Policy Update – December 2014

Construction Industry Council

Skills shortage in construction

With 20% more workers required to meet the pipeline of around £96 billion of construction projects in 2014-17, the London and South East is facing a major skills crisis. This could impact the wider economy as early as April 2015, when a total of over 600,000 workers will be needed on site to deliver major projects currently in planning, according to a new report by London Chamber of Commerce and Industry (LCCI) and KPMG. The Report, 'Skills to build', outlines the labour requirements to deliver construction projects in London and the South East between 2014 - 2017 and the gaps in training that must be filled to meet this demand.

The industry has experienced great difficulties in recruiting enough skilled workers, for both professional roles and manual trades, to keep pace with new work. According to the report, a 51% increase in training provision would be required to meet demand for skilled labour between 2014 and 2017 to plug a gap of nearly 15,000 people.

Unless the supply of construction labour is increased, house building targets will not be met and the delivery of large infrastructure projects will be jeopardised. With 255,000 workers needed on site to deliver the 2015 pipeline of housing and 400,000 of the workforce expected to retire in the next 5-10 years, change to the industry has never been more pertinent.

The report includes the following recommendations to help fill the skills gap:

- Infrastructure UK should drive a commitment to embed skills and employment requirements in public procurement contracts, aimed at both Tier One contractors and suppliers.
- Government should ensure schools provide obligatory, quality and unbiased careers advice from Year 7, and submit annual careers reports evaluating the range of careers and training options covered.
- Local authorities should maintain and share a pipeline of future projects, with skills responsibility and funding devolved to the most appropriate level of functional economic activity, to enable the commissioning of demand-led training provision.
- The Skills Funding Agency should convene industry bodies and representatives to redesign training and apprenticeship frameworks to reflect modern methods of construction, and disseminate them for adoption by training providers.

New consultation from Airports Commission

Following the interim report published last year, the Airports Commission has now published for consultation its assessment of proposals for additional runway capacity at Gatwick and Heathrow airports. The consultation presents the commission's analysis of the proposals shortlisted by the commission last year: 2 for expansion at Heathrow Airport and 1 proposal at Gatwick Airport.

It invites public comment on the commission's detailed consideration of each proposal. This includes analysis of the cost of each proposal, the effect on communities of noise, property loss and construction, and the economic benefits and environmental impacts.

The Commission says that responses to this consultation will be a valuable addition to the evidence base on the options and will directly inform their recommendation to the government when it publishes the final report in the summer of 2015.

During the consultation the Airports Commission will hold open discussion sessions for local stakeholders in both the Heathrow and Gatwick areas. The consultation will close on 3 February 2015.

Accessing new sources of financing

A new report Understanding Alternative Finance, produced by Nesta and the University of Cambridge, with support from PwC and ACCA shows that:

- the UK alternative finance market will be £1.74bn by end of the year and;
- this market is predicted to reach £4.4bn in 2015.

Alternative finance covers a variety of new financing models which connect people seeking funds directly with funders, often via online platforms. The majority of providers have been founded in the last five years. Regulation of parts of the industry was introduced by the Financial Conduct Authority (FCA) in April this year, and in October the Treasury launched a consultation on a proposal for an ISA for peer-to-peer lending.

The report shows:

- Peer-to-peer business and consumer lending continued to dominate the market with £749m and £547m being lent through the models respectively in 2014.
- Equity-based crowdfunding reached £84m, up 201 per cent year on year.
- The alternative finance market has more than doubled in size year on year from £267 million in 2012 and £666 million in 2013, to £1.74bn in 2014.

By the end of the year it is expected that the UK alternative finance market will have provided more than £1bn in business finance to over 7,000 small and medium enterprises in the UK, the equivalent to 2.4 per cent of all bank lending to SMEs.

