

Construction Sector Review (C-070) - Response to Draft Findings from Chamber of Commerce (received May 2025)

JCRA Case C-070

Construction Sector Review: Draft Findings

Consultation response from Chamber of Commerce, Building Housing and Environment Sub-Committee

The Chamber of Commerce represents close to 600 businesses in Jersey, with responsibility for specific sectors of the economy and business community delegated to a number of sub committees, whose chairs report on the Executive Council of Chamber of Commerce. This response is made on behalf of the Building, Housing and Environment Sub Committee. The purpose of the Committee has been defined as *“To establish positions on matters of concern and areas of opportunity arising in the Construction and Environmental field, whether politically, economically or socially, and to promote such positions in the collective interest of Chamber members.”*

This response is summarised against your three consultation questions. To avoid overlap and repetition, questions 1 and 2 receive brief comment, with more considered comment described against question 3.

Questions 1 – Do you agree with the Authority’s analysis and assessment of the construction sector?

No - The report draft findings lack balance, being heavily weighted to the opinions and perceived impacts reported from the consumer research and feedback, which was largely focused on small, domestic work.

Question 2 – Do you agree with the Authority’s draft findings, and do the draft findings capture all the competition issues in the construction sector?

No – Whilst the structure of the report is logical and well constructed, and the matrix of stakeholders and considerations in figure 1, section 3.1 is very effective and thoroughly covers the aspects and impacts of the review, the draft findings lack insight.

There is insufficient assessment of the financial hurdles that effect the viability of development and the ability of businesses to invest, innovate and expand. The findings are clearly a snapshot which represents the current time or recent past, during which there have been a number of extreme external influences, namely interest rates, inflation, fuel shocks and company failures etc. This has clearly created an exceptional period, but the draft findings do not comment on the relative difficulties from these recent impacts compared with the underlying structural issues which may exist in the sector over a longer period.

The Draft Findings also offer insufficient analysis of the role of the Government, its budget and its priorities. Whilst the stated reason for the review is because of impending major capital expenditure, the importance of the Government’s role supporting the sector through security of funding and delivery of projects, is not analysed. This is important when looking backwards as well as forwards.

Question 3 – Do you have any other input or comments on any of the matters raised in the authority’s construction sector review?

Yes – see below

Construction demand – Slide 4-

The weighting to R&M looks high at 40% of the total market when compared to all other work (new housing, commercial infrastructure, public etc.) There is no indication if this data represents value, number of employees, number of enterprises or some other determination of relative market share.

Construction Supply -Slide 5 –

“Develop” – This underplays the fragmentation and competition amongst entrepreneurial small developers undertaking single house projects, small estates, property divisions, re-purposing etc. This is significant, and whilst there is a concentration of larger developers (Andium included) there is also considerable choice and fragmentation at the smaller end.

“Distribute” – This describes a concentrated market. The number of suppliers is actually considered to be quite high for a market of this size, notwithstanding the additional options for direct purchasing from off-island. The observation presents this concentration as a negative, but for the scale of demand in Jersey, it is probably well fragmented.

“Service” – This states that services “are often sourced off Island.” This frequently need not be the case as skills are present locally. The cycle disadvantages local service providers, further increasing costs. It is a cycle that can be broken, and the Government procurement processes can contribute to levelling the playing field.

“Produce” – This fails to identify the dis-economy of scale. Investment in heavy equipment for extremely small-scale production in a cyclic market adds hugely to unit cost of production.

Slide 7 – Supply chain

A further comment on the analysis of costs in the draft findings is that the report overlooks the cost of multiple transfers of goods in the supply chain. From the supplier to the UK distributor, to the export port, to the shipper, to St Helier port, through import processes, to local distributors etc. Within this chain there are many more transfers (and therefore costs) than would be the case in the UK. This also means more people are taking margin and duty for their involvement. The term “shipping” is oversimplified as a single cost.

A striking example from a member contributor is the importation of sand. The findings report that freight can add up to 100% to the cost, but for certain products, including sand, freight costs are several multiples of the cost of the product at source, with the local costs of port dues, stevedores, pilotage etc, being a very significant proportion of that freight cost.

Continuing the theme of costs and diseconomy of scale, notwithstanding the ability of suppliers to pool resources, such as through builder’s merchants and their National Buying Group affiliations, there is an underlying weakness in buying power. This is through both scale, but also

the premium that a supplier applies for servicing an offshore customer due to their additional costs providing customer service and product support.

Slide 8 – The role of Government

The ICE programme is presented as part of a solution, but we are mindful that this is delayed and is yet to be released. The intent of the ICE is laudable, but it is limited in scope. Earlier discussion drafts indicate that the New Hospital Facilities project is outside of scope, as are Ports. Both NHF and the Ports redevelopment are heavily engaged with off-island delivery partners, which risks undermining the ability of the local construction sector to invest and improve the productivity and effectiveness measures which are presented negatively in the draft findings. Government must engage to support the local industry.

Competition, effectiveness and productivity

With regard to “competition” and “effectiveness” we urge caution in concluding that more competition drives effectiveness and ultimately increases value. The report does not give sufficient consideration to where less competition improves effectiveness and value for customers. This could be through economies of scale, sustainability of a business, ability to fund innovation, training and development etc.

The above factors all contribute to “productivity”. The draft findings state that this measure falls 34% below the UK, but makes no comment on whether this is good, or bad. The data infers that it is better than Guernsey and Isle of Man, and Jersey will always be less productive than UK where data is heavily skewed by large infrastructure projects, and where there is an inherent advantage from economy of scale. It appears to be a weak statistics in the absence of context.

Construction Costs -slide 11

The summary table requires greater granularity and justification via an explanation of the data from which this summary was derived. It would be helpful to understand the assumptions used for the relative costs building up to the commercial sale value (or capital cost) of a variety of types of project. i.e. what percentage is land, planning, fees, finance, materials, labour, developer profit etc.

We also note that general inflation, and the cost of living, is not a new contributor to rising costs in construction. There has been premium level inflation in all costs of doing business in Jersey (wages, housing, commercial premises, etc) over decades, driven by pressures from the finance sector. Whilst undisputably positive for the Island and the construction sector, the impact on construction costs from “finance sector inflation” cannot be overlooked.

Quantitative Consumer research and its influence on the Draft Findings

The consumer research is entirely focused on small works and domestic trades, where there is significant fragmentation and low barriers to entry.

An impact of these low barriers to entry may be that less professional and less experienced operators can enter the market. This will contribute to the negative sentiment expressed by respondents to the surveys.

It is not a balanced view of the construction market and there is a complete disconnect between the market research and the professional and effective delivery of projects on an economic scale by the Tier 1 contractors.

Summary

The draft findings correctly report that this is a big sector in terms of employee numbers and contribution to GVA. It is a heavily fragmented industry yet still perceived to lack competition and provide poor value.

In the same report there are inferences that consolidation and lack of choice also hinders competition.

The final report needs to boldly reach conclusions on where fragmentation is helpful and where consolidation is beneficial in driving efficiency, value and business sustainability.