



CONSTRUCTION INDUSTRY REPORT 2023

Researched and written by Holly Lans for Hodgkinson Builders Ltd.

Hodgkinson Builders Ltd
Unit 36 Royal Scot Road
Pride Park
Derby
DE24 8AJ

Tel: 01332228944 | www.bricklayers.com | www.hodgkinsonbuilders.com



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ABOUT US

Hodgkinson Builders was founded in Derby in 1990 by Ian Hodgkinson. Starting as a small bricklaying business, Hodgkinson Builders now has 30 years of expertise in property development with projects all across the UK. As an end-to-end developer, we are there every step of the way, from sourcing land right through to handover. We ensure that we are engaging with local communities to create places that they will love to live in from the outset, taking in their views, dreams and needs. Our core clients have been, and continue to be, Housing Associations and other social and affordable housing providers, making up 95% of all our projects to date. Although our client base consists predominantly of social and affordable housing providers, we have built a wide variety of homes in all tenures and markets. As a longstanding key player in affordable and social home building in the East Midlands, we have experienced first-hand the urgent need for such homes. Because of this, we pride ourselves in sourcing sites that are in genuine need of regeneration. Having built more than 500 houses all over the UK, we are proud to say that we have emerged as a clear leader in social and affordable house building and are considered industry experts, being the point of contact for many developers and providers of social and affordable housing.

FOREWORD FROM IAN HODGKINSON

I do hope you enjoy our Construction Industry Report. It focuses on housing in general and social housing in particular, as well as the housing crisis, the importance of skills and apprenticeships, solutions, and modern methods of construction. The report highlights the importance of social housing within the UK economy in providing much-needed houses and roofs over people's heads. I have personally seen the benefits of new social houses for families.

If we are going to get anything out of this report, it is the delivery of more sustainable dwellings to help the housing supply for hardworking families. Most social houses are built by tradespersons that live locally, providing accommodation to other people in the local area. This, in effect, improves the prospects of the local economy by putting cash straight back in the pockets of those families to spend in local shops.

The advantages of social housing are endless if it is allowed to happen with a focused approach: by building new houses to the highest standards; by embracing and connecting with technology; by bringing brownfield sites back into use; and by providing people with opportunities that might otherwise not have happened.

Hodgkinson Builders, like many construction companies, have had a challenging last 18 months with the energy crisis, inflation, and the increases in materials prices. It is estimated during 2023 that approximately 100 construction businesses of all sizes will go out of business per week. This will leave the building industry with another house building issue when the economy picks up, in who will be building the desperately needed homes.

It is not just about building houses; it is about building communities. We want to make a positive change, whether that's in the communities we help redevelop, or by supporting the next generation of bricklayers and trades. We are committed to building homes that help build better lives. In building both domestic and commercial properties, we have a wealth of experience and insight to help build the perfect development of new homes.

Hodgkinson Builders have always encouraged apprenticeships and improving skills, thus improving the quality of the builds. Tradesmen can be proud in the job that they have done, and this will result in less defects, less issues and less stress for homeowners.

At Hodgkinson Builders, we especially pride ourselves on the traditional look of our homes. We use brick facades and sustainable timber frame technology to speed up the process of construction. For us, it is not just about building houses and properties; it's about building lives and opportunities across the UK. That's why Hodgkinson Builders has an in-house bricklaying division, with more than 100 bricklayers to draw from, who can directly engage with us on our projects. However, it doesn't stop there. Hodgkinson Builders encourages all people, young and old, to come into a trade that will not just provide them with the physical tools to build a house, but also the tools for life. At Hodgkinson's, we offer unique opportunities so you can learn, build, and live in the house of your dreams. We understand that building the perfect house cannot be underestimated.

The report has been sponsored by Hodgkinson Builders Ltd in collaboration with Holly Lans who has been an excellent author of such an informed report.

Ian Hodgkinson

Director at Hodgkinson Builders

ian@hodgkinson.uk.com

EXECUTIVE SUMMARY

Thank you for taking the time to read our second Construction Industry Report. This report has been written with the intention of highlighting key issues faced by the construction industry over the past year and provide an outlook to the future. The report shall look at the following:

Part 1: 2022

- The Russian invasion of Ukraine, its impact on the construction industry and its effect on materials and energy supplies in the UK
- The materials shortage and its effects on SME builders and the industry as a whole
- The ongoing Energy Crisis
- The Housing Crisis and issues surrounding the housing market, supply, and demand
- Changes to the Building Regulations as of June 2022

Part 2: 2023

- Social housing and why it is the place to be in the industry
- The importance of social housing for those who live in it and the economy
- The progress of the Social Housing (Regulation) Bill and what it entails
- How social housing could help alleviate the crises currently faced by the UK and the construction industry
- Retrofitting and alternative heating systems
- The Skill Shortage, ways the industry could tackle the shortage
- Importance of and investment in apprenticeships

This report aims to be non-political, unbiased, and written from the unique approach that builders, developers, and stakeholders have on these issues.

It is not unknown that every industry and individual in the world and the UK has faced unprecedented challenges over the past year, some of which are still ongoing. The construction industry is no exception to this. By looking into the above crises and elements of the industry in detail, we hope to shed light on issues for those perhaps not familiar with them, and present the figures and facts, as well as possible solutions and the positives which have begun to become apparent as we move through 2023.

INTRODUCTION

Our second Construction Industry Report hopes to shed a light on the issues that have affected the construction industry throughout 2022, whilst also providing a more positive, yet realistic, outlook to the future as we move through 2023. To do this, we have focused on issues such as the Russian invasion of Ukraine and its impacts on materials and energy supplies, material shortages and how this has affected jobs and workloads within the industry, and the ongoing skills shortage in the industry, amongst other key issues. This report comes at a time when the industry and the world is still on the road to recovery from the past few years and hopes to offer a comprehensive, in-depth discussion on the main issues that were faced and continued to be face by the construction industry and the world.

PART 1: 2022

Introduction

Despite being two years on from the beginning of the COVID-19 pandemic and restrictions, and the official implementation of Brexit on 31st January 2020, 2022 was still a year of instability and uncertainty, even with the world in the midst of recovery and returning back to 'normal'. In Part 1 of the Construction Industry Report (CIR), we will look at the year 2022 and the main events that impacted the industry and the constraints the industry faced.

