

December 2019

Briefing Note: CECA NW

Political & Economic Report, December 2019

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. CECA: Conservative Government Must ‘Turbo-Charge’ Infrastructure In First 100 Days

Civils contractors have called on the incoming Conservative UK Government to ‘turbo-charge’ the infrastructure sector in its first 100 days in office.

<https://www.ceca.co.uk/ceca-conservative-government-must-turbo-charge-infrastructure-in-first-100-days/>

2. General Election: impact on the North

- The North of England was a central feature of this election. The bond between Labour and voters in its traditional heartlands. Labour held 117 seats in the North of England; that has fallen to 88; Conservatives did have 40, they now have 68. Support for Labour fell by 11% in constituencies with the most blue collar jobs.
- Turnout was strong across the region, but the largest fall in turnout was where Labour were strongest.
- With this surge in the north, this will place greater pressure on the Conservative Government to invest properly in the north. We have to date heard promises about devolution, Northern Powerhouse Rail and a more equal distribution of Government spending on R&D; this Parliamentary arithmetic will only support an enhanced focus on ‘Levelling Up’. This is an area where Mayoral Combined Authorities can find common ground with fresh Conservative Parliamentarians.
- We will be leaving the European Union at the end of January 2020. For a region that has done well from the EU, in terms of export markets, regional aid and immigration, what form of relationship we have with our largest trading partner matters as does the shape and form of the Shared Prosperity Fund.
- The composition of the Tory majority perhaps indicates less ‘Singapore on the Thames’ and perhaps a more activist state.
- To our north, SNP had a good election. Is a fresh referendum avoidable? The defensive line will clearly be that the Government will live with the outcome of the referendum; no 2nd referendums. It is difficult to see a path for Labour majority back in No.10 without Scotland.

3. CECA Publishes New Dayworks Schedules

The Civil Engineering Contractors Association (CECA) has published a new version of the Schedules of Dayworks Carried out Incidental to Contract Work, the standard industry contract for the construction of infrastructure schemes.

The new two volume version can be used for either, i) pricing of work undertaken on a daywork basis where no other schedules are included with contract documentation, using volumes 1 & 2, or ii) pricing of standalone projects where appropriate, using only volume 2.

The new titles are Volume 1 - Schedules of Dayworks Carried Out Incidental to Contract Work Including Rail Equipment Items and Volume 2 - Schedules of Contractors Equipment Rates for use on Construction Contracts Including Rail Equipment Items.

Rates and prices included in Vols 1 & 2 of the Schedules apply to work carried out on a Daywork basis on or after the date of publication. Equipment rates have been recalculated to reflect current costs and rail equipment items have been included to fully reflect the range of works undertaken.

4. Publication Of Rail Enhancements List

The UK Government has published the Rail Network Enhancements Pipeline (RNEP), showing upcoming rail upgrades for the coming five years. The update supplies information on the RNEP schemes being funded by the Control Period 6 (CP6) enhancements budget. The CP6 budget covers 2019 to 2024.

For each RNEP scheme the Department for Transport only commit to the next stage of development. Schemes being created are listed within Network Rail’s Enhancement Delivery Plan.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/839354/Rail_Network_Enhancements_Pipeline_Publication.pdf

5. APPRG calls for new national railway body

The all-party parliamentary rail group (APPRG) has called for a new national railway body as it delivered its report for consideration alongside the conclusions of the ongoing Williams Review.

A parliamentary inquiry took place in June and July earlier this summer, with contributions from Arriva Trains UK, FirstGroup, Jonathan Tyler, the Office for Rail and Road, Network Rail, the Rail Delivery Group, the Rail Freight Group and the Urban Transport Group.

Much of the Williams Review input by various stakeholders and evidence received to the group's inquiry has focused on a new arm's length body or a "guiding mind."

However, the APPRG's report Rail Reform: A Guided Mind goes a lot further, and says that:

- There's a logical rationale for a new national body to create a professional 'controlling mind' to make key decisions, ensuring consistency of thinking and approach.
- It would appear viable to have a new centralised national 'controlling mind' or to have decisions and related powers moved closer to local markets. It does not appear possible to have both, however.
- De-centralisation rather than devolution is the logical path. The circle could be squared if all decisions and powers delegated to regions and cities relate to implementation.
- There needs to be clear alignment, and potential dis-alignment, of incentives between track and train.

