



SEC GROUP'S RESPONSE TO THE GOVERNMENT'S INDUSTRIAL STRATEGY GREEN PAPER

About the Specialist Engineering Contractors' (SEC) Group and introduction to our response

The Specialist Engineering Contractors' (SEC) Group represents engineering in construction, the largest sector in the industry by value, covering around 60,000 companies (most of them SMEs) employing over 300,000 people. We would like to point out that within the whole life-cost of the built-environment, construction is reduced to 10% of the cost whereas the operating systems which firms in our sector design, install and maintain account for 80% of the cost.

SEC Group is an umbrella representative body comprising the sector's premier trade associations: British Constructional Steelwork Association, Electrical Contractors' Association, Building and Engineering Services Association, Lift and Escalator Industry Association, SELECT (Electrical Contractors' Association for Scotland) and the Scottish and Northern Ireland Plumbing Employers Federation (SNIPEF).

SEC Group is the only representative body that exclusively represents specialist contractors throughout the UK, working closely with the Devolved Administrations, who will be key partners in implementing any UK-wide industrial strategy. This response has been put together following discussions with representatives of our member associations and includes their comments and input.

Although primarily seen as part of the construction supply chain, specialist engineering contractors play a key role in many of the Government's key agendas, in particular those relating to built environment policies, and will be key deliverers of the Government's ambitious infrastructure programme:

- Specialist engineering contractors deliver design, installation, commissioning, maintenance, repair and replacement of complex structures and systems.
- They contribute to the economy of the connected facilities management sector and operate in a range of markets including manufacturing, renewable materials and energies, water, oil and gas.
- They are at the cutting-edge of construction technologies and innovative processes such as digital engineering, building intelligence systems, advanced manufacturing, robotics, telecommunications and 3-D printing.
- Consequently, they require a substantial investment in skills and know-how. They promote and provide career and training opportunities for professional, management

grades and craft apprentices, with over 5,000 new entrants annually.

In our response we will concentrate on questions relating to creating a healthy supply chain, ensuring the growth of firms in the specialist engineering sector and creating a fertile environment for innovation and increased productivity. Our members are active in areas of skills development and innovation, and they operate in regional and local clusters as well as UK-wide - we support their responses, particularly in relation to the questions relating to skills and new technologies; we will concentrate our responses on those questions relating to creating the right business, financial and regulatory environment for improving productivity.

Our contribution will primarily address the pillars for supporting business to start and grow, upgrading infrastructure, improving procurement, driving growth across the whole country and cultivating world-leading sectors. We believe that the UK specialist engineering sector could be a world-leading one – and this is the vision that SEC Group and its member associations aspire to achieve.

Response to specific Questions from the Consultation

1. *Does this document identify the right areas of focus: extending our strengths; closing the gaps; and making the UK one of the most competitive places to start to grow a business?*

In construction and the built environment the greatest added value is provided by the supply chains mainly comprising SMEs. We welcome the fact that the Green Paper acknowledges the need for policies to work for companies of all sizes.

We also think that improving productivity and generating growth requires an emphasis to be placed on harnessing the potential in supply chains for greater efficiencies. Therefore, we agree with the strategy's emphasis on growing businesses and we hope that the Government will pay special attention to improving procurement and upgrading infrastructure both of which could play a key part in this. Creating healthy and sustainable supply chains that can consistently deliver best value should be the focus.

It should be noted that whilst individual SMEs in construction could operate as efficient entities through investing in the necessary skills and technologies, they are often exposed to financial risks because of engagement at project level in processes that are outdated and have proven inefficient. We would like therefore to work with Government on prioritising solutions that could minimise these risks and help unlock the potential of firms in the sector. In fact, solutions exist; the challenge is to put in place an effective implementation plan.

2. *Are the ten pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?*

We agree with the ten pillars as a framework for growth; the pillars cover a wide range of activity and so our observations below are intended to add some detail to some of these.

