

CONSTRUCTION SECTOR REVIEW DRAFT FINDINGS: SUPPORTING ANALYSIS

DOCUMENT NO: JCRA 25/10

Overview

- This pack provides supporting analysis to the Jersey Competition Regulatory Authority's (the **Authority**) draft findings from its sector review of construction.
- The review is wide-ranging and necessarily high-level, considering demand and supply of construction services, economic and island-specific factors, concluding with sector outcomes and draft findings.
- The sector review has been carried out against the Case Opening Statement and this report should be read alongside the Authority's Draft Findings paper.
- The Draft Findings and analysis presented are based on information collated through consumer research, Authority analysis, comparative benchmarking and structured engagement sessions with stakeholders.
- This document summarises key information collated by the Authority. It:
 - Provides an overview of the construction sector in Jersey (slides 3 to 5);
 - Sets out the market structure and sector characteristics (slides 6 to 8);
 - Discusses Jersey's comparative performance (slides 9 to 11); and
 - Summarises the consumer survey and sector engagement (slides 12 to 16).
- Supporting the analysis, this report also includes an annex (slides 19 to 21), which provides a glossary and list of the data sources.
- The Authority has also published a supporting consumer research report, compiled by local market research specialists 4insight.

Figure 1: The published Case Opening Statement

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Construction Sector Review: Case Opening Statement

The Jersey Competition Regulatory Authority **(the Authority)** will be carrying out a sector review of Construction in Jersey. The review will explore the structure and features of the sector, with a view to understanding whether there are any competition issues for the Authority to consider. This will include consideration of market characteristics and the operation of the market for consumers and businesses, and where relevant, comparative data and information will be used to benchmark the industry.

In particular, the review will consider:

- Recent and future demand and sector outcomes.
- · Market structure and the nature of competition across the construction supply chain.
- · Market characteristics, features or otherwise, which potentially impact competition.
- Comparative information and data, to inform cost, price and other potential benchmarks.
- · Consumer and business experiences of the local construction sector.

For the purposes of the review, construction encompasses building-related activities, planning processes, supply and demand for materials and resources, and processes related to the development, construction, refurbishment, maintenance and installation of buildings, facilities, and services.

Subject to completion of the above, the Authority will develop draft findings setting out potential areas of focus for competition policy. This will inform the Authority's next steps, which are likely to take the form of separate follow up projects such as targeted market studies, or advocacy work. Note, if as part of the review, evidence was found of breaches of the competition law, the Authority may consider competition enforcement.

Formal work on the review will start in September 2024 and the review will be completed in 2025. The Authority's draft findings will be published for consultation in the first half of 2025.

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Sector overview

Construction demand

- Jersey's construction sector is a significant contributor to the local economy, contributing £400m, or 7% of total GVA, in 2023. Sector GVA closely follows the economy trends in GVA.
- Construction demand can be grouped into five demand-side market elements, each with their own distinct needs and priorities:
 - Households Homeowners seeking construction and renovation services.
 - **Commercial developers** Businesses / investors developing offices, commercial units, retail outlets, or mixed-use buildings.
 - **Public sector** Public bodies commissioning infrastructure projects, housing, etc.
 - **Utilities** Companies in the energy, water, telecoms sectors, etc.
 - **Contractors** Construction firms and tradespeople procuring from other parts of the industry.
- Across these elements, the sector delivers a blend of new housing, business premises and key infrastructure assets, as well as repair and maintenance. While an accurate split is not available locally across these areas, the table shows the average spending split between these segments in the UK, providing a view on likely spend locally.
- In the Jersey context, given the structure of the economy, a greater proportion of construction activity is driven by public spending or state-owned enterprises (likely to be 40-50%).
- Jersey's Household Spending report (2021/22) notes that, on average, £8 per week was spent on materials and services for maintenance and repair of dwellings, with £57 per week spent on capital improvements.