The Russian invasion of Ukraine

On 22nd February 2022, Ukraine was subject to Russian military invasion, sending the world further back into the instability and uncertainty it was beginning to recover from.

The ongoing war in Ukraine has had a profound effect on economies and industry worldwide and the UK construction industry has not been sheltered from this. In an already turbulent market hit by Brexit, COVID-19 and the cost-of-living crisis, the conflict in Ukraine has both directly and indirectly impacted the UK construction industry.

According to the Construction Leadership Council (CLC), the most severely impacted areas within the construction industry were materials, particularly steel, and energy, both of which are central to industrial success.

Direct impacts of the conflict include:

- Materials – particularly steel, iron, nickel, timber and chemicals
- Energy – dependence on Russian gas and oil in Europe, resulting in various issues including the cost of and production cost of materials that use extensive energy output e.g., bricks. As well as the effect on materials, fuel costs rising will affect deliveries and in turn, result in higher delivery costs.

Indirectly, the industry has, and continues to face, difficulties with:

- 1) Disruption to established supply chains
- Raw materials from a tight market that has lost capacity as a result of sanctions/buyer preference limiting sourcing from the conflict zone
- 2) Loss of access to fixed price agreements and hedges
- Disruption to pricing models and short-term requirements to secure raw materials at spot market prices
- 3) Reduce production volumes
- Manufacturing shutdowns due to a reduction in operation due to higher energy costs
- Rapidly increasing costs
- Rapid cost increases affect the viability of projects
- 4) Unexpected cost increases
- Unexpected cost increases affect bids and projects on-site, which could result in losses if fixed price protection is not in place
- 5) Inflexible or imbalanced commercial terms
- An example of this would be very short fixed price periods, preventing suppliers, sub-contractors and main contractor from obtaining fixed price protections in bids and change orders
- 6) Potential for survivalist behaviours

- Product availability issues, increased costs and other commercial pressures could not only result in business failure but also, less obviously, in safety and quality compromises that are often associated with projects that are facing financial difficulties.

Following the Russian invasion of Ukraine, crude oil prices surged above \$100 per barrel for the first time since 2014.

Europe relies heavily on imported energy, a significant amount of which comes from Russia. Eurostat data shows that nearly 50% of coal, 25.7% of crude oil and 34.5% of natural gas came from Russia in 2020. Despite Russian gas only accounting for ~5% of the UK's energy mix, increased demand across global energy markets has led to significant price increases.

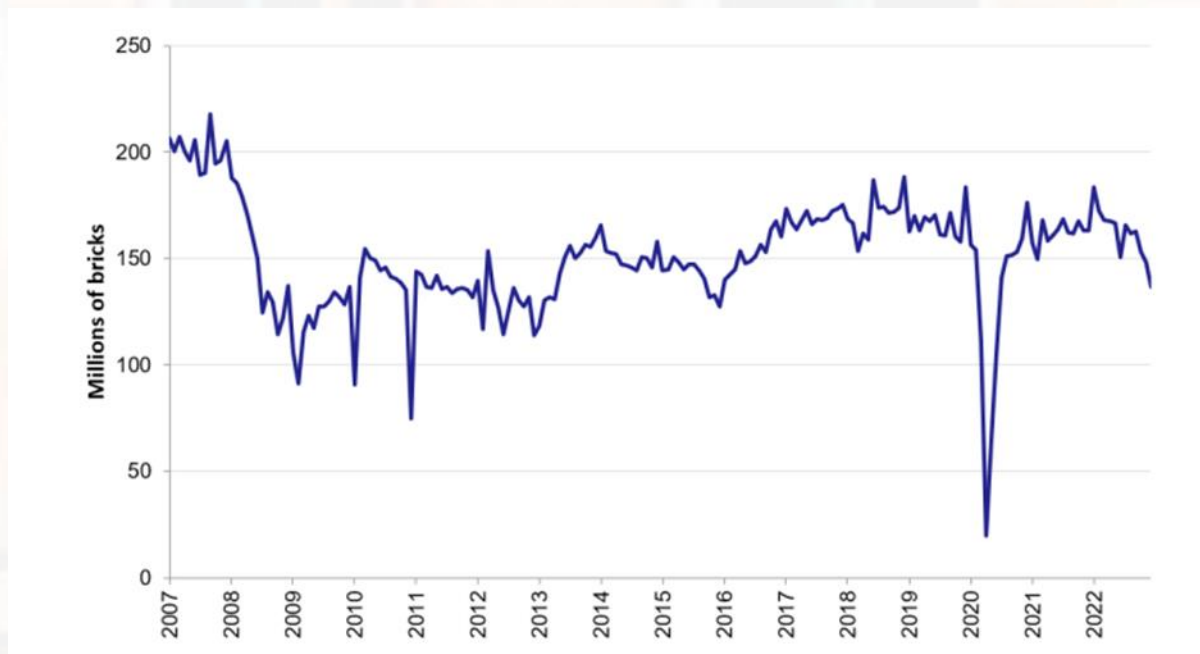
Source: Gleeds

The Materials Shortage

In 2022, building materials were 25% more costly than in 2021 (54.4% than in 2015), but what has caused the price of materials to skyrocket? Pandemic recovery could certainly be shown as the main catalyst for this, with the current inflation rate in the UK is the highest it has been in 40 years (~10%), but the ongoing invasion of Ukraine has certainly exacerbated the situation.

Following the pandemic, there was a surge in building and home improvement projects, resulting in high demand for building materials. Issues with the supply chain and challenges with shipping of materials from abroad, particularly Europe, have also meant that building materials have been hard to come by. The blow has been felt particularly hard by SME builders and other construction firms, whether they produce building materials or rely on a steady supply of materials. The production, delivery, and use of energy intensive products e.g., bricks, cement, and concrete, have been labelled as the 'main challenge' due to 'inflationary pressures' by the CLC.

The graph below shows the Seasonally Adjusted Deliveries of Bricks in Great Britain from 2007 to the end of 2022.



Source: Monthly Statistics of Building Materials and Components, January/February 2023

As shown by the graph, December 2022 brick delivery figures showed a decrease of 16.1% when compared to December 2021.

