



A MANIFESTO FROM THE SPECIALIST ENGINEERING CONTRACTORS IN THE BUILT ENVIRONMENT

WHO ARE WE?

[The Specialist Engineering Contractors' \(SEC\) Group](#) represents engineering in the built environment, embracing 60,000 companies (most of them SMEs) employing over 300,000 people. SEC Group represents the largest sector in the built environment industry by value. Over 80% of the whole life-cost of the built environment is accounted for by engineering systems, products and structures designed, installed/assembled and maintained by firms in the sector (building construction accounts for 10% of whole life cost).

SEC Group represents the UK's premier built environment trade associations comprising:

British Constructional Steelwork Association, Electrical Contractors' Association, Building 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 lead body for the sector in all the devolved regions. It is the only UK body that exclusively represents the interests of specialist contractors.

The built environment industry in the UK

The built environment industry's annual output is £120 billion representing a 6.5% contribution to GDP (ten times that of the automotive industry). The industry employs over 2.1 million people. Almost 99% of the 270,000 firms in the industry are SMEs.

The challenge for the built environment industry in the UK

Over the last 20 years productivity has remained stagnant whilst – not surprisingly – the cost of built environment in the UK has become one of the highest in Europe. Mark Farmer, industry consultant and author of a recent independent report, [Modernise or Die](#), (commissioned by Construction Leadership Council and the Business Department), concluded that radical changes were required to the industry's procurement and delivery processes to create greater efficiencies and consistent quality outcomes for customers.

The challenge for the industry is to become leaner and fitter and government policy can be the catalyst for this change!

We ask the new government and parliament to ensure a sustainable supply chain of SMEs in the built environment and, through improved public procurement processes, to incentivise companies to invest in their business, adopt and excel in new energy efficient and renewable technologies, maintain quality standards and increase productivity.

WE ARE SEEKING THREE COMMITMENTS FROM THE PARTIES

1. Payment Security for SMEs in the supply chain

Payment security is very important for the SMEs that comprise 99% of the built environment industry. The extent of payment abuse in this industry across the supply chain is jeopardising SMEs viability and putting the livelihoods of their employees at risk. Currently small firms in the supply chain are regularly starved of cash, unable to survive or invest in skills, apprentices and new technologies.

In the UK, the devolved governments have been using [project bank accounts \(PBAs\)](#) as a method of ensuring that all project participants are paid simultaneously and in a timely manner. Through using PBAs Highways England, for example, has been able to ensure that firms at the 3rd tier of contracting are paid within 19 days.

The [outdated practice of holding back retention monies \(from payments already made\)](#) places a great deal of financial stress on small firms. These monies are not released until some years after handover of the work and, in the meantime, are at risk from insolvencies up the supply chain. At any one time over £3 billion of retention monies are outstanding.

A further problem is that some companies are now insisting on 'pay to be paid', (supply chain finance) where smaller subcontractors have to pay for the privilege of being paid on time.

Legislation specific to the construction industry – the 'Construction Act' - which regulates payment and dispute resolution - is becoming outdated and needs modernisation to ensure that all parties are fairly treated; currently, complex and unnecessary provisions exclude some activities from the scope of the legislation. A review of the legislation, due by October 2016, has not yet been brought forward.

Notwithstanding the above, sometimes, what is needed is not more legislation but more rigorous enforcement of existing legislation. One example is the Public Contracts Regulations 2015, which require payments in public sector contracts to be made at no more than 30 days; many public bodies are ignoring the law.

COMMITMENT FROM THE PARTIES

By 1 June 2018, legislation will require that all retention monies are protected in a ring-fenced account. This is an essential first step towards zero retentions by 2025¹. From 2021 all publicly-funded built environment work over £1 million will be paid using PBAs (unless the work is of short duration or there is only one contractor).

A review of the supply chain finance initiative will be held and the overdue review of the 'Construction Act' brought forward as a priority. Rigorous enforcement of already existing laws, particularly those affecting the public sector, will be given priority.

2. Improving procurement in the built environment

Procurement processes in built environment are often archaic and primarily driven by a desire to transfer risk to SMEs in the supply chain. Studies have shown that much of the wasted cost in delivery is due to the lack of supply chain input to early decisions on planning and design.

Public procurement can promote positive change across the industry² and the early adoption and roll out of model procurement practices will send a strong message to the whole of the industry.

COMMITMENT FROM THE PARTIES

By 2022 all publicity-funded infrastructure and building works will adopt smarter procurement methods³ (embracing early supply chain involvement) as a pre-condition to the availability of funding.

3. Professionalising the built environment industry

The contract bidding process in the built environment industry is currently a "race to the bottom" with the lowest price winning and, as a consequence, standards being sacrificed. Reputable SMEs in the industry which seek to improve their skills base, take on apprentices, maintain a good health and safety record and

¹ As is the target in the Government/Industry co-signed [Construction Supply Chain Payment Charter](#).

² In its 2013 Construction Strategy (*Construction 2025*) the Business Department set a target of a 33% reduction by 2025 in the initial cost of construction and whole life cost of assets (from 2010/09 levels).

³ New models that modernise procurement with savings to the public purse are already been [tried](#). This work is now coordinated by [Constructing Excellence](#) with an industry-wide working group.

invest in new technologies are always placed at a disadvantage in scenarios where compliance with standards can be ignored in the interests of securing the lowest possible price. According to one study, ease of entry enables 25,000 “zombie” companies (having no assets) to operate in the industry.

In its response to the Industrial Strategy Green Paper the Government’s Construction Leadership Council has stated:

“A larger policy change would be for the government to licence or approve suppliers – this could cover issues such as fair payment, training, competence, health and safety and environmental performance etc. Although this move would not be popular it would cut out many rogue elements and rogue practices in the construction sector which are currently undermining the robust and professional elements of the industry.”

Many other countries (e.g. Australia and the US) have statutory licensing requirements for construction firms.

COMMITMENT FROM THE PARTIES

Build on the current efforts to improve and standardise procurement processes (eg. Pre Qualification Questionnaire) and, by the end of 2017, establish a joint government/industry task group with a remit to develop proposals for a statutory licensing scheme for contracting companies having regard to similar schemes in Australia, the US and Europe.

A world-class sector

We need the three above commitments from a future government and parliament to achieve a world-leading UK specialist engineering sector in the built environment.

- Payment security will guarantee a sustainable supply chain of SMEs.
- Best models of practice in public procurement contracts will drive positive change across the industry.
- Incentivising the industry to aim for greater efficiency and best quality standards will create a level-playing field for competition.

These are essential levers to achieve economic growth and increase productivity.