Putting together an industrial strategy is an opportunity to address issues with a long term view and vision. While we focus on solutions to current issues, we should also ensure our solutions have a long-term positive impact. We would therefore suggest more emphasis on sustainability as a concept and in considering specific solutions, within infrastructure, energy

and skills development.

We (industry working together with Government) should focus on improving payment security which would provide SMEs with financial sustainability which, in turn, will give them opportunities to grow and innovate. Currently business to business indebtedness is running at approximately £30 billion, with small firms suffering the greatest impact. Poor payment practices and lack of cash flow security is a major barrier to improving productivity and has contributed to the fact that, compared to other sectors, construction has the worst record for productivity; productivity levels in the industry have been in continuous decline for the last 20 years.

We would therefore suggest a focus under the *Supporting business to start and grow* pillar on ensuring supply chain payment security. This could echo and re-inforce this Government's determination to remove the burden on SMEs of poor payment practices.

3. *Are the right central government and local institutions in place to deliver an effective industrial strategy? If not, how should they be reformed? Are the types of measures to strengthen local institutions set out here and below the right ones?*

We welcome the intention to work with industry to determine what and how business-led institutions could assist in implementation. SEC Group and its member trade associations will be ready to help.

Whilst the Green Paper has set out an industrial strategy framework, it does not fully set out the structures or mechanisms that will be put in place to **drive** the necessary change and ensure implementation. Will there be overall targets set or will these be set on a sector-by-sector basis?

Looking into the current central government structures, industry will welcome better co-ordination between departments (in our case, in relation to infrastructure, procurement and business/market regulation, between BEIS, Cabinet Office, Infrastructure and Projects Authority and the Crown Commercial Service) to ensure a joined-up approach to new initiatives and messages.

With regard to innovation, we have seen Innovate UK, KTN and Catapult Centres engaging better with our sector – something that we would like to continue. In relation to the local structures, we have seen over the years stronger voices and leadership through the LEPs and local government but advice and guidance for businesses can still be fragmented. Trade associations are ideal partners (for providing advice and support) as they operate at local level with direct access to many SMEs.

We note that the Green Paper does not fully address how progress will be monitored – in particular impact of initiatives at local and UK-wide level. We would welcome further clarity on the approach to evaluation and data collection. This is important to ensure whether initiatives are successful or not, or whether they need revising.

4. *Are there important lessons we can learn from the industrial policies of other countries which are not reflected in these ten pillars?*

There is a perception that other countries are better than the UK at long term planning as far as their infrastructure needs are concerned. One key lesson from other countries is that industrial strategies require a long-term commitment beyond the life of one government. So we hope, in our case, that Construction 2025, the industrial strategy for construction, published in July 2013, and which set out a strategy for sectoral improvement over a period of 12 years, will still be relevant (subject to any revision to reflect current economic challenges and new structures).

We also refer to some interesting examples from other countries within the context of questions 18 and 30.

5. *What should be the priority areas for science, research and innovation investment?*

We answer this question within the context of specialist engineering contractors operating in the built environment. We recognise that there is great potential for innovation within the built environment and that Government will be a significant partner/investor. We should seek to unlock investment from within the sector so that it stops being ‘survivalist’ and reactionary (as described in the recent Report by Mark Farmer, *Modernise or Die*, published by the Construction Leadership Council) but proactive and innovative.

The Construction 2025 strategy had identified key areas for innovation – and we would recommend revisiting this within the current Government’s Infrastructure Plan to identify the key priorities. We would like to see a business-led research plan for the construction industry in partnership with Government. Currently the Construction Leadership Council is developing ideas through three of its six workstreams (Innovation, Green Construction Board and Smart Technology); SEC Group’s nominated members are looking forward to contributing and working within these workstreams.

Our focus is also on how we can achieve innovation investment in priority areas. Overall our view is that, in construction, we must focus on changing our procurement processes to maximise the potential for innovation that exists in construction supply chains where the bulk of the delivered value is created. Our view has also been informed by a number of reports.