Table 1: Illustrative overview of average construction output

Category	Project type	Percentage
New beneine	Public housing	5%
New nousing	Private housing	15%
New works - other	Industrial and commercial	25%
	Infrastructure	10%
	Public (other works)	5%
Repair and maintenance	Public (housing)	5%
	Private housing	15%
	Other non-housing	20%

Construction supply

• The supply of construction services can be grouped into supply-side market areas, which the Authority has used to analyse the sector.

	Area 1: Develop	Area 2: Construct	Area 3: Distribute	Area 4: Service	Area 5: Produce
DESCRIPTION	Developers are responsible for commissioning and overseeing construction projects, ensuring that they meet the required standards and specifications. They coordinate and manage various stakeholders, including architects, engineers, contractors, and subcontractors.	Contractors are the entities that physically construct the developments, bringing the architectural plans to life through skilled labour and project management. They are essential in executing the construction plans and ensuring the project adheres to timelines and budgets.	Retailers and wholesalers supply the raw materials and manufactured goods necessary for construction projects, including activities related to leasing equipment and materials. They handle logistics and inventory management to ensure a steady supply of materials.	Professional services encompass roles such as architects, quantity surveyors, and planners who provide expert advice and planning to ensure the successful execution of construction projects.	Manufacturers produce the essential building materials, such as wood, concrete, sand, and nails, which are fundamental to the construction process. This sector covers a wide range of construction materials, from basic raw materials to advanced building products.
EXAMPLES	GR Langlois (Langlois Homes), Jersey Development Company, Dandara	ROK Construct, Group Legendre, Ashbe, Hacquoil, Cook	Norman, Pentagon, Romerils, Quantum, Hewden, 4Hire Group, SGB Channel Islands, Jersey Building Supplies	Axis Mason, Hartigans, RGA, T&G, Colin Smith Partnership, Tillyard, HLG Associates, Rowney Sharman	Ronez, Granite Products, AAL Recycling
OBSERVATIONS	Concentration of suppliers (developers), potentially limited buyers (and buyer options), and likely entry barriers given the market size.	Fragmented market, although competition is relatively muted due to resource and skills 'gaps'; and focus on smaller scale construction projects.	The market is concentrated in a few long-standing firms who supply most of the market. However, prices are likely influenced by import and logistics	Includes niche market segments and certain services, and main architectural, surveyor and other services, are often sourced off-island.	High concentration of the market via a small number of suppliers, e.g., for sand and concrete. However, supply activity may also be constrained by import logistics and other factors.

Market structure and sector characteristics

Sector overview – Economic fundamentals (island-specific factors)

• There are some underlying factors influencing market outcomes driven by island specific economics and geographic constraints



These underlying factors have the following potential impacts on market outcomes:

- A small island economy with transport and logistics constraints, and lack of bulk-purchasing scale may impede cost efficiencies and inflate prices.
- Reliance on off-island materials is required given the lack of natural resource on-island, and limited on-island storage and a restricted port capacity impacts supply-chain costs and creates vulnerability to disruptions.
- In some instances, the market appears to respond to scale challenges by forming informal market arrangements to increase buying power, particularly for building materials as observed through stakeholder engagement in the concrete and cement sector.
- Some features may be driven by policy decisions, e.g., approach to work and housing permissions may have impact on competition and wage levels in the sector. The sector is marked by both skills gaps and an ageing workforce, which affects long-term sector viability and limits innovation.
- On-island contractors regularly engage in multiple projects, and this contributes to delays, budget overruns, and inefficiencies. Additionally, there a relatively few large-scale developers which limits options and competition for large-scale developments, in contrast to the UK where large-scale developments are generally well competed. Contractor shortages and capacity constraints also drive inconsistent project pricing.
- Finally, planning processes and associated matters can have a significant impact on market outcomes.



