



AGENDA **15**

— DRAFT MANIFESTO —

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# HAVE YOUR SAY

The lead up to next year's general election is taking place in an environment of improving economic fortunes for the UK, and for the construction industry. But the damage caused by five years of recession has been deep and will take a long time to repair. Main contractors expect it to take years to return profit margins and cash balances to pre-recession levels.

So it is vital that the incoming government has a policy programme that supports the construction industry in its recovery. With this in mind, the industry can help wider economic growth and deliver the infrastructure, homes, schools and hospitals that a growing economy needs.

Security over future workloads, a commitment to measures in the built environment designed to mitigate climate change, and fundamental help to solve the skills challenges this industry faces: all of these are areas in which the sector needs a government with a strong and supportive programme.

Building's Agenda 15 campaign has the aim of influencing this. Launched in January, the campaign is designed to draw up a manifesto for construction, based on the responses of our readers, which Building can take to the main political parties in advance of the election.

After a six-month consultation period gathering the views of the industry, this is now

the first draft of that manifesto.

We want your views on what we've got right, and what we've got wrong, where we need to hone our ideas, and where we need to take on board new thinking to strengthen the proposition.

So please get involved. Our Agenda 15 campaign is only as strong as the quality of the feedback we get. This consultation will run until 3 November this year. To respond, simply email the answers to the questions as numbered below, to [building@ubm.com](mailto:building@ubm.com), or use the online form, which you'll find at [building.co.uk/agenda15survey](http://building.co.uk/agenda15survey).

Once your responses are in, Building will draw up a final manifesto, to be launched in the new year, with the help of a panel of senior construction industry leaders.

We'd love to hear from you now. Together, we can make a difference.

**Sarah Richardson, Building editor**

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## HOW TO RESPOND

You can respond to any or all of the questions in the consultation in two ways:

- Email the answers to the questions, using the numbering in the manifesto, to [building@ubm.com](mailto:building@ubm.com). Put "Agenda 15" in the subject line
- Use the online form, which you'll find at [www.building.co.uk/agenda15survey](http://www.building.co.uk/agenda15survey)

The closing date for responses will be November 3 2014.

# PART 1

## INFRASTRUCTURE

### What is the problem?

The UK ranks 27th of countries in the world for the quality of its infrastructure, according to 2014 figures from the World Economic Forum, punching a long way below its weight as the 9th most competitive economy in the world overall.

This position has worsened since 2012 when the figures were last compiled, despite the coalition government having made infrastructure investment a priority. The UK economy is facing major problems with ageing infrastructure in a number of key areas: energy, airport capacity, flood resilience, water supply and road and rail capacity.

There are a number of problems in addressing this issue, not least the high proportion of this infrastructure that is held in private ownership making investment subject to market drivers not controlled by the government. This problem is compounded by a lack of a stable political environment regarding nationally significant infrastructure, where there is no transparent methodology behind selecting which projects are politically supported and prioritised, and no way of guaranteeing continuing of political support beyond the five-year parliamentary timeframe.

These problems are most manifest in the debate over where to locate additional airport capacity in the South-east of England, but equally apply to the future of energy supply, and planning for new reservoir capacity.

### What do we propose?

A mechanism must be devised that delivers this political certainty over a timeframe long enough to give private investors the certainty they need to invest.

Sir John Armitt, working on behalf of the Labour Party, has devised a methodology for this, involving the creation of a National Infrastructure Commission, set up to devise a 25-year programme of infrastructure construction for the UK. This advice would then be debated in parliament and passed as law, subject to review each decade.

This proposal has secured a significant amount of industry support. Unfortunately it is somewhat tainted outside of Labour Party circles by its status as Labour Party policy. However, the logic of the report is strong.

Therefore Building proposes recommending that an incoming government (if not Labour) conduct an urgent review upon forming a government, to consider how to devise a system for prioritising nationally significant infrastructure projects broadly based on, and that meets the aims of, the Armitt Review.

Firm proposals should be tabled within one year of the start of the administration. Within this, the government should also urgently address the need for an infrastructure minister, sitting in cabinet, to drive the policy through.

## YOUR VIEWS

- Q 1.1 Do you think the construction industry should unite behind Sir John Armitt's proposal for a National Infrastructure Commission?
- Q 1.2 If not, what should be the focus in order to improve infrastructure planning?
- Q 1.3 Do you think the manifesto should include a call for an infrastructure minister, sitting in cabinet?
- Q 1.4 Do you think the manifesto should consider more radical proposals touching regulation and/or funding that allow the government to take a more direct role in delivery of the infrastructure pipeline?
- Q 1.5 What else should we be proposing in this area?