For example, in September 2016 a team from Pinsent Masons, Costain and Cambridge University published a report, titled *Innovation in the Supply Chain*. This concluded that, unless there was a radical change in procurement practices, the scope for innovation in construction supply chains was extremely limited. In the majority of cases a design “solution” is put forward as a basis for inviting tenders that are invariably driven by the lowest price. Within this context there is little incentive for the supply chain to innovate especially in relation to devising the most optimum design solution for the whole life of the structure. A significant amount of wasted cost and effort in construction is incurred in making the given design “solutions” work once construction is commenced. **We are encouraged that Pillar 5 aims to “use strategic government procurement to drive innovation and enable the development of UK supply chains.”**

Research carried out in 2013 for BIS (as it then was) by University College London – *UK Construction: An economic analysis of the sector* – listed a number of reasons for the low levels of innovation in the industry:

- high level of fragmentation with limited collaboration;
- procurement negatively impacting upon collaboration;
- sub-optimal knowledge transfer and lost learning points (there is little carry over of innovative processes from one project to the next);
- lack of awareness of benefits of innovation and lack of market uptake;
- limited access to finance and risk-averse attitude to innovation.

Interestingly the research authors make the point that innovation in construction often tends to be achieved by regulatory standards and health and safety legislation.

6. *Which challenge areas should the Industrial Challenge Strategy Fund focus on to drive maximum economic impact?*

From the perspective of the specialist engineering sector in construction there would be a great deal of support for promoting the technologies associated with energy storage (linked to off grid energy generation) and smart energy systems which have the potential for revolutionising our approach to energy efficiency and reduced carbon energy generation.

7. *What else can the UK do to create an environment that supports the commercialisation of ideas?*

Speaking from our own experience, SEC Group works closely with a UK university in the development of the digital technologies underpinning Building Information Modelling. A current research project is being funded by Innovate UK. This is being supported by ourselves, the University and three private sector partners. The output will be a tool to support construction supply chains in inputting data on to a collaborative platform for assembling project-related data especially in relation to design. The Innovate UK funding only goes as far as the development and production of the output. There is little support for its exploitation or for promoting and exploiting the output. By support we do not necessarily mean further grants but more investment models such as those currently available, for example, through NESTA, the innovation foundation.

8. *How can we best support the next generation of research leaders and entrepreneurs?*

Please see our answer to Question 5. The government would benefit from the intelligence available from trade associations and their ability to coordinate the limited but valuable time that SMEs can make available for research and innovation.

9. *How can we best support research and innovation strengths in local areas?*

On the basis that we have a research strategy in construction (see answer to Q.5), Local Enterprise Partnerships should be given the remit to decide how best to implement this locally. An example of good practice is the West Midlands Local Enterprise Partnership which has been very pro-active in supporting the piloting by Dudley College of one of the government's construction procurement models (Integrated Project Insurance – see also our

answer to Q 17) as part of another Innovate UK funded project.

10. *What more can we do to improve basic skills? How can we made a success of the new transition year? Should we change the way that those resitting basic qualifications study, to focus more on basic skills excellence?*

This is dealt with in the responses from our member associations.

11. *Do you agree with the different elements of the vision for the new technical education system set out here? Are there further lessons from other countries' systems?*

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13. *What skills shortages do we have or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by educational institutions in local areas?*

Our member associations can provide more specific responses.

14. *How can we enable and encourage people to retrain and upskill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate?*

Our member associations can provide more specific responses.

15. *Are there further actions we could take to support private investment in infrastructure?*

Our answer is that significant cost reductions in infrastructure (through eliminating process waste) is the one factor most likely to attract private sector investment in infrastructure and we elaborate on this in our response to Q.17.

16. *How can local infrastructure needs be incorporated within national UK infrastructure policy most effectively?*

We suggest that local and regional bodies should be encouraged to work together to develop their regional delivery plans. The regional plans can then be accommodated within the National Infrastructure Delivery Plan.

17. *What further actions can we take to improve the performance of infrastructure towards international benchmarks? How can government work with industry to ensure we have the skills and supply chain needed to deliver strategic infrastructure in the UK?*

The construction industry has the capacity to deliver more and better infrastructure for less and we would suggest the industrial strategy considers models of good practice and options

that will help develop this capacity. This needs to be a priority given that infrastructure spending will still be about half the level it was in the 1970s; our needs over the years for upgrading and modernisation will increase.