The role of Government

- The Government of Jersey, Arm's Length Organisations (ALOs) and State-Owned Enterprises (SOEs) play a key role in the construction sector.
- As a market participant on the supply-side:
 - Establishing the regulatory and policy framework in respect of planning, land use, building regulations, licensing and workforce policy, and other key factors.
- And, as a key determinant of demand:
 - Public sector construction activity accounts for 40% to 50% of total demand. It has been estimated that there will be a combined spend of approximately £880m from 2025 to 2029 (excluding the New Healthcare Facilities programme).
- Government procurement (and practices) may create industry-wide benchmarks and impact wider sector outcomes.
- The planning process has been subject to detailed review (2023 McKinnon Report). The recently published Planning Performance Report (2024) highlights planning approval rates are currently at 80%, with a lower number of applications (18%) being overturned by the Planning Committee.
- Future economic growth and construction activity is subject to Government strategy, planning and demand.
- Progressing the Government's new programme intended to raise awareness of future pipeline, the Island Construction and Engineering (ICE) Programme will help support forward planning across the sector.

Case Study: The ICE Programme

The Island Construction and Engineering (ICE) Programme is a strategic planning initiative designed to provide a snapshot of future works, address the Island's growing infrastructure needs, and foster a sustainable, modern construction and engineering sector. Through collaboration with Government bodies, private companies, and industry professionals, the ICE Programme focuses on:

- Workforce development: Delivering targeted training, education, and apprenticeships to ensure the Island retains a skilled workforce capable of meeting diverse project demands.
- Sustainable building and infrastructure: Promoting energy-efficient practices and materials to create environmentally responsible developments built to withstand climate challenges.
- Local construction projects: Guiding large-scale endeavours, from housing and commercial builds to transport systems and public facilities, that cater to Jersey's population growth and evolving requirements.
- Collaboration with industry leaders: Encouraging knowledge-sharing and joint problem-solving to improve construction and engineering quality on the Island.
- Innovation in construction: Supporting the adoption of modern technologies, such as Building Information Modelling (BIM), to optimise efficiency, safety, and long-term resilience.

Comparative analysis

GVA, Employment and productivity

- To better understand the performance of the Jersey construction sector, it has been compared to similar economies, such as Guernsey, the Isle of Man and the UK.
- With respect to GVA, the sector is a larger component of the economy than in Guernsey, the Isle of Man and the UK (since 2015). This also applies to employment.
- Figure 3 highlights that the Jersey construction sector exhibits yearon-year volatility, a trend shared by Guernsey and the Isle of Man.
- For Jersey, labour productivity is defined in terms of output (GVA) per Full Time Employee (**FTE**).
 - In 2023, GVA per FTE in construction was estimated to be £75,000, a 5.2% increase on 2022.
 - This is lower than the economy average (£98,000), a figure uplifted by the Finance Industry.
 - In recent years there has been an increase in productivity growth in construction.
 - In 2023, the annual change in Gross Operating Surplus for the sector (an indicator of profitability) was also positive (£24m).
- However:
 - Productivity is 34% lower than the UK (adjusted for purchasing power parity); and
 - The gap to Europe's most productive sector (the Netherlands) is 56%.



Figure 3: Construction as a percentage of GVA through time, for Jersey and key comparators

Table 2: Comparative size of the construction industry in Jersey, Guernsey,the Isle of Man and the UK

Jurisdic	tion	Share of GVA/GDP	Share of labour force	
Jerse	y	7.3%	9.9%	
Guern	sey	4%	8.9%	
Isle of N	v lan	4.9%	9.7%	
UK		5.8%	6.3%	

Construction costs

- There is limited publicly available information on construction prices in Jersey. There is also no established Jersey cost index, such as the BCIS data collated in the UK.
- Given Jersey imports a significant proportion of raw materials from the UK, understanding UK trends can provide a good overview of the impact of cost changes on Jersey.
- Figure 4 highlights the significant cost increases in recent years for materials across all types of building work. Across different project types, material costs have broadly increased by 50% since 2015.
- Anecdotal evidence from stakeholder engagement indicates that Jersey material costs are at least 10%-30% higher than the UK.
- Analysis has also been undertaken on the average cost of building a hypothetical 200 sqm house in Jersey and the Southeast of England.
- Costs were broken into the key 'baskets' of materials, labour, and land acquisition to illustrate which factors were driving any differences.
- The analysis showed that the cost is approximately 25% higher overall, with the impact driven by higher costs across the baskets, which add up to the total difference in construction costs.