6. RIA: RAIL 2050 manifesto

The Railway Industry Association (RIA) has launched its RAIL 2050 manifesto, setting out the industry's key needs prior to the general election. The manifesto, which looks at how the UK can develop a long-term, sustainable rail industry over the next 30 years, calls for the political parties to provide:

- Development of a long term, 30-year strategy that promotes private investment;
- The smoothing of 'boom and bust' in rail infrastructure and rolling stock investment, and improvement to the visibility of upcoming enhancement upgrade projects;
- A better balance in the train fleet between new and upgraded trains;
- Decarbonisation of the railway, through a rolling programme of electrification for intensively used lines and by using battery, hydrogen, bimode and trimode technology for other lines;
- Digitalisation of the railway through deployment of modern digital signalling technology;
- Commitment to major rail projects including HS2, TransPennine Route Upgrade, Northern Powerhouse Rail, East West Rail, Midlands Rail Hub and Crossrail 2, amongst others;
- Government to work with the rail industry to set priorities for innovation and collaboration between rail organisations;
- Government to consider the role of the rail industry as a key UK exporter, when developing new trade agreements.

7. North and Midlands 'must take control' to deliver true benefits of HS2 and NPR

A report by the Northern Powerhouse Independent Review into HS2 says the North and Midlands must take control of their high-speed network and that cancelling the major infrastructure project without credible and viable alternatives will not deliver the transformational benefits to the UK economy this country so badly needs. Established to inform the Government-commissioned Oakervee review of HS2, which will report to the Department for Transport on the future of HS2 later this week, the Northern Powerhouse Independent Review:

- Recommends the establishment of HS2 North - a special purpose vehicle working with the private sector to integrate HS2 and Northern Powerhouse Rail (NPR)
- Articulates a 20% increase in the transformational economic impact to the North of delivering NPR along with building HS2, with £1 in every £5 generated from building a new East - West line as a result of long-distance journeys onto HS2
- Warns that only by investing in a new, integrated high-speed network can the historic North-South divide be tackled; upgrades or scrapping HS2 have none of the prerequisites to tackle the UKs geographic imbalance

- Identifies parts of the new and upgraded line network that can be delivered now including connecting Northern cities to each other - the North will not accept waiting until 2040 for HS2 to connect Northern cities to Birmingham, London, Newcastle and Edinburgh

<http://www.northernpowerhousepartnership.co.uk/publications/the-north-and-midlands-must-take-control-to-deliver-true-benefits-of-hs2-and-npr-says-review/>

8. Oakervee review backs HS2

The Oakervee review into HS2 is recommending that the project go ahead in full despite rising costs. According to a leak to The Times, Oakervee has concluded that the £88bn project goes ahead in full but he criticises HS2 procurement for shouldering all the risk with little gain. The leaked document, written by the former HS2 chairman, is critical of procurement saying that prices have been significantly inflated by contractors. Oakervee is understood to recommend changing the excessively expensive contracting model and floats the possibility of re-procuring works for best value. He also calls on the Government to update and publish a revised business case for the project as a whole.

9. HS2 review deputy claims MPs misled over ‘out of control’ costs

The former deputy chair of the Oakervee Review Lord Berkeley has claimed that HS2 is likely to cost more than £108bn. The project’s official budget currently stands between £81bn-£88bn. But the Labour peer disputes this and has published his own review into the project following his resignation from the Oakervee Review panel in November over what he alleged was a "lack of balance". In his own report released today (Sunday 5 January), Lord Berkeley claimed project costs are "out of control" and concluded that government will either have to accept the higher cost of the line or only build part of the proposed route. He also alleged that MPs have been "misled" over the project’s budget.