Our answer to Q.15 is that significant cost reductions in infrastructure (through eliminating process waste) is the one factor most likely to attract private sector investment in infrastructure.

The new review aimed at improving the quality, cost and performance of our infrastructure is to be welcomed. As the question implies the solution to delivering more and better for less is to utilise, at the front-end of delivery, the know-how and experience that exists in the supply chain.

The Treasury's view is that 80% of cost savings can be achieved at the planning and design stages – rather than during construction. Moreover all key decisions regarding risk should be made at the outset of the procurement process.

Last year the Infrastructure and Projects Authority published its Construction Strategy 2016-20. This proposed the continued trialling of three construction procurement models which are aimed at engaging the supply chain early in the procurement process. In addition, the Farmer Review (at p.58) urges Government to: *“look at.....[a] new..... project level insurance policy to re-aggregate the natural fragmentation that may exist around transactional and legal liability interfaces that often stand in the way of innovative procurement and product assembly models.”*

The IPI option would be particularly useful in attracting private sector investment because the IPI policy underwrites the cost projects.

Over some years SEC Group has funded and helped to support the work on one of the model procurement options referred to as Integrated Project Insurance (IPI).

- IPI is currently being trialled on a public sector project in the West Midlands.
- The aim is to reduce construction costs by up to 20% by appointing the design and construction delivery team from the outset to agree planning and design solutions and, after engaging in a robust risk management process, to agree with the client a cost plan.
- The cost plan should reflect the most cost efficient and effective way of delivering the client's success factors.
- The plan is then insured so that, in the event of any cost overrun, the policy is triggered.
- The policy meets the cost of any overrun subject to an excess which is paid in pre-agreed proportions by the team members.
- All team members are committed to removing process waste and, thus, reducing costs throughout delivery.

We hope that Government will support further trialling of this procurement option as the savings (for the public purse) are significant and it helps grow a local healthy SME supply chain. We would suggest that innovative procurement models could be adopted under flagship Government infrastructure projects.

In achieving the objective of creating an efficient delivery process that engages the supply chain early (and is an enabler for greater investment in skills and innovation within the supply chain), there is also the option to effect a change to the planning system. Such change would require that construction and infrastructure projects (over a certain value) are fully designed with a risk register prior to seeking planning consent. This could, then, encourage early supply chain involvement and achieve, as the pilot model projects have indicated, up to 20% savings. It could be implemented on a statutory basis through an amendment to the Growth and Infrastructure Act 2013 in order to help facilitate better infrastructure development for less cost to the public purse.

18. *What are the most important causes of lower rates of fixed capital investment in the UK compared to other countries, and how can they be addressed?*

Within the construction industry the lower rates of fixed capital investment are mainly accounted for by the following factors:

- Poor payment practices (the industry is notorious for its record of payment abuse, and recent Government initiatives have not had, as yet, the overall desired impact).
- There is little need for investment in fixed capital with respect to many construction activities (there are approximately 25,000 “zombie” companies in construction).
- The majority of the assets held by large UK contractors are exceeded by their liabilities; their “asset” is the liquidity resulting from their having access to their supply chains cash.
- Easy entry to construction by all-comers creates an unequal “playing field” for reputable firms which will have invested in some fixed capital; as a consequence they are often unable to compete with firms which are not interested in such investment and can, therefore, succeed in winning work through offering the lowest prices which, inevitably impacts on standards.

In UK construction there has been an over-reliance on labour resources compared to many other EU countries (again this was addressed in the Farmer Review). In Germany, for example, the taxation regime has had a strong part to play. Germany has higher corporate taxes, a less flexible labour market and greater capital allowances against tax to encourage capital investment. All of this makes labour a relatively less attractive prospect compared with capital equipment. The UK may well prefer its low tax, flexible labour market model which has produced better employment levels over many years, but it will result in lower productivity statistics.

