

CECA NORTH WEST

POLITICAL & ECONOMIC REPORT, DECEMBER 2018

The following document is to provide a briefing on the political and economic environment of the North West, and its impact upon CECA members. It covers:

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1. The 2018 Budget – key points affecting the North West

- This Budget is a precursor to the Government's spending review, which sets out its spending intentions for the next five years. In the run up to the review, CECA will be lobbying Government to ensure a good outcome for long term infrastructure investment for CECA's membership
- The National Roads Fund is set to reach £28.8 billion between 2020-25, £25.3 billion of this is for RIS 2. £420 million has been allocated for local authority maintenance and £150 million for small local improvements
- The Government is providing £100,000 to support the development of proposals for an 'Eden Project North' centre in Morecambe
- Five local authorities have been successful in the first round of applications to a local infrastructure rate to support infrastructure projects that are high value for money. They are: the Metropolitan Borough of Calderdale, Luton Borough Council, St Helens Council, Transport for London and the West Midlands Combined Authority. They will be able to borrow a total of £275 million at the new discounted interest rate of gilts + 60 basis points.
- The Government will publish a refreshed Northern Powerhouse Strategy next year
- £69.5m for transport projects in Greater Manchester
- £38.5m for transport projects in Liverpool City Region
- £37, additional funding for Northern Powerhouse Rail
- £20m for skills pilots in Greater Manchester

2. **CECA: Too many frameworks don't work**

Contractors are being hit as too many frameworks are failing to deliver expected work, while putting firms through unneeded extra bids to secure projects. That is the key finding of CECA's year-long study into the use of frameworks. Members told CECA that, for their frameworks:

- 71 % frequently reported less than anticipated workloads.
- 64% indicated a regular lack of workload visibility.
- 56% reported it is common for frameworks to have unnecessary second competitions.
- 54% said frameworks frequently favoured lowest cost over quality.

In order to start the drive forward towards best practice, CECA worked with its members and others in industry to develop a series of recommendations for infrastructure clients:

- Frameworks to be based around a clear valued work bank with a commitment to deliver work in the framework.
- Once established, frameworks must be used by customers.
- Frameworks to deliver a specified minimum value of work for all participants with subsequent work distributed on quality of tender performance and delivery.
- The number of companies on a framework should be proportionate and balanced in relation to the framework's value and the number and type of projects available.
- Customers should refrain from using multiple frameworks for greater flexibility which comes at the expense of increased uncertainty for the supply chain.
- More use should be made of limited requests for tenders from a select number of suppliers, contractors or service providers in order to reduce the time and cost of the selection process.
- Framework operators should only consider the use of mini competitions if there is a clear commercial reason for doing so.
- Frameworks must recognise SME specialisms and expertise.
- PQQs for frameworks should adopt proposals being developed by industry for a single industry standard approach.

3. **CECA: Creating a responsible payment culture – ending late payments for small businesses**

CECA welcomed the opportunity to respond to the above-named call for evidence. CECA member survey on late payments, key findings include:

- 26 per cent of respondents said 76-99 per cent of payments received were late. Another 26 per cent said 51-75 per cent of payments received were late and a final 26 per cent said that 26-50 per cent of payments received were late.
- 53 per cent said that the proportion of payments made late to their businesses had increased over the past three years.
- All respondents said that they contacted the late paying business. None contacted the Small Business Commissioner, or their trade sector body.
- 65 per cent indicated that typical payment terms they received for completed work was 31-60 days
- 55 per cent said that the typical payment terms they offered their suppliers was 31-60 days. 25 per cent said they offered 11-30 days.
- 45 per cent felt that the reasons for long payment terms is the imbalance of power between businesses. 20 per cent cited complex invoicing procedures.
- 45 per cent said that long payment periods resulted in them paying their own suppliers late. 50 per cent said they were unable to invest in new equipment and /or staff as a result of this. 25 per cent said that they relied on their bank overdraft in these cases, while 15 per cent took out loans to cover shortfalls. Long payment periods meant some (10 per cent) struggled to pay their staff on time, with a further 5 per cent indicating that their staff had had to reduce their salaries.

