

INDUSTRY INSIGHTS

Construction Skills Network
North East 2015-2019



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1 Summary – the North East

The North East’s construction industry is forecast to experience an average annual increase in output of 2.3% over the forecast period. Construction employment is likely to grow at an annual average rate of 1.5% and is projected to be around 104,550 in 2019. The region’s annual recruitment requirement (ARR) of 3,510, accounts for 7.9% of the UK total and represents 3.5% of projected base 2015 employment in the North East, higher than the UK ratio of 1.7%.

Annual average construction output growth 2015-2019 – North East



Source: CSN, Experian
ref. CSN Explained, Section 3, Note 2



1.1 Key findings

After four consecutive years of decline, total construction output in the region remained flat at £3.49bn in 2013. Whilst expansion was registered in the commercial and housing sectors, the infrastructure, public-non housing and industrial ones posted falls in output. Construction is estimated to have returned to growth in 2014 with an increase in output of 4%.

Over the next five years the infrastructure sector is predicted to be the best performing one, with annual average expansion of 5.8%. This is one of the highest growth rates for all regions and nations and it is also much higher than the corresponding ratio for the UK (2.4%).

The commercial sector is likely to see average increases of 3.8% per annum. Over the short term there are a number of sizeable projects due to start such as the £100m makeover of Newgate Street in Newcastle, whilst sustained improvements in the economy should lead to moderate expansion through the middle years of the forecast period.

Yearly expansion of 3.3% on average is forecast for the industrial sector. Strong growth is expected in the short run due to the £100m Swan Hunter Shipyard redevelopment scheme taking place in North Tyneside. A start on site is imminent and work is planned to last two years.

The best performing sector is likely to be infrastructure with average yearly increases of 10.6%.

By the end of the forecast period, total construction employment is likely to reach 94% of its 2008 peak.

Lacklustre annual average growth of 0.6% is anticipated for the public housing sector. Under the 2015-2018 Affordable Homes Programme (AHP) a total of £1.7bn will be invested across England, excluding London. At present only £886m of that funding has been allocated. The finance available for the 2015-2018 AHP is much the same on an annualised basis as in 2011-15, indicating that if activity is going to increase, then borrowing from other sources will need to continue to rise, which could be challenging given the level of debt already carried by some social housing providers.

In 2013, the region accounted for 3.8% of UK construction employment and by the end of the forecast period total employment is likely to reach 94% of its 2008 peak. Overall the region's construction employment is likely to increase by 1.5% per year on average, identical to the UK rate.

At 3,510 extra employees required per year over the forecast period, the region's annual recruitment requirement (ARR) is 3.5% of base 2015 employment, much higher than the UK rate of 1.7%. As a proportion of base 2015 employment, the steel erectors/structural fabrication occupation is likely to be in the greatest demand (10.8%).

Regional comparison 2015-2019

	Annual average % change in output	Growth in total employment	Total ARR
North East	2.3%	7,660	3,510
Yorkshire and Humber	2.3%	14,940	3,220
East Midlands	2.2%	9,340	3,120
East of England	2.5%	13,690	4,260
Greater London	4.2%	50,440	2,050
South East	2.5%	30,130	2,590
South West	3.6%	22,130	6,320
Wales	5.8%	13,890	5,320
West Midlands	2.1%	12,110	2,320
Northern Ireland	2.2%	3,220	1,490
North West	2.5%	17,130	4,790
Scotland	1.1%	1,320	5,700
UK	2.9%	196,000	44,690

2 The outlook for construction in the North East

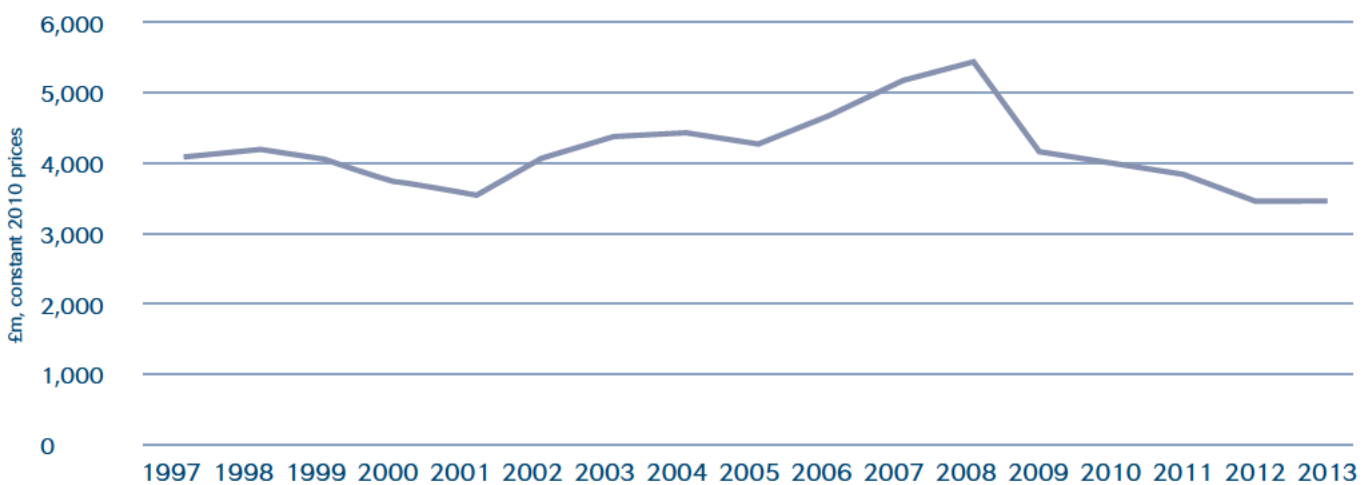
2.1 Construction output in the North East – overview

After four successive years of falls, total construction output remained flat at £3.49bn in 2013. The new work sector declined by 7% to £2.39bn whereas the R&M one grew by 19% to £1.1bn.

The industrial sector experienced the greatest decrease of 39% to £173m as large projects such as

Akzo Nobel's £100m manufacturing plant in Ashington completed whilst a contraction of 31% was registered in the public non-housing sector. In contrast, the largest increase of 197% to £105m was recorded in public housing, however this sector is so small that relative minor movements in value terms can lead to big changes in percentage terms. The private housing sector went up by 16% to £630m as it benefited from the introduction of the 'Help to Buy' scheme in April 2013.

Construction output 1997-2013 North East



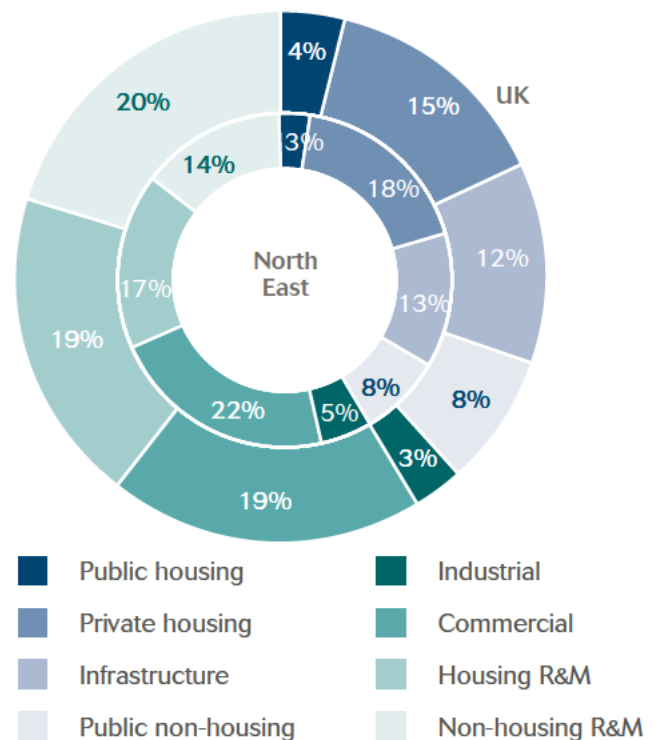
Source: ONS ref. CSN Explained, Section 3, Note 2

2.2 Industry structure

The diagram, Construction Industry structure 2013 – UK vs. North East, illustrates the sector breakdown of construction in the North East, compared to that in the UK. Effectively, the percentages for each sector illustrate what proportion of total output each sector accounts for.