19. *What are the most important factors which constrain quoted companies and fund managers from making longer term investment decisions, and how can we best address these factors?*

Long term investment decisions are predicated upon greater certainty of future workload. This is often difficult to achieve in construction where decision-making in this context tends to be for the short-term. One way of addressing this is to have a cohesive public sector construction pipeline that provides a greater expectation of fulfilment. In that respect, we welcome the IPA’s National Infrastructure and Construction Pipeline policy paper (December 2016).

20. *Given public sector investment already accounts for a large share of equity deals in some regions, how can we best catalyse uptake of equity capital outside the South East?*

We suggest that resources in the LEPs should be focused and deployed (with support from trade associations) to help make businesses in their respective regions aware of sources of equity capital. Businesses in many parts of the country often do not have knowledge of where to access equity capital. Moreover, for businesses in construction, the lack of payment security presents a major barrier to accessing finance. This issue is dealt with more fully in the answer to Q.22.

21. *How can we drive the adoption of new funding opportunities like crowdfunding across the country?*

Creating new funding opportunities in construction must be predicated on improving payment performance in the industry.

22. *What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?*

The major barrier for SMEs in our sector (especially the sub-contractors in the supply chain) is the lack of payment security. Begbies Traynor, insolvency specialists, estimate that almost 30% of firms in the industry believe that, in 2017, they are at risk because of payment problems – persistent late and non-payment, and under-valuation of their work.

A particular issue relates to the practice of cash retentions. At any one time approximately £3bn of cash retentions are outstanding. These monies are deducted from due payments ostensibly as security for defects; in practice they are deducted to boost the cash flow of the party doing the deducting. The £3bn is, in effect, a “loan” funded by the smallest firms in the industry. We have accumulated evidence that indicates that lending institutions will deny finance to firms wishing to expand their businesses because they are too exposed to the risk of losing their retentions. This issue must be addressed. BEIS is due to publish its review of the system and we are looking forward to working with Government to achieve the best option which is the ring-fencing of cash retentions to protect them from upstream insolvencies (as is the case in many other countries). In this way lending institutions will be able to accept such ring-fencing as sufficient security for the purpose of lending.

Furthermore project bank accounts (PBAs) should be made mandatory on **all** public sector projects. They are already mandated for government departments and agencies “unless there are compelling reasons not to [use them]”. Greater use of PBAs was also proposed in the Farmer Review. PBAs provide a safe and secure receptacle for progress payments due to the supply chain without additional costs to the public purse and they are currently mandatory for public projects (of a specific cost threshold) in Scotland and Northern Ireland.

Finally digital payment processes should be adopted on all public sector procurements. These provide greater transparency for SMEs with regard to the processing of their payment applications/invoices.

With regard to the second question many of our member trade associations already provide

high quality business networks and support services.

23. *Are there further steps that the Government can take to support innovation through public procurement?*

We have addressed this question in our answers to questions on Infrastructure (Q17) and Supporting Businesses (Q 22). The key issue for public procurers of construction – if they wish to encourage innovation – is to engage the key elements of the supply chain (such as the engineering inputs) as early as possible in the procurement process. This is likely to produce considerable cost savings. As part of its *Building Down Barriers* initiative over 17 years ago, the (then) Defence Estates Organisation found that early supply chain involvement produced savings of up to 69% on labour and material costs. To support this all public projects should have a risk register to which input has been made by the supply chain.

Further actions are required:

- All construction contracts – **up and down the supply chain** – must be industry standard contracts.
- There must be a greater drive to ensure that the pre-qualification process is fully standardised up and down the supply chain and pre-qualification data is available through accessible platforms; the Safety Schemes in Procurement initiative (SSIP - supported by HSE) is a very good model. Recent evaluation data has shown that SSIP activity in 2016 saved buyers and suppliers over £50m due to general buyer specification of the SSIP standard and cross-recognition by other pre-qualification schemes.