The Monthly Statistics of Building Materials and Components also showed that:

- Concrete block deliveries decreased by 18.3% in December 2022, when compared to December 2021

- Imports of materials decreased by £514million in the 3rd quarter of 2022, a decrease of 8.2% on the previous year
- Exports increased by £26million in the 3rd quarter of 2022 when compared to the 2nd quarter, an increase of 1.2%
- Ready mixed concrete sales decreased by 5.8% in the last quarter of 2022, compared to the 3rd quarter

How have SME builders been affected by material shortages?

The materials shortage has affected the entire UK construction industry in unimaginable ways, but arguably smaller, local firms have been hit slightly harder by the materials challenge. The Federation of Master Builders (FMB) has stated that small local housebuilders had the worst levels of workloads and enquiries and the end of 2022. Only 10% of homes being built in the UK are built by SME builders, a decrease of 30% since the 1980s, when they were responsible for the building of around 40% of UK homes.

In their State of Trade Survey for the last quarter of 2022, the FMB reported that around 50% of FMD members have had jobs impacted due to a lack of materials, 49% have said that a lack of materials has delayed jobs and 6% have said that jobs have been cancelled completely. Their research has also found that being unable to get materials at a reasonable cost has affected customer's decisions to go ahead with work as the quoted price is affected. Most FMD members continued to report a rise in prices that they are charging for their work, as well as a rise in their outgoing costs.

Despite the above issues within the industry and the devastating Ukrainian crisis, there is some good news to report. There were signs that prices are stabilising, and product availability has been continuing to improve, for example, bricks, blocks, and roof tile stocks are improving and the price of timber has fallen; Supply chains began to rebalance in the last few months of 2022.

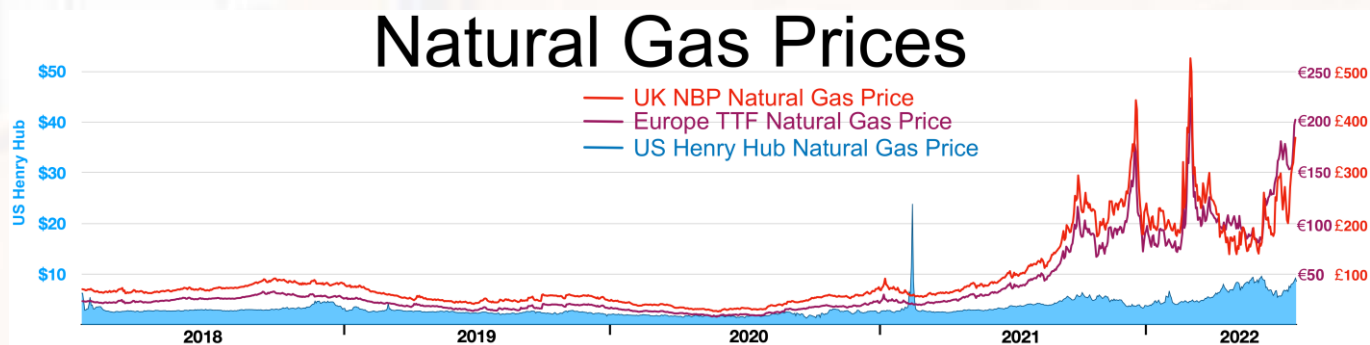
The Energy Crisis

Linked to the Russian invasion of Ukraine and the material shortages is the ongoing global energy crisis, which began in 2021, in the aftermath of the COVID-19. Consensus surrounding the cause(s) of the crisis suggests that a variety of economic factors, including the post-pandemic economic rebound that outpaced energy supply, and the Russian invasion of Ukraine, are to blame for the now escalated worldwide energy crisis. As discussed above, mainland Europe and the UK rely heavily on Russian coal, oil, and gas for energy supplies and many of the crucial materials affected by shortages are those which have an energy-intensive production (e.g., bricks). In 2020, Russia was the third largest oil producer in the world, with around 60% of its oil being exported to Europe. It is also the second largest producer of natural gas and has the world's largest gas reserves. Following the invasion, the price of natural gas reached record highs, as did electricity prices. Oil prices hit their highest level since 2008. With Europe having to look elsewhere for energy supplies (e.g., USA, Australia and Qatar), the prices of these alternatives also increased.

In order to continue production of materials, many leading producers, such as British Steel, have had to increase prices due to the impact of wholesale energy costs. Noble Francis of the CPA, which represents more than 24,000 manufacturers said that 'manufacturers will be unable to absorb all the costs themselves, so these will have to be passed on to contractors that are already suffering from sharp price increases', this is particularly pressing for SME builders as energy used to produce materials accounts for approximately 1/3 of costs.

Source: Gleeds

The graph below shows natural gas prices in Europe and the United States for 2018 – July 2022.



Source: Wikipedia

The Housing Crisis

The housing crisis in the UK is nothing new and this has been a hotly debated topic in the construction industry and beyond for decades. Simply put, there are not enough housing being built to meet demand or housing need throughout the UK. As well as this, as of 2021, approximately 4 million people in the UK are living in substandard or inappropriate housing for their needs. There are four main categories that housing of this type can be put into, and these are as follows.

- 1) Non-decent: A dwelling which is not in a reasonable state of repair, lacks reasonably modern facilities and services, or has ineffective heating and/or insulation.
- 2) Unfit for human habitation: A dwelling or accommodation which poses an 'immediate and serious risk' to a person's health and/or safety.
- 3) Overcrowded dwellings: There are multiple examples of ways in which dwellings can be classed as overcrowded. Examples of this include families living in dwellings that consist of just 1 or 2 rooms (one being a living/dining space and the other being a shared bedroom between the whole family). Or a 'hidden household', which usually refers to young adults who live with their parents despite wanting to move out, because they are unable to afford to rent or buy a house of their own.
- 4) 'Inappropriate' housing: Examples of 'inappropriate' housing include council/social tenants being housed in unsuitable office blocks, or elderly residents in homes that do not meet their mobility needs.

The housing crisis is far more than a shortage of housing, it also encompasses rising homelessness, rising numbers of households living in temporary accommodation, huge differences in housing supply and demand for said housing supply, and unaffordability to name just a few.

More information of the causes and recommendations on how the crisis could be addressed are discussed in our SHR 2021 and previous CIR.

Building Regulations: June 2022 Update – Changes and Additions

First announced in December 2021, several changes were made to Building Regulations in the UK on 15th June 2022 and these changes could have a marked impact on self-builders, extenders, and renovators, as well as SME builders.