The structure of the North East's construction market has some large differences compared to the UK. At 68%, the region's new work sector, as a share of total output, is significantly larger than in the nation as a whole (62%). Greater emphasis is placed on the North East's industrial (5% vs. 3%), commercial (22% vs. 19%) and private housing (18% vs. 15%) sectors. In contrast, the share for the non-housing R&M (14%) one was significantly smaller compared to the UK (20%).

Construction industry structure 2013 – UK vs North East



Source: ONS, Experian

2.3 Economic overview

The expected performance of a regional or national economy over the forecast period (2015 – 2019) provides an indication of the construction sectors in which demand is likely to be strongest.

2.4 Economic structure

In 2013, gross value added (GVA) in the North East saw lacklustre growth of 0.5% to £40.83bn in 2010 prices. As a share of the UK, the region accounted for just 3% of GVA.

Public services was the largest sector, accounting for 25.5% of the region's GVA in 2013, whilst professional and other private services took the next biggest share, at 20.9%. The manufacturing and wholesale and retail

sectors were ranked third and fourth respectively while information and communication was the fifth largest market. Of the top five sectors, the wholesale and retail market recorded the greatest growth of 4.8%.

The North East has a higher than average exposure to the manufacturing and public services sectors whilst many of the private services sectors are under represented compared to the UK as a whole.

Economic structure – North East (£ billion, 2010 prices)

Selected sectors	Actual	Forecast					
		Annual % change, real terms					
	2013	2014	2015	2016	2017	2018	2019
Public services	10.4	0.7	0.2	0.0	-0.1	0.4	1.2
Professional and other private services	8.5	5.0	3.3	3.3	3.3	3.0	2.6
Manufacturing	6.2	1.5	1.7	1.6	2.0	1.6	1.0
Wholesale and retail	4.1	6.5	2.9	2.6	2.7	2.6	2.3
Information and communication	2.2	-1.4	3.1	3.2	3.3	3.1	2.7
Total Gross Value Added (GVA)	40.8	2.6	2.2	2.0	2.1	2.1	2.0

Note: Top 5 sectors, excluding construction
Source: Experian
ref. CSN Explained, Section 3, Note 3

2.5 Forward looking economic indicators

In the five years to 2019, the region's GVA is projected to grow at an annual average rate of 2.1%, lower than the national average of 2.4%.

Of the top five sectors, the professional and other private services and information and communication sectors are expected to see the greatest yearly expansion of 3.1% on average, whilst the largest sector, public services, is projected to experience a much weaker annual average increase of 0.3%.

Real household disposable income is expected to rise by an annual average of 1.9% over the forecast period, lower than the UK rate of 2.2%, whilst average yearly increases in household spending are also projected to be lower (1.7% vs. 2.4%)

The recovery in the North East is delayed compared to UK and in 2014 the region saw much smaller falls in unemployment. However, over the next few years the North East's fall in unemployment is predicted to be much bigger compared to the UK as a whole as the region plays 'catch-up'.

In 2013, the region's working age population was around 1.609m which accounted for just 4% of the UK total. During the forecast period, the North East's working age population as a share of the total population is expected to be around 62%.

2.6 New construction orders – overview

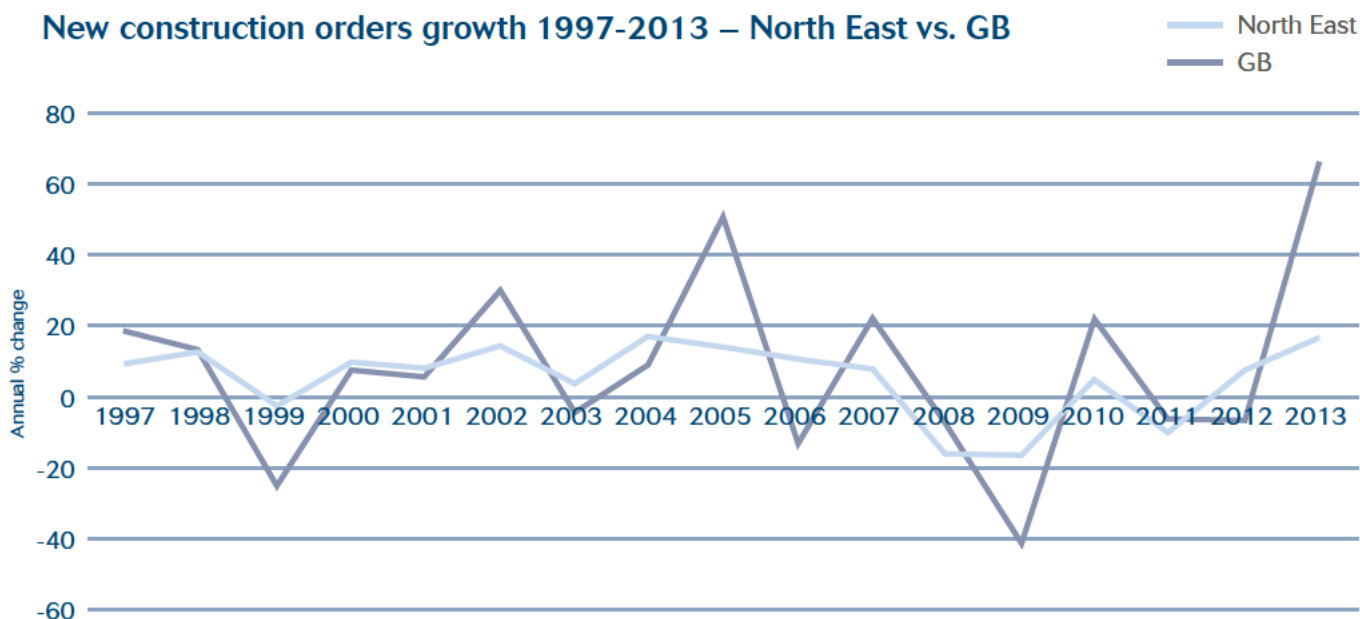
In 2013, total new construction orders in the region increased by 65% to £2.52bn, the highest level since 2008 but still short of its 2007 peak. The public housing sector registered the greatest rise, of 825% to £222m, a new high, whilst the infrastructure market also saw very strong growth, of 384% to £678m. However, this is after they collapsed by 75% in the previous year. Average project value tends to be higher in the infrastructure sector than in the other sectors, thus its new orders data series tends to be volatile. The private housing sector was the only sector to register a decline, of 14% to £448m.

Economic indicators – North East (£ billion, 2010 prices – unless otherwise stated)

	Actual	Forecast					
		Annual % change, real terms					
	2013	2014	2015	2016	2017	2018	2019
Real household disposable income	35.5	0.7	1.7	1.1	2.0	2.4	2.2
Household spending	36.8	1.2	1.5	1.5	1.8	1.9	1.9
Working age population (000s and as % of all)	1,609	61.9	62.2	62.3	62.2	62.0	62.0
House prices (£)	145,680	5.1	5.5	3.5	2.8	2.8	3.0
LFS unemployment (millions)	0.13	-1.27	-7.42	-5.38	-2.54	-1.66	-0.79

Source: ONS, DCLG, Experian

New construction orders growth 1997-2013 – North East vs. GB



Source: ONS
ref. CSN Explained, Section 3, Note 4

2.7 New construction orders – current situation

In the first half of 2014, new orders rose by 6% to £1.34bn compared with the corresponding period in the preceding year. The industrial sector experienced a level of new orders over 10 times what they were in an admittedly very poor first half of 2013, while a relatively smaller, but still significant, rise of 116% was experienced in the public non-housing sector (£222m). The commercial one saw the greatest fall, of 61% to £145m while the smallest decrease, of 14% to £331m occurred in the infrastructure market.

2.8 Construction output – short-term forecasts (2015–2016)

Regional Office for National Statistics (ONS) output statistics are published in current prices and are thus inclusive of any inflationary effect. At the time of writing, regional ONS construction output statistics were only available for the first two quarters of 2014.

In the six months to June 2014, total construction output in the North East increased by 9% to £2bn compared with the corresponding period in the preceding year. Of the new work sectors the public housing one saw the greatest jump of 302% to £113m.

However due to its small size this does not equate to much in value terms. The industrial sector also registered significant growth of 142% to £216m whilst a rise of 46% to £199m was experienced in the public non-housing sector. The infrastructure sector posted the smallest increase, of 6% to £282m whilst the private housing (£283m) and commercial (£371m) sectors declined by 17% and 6% respectively.

Over the next two years, total construction output in the North East is projected to grow by an annual average of 2.4%. The new work sector is expected to see yearly average increases of 2.5% whilst repair and maintenance is forecast to experience lower growth of 2% per year on average.

