New Foundations

A fresh start for procurement to help construction – and the UK – build back better

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Infrastructure and Energy

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Executive summary

New Foundations is launched by the CBI, with and on behalf of our construction members and the wider industry, at a decisive moment for UK construction. It faces two unenviable decarbonisation challenges: the industry must rapidly reduce its carbon emissions while simultaneously developing and upgrading the country's infrastructure, homes and buildings. At the same time, the impact of the coronavirus pandemic on finances and employment have yet to fully emerge, and new immigration rules have altered the sector's competitiveness in a global labour market. As recent issues have shown, the industry is also adjusting to new supply chain rhythms and trading relationships outside the EU.

It is therefore an important moment to revisit what needs fixing if construction is to become a modern, innovative and sustainable pillar of the economy. In February 2020, the CBI published *Fine Margins,* setting out recommendations for business model change, focused on better procurement, risk allocation and collaboration practices that can make the industry more financially sustainable. *Fine Margins* quickly became overtaken, however, by the substantial coronavirus-related challenges the country has faced since.

Now, *New Foundations* looks at where the sector was in 2020, the recommendations made in *Fine Margins,* and asks: what has changed? What has become more of a priority? Which emerging issues will need to be addressed to secure the industry's future? And what role must procurement processes and contracting behaviours play in that goal?

New Foundations finds that there has been progress in many of the areas for change identified in *Fine Margins*, with a 'scorecard' review of the CBI's recommendations on the following pages. Positively, the progress made in the last 18 months gives cause for optimism, and new ground to be built upon. But several recommendations have also become more urgent if there is to be a transformed, sustainable future for UK construction. This paper therefore sets out two immediate strategic priorities:

- **The government must accelerate the adoption of the Construction Playbook across the public sector, including effective enforcement of its use.**
- **Private sector construction clients and the full breadth of the private sector must engage with the ambition to transform procurement behaviours.**

To achieve these two aims, *New Foundations* identifies valuable actions that the government, as a client and through its policies, can take to embed Construction Playbook guidance in the public sector, helping drive change right across the construction industry.

The paper also calls on the private sector – starting with investors and clients, but encompassing contractors, consultants and supply chain specialists – to review approaches to procurement and project delivery, and embrace a spirit of co-investment in securing truly valuable and beneficial outcomes from construction schemes. Together, the public sector and private enterprise can safeguard the future of the construction industry, and ensure the delivery of a world-class UK built environment.

Fine Margins: scorecard

As part of *New Foundations*, the CBI is reviewing the 13 recommendations made in *Fine Margins* and assessing how much progress has been made – if any – by the construction industry and or government.