10. HS2 streamlines procurement process for subcontractors with standardised PQQ

HS2 has announced it has streamlined the procurement process for subcontractors working across its four main civils contracts. The joint ventures working on the major rail scheme have created a standardised pre-qualification (PQ) process. Subcontractors bidding for work will only need to undergo one PQ process to bid for on different parts of the route.

Joint ventures Balfour Beatty / Vinci / Systra (BBV), Bouygues / VolkerFitzpatrick / Sir Robert McAlpine (Align), Costain / Skanska / Strabag (SCS Railways), Effiage / Kier (EK) worked together as part of HS2’s Collaboration Hub to develop the system designed to avoid duplication and cut costs.

Build UK, the Civil Engineering Contractors Association and High-Speed Rail Industry Leaders Group (HSRIL) also assisted in creating the new standardised PQ (called the Common Assessment Standard).

<https://www.ceca.co.uk/construction-pre-qualification-system/>

11. Crossrail misses 2020 opening and needs extra £400m

Crossrail will not open in 2020 and its cost will rise further, the project’s head has confirmed.

Chief executive Mark Wild claimed in a progress update released this morning that the line would open “as soon as practically possible” in 2021. “Our latest assessment is that the opening of the central section will not occur in 2020, which was the first part of our previously declared opening window,” he said. The line was scheduled to be up and running sometime between October 2020 and March 2021. In September, a statement from Crossrail had said the October 2020 opening was still a possibility.

More information on completion will be provided early next year, according to the latest statement.

The project will also cost between £400m and £650m more to complete than previously thought.

12. RIS2 Update

The government’s Road Investment Strategy 2 (RIS2) will commence in April 2020 and run for five years; this investment period will deliver important road schemes set out by Highways England and the government. Continuing the work from the inaugural Road Investment Strategy, the investment will be more than ever before, eclipsing the previous £15 billion funding by more than £10 billion

13. TfN: £700m funding bid for 16 northern road projects

Transport for the North has submitted a bid for a £700m investment in the region's roads over the next five years. The schemes are:

Major Road Network schemes

- A595 Improvement Scheme (Bothel) - Cumbria County Council
- A1079 Improvement Scheme - East Riding Council
- A582 Dualling - Lancashire County Council
- Blyth Relief Road - North of Tyne Combined Authority/North East Combined Authority
- Durham Northern Relief Road - North of Tyne Combined Authority/NECA
- Sunderland Transport Corridor - North of Tyne Combined Authority/NECA
- Tyne Bridge & Central M'way - North of Tyne Combined Authority/NECA
- Shalesmoor Gateway - Sheffield City Region
- A689 Corridor Improvements - Tees Valley Combined Authority
- A34 Cheadle - Greater Manchester Combined Authority
- A650 Tong Street - West Yorkshire Combined Authority
- Dawsons Corner Jct & Stanningley Bypass - West Yorkshire Combined Authority

Large Local Major schemes

- Kendal Northern Access Route - Cumbria County Council
- The Rocket Junction - Liverpool City Council
- Wigan East-West - Greater Manchester Combined Authority
- A1237 Dualling (Phase 2) - City of York Council

14. Heathrow expansion faces three-year delay

The expansion of Heathrow Airport could face a delay of up to three years. The airport's new third runway was initially expected to open in 2026. However, following a consultation by the Civil Aviation Authority (CAA), the airport now plans to complete the expansion between 2028 and 2029. Heathrow provided a breakdown of early construction costs to the CAA totalling £2.9bn in July 2019 based on 2014 prices for early works. The CAA has rejected these costs due to the risk that these could be passed onto passengers if the project is cancelled. Instead the authority recommended that the airport's third runway should open at least 12 months later, which would avoid such a scenario unfolding.

15. PR 19 final determinations

In September 2018, water companies in England and Wales submitted their plans for the future to Ofwat. They checked and challenged those plans, including how much companies planned to spend to deliver them.

<https://www.ofwat.gov.uk/regulated-companies/price-review/2019-price-review/final-determinations/>

16. Ofwat challenges water companies to spend £13bn on infrastructure over next five years

The Environment Agency has welcomed Ofwat's challenge to the UK's water companies to spend £13bn on infrastructure investment and improve their performance and customer service over the next five years. Ofwat has revealed a spending package of £51bn for the next five years. A quarter of this, around £13bn, will be investment dedicated to providing resilient services and a better environment in the face of a growing population and climate change.