The best performing sector is likely to be infrastructure with average yearly increases of 10.6%. There are a number of programmes of work and projects recently started and in the pipeline, including £400m of motorway and trunk road work due to be carried out under the Highways Agency's Area 14 section. From April 2015, motorway and trunk roads across Northumberland, Durham, Tees Valley, Tyne and Wear and North Yorkshire will see improvement work carried out. Projects in the pipeline include a new biomass power station which is planned to be built in Middlesbrough from the end of 2015.

New work construction orders – North East (£ million, current prices)

	Actual	Annual % change				
		2013	2009	2010	2011	2012
Public housing	222	-25.9	153.3	-90.1	60.0	825.0
Private housing	448	-50.0	179.7	-66.0	169.8	-13.5
Infrastructure	678	1.2	112.8	209.3	-75.3	384.3
Public non-housing	329	-14.8	-39.0	-16.8	-30.6	42.4
Industrial	232	-62.8	-9.5	38.1	20.7	32.6
Commercial	607	-63.0	7.1	0.5	3.8	38.0
Total new work	2,516	-44.2	20.5	-8.2	-8.8	64.7

Source: ONS
ref. CSN Explained, Section 3, Note 4

Construction output – North East (£ million, 2011 prices)

	Actual 2013	Forecast annual % change			Annual average 2015-2016
		2014	2015	2016	
Public housing	105	57%	8%	-10%	-1.4%
Private housing	630	6%	1%	-6%	-2.4%
Infrastructure	444	7%	9%	12%	10.6%
Public non-housing	269	4%	-2%	-2%	-1.8%
Industrial	173	71%	11%	-1%	5.0%
Commercial	767	-12%	1%	5%	2.9%
New work	2,389	7%	4%	1%	2.5%
Housing R&M	586	-4%	3%	2%	2.8%
Non-housing R&M	513	-3%	1%	1%	1.2%
Total R&M	1,099	-4%	2%	2%	2.0%
Total work	3,488	4%	3%	1%	2.4%

Source: Experian
ref. CSN Explained, Section 3, Notes 1 and 2

The two-year project, worth £150m, will see the construction of a 49MW power station located on Port Clarence Road. The station would convert locally-sourced waste wood into energy which would be enough to power around 50,000 homes.

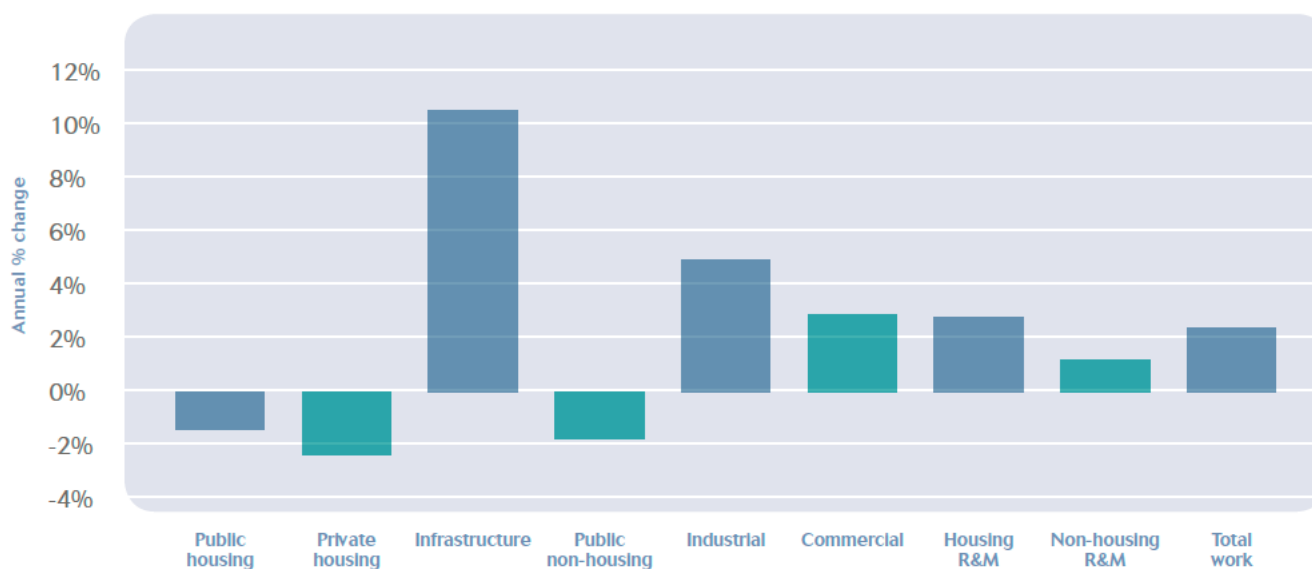
The industrial sector is predicted to experience the second largest annual average expansion of 5%. One of the largest projects to take place over the short term is the redevelopment of the former Swan Hunter Shipyard in North Tyneside. Kier has been appointed as the main contractor to oversee the £100m scheme. The 14-hectare site will be marketed to advanced manufacturing companies specialising in offshore projects. Start on work is imminent and is planned to last two years.

Average yearly declines of 2.4% are expected for the private housing sector. While marginal growth is projected for this year, a fall is likely for 2016.

Demographic pressures in the region are relatively weak and tougher lending criteria introduced as a result of the Mortgage Market Review, worsening affordability, and interest rate rises from the second half of 2015, are all expected to impact the market, although their negative effects could be in part mitigated by the reduction in Stamp Duty that most buyers will benefit from, which came into effect in early December 2014. Projects due to start over the next couple of years include 350 residential units in Blyth Valley in Northumberland and 350 homes on the site of a 19th century farm in Stockton-On-Tees.

The public non-housing sector is likely to experience decreases of 1.8% per annum on average. While there are projects that are taking place in the sector such as a new community hub in Hebburn, South Tyneside and the new Washington leisure centre in Sunderland, none are particularly sizeable.

Annual average construction output growth 2015-2016 – North East



Source: Experian
ref. CSN Explained, Section 3, Note 2

2.9 Construction output – long-term forecasts (2015–2019)

In the five years to 2019, the North East's construction industry is predicted to see annual average growth of 2.3%, lower than the UK rate of 2.9%. Whilst the repair and maintenance sector is forecast to increase by 1.4% per annum on average, the new work sector will see a higher annual average increase of 2.7%.

Like the short term, the infrastructure sector is predicted to see the greatest annual average expansion of 5.8%. This is one of the highest growth rates for all regions and devolved nations and it is also much higher than the corresponding rate for the UK (2.4%). As mentioned earlier, one of the main drivers of growth will be improvements to the roads system, expansion of which will take place in the first half of the forecast period. Growth is expected to subside thereafter and output could decline in 2019, although by that time it will be at new historic highs.

In the 2014 Autumn Statement it was announced that seven new road schemes will take place in the North East under the Road Investment Strategy. Construction will be carried out on roads such as the A1 north of Ellingham and A19 Norton to Wynyard. However, work is planned to be carried out within the next two parliaments and it is therefore possible that construction may fall outside our current forecast period.

The commercial sector is likely to see average increases of 3.8% per annum over the next five years. Over the short term the £300m hospital project at Wynyard Park, which was due to see work start in 2014, has been hit by further delays and at present it is unclear when the green light will be given. However there are other sizeable projects recently started or in the pipeline. The green light has recently been given to the £100m makeover of Newgate Street in Newcastle. Newgate Shopping Centre, which was built in the 1960s, is going