Recommendation	Rating	Rating Reason	Next steps
Recommendation 1: A body such as the Construction Leadership Council (CLC) – or the CBI – should monitor the relationship between margin and revenue.		The CBI has noted changes in industry margin levels but currently there is not a reliable 'tracker' of profit margin fluctuations and developments.	Tracking developments in profit margin trends could be a useful indication of industry health. The CLC or Department for Business, Energy and Industrial Strategy may wish to develop a mechanism to gather this information alongside existing industry statistics such as vacancies, insolvencies, and earnings.
Recommendation 2: Businesses should be prepared to challenge or walk away from contracts when bidding.		The CBI understands that businesses continue to reject particularly onerous or unreasonable contracts. But CBI members have reported experiences of even more aggressive pricing by clients during the pandemic, both in the public and private sector, and find some firms are willing to bid at unrealistic costs.	Coming out of a recession, riskier pricing and bidding behaviours could become more attractive as firms look to shore up their order books. The industry must stand firm and united in the aftermath of the pandemic, and resist the temptation to 'dash for cash' with low-ball bidding.
Recommendation 3: Where clients and contractors cannot agree on a risk sharing position during early engagement, they should utilise a gain/pain share approach to incentivise appropriate allocation of risk between parties.		No rating: not enough evidence yet.	The CBI will continue to talk with industry on risk sharing arrangements with clients. The industry hopes the guidance in the Construction Playbook will begin to achieve fairer risk apportionment in the public sector.
Recommendation 4: To take full advantage of the hard work and business engagement that has gone into it, the next iteration of the Outsourcing Playbook should be seen as mandatory for public sector Building and Civil Engineering projects above a specific value.		Following the publication of the *Fine Margins*, the guidance within the Outsourcing Playbook was strengthened, mandated and tailored specifically to the construction sector; through the launch of the Construction Playbook.	As discussed below, the government must drive the adoption of behaviours across the public sector as swiftly as possible. The Cabinet Office Sourcing Programme should begin regular reporting to industry on the progress made implementing and adopting the Construction Playbook.
Recommendation 5: Mandated guidance would mean that public sector Building and Civil Engineering works contracts do not include uncapped liability clauses. The NEC, JCT and PPC suites of contracts should similarly remove such clauses.		This has been met through Construction Playbook guidance mandating that public sector contracting authorities "do not ask suppliers to take unlimited liabilities". The impact of this guidance on practices across the sector will be important to monitor and feed back to the government.	The use of limited liabilities by private sector construction clients continues to be few and far between. Where limits are used, the level of liability can still be unreasonably high in relation to contract values and fees. Representations to clients on fairer uses and lower levels of liability continue to be needed.
Recommendation 6: Public sector procurement guidance should prohibit the practice of holding retentions on public contracts by clients or by suppliers. The NEC, JCT and PPC suites of contracts should be updated to specifically prohibit their use.		There is no provision in the Construction Playbook on retentions, and the issue continues to cause problems in both public and private construction. The government missed an opportunity to reduce client retentions as part of the temporary policy procurement notices (PPNs) introduced in response to Covid-19.	The government should consider prohibiting client and supply chain retentions in future iterations of the Construction Playbook. As the CBI said in *Fine Margins*, businesses should already be taking steps to end retention use in line with the CLC's goal to eradicate retentions by no later than 2025.
Recommendation 7: The government should provide further financial support and resources to the Construction Leadership Council so that efforts to create an industry-wide definition of value, and performance benchmarking tools to measure it, can be accelerated.		The forthcoming Value Toolkit goes a long way to deliver a single definition of value and tools to measure it. While the critical work creating the Value Toolkit has been led by the Construction Innovation Hub through government funding, trade bodies and businesses have stimulated rapid progress, with many individuals giving up their time and expertise 'in-kind' to drive its development.	The Construction Innovation Hub remains a thought-leader in industry value and innovation and should continue to enjoy government backing, including funding. The industry has the capability to innovate and deliver value: the Construction Leadership Council now needs to coordinate trade body and industry expertise to make the Value Toolkit a success upon its launch this year.
Recommendation 8: Public and private sector clients should refrain from amending standard risk clauses in construction contracts.	/	The Construction Playbook acknowledges the issue, stating that public sector schemes should use standardised contracts and terms as far as possible. It also notes the government is developing 'boilerplate' clauses that aim to bring more consistency to contracts where non-standard clauses are necessary. However, CBI members continue to report frequent contract amendments in the public sector, and little regard for standard clauses in the private sector.	The planned 'boilerplates' clauses should be developed with the sector's input as quickly as possible. The clauses and lessons learned from the exercise should be shared with the bodies responsible for NEC and JCT contracts, and with leading private clients, to promote using standard clauses more widely.
Recommendation 9: Effective early engagement with businesses is paramount. Major public and private clients should ensure they design their procurement processes with a distinct 'first' stage, so that early engagement can support risks to be identified, priced and allocated, before a second competitive process stage is undertaken.		The Construction Playbook could not be clearer – in chapter 3 - on the importance of early business engagement and market health assessments before tendering begins. Private clients are better equipped at running two-stage procurements but should adopt a wider range of approaches to risk sharing.	The CBI's members are clear that hurried, single-stage tenders are still common. The government's 'comply or explain' approach to enforcement of the Construction Playbook must drive adoption of early market engagement and market health assessments by contracting authorities. A private sector leadership group may need to drive similar behaviour change in private clients.
Recommendation 10: It is essential that public and private clients make a credible and consistent assessment of balance sheet strength during the first stage of a procurement process.		The Construction Playbook instructs contracting authorities to assess the financial standing of suppliers, and an accompanying guidance note published in May 2021 identifies balance sheet metrics including those outlined in *Fine Margins*.	The government's 'comply or explain' enforcement of the Construction Playbook must drive the use of consistent financial assessments. Clients should make clear which balance sheet metrics are being used and, in the short-term, must factor in the pandemic's impact on business finances. A private sector leadership group may need to drive similar behaviour change in private clients.
Recommendation 11: Major public and private sector clients must produce a clear and robust evaluation of whole-life benefits of a project and share this with suppliers before tendering begins, so that contractors are able to price risk management costs transparently against the asset's whole-life value.	/	The development of the Value Toolkit and the government's Social Value Model are two powerful tools that will enable clients in public and private sector construction to articulate and procure for value. This will be increasingly important for the UK's net-zero and economic ambitions.	The government's 'comply or explain' enforcement of the Construction Playbook must now drive the adoption of value and outcome specification in public sector construction. A private sector leadership group may need to drive behaviour similar change in private clients, particularly to advocate for the Value Toolkit in procuring for whole-life value.
Recommendation 12: Design and build procurements must engage contractors early enough to influence project design before it is signed off.		No rating: not enough evidence yet, though some member anecdotes suggest little has changed during the pandemic.	The CBI will analyse member feedback and consult industry trade bodies to form a picture of how design and build procurements are being conducted.
Recommendation 13: The use of single-stage procurements should be discouraged in major construction projects above a specific value.		The Construction Playbook guidance, if used effectively, should begin to stamp out the most harmful 'single-stage' approaches in the public sector. However, CBI members continue to experience frequent problematic experiences with single-stage procurements. And as yet, there is no forcing mechanism to discourage single-stage tenders for private sector schemes.	The government's 'comply or explain' enforcement of the Construction Playbook must discourage all but the most necessary single-stage approaches to procurements, above the £5m per annum contract value threshold specified for other Playbook mechanisms. A private sector leadership group may need to drive behaviour change in private clients to root out single-stage approaches.