Figure 4: Annual average construction material price indices – by project type, United Kingdom

Table 3: Comparison of costs relative to the UK of key inputs to theconstruction of a house

Key input	Prices relative to Southeast England	Estimated contribution to price differential	
Materials	22% higher	10%	
Labour	20% higher	5%	
Land acquisition	50% higher	10%	
Contingency allowance	50% higher	Varies by project type and size	

Consumer research and sector engagement

Consumer research – overview (1)

- The Authority was supported by 4insight, a local Jersey research agency, in the delivery of the consumer research into construction.
- The research set out to explore the experiences of local consumers in the residential construction sector. The focus was on homeowners, including landlords and small business owners. Larger projects and corporates were excluded as these types of customers were covered through stakeholder engagement and wider analysis.
- The research had two strands:
 - **Strand 1: Qualitative -** Four focus groups, two with renters/homeowners, two landlords/small business owners.
 - Strand 2: Quantitative Structured survey which received 301 responses.

Strand 1: Qualitative - Core insights

- Negative experiences dominate: most frequent associations 'expensive' (x24) and 'hard to find contractors' (x19). Participants showed 82.5% negative sentiment.
- Consumers were generally satisfied with the quality of finished work, however there were many challenges noted:
 - Challenges in contractor availability: shortages across the board in key trades (particularly scaffolding, roofing, plumbing).
 - Overpricing concerns: many feel overcharged, inconsistent quotes, lack of transparency in pricing. Difficulty in securing quotes, particularly for smaller projects.
 - Delays more common than not. Extraordinary delays noted. Issues with contractors taking on too much work, leading to 'backlogs'.
 - Trust issues and reliance on word of mouth and established networks for finding contractors, even harder for those who are newer to the Island. Those who had identified contractors they trusted (often landlords, business owners) held on to them.
 - Frustrations with planning processes, seen as inconsistent, overly bureaucratic and adding to cost.
- Respondents' view was there is a lack of healthy competition, no consistency in pricing/quotes and calls for standards and consumer assistance.
- Post-storm market paradox: despite a huge increased demand after Storm Ciarán, participants note businesses have closed.

Consumer research – overview (2)

Strand 2: Quantitative - Core insights

- Sample size was 301, 88% had work done as a customer in the last three years, 78% live in an 'owner-occupied house', 9% 'owner-occupied flat', 10% private rental and 20% landlords.
- The online survey contained screening questions to enable profiling and cross tabulation of results, this included demographics, socioeconomics and market segments.
- The research captured a mix of projects:
 - Home refurbishment and maintenance were most common, 21% had applied for planning permission.
 - Range of budgets, £1-5k had the largest share, 15% of projects had budgets >£100k.
 - Majority of projects (58%) were not covered by insurance, 17% covered, 14% partly covered.
 - Nearly a third of projects exceeded the initial budget.
- Projects involving structural changes, applying for planning permission, building control and home extensions were more likely to exceed initial budget.
- Most respondents (63%) said the cost of construction has increased significantly compared to previous years.
- The majority (58%) had delays in their most recent project, with most delay caused by contractor availability.
- 25% said there were not enough main contractors to choose from, with roofing and scaffolding specifically identified.
- While quality was noted, most respondents found the work unaffordable, and the range of options limited. 76% disagreed that residential construction in Jersey is reasonably priced given the quality.
- 75% disagree that there is sufficient competition among contractors in Jersey to ensure fair pricing.
- 82% agree 'Storm Ciarán has significantly disrupted the residential construction sector in Jersey'.
- High costs (x40), of both materials and labour were most mentioned in open-ended question (Question was *If you could change one thing about residential construction in Jersey....)*. Followed by planning issues (x27).