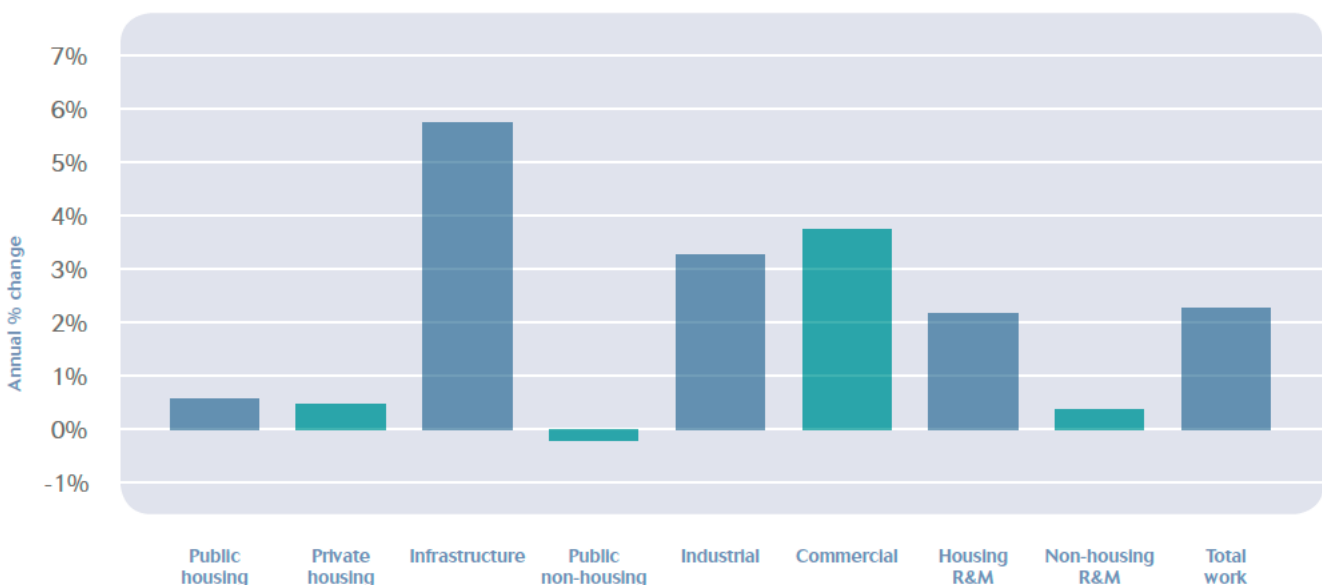
to be demolished and will be replaced with shops, three hotels and offices. The three-year project is scheduled to begin shortly and it is hoped the revamp will increase the number of visitors to the new part of the city centre as well as complementing the nearby extension to Eldon Square. Sustained improvements in the economy should lead to moderate expansion through the middle years of the forecast period.

Lacklustre annual average growth of 0.6% is anticipated for the public housing sector. Under the 2015-2018 Affordable Homes Programme (AHP) a total of £1.7bn will be invested across England, excluding London. However, at present only £886m of that funding has been allocated. According to the Homes & Communities Agency (HCA), the North East and Yorkshire and the Humber combined will benefit from around 23% of this initial funding. This will support the delivery of 8,836 new affordable homes. Nevertheless, the overall pot of funding available for the 2015-2018 AHP is much the same on an annualised basis as in 2011-15 and it is a moot point whether social housing providers will be able to continue to increase their levels of financing from other sources over the medium term.

2.10 Beyond 2019

Proposals are being drawn up for a HS3 rail link for the north of England. It is hoped that such a project would improve connectivity for the north and reduce journey times once complete. It currently takes a minimum of two hours and twenty two minutes for a train journey from Manchester to Newcastle. Under HS3 it is believed this same journey will be less than two hours. The Government and Transport for the North, a new body which consists of the main northern city regions, will draw up a transport strategy to include route options, a delivery timetable and costs with an interim report expected in March 2015.

Annual average construction output growth 2015-2019 – North East



Source: CSN, Experian
ref. CSN Explained, Section 3, Note 2

Construction output – North East (£ million, 2011 prices)

	Estimate 2014	Forecast annual % change					Annual average 2015-2019
		2015	2016	2017	2018	2019	
Public housing	165	8%	-10%	1%	4%	1%	0.6%
Private housing	665	1%	-6%	2%	4%	2%	0.5%
Infrastructure	475	9%	12%	8%	4%	-3%	5.8%
Public non-housing	280	-2%	-2%	0%	2%	0%	-0.2%
Industrial	295	11%	-1%	0%	3%	4%	3.3%
Commercial	675	1%	5%	5%	7%	1%	3.8%
New work	2,556	4%	1%	4%	4%	1%	2.7%
Housing R&M	562	3%	2%	3%	3%	-1%	2.2%
Non-housing R&M	496	1%	1%	1%	-1%	0%	0.4%
R&M	1,057	2%	2%	2%	1%	0%	1.4%
Total new work	3,613	3%	1%	3%	3%	0%	2.3%

Source: CSN, Experian
ref. CSN Explained, Section 3, Note 2



Construction is estimated to have returned to growth in 2014 with an increase in output of 4%.

3 Construction employment forecasts for North East

3.1 Total construction employment forecasts by occupation

The table presents actual construction employment (SICs 41-43, 71.1, and 74.9) in North East for 2013, the estimated total employment across 28 occupational categories in 2014 and forecasts for the industry for 2015 to 2019. A full breakdown of occupational groups is provided in Section 5 of CSN Explained.

In 2013 the region accounted for 3.8% of UK construction employment and by 2019 total employment is likely to be approximately 94% of its 2008 peak. Overall construction employment is projected to increase by 1.5% per year on average, identical to the UK rate, taking total construction employment in the region to around 104,550 by 2019.

Of all occupations, surveyors are predicted to see the highest annual average growth rate of around 4.2% over the forecast period and by 2019 they will reach a new high of 1,770. The majority of occupations are expected to see employment growth between 2015 and 2019, but not all, with the greatest annual average fall of 2.7% predicted for senior, executive and business process managers.

Overall demand is projected to be strongest for managerial/supervisory and professional staff rather than the trades, although some trades such as steel erectors (3.5%), bricklayers (3.3%), and plumbing and HVAC trades (3%) are also forecast to have good average annual growth rates

Total employment by occupation – North East

	Actual 2013	Estimate 2014	Forecast 2015	Forecast 2019
Senior, executive, and business process managers	4,510	4,380	4,290	3,820
Construction project managers	1,520	1,600	1,670	1,870
Other construction process managers	5,930	6,230	6,500	7,290
Non-construction professional, technical, IT and other office-based staff	10,030	9,880	9,790	8,920
Construction trades supervisors	4,000	4,220	4,420	5,160
Wood trades and interior fit-out	6,730	7,190	7,460	8,110
Bricklayers	2,660	2,800	2,930	3,290
Building envelope specialists	2,180	2,280	2,370	2,640
Painters and decorators	2,560	2,590	2,600	2,550
Plasterers	2,290	2,420	2,430	2,420
Roofers	2,170	2,220	2,280	2,480
Floorers	2,740	2,640	2,700	2,920
Glaziers	680	680	680	640
Specialist building operatives nec*	3,770	3,990	4,160	4,370
Scaffolders	1,250	1,180	1,150	1,110
Plant operatives	2,790	2,870	2,910	2,930
Plant mechanics/fitters	2,420	2,430	2,450	2,560
Steel erectors/structural fabrication	1,450	1,510	1,580	1,790
Labourers nec*	5,660	5,800	5,900	5,870
Electrical trades and installation	7,550	7,720	7,900	8,210
Plumbing and HVAC Trades	6,970	7,020	7,280	8,170
Logistics	400	400	400	390
Civil engineering operatives nec*	1,410	1,430	1,440	1,520
Non-construction operatives	460	470	480	500
Civil engineers	1,510	1,580	1,660	1,880
Other construction professionals and technical staff	9,090	9,540	9,920	11,030
Architects	330	360	390	340
Surveyors	1,340	1,440	1,520	1,770
Total (SIC 41-43)	82,130	83,950	85,770	89,530
Total (SIC 41-43, 71.1, 74.9)	94,400	96,870	99,260	104,550

Source: ONS, CSN, Experian
ref. CSN Explained, Section 3, Notes 5, 6 and 8

In 2019, the largest construction trade occupations in the region are anticipated to be wood trades and interior fit out, electrical trades and installation and plumbing and HVAC trades all accounting for around 8% of the total workforce.

3.2 Annual recruitment requirements (ARR) by occupation

The ARR is a gross requirement that takes into account workforce flows into and out of construction, due to factors such as movements between industries, migration, sickness, and retirement. However, these flows do not include movements into the industry from training, due to the inconsistency and coverage of supply data. Thus, the annual recruitment requirement provides an indication of the number of new employees that would need to be recruited into construction each year in order to realise forecast output.

The total ARR for the North East has an amber light, indicating that there is a medium requirement for extra employees during the current forecast period. At 3,510 extra employees required per annum over the next five years, this represents 3.5% of base 2015 employment.

The corresponding ARR rate for the UK is lower at 1.7%. The reason for the high ARR in the regions is strong net outflow on the supply side, not only to other regions, but also to retirement over the next five years.