24. *What further steps can be taken to use public procurement to drive the industrial strategy in areas where government is the main client, such as healthcare and defence? Do we have the right institutions and policies in place in these sectors to exploit government's purchasing power to drive economic growth?*

Please see our answers to Qs 17 and 23

25. *What can the Government do to improve our support for firms wanting to start exporting? What can the Government do to improve support for firms in increasing their exports?*

Not all our member associations had a view on this. We put forward the view of one of our members, the British Constructional Steelwork Association.

The main barrier to any organisation exporting is risk; if this is too high an organisation will not consider exporting as a viable option. Local barriers to trade, such as membership of a local Chamber of Commerce or insurances, may also be an issue.

While UKTI will have an ongoing role to play, other organisations such as UKME (UK Midlands Engine) can provide support to clusters of SMEs in a region wishing to find new export markets. These organisations will need to be adequately resourced and able to provide assistance in export markets.

26. *What can we learn from other countries to improve our support for inward investment and*

how we measure its success? Should we put more emphasis on measuring the impact of Foreign Direct Investment (FDI) on growth?

27. *What are the most important steps the Government should take to limit energy costs over the long-term?*

The largest sector within construction engineering represented by SEC Group is the building services sector represented by Building Engineering Services Association, Electrical Contractors' Association, Scottish & Northern Ireland Plumbing Employers Federation and the Electrical Contractors' Association of Scotland. We will also support their responses and views to this Green Paper.

This sector is at the forefront of investment in renewable energies and carbon reduction. On new build, particularly, such investment is critical in bridging the gap between design expectations and building performance. The development of new technologies in areas such as energy storage and low carbon heating should be prioritised. This can be achieved from both the demand and the supply sides.

The capital allowances system should be overhauled to maximise the incentive for installing state of the art energy efficient systems and also to rationalise the existing framework. For example, there is considerable overlap between the existing capital allowances framework that extends to *integral features* (e.g. hot and cold water systems, electrical systems) and the enhanced capital allowances (ECAs) system that encourages environmentally beneficial technologies. Moreover there is a widespread lack of knowledge amongst clients/customers on the extent of the coverage of ECAs. Again this becomes a procurement issue.

Where there are projects involving new build, fitting out or refurbishment the design team – with input from the engineering supply chain – should seek to develop the building services design so that it maximises for the client/customer the availability of ECAs.

28. *How can we move towards a position in which energy is supplied by competitive markets without the requirement for on-going industry?*

29. How can the Government, business and researchers work together to develop the competitive opportunities from innovation in energy and our existing industrial strengths?

Firms within the specialist engineering sector in UK construction have led from the front in making a substantial investment in renewables technologies including the skills and technical know-how that go along with it. We refer to our member associations' submissions for a fuller response to this question. Many of the proposals we have put forward in answer to previous questions will help create competitive opportunities from innovation in this context. In particular we should focus on:

- Improving our procurement processes to bring in engineering contracting firms at the front-end of design and planning since they will often be equipped with the requisite cutting-edge expertise (and in so doing, bridging the performance gap between the

- design intent and out-turn energy/carbon performance of the facility).
- Re-visiting the capital allowances regime to ensure that it is “fit for purpose” in incentivising improvements in energy efficiency.
 - Improving payment security (and, thereby, improving their chances for accessing finance) so that engineering SMEs can increase their investment in the technologies and know-how in this context.
 - Promoting the use of quality accredited firms.
 - Having a research strategy for construction that prioritises research in improving energy efficiencies and carbon reduction.
 - Having a longer term consistent investment strategy without the “drop off a cliff” end to financial incentives as happened with some green energy encouragement schemes.

30. *How can the Government support businesses in realising cost savings through greater resource and energy efficiency?*

Again, we will refer to our member associations’ for a fuller response to this question. A very helpful model for government support is provided by the example given in the Farmer Review:

- The Building Control Authority in Singapore works closely with the construction industry to raise productivity levels and to radically change the design and construction delivery process. Last year the Authority launched the Construction Productivity and Capability Fund to provide incentive schemes for encouraging workforce development, technology adoption and capability development in Singapore’s built environment.