The changes are focuses primarily on improving the energy efficiency of buildings. A huge 40% of all energy use in the UK is made up by heating and powering buildings. It is hoped that these changes help to reduce this significantly. From 15th June 2022, all new homes must produce 30% less carbon dioxide emissions than previous standards allowed. New standards for the reduction of energy use and carbon emissions during home improvements have also been introduced (some exceptions to this may apply with certain types of home projects, depending on how far through the planning process you are).

The Department for Levelling Up, Housing and Communities (DHLUC) believes that the new regulations will help the UK on its way to meeting its net zero target and also marks a stepping stone towards the introduction of the Future Homes Standard in 2025.

The previous Building Regulations affected by these changes are:

Part F (Ventilation) –

- Changes to this are intended to make it easier for self-builders and renovators to understand the impact of ventilation in a home.
- Mandated checklists will now make it easier for installations of mechanical ventilation products, both in new and existing homes, and will come with guidance on the importance of ventilation.
- There are also new recommendations for all replacement windows to be fitted with trickle vents, unless there is an alternative form of ventilation (e.g., air bricks), or that the works do not result in ventilation being worse than before the works were done.

Part L (Conservation of Fuel and Power) –

- Changes to this include updated insulation requirements for new homes, which will be assessed under a new Standard Assessment Procedure (SAP) calculation, known as SAP10.
- Self-builders will have to conduct on-site audits to confirm that the design details in their plans have been constructed, and photographs must be taken as evidence.
- U-values have also been increased and the recommendations discourage thermal bridging.
- For existing homes, minimum new fabric efficiency will now apply if you are looking to introduce new or replacement thermal elements to your home (e.g., new windows and doors), meaning a tightening of U-values.
- New rules for the amount of glazing included in extensions, improvements for lighting design, and a new low flow temperature requirement for heating systems have also been introduced. The maximum flow temperature in a central heating system is now 55°C, replacing the previous 75°C+.

Two new Regulations have been introduced:

Part O (Overheating) –

- The main purpose of this is to limit excess solar gain in new and existing homes and remove excess heat.
- Compliance can be achieved through one of two methods (The Simplified Method or the Dynamic Thermal Modelling Method), with standards based on whether a house is cross-ventilated or not.
- A standard is also included for the maximum amount of glazing allowed in a single room.

Part S (Electric Vehicle Charging) –

- This Regulation aims to futureproof homes and buildings via the installation of charging points for electric vehicles and improve technical guidance regarding charging them in our homes.
- A £3,600 price cap per charge point has been introduced, designed to stop the installation of chargers being prohibitively expensive.

Source: Homebuilding and UK Government

Although the new Regulations have been in place since 15th June 2022, there is a grace period in place until June 2023 for projects that gained Building Regulations approval before the new regulations were put into plan. The old standards still apply in this case, but you have until 15th June 2023 to begin work before approval lapses.

Whilst these changes come from the right place, the FMD has warned that 52% of builders were not yet prepared for or aware of any changes being made to the Building Regulations. Clear guidance is needed to help builders and others within the construction industry understand the changes and what is expected of them as a result.

Source: Homebuilding

PART 2: 2023

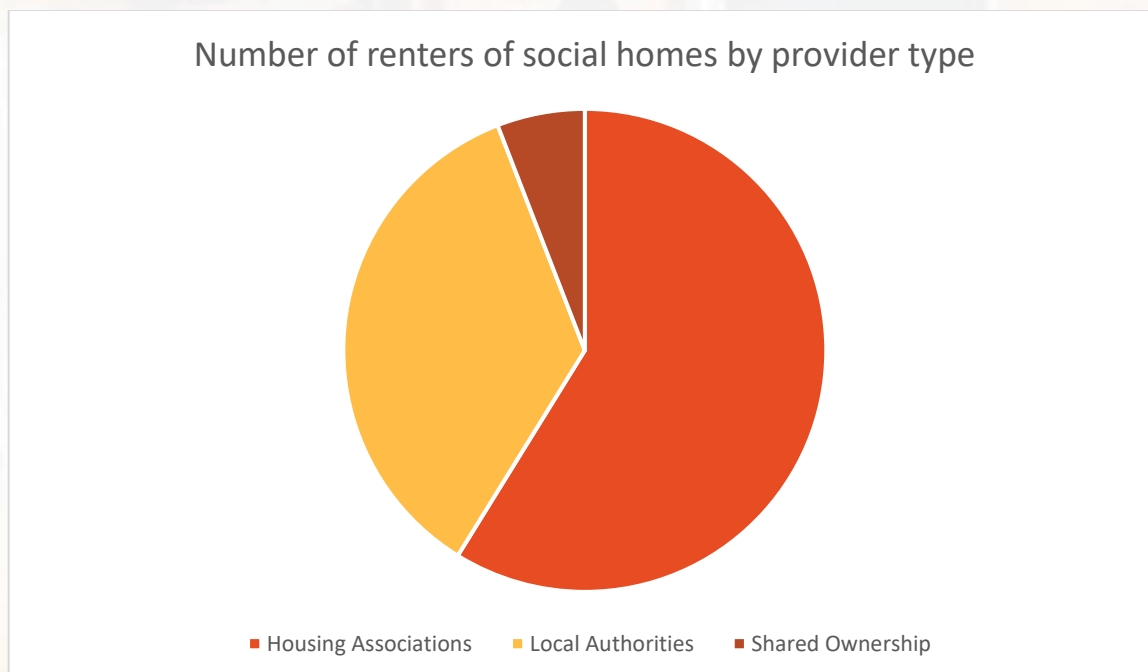
Introduction

The second part of our report will look at the state of the construction industry as of early 2023, how the situation continues to improve, and what can be expected in the near future.

Social housing – The place to be

As a leading SME in the building of social homes in the East Midlands, policies and progress around social housing is something Hodgkinson Builders keep a particularly close eye on. As shown in depth in our Social Housing Report 2021 and our first CIR, social housing is important for a variety of reasons. Not only does building more social homes benefit the economy on a micro and macro level, meaning local and countrywide economies are benefitted substantially, but it also helps every day people of all incomes and circumstances thrive.

4 million households live in rented social housing in England, which accounts for approximately 17% of all households in the country. As shown in the pie chart below, in 2021/2022, 59% (2.5 million) of all social/affordable households are rented from housing associations, 35% (1.6 million) from local authorities, and the remaining 6% (202,000) lived in shared ownership homes in England.