In absolute terms the largest requirement is for wood trades and interior fit-out (590), equivalent to 17% of the region's total ARR. However, as a proportion of base 2015 employment, the steel erectors/structural fabrication occupation is likely to be most in demand (10.8%).

Please note that all of the ARR's presented in this section are employment requirements and not necessarily training requirements. This is because some new entrants to the construction industry, such as skilled migrants or those from other industries where similar skills are already used, will be able to work in the industry without the need for significant retraining.

Finally, for certain occupations there will be no appreciable requirement over the forecast period, partly due to the recession creating a 'pool' of excess labour.

Annual recruitment requirement by occupation – North East

	2015 - 2019
Senior, executive, and business process managers	-
Construction project managers	100
Other construction process managers	-
Non-construction professional, technical, IT and other office-based staff	310
Construction trades supervisors	410
Wood trades and interior fit-out	590
Bricklayers	170
Building envelope specialists	80
Painters and decorators	<50
Plasterers	50
Roofers	170
Floorers	180
Glaziers	-
Specialist building operatives nec*	250
Scaffolders	<50
Plant operatives	-
Plant mechanics/fitters	-
Steel erectors/structural fabrication	170
Labourers nec*	160
Electrical trades and installation	140
Plumbing and HVAC Trades	420
Logistics	-
Civil engineering operatives nec*	-
Civil engineers	60
Other construction professionals and technical staff	220
Architects	-
Surveyors	-
Total (SIC 41-43)	3,190
Total (SIC 41-43, 71.1, 74.9)	3,510

4 Comparisons across the UK

Despite ongoing delays to the nuclear new build programme, Wales is still projected to have the strongest output growth, despite the start on main construction works at Wylfa unlikely before the beginning of 2019. Nuclear new build still remains in the forecast period for the South West, where main construction works on Hinkley Point C should begin in 2015, helping to boost the region's annual average output growth rate to 3.6%.

Greater London slips in between Wales and the South West, with projected annual average output expansion of 4.2%, benefiting from very strong demand for housing, both public and private, despite recent indications that house prices in the capital are stabilising, and good growth in the commercial construction sector. Together, these three sectors accounted for 44% of London's construction output in 2013, well above the UK average (38%), thus are proportionally providing a stronger driver for overall growth in the capital compared with elsewhere.

While most UK regions and nations are expected to experience quite strong growth in private housing output to 2016, with a slowdown to more sustainable levels thereafter, the prospects for public housing are much more uncertain as the current Affordable Housing Programme (AHP) winds down to April 2015. The overall pot of funding available from central Government for 2015-18 is much the same on an annualised basis as in 2011-15 and there are concerns that many housing associations may find increasing their borrowing levels from private sources more problematical in the future.

Outside of the South West, infrastructure growth is likely to be strongest in the North East and Wales, the former being driven by £400m of roads work in the Highways Agency's Area 14, which covers the region and the latter benefiting from Great Western Line electrification, road upgrades, energy works such as Swansea's tidal lagoon and, of course, nuclear new build at Wylfa in Anglesey.

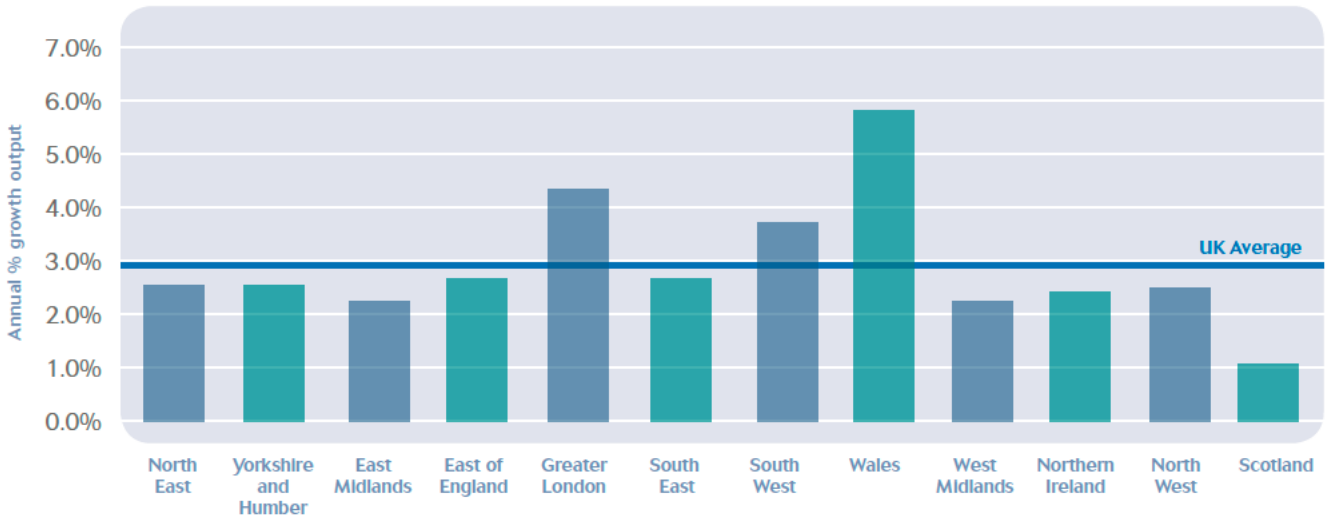
Strongest growth in commercial construction is expected in Yorkshire and the Humber (annual average growth of 6.3%), the North West (6.3%), Wales (5.9%) and Greater London (5.7%). South Yorkshire in particular seems to be benefiting from the reactivation of retail-led projects mothballed during the 'great recession', while Wales is seeing an upsurge in conference and exhibition venue construction.

Annual average employment growth rates across the regions and nations tend to cluster within plus or minus half a percent of the UK average of 1.5%. The exceptions are Greater London and Wales (2.4%), and Scotland (0.1%). For Greater London workforce demand is in the main driven by growth in the sectors mentioned above, but even in the infrastructure one, which is already at a historic high in output terms, further expansion is expected over the next five years. Employment demand in Wales inevitably benefits from the start of main works at Wylfa, despite the fact that infrastructure is less labour intensive than many other sectors. Wylfa is a very large project in a relatively small market. Scotland's relatively poor projected output growth rate (1.1% a year on average) is only just enough to drive marginal employment growth given anticipated productivity gains.

Despite London's strong employment demand, its annual recruitment requirement (ARR) only equates to around 0.5% of projected 2015 employment. This is because the region acts as a natural magnet for the construction workforce within the UK and beyond. In contrast, Wales' strong employment demand is supplemented on the supply side by traditional employment outflows to other regions, especially the North West and South West, and so it has a much higher ARR ratio, of 4.8%. Most other regions and nations have an ARR ratio of within a percentage point of the UK average (1.7%).

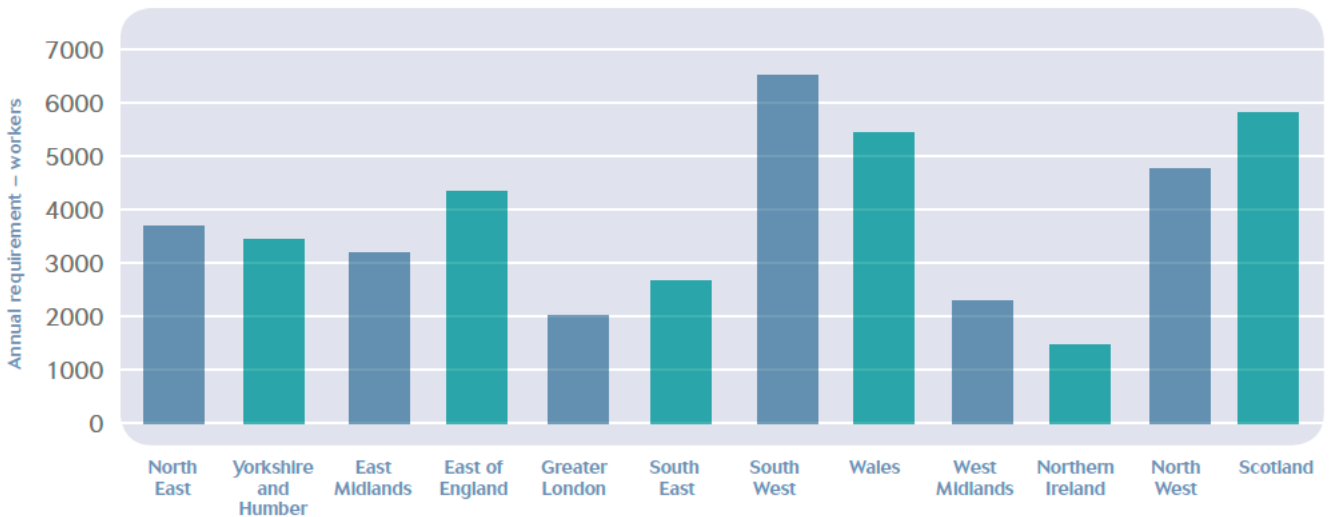


Annual average output growth by region 2015-2019



Source: CSN, Experian
ref. CSN Explained, Section 3, Note 2

Annual recruitment requirement (ARR) by region 2015-2019



Source: CSN, Experian



CSN Explained

This appendix provides further details and clarification of some of the points covered in the report.