Effectiveness of growth initiatives reviewed

The next Government should further extend devolutionary powers to the UK's cities and regions to promote growth and close the UK's north-south divide, a cross-party group of MPs and Peers has urged. In a report , Going for Growth, launched by the All Party Urban Development Group (APUDG) argues that making local authorities and strategic areas responsible for a range of priorities – promoting local growth, rebalancing the economy, improving infrastructure, creating jobs and increasing the availability of housing – would allow Government to build on the success of the range of 'growth initiatives' launched in this Parliament.

Other recommendations of the report are:

- To improve coordination and evaluation across the range of initiatives. There is a need for an expert resource within central Government to act as a point of contact for local authorities to help them connect the many different strands of local growth funding, policy-making, and implementation, and join up various funding streams more effectively. A shared evaluation mechanism for all Government growth initiatives needs to be developed as a priority and its framework rigorously applied.
- To improve the offer in Enterprise Zones and gear it more closely to local conditions. The 'offer' in Enterprise Zones needs to be reappraised. Enterprise Zones need to become more bespoke, providing incentives geared to the specific circumstances of individual Zones. In some circumstances, this should include the use of capital allowances for new build. In particular, renewed consideration also needs to be given to introducing powers for using 'Enterprise Zone Schemes' for the grant of planning permission, instead of relying on local development orders as the means to simplifying the planning process within the Zones.
- Use Tax Increment Financing more constructively. Lessons can be learned from the successful use of TIF and how it can be applied to other areas where upfront infrastructure expenditure is the key barrier to progress.
- Reduce the deterrent to development posed by empty rates. If the Government wishes to boost construction activity then at a minimum it should extend Empty Property Rates Relief to cover the regeneration and refurbishment of empty (or substantially under-occupied) buildings.
- Give Local Enterprise Partnerships long-term certainty**.** The LEP model is firmly in place, and now some degree of continuity is crucial to ensure it has a chance to become truly established. Cross-party consensus to retain LEPs and make them work and a longer-term approach to funding would help in this regard. There also needs to be clarification about the role of the LEPs in relation to other local structures and whether they have a part to play in setting out strategic priorities for an area, while recognising that LEPs may not always be the most appropriate local structure to provide a framework for growth.
- Overcome other barriers to growth**.** Viability is by no means the only barrier to development. There is still a need for local authorities to be more focussed on economic growth, to produce economic strategies for their areas, and to ensure that they have an up-to-date Local Plan setting out how they will meet their community's need for homes and jobs.

Draft Public procurement regulations

New draft public procurement regulations have been published. These regulations will implement the new EU Directive 2014/24/EU and will only apply to new procurement processes on or after the Public Contracts Regulations 2015 take effect. Some features of the new regulations are that:

- There is a requirement for a written report by the contracting authority which documents the process when there is an award of a public contract or framework.
- Some measures are included to remove barriers to SMEs (e.g abolishing pre-qualification questionnaires below the EU threshold).
- There are special provisions if a procurement is divided into separate lots.
- A new procedure has been introduced for "innovation partnerships".
- There is also a light touch procurement regime for services such as health.

Reforming the business rates system

The British Property Federation (BPF) has called for fundamental reform to the system of business rates in the UK to boost investment in towns and cities. In a research paper, Better Rates for Better Business published ahead of the Autumn Statement, the BPF urged politicians to commit to a package of fundamental reforms in the next Parliament, including a move towards the annual revaluation of properties for business rates, and an end to the system whereby rates increase each year in line with inflation, regardless of conditions in the wider economy.

This would create a fairer and more responsive tax, the BPF said, as well as generate significant administrative savings, reduce appeals, and allow Government to take the smallest properties out of business rates altogether. Currently, around two-thirds of properties provide just over 6% of the total business rates collected by government. The paper also urged Government to increase bills by CPI rather than RPI inflation pending more fundamental reform, which better tracks increases in rental growth, and to restore empty rates relief to landlords.

Businesses had been overcharged by around £2bn in this Parliament the research found, and this money should be returned to ratepayers.

Autumn statement 2014

The Chancellor of the Exchequer George Osborne will give his annual Autumn Statement to Parliament on 3 December 2014. The statement will be based on the latest forecasts from the Office for Budget Responsibility which will be published at the same time.