Source: UK Parliament

How does social housing benefit the economy?

Investment into social and affordable housing has profound benefits for local communities and the UK economy. The National Housing Federation found that every affordable or social home built is estimated to generate an additional £108,000 to the economy and an additional 2.3 jobs to the industry. Whether this is immediate or on an annual basis is unclear, but this is still a substantial amount of extra wealth and employment when all new builds are combined. The Local Government Association states that building 100,000 government-funded socially rented homes over the past two decades would have cut billions of pounds from housing benefit expenditure, allowing higher disposable income for tenants, and generating a significant amount of economic returns (Hodgkinson Builders 2021).

Perhaps still contrary to popular belief, 40% of people living in social housing are in employment and therefore contribute to the national economy; some of these 40% are key workers, providing essential public services such as healthcare.

Investment into social housing puts money straight back into the pockets of those who are employed to build them. Expenditure on benefits is also reduced when investment in housing is increased, providing a steadier stream of job opportunities for those impacted by the cyclical nature of construction work and the risk of unemployment that it carries, meaning people can be in employment for the majority of the time with far less risk.

How does social housing benefit individuals?

A recent project undertaken by East Devon District Council found that the security and affordability of social/council homes help to improve people's health and overall wellbeing. The council conducted a survey of more than 3,000 people and interviewed a further 58. The findings of the survey are laid out below.

- Having a good home matters to overall life satisfaction and happiness.
- Social housing has a positive impact on all aspects of wellbeing, reducing anxiety, particularly for those facing mental health challenges.
- People in social housing were less likely to struggle financially and were more likely to say they were satisfied with their life, compared to private renters.
- Whilst the quality of home was important to respondents, long-term security and affordability were the top reasons respondents wanted to stay or move from their home.
- Satisfaction with the local area in which a home is situated was associated with higher levels of happiness and life satisfaction, and lower levels of anxiety.
- Half of all of the people surveyed said they were struggling to make ends meet, making them more likely to be anxious and less likely to be happy or satisfied with their life.
- Residents were more likely to experience poor mental health if they were under 65 years old, were living alone or with non-dependent children or felt like their home affected their wellbeing in a negative way.
- Affordability is a major strain on households with almost half of respondents saying this was an important reason why they stayed in their current home or needed to move. Those that had higher housing costs also showed higher anxiety levels.

Source: East Devon District Council

For more information on this, please see our Social Housing Report 2021 and previous CIR.

The Social Housing (Regulation) Bill 2022-2023: The progress of the bill

In February 2023, the UK Parliament released an update on the Social Housing (Regulation) Bill, which aims to provide a legal basis for many of the measures set out in the Government's 2020 social housing white paper. Through the Bill, the Government intends to strengthen the regulatory regime within social housing to change the behaviours of social housing landlords to focus on the tenants' needs, holding landlords accountable for their performance.

The Social Housing Regulator (SHR) is an independent body responsible for setting standards that all registered providers (RP) of social housing must meet. They are also responsible for holding social landlords accountable for compliance with these standards. It maintains a statutory register of social housing providers (known as 'registered providers'), and has power to both register and de-register said providers.

Under the Housing and Regeneration Act (2008), the SHR has two fundamental objectives:

- 1) The economic objective, i.e., to make sure that RP of social housing are well managed and financially stable
- 2) The consumer objective, i.e., to make sure tenants get quality accommodation, have choice and protection, and can hold their landlords to account.

Social housing providers vary in both size and in their operations and business models, with the largest owning over 125,000 units, and the smallest owning only a few units. Some providers undertake a lot of development while others provide care and support services as well as homes.

What are the core objectives of the Bill?

- 1) To facilitate a new, proactive consumer regulation regime, with key provisions including:
 - making safety, transparency and energy efficiency part of the Social Housing Regulator's fundamental objectives.
 - enabling the Regulator to set standards for the competence and conduct of staff working for registered providers of social housing.
 - requiring registered providers to nominate a designated person for health and safety issues.
 - giving the Secretary of State the power to introduce new requirements for registered providers relating to electrical safety checks.
 - a power for the Regulator to direct registered providers to collect and publish performance information.
 - regular inspections of registered providers
- 2) Refine the existing economic regulatory regime, ensuring providers are well governed and financially viable to protect homes and investment in new supply.
 - Ensuring the regulator has a clear understanding of a registered provider's corporate structure and any changes that could influence how it operates.
 - Broadening the regulator's power to require people to provide documents or information for regulatory purposes.
- 3) Strengthen the regulator's power to enforce the consumer and economic regimes
 - Removing the 'serious detriment'; a legislative barrier to the regulator's action on consumer issues.
 - Giving the regulator the power to require a registered provider to prepare and implement a performance improvement plan.
 - Removing the cap on the level of fines that the regulator can issue.

Source: UK Parliament

How could social housing help with the affordability crisis?

Research into how social housing could help with the UK's housing crisis is nothing new and is constantly evolving. Something that was touched upon in our previous reports is the use of existing buildings for social/affordable housing.

According to the Royal Town Planning Institute (RTPI), reusing existing buildings as alternative community housing could be the key to solving problems of housing affordability in the UK. Despite record employment levels, the UK remains far from a high wage, highly skilled economy, with much of this being linked to housing, (especially affordable housing). This issue is particularly prominent in high value areas which undermines both business productivity and competitiveness.

For more information on this, please see our Social Housing Report 2021 and previous CIR.

How could social housing help with the Energy Crisis and environmental issues?

In March 2023, it was announced by the Government that £1.8 million would be awarded to boost energy efficiency and cut emissions of homes and public buildings across England. This will be done via three grants: The Social Housing Decarbonisation Fund, the Home Upgrade Grant and the Public Sector Decarbonisation Scheme.

According to Government figures, more than 115,000 social homes across England will get energy efficiency upgrades through the fund, and there would also be an additional £1.1 billion in matched funding for social housing owned by local authorities, housing associations, and charities. This money will be used to help vulnerable households and those not connected to a gas supply. There is also £409 million for public bodies, including councils, to decarbonized schools, hospitals, and other public buildings, in turn supporting around 20,000 new jobs in the construction and home retrofitting industries.

Although the Devonshires law firm argues that this announcement is 'misleading' and the money put forward is 'not new', plenty of local authorities are welcoming the news with open arms. The table below shows fund allocations for the Social Housing Decarbonisation Fund Wave 2 by region.

