Construction
Leadership
Council

10.06.2024 Dear Sir,

CLC OPEN LETTER – CONSIDERATIONS FOR A FUTURE GOVERNMENT TO DELIVER THE HOMES AND INFRASTRUCTURE THE COUNTRY NEEDS

The Construction Leadership Council is a partnership between the construction sector and the Government and is non-political. However, as we approach a General Election, we would offer the following advice to a future Government in order to maximise the contribution of the construction sector to the UK economy.

The opportunity to unlock productivity and growth worth 2% of GDP

The UK construction industry offers one of the largest and most easily deliverable opportunities to grow the UK economy. The construction sector is worth 9% of GDP to the UK economy each year and employs in total just over 2.63m people.

By working in partnership with the industry through the CLC we can unlock investment into the sector, developing the skills and innovation to deliver enhanced productivity and growth. If we achieve this, we can close the productivity gap between construction and the wider economy, which could generate £45bn of additional added value each year for the UK. This is equivalent to 2% of UK GDP and enough to build more than 220,000 houses a year or pay for two thirds of the UK's ten-year infrastructure pipeline, including covering the cost of both HS2 and the energy transition. It would also provide us an exportable formula for more productive construction around the world.

In order to deliver upon this opportunity, the CLC offers the following advice to a future Government

1. Pipeline

- Publish an infrastructure strategy setting out the needs of the country and a comprehensive approach to infrastructure investment over the next 10 years.
- Provide certainty on the Government Construction pipeline where possible - commit to publish an updated 5-year National Infrastructure and Construction pipeline within 10 days of any fiscal event.

2. Procurement

- Implement the Construction Playbook consistently on Government projects, with a particular focus on risk management.
- Continue the reform of prompt payment legislation and ensure Government Departments are adhering to it.

3. Places to live

- Urgently implement planning reform, ensuring increases in planning funds have maximum impact by ringfencing them.
- Unlock small sites for SME House Builders, introduce a presumption in favour of development on small sites of up to 25 homes on brownfield land.
- Encourage Build to Rent in order to relieve pressures on the private rental market and incentivise more private finance to accelerate the delivery of affordable housing.
- Retrofit, work with industry to set out a 10-year policy & regulatory roadmap for the different segments of the housing market to accelerate the uptake of retrofit.

Construction Leadership Council
c/o Department for Business and Trade
Old Admiralty Building, Admiralty Place,
London, SW1A 2DY

Tel. 020 7215 6476
construction.enquiries@businessandtrade.gov.uk
www.constructionleadershipcouncil.co.uk

4. Performance

- Continue regulatory reform in building safety and products, ensuring sufficient funding for both the new building and product safety regulatory bodies.
- In research and development, continue to support the industry to invest in innovation by providing stability in the R&D tax credits regime.

5. People

- Reform the Apprenticeship Levy to become more strategic and flexible to boost employer investment in workforce skills.
- Publish the ITB urgently and set out the role you would like the CLC to play in implementing the recommendations.

The CLC is committed to convening industry to work in partnership with Government to deliver upon the productivity opportunity.

Yours sincerely,

Mark Reynolds

Mark Reynolds
Co-Chair, Construction Leadership Council

Construction Leadership Council Members

Mark Reynolds **Mace**	Richard Robinson **AtkinsRéalis**
Richard Beresford **National Federation of Builders**	John Newcomb **Builders Merchants Federation**
Brian Berry **Federation of Master Builders**	Suzannah Nichol **Build UK**
Peter Caplehorn **Construction Products Association**	David Pinder **Green Construction Board**
Steve Bratt **Electrical Contractors' Association**	Alasdair Reisner **Civil Engineering Contractors Association**
Alice Courteney-Harris **Infrastructure Client Group Manager at the ICE**	Anna Scothern **National Home Improvement Council**
Kate Jennings **Association for Consultancy and Engineering**	Graham Watts **Construction Industry Council**
Ian Fletcher **British Property Federation**	Hannah Vickers **ConstructZero**

Annex – further detail on policy recommendations

1. Pipeline

In order for the industry to fully support the Government's in delivering the infrastructure the country needs it is essential we have clarity on what will come to market and when in order for us to plan, retain staff and invest accordingly.

Acknowledge the increase in investment in Infrastructure the country needs and introduce flexibility to ensure it can be delivered.

- **Publish response to National Infrastructure Assessment** setting out a comprehensive approach to infrastructure investment over the next 10 years which considers the following: -
  - **Flexibility in the fiscal rules** currently set recognising investment in infrastructure will deliver long term sustainable growth to the economy;
  - Open a conversation with industry to further explore the **role of private finance** to deliver some of the currently Government funded projects in the pipeline in order to deliver the infrastructure the country needs whilst staying within an affordable fiscal limit.
- Provide **certainty on the Government Construction pipeline** where possible - commit to publish a 5-year Infrastructure and Construction pipeline within 10 days of any fiscal event, working with industry to test deliverability before publication. Ensure Departments adhere to the Procurement Act rules and publish a short-term procurement pipeline showing all procurements in the next 18 months – updated on a quarterly basis.

2. Playbook

Implement the Construction Playbook consistently - to create a productive environment on the Government pipeline, the Construction Playbook drives the right type of behaviour to provide the conditions we need to enhance our productivity. The CLC are frequently seeing the principles of the Construction Playbook ignored in practice, for example unlimited insurance liability on contracts. It would be useful if contracts were audited by HMT during the Business Case approval process for consistency with the Construction Playbook.

A key policy in the Playbook is balanced and effective risk management is critical to enable safety and unlock innovation and productivity. For example, we are still seeing unlimited insurance liability on contracts which is unaffordable and drives negative behaviours. Insurance for innovation including use of digital and AI and zero carbon solutions are currently often seen as uninsurable. Getting this right needs to be a key focus for Government and the CLC.

3. Performance

Sufficient **funding for building and product safety regulatory bodies** - The Government's building safety programme is driving genuine change in the culture and practices across UK construction. Given the large volume of construction products made and sold in the UK, the new regulator should be able to successfully enforce compliance, prosecute negligence and conduct its own product testing where necessary to investigate concerns. This will require Government to commit to significant investment and resource in the new regulators.

- **Research & Development**, Over the last 5 years the construction sector has collectively invested £2bn in research and development, a tenfold increase on the previous 10 years. This investment and the learning we have adopted from Covid ways of working has seen our productivity increase since 2021. In order for this trend of improving productivity to continue it is essential that there is stability in the R&D tax credits regime. Given the success of the regime businesses now consider bolder investments underpinned by the confidence the allowances give them in offsetting the risks. If the regime were to change this confidence would be undermined and many investments would be stalled if not cancelled.

- *Finally, knowing that UK manufacturers contribute 41% of all business R&D, and UK construction products manufacturing has an annual turnover of £62.5bn across 24,000 companies, we believe that allowing those businesses to claim enhanced deductions for specific classes of R&D activities, such as R&D resulting in direct reductions in carbon emissions, digitalisation and automation that result in increased productivity may accelerate the speed to meet net-zero targets and increase productivity.*

4. <u>Places to live</u>

While housing delivery has increased substantially with almost 1.2 million new homes built in the past five years alone, it is set to decline rapidly due to a number of factors including the economic climate, nutrient neutrality, delays in the planning process and the proposed reforms to the National Planning Policy Framework (NPPF). House building levels could return to levels last seen in the aftermath of the global financial crisis and are forecast to deteriorate further next year. Such a fall would have significant social and economic implications for the country by undermining nearly 400,000 jobs, costing over £20bn in lost economic activity, and generating £3bn less investment in affordable housing.

For new homes we would ask that you consider the following: -

- Ensure increases in planning funds have maximum impact, Ringfence any increases in planning fees for local authority planning departments to ensure the Government's plans to increase planning fees mean increased resources for planning departments, who have seen a real terms funding cut by over half since 2010.

- Unlock small sites for SME House Builders - Introduce a presumption in favour of development on small sites of up to 25 homes on brownfield land, as part of the planned changes to the National Planning Policy. 53% of SME Builders said the availability of land was the main challenge they were facing over the next 3 years (FMB Survey).

- Encourage Build to Rent in order to relieve pressures on the private rental market - Build to Rent developments should pay the fair rate of SDLT for the price of units in the scheme – the Multiple Dwellings Relief has not worked properly since the introduction of the SDLT surcharges for additional dwellings and overseas buyers – this must be fixed to ensure that MDR works appropriately for Build to rent developments – ensuring that SDLT does not disproportionately impact on viability of the development of much needed new build to rent homes BPF

- Incentivise more private finance to accelerate the delivery of affordable housing - Unlock £10bn of new private sector capital for affordable housing by increasing subsidy levels by £9bn - £14bn to support the delivery of 145,000 new affordable homes a year, in line with the recent research published by the British Property Federation and L&G.

For existing Homes: The CLC has promoted the need for a National Retrofit Strategy since 2020, if we are to achieve Net Zero Carbon by 2050, many of our existing homes require greater insulation for heat pumps (consider using the term Low Carbon heating rather than heat pumps) to work efficiently. It is currently estimated that 11 million homes will need upgrading, and whilst current Government plans support the social housing sector, there is a significant gap in the privately owned market. Micro SMEs and sole traders deliver the majority of these upgrades, and as such, incentivising economic activity here would safeguard their work pipeline, provide work and incentivise the uptake of apprenticeships. Work with industry to set out a 10-year policy & regulatory roadmap for the different housing market segments, for example, introducing new policy measures for key workers and pensioners to help make their homes more efficient. We are ready to scale up our capability to deliver on this, having developed training routes and competence standards over the last few years.

5. People

Reform the Apprenticeship Levy to become more strategic and flexible to boost employer investment in workforce skills. Reform is needed, with total apprenticeship starts falling by 33% (160K) from 2014/15 to 2022/23. In construction, this fall has been most acute at L3 and below. This is despite future industry demand for skilled people being overwhelmingly at these levels. Achievement rates have also declined over the period.

A more agile levy is urgently required to increase apprenticeship starts and completions and engage more small employers who support the majority of apprenticeships in construction. The levy needs to transition from a purely 'money-in-money-out' fund supporting individual employer needs to a 'strategic levy' that better responds to occupational skills gaps in key priority sectors. Expanding apprenticeships should remain the primary ambition of the levy, with a new ability to fund pre-apprenticeships to support this. Levy funding should also be used to support broader accredited training in priority occupations with critical skills gaps, aligned with industry-backed standards.

Going forward, more fundamental reform is needed to ensure apprenticeships and other accredited training are integrated into a modular approach to skills development, with the levy able to support alternative pathways for people to enter and progress in the industry. The construction industry, as a priority sector, would be well placed to pilot any future reforms.