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Report of the KEB Construction and Development Business Growth Consultation

Tuesday 29th March 2011

3pm – 6pm

at

Channel Suite, Leas Cliff Hall, Folkestone

Kent Economic Board hosted this event in partnership with Kent Developers Group and KCC

www.kent.gov.uk/business.aspx

KEB Construction and Development Business Growth Consultation Event – 29th March 2011

Draft Event Report

The Kent Economic Board (KEB) hosted this event in partnership with Kent County Council and the Kent Developers Group.

Some 104 people attended 88% of whom were from Construction related businesses.

The Business Champion for this sector consultation was Terry Mitchell. Terry is a Project Director for Skanska Infrastructure Development UK Ltd. He is also a member of the KEB Business Advisory Board.

The Speakers were Paul Carter, Leader of Kent County Council, Martin Page from DHA Planning, Dominic Wilkinson from PricewaterhouseCoopers and Terry Mitchell from SKANSKA – with concluding remarks from Kevin Lynes, KCC Cabinet Member for Regeneration and Economic Development.

Below is a summary of the key points made in the presentations (the full presentations can be viewed on the KEB website www.keb.org.uk), and a summary of the points from the plenary and table discussions and feedback forms. We received written submissions on the discussion questions from 12 individuals (commenting on behalf of their discussion group) detailed feedback questionnaires from 25 individuals – and general comments from a further 11 individuals. This has provided a rich contribution to setting the priorities for business growth for this sector.

The conclusions will be informing the KEB and KCC Business Growth Programme and the LEP priorities.

Speakers Headline Points

Paul Carter, Leader Kent County Council

Paul emphasised the importance he placed on this programme of Business consultations. He said 'they are designed to enable us to listen to the construction and development sector and try to understand what the public sector can do to create an environment that is conducive to make business grow and new business start up'.

He explained that these events were key to establishing the "new relationship" with the Business Community advocated in the Kent Regeneration Framework – and the feedback will shape the action plans to deliver growth in the Kent Economy. He commented that there is also an opportunity via the LEP to put shared and strategic issues on the wider stage of Kent & Medway, Greater Essex and East Sussex and as appropriate use the lobbying power and access to Government the LEP should provide.

KCC is currently producing a series of sector strategies that will be informed by this, and the other consultations - he encouraged delegates to be 'solutions orientated' – stating that he hoped the outcome will be a limited number of grounded, deliverable, intelligent and common sense actions - that will significantly help the growth of the sector. He said the public sector has a key role in assisting to create the conditions for growth.

Current data indicates the construction sector is worth some £1.7bn per year in Kent, and employs 6% of the workforce (38,000) – proportionately higher than the national figure. There are significant opportunities for the sector in Thames Gateway - Eastern Quarry in Ebbsfleet has the potential to build 55,000 homes, with 58,000 jobs potentially created – and at the other growth points in the County, Ashford, and Dover etc. Most of the planning consent has already been achieved in these areas; what is now needed is an economic climate conducive to development.

KCC is the largest English County Authority, with a capital programme worth approximately £500m per year – with priorities for the programme including the A21 upgrade, solutions for the third Thames crossing, a simpler scheme for "Operation Stack", the creation of an Investment Fund for Kent and the implementation of the Kent & Medway Housing strategy.

Paul identified inhibitors to growth for this sector as:- over regulation, torturous planning, rigid 106s, risk adverse banking, restricted mortgage funding, and the reduction in funding from the Housing and Communities Agency (HCA) to Housing Associations. The list of what needs to change some of which is being facilitated by the Localism Bill includes greater autonomy for planning, the abolition of regional targets and a new simplified National Planning Framework.
He went on to identify that more is required from National Government relaxing pension fund rules to free up investment into residential and commercial development, tax breaks for business expansion, Enterprise Zones not just in the North East but here in the South East too.

He concluded with the statement "Kent County Council taking a lead in promoting and environment conducive to existing businesses being able to expand and new businesses to start-up and grow" and the question to delegates "What do we need to do to achieve this for this sector?"