4. **10-year government pledge sets out £600bn of infrastructure investment by 2028**

Ministers have reiterated their commitment to developing major infrastructure projects with £600bn worth of investment over the next decade. The mass investment programme within national infrastructure and construction pipeline include the £28 billion national roads fund, as well as other flagship projects like East West Rail, upgrading the M6 to a smart motorway and Hornsea Project One – the world's largest offshore wind. Planned projects in the north include: Up to £37m additional development funding for Northern Powerhouse Rail; Transforming Cities Fund additional funding including £16.5m for Tees Valley transport projects, £38.5m for Liverpool, and £69.5m for Greater Manchester; A5036 Princess Way – Access to Port of Liverpool (part of Liverpool Local Growth Deal). https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/759222/CCS207_CCS1118987248-001_National_Infrastructure_and_Construction_Pipeline_2018_Accessible.pdf

5. **Diane Bourne, MD of Eric Wright Civil Engineering appointed to CITB's Nations Council**

CITB have announced the new members of its Nations Councils for England, Scotland and Wales and are delighted to confirm that Diane Bourne, Managing Director of Eric Wright Civil Engineering, has been appointed onto the Nations Council for England. The councils will play a key role in helping to shape the future of construction across Great Britain and provide strategic advice to the Board to better meet industry's skills needs.

6. **Highways England £8.7bn framework announced**

Successful bidders for Highways England's £8.7bn framework are:

- North West/North East/Yorks/Humber: Costain, Balfour Beatty, Kier
- South West: Vinci, Galliford Try
- East & West Midlands: BAM Nuttall, Skanska
- South East: BAM Nuttall, Balfour Beatty
- East: Skanska, Galliford Try, Costain

7. **CPA Autumn 2018 Forecast**

Forecasters have abandoned hopes of a 2.3% rebound in construction growth in 2019 after falling order levels and Brexit. Growth for next year has been downgraded to rise by only 0.6% with this year now expected to be flat amid Brexit uncertainty and on-going delays in the delivery of major infrastructure projects. The Construction Products Association's Autumn Forecast predicts that even this growth will depend on the Government extending help to buy and driving ahead with major infrastructure projects to hit the expected output peak of £23bn by 2020.

CPA Autumn 2018 forecast:

- Construction output to remain flat in 2018 (0.1%) and rise by 0.6% in 2019
- Private housing starts to rise 2.0% in 2018 and 2019
- Offices construction to decline 10.0% in 2018 and 20.0% in 2019
- Retail construction to fall 10.0% in 2018 and 2.0% in 2019
- Infrastructure work to rise by 8.7% in 2019 and 7.7% in 2020

8. **ONS: Construction output accelerates in 'encouraging' Q3**

Construction activity rose by 2.1 per cent in the three months to September according to the Office for National Statistics, having built momentum after a poor start to the year. The acceleration in output follows the slight increase of 0.8 per cent recorded for Q2, coming after a 1.6 per cent decline in Q1. Q3's growth was driven by new work, which increased by 2.8 per cent, with repair and maintenance work rising by 1 per cent. According to the ONS, the level of all work for September 2018 reached £13.9bn – the highest monthly figure since the series began in 2010. Within this, new work stood at £9.2bn while repair and maintenance accounted for the remaining £4.7bn. For the three months to September, private new housing output rose by 5.7 per cent to £3.1bn, infrastructure grew 3.8 per cent to £1.8bn and new public housing increased by 12.1 per cent to £596m.

9. **ONS: construction booming in the North West**

The North West has seen construction boom over the last year, according to new figures. According to the Office of National Statistics, total construction output across the region is up 15% to more than £4.6 billion in the 3 months to August 2018 compared to the same period last year. Overall construction output in Great Britain for this period is up 1.5% compared to the same period last year meaning the North West's increase is 10 times the national average. The value of construction work on new housing in the North West has increased by £386 million this quarter compared to the same quarter in 2017 and output of new infrastructure projects has also risen during this period.

- Overall construction output in the region up 15%, 10 times the national average
- Total value of construction over the last 3 months is more than £4.6 billion, up more than £600 million when compared to the same 3 months a year ago

10. **Q3 RICS UK Construction and Infrastructure Market Survey**

The survey shows 20% more chartered surveyors reported that their workloads had risen rather than fallen – up from +15% in Q2.

Private housing and infrastructure workloads reported the strongest rise while activity across the private industrial and public non-housing categories improved modestly with net balances of 9% and 11%, respectively.

Regionally, workloads are now reported to be increasing across all areas with notable acceleration in the Midlands and East.

Financial constraints are reported by 75% of surveyors to be by far the most significant brake on growth with firms reporting difficulties in accessing bank finance and credit.

