Policy Update – June 2013

Construction Industry Council

Improving UK infrastructure could boost UK GDP by 3% or £100 billion by 2026

A new report from the Centre for Economic and Business Research (Cebr) on behalf of the Civil Engineering Contractors Association (CECA) illustrates how investment in the UK's transport and utility networks could significantly boost the economy and create jobs, In particular it finds that the UK's GDP could be up to five per cent higher if our infrastructure matched that of our overseas competitors. The report, Securing our Economy: the case for Infrastructure, makes the following findings:

1. UK GDP could have been five per cent higher, on average, each year between 2000 and 2010 if our infrastructure had matched that of other leading global economies;

2. If we bring UK infrastructure up to the standard of other developed economies, this could contribute £100 billion to the economy annually by 2026, a 5% boost to GDP;

3. For every 1,000 jobs that are directly created in infrastructure construction, employment as a whole rises by 3,050 jobs;

4. For each £1 billion increase in infrastructure investment, UK-wide GDP increases by a total of £1.30 billion.

Daniel Solomon, Cebr economist and author of the report, said: "The UK has paid a high price for having infrastructure which has fallen short of our competitors."

"If UK infrastructure were raised to the quality standard achieved by our international competitors, we estimate that this could add roughly £100 billion to annual GDP by the mid-2020s."

Drawing from Cebr's research, CECA makes the following recommendations to Government:

1. Government to establish a formal threshold for new infrastructure construction activity, ensuring that it does not fall below 0.8 per cent of GDP, the level at which significant detrimental activity is created for the wider economy;

2. UK Government to target new infrastructure construction activity to be at or above 1 per cent of GDP over the coming five years, to stimulate growth and close the gap in the quality of UK infrastructure compared to international competitors.

Other recommendations in this report include the following.

1. That the UK Government promote prudential borrowing to local authorities to address the highways maintenance backlog through a one off national programme of intensive improvements to local roads.

2. Clear long term energy policy to provide certainty in relation to types of investment thus encouraging private sector participation.

3. That the UK Government develop a preparation pool of infrastructure projects that can be rapidly delivered following the model successfully introduced in Scotland.

4. The identification of non-financial barriers that are blocking construction of local infrastructure projects.

One stop planning

A new 1-stop-shop service for planning consents will reduce the number of bodies infrastructure developers need to consult on applications. The service, now up and running will provide dedicated support for developers of nationally significant infrastructure projects at the pre-application stage of the planning application process. Speaking at the National Infrastructure Planning Association annual conference on 8 May, Planning Minister Nick Boles said the service was open for business and ready to help developers keen to get their particular scheme off the ground as soon as possible.

Comprehensive Spending Review - 2013

The next Comprehensive Spending Review (CSR) which will cover all government spending for the period 2015-16 is scheduled for 26 June 2013. The last such review was in October 2010 which inaugurated target reductions of £81 billion in public spending over four years. This included average departmental budget cuts of 19%; a 28% reduction in local government funding from central government and £7bn of cuts to social security.

The theme of slimmed down departmental spending is likely to continue in the next CSR in line with the recommendations of the Treasury and the Efficiency and Reform Group, the task force set up in 2010 in the Cabinet Office to drive through cost savings. With the exceptions of the Department of Health the Department of Education, further reductions in spending are all but inevitable. Figures widely quoted in relation to the current Spending Review are that there will be an allocation of £11.5 billion of cuts for 2015/16.

One aspect of the CSR which will be of particular interest will be the Single Local Growth Fund, recommended by Lord Hesletine. In the last budget, the Government declared acceptance of Lord Heseltine's report which advocated a major shift of power towards local government and Local Enterprise Partnerships (LEPs). To what extent will this acceptance be backed up with a level of funding necessary to implement plans?

One of the main tensions within coalition policies is the struggle between "local" and "national". While central government grants to local government have been scaled back, policies such as the New Homes Bonus, the introduction of retained business rates and the Community Infrastructure Levy which were intended to increase the local tax base, have not always done so.

The Local Government Association has pointed out, for instance, that the introduction of retained business rates has not resulted in the increases in revenue originally predicted as a major share will still go to the Treasury.

Commenting on the forthcoming CSR, Danny Alexander has said "We will stick to the path we are on and we will continue to show flexibility wherever it is needed, and to shift resources wherever we can to support economic growth." This seems to imply a diversion of money to capital spending (in line with recommendations from the IMF) even as total spending is under continued pressure.

Empty buildings changes

On 9 May, Eric Pickles announced that new measures would come into force to allow new permitted development rights to enable offices to be converted to homes.