Dominic Wilkinson, PricewaterhouseCoopers

Dominic leads the mergers and acquisitions team for PricewaterhouseCoopers focused on the construction sector. He outlined the challenging conditions the sector had endured since the start of the recession which had led to significant restructuring, overcapacity and squeezed margins. Given the reduction in public sector spending and the need to adapt to market conditions – successful businesses will continue to address overcapacity, drive efficiency gains and innovate.

Construction has a complex and detailed supply chain – which results in every £1 of construction spend creating £2.84 of economic activity.

He reported that since 2007 there had been a marked trend in senior professionals - designers, the architects and the engineers – leaving the sector, which is likely to impact on the industries capacity in recovery.

Re Government spending Dominic advised that on analysis the cuts amount to taking public spending back to the levels seen 2 or 3 years ago, perhaps what is more significant is the lack of private sector funding in response to the difficult lending environment. Typically privately funded housing and commerce accounts for approximately 20% of total building, and this element of the market is very weak. Interest rises and uncertainty over employment prospects are all contributing to slow growth. Looking at sub sector trends projected expenditure on infrastructure is the most encouraging in terms of maintaining its current levels.

All corporate UK is under pressure to reduce costs, much of this through reducing numbers in the supply chain; this consolidation will necessarily affect larger and small businesses in Kent.

Some construction companies are now offering their own finance schemes to buyers as a method of progressing house building sites. This is proving very appealing to customers, who would currently find it difficult accessing bank lending.

He went on to explain that 'London and the South East, and especially Kent are well placed, to pick up growth when it occurs – and have typically seen between a 4 or 2% reduction in output compared to an average of approx 7%.

He also commented that growth has rates globally are stronger (2 to 3 times better) in Asia and Australia, than in Europe' – so those companies with an international presence able to compete in the early growing economies (the IMF growth list also includes Brazil, Russia, India and China) will benefit.

He identified that the factors that will support growth will be a skilled workforce, innovation in supply chain management, accessing overseas markets, unlocking public sector land assets, and using public money to better facilitate and target opportunities.

Martin Page, DHA Planning

Martin's focus was on planning as an enabler, but he started with the statement that 'we are in the 'present future', and this is how things are going to be, new government, speed of change, recession, a new fiscal and spending environment. Ever rising land values can no longer be taken for granted, and developers must become more efficient, the 'safety cushion' has gone'.

The government will no longer be committed to targets, and the developer will have to deal directly with the public, and develop relationships with local authorities and communities - localism down to smaller scale than we have been accustomed to, will be the norm.

He identified 3 critical issues:

The Localism Bill
Martin described the new issues that are emerging as a result of the localism bill; the abolition of regional house building targets and regional planning. He suggested that one of the consequences of the Localism Bill is that English local authorities have cut planned new homes by about 160, 000. Localism has become a byword for anti development sentiment by some - supported by planning inspectors, and for others this empowerment is a positive. There is also a question over the development of the regional growth points, and how relevant these are likely to be now the targets have gone?' he asked.

New Homes Bonus
Raises questions about what is the national policy for house building? Because although national policy is still there - now it is about the volume of new housing, which must be established by local councils, taking an 'evidenced' based approach - key sources of this evidence based approach will be the strategic housing market assessments. He posed the question 'will planning authorities embrace this challenge or retreat into localism?' With the cut in grants, maintaining the regional house building targets is no longer achievable, as these appear not to be fully funded through the new homes bonus'.

Tax Incremental Competitiveness (TIF)
There may be opportunities to use TIF to maintain competiveness, possibly to be piloted in enterprise zones (if we get some in Kent & Medway in the 2nd round). The Community

Infrastructure Levy (CIL) will shortly be replacing section 106s and he explained how this would also help to fund infrastructure if set at a realistic rate. 'The use of public private partnerships and their creative use of public assets has a rich history in town centre redevelopment, this still has the potential of much further investigation, with many opportunities for public/private collaboration to produce new infrastructure which could lead to wider economic benefits' he commented.

Therefore, what are the opportunities?