17. Tideway tunnel reaches halfway point

The Thames Tideway Tunnel - the new London 'super sewer' - is 48 per cent complete and remains on course to stay within its £3.8bn budget, the body behind the project has said. According to a report from Tideway investment body Bazalgette Holdings, £389.8m was spent on the project in the six months to September 2019, taking the project's total capitalised costs to £2.22bn to date.

https://www.rns-pdf.londonstockexchange.com/rns/2809U_1-2019-11-21.pdf

18. IR35: Chancellor pledges review of freelance tax changes

Chancellor Sajid Javid is promising to review looming freelance tax rule changes which are causing widespread concern in construction. HMRC IR35 rules are due to change next April making contractors liable for determining the tax status of off-payroll professionals.

Major contractors have been auditing freelancers employed via personal service companies as thousands of professionals are braced for a move back to PAYE.

19. Hinkley Point first site hit by freelance tax changes (IR35)

The £22bn Hinkley Point C new nuclear power station site is one of the first major testing grounds for looming freelance tax rules. HMRC IR35 rules are changing next April making contractors liable for determining the tax status of off-payroll professionals. IR35 is legislation that allows HMRC to collect additional payment where a contractor is an employee in all but name. If a contractor is operating through an intermediary, such as a limited company, and but for that intermediary they would be an employee of their client, IR35 kicks in.

<https://employmentlawplus.pinsentmasons.com/en/employmentlawplus/hr-network-tv/news-library/2019/october-2019/4-october-2019/ir35--unclear-whether-or-not-you-are-the-end-user/>

20. Copeland MP on small scale nuclear developments

Trudy Harrison MP oversaw a debate including MPs and Peers at the Department of Business, Energy and Industrial Strategy's Commercialisation of the Small Nuclear 2 conference.

<https://www.timesandstar.co.uk/news/18000546.copeland-mp-chair-panel-small-scale-nuclear-developments/>

21. Crown Commercial Services: Minor Civils Framework (to £3m - total value £1.5bn) winners

- North England: AE Yates; Colas; Dyer & Butler; Eric Wright; Fitzgerald Construction; Jackson Civil Engineering; Kier Integrated Services; PBS Construction (North England); Seymour Civil Engineering; The Casey Group
- South England: Associated Asphalt Contracting; BCM Construction; Colas; Dyer & Butler; FM Conway; Jackson Civil Engineering; JT Macley & Co; Kier Integrated Services; Midren Construction; Rynebridge; TS Civil Engineering
- Wales: BCM Construction; Dyer & Butler; Kier Integrated Services;
- Scotland: Covanburn Contracts; Cubby Construction; Luddon Construction; MacAsphalt; R J McLeod
- Northern Ireland: Whitemountain Quarries

22. IHS Markit/CIPS UK Construction survey: civils bears brunt of downturn

Ongoing political and Brexit uncertainty saw output fall in all three broad categories of UK construction during November, according to the latest IHS Markit/CIPS UK Construction survey. The monthly survey found that:

- Output fell in all three broad categories of construction;
- There was a sharp drop in new work;
- Staffing levels decreased for the eighth month in a row.
- Although UK construction companies recorded another drop in business activity during November, the pace of decline moderated to its slowest since July. However, new work continued to fall sharply amid reports that domestic political uncertainty had led to indecision among clients.

The headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index rose to 45.3 in November, from 44.2 in October, to signal the slowest drop in overall construction output for four months. All three broad areas of construction work recorded a fall in output during November, with civil engineering the worst performing category, followed by commercial building.

23. Arcadis: Is construction ready for infrastructure spending boost?

A challenging outlook for the construction sector in 2020, made worse by Brexit gridlock in 2019, has led Arcadis to downgrade its 2020 London tender price forecast to 1%. Forecasts for national markets and infrastructure have also been downgraded. December's election of a Conservative majority government paved the way for increased political certainty and a clear direction on policy. This combined with a £100bn long-term infrastructure investment programme, signals that the clouds hanging over the construction industry could finally be showing signs of clearing. However, the speed at which this translates into tender price growth will depend on how quickly the public sector can turn stalled programmes from 2019 into shovel-ready projects.

