Policy Update – August 2014

Construction Industry Council

Infrastructure investment – the effect on consumers

The Public Accounts Committee of the House of Commons has heard that HM Treasury has identified more than £375 billion of planned infrastructure investment which is needed achieve the three objectives of: replacing ageing infrastructure; meeting policy commitments such as climate change targets and: dealing with the long-term needs of a growing population.

Since privatisation of the public utilities in the 1980s, new infrastructure has been increasingly financed by the private sector. HM Treasury expects that at least two-thirds of the identified investment will be in sectors where infrastructure is financed, built, owned and operated by private companies and funded through consumer bills.

While median incomes did not rise significantly in the decade to 2011, energy bills rose by 44% and water bills by 21%, in real terms. Consumers face further significant increases in bills due to new infrastructure investment. For example, DECC is projecting that average household energy bills in 2030 will be 18% higher in real terms compared to 2013. This will have a disproportionate effect on low-income households as they spend a higher proportion of income on energy and water bills.

Growth deals

The Government has announced the first installment of plans to invest at least £12 billion in local economies in a series of 'Growth Deals'. The money will go towards providing support for local businesses to train young people, create thousands of new jobs, build thousands of new homes and start hundreds of infrastructure projects; including transport improvements and superfast broadband networks.

The first £6 billion of local projects has been agreed as the first wave of Growth Deals are being announced. This includes the complete allocation of £2 billion from the Local Growth Fund for 2015 to 2016. The Local Growth Fund was established in response to Lord Heseltine's report "No Stone Unturned". The Government has said that as the quality of the proposals was high, in some cases commitments are being given for following years for important long-term projects so they can get underway.

Projects beginning in 2015 to 2016 are expected to be matched by local investments worth around twice the contribution from central government. Across the country they are expected to lead to work on more than 150 roads, 150 housing developments and 20 stations. Discussions with local enterprise partnerships will continue, to prepare for future negotiations on the next round of Growth Deals.

Flexible working

From 30 June 2014, all employees, not just parents and carers, who have worked for 26 weeks in an organization now have the right to request flexible working. Although employers are not legally obliged to grant flexible arrangements, they must deal with the application in a "reasonable manner".

Examples of handling requests in a reasonable manner include:

- assessing the advantages and disadvantages of the application;
- holding a meeting to discuss the request with the employee; and
- offering an appeal process.

If an employer doesn't handle a request in a reasonable manner, the employee can take them to an employment tribunal. An employer, however, can refuse an application if they have a good business reason for doing so.

Adonis report published

The final report of the Adonis Review, "Mending the Fractured Economy" a wide ranging examination of Labour policies and incentives, has been published. The report charts some characteristics of the current UK economy such as: the fact that productivity (output per worker) is 20% lower than the G7 average and remains below 2008 levels; 80% of net jobs created since 2010 have been in London; and job creation in low paid sectors has increased at twice the rate of the economy at large.

Recommendations in the report point to targeted support by BIS and long term funding commitments to scientific research on innovation. The report endorses Local Enterprise Partnerships (LEPS) and in particular cites Greater Manchester Combined authority as an example of a vehicle to drive regional growth. It is suggested that there should be a new devolution of Business Rates income to these authorities. A major expansion of high quality vocational and technical education and science, technology and engineering (STEM) apprenticeships is also advocated.

The other main focus of this report is supporting growth companies. One of the ideas in relation to this is to expand the Enterprise Finance Guarantee scheme to "peer to peer" lenders.

Skills report

A new report "Climbing the ladder: skills for sustainable recovery" highlights the need for urgent action to improve the UK's jobs and skills in order to build on the economic upturn and maximise growth. This report, which is produced by the UK Commission for Employment and Skills (UKCES) examines the skills challenges facing the UK economy and calls on businesses and organisations which provide education and training to work together to confront these issues.

The report finds that three rungs on the employment ladder need repairing in order to help people get in, get on and move up in work. It notes that:

- On the bottom rung, young people struggle to get their first job. The recession amplified youth unemployment, but did not cause it. Many young people struggle to find opportunities such as work experience or Saturday jobs which would allow them to gain the vital experience they need to help move into the world of work.
- On the middle rung, many of those already in work face problems moving up. The jobs market is increasingly hour-glass shaped, with fewer opportunities for those in low skill jobs to progress, and less talent to choose from for those who are recruiting for high skill jobs.
- On the top rung, businesses are seeing increasing problems with skills shortages, whilst at the same time many employees have skills which are not used. This mismatch inhibits productivity and growth.

City growth

In its latest report entitled "Connected cities: the Link to Growth" the RSA City Growth Commission suggests how Government can enable metropolitan areas to rise to the challenge of creating what they term a "fit-for-purpose" UK infrastructure network, through a combination of fairer more flexible funding, innovative planning and a stronger engagement by city leaders in relation to infrastructure decision-making.

The City Growth Commission argues that individual cities need the freedom to operate as whole systems, making decisions in the best interests of their metropolitan area, rather than relying upon the inherently centralised decisions on infrastructure investment made by the national government. In turn, cities need to have the freedom to work together, enabling pan-regional investment for a more productive system of cities to facilitate and share in economic growth for the UK as a whole.

Key recommendations are:

- Metropolitan areas need to improve and demonstrate their capacity to identify and manage risks, following the lead of a few UK city-regions in developing innovative, place-based approaches to financing investment.
- As a counterbalance to London and South East, investment in connectivity between northern cities (via the Northern Hub, HS2 'Phase 3' or other schemes) should be prioritised.

- These areas should take on planning authority powers, aggregating up decision making to facilitate strategic investment across the city-region.
- Government should commission a comprehensive review on how our current and future needs for digital infrastructure can be met, especially in the face of strict EU State Aid rules and a highly concentrated high-speed broadband market in which major players such as BT and Virgin can constrain supply and market competition.
- Metropolitan area leaders should influence infrastructure decisions of national importance, which are decisions of importance for our system of cities. Over the long term, this principle could be applied to other areas of national government policy, alongside further devolution to the metro level.

Localised energy

A new ResPublica publication, Creating Local Energy Economies: Lessons from Germany, reveals that businesses looking to become energy suppliers face major barriers to entry in the UK. Although twelve new businesses have entered into the domestic supply market since 2011, taking the total number to twenty five, the six largest energy companies still capture 93.5% of the market share.

In stark contrast, Germany is home to 1100 electricity suppliers, and the four largest energy businesses hold only 44% of the retail market. Households in Germany can choose from an average of seventy two energy suppliers, most of which are established locally. The ResPublica report argues that the UK could deliver on greater transparency, lower household bills and genuine competition if communities, local authorities, housing associations and small businesses were able to enter into the supply market and sell their energy locally. Currently, there are no local suppliers within the UK.

City energy for Britain

A new report from IPPR "City energy: A new powerhouse for Britain" explores the options and the potential for cities to engage in the energy supply market and raise finance for investment in low-carbon energy infrastructure particularly in relation to local energy generation. The report argues that many of these opportunities can be delivered under existing local authority powers, and are just waiting to be realised. However, there is more that the national government can do to help unlock the full potential of cities.

Benefits from this approach would include: lower bills for low-income households; greater investment in decarbonising the power supply and; increasing the resilience of cities by diversifying the sources of their energy. This would feed through to more jobs and higher growth.