Martin commented on the potential of the Regional Growth Fund (RGF) there was so far £2bn of projects submitted bidding for £250m of funds. He also noted that the LEP and the business communities' engagement will be fundamental to securing success. His final points were that 'the uncertainty created by the removal of the regional planning targets should be seen as an opportunity to develop local initiatives – and that councils helping first time buyers could stimulate the housing market'.

Terry Mitchell, SKANSKA Infrastructure Development UK Ltd

Terry reflected on the differing views that the public and private sector have over development and what is required to manage a successful public/private partnership when taking projects forward.

He explained that what was required was 'the right polices, right property and the right people'

The right polices.

The 'necessary pro-active approach to policy framework', - he paid tribute to KCC as being innovative and entrepreneurial in its approach to partnership working – citing the example of how they embraced Building Schools for the Future (BSF) and the Academy programme, and under the current government how they had challenged policy when the BSF programme was cancelled. The transport delivery plan 'Growth Without Gridlock' is another example he gave of how Kent had clearly established its priorities with government. The stance of 'give us the power locally and with our partners we can offer to deliver' he suggested gave confidence to business that we are in good shape locally to take advantage of these new polices as they develop.

Implementing a local policy framework is clearly a challenge, against the national position of cuts, and the localism bill and the disposal of SEEDA assets, which all affect this sector. He concluded with the point that the more business gets involved the greater chance of influencing circumstances to support business growth.

The right property.

The public sector estate in Kent, Terry claimed, is worth some £5bn with annual running costs of approximately £300m. There is a considerable opportunity for the Local Authorities to work together imaginatively to 'sweat' this asset. He gave the example of where this was already happening in Essex, a joint local authority proposal called 'E17'. This group of local authorities have shared protocols on how they can work together, 'they have calculated they could release £90m in capital receipts, with £30m revenue savings over 5 years' he quoted.
Terry then showed a series slides of international examples, from Chile, Virginia USA, Parkway extension roadway USA, and Malmo city extension, where public / private partnerships had worked with SKANSKA and others very successfully.

The right people.

"There are some people who you just don't want to work with". However, he went on to explain that to create a successful partnership it is necessary to really commit to making partnerships work - 'You cannot share power, in a successful partnership you have to give it away', 'this is a good starting point for any partnership' he commented.

Developers want to receive a return on investment - the public sector equally needs to make a return for their stakeholders, but whether financial or social output there is more mutual interest than partners realise. He ended saying 'this is a deal we, as developers have to embrace. Successful partnerships are only successful because of successful leadership'.

Plenary discussion

Terry then invited delegates to discuss on their tables the 4 questions below – a summary of the key points raised is noted below

Q1. What do you think are the key issues to address to unlock potential;

- Skills and training
- Ensure procurement and pre qualification questionnaires (PQQs) are fit for purpose and not burdening small and medium sized businesses with unreasonable upfront costs.
- A smoother method of predicting, mitigating and managing environmental and ecological issues – in order to improve efficiency, return on investment etc.

- Establish protocols to improve and speed up communication between developers, councils and local communities to prevent issues from becoming major blocks.
- Introduce and development new sources of affordable finance (Lloyds TSB model) broaden access to Venture Capital.
- Introduce more flexibility in section 106 contributions, timing and deferment.
- Champion, lobby and pursue major infrastructure schemes – these have a major multiplier effect in the local economy.

Q2. To address concerns about the planning system - what are the key aspects that are needed to support construction & development;

- Improve communication protocols
- Where possible work to eradicate uncertainty as developers will be unwilling to commit resources whilst they have low confidence in a supportive planning system – and feel unsure of the local policy position.
- A shared understanding between the development community and local authorities of how Localism is being interpreted – and what the scope is for using it as an enabler to deliver more houses.

Q3. Where do you think the key opportunities for growth lie for this sector;

- The New Green Deal and feed-in tariffs.
- Rolling out a programme of retrofit, new developments are shackled by the codes for sustainable home requirements, where existing property retrofit would be much better value for money, and bring tangible benefit to homes and tenants.