Section 1 gives an overview of the underpinning methods that are used by the CSN, working in partnership with Experian, to produce the suite of reports at a UK, national and regional level.

Section 2 provides a glossary to clarify some of the terms that are used in the reports.

Section 3 has some further notes relating to the data sources used for the various charts and tables. This section also outlines what is meant by the term 'footprint', when talking about the areas of responsibility that lie with a Sector Skills Council (SSC) or Sector Bodies.

Section 4 explains the sector definitions used within the report and provides examples of what is covered in each.

Section 5 gives a detailed breakdown of the 28 occupational groups into the individual standard occupational classification (SOC) codes that are aggregated to provide the employment and recruitment requirement.

Section 6 concludes this appendix by giving details about the range of LMI reports, the advantages of being a CSN member and details of who to contact if readers are interested in joining.



1. CSN Methodology

Background

The **Construction Skills Network** has been evolving since its conception in 2005, acting as vehicle for ConstructionSkills to collect and produce information on the future employment and training needs of the industry.

CITB, CIC and CITB-ConstructionSkills Northern Ireland are working as ConstructionSkills, the Sector Skills Council for Construction, to produce robust labour market intelligence which provides a foundation on which to plan for future skills needs and to target investment.

The CSN functions at both a national and regional level. It comprises a National Group, 12 Observatory groups, a forecasting model for each of the regions and countries, and a Technical Reference Group. An Observatory group currently operates in each of the nine English regions and also in Wales, Scotland and Northern Ireland.

Observatory groups currently meet twice a year and consist of key regional stakeholders invited from industry, Government, education, other SSCs and Sector Bodies, all of whom contribute their local industry knowledge and views on training, skills, recruitment, qualifications and policy. The National Group also includes representatives from industry, Government, education, other SSCs and Sector Bodies. This Group convenes twice a year and sets the national scene, effectively forming a backdrop for the Observatories.

At the heart of the CSN are several models which generate forecasts of employment requirements within the industry for a range of occupational groups. The models are designed and managed by Experian under the independent guidance and validation of the Technical Reference Group, which is comprised of statisticians and modelling experts.

The models have evolved over time and will continue to do so, to ensure that they account for new research as it is published as well as new and improved modelling techniques. Future changes to the model will only be made after consultation with the Technical Reference Group.

The model approach

The model approach relies on a combination of primary research and views from the CSN to facilitate it. National data is used as the basis for the assumptions that augment the models, which are then adjusted with the assistance of the Observatories and National Group. Each English region, Wales, Scotland and Northern Ireland has a separate model (although all models are interrelated due to labour movements) and, in addition, there is one national model that acts as a constraint to the individual models and enables best use to be made of the most robust data (which is available at the national level).

The models work by forecasting demand and supply of skilled workers separately. The difference between demand and supply forms the employment requirement. The forecast total employment levels are derived from expectations about construction output

and productivity. Essentially, this is based upon the question 'How many people will be needed to produce forecast output, given the assumptions made about productivity?'.

The **annual recruitment requirement (ARR)** is a gross requirement that takes into account workforce flows into and out of construction, due to such factors as movements between industries, migration, sickness and retirement. However, these flows do not include movements into the industry from training, although robust data on training provision is being developed by CITB in partnership with public funding agencies, further education, higher education and employer representatives. Thus, the annual recruitment requirement provides an indication of the number of new employees that would need to be recruited into construction each year in order to realise forecast output.

Estimates of demand are based upon the results of discussion groups comprising industry experts, a view of construction output and integrated models relating to wider national and regional economic performance. The models are dynamic and reflect the general UK economic climate at any point in time. To generate the labour demand, the models use a set of specific statistics for each major type of work to determine the employment, by trade, needed to produce the predicted levels of construction output. The labour supply for each type of trade or profession is based upon the previous year's supply (the total stock of employment) combined with flows into and out of the labour market.

The key leakages (outflows) that need to be considered are:

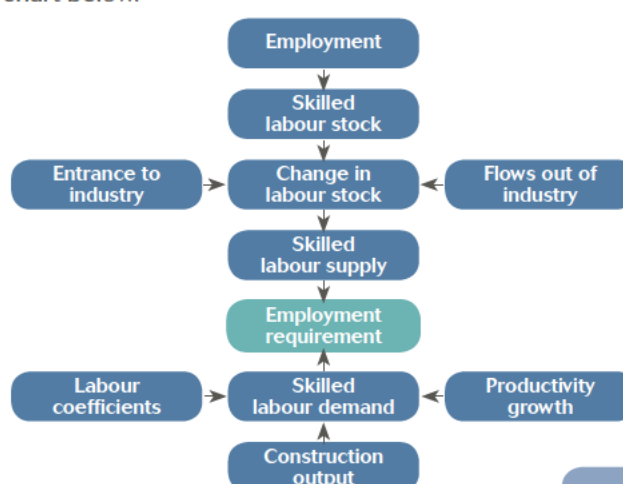
- Transfers to other industries
- International/domestic out migration
- Permanent retirements (including permanent sickness)
- Outflow to temporary sickness and home duties.

The main reason for outflow is likely to be transfer to other industries.

Flows into the labour market include:

- Transfers from other industries
- International/domestic immigration
- Inflow from temporary sickness and home duties.

The most significant inflow is likely to be from other industries. A summary of the model is shown in the flow chart below.



2. Glossary of terms

Building envelope specialists – any trade involved with the external cladding of a building other than bricklaying, e.g. curtain walling.

Demand – this is calculated using construction output data from the Office for National Statistics (ONS) and the Department of Finance and Personnel Northern Ireland (DFP), along with vacancy data from the National Employer Skills Survey, produced by the Department for Education and Skills. These data sets are translated into labour requirements by trade using a series of coefficients to produce figures for labour demand that relate to forecast output levels.

GDP (gross domestic product) – total market value of all final goods and services produced. A measure of national income. $GDP = GVA$ plus taxes on products minus subsidies on products.

GVA (gross value added) – total output minus the value of inputs used in the production process. GVA measures the contribution of the economy as a difference between gross output and intermediate outputs.

Coefficients – to generate the labour demand, the model makes use of a set of specific statistics for each major type of work, to determine employment by trade or profession, based upon the previous year's supply. In essence, this is the number of workers of each occupation or trade needed to produce £1m of output across each sub-sector.

LFS (Labour Force Survey) – a UK household sample survey which collects information on employment, unemployment, flows between sectors and training. Information is collected from around 53,000 households each quarter (the sample totals more than 100,000 people).

LMI (labour market intelligence) – data that is quantitative (numerical) or qualitative (insights and perceptions) on workers, employers, wages, conditions of work, etc.

Macroeconomics – the study of an economy at a national level, including total employment, investment, imports, exports, production and consumption.

Nec – not elsewhere classified, used as a reference in LFS data.

ONS (Office for National Statistics) – organisation producing official statistics on the economy, population and society at both a national and local level.

Output – total value of all goods and services produced in an economy.

Productivity – output per employee.

SIC codes (Standard Industrial Classification codes) – from the United Kingdom Standard Industrial Classification of Economic Activities produced by the ONS.

SOC codes (Standard Occupational Classification codes) – from the United Kingdom Standard Occupational Classification produced by the ONS.

Supply – the total stock of employment in a period of time, plus the flows into and out of the labour market. Supply is usually calculated from LFS data.



