pension Funds (€2bn) & EIB	€2.4 bn

The CIC submission recommended as a matter of urgency that the following actions be put in place immediately to progress the stimulus package:

- agreement of the stimulus package in principle;
- urgent prioritisation of public infrastructure projects;
- consultation with pension funds;
- appointment of a high level implementation group to standardise procurement and contractual arrangements; and,
- fast track planning and procurement.

There is now a narrow window of opportunity to roll out infrastructure projects given the excellent value for money that is available combined with high productivity and an abundance of skilled resources. This would secure construction jobs and retain skills across the country.