Policy Update – March 2014

Flooding spending examined

A policy note from the Committee on Climate Change Adaption casts an interesting light on spending patterns in relation to flood and coastal erosion risk management expenditure in England. While it appears that the overall level of funding in the spending period 2011-2015 has risen compared with the previous four year period, the following points should also be noted.

- The figures are all in cash terms (i.e before inflation is taken into account).
- The higher total relies on partnership funding. Introduced in 2011, this new mechanism allows flood and coastal erosion risk management (FCERM) projects to apply for Flood Defence Grant-in-Aid (FDGiA), and encourages funding from other sources to be secured. The proportion of central funding that a project receives will depend on the benefits it will bring. When viewed in isolation, central Government funding will be less than it was in the period 2008-2011.
- Government figures also include the £129 m provided to local authorities to cover their new roles under the Flood and Water Management Act following the Pitt Review of the flooding experienced in 2007.

A detailed analysis of the figures over the last eight years show that there has been a significant fall in spending since the peak of 2010/11. On the capital side, grants to the Environment Agency were reduced by 32% from the planned £380 m of spending for 2010/11 announced in May 2010, to the reduced post 2010 spending review budget of £259m.

The policy note also calls attention to the fact that development on the flood plain is taking place at a faster rate than in other areas. While much of this development is behind existing flood defences, this binds in the need to spend ever more increasing sums on flood alleviation.

Flooding – the construction industry response

CIC members have been actively lobbying for a more cohesive response to the recent flooding problems.

On 25 February 2014, the Landscape Institute, the Chartered Institute of Building Services Engineers and the Royal Institution of Chartered Surveyors joined 14 others in signing a letter to the Daily Telegraph urging the development of a long term strategy in respect to water management. This initiative was widely reported elsewhere. Later, Building magazine reported that the Institution of Civil Engineers have called on the Government to restore flood protection spending to pre-2010 levels in its submission to the Treasury prior to the budget.

CIC held a round table event entitled “Flooding – the Construction Industry response” on 27 February 2014. This meeting emphasized the need for a co-ordinated, collaborative approach by the professions in advising Government on issues of flooding and water management.

Developing a Digital BIM Tool

The Technology Strategy Board (TSB) is funding up to £1.5m to support the development of a digital tool in respect to BIM. The intention is that this would be free-to-use at least in the UK. This work is being done in conjunction with the BIM Task Group and BIS. Competition to bid opens on 10 February 2014 with a deadline of 12 March 2014.

Contracts for the first phase of this process, will be issued by the TSB on 2 May 2014. The overall aim is that the digital tool will capture, validate and store information based on Level 2 BIM standards. It will bring together a digital plan of work and a standardized classification system which has already been developed but which needs to be digitally enabled. Integrated with PAS 1192 standards, this will have multi mode methods of data exchange and validation. It will have a method of ensuring that intellectual property is protected, while enabling sharing of information.

There will be two phases of applications for this bid and the BIM task group will nominate a project manager to oversee the process. Phase one applicants will produce a feasibility study outlining initial designs. Up to £50k is available to support the development of this phase. Phase 2 applicants are invited for an interview. Up to £1m is available for the six months of work involved in phase 2. The phase 2 solution will be procured through a single organization but collaboration is encouraged on a sub-contractoral basis.

New procurement guidance

The Cabinet Office issued new guidance on construction procurement on 29 January 2014. This initiative from the Efficiency and Reform Group reflects a continuing interest in cutting costs. Controlling procurement costs is an important element in the overall strategy of cutting down the costs of construction, which has been a central aim of the coalition government from the beginning. For instance, the Government Construction Strategy in 2011 set out a goal of achieving a 20% reduction in procurement costs. Last year's Construction 2025 document, launched in July 2013, reiterated the message set out in the National Infrastructure Plan and the Infrastructure Cost review which set out the objective of achieving a 15-20% saving in the cost of construction over the lifetime of this parliament.

This guidance is the latest in a series of moves to promote more innovative procurement methods. For instance early last year in January 2013, the Government launched the "Infrastructure Procurement Routemap: a guide to improving delivery capability". This was a toolkit for developing a coherent approach to assessing and building large scale projects. There have also been a series of trial projects testing out the three models set out in the current guidance: two stage open book; cost led procurement and; integrated project insurance. The declared aim is that these models embody principles of early contractor involvement, collaboration and transparency, the same principles behind the adoption of Building Information Modelling, another important tool in the government strategy of cutting down costs.

The aim of publishing draft guidance documents at this early stage is that - with the support of the project mentors and early adopters - others will be able to use the guidance and provide feedback before a formal launch in summer 2014. This means that the final guidance documents will be 'road tested' before their final version.

As a significant customer of the construction industry (e.g as a key sponsor for infrastructure) the Government is in a position to use its leverage to push construction costs down.

