Policy Update – March 2015

Construction Industry Council

Spending cuts to come

The Institute of Fiscal Studies (IFS) in its Green Budget 2015 , published three weeks ago states that “IMF forecasts suggest that, out of 31 advanced economies, only Japan will have higher structural borrowing than the UK in 2015. This is despite the UK having done the seventh-largest fiscal consolidation since the crisis began. Plans set out for the next parliament imply that the UK is planning the largest fiscal consolidation between 2015 and 2019” .

In their analysis of the situation, IFS point out that up to 2014-15 there were £110bn of fiscal tightening measures implemented – 82% from spending cuts and 18% from net tax rises. They say that there is £92bn of further fiscal tightening to come and that on this measure, 55% have been done, with 45% still to do.

Noting that the period 2009–10 to 2014–15 already represents the longest and deepest period of consecutive cuts to public service spending per head since WW2, IFS comment that imposing additional cuts may be difficult as the easiest cuts have been already made and there are also additional pressures on health spending due to an ageing population.

While all three main UK parties have fiscal rules which require debt to fall as a share of national income, the plans differ as to the speed at which this happens.

Proposals for local devolution

A report from Res Publica entitled Restoring Britain’s City states: Devolution, Public Service Reform and Local Economic Growth puts forward the case that the UK’s largest cities and city regions should be given control of public spending and have tax raising powers to promote growth attracting jobs and inward investment.

These proposals also call for “Core Cities” to be allowed to borrow on Housing Revenue Account subject to Debt Deals with individual cities and city regions. These deals would be related to the growth engendered in the regions by devolution.

The demand for the fullest possible devolution of public spending and tax raising powers to the UK’s largest cities and city regions ought to be matched by developments in accountability. Thus proposals are made that all regions should have a visible political figure in the form of a Metro Mayor or direct accountability through an elected City Region Cabinet.

Of particular interest are the arguments for full local authority retention of property taxes, council taxes and a slice of income tax retained locally, together with control of business rates within an equalisation mechanism.

ResPublica also wants one city region to come forward to pilot variable income and corporate tax rates to see if this can reverse economic decline and address the economic imbalance in the country.

On a wider level, there are also calls for the establishment of a Devolution Agency to oversee placed based devolution across UK, and encourage both government and cities to be ambitious. Also called for, are new Local Public Accounts Committees with enhanced powers to ensure that all public services are integrated across the new devolved areas and that only one set of outcome measurements for public spend are applied across the whole city region.

Green infrastructure

A new report Demystifying Green Infrastructure has been produced by the UK Green Building Council. Green infrastructure (GI) is a catch all term to describe the network of natural and semi-natural features within, and between, villages, towns and cities. These range from street trees, green roofs and private gardens; to parks, rivers and woodland. Sustainable Drainage Systems (SuDS) are also a GI feature.

Proponents of the concept, point out that soft landscaping is often quicker and easier to install than hard engineered solutions. Adoption of GI practice can also create market advantage for developers by creating more attractive and marketable places and properties for which end-users may be willing to pay a premium price. The promotion of active lifestyles within healthy places can also produce long term savings in health spending.

The report suggests that when developing GI strategy, there must be a clear set of goals at the start of the project, early engagement with all parties concerned and consideration of maintenance issues.

Alternative finance market expanding

The European online alternative finance market grew by 144 per cent last year to nearly €3 billion and could top €7 billion in 2015, according to the, Moving Mainstream: The European Alternative Finance Benchmarking Report which was produced by the new Cambridge Centre for Alternative Finance at University of Cambridge Judge Business School and professional services organisation EY.

Seen until recently as a niche activity, online alternative finance, including equity-based crowd funding and peer-to-peer business lending, has become an increasingly commonplace source of essential funding for SMEs, start-ups and property developers throughout Europe, says the report.

The volume of online alternative business funding has been growing steadily at around 75 per cent year on year, and the estimated number of start-ups and SMEs funded in this way has been growing at an even faster average rate – 133 per cent over the last three years to around 5,801 SMEs or start-ups in 2014. The growth of alternative finance in the UK was covered in the CIC Economic and Policy Forum meeting held on 17 February.

National Infrastructure Commission

Ed Balls, the shadow Chancellor has pledged that if elected the first Queen's Speech of a Labour Government would include legislation to establish an independent National Infrastructure Commission, which would focus on long-term infrastructure decisions. He pledged that the Commission's chair would be appointed on a cross-party basis. The creation of this new body, which will replace the UK Treasury's Infrastructure UK unit, was recommended by Sir John Armitt in 2013

Alongside this announcement, a draft remit for this Commission has been published, which outlines 10 infrastructure goals for Britain. Housing is listed within the definition of infrastructure and the goal set out is to build new towns and urban extensions to ensure that 200,000 homes are built a year by 2020 and furthermore that "we are meeting need by 2025".

This document states that the starting point for the infrastructure taken forward will be current infrastructure plans. In the first instance, plans are for a National Infrastructure Commission Assessment of the UK's needs. Sector Infrastructure Plans would follow from this.

The idea of a new National Infrastructure Commission has been widely endorsed in the construction industry and is a recommendation in the election manifestos of several prominent bodies. The ICE have put forward the idea of an independent infrastructure body as a central theme in their manifesto.

The ICE manifesto also urges the new Government in power from 7 May to take steps to unlock the potential of our city-regions in order to rebalance economic growth. Other recommendations include the need to "future proof" our infrastructure by embedding climate change resilience into decision making, and to "up the ante" when it comes to securing a world class engineering workforce which can drive innovation and economic productivity.

Affordable housing contribution changes

Southwark Council has criticised government plans which will allow developers to reduce affordable housing contributions. These plans published in a response to a consultation on s.106 planning obligations state that " a financial credit equivalent to the existing gross floor space of any vacant buildings brought back into any lawful use or demolished for re-development, should be deducted from the calculation of any affordable housing contributions sought from relevant development schemes".

Southwark Council contend that this policy would mean that former industrial sites that are currently vacant ahead of being re-developed, could deliver only a faction of the potential affordable housing, rather than the 35% affordable housing provision hitherto required.

Concerns have also been expressed in relation to other changes to planning policy announced at the same time. One particular area of concern, is the change that with some exceptions, it will be no longer necessary to provide affordable housing on developments of less than 10 homes. This will adversely affect rural areas and could see a drastic reduction in affordable homes in these locations.

New energy efficiency regulations for private rented property

New regulations have been laid before Parliament which, when they come into force on 1 April 2016, will force landlords to upgrade the energy efficiency of many hundreds of thousands of homes. Landlords of property which currently have a energy ratings of F and G will have to upgrade these properties to a grade of E. If improvements have not been made to lift the property to this level by 1 April 2018, the landlord will no longer be able to let out these properties.

Under Part 2 of the new regulations, the tenant is empowered to request their landlord for the landlord's consent to the tenant making prescribed energy efficiency improvements to the property. Local authorities have been given powers to enforce the new legislation.

Department of Infrastructure?

The Association of Consultancy and Engineering (ACE) has produced a briefing paper Delivering our Strategic Networks which puts forward the idea of creating a new Department of Infrastructure which is designed to tackle the five obstacles to long term investment in the UK which are perceived as: lack of long term strategic planning, policy uncertainty, lack of transparency around funding, length of the planning process and the limitation of regulation. This proposed new department is envisaged as having a co-ordinating role within the increasingly devolved framework of the United Kingdom, ensuring compatibility of policy priorities across borders.