Stakeholder engagement – overview (1)

- Stakeholder engagement involved structured meetings with a broad cross-section of participants from each area of the construction sector. This included Government and other key stakeholders. Alongside this, and to complement the consumer survey, a focus group of small and medium-sized construction firms) was held.
- Insights and observations are framed within the context of the five supply areas of construction.

Table 4: Key stakeholder insights

Area	Stakeholder insights
Develop	 Stakeholder feedback indicates there is market concentration in this area of construction. Competitive tendering is generally used for development of Government projects (evaluation tends to be on cost, sustainability, and timeline). In the 'private sector', buyers often work with trusted developers or through negotiated contracts, particularly for bespoke projects. High land prices and limited availability of plots deter new entrants, reducing competition – also making some developments commercially unviable. Planning inconsistencies and land use restrictions said to exacerbate concentration by creating uncertainty for new and existing developers.
Construct	 The sector's gross operating surplus indicates relative resilience, but this is not reflective of overall profitability (or individual firm profitability). The sector is challenging, and uncertain conditions hinder confidence and investment in innovation. Large projects tend to be procured through tender (evaluation based on cost, experience, and project delivery capabilities). Small projects: homeowners and landlords rely on word-of-mouth or direct negotiations with contractors. Consumers report difficulty comparing quotes, with unclear pricing and hidden costs creating mistrust. Labour shortages: persistent skills gaps limit the pool of available contractors, reducing competition and driving up prices.

Stakeholder engagement – overview (2)

Table 4: Key stakeholder insights (continued)

Area	Stakeholder insights		
Distribute	 Some distributors in Jersey have made significant investments in on-island storage facilities, reducing the risks associated with the traditional 'just-in-time' construction model. Material prices have risen significantly in recent years, creating challenges for buyers, as quotes are often valid for only short periods due to ongoing price volatility. Market incentives to innovate: the shift towards greater use of Modern Methods of Construction poses challenges for local suppliers. Buyers typically engage distributors through long-term agreements or direct purchases for specific projects. Government buyers often rely on preferred suppliers. The market is concentrated - a few long-standing firms who supply most of the market (barriers to entry include initial capital expenditure costs and existing supplier / distributor agreements). Import reliance and logistical constraints inflate material prices (and price stability impacted by global market fluctuations). 		
Service	 Service providers such as architects, quantity surveyors and other professionals significantly influence market dynamics. Small firms struggle to compete for large projects due to limited resources (local providers indicate ability to 'scale-up' to meet increased local demand). Service providers face increasing pressure to adopt new technologies such as Building Information Modelling (BIM), sustainable design practices and advanced project management software to remain competitive. Larger buyers often use formal procurement processes, while smaller buyers engage service providers directly. Certain niches, such as environmental assessments, lack local providers, leading to greater reliance on off-island firms. 		
Produce	 Stakeholders indicate two primary suppliers of sand and concrete in Jersey (and price alignment). This area faces supply chain vulnerability due to reliance on 'just-in-time' shipping practices, which are sensitive to disruptions. Production remains largely static, relying heavily on traditional methods, such as mixing raw components for concrete, which limits opportunities for innovation. Buyers engage directly with producers or rely on distributors. Imports supplement local production for specific materials. High reliance on imports creates bottlenecks and raises costs, and environmental regulations limit local production capabilities. 		

Annexes

Glossary

ALO	Arms Length Organisation – an entity funded or overseen by government that has been established for a specific purpose, and which operates separately from government.	FTE	Full Time Employee/Equivale indicates the workload of an quantify how many emplo produce statistics. An FTE c
BIM	Building Information Modelling – a collaborative digital process that involves creating and managing a 3D model of a building or infrastructure.	GVA	Gross Value Added - an econ of goods and services produ after deducting the cost of in
FTE	Full time employee – an employee who works a standard number of hours, typically around 40 per week, and often used as a unit of comparative measure.	ICE	Island Construction and Englishing intended to collate and share construction wite
GoJ	Government of Jersey – collective term for the administrative and political authority responsible for the Island's governance.	ММС	Modern Methods of Constru- and technologies that aim quality of construction wh
GOS	In national economic accounts, gross operating surplus (GOS) is the income derived from production by capital (machinery, premises, technology). GOS is gross output less the cost of intermediate goods and the compensation of employees.	BIM	Building Information Model construction. Usually under building design process, it all the features and functions

Full Time Employee/Equivalent - This is a unit of measurement that indicates the workload of an employed person. FTE can be used to quantify how many employees produced a certain output, or to produce statistics. An FTE of 1 is equivalent to a full-time worker.