Introduction

When the CBI published *Fine Margins* in February 2020, it was the culmination of months of collaboration between the CBI, its members, Oxford Economics, officials across government and arms-length bodies, and trade associations. The report set out key ideas and approaches towards establishing a more financially sustainable UK construction industry aimed at tackling, over time, fundamental business model and behavioral challenges that have held the industry back for decades.

Then, a month later, everything changed: the government had imposed the first UK 'lockdown' in response to the coronavirus pandemic, and the construction landscape plunged – as did the economy – into uncertainty. The environment *Fine Margins* had launched into was dramatically and permanently altered, and a new set of significant obstacles emerged.

However, 18 months on, the industry is looking to chart a sustainable, positive recovery. The publication of the Construction Playbook and the success of the UK's vaccination programme has buoyed confidence. Lessons have been learned from operating within coronavirus constraints and a new commitment has come from the government to 'build back better' with infrastructure and regional growth at the centre. These developments, coupled with a step-change in ambition for the UK's net-zero journey, mean the sector has even more stretching goals than before the pandemic. However, the underlying financial challenges explored in *Fine Margins* remain – and without careful management, could hinder the construction industry's, and the UK's, recovery.

The sector has a central role to play driving forward the UK's economic rebuilding post-Covid-19. With government aiming to increase spending on transport and social infrastructure through its Project Speed programme and Department for Transport's Acceleration Unit, the urgent need to retrofit homes and buildings, and a new demand for hybrid workplaces, securing the foundations of the UK construction industry will be vital to the success of strong, sustained economic growth.