Given the dependence upon the engineering sector in construction to invest in the technologies for improving energy efficiency and reducing carbon emissions, the UK government could consider the Singapore model as a driver for change.

31. *How can the Government and industry help sectors come together to identify the opportunities for a ‘sector deal’ to address – especially where industries are fragmented or not well defined?*

In answering many of the questions we have identified some of the barriers to improving productivity levels in the construction industry together with possible solutions. Some of these challenges are common across the industries but some require specific and nuanced solutions that could work and improve the business ecosystem in construction and the built environment.

To refer again to the Farmer Review – some of the recognised symptoms are low productivity, structural fragmentation and lack of a collaborative and improvement culture.

As we mentioned in answer to Q 1, we need to build a healthy supply chain and cease perpetuating outdated business models. Therefore any “*sector deal*” within construction will have to acknowledge this state of affairs and focus on driving the necessary change required to make the industry leaner and fitter. The sector would like to work with Government to distil the key actions needed and on how best to address them within a sector deal and/or contribute to developing sector deals relating to build environment,

following the current consultation.

32. *How can the Government ensure that ‘sector deals’ promote competition and incorporate the interests of new entrants?*

A sector deal for construction should promote a level playing field for competition through a process of “badging” or accrediting firms as having the required levels of technical capability and expertise and rewarding companies that invest in their skills and their business. Government could be a key partner to achieve this, given its importance as a client.

More importantly, Sector Deals need to engage with smaller companies as well as the larger companies which Government has historically engaged with.

We should also emphasise that specialist engineering supply chains operate across a number of sectors other than construction. These include, for example, infrastructure, process plant such as oil and gas, facilities/asset management and renewables.

33. *How can the Government and industry collaborate to enable growth in new sectors of the future that emerge around new technologies and new business models?*

See answers to Qs 5, 17 and 23.

Whilst growth in new sectors and technologies is vital to future success there is potentially a greater short term return on investment in driving innovation and growth in existing sectors. **This is particularly true of applying sustainable supply chain principles to existing supply chains. The establishment of best practice exchange forums aimed particularly at the small business community could be fertile ground for such support.**

34. *Do you agree the principles set out above are the right ones? If not what is missing?*

Although reference has been made to the *Northern Powerhouse* strategy we suggest that this concept should be extended to all the English regions:

- Even if some sectors are clustered locally, regionally bounded support services always result in some companies being ineligible for support simply due to geographic location. **New support services for businesses need to be accessible by all companies.** They should be provided with links to the local Chambers of Commerce, as well as the relevant trade association to ensure there is an integrated approach to help and support.
- New support structures for businesses need to acknowledge and support the contribution of SMEs to economic growth and local wellbeing.
- The definition of R&D funding should include increasing productivity for traditional businesses, in particular SMEs, and clear advice needs to be provided on a localised basis.

35. *What are the most important new approaches to raising skill levels in areas where they are lower? Where could investments in connectivity or innovation do most to help encourage growth across the country?*

Almost 99% of firms in the construction industry are Small and Medium Size Enterprises (SMEs) and this is where most of the next generation of workers have their first experience of work. Making access to funding easier for SMEs enables them to develop people through in house training and helps them engage with local schools or colleges about their work and what employment they have to offer. This will give encouragement to new starts and existing employers that are up-skilling as they will be able to remain in their familiar surroundings whilst developing their skills resources.

36. *Recognising the need for local initiative and leadership, how should we best work with local areas to create and strengthen key local institutions?*

Many of the trade associations in our sector have established and well-run regional networks allowing for full participation from member firms. There should be greater scope for local authorities, LEPs and government agencies to work closer with these trade association networks.

37. *What are the most important institutions which we need to upgrade or support to back growth in particular areas?*

We consider the LEPs to be the focal point for local and regional initiatives.

38. *Are there institutions missing in certain areas which we could help create or strengthen to support local growth?*

We have already indicated in the answer to Q.36 that there should be greater dialogue with local/regional representatives of trade associations to establish ways of improving local growth.