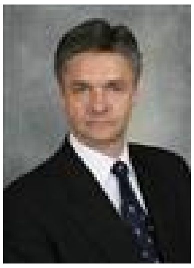
Q4. What are the key obstacles to effective procurement and how could these be addressed to open up opportunities;

- Over reliance and the relevance of of pre qualification criteria before tendering.
- The lack of clear criteria in the tender process e.g. value for money or cost.
- Unrealistic time scales
- In some instance the poor quality of information given to companies tendering

Terry then asked panel members for final comment.
Paul Carter commented that KCC procured about £1bn worth of products and services a year, he hoped the process was as open and transparent as possible, 'we are developing new procurement strategies to help local businesses but are held to account by EU regulation' he said. He went on to say 'the inhibiter at the moment is the lack of mortgage finance, not the lack of sites'. He explained that the current district plans are not too dissimilar from the old Local Development Framework (LDF) numbers, however, he said 'developers will not come forward until they know they can sell their product, its got to be economically viable, and there is a pent up housing demand'.

Andrew Pearce, from the Environmental Agency made a plea to delegates present to promote a consistent dialogue between developers, communities, and districts, as would be required in the localism bill to prevent time delays through blockages. 'Where we can have these conversations delays can be avoided' he said. He suggested that this group should be thinking of ways to facilitate this process.

Summing Up



Kevin Lynes, KCC Cabinet Member for Regeneration and Economic Development

Kevin Lynes thanked all delegates for attending, he commented that the aims of these meetings is to establish 'how can the public sector help business to grow in Kent, by working together and then addressing the issues that will unlock growth'.

He commented on the themes of Dominic's presentation about driving efficiency, through 'supply chain consolidation, and the move from large internationals to develop some of the big infrastructure projects in Kent', and how we needed to 'gear up to exploit these opportunities through a skilled workforce, and local supply chains'. He gave the example of the skills centre in Swale which had been given over to developing those skills needed by the offshore wind industry, and as result was now the chosen centre by London Array providing technician training.

As a County he explained we should be developing our workforce to show to developers that we are willing to engage and assist them. SusCon in North Kent he gave as another example where 'as a county we are leading the way in developing the skills needed as this sector moves forward'.

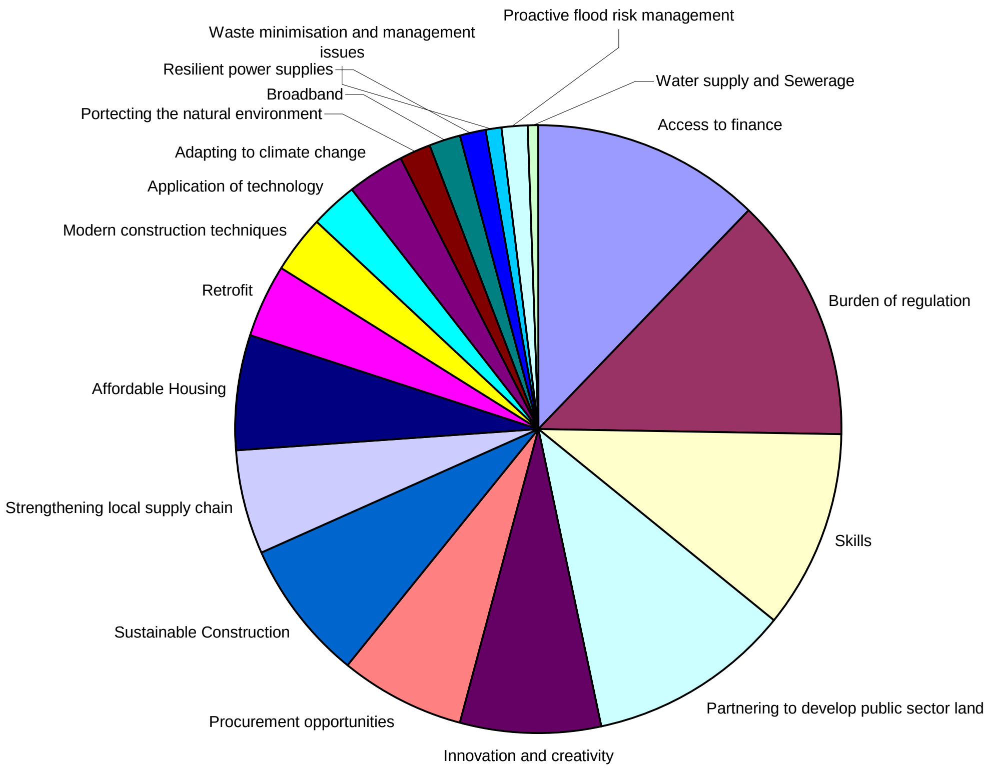
On the funding gap emerging via the implementation of the New Home Bonus, by 2016, - Kevin suggested that "with the courage of KCC and the passion delegates had demonstrated during the afternoon - we should be giving this government the ideas and answers to problems like these that they can roll out across the rest of the UK' he said.