The coronavirus pandemic disrupted the entire industry – but also demonstrated its ability to adapt

The environment for UK construction firms was already challenging before the UK's worst recession in more than 300 years began[1]. Without doubt, the unprecedented impact of the Covid-19 pandemic has exacerbated some of those challenges. But positively, the pandemic has highlighted the sector's ability to adapt to disruption.

In the face of chaotic uncertainty, construction went to work. The breadth and depth of the industry, galvanised by trade associations and business groups like the CBI, and spearheaded by the Construction Leadership Council (CLC), made collective and unified efforts to continue operating.

The industry – no stranger to rigorous health and safety – developed its own set of coronavirus safety procedures to protect employees on construction sites while mitigating risks from the virus. Businesses in supply chains across construction delivered vital projects, notably the coronavirus Nightingale hospitals, and continued with essential maintenance, repairs and improvements to critical utilities, infrastructure and buildings.

The industry's efforts during the pandemic strengthened its relationship with government, leading to public praise by senior government figures[2]. On public sector projects, the government worked closely with businesses to establish temporary procurement rules that supported contractors and supply chains to operate. (Some firms argue these rules demonstrate what government procurement is capable of permanently).

Like most industries, construction saw historic falls in output and new work at the height of the pandemic. In the first half of this year, construction started bouncing back. According to the Office for National Statistics, industry output in April 2021 was a record 80% higher than the same month a year earlier, and output in May 2021 was still above pre-pandemic levels, measured against February 2020. However, since April, the industry has seen four consecutive months of falling output[3].

Recovery across the industry is highly varied. Compared to the industry's output prior to the pandemic, in July 2021 ONS data showed private industrial work down 20.2% against February 2020, while private industrial work was 7.7% lower against the same month. The data also showed that non-infrastructure and non-housing public work remained 11.8% below the levels seen before the pandemic[4]. Furthermore, despite bold language about major investment in infrastructure and boosting project pipelines, business confidence remains lukewarm as committed investment has yet to fully materialise. Without this, firms looking to 2022 and beyond will begin to see gaps in their order books.

The consequences of this depressed demand in certain parts of the industry are being and will continue to be felt throughout supply chains. Reduced workloads will create a further squeeze on finances that were already tight. In its annual analysis of construction firms' financials, *Construction News* found last year that losses had grown for the top 10 largest contractors, with average margins falling to -1.35%. The average operating margin for the top 100 construction firms also slipped from 2.6% to 2%[5].

That the tightening pressure has not translated into higher numbers of business failures while redundancies throughout construction have been limited is almost certainly due to the government's comprehensive financial support. The industry has received more than 260,000 loans under the Bounce Back Loans Scheme (BBLS), totalling over £6bn[6]. Of the government's Coronavirus Business Interruption Loans Scheme (CBILS) loans, construction has taken the second highest volume, which adds up to the third highest by value: £4bn[7]. The government's flagship support programme, the Coronavirus Job Retention Scheme (CJRS), has saved countless jobs, but HMRC estimates suggest 115,000 employees in construction were still furloughed as recently as July[8].

As a result, the sector has seen far fewer business failures than will have been expected at the outset of the pandemic. In 2020, there were on average 172 monthly insolvencies in the construction industry, more than a third lower than the 269 insolvencies per month on average in 2019[9]. The monthly average in 2021, to date, is lower still.

The race to decarbonise the UK's economy presents major new challenges – and opportunities – for construction and the built environment

To address the country's decarbonisation challenge, policymakers' focus on the built environment is warranted: the biggest environmental issues facing the UK include retrofitting millions of homes, making rapid, deep improvements to building energy use, developing greener transport infrastructure, and delivering major upgrades to heat and energy networks. The fundamental processes and materials used every day are also in scope. This adds up, the Construction Leadership Council suggests, to 43% of the UK's emissions – almost half – which are within the construction industry's power to reduce[10].

Clearly, the industry is not going to become carbon-neutral in 12 months; the industry will need to work hard every year between now and 2050 to decarbonise sufficiently. But the spirit of unity and cohesion in which the UK construction sector has responded to the coronavirus pandemic suggests that it has the capability to rise to daunting challenges.