In support of recommendations in the Mary Portas Review, high street premises will be able to be used for new types of business without permission and existing agricultural buildings, under 500 square metres, will be able to be utilised for a range of new uses such as shops or offices, to provide more chances for rural businesses to diversify.

In a move to assist the free schools agenda, a series of measures will also facilitate the conversion of existing buildings to become new state-funded schools.

There are areas in 17 local authorities in England consisting of individual buildings, roads or zones that are exempt from these new rights to convert offices to homes. Not surprising virtually all inner London boroughs are included on the list of the 17 local authorities as well as other borough councils such as Manchester City Council.

Coherency in EU energy policies urged

More of the funds held by institutional investors would be invested in energy projects if there was a clear EU policy about how to deliver secure, affordable and low carbon energy. This was the conclusion of a House of Lords EU Sub-Committee for Agriculture, Fisheries, Environment and Energy.

The report of the sub-committee followed an eight month investigation. Lord Carter of Coles chairman of the sub-committee said that ""It is clear to us that investment is urgently required, notably in a low carbon, interconnected and innovative energy system, that makes us less reliant on imports of highly volatile and dirty fossil fuels. Such investment would help to deliver secure and low carbon energy, boost European economic growth, and stabilise household and industrial costs.

The value of energy companies has slumped since 2008, the public purse is severely constrained, but more than enough money is around in the investment community. This should be a great time to invest in long term assets, such as energy, but clear policy is needed in order to release it. No country is an energy island, so EU policy is particularly important. We need leadership and direction from the EU and its Member States in developing and agreeing an energy policy framework through to 2030."

Two main recommendations are set out in the report. First, a revised EU Emissions Trading System (ETS). The ETS has failed but it is not dead. It needs to include a minimum price for carbon, providing governments and investors with the confidence to support innovation through investment. Second, and contrary to UK Government policy, a target for the proportion of energy to be delivered through renewable energy until 2030 is required.

There are no easy answers to meeting these challenges and keeping Europe competitive in the global market. But unless we find a way of doing this, our future energy could well be highly polluting, unaffordable and insecure."

LEPS report

The Ninth Report of the Business Innovation and Skills Committee welcomes the progress Local Enterprise Partnerships (LEPs) have made but it highlights some issues which need to be addressed to ensure that they can develop effectively.

One of the issues mentioned involves ministerial ownership. Ministerial accountability for LEPs, along with the lines of communication between LEPs and Government remain unclear. This is a result of the fact that responsibility for LEPs is shared between the Department for Business Innovation and Skills (BIS) and the Department for Communities and Local Government (DCLG) . While sharing resources and expertise is one thing, it is felt that accountability and responsibility for advice cannot be pooled. The committee believes that a single lead department is needed. A single Minister, based in BIS should take responsibility and accountability for LEPs and that all LEP contact officers should be based in that department.

Another pertinent issue is funding. Although BIS has promised core funding for LEPs for the next two financial years, the longer-term financial commitment to LEPs from Government is less clear. Certainty is essential for regional economic investment and this is currently lacking. The report therefore recommends that the Government commits to core funding LEPs for the five years following 2015. The committee also contends that the department should bring forward detailed plans for how it will implement the single funding pot for LEPs.

Monitoring and value for money are another area of concern, Although the committee was encouraged that LEPs agreed that they should be held to account, there appeared to be an absence of any actual mechanism for doing so. The conclusion reached is that it is crucial that BIS monitors LEPs' objective setting processes closely, against a minimum baseline of performance. This can ensure that all LEPs remain fit for purpose. LEPs have a role to put in place measurable indicators of their impact on regional economies and the National Audit Office needs to monitor this aspect of public expenditure.

Retail trends

More than one in five of Britain's high street shops could close by 2018 as more customers turn to the internet for their shopping, new research claims. The study, carried out by the Centre for Retail Research,warned that 62,000 shops would close in the next five years. The report, Retail Futures 2018, suggests the country needs £320 million to redevelop redundant shopping streets and convert disused outlets. Online shopping currently accounts for 12.7 per cent of retail spending. However, this is expected to surge to 22 per cent by 2018.

Expanding the sources of finance

Local Government Minister, Brandon Lewis has announced changes which will permit councils to invest twice as much of their pension assets in infrastructure projects. The rules have been changed to allow councils to invest, through limited partnerships, up to 30% of their holdings in these projects, as opposed to the current limit of 15%.

A recent report by the Future Homes Commission, stated that council pension funds could be used to build key infrastructure projects such as new homes in the UK without increasing the government deficit. The Local Government Pension Scheme England and Wales is administered by 89 separate local funds which hold combined investment assets worth £150 billion.