Gross Value Added - an economic measure that represents the value of goods and services produced in an economy, industry or sector, after deducting the cost of intermediate goods and services used in production.

Island Construction and Engineering Programme – a GoJ initiative intended to collate and share information on all government and ALO construction with industry representatives.

Modern Methods of Construction – innovative building techniques and technologies that aim to improve the efficiency, speed, and quality of construction while reducing costs and environmental impact.

Building Information Modelling – BIM analysis represents a stage of construction. Usually undertaken early on within the planning and building design process, it allows professionals to digitally represent the features and functions of a building or infrastructure project.

Data sources

Slide 2

Case Opening Statement, https://www.jcra.je/media/599012/construction-sector-review-case-opening-statement.pdf

Slide 4

- Figure 2 Statistics Jersey, GDP and GVA 2023
- Table 1 UK averages between 1997 2022 Output in the construction industry Office for National Statistics
- Other: Jersey Household Spending Report <u>Household Spending 2021 / 2022 report published</u>

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- 2023 McKinnon Report Jersey Planning Review report
- Question Submitted On Monday 7th October 2024 Answer To Be Tabled On Monday 14th October 2024 States Assembly | WQ.336/2024
- Planning Performance Report <u>Planning Performance Statistics 2024 Q4</u>

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Figure 3/Table 2 – Table 2 – Eurostat, Gross value added and income by detailed industry, 2021 and Statistics Jersey, GDP and GVA 2023, as well as Jersey data from Opendata national accounts (historic), in real terms, https://opendata.gov.je/dataset/national-accounts-historic-measures/resource/40fc9369-5d9e-4fb7-8f9d-d18fcf7a1230, UK data from the ONS, IoM data from National Income Report and Guernsey data from https://opendata.gov.je/dataset/national-accounts-historic-measures/resource/40fc9369-5d9e-4fb7-8f9d-d18fcf7a1230, UK data from the ONS, IoM data from National Income Report and Guernsey data from https://opendata.gov.je/dataset/national-accounts-historic-measures/resource/40fc9369-5d9e-4fb7-8f9d-d18fcf7a1230, UK data from the ONS, IoM data from National Income Report and Guernsey data from https://opendata.gov, as well as Jersey data from https://opendata.gov, as well as Jersey data from https://opendata.gov, and and accounts-historic-measures/resource/40fc9369-5d9e-4fb7-8f9d-d18fcf7a1230, UK data from the ONS, IoM data from National Income Report and Guernsey data from https://opendata.gov, as well as Jersey data from https://opendata.gov, as well as Jersey data from https://opendata.gov, as well as Jersey data from https://opendata.gov, and and accounts well as Jersey data from https://opendataset.gov, and accounts

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- Figure 4 Annual average construction material price indices by project type, United Kingdom. Available from: <u>Construction output price indices Office for</u> <u>National Statistics</u>
- Table 3 Industry feedback validated by Subject Matter Experts using proprietary data, and engagement with Jersey Development Company. Supplemented by Building Cost Information Service (BCIS) data
- Standard 200sqm house based on Royal Institution of Chartered Surveyors (RICS) specifications; in 2024 prices. Additional information from the ONS <u>Earnings and</u> hours worked, UK region by industry by two-digit SIC: ASHE Table 5 - Office for National Statistics
- Land value average of advertised prices for Jersey agricultural land vs. South-East of England agricultural land vs. Jersey greenfield