Now is the moment for the industry to face into the climate crisis. With the UK gearing up to host COP26 in November, and businesses and government preparing to demonstrate climate leadership on the world stage, the industry risks being left behind more ambitious and determined parts of the economy if it is slow to adapt. The opportunity to showcase a path towards a carbon-neutral construction sector and built environment, showing how business innovation can achieve that ambition, must be grasped.

The Construction Leadership Council's CO2nstruct Zero programme gives the industry a strong starting point from which to make immediate changes to its environmental impact. In *Fine Margins*, the CBI noted that UK construction had successfully begun reducing emissions produced per unit of production, but the progress has been small. Over the longer term, substantially more research and development, new technology and 'green' skills will be required. Beyond setting environmental targets, the CLC needs to establish how to coordinate and support the tens of thousands of construction firms to meet them.

There is a significant prize on offer for the sector. Acting now can establish UK firms as global leaders in green construction technologies and skills, increasing export potential to new markets worldwide. CBI research estimates 240,000 new jobs can be created across a decarbonised economy, providing long-lasting employment opportunities for young professionals and those looking to transition away from traditional roles or declining industries[11]. An optimistic rather than reticent outlook must be the stance taken by the sector if it is to seize these opportunities.

The Construction Playbook presents an opportunity for transformation

The government deserves credit for pressing ahead with its programme of overhauling public sector procurement guidance, despite the overwhelming pressure on the public sector caused by Covid-19. Following the launch of the first Outsourcing Playbook in February 2019 (now known as the Sourcing Playbook), the government developed plans to publish sector-specific Playbooks, targeting the Construction Playbook first.

The CBI was pleased to work closely with the Cabinet Office on the development of the Construction Playbook, and a variety of CBI members from the industry participated in advisory groups supporting the Cabinet Office's programme. The end product is a rare achievement: a collaborative strategy for government and business which has been celebrated by practically the entire industry. The government's commitment to partnership with business when developing the Construction Playbook has also been heralded, and sets a benchmark for collaboration for the next phase: the implementation and adoption of the Construction Playbook across the public sector.

The industry now faces a crunch point as the UK ups the pace of economic recovery

Although there has been substantial success in reopening the economy, thanks largely to the UK's vaccination programme and the Covid-secure measures implemented by businesses, it is inevitable that a crunch point in construction will materialise later in 2021, or early in 2022. There is concern in the sector about a disastrous wave of business collapses as a consequence of the debt taken on by firms during the pandemic, the end of government furlough support, the deferred taxes that will need to be repaid, and the haphazard recovery of new orders and output in subsectors output in subsectors. Worryingly, the pandemic-related risks are exacerbated by several other prevailing challenges.

The UK is experiencing significant inflation of costs and a reduction in supply capacity across a range of widely used construction materials and products. Caused by global supply chain slowdowns following a combination of the pandemic and the UK's new trading relationship with the EU, the CLC has forecast an increase of 7-8% to materials prices[12], which could persist beyond 2021, so the impact of materials-related cost pressures on the construction industry will not subside quickly.

Over the longer-term, a realignment of global materials markets and shipping patterns could further impact the UK's ambitions, as major economies compete to reach net-zero targets through massively increased investment in low-carbon buildings and infrastructure. As an import market, therefore, the UK's position outside the EU could become more precarious than recent years.

There has also been a tightening in the industry when it comes to availability of skills. The industry was advertising on average 38,000 vacancies during May to July 2021, the highest number of vacancies in at least 20 years, according to ONS data[13]. Anecdotal evidence from CBI members backs this up, with businesses reporting problems recruiting for positions at every skill level.

Data from the ONS Labour Market Overview shows the number of people employed in UK construction had fallen by 4.1% year-on-year in Q1 2021[14]. This is again backed up by evidence from CBI members around the UK, particularly highlighting problems hiring, retaining and moving European staff. This comes as the Construction Industry Training Board published a five-year outlook to 2026 which forecast that a net increase of 217,000 workers is needed to meet the anticipated demand for construction activity[15].