Region	Funds allocated (£ millions)
West Midlands	93.5
East Midlands	74.7
London	131.5
North West	105.3
South West	80.2
South East	128.9
East of England	83.6
North East	29.3
Yorkshire & the Humber	50

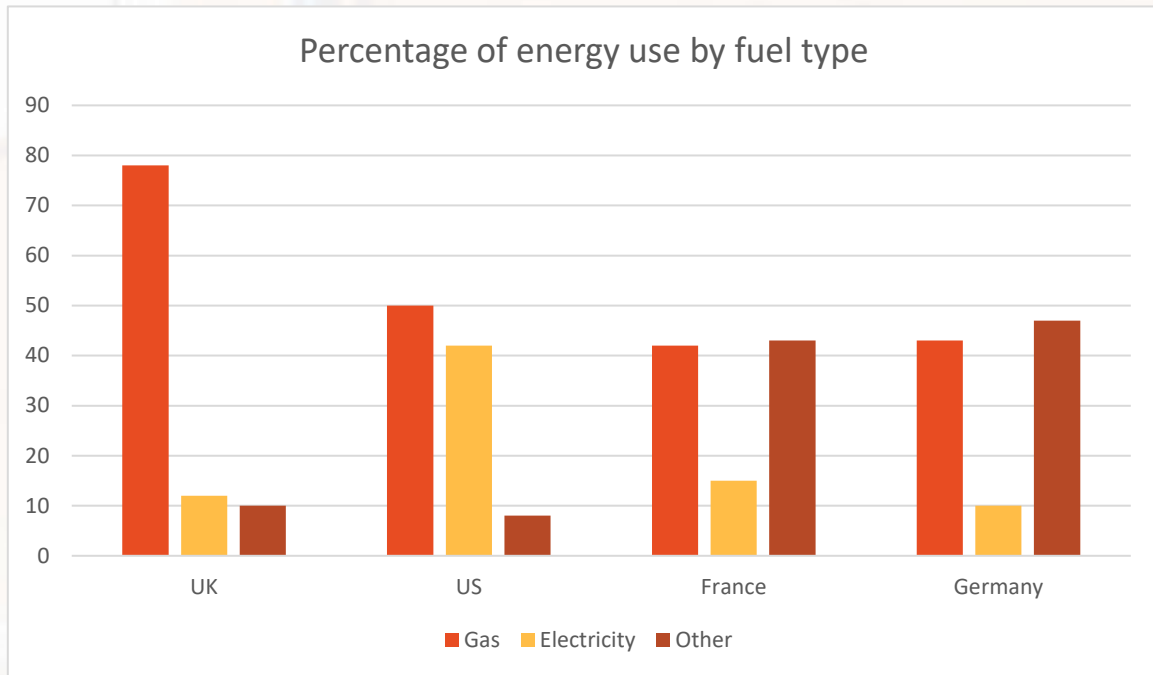
Source: Local Government Chronicle (LGC)

Retrofitting and alternative heating systems

Retrofitting is a term that will be on the minds of all involved with the construction industry, whether involved in social or private housing. Retrofitting of homes and buildings is one of the key ways in which the Government hopes to make progress towards its net zero targets.

For those who are unfamiliar, 'retrofitting' typically involves significant improvement to the thermal performance and energy efficiency of older buildings. It includes anything from insulating roofs, walls and windows, to more efficient heating and water systems, and improving ventilation in homes. Retrofitting homes will be a central part of the changes to the Building Regulations, set out in Part 1. As more than 80% of the homes that we will be living in by 2050, the vast majority will need major upgrades to reach required energy efficiency standards set out in the Building Regulations.

The UK's ~30 million homes account for more than 21% of the country's total carbon emissions, with ¾ of this coming from heating systems. The vast majority (85%) of UK homes are on the gas network which uses fossil fuels, leading to the production of large quantities of carbon emissions. The Energy Saving Trust admits that retrofitting existing homes will be a challenge but it must be addressed if net zero targets are to be met by 2050. On average, British homes lose heat up to three times faster than homes across Europe. The extent of this is shown in the chart below, with data taken from British Gas. This data also includes the US, demonstrating that the UK relies far more on gas to heat homes than much larger, more highly populated countries.



Source: British Gas

As part of the decarbonisation plans outlined previously, retrofitting solutions are already being considered within some social housing projects under the Social Housing Fund; This will put social housing at the forefront of the retrofitting effort. The retrofitting effort will also enable the creation of more green jobs, and associated investments into low carbon technology will also contribute to this, both strengthening the economy and the UK's path towards net zero. It is also the government's hope that retrofitting will reduce reliance on gas boilers, replacing these with heat pumps and expanding heat networks.

There are worries that new legislation will mean a complete ban of gas boilers by 2025, however, this is not quite accurate. New legislation means that:

- From 2025, no new gas boilers will be placed in newly built homes, they will instead have an alternative heating system in place, such as a heat pump or hydrogen boiler.
- [New legislation] does not apply to homes built before 2025, and there is no legislation on gas boilers that means they need to be scrapped or replaced.
- There is no ban (or planned ban) on gas boilers in the homes we live in today.

The Housing Market: Prices and demand

At the end of 2022, the total value of UK homes reached a new record high of £8.6 trillion, a rise of just over 5% the previous year, including homes owned outright or with a mortgage, privately rented homes and socially rented/affordable homes. However, by February 2023, annual house price growth in the UK had turned negative for the first time in three years, falling to its lowest level since November 2021. At this time, prices had fallen by 0.5%, with the average price of property dropping to £257,406 nationwide. The graph below, from the Guardian, shows how UK house prices fell by 1.1% year on year in February 2023.