3. Notes and Footprints

Notes

- 1 Except for Northern Ireland, output data for the English regions, Scotland and Wales is supplied by the Office for National Statistics (ONS) on a current price basis. Thus, national deflators produced by the ONS have been used to deflate prices to a 2005 constant price basis, so that the effects of inflation have been stripped out.
- 2 The annual average growth rate of output is a compound average growth rate, i.e. the rate at which output would grow each year if it increased steadily over the forecast period.
- 3 Only selected components of gross value added (GVA) are shown in this table and so do not sum to the total.
- 4 For new construction orders, comparison is made with Great Britain rather than the UK, owing to the fact that there are no orders data series for Northern Ireland.
- 5 Employment numbers are rounded to the nearest 10.
- 6 The tables include data relating to plumbers and electricians. As part of SIC 43, plumbers and electricians working in contracting are an integral part of the construction process. However, it is recognised by ConstructionSkills that SummitSkills has responsibility for these occupations across a range of SIC codes, including SIC 43.2.
- 7 A reporting minimum of 50 is used for the annual recruitment requirement (ARR). As a result some region and devolved nation ARR forecasts do not sum to the total UK requirement.
- 8 The Employment and ARR tables show separate totals for SIC41-43 and SIC41-43, 71.1 and 74.9. The total for SIC41-43 covers the first 24 occupational groups on the relevant tables and excludes civil engineers, other construction professionals and technical staff, architects and surveyors. The total for SIC41-43, 71.1 and 74.9 includes all occupations.

Footprints for Built Environment Sector Bodies

ConstructionSkills is responsible for SIC 41 Construction of buildings, SIC 42 Civil engineering,

ConstructionSkills	
SIC Code	Description
41.1	Development of building projects
41.2	Construction of residential and non-residential buildings
42.1	Construction of roads and railways
42.2	Construction of utility projects
42.9	Construction of other civil engineering projects
43.1	Demolition and site preparation
43.3	Building completion and finishing
43.9	Other specialised construction activities nec
71.1*	Architectural and engineering activities and related technical consultancy

SIC 43 Specialised construction activities and SIC 71.1 Architectural and engineering activities and related technical consultancy.

The table below summarises the SIC codes (2007) covered by ConstructionSkills.

The sector footprints for the other Sector Bodies covering the Built Environment:

SummitSkills

Footprint – plumbing, heating, ventilation, air conditioning, refrigeration and electrotechnical.

Coverage – Building services engineering.

ConstructionSkills shares an interest with SummitSkills in SIC 43.21 Electrical installation and SIC 43.22 Plumbing, heat and air-conditioning installation. ConstructionSkills recognises the responsibility of Summit Skills across Standard Industrial Classifications (SIC) 43.21 and 43.22; thus data relating to the building services engineering sector is included here primarily for completeness.

The Building Futures Group

Footprint – property services, housing, facilities, management, cleaning.

Coverage – property, housing and land managers, chartered surveyors, estimators, valuers, home inspectors, estate agents and auctioneers (property and chattels), caretakers, mobile and machine Operatives, window cleaners, road sweepers, cleaners, domestics, facilities managers.

The Building Futures Group has a peripheral interest in SIC 71.1 Architectural and engineering activities and related technical consultancy.

Energy and Utility Skills

Footprint – electricity, gas (including gas installers), water and waste management.

Coverage – electricity generation and distribution, gas transmission, distribution and appliance installation and maintenance, water collection, purification and distribution, waste water collection and processing, waste management.

*The Building Futures Group has a peripheral interest in SIC 71.1

4. Definitions: types and examples of construction work

Public sector housing – local authorities and housing associations, new towns and Government departments

Housing schemes, care homes for the elderly and the provision within housing sites of roads and services for gas, water, electricity, sewage and drainage.

Private sector housing

All privately owned buildings for residential use, such as houses, flats and maisonettes, bungalows, cottages and the provision of services to new developments.

Infrastructure – public and private

Water

Reservoirs, purification plants, dams, water works, pumping stations, water mains, hydraulic works etc.

Sewerage

Sewage disposal works, laying of sewers and surface drains.

Electricity

Building and civil engineering work for electrical undertakings, such as power stations, dams and other works on hydroelectric schemes, onshore wind farms and decommissioning of nuclear power stations.

Gas, communications, air transport

Gas works, gas mains and gas storage; post offices, sorting offices, telephone exchanges, switching centres etc.; air terminals, runways, hangars, reception halls, radar installations.

Railways

Permanent way, tunnels, bridges, cuttings, stations, engine sheds etc., signalling and other control systems and electrification of both surface and underground railways.

Harbours

All works and buildings directly connected with harbours, wharves, docks, piers, jetties, canals and waterways, sea walls, embankments and water defences.

Roads

Roads, pavements, bridges, footpaths, lighting, tunnels, flyovers, fencing etc.

Public non-residential construction¹

Factories and warehouses

Publicly owned factories, warehouses, skill centres.

Oil, steel, coal

Now restricted to remedial works for public sector residual bodies.

Schools, colleges, universities

State schools and colleges (including technical colleges and institutes of agriculture); universities including halls of residence, research establishments etc.

Health

Hospitals including medical schools, clinics, welfare centres, adult training centres.

Offices

Local and central Government offices, including town halls, offices for all public bodies except the armed services, police headquarters.

Entertainment

Theatres, restaurants, public swimming baths, caravan sites at holiday resorts, works and buildings at sports grounds, stadiums, racecourses etc. owned by local authorities or other public bodies.

Garages

Buildings for storage, repair and maintenance of road vehicles, transport workshops, bus depots, road goods transport depots and car parks.

Shops

Municipal shopping developments for which the contract has been let by a Local Authority.

Agriculture

Buildings and work on publicly financed horticultural establishments; fen drainage and agricultural drainage, veterinary clinics.

Miscellaneous

All work not clearly covered by any other headings, such as fire stations, police stations, prisons, reformatories, remand homes, civil defence work, UK Atomic Energy Authority work, council depots, museums, libraries.

Private industrial work

Factories, warehouses, wholesale depots, all other works and buildings for the purpose of industrial production or processing, oil refineries, pipelines and terminals, concrete fixed leg oil production platforms (not rigs); private steel work; all new coal mine construction such as sinking shafts, tunnelling, etc.

Private commercial work¹

Schools and universities

Schools and colleges in the private sector, financed wholly from private funds.

Health

Private hospitals, nursing homes, clinics.

Offices

Office buildings, banks.

Entertainment

Privately owned theatres, concert halls, cinemas, hotels, public houses, restaurants, cafés, holiday camps, swimming pools, works and buildings at sports grounds, stadiums and other places of sport or recreation, youth hostels.

Garages

Repair garages, petrol filling stations, bus depots, goods transport depots and any other works or buildings for the storage, repair or maintenance of road vehicles, car parks.

Shops

All buildings for retail distribution such as shops, department stores, retail markets, showrooms, etc.

Agriculture

All buildings and work on farms, horticultural establishments.

Miscellaneous

All work not clearly covered by any other heading, e.g. exhibitions, caravan sites, churches, church halls.

New work

New housing

Construction of new houses, flats, bungalows only.

All other types of work

All new construction work and all work that can be referred to as improvement, renovation or refurbishment and which adds to the value of the property.²

Repair and maintenance

Housing

Any conversion of, or extension to any existing dwelling and all other work such as improvement, renovation, refurbishment, planned maintenance and any other type of expenditure on repairs or maintenance.

All other sectors

Repair and maintenance work of all types, including planned and contractual maintenance.³

1 Where contracts for the construction or improvement of non-residential buildings used for public service provision, such as hospitals, are awarded by private sector holders of contracts awarded under the Private Finance Initiative, the work is classified as 'private commercial'.

2 Contractors reporting work may not always be aware of the distinction between improvement or renovation work and repair and maintenance work in the non-residential sectors.

3 Except where stated, mixed development schemes are classified to whichever sector provides the largest share of finance.

5. Occupational Groups

Occupational group

Description, SOC (2010) reference.

