

## ACE Budget Submission

February 2010

### 1. Introduction

1.1. ACE is pleased to contribute to the preparations for the spring 2010 Budget.

1.2. ACE represents the UK's consultancy and engineering industry. Its 750 member companies collectively employ more than 100,000 people and contribute approximately £7 billion to the UK economy annually.

### 2. ACE's key recommendations

2.1. Address the deficit in a way that gives confidence to investors;

2.2. Support construction as a means of driving economic growth;

2.3. Reform public spending through efficiencies in procurement processes;

2.4. Ensure higher education resources are prioritised to support those industries that are vital for economic growth;

2.5. Set out clear, cohesive plans for encouraging private investment in infrastructure;

2.6. Address market and regulatory issues to facilitate the delivery of new energy generation capacity; and

2.7. Reform the water industry regulatory cycle to reward innovation and long term investment.

### **3. Addressing the deficit**

- 3.1. ACE recognises the need to reduce overall public spending. There are undoubtedly efficiencies to be gained and savings to be made; ACE believes that the proposals outlined in this paper will help to address the deficit while minimising the effects on industries that are vital to the UK's prosperity.
- 3.2. Serious, workable, feasible proposals – with costings and timescales - to address the budget deficit is vital to provide confidence to investors. The longer this is delayed, the more potential there is for damage to the UK's bond and equity markets. In turn, this risks creating a serious investment gap when public spending is scaled back.
- 3.3. Steps should be taken to maintain the UK's credit rating. This will help to provide confidence to potential investors, in contrast with the issues experienced by some eurozone economies.
- 3.4. Low interest rates mean that monetary measures are unlikely to stimulate more activity in the economy. The recent decision to put quantitative easing measures on hold suggests concern about its inflationary potential.
- 3.5. Sudden, severe cuts in public expenditure may harm growth prospects, at least in the short term. Therefore, ACE urges the Chancellor to outline where efficiency savings in public expenditure could be achieved, and where investment could be best targeted (for example in energy,

utilities and transport infrastructure) to encourage growth.

3.6. Any changes to tax policy should be both incremental and well thought through. Clarity over the impact of tax changes and the intended use of any extra revenue will be essential to maintain domestic and international confidence.

3.7. ACE would like to see a direction of travel set out towards a simpler tax system that incentivises sustainable and carbon-reducing behaviour.

3.8. A study by PricewaterhouseCoopers (2009) has proposed a hybrid carbon tax and trading scheme. Proposals such as these should merit careful examination and be balanced with the experiences of countries that have already introduced carbon taxation, such as Norway.

#### **4. The importance of construction in our future prosperity**

4.1. Construction has a significant role to play in unlocking the potential of the UK's economy. It is a major source of employment and opportunity, and makes a significant economic contribution.

4.2. The construction value chain represents 10 per cent of UK GDP, and provides a £223 million trade surplus annually. The sector comprises of around 3 million people employed by 300,000 businesses – approximately 8 per cent of the workforce (*source: LEK, 2010*).

- 4.3. Construction activity provides positive returns on investment. Every £1 invested in construction generates a total of £2.84 for the wider economy, most of which is retained in the UK. The return to the Exchequer for every £1 invested in construction is 56p (*source: LEK, 2010*).
- 4.4. Construction activity enables growth in many other areas of the economy. It is a key sector in the delivery of new electricity generation, transport enhancements, flood risk management and carbon reduction.
- 4.5. Supporting construction is vital to enhancing social opportunities and reducing inequality. It is key to enhancing schools, hospitals and community facilities both large and small. It directly provides high quality, sustainable jobs and training opportunities.
- 4.6. We recommend that the government should adopt a strategic decision to invest in construction and infrastructure development as a platform to position UK plc ahead of its competitors on the low carbon economy agenda.

## **5. Procurement**

- 5.1. ACE recommends that the government demonstrates a real commitment to reforming public procurement. This should focus on reducing waste, spreading best practice and widening opportunity to participate.

- 5.2. In particular the Treasury, via OGC, should focus on reforming the use of frameworks in public procurement. Reducing the variety of quality of practice in procurement – at both the national and local level - is essential to achieve best value.
- 5.3. Key issues with public procurement currently include the proliferation of contract terms, use of bespoke contract agreements, duplication during prequalification processes, imposition of unlimited liability and a lack of relevant skills of procuring professional services among public procurement teams. This can result in less-than-optimal value for money.
- 5.4. Transport for London's professional services framework is a current example of joined-up procurement practice. Other London boroughs and public organisations are able to procure through the framework, thereby reducing duplication and easing the administrative burden on suppliers.
- 5.5. Such an approach also benefits public authorities, for example by sharing procurement expertise and resources.
- 5.6. Spreading good practice will help deliver real value for money for limited public investment, and will give greater support to UK businesses.
- 5.7. There may also be overall macroeconomic benefits to reforms of public procurement. Research by the European Commission (Vogel, 2009)

suggests that the efficient use of efficiencies in public procurement could yield significant GDP growth benefits.