These compounding challenges on top of an unprecedented economic shock risk holding back the construction industry at exactly the moment it will be relied upon to realise the country's ambitious and non-negotiable goal to become a world-leading, low-carbon, and innovative economy. Against this radically changed backdrop, by evaluating industry developments since the publication of *Fine Margins*, this CBI paper looks at the best next steps to secure the adoption of better practices across the sector. Supporting the industry out of the pandemic with more collaborative procurement and project management behaviours, using the Construction Playbook as a benchmark, will enable construction to step up to the task.

Government must accelerate the adoption of Construction Playbook

The launch of the Construction Playbook in December 2020 represented a significant step forward in public sector procurement of government construction projects. After many months of collaborative meetings between government and industry including businesses, CBI members and trade groups – all during a pandemic – the final document is something that should be applauded as a vision for change. The CBI's members have recognised the forward shift in the government's intention to contract more successfully with the private sector. The next, and most vital, step, is putting the Construction Playbook into practice.

New steps to collaboratively address risk can finally break with the failed attempts of the past

Chief among the recommendations in *Fine Margins* was improving the understanding of risk in public sector construction and balancing the allocation of risk more proportionately between the government – the client – and businesses. The Construction Playbook addresses this directly and indirectly. From the outset, in the document's 'compact with industry' which underpins the agreement on the Playbook's objectives, the government states that creating "a more equitable and consistent approach to risk transfer" is one of the key intentions of the Construction Playbook.

The document provides the further detail that industry has been calling for. The Playbook makes clear that government procuring teams "need to be confident in our ability to effectively manage risks and solve problems collaboratively" and outlines that by following this chapter's direction, "proactive risk identification and management at all stages in a project or programme will drive improved delivery and increased opportunities for innovation".

This includes advice on evaluating risk allocation so that risk is owned by the parties best placed to manage them. Tools like risk registers and allocation matrixes, used properly and developed in partnership with suppliers, will ensure fair and transparent risk sharing between parties.

This commitment from government to apportion risk more fairly in construction procurements is a welcome development. The challenges caused when risk allocation and risk management goes wrong were highlighted in depth in *Fine Margins* and following conversations with industry and bodies like the CBI, the government should be praised for listening and acting.

Recommendation

Public sector contracting authorities must commit to using risk registers and risk allocation matrixes, co-designing these with suppliers to apportion and manage construction risk equitably.

The clear signal towards value-led procurements will improve the financial environment in which construction firms operate

Equally as important to business is the Construction Playbook's resolute focus on running value-led, outcomes-focused procurement processes. This is another positive and consistent theme throughout the Playbook, identified in chapter 3: 'Early Engagement and Clear Specifications' as an essential part of what contracting authorities need to do before tendering begins: "adopt an outcome-based approach focused on whole-life value, performance and cost".

The guidance adds that setting clear and measurable outcomes should be undertaken at the outset of a project, and should focus on whole-life value: the value created over the lifetime of a project, including during its operation. This is critical instruction for the industry to refer to. In chapter 9, 'Evaluating Bids and Contract Award', the Construction Playbook also specifies that public sector clients should be aiming to achieve value-based procurement, the key feature of which is focusing on:

> *"…value over cost. Value for money is defined as securing the best mix of quality and effectiveness for the least outlay over the life of a project or programme. It is not about minimising initial capital costs."*

The CBI called for this specifically in *Fine Margins*, and it is therefore a major boost to businesses tendering for public sector construction projects that procurements should now start taking this transparent approach. There are models that can support establishing and realising value-led outcomes from construction projects, such as the government's Social Value Model for Central Government Contracts, and the Construction Innovation Hub's Value Toolkit.

Coupling this instruction from the Construction Playbook with value models will enable businesses and the government to discuss the allocation and cost of risk more openly and collaboratively, against value-based outcomes. This should help prevent unsustainable risk transfer to the private sector and create a stable financial environment in which to deliver projects. In turn