Need for broader financial reform

The need for structural and competitive reform within the financial services sector was recognized by the Independent Commission on Banking which was set up shortly after the 2010 general election. Many of the reforms suggested have been implemented by the Banking Reform Act 2013. ResPublica in their latest report "Markets for the Many: How Civic Finance can open up Markets and Widen Access" suggest further reform measures.

The report highlights the position of building societies. It states that whereas in the UK, building societies account for only three per cent of banking assets, in five EU member states including France and Germany, their European counterparts enjoy more than a 40 per cent market share. One way to level the playing field between building societies and plc banks would be to allow building societies to lend to SMEs. Under current regulations, it is difficult for building societies to lend to businesses because of restrictions on lending which mean that 75 per cent of all lending must be secured against residential property. The report recommends that Government should reduce this limit to 50 per cent as a deregulatory measure to boost SME lending and increase competition in the corporate finance market.

Not half way on spending cuts

The IFS Green Budget, published on 5 February, indicates that by the end of this financial year, only 40% of spending cuts will be in place. Even with £12 billion a year of additional cuts to social security spending, Mr Osborne's plans would imply cuts of more than 30% in "unprotected" public service budgets since 2010. In fact, the challenge could be even greater than these headline figures imply, given that:

- the government has already made additional spending commitments of more than £6 billion a year after 2015–16 – implying additional cuts elsewhere; and
- the population is projected to grow by about 3.5 million between 2010 and 2018. So while public service spending will fall by 1.7% a year over this period, public service spending per person is set to fall by 2.4% a year. Over the same period, the number of individuals aged 65 and over, who, on average, place greater demands on the NHS, is set to grow by two million.

IFS calculate that, even if the overall NHS budget continues to be frozen in real terms, age- adjusted health spending per person would be 9% lower in 2018–19 than it was in 2010–11.

There are also policy risks on the tax side. The Government's revenue forecasts assume that fuel duties rise each year with inflation. If, as recent history suggests, this does not happen, £4.2 billion a year would need making up by 2018 –19. Further significant increases in the income tax personal allowance would also be expensive.

Harder to quantify, are the risks associated with our increasing reliance on a small group of very rich taxpayers. The share of income tax paid by the top 1% of taxpayers rose from 11% in 1979 to 27.5% in 2011–12. The income tax alone paid by these 300,000 very high income individuals accounts for 7.5% of all tax revenue. These individuals will of course also pay a large fraction of VAT and capital taxes.

Much of the expected increase in underlying revenues over the next few years is projected to come from growth in capital taxes, which are notoriously difficult to forecast. More broadly, Government is becoming increasingly reliant on the three main taxes: income tax; VAT and; National Insurance contributions (NICs) which will account for two thirds of all revenue by 2018– 19.

Although growth is expected to be some 2.6% in 2014, debt will continue to be a constraint. Over this parliament, the Chancellor is planning to borrow much more than he had originally intended. The OBR forecasts borrowing will be £96 billion in

2014–15, which is £59 billion more than planned in 2010. Mr Osborne has chosen not to offset this increase in borrowing with higher taxes or lower spending this side of the expected date of the general election.

The additional year of spending cuts proposed in the Autumn Statement put the UK on course to have, in 2018–19, its first budget surplus since 2000–01. Even so, national debt in that year is still forecast to be 76% of national income. Just paying the interest on this debt is forecast to take up nearly 4% of national income – more than the entire schools budget. Even under the Government's ambitious plans for spending cuts national debt would only return to pre-crisis levels in the mid 2030s.

Green Construction Board work to continue

On it's second anniversary, the Green Construction Board (GCB) has announced that it will continue its work for a further two years. Its focus will be a reduction in industry carbon emissions.

The GCB was set up to provide leadership to the sector on reducing carbon emissions and capitalising on low carbon growth opportunities, as well as monitoring the implementation of actions in the Low Carbon Construction Action Plan.

Since the publication of the industrial strategy for construction, 'Construction 2025', in July last year, the GCB now also has a key role in delivering the ambition of a 50% reduction of greenhouse gas emissions by 2025. The GCB state that this will be its focus for the next two years.

Business and Energy Minister Michael Fallon has cited the GCB as a good example of how our industrial strategy is bringing together Government and industry leaders to work in partnership and really listen to each other. He has said that this will see the UK address key issues in construction, such as carbon emissions, as well as understanding and capitalising on the prospects for growth.

GCB achievements include:

- bringing industry and Government together in seven working groups that are delivering a comprehensive programme of activity;
- developing a low carbon Routemap for the Built Environment which sets out actions, together with key performance indicators that can be used to deliver and measure progress in meeting the Routemap's 2050 target;
- publishing the 'Infrastructure Carbon Review' (ICR), a report that makes clear to industry that reducing carbon reduces cost; and
- producing 'Top twenty tips' guidance on reducing water usage.