This will have a critical role in determining short-term price levels. The construction sector depends on a healthy, visible pipeline to maintain activity, but the orders pipeline has shrunk during the year as Brexit gridlock took its toll. Data from Q2 and Q3 2019 points to the lowest level of demand since 2012, with public and commercial sectors seeing the biggest falls.

[https://www.arcadis.com/media/D/E/0/%7BDE02DFC1-C83E-461E-B8ED-09E8E4DA33B0%7DMarket%20View%20Winter%202020%20Final%20\(2UP\).pdf](https://www.arcadis.com/media/D/E/0/%7BDE02DFC1-C83E-461E-B8ED-09E8E4DA33B0%7DMarket%20View%20Winter%202020%20Final%20(2UP).pdf)

24. CRUX Insight report - industry needs to work harder to avoid contractual disputes

The consequences of delay, disruption, lost productivity, cost overrun and poor quality are amongst the lessons still not being learned by the industry, according to the second annual CRUX Insight report by dispute resolution specialists HKA.

The report provides sector-by-sector insight into dispute causation on major capital projects around the world, with this year's CRUX Insight focusing on buildings, defence, aerospace & military, industrial, infrastructure, oil & gas, and power & utilities.

The analysis, from what is claimed to be the broadest and most in-depth dataset in the industry, identifies over 4,000 causes across 700 projects in 72 countries, with total project capital expenditure in excess of US\$1.2 trillion, where HKA has provided claims consulting and dispute resolution services. The report provides detailed insight into the factors, pattern and causes of disputes on major engineering and construction projects across multiple sectors worldwide - claiming that the dominant drivers of disputes are a significant lack of control over scope and design, along with poor drafting and administration of contracts.

<https://www.hka.com/crux-insight/>

25. Changes to PWLB borrowing will affect local authority housing infrastructure financing

Local authorities are likely to seek alternative sources of finance for new infrastructure or housing following the increase to the cost of borrowing from the Public Works Loan Board (PWLB).

The UK Debt Management Office (DMO) has increased the margin charged on local authority PWLB borrowing by one percentage point for new loans from 9 October 2019.

<https://www.dmo.gov.uk/media/16115/hmt-letter-9-october-2019.pdf>

26. Construction firms fined £36m for breaking competition law

The Competition and Markets Authority (CMA) has issued three firms with fines totalling more than £36m for breaking competition law by being part of an illegal cartel supplying concrete drainage products for building projects. Northern Ireland-based firm FP McCann Ltd is facing a fine of more than £25m for its part in the scheme. Derbyshire-based Stanton Bonna Concrete Ltd is due to pay more than £7m, and Somerset-based CPM Group Ltd are due to pay £4m. The fines have been imposed after the CMA found that the companies broke competition law by taking part in an illegal cartel covering the UK. From July 2006 to March 2013, they agreed to fix or coordinate their prices, shared the market by allocating customers and regularly exchanged competitively sensitive information.

27. Rate of construction-worker injuries rises for first time in five years

The rate of non-fatal injuries to construction workers has risen for the first time in five years, according to the Health and Safety Executive's (HSE) latest statistics. Reported non-fatal injuries per 100,000 employees in the sector rose marginally, from 359 in 2017/18 to 366 in 2018/19.

This placed construction considerably above the all-industry average of 254 injuries per 100,000 employees, though well below the most hazardous sector in this category, sewerage, waste management and remediation activities, with a rate of 960 injuries.

However, the total number of reported non-fatal injuries in construction decreased by 1.2 per cent, from 4,932 to 4,872. This marks the continuation of a downward trend in total non-fatal injuries, a figure that stood at 5,449 in 2014/15. The number of construction prosecutions by the HSE reached a new low in 2018/19, with 158 cases compared with 202 in the previous 12-month period