# PART 2

## HOUSING

### What is the problem?

Housebuilding in the UK is running at around half the level required under most estimates. Despite a rebound in housebuilding starts following the introduction of the government's Help to Buy programme in March 2013, the most recent government data, to 2013, shows completions actually fell from 2012 in that year to 138,000, partly because of a drop off in social housebuilding.

There is little chance of production meeting the aspirational 240,000 target for new housing supply in England, or even the official estimate of 221,000 homes per year needed to meet the requirement of new household formation. Housebuilders complain that the planning system, despite improvements, does not deliver enough actionable planning permissions, and privately-owned developers still complain of difficulties in securing development finance.

The coalition government has presided over a mini boom and bust in the supply of affordable housing following the introduction of a new system that led to funding being slashed by more than 50%. Indications from the bidding for the next round of production are that the government will struggle to persuade housing associations to build the 175,000 homes promised between 2015-18 at the levels of grant being offered. Meanwhile, progress on persuading institutional investors to put money into building homes for rent has been slow. So while the modest recovery in housebuilding has been enough to boost overall construction output, rising prices in the South-east are making the failure to build more an increasingly urgent economic issue, and problems of affordability and severe housing need, exemplified by growing waiting lists for affordable homes, are worsening.

### What do we propose?

Despite the widely acknowledged need for homes, housebuilding is not classified by the government as a national infrastructure priority, and is wholly devolved to local authorities to administer. Building's manifesto will therefore look to propose that housebuilding be considered a national infrastructure priority, and as such, nationally significant sites should be considered under the review of infrastructure referred to in part one.

Applications relating to these significant housing schemes would therefore be considered by the fast-track National Infrastructure Planning regime. In addition, while there should be no attempt to re-impose top-down housing targets on local authorities, the government as a whole should set a target of the number of homes it expects to see built, at least 200,000 per year, and commit to flexing policy to meet this target.

Amid significant uncertainty around future development of affordable housing, the funding for affordable housing should be increased in order to give the government leverage to ensure the number of homes built is increased. Part of this uplift in funding could be paid for by the reductions in housing benefit commensurate with building homes liable to lower rents.

Greater freedoms should be extended to local authorities to borrow to fund social housing construction, with the cap extended by £1bn as per the KPMG/Shelter report Building the Homes We Need and consideration given to reinstating the cabinet status of the housing minister.

Consideration should also be given to the idea of Home Zones from the same Shelter/KPMG report.

## YOUR VIEWS

- Q 2.1 Do you think the government should identify increasing housing supply as one of the UK's national infrastructure priorities?
- Q 2.2 If not, explain why?
- Q 2.3 Do you think the manifesto should include a call for the housing minister to sit in cabinet?
- Q 2.4 Do you think major housing schemes should be subject to the National Infrastructure Planning regime, run by the Planning Inspectorate?
- Q 2.5 Do you think the government should set a national housebuilding target?
- Q 2.6 If not, explain why?
- Q 2.7 If yes, what level should the target be set at?
- Q 2.8 Do you think the government should increase funding for social housing, and if so, by what quantum?
- Q 2.9 If funding were to be increased, what suggestions would you make as to how that would be provided for without adding to government borrowing?
- Q 2.10 Should the government extend the cap for local authority prudential borrowing to fund housebuilding?
- Q 2.11 If yes, by how much?
- Q 2.12 What else should we be proposing in this area?

# PART 3

## RETROFIT

### What is the problem?

The current administration has made efforts to boost the market for retrofit work designed to improve the environment performance of both domestic and commercial buildings. Success is a key requirement if the UK is to meet its obligations under the 2008 Climate Change Act.

However, these efforts have been hamstrung by insufficient resources, low take-up of what are often complicated market-mechanisms (for example, the Green Deal), frequent policy U-turns, and a general sense of a lack of commitment to environmental issues at the top of government.

The result has been a collapse in retrofit work that has seen major job losses in manufacturers and contractors such as Carillion and Mark Group, with just 1,815 households having work done so far under the government's flagship Green Deal initiative.

On the commercial side, government plans to stimulate the market by setting minimum energy performance targets that must be met before a building can be let, have been mired in confusion, with no final detail published on how the scheme will work.

### What do we propose?

Above all a clear commitment is needed from government that this area is a national priority. Building proposes that retrofit should be a national infrastructure priority, like new build housing, and be considered as part of a new administration's review into long-term infrastructure priorities. This will require a series of policy changes and the setting of a clear target for the implementation of retrofit work, such as adopting the UKGBC's proposal of one million homes per year by 2020.

Policy measures to be considered as a matter of urgency should include: a reduction in VAT on domestic renovation work to equalise it with the tax paid on new build housing; consideration of stamp duty incentives related to the energy performance of homes being sold; direct government funding to support programmes where market levers are not working; an urgent finalisation of the proposals for minimum energy performance standards on commercial buildings; an urgent finalisation of the proposed system of allowable solutions for new build housing, on the basis that a fund be created to pay for retrofit work on existing homes.