11. **Turner & Townsend UK Market Intelligence Q3 2018:**

- Contractors report order book increases but Brexit uncertainty prevails
- UK contractors report a 23.4 percentage point increase in order books despite subdued growth
- Surveyed contractors expect construction materials costs to rise by 5.3 percent in next 12 months
- Dublin construction market booming as London faces Brexit uncertainty and potential major occupier relocations

12. **ORR approves Network Rail's £35bn plans to boost UK railways**

The Office of Rail and Road (ORR) has given the green light to £35bn plans to make the UK's rail network more reliable and more focused on passengers' needs. Control Period 6 (CP6) is set to commence on 1 April and the ORR has backed plans for increased investment in research & development (R&D) with a GB-wide fund of £245m to be spent on projects with £26m funded by the Scotland route settlement.

The final determination documents state how the UK rail network has supported more than a doubling of passenger journeys over the last 20 years, while franchised passenger revenues have risen by 135% in real terms. This means funding needs to be set aside to ensure ongoing maintenance and renewal is kept at the forefront.

A total of £4bn is ring-fenced for Scotland's railways and the regulator has set out what Network Rail will be expected to deliver in Scotland. Specific measures include delivering journey time improvements for both passenger and freight operators and achieve a punctuality target of 92.5%.

13. **CBI: Apprenticeship Levy reform**

The government has now publicly accepted the need for reform, announcing three CBI recommendations as policy changes:

- Increasing the proportion of funds employers can transfer from 10% to 25%, which will allow more firms and apprentices in supply chains to benefit
- Properly resourcing the Institute for Apprenticeships to speed up the approval of apprenticeship standards and better regulate the 20% off-the-job requirement
- A commitment to start discussing what a more flexible 'skills levy' could look like post-2020 to support the development of the skilled workforce business needs

14. **Homes England Strategic Plan 2018/19 – 2022/23**

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752686/Homes_England_Strategic_Plan_AW_REV_150dpi_REV.pdf

15. **Armitt: Implement the NIC's £900bn infrastructure plan**

Chairman of the National Infrastructure Commission, Sir John Armit, said the UK's first-ever National Infrastructure Assessment offers a clear path for meeting the country's future needs, and urged the Chancellor to use his Spending Review and the planned new strategy to implement them.

Alongside his Budget statement, the Chancellor announced plans for a National Infrastructure Strategy in 2019, alongside infrastructure measures including:

- £28.8 billion towards improving the UK's motorways and major local roads from 2020-2025
- £420 million towards tackling potholes next year
- £200 million towards pilot projects for extending access to full fibre broadband services to rural and remote communities;
- A further £500 million towards the Housing Infrastructure Fund – taking the total to £5.5 billion – to help support the delivery of 650,000 homes;
- An increase in the Transforming Cities Fund to £2.5 billion; including £90 million to support the trial of smart transport including on-demand buses;
- £37 million additional development funding for Northern Powerhouse Rail; and
- £20 million development funding for the central section of East-West Rail

Sir John welcomed them, but highlighted the need for the National Infrastructure Strategy to set out an ambitious long-term and cross-sectoral agenda, addressing the UK's needs in energy and water as well as transport and digital communications.

16. **MoD £15bn defence estate pipeline**

The Ministry of Defence plans to spend £4bn optimising its defence estate as part of its latest £15bn five-year procurement pipeline. The MoD's estates management arm the Defence Infrastructure Organisation (DIO) has announced schemes covering the next five financial years.

Among these is the defence estate optimisation programme, which aims to help deliver a 30 per cent reduction in the MoD's built estate by 2040. The programme will also release surplus land to support wider government targets, and see £1bn of capital disposals by 2021.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/748581/20180808-Procurement_Plan_FINAL.pdf

17. **Department of Transport to invest £53m in North West roads**

The Department of Transport have revealed that some £53m is set to be invested in the North West's roads, with Lancashire to receive the fourth-highest amount of funding per 1,000 people in the region. Following the announcement of the Budget, drivers and cyclists will be encouraged to see that the extra £53m from the DfT will be committed to road repairs across the North West counties of Cumbria, Greater Manchester, Merseyside, Cheshire, and Lancashire, with the Roads Minister keen to "keep drivers and cyclists safe."

18. **Greater Manchester Local Industrial Strategy, October 2018**

This progress statement sets out plans for delivering a Strategy by March 2019, and highlights emerging priorities for Greater Manchester's Local Industrial Strategy.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752671/beis-local-industrial-strategy-progress-update-greater-manchester.pdf