Senior, executive, and business process managers

Chief executives and senior officials	1115
Financial managers and directors	1131
Marketing and sales directors	1132
Purchasing managers and directors	1133
Human resource managers and directors	1135
Property, housing and estate managers	1251
Information technology and telecommunications directors	1136
Research and development managers	2150
Managers and directors in storage and warehousing	1162
Managers and proprietors in other services nec*	1259
Functional managers and directors nec*	1139
IT specialist managers	2133
IT project and programme managers	2134
Financial accounts managers	3538
Sales accounts and business development managers	3545

Construction project managers

Construction project managers and related professionals	2436
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Other construction process managers

Production managers and directors in manufacturing	1121
Production managers and directors in construction	1122
Managers and directors in transport and distribution	1161
Waste disposal and environmental services managers	1255
Health and safety officers	3567
Conservation and environmental associate professionals	3550

Non-construction professional, technical, IT, and other office-based staff (excl. managers)

IT operations technicians	3131
IT user support technicians	3132
Finance and investment analysts and advisers	3534
Taxation experts	3535
Financial and accounting technicians	3537
Vocational and industrial trainers and instructors	3563
Business and related associate professionals nec*	3539
Legal associate professionals	3520
Inspectors of standards and regulations	3565
Programmers and software development professionals	2136

Information technology and telecommunications professionals nec*	2139
Estate agents and auctioneers	3544
Solicitors	2413
Legal professionals nec*	2419
Chartered and certified accountants	2421
Business and financial project management professionals	2424
Management consultants and business analysts	2423
Receptionists	4216
Typists and related keyboard occupations	4217
Business sales executives	3542
Book-keepers, payroll managers and wages clerks	4122
Records clerks and assistants	4131
Stock control clerks and assistants	4133
Telephonists	7213
Communication operators	7214
Personal assistants and other secretaries	4215
Sales and retail assistants	7111
Telephone salespersons	7113
Buyers and procurement officers	3541
Human resources and industrial relations officers	3562
Credit controllers	4121
Company secretaries	4214
Sales related occupations nec*	7129
Call and contact centre occupations	7211
Customer service occupations nec*	7219
Elementary administration occupations nec*	9219
Chemical scientists	2111
Biological scientists and biochemists	2112
Physical scientists	2113
Laboratory technicians	3111
Graphic designers	3421
Environmental health professionals	2463
IT business analysts, architects and systems designers	2135
Conservation professionals	2141
Environment professionals	2142
Actuaries, economists and statisticians	2425
Business and related research professionals	2426
Finance officers	4124
Financial administrative occupations nec*	4129
Human resources administrative occupations	4138
Sales administrators	4151
Other administrative occupations nec*	4159
Office supervisors	4162
Sales supervisors	7130
Customer service managers and supervisors	7220
Office managers	4161

Construction trades supervisors

Skilled metal, electrical and electronic trades supervisors	5250
Construction and building trades supervisors	5330

Wood trades and interior fit-out

Carpenters and joiners	5315
Paper and wood machine operatives	8121
Furniture makers and other craft woodworkers	5442
Construction and building trades nec* (25%)	5319

Bricklayers

Bricklayers and masons	5312
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Building envelope specialists

Construction and building trades nec* (50%)	5319
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Painters and decorators

Painters and decorators	5323
Construction and building trades nec* (5%)	5319

Plasterers

Plasterers	5321
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Roofers

Roofers, roof tilers and slaters	5313
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Floorers

Floorers and wall tilers	5322
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Glaziers

Glaziers, window fabricators and fitters	5316
Construction and building trades nec* (5%)	5319

Specialist building operatives not elsewhere classified (nec*)

Construction operatives nec* (100%),	8149
Construction and building trades nec* (5%)	5319
Industrial cleaning process occupations	9132
Other skilled trades nec*	5449

Scaffolders

Scaffolders, staggers and riggers	8141
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Plant operatives

Crane drivers	8221
Plant and machine operatives nec*	8129
Fork-lift truck drivers	8222
Mobile machine drivers and operatives nec*	8229

Plant mechanics/fitters

Metal working production and maintenance fitters	5223
Precision instrument makers and repairers	5224
Vehicle technicians, mechanics and electricians	5231
Elementary process plant occupations nec*	9139
Tool makers, tool fitters and markers-out	5222
Vehicle body builders and repairers	5232

Steel erectors/structural fabrication

Steel erectors	5311
Welding trades	5215
Metal plate workers and riveters	5214
Construction and building trades nec* (5%)	5319
Smiths and forge workers	5211
Metal machining setters and setter-operators	5221

Labourers nec*

Elementary construction occupations (100%)	9120
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Electrical trades and installation

Electricians and electrical fitters	5241
Electrical and electronic trades nec*	5249
Telecommunications engineers	5242

Plumbing and heating, ventilation, and air conditioning trades

Plumbers and heating and ventilating engineers	5314
Pipe fitters	5216
Construction and building trades nec* (5%)	5319
Air-conditioning and refrigeration engineers	5225

Logistics

Large goods vehicle drivers	8211
Van drivers	8212
Elementary storage occupations	9260
Buyers and purchasing officers (50%)	3541
Transport and distribution clerks and assistants	4134

Civil engineering operatives not elsewhere classified (nec*)

Road construction operatives	8142
Rail construction and maintenance operatives	8143
Quarry workers and related operatives	8123

Non-construction operatives

Metal making and treating process operatives	8117
Process operatives nec*	8119
Metal working machine operatives	8125
Water and sewerage plant operatives	8126
Assemblers (vehicles and metal goods)	8132
Routine inspectors and testers	8133
Assemblers and routine operatives nec*	8139
Elementary security occupations nec*	9249
Cleaners and domestics*	9233
Street cleaners*	9232
Gardeners and landscape gardeners	5113
Caretakers	6232
Security guards and related occupations	9241
Protective service associate professionals nec*	3319

*Not elsewhere classified

Civil engineers

Civil engineers 2121

Other construction professionals and technical staff

Mechanical engineers 2122

Electrical engineers 2123

Design and development engineers 2126

Production and process engineers 2127

Quality control and planning engineers 2461

Engineering professionals nec* 2129

Electrical and electronics technicians 3112

Engineering technicians 3113

Building and civil engineering technicians 3114

Science, engineering and production technicians nec* 3119

Architectural and town planning technicians 3121

Draughtspersons 3122

Quality assurance technicians 3115

Town planning officers 2432

Electronics engineers 2124

Chartered architectural technologists 2435

Estimators, valuers and assessors 3531

Planning, process and production technicians 3116

Architects

Architects 2431

Surveyors

Quantity surveyors 2433

Chartered surveyors 2434



6. CSN Website and contact details

The CSN website

citb.co.uk/csn

The CSN website functions as a public gateway for people wishing to access the range of labour market intelligence (LMI) reports and research material regularly produced by the CSN.

The main UK report, along with the twelve LMI reports (one for Northern Ireland, Scotland, Wales and each of the nine English regions) can be downloaded from the site, while other CITB research reports are also freely available on the CITB website. Having access to this range of labour market intelligence and trend insight allows industry, Government, regional agencies and key stakeholders to:

- Pinpoint the associated specific, skills that will be needed year by year
- Identify the sectors which are likely to be the strongest drivers of output growth in each region and devolved nation
- Track the macro economy
- Understand how economic events impact on regional and devolved nations' economic performance
- Highlight trends across the industry such as national and regional shifts in demand
- Plan ahead and address the skills needs of a traditionally mobile workforce
- Understand the levels of qualified and competent new entrants required to enter the workforce.

The website also contains information about:

- How the CSN functions
- The CSN model approach
- How the model can be used to explore scenarios
- CSN team contact information
- Access to related CITB research
- Details for those interested in becoming members of the network.

While the public area of the CSN Website is the gateway to the completed LMI and research reports, being a member of the CSN offers further benefits.

As a CSN member you will be linked to one of the Observatory groups that play a vital role in feeding back observations, knowledge and insight into what is really happening on the ground in every UK region and nation. This feedback is used to fine tune the assumptions and data that goes into the forecasting programme such as:

- Details of specific projects
- Demand within various types of work or sectors
- Labour supply
- Inflows and outflows across the regions and devolved nations.

CSN members therefore have:

- Early access to forecasts
- The opportunity to influence and inform the data
- The ability to request scenarios that could address 'What would happen if...?' types of questions using the model.

Through the members' area of the CSN website, members can:

- Access observatory related material such as meeting dates, agendas, presentations and notes
- Download additional research material
- Comment/feedback to the CSN team.

As the Observatory groups highlight the real issues faced by the industry in the UK, we can more efficiently and effectively plan our response to skills needs. If you would like to contribute your industry observations, knowledge and insight to this process and become a member of the CSN, we would be delighted to hear from you.

Contact details

For further information about the CSN website, enquiries relating to the work of the CSN, or to register your interest in becoming a member of the CSN, please contact us at: csn@citb.co.uk

**For more information about the
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Research and Development
0300 456 7640
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citb.co.uk



CITB, CIC and CITB-ConstructionSkills Northern Ireland are working as ConstructionSkills, the Sector Skills Council for Construction. CITB is registered as a charity in England and Wales (Reg No 264289) and in Scotland (Reg No SC044875).