UK house prices fell by 1.1% year on year in February

Annual % change, monthly
30%

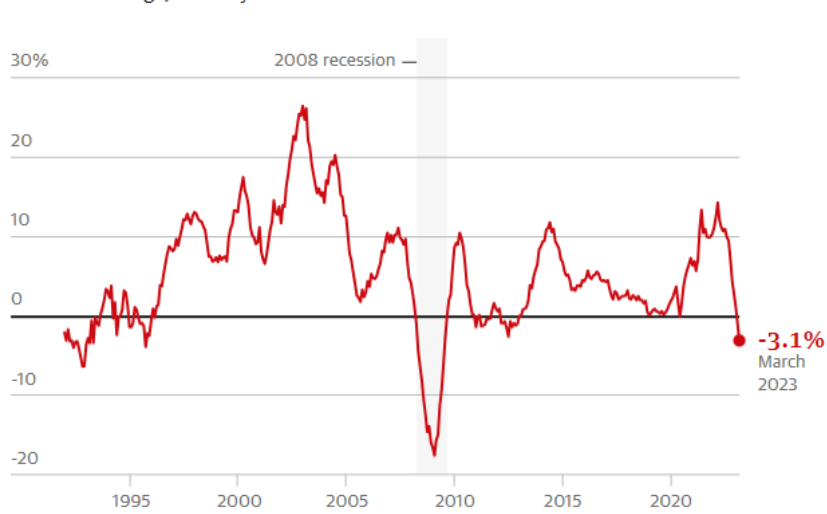


Source: The Guardian

As of March 2023, this fell even lower, at the fastest annual rate since 2009, with the average property dropping 3.1% to £257,122. This marks the seventh monthly decline in a row, leaving prices 4.6% below their most recent peak in August 2022. The graph below, from the Guardian, demonstrates this decline.

UK house prices fell by 3.1% in March, the biggest annual drop since 2009

Annual % change, monthly



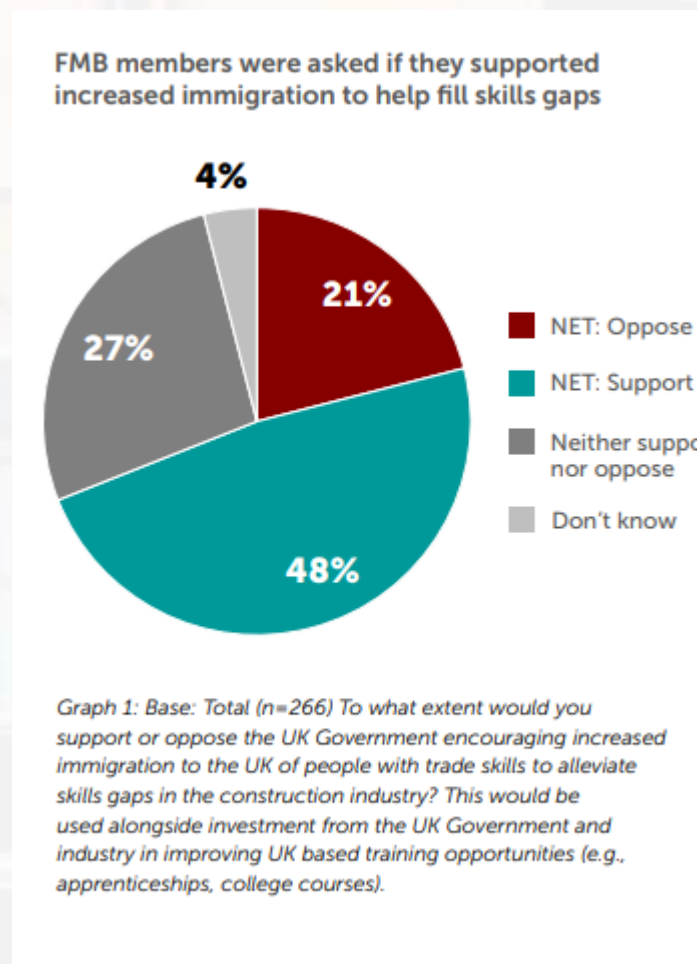
Source: The Guardian

At the time of writing, this was the most recent data. This is a situation which is constantly changing and will no doubt be kept a close eye upon by those in the industry.

The Skills Shortage

The skills shortage in construction continues to take its toll, remaining the biggest challenge for the industry. Further exacerbated by the events of the past year, housebuilding in particular has been affected by the lack of a skilled workforce. The shortage has also affected certain parts of the country more than others, with London and the South East of England being the worst hit.

According to the FMB, 9% of the construction industry work force was made up of EU nationals before Brexit, a resource which is no longer a viable option. Despite the UK leaving the EU, 48% of people that the FMB asked said that they were in support of increased immigration to help fill the skills gap. 21% opposed this, whilst 27% neither supported or opposed, and the remaining 4% were not sure. See the results in the graph below.



Source: FMB

Although only a small proportion of the industry contributed to this survey, it is clear that there is support in the industry for increased immigration to help fill the skills gap in construction. The FMB suggests that a long-term roadmap from the Government about how it plans to address the skills gap is desperately needed, however, until that time comes, the case to increase immigration to meet demand and requirements is growing.

All corners of the construction industry were struggling dramatically to recruit skilled staff during the latter months of 2022. Bricklayers and carpenters/joiners have consistently been the hardest skills to recruit since Q1 of 2022, with general labourers, plasterers, roofers and painters and decorators being slightly easier to come by. When comparing employment levels for Q3 of 2022 and Q4 of 2022, there was a staggering difference, with a net increase of 4% in Q3 and a net decrease of -3% on balance in Q3. Although progress has been made to fill the gaps, the lack of skilled tradespeople has impacted jobs, delayed jobs, and led to some jobs being cancelled. This is particularly worrying for SME builders, who generally report that numbers have not markedly improve since Q3 of 2021 when numbers were at their worst. The graph below shows the data discussed above.

Difficulty in recruiting for each of the following occupations



Graphs 5 - Q10. For which of the following trades has your company found it difficult to recruit skilled staff over the period of October - December 2022? Base: Total (n=266). Net balance of change.

Source: FMB

Workload levels in Q4 of 2022 decreased in all the home nations, except in Scotland where levels rose substantially when compared to Q3 of the same year (21% vs -15% respectively). England saw a decrease of -8% vs 18%, Wales saw 0% vs 8%, and Northern Ireland saw 21% vs 38%. Although work enquiries also increased in Scotland, the other home nations saw a decrease in this as well, with enquiries declining in most regions.

Despite the enquiry and employment rollercoaster that was experienced throughout 2022, the ability for construction firms to employ staff has become easier, perhaps due to lessening demand following the post-COVID boom in work. Things seem to be heading on the right track despite the ongoing difficulties of an ageing workforce and a lack of government led skills plans to tackle these issues.