Commenting on Terry's presentation – he spoke about the exciting opportunity the Investment Fund represented – and the ambition to work closely with the private sector to realise this innovative project which has the potential to improve outcomes for people that live and work in Kent. He gave the example of where Kent was working alongside the construction sector and others are utilizing the applications of technology such as Telehealth and Telecare, to enable people to stay at home longer and cost less to the public purse.

Over procurement, he commented that 'we have to find ways to enable Kent businesses to successfully bid for Kent contracts, regardless of size where appropriate'.
He ended by saying 'Government has never before been so open to suggestion, so lets work together to source some solutions'.

Summary of key points from the feedback forms

To help us capture your views re priorities and opportunities please identify the top six most important to you from the list.



Other Suggestions to add to the list:

- Certainty in the planning system
- Quality of Infrastructure & Transport
- Urban Regeneration
- Commercial Liability

What do you identify as the most important issues associated with your chosen priorities?

- Release the Finance from the Banks to kick start the economy.
- Certainty and risk management in the planning system to stimulate investment. RICS held a series of discussions with local authorities and developers in autumn 2010 and has presented key findings to the Secretary of State - report available on request.
- Space for new business (start ups)
- New models for procurement and the implementation of infrastructure.
- The policy of Kent Business for Kent Businesses should be adopted by procurement officers.
- Sustainability could be an avenue for business growth.
- Need to upskill workforce - difficult with limited funds available for adult learning.
- Demand for commercial/industrial/residential property & the ability of developers to meet this (if it occurs).

- Ensuring that we attract talent to the industry; develop current talent (upskill-reskill); and improve business performance.
- A "can do" attitude in Local Authorities.
- Reducing regulations.
- Showing markets to operate in a way which most meet customers demand.
- More business failures occur due to cash flow problems on the upside than do on the down-slope.
- The ability of first time buyers to obtain mortgages.
- Delivering `localism' through strong public and private sector partnerships and co-operation.
- The over-burden of numerous recent poorly researched planning and building regulations has significantly contributed towards the delays and costs of residential and commercial development. In recent years there has been a raft of continuing and often conflicting legislation which has stymied, slowed down and in some case entirely frustrated development
- The lack of reasonably easy access to funding, not only to the development sector, but also to the 'end users' of developments (house buyers and businesses) has taken all the confidence and options away from fund seekers.

Can you identify any key actions that should be taken to address the priorities you have identified?