## **6. Education**

- 6.1. ACE would like to see recognition by the government that investment in the next generation of engineers needs to happen now, so that there is a viable and competent workforce when the economy recovers.
- 6.2. The short term budget difficulties of higher education should not be addressed by cutting back on technical or engineering education (the STEM subjects), even though such courses can be more expensive to deliver. This would be a false economy.
- 6.3. Innovative ways of directing funding to STEM courses should be considered. These could include variable tuition fees, flexible modes of study (for example the credit-based qualification model used by the Open University), and greater collaboration between universities to share resources.
- 6.4. Encouraging greater involvement of business in designing, funding and delivering courses could also be useful. This will help to raise confidence in higher education provision and provide access to a wider base of knowledge and resources.
- 6.5. The CBI's proposals to reform the current funding rules for higher education should be examined to see if greater flexibility could be built in

to the current funding regime.

- 6.6. The government should also take note of the findings of the Independent Review of Higher Education Funding and Student Finance which is due to report in 2010.

## **7. Infrastructure**

- 7.1. ACE would like to see more details of the investment mechanisms proposed in the Pre Budget Report.
- 7.2. Reform of the PPP system, further proposals to incentivise investment in infrastructure (such as infrastructure gilts) and a focus on investing in asset maintenance would also be helpful.
- 7.3. ACE has published proposals on the use of infrastructure gilts and the creation of a regulatory asset base to help encourage greater private sector investment in infrastructure.
- 7.4. Improving the planning approvals process is vital to ensuring that the stimulus funds reach infrastructure. A survey by KPMG of public sector leaders involved in infrastructure development highlighted a slow approvals process as being the biggest challenge (*source: KPMG, 2010*).
- 7.5. Providing confidence to the private sector supply chain is key. Almost two thirds of public sector infrastructure providers believe that the private

sector can help to deliver infrastructure more efficiently (*source: KPMG, 2010*).

7.6. ACE welcomed the creation of Infrastructure UK, and also supported the intent of the Planning White Paper. Such reforms should aim to give greater visibility and certainty to investors and infrastructure providers.

7.7. ACE recommends that infrastructure is examined and developed as a cohesive system involving transport, energy, water and sewerage. There should also be clear links with other public policy areas, particularly housing, health, employment and education.

## **8. Energy**

8.1. The UK is facing a potential energy deficit in the next decade, as existing generation capacity is taken out of service and oil prices potentially rise. Developing and securing the UK's energy supply should therefore be treated as an issue of maximum importance.

8.2. It is perhaps unlikely that market signals alone will deliver the required generating capacity quickly enough. The government should therefore carefully examine Ofgem's proposals to reform energy markets to establish what benefits could be delivered (Ofgem, 2010).

8.3. The planning reforms currently underway are helpful, but need to be coupled with a realistic assessment of the capacity of UK industry to deliver. More incentives for the supply chain may be useful, particularly

for the offshore wind industry; sourcing under-sea cables is a particularly problematic area.

- 8.4. Developing an enhanced grid to support a new fleet of nuclear and renewable power facilities should also be a priority. Resilience of the grid to consumer demand and climate effects could be a limiting factor on the UK's energy supplies.

## **9. Water**

- 9.1. Maintaining a resilient water infrastructure is a vital issue. ACE would support reforms to the current regulatory cycle to encourage long term investment.
- 9.2. Failure to deliver long term capital maintenance of existing assets risks a deteriorating quality of service and greater operating costs in the future.
- 9.3. In particular, resilience of water assets to flooding and sea level rise is a serious concern in several parts of the UK.
- 9.4. The Tideway Tunnels project is an example of how a long term capital project can be delivered in partnership outside of the regulatory cycle. The government should learn the lessons of this project and consider how the core principles could be applied to capital investment over the wider network.

- 9.5. The current cyclical nature of investment in the water network is creating an unstable and unpredictable environment for water utilities and their supply chains. This makes it more difficult to deliver high quality upgrades, maintenance and enhancements at a reasonable cost.
- 9.6. ACE recommends that the government takes steps to smooth the cycle of water investment to avoid famine-to-feast situations for suppliers. This will allow water companies to deliver their upgrade and maintenance plans on an ongoing basis, thus reducing disruption and ensuring higher quality outcomes at a lower overall cost to consumers.
- 9.7. Proposals by the All Party Parliamentary Water Group (2008) for a three tier regulatory process for water utilities – involving ten year capital investment plans, five year operational budgets, and 25 year overall strategies – merit careful examination.

## **10. Further details**

10.1. To discuss these proposals further, please contact:

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