As stated by the New Civil Engineer, 224,900 extra workers will be needed to meet construction demand in the UK by 2027, equal to 44,980 a year. Construction output is expected to grow, with the demand being primarily focused on private housing, infrastructure, and repair and maintenance. The CITB reported that construction is expected to remain a sector where there is demand for workers despite the current economic uncertainty. As a result, recruiting, training, developing, and upskilling in the industry remains a major priority for 2023 and beyond.

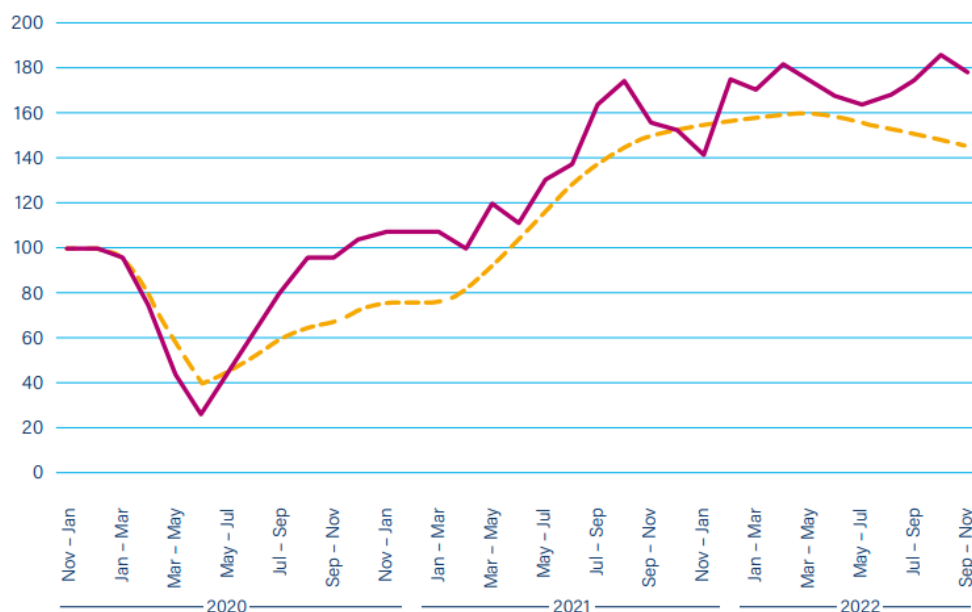
At the end of 2022, vacancies in the industry remained nearly twice as high as pre-COVID levels, as shown in the graph below, from the CITB.

INDEX OF JOB VACANCIES - THREE MONTH AVERAGE ALL VACANCIES VS CONSTRUCTION, 2019 - 2022

Source: ONS Vacancy Survey, Vacancies by Industry December 2022

Nov - Jan 2020 = 100

All vacancies Construction



Source: CITB

What ideas have been put forward to help meet demand?

The CLC Industry Skills Plan for 2021-2025 set out four key things the industry can and should be doing to enable growth.

- 1) Improve access to opportunities for all and attractiveness of careers
- 2) Boosting all routes into industry, including enhanced work experience provision for those in full time further education or higher education
- 3) Competence: shift to focus on competence through the develop of sector specific development competency frameworks.
- 4) Skills for a modernised industry: upskilling and reskilling in the skills that are required to transform the industry, focusing on both new technologies and methods, and the requisite behaviors (e.g., creativity, sustainability, and inclusion).

In order to make the industry more inclusive and attractive, it will be important to improve perceptions of potential entrants into the industry, as well as the perceptions of those who influence them in career choices (i.e., parents/guardians, friends, schools). On top of this, providing clear information about career opportunities and ways to access, participate and progress with the industry will also be important. Finally, making the reality of working in the industry inclusive and a sector of choice, in order to attract and retain talent.

How is demand split throughout the UK?

Regionally, demand is split quite substantially when looking at workers needed between 2023 and 2027.

In England, the East Midlands alone needs an extra 17,500 workers, approximately 3,500 a year. The main growth driver for the region will be the Midland Mainline Railway project, worth around £1.5 billion.

In Northern Ireland, an extra 4,450 workers will be needed, equating to 890 recruits a year. The main growth driver for the construction industry in Northern Ireland during this time is said to be the Belfast Region City Deal, worth approximately £700 million.

In Scotland, an extra 19,550 workers will be needed, equating to 3,910 a year. The main growth driver for Scotland is set to be the Scottish Water capital investment plans of around £5 billion.

Stats for Wales look to be more in the middle ground, with an extra 9,100 workers needed, equating to 1,820 a year. The Shaping Swansea regeneration project is set to be Wales's main growth driver, bringing in approximately £1 billion.

Investing in apprenticeships

During 2021 and 2022, there was a significant increase in the number of apprenticeships starts, reaching approximately 37,000 starts. This is more than a 30% increase on 2020/2021 figures, and 15% higher than figures for 2018/2019.

At Hodgkinson Builders, we have always prided ourselves in provided jobs and opportunities for people in our local community, no matter their background, gender, education levels or life circumstances. We are particularly proud of our investment into apprenticeships, with the vast majority of our workforce either currently or previously involved with us via an apprenticeship. We continue to push the importance and value of apprentices and apprenticeships within construction, focusing mainly on the bricklaying profession. Without our apprentices, so many of the projects we have completed would have been near impossible.

On top of building quality homes for the local and wider community, apprenticeships and inspiring young people to pursue a career in construction is our main passion as an SME builder. One way in which we are trying to do this is through our television series Brickies, an observational documentary series following our young bricklaying apprentices. Through Brickies, we hope to continue to inspire young people into construction and show case just how rewarding working in the industry can be.

We continue to invest in apprenticeships and work hard to play our part in growing the workforce we need to build high quality homes, whether socially provided or not.

For more information on the importance of apprenticeships, please see our SHR 2021 and previous CIR.

CONCLUSION

As this report has shown, the construction industry continues to face numerous challenges, with its main challenge continuing to be the skills shortage. Despite these challenges and the difficulties faced in 2022, 2023 looks to see improvements, particularly in relation to material shortages. Improvements are being seen in all aspects covered in this report but hard work is still needed to ensure that the construction industry develops and grows to meet the demand placed upon it. We hope that this report has shed light on the important issues within the industry as of 2023, whilst also showing that there is hope for the future.

By engaging in healthy debate on these issues, we can come up with and implement solutions.

We hope that this report has been an engaging and stimulating read.

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