



The Infrastructure Charter

Putting construction at the heart of a
modern industrial strategy for the UK

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With the Government soon to publish its industrial strategy, this report sets out an argument to make better infrastructure a core and urgent part of this strategy, backed by some clear and impactful policies to boost productivity and regional growth.

We already do some things incredibly well in the UK and we should be proud of them, talk about them more (and complain less). But we can still do things better. This internal four-point 'fitness training programme' will help the UK become 'match fit' and should be an absolute priority for government. Our comparatively poor infrastructure, by global standards, is holding Britain back as an attractive place to invest, limiting business potential and most damagingly, is restricting the growth of regional economies. We simply will not be able to develop a successful industrial strategy or make a real success after exiting the EU, if growth between our regional economies remains so unbalanced. (See Appendix 1 for some key facts).

To help develop thinking on how to tackle this challenge, our consultancy and construction experts have produced an **infrastructure charter**: a collection of four simple but essential policies that are needed to help kick-start the UK's post-EU industrial renaissance.

1. Giving the UK a competitive advantage by investing in R&D

The construction sector has lagged behind others sector of the economy in innovation and productivity. As we exit the EU, we will need this sector more than ever – to build the infrastructure and new homes essential for making the UK an attractive place to invest. In recognition of this crucial role, and the historical sector wide underinvestment in R&D, we believe two clear policies are needed:

a) innovation incentives: the Chancellor pledged at the last Autumn Statement to review the R&D tax environment and we call on Government to use a contribution from the £23bn National Productivity Investment Fund to **prioritise a special 5% uplift on existing innovation tax credits for construction projects**, in recognition for the essential role the sector will play in supporting and rebalancing our economy post-Brexit.

b) tackling poor take-up: as well as making incentives more attractive, we must tackle the problem of low awareness in the construction sector of available R&D incentives, especially

among SMEs. Recent research by global accountancy firm Moore Stephens, showed that low awareness means **the sector is missing out on around £4 billion in available but unclaimed credits**. We suggest the Construction and Leadership Council, an industry-government body, is used to work directly with construction SMEs to boost awareness of the important tax credits available.

(Reference for the Moore Stephens £4bn: "Construction firms missing out on billions in unclaimed R&D tax credits." Press release, 13 July 2016, Moore Stephens.)

2. Mayor-led infrastructure enterprise zones

The devolution agenda should help efforts to rebalance our economy, since elected mayors will be given a strategic role in developing region-wide growth plans. Their powers will be negotiated with government, but typically appear to be focused on housing, planning and skills, with London and Manchester also taking public service powers.

We believe mayors should be given more specifically economic powers and more quickly, but to ensure effectiveness, in areas where there is a proven case that local economic

management leads to definite economic benefits. Infrastructure projects are the key example of this and now that the recent Autumn Statement proposed more funding and borrowing powers for infrastructure development for mayors, we believe they should be able to develop enterprise zone schemes around projects.

These would be new powers to designate infrastructure developments as enterprise zones, where the power of new developments to generate localised economic benefits can be accelerated through the use of economic levers such as more flexible business rates, new powers over planning to speed site development and stamp duty holidays on surrounding housing developments.

The aim would be to emulate the successes of projects such as the redevelopments of Birmingham New Street station and London's St Pancras and Kings Cross. These show how infrastructure, retail and housing can combine to produce important local zones of new jobs and growth creation – but in many other areas a boost of financial incentives is required to kick-start the development of local markets.

3. Drawing and keeping talent in the North

If the Government is to succeed in its aim of rebalancing our regional economies and making a success of Brexit, then the high levels of brain drain that stifle economic development in the north of England need to be tackled as an urgent priority. Infrastructure projects based in the North will be of some help in retaining talent, but we call on government to use its huge workforce planning power to do more to help retain northern graduates in the region.

Government should set up, in a northern city, such as Manchester or Leeds, **a National Civil Service Fast-Stream College**, which would be a focal point for northern (and other) graduates, and others with technical skills, to begin a career in the senior civil service.

The Government would use the College to bring many more graduates from the north and other regions outside London into fast stream training. Crucially, the College would work with regional employers to create industrial placements to help build private sector skills. It could also be a hub for placements within regional councils and combined authorities.

This idea would be good for government, as well as the regions: while some fast-streamers are now being trained outside London, the focus of the majority in the capital was highlighted in the Government's own recent (and very critical) 'Bridge Report', as a key element in maintaining the endemic elitism and lack of diversity it saw in the present fast stream system.

4. Devolved transport delivery bodies

London's world-renowned public transport network is a direct result of power being handed to the mayor. This model has been replicated in some degree with Transport for the North, but we believe that body needs greater independent power and the model should be replicated in every major region.

Transport for the North is seeking independent statutory status to become England's first sub-national transport body. We support this move, and believe this must happen as soon as possible – in order to put the organisation in a better position to develop the transport improvements needed to transform the North's economy.

Appendix 1: Importance of better infrastructure to UK economy:

- Poor infrastructure in the UK, particularly in transport, is holding back our economic growth and the attractiveness of Britain as a place to invest. Recent analysis by the World Economic Forum (WEF) ranked the UK 24th in the OECD for quality of transport infrastructure, behind countries like Iceland, Portugal and Luxembourg. (Global Competitiveness Rankings, WEF, 2016).
- This is in spite of the fact that infrastructure improvement carries a clear and positive return on any investment made: the WEF research also shows that for every dollar spent on a capital project, including in transport, an economic return of between 5% and 25% is delivered.
- In terms of the Prime Minister's goal of creating a more geographically balanced model of growth for the UK, the poor transport situation outside London is preventing the good regional connectivity that is vital to that growth. Analysis by HS2 Ltd highlighted that poor transport links across the north of England, in particular, are severely limiting connectivity to some of our most important city regions, e.g., around Manchester and Leeds (*Rebalancing Britain, HS2 Ltd, 2014*).
- Our own research, conducted by a former Treasury economist, confirms this and shows that even modest improvement schemes, like road widening or rail signalling enhancements, particularly at pinch points, would deliver huge benefits. The analysis shows that small interventions that made average journey times between major cities outside of London just 60 seconds faster would deliver economic benefits of £3.4 billion each year (*The economic value of inter-city connectivity improvements, Mace, November 2016*)

Appendix 2: YouGov polling for this report:

Key findings:

Public believe infrastructure now crucial to Britain's Brexit prospects:

Over ten times as many people believe Brexit makes it more important to invest in infrastructure than those who do not: (49% to 4%)

Many see this as an urgent national problem:

Over 40% of the public believe the UK is worse than other countries at delivering major infrastructure projects, like airports and railway lines. (41% better; 14% worse).

Key issue is skills: public believe we lack home-grown talent and should switch more funding to technical skills:

84% of people believe it is important we train British workers to deliver our infrastructure projects, rather than rely on skills from overseas.

More than four in ten (42%) people believe too much money is being spent on universities at the expense of technical training and apprenticeships. Less than a fifth believe government currently has the balance about right (18%)

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1,682 GB adults. Fieldwork was conducted in November 2016.

Mace
155 Moorgate
London EC2M 6XB
+44 (0)20 3522 3000

www.macegroup.com