## YOUR VIEWS

- Q 3.1 Do you think the government should make green retrofit a National Infrastructure priority for the first time, backed by ambitious targets and a genuine implementation plan?
- Q 3.2 If yes, where should the target for retrofit be set, and what measures should be prioritised?
- Q 3.3 Are you in favour of reform to VAT to equalise the rate for renovation and improvement with the rate charged for new build?
- Q 3.4 Do you think stamp duty land tax should be used, via differential rates, to encourage householder investment in domestic retrofit work?
- Q 3.5 Are you in favour of "allowable solutions" charged on the construction of new build homes being used to fund retrofit work on the existing stock?
- Q 3.6 Should we call for direct government funding for retrofit, and if so, how should it be paid for?
- Q 3.7 What else should we be proposing in this area?

# PART 4

## TAX

### What is the problem?

The whole industry has long complained of a series of tax issues that have the potential to hamper investment in housing, in retrofit work, and in infrastructure. These problems are exacerbated by centralisation of tax receipts, such that local authorities do not have the freedoms many would like to use locally-collected tax receipts to stimulate their local economies.

Problems include that of differential VAT rates for new build housing and renovation work already discussed. In addition to this, there are major concerns about how VAT is paid, with subcontractors liable for payment within 30 days of invoicing a client, regardless of whether they have actually been paid by that client or not.

Housebuilders have been unhappy about successive alterations to Stamp Duty Land Tax (SDLT) which have aimed to tax house sales at higher values, which have been brought in at the same time as politicians of all colours have been unwilling to address council tax valuations, which see the owners of the most expensive properties paying little more than the average home owner. Low council tax rates encourage under-occupation by wealthy buyers, something that has added to opposition for housing schemes that otherwise bring in much-needed investment.

Surveyors complain that the “slab” nature of SDLT (where tax is paid at a highest rate on the whole value of a property sold, not simply the amount above the higher rate band) distorts the property market, while at the same time the argument is made for SDLT to be used to incentivise green retrofit work with lower rates for more energy efficient properties.

Meanwhile the CBI claims that the decision to abolish tax incentives aiding investment in infrastructure projects has reduced investment by adding 20% to the cost of investing in infrastructure. Local authorities and the London Finance Commission have called for additional freedoms to borrow against future tax receipts at a local level in order to fund much-needed infrastructure, via a system known as Tax Increment Financing (TIF).

### What do we propose?

This area is hugely complex, but it is clear that the functioning of the tax system has a major part to play in bringing in investment into housing, infrastructure and regeneration schemes, whether from domestic or overseas investors. So the government should urgently institute a full-scale review of property and development taxation in the UK, reporting in the first year of office.

The interplay of SDLT, capital gains tax and council tax for domestic properties should be fully researched and reformed, with the aim of encouraging development and discouraging the use of housing as an unoccupied investment.

As part of this the VAT equalisation question should be addressed urgently for contractors, alongside the work around improving the retrofit market mentioned in Part 3.

This review of VAT should address concerns over the point at which the tax is levied. The review should also consider reinstating tax breaks for infrastructure investment. This should be linked in to reforms that will raise the existing £150m ceiling for English councils to borrow against TIF projects.

## YOUR VIEWS

- Q 4.1 Do you support implementation of an urgent wide-scale review of development and property taxation in the UK?
- Q 4.2 If not, why not?
- Q 4.3 If yes, do you agree with the proposed scope of issues for the review to cover, and the aim of the review of “encouraging development and discouraging the use of housing as an unoccupied investment”?
- Q 4.4 Do you think the Treasury should extend capital allowances for investment in infrastructure assets, which would harmonise the existing regime?
- Q 4.5 Should the Treasury look to change the point at which VAT is levied in order that firms are only liable once they have themselves been paid?
- Q 4.6 Should the government raise the £150m borrowing ceiling for TIF schemes?
- Q 4.7 What else should we be proposing in this area?

# PART 5

## SKILLS

### What is the problem?

The recent recession saw around 350,000 people leave the construction industry, while output fell by over 10%. With output now growing again, the attention of the industry is now firmly back on how the sector will recruit and train the people it will need for the years ahead. With many of those made redundant during the recession now having left the industry entirely, the Construction Industry Training Board (CITB) estimates that 182,000 new people will need to be brought into the sector in the next five years, an average of 35,000 each year.

In the meantime housebuilders are reporting rocketing wage rates for trades such as bricklayers amid serious shortages in some areas. The CITB is in the midst of fundamental change and under review by the government, and widespread dissatisfaction persists over the administration of the industry levy which funds trade skills training. At the same time professional bodies are considering how to retain the global value inherent in UK professional qualifications while meeting the required demand for new entrants, with radical proposals to shake up the training of architects and surveyors under consideration.