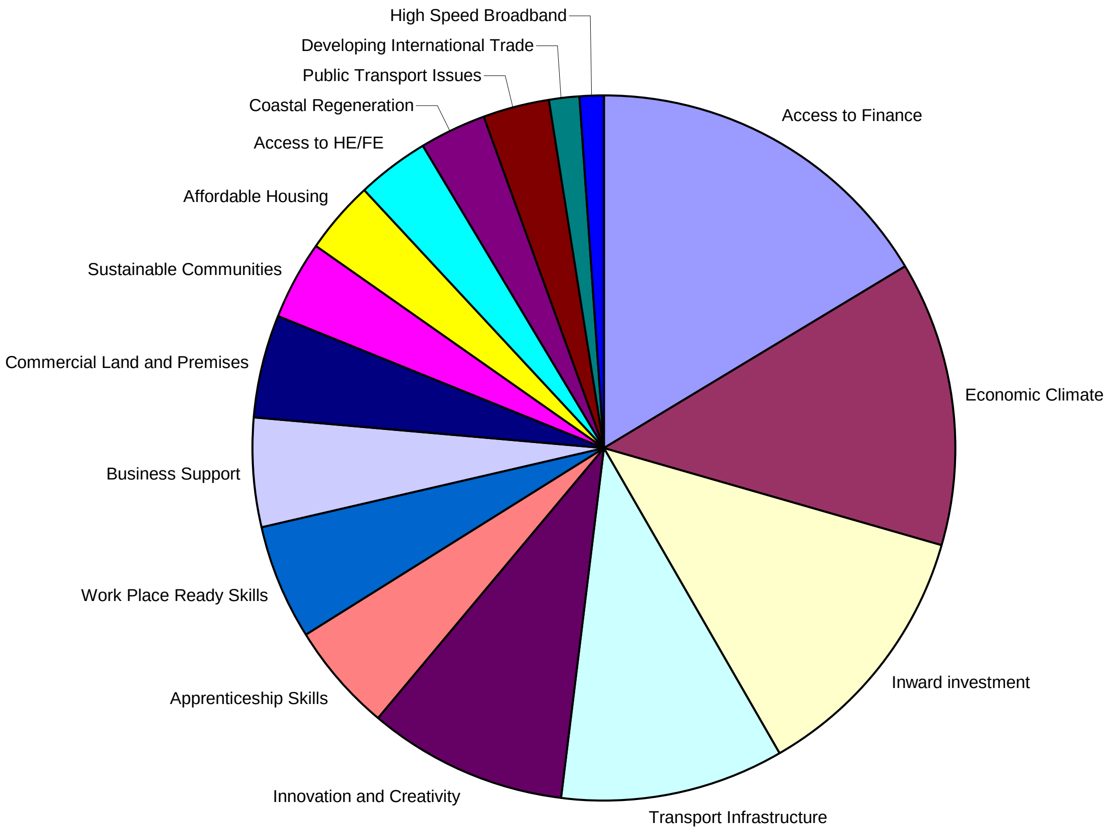
- Local Planning Authorities getting on with the approval of LDF Core Strategies.
- Release of Money from the Banks
- Speed and certainty in introducing national policy framework.
- Closer dialogue between developers and planning authorities.
- Intellectual discernment in procurement process.
- Less emphasis on prequals.
- Investment in the future.
- Closer liaison with Planning Departments & Developers.
- Open and clear dialogue to enable entire supply chain to engage with clarity.
- Partnership working.
- Deregulation.
- The idea of releasing local authority land for development opportunity in joint ventures is of great interest. However, finding suitable funding to bridge the gap between the value of the land and the design, build and sales costs will be a challenge.
- Joint schemes between Local Authorities and Banks to assist in covering first time buyer deposits. Major release of greenfield sites and the abandonment of the sequential test.
- Renegotiation of S106 Agreements to allow late payments.
- Validate check list for planning applications to be greatly simplified.

What could you or your organisation contribute to the achievement of the priorities and associated actions?

- Back any movement to kick start the economy
- We have a wealth of knowledge of enviro technology in large commercial and schools environment.

- Expertise, connectivity and affluence across a wide range of professions.
- Positive Economic Development, Procurement and planning culture.
- Offer to attend meetings possible workshops with LA in future.
- Skills training using very professional lecturers.
- Supply chain initiatives on construction projects.
- Potential for bridging finance on specific schemes.
- Access to finance.
- National skills academy for construction project based
- Maybe the opportunity to introduce finance to kick start/re-energise projects.
- Very happy to work in partnership with Public sector to bring about the above.
- We would be happy to be involved in developing the ideas put forward and commit some time and effort to the cause.
- We would be happy to assist in discussions relating to planning Issues.
- Construction/sustainability industrial experience.
- Communication and co-operation across the skills sector.

More broadly to help the Kent Economic Board with its planning and future events, please tell us what you think are the most important factors in delivering prosperity, business growth and well-being in Kent over the next ten to fifteen years? Rank your top six priorities



Other Suggestions

- Planning System
- Being able to offer the homes the people of Kent deserve.
- Achieving greater advantage over other Regions/Counties, notwithstanding LEPs