There are widespread fears that the industry will struggle to attract to necessary entrants without looking overseas, in part because of the poor image it has with the general public. The recurrent boom and bust cycles in the industry contribute to this image, and also to creating a fragmented structure to the industry where the biggest firms do not employ trade labour directly and therefore are not incentivised to help solve the issue.

### What do we propose?

There is no doubt that this is a very thorny area for government policy, as the training of its workforce is above all an issue for the industry itself. So while fundamental radical reform must come from the sector, Building's manifesto proposes the government can take a number of actions to help the industry move in the right direction.

The government must as a matter of urgency complete and sign-off its triennial review of the CITB, and clarify its support for the continuation of the industry levy to pay for training. The government must look to ensure that the CITB's current restructure leads to a fundamental simplification of the way funding is administered and how employers gain access to it.

The government should commit to requiring appropriate training such as apprenticeships on publicly-procured work. However, this must be done in a way that ensures continuation of employment for those brought on to training schemes. BIS should work with the DfE to ensure that all children have access to proper career advice from advisers who are aware of the opportunities in the sector and the best training routes available.

Consideration should be given to reducing funding for "construction" diplomas offered by colleges that don't include site-based competency training. And the new government should reconsider current proposals that employers take on much of the burden of administering funding, such that this does not discourage SME firms from taking on trainees and apprentices.

## YOUR VIEWS

- Q 5.1 Do you think the government should continue with the industry levy used to fund training in trade skills?
- Q 5.2 If not, how should training be paid for?
- Q 5.3 Do you think the public sector should, through its procurement of construction, require a minimum amount of people to be trained on significant public projects?
- Q 5.4 If so, how should this work? (ie. what should be the threshold in terms the size of job? How much training should be required? How should continuation of employment for trainees/apprentices be ensured on shorter public contracts?)
- Q 5.5 How could informed and timely careers advice on construction to those in school best be delivered?
- Q 5.6 Should the government continue to fund colleges courses that offer construction diplomas that do not include site-based competency skills (and therefore do not actually qualify people to work in construction)?
- Q 5.7 Should the government abandon plans to route funding for apprenticeships direct to employers, in particular if - as currently proposed - government will only reimburse employers once training has been completed?
- Q 5.8 What else should we be proposing in this area?

# PART 6

## SPENDING

### What is the problem?

The efficiency of the industry is greatly impacted by the boom-bust nature of construction, with the aforementioned skills issues being just one part of this. As well as the cost and difficulty of attracting, training and retaining staff during each “up” cycle, the lack of certainty over future workloads has also led to the creation of a structurally fragmented industry in which huge inefficiencies are generated in friction between tiers of the supply chain and the fact profit is taken at each level. Public spending has the potential ability to help smooth out these peaks and troughs, by buying construction during downturns (when it is cheaper). Above all, the industry would benefit from having a greater visibility of what future spend will be, and where, and on what, so it can plan resources accordingly.

The coalition has sought to address this issue by the publication of the government’s construction pipeline, hosted on the Building website. Last year’s 2013 Spending Round also sought to address some of this by making a series of guarantees on spending, for example on social housing and road-building for the next parliamentary term. However, concerns remain

over the detail contained in the government’s pipeline, and the reliability of timescales for the projects held in it. Likewise, George Osborne’s spending round promises didn’t include enough detail for the industry to plan against.

### What do we propose?

Building received a large amount of responses calling for a more reliable pipeline of work. However, with deficit reduction still an enormous challenge for the UK finances, it is not realistic to make a case for a long-term commitment to higher investment in public construction overall. Therefore the manifesto is likely to have to call for spending to be guaranteed in certain key areas, and also outline how this should be funded.

Our proposal will be that capital spending commitments be funded by reductions in revenue expenditure. Beyond the call in Part 2 for increased social housing investment, Building’s manifesto has not yet called for a large amount of extra public funding, and we did not receive a great deal of detailed feedback on where funding commitments should be targeted, so we are not proposing which areas should be prioritised at this stage. Instead we are calling for further feedback.

## YOUR VIEWS

- Q 6.1 Do you think the manifesto should contain a distinct pledge for a government-funded programme to address the predicted shortage of new school places?
- Q 6.2 Do you think the manifesto should contain a distinct pledge for a government-funded programme to rebuild and improve the health estate?
- Q 6.3 Do you think the manifesto should contain a distinct pledge for a government-funded programme to modernise and expand the prisons estate?
- Q 6.4 Do you think the manifesto should contain distinct pledges for any other areas of central government capital funding?
- Q 6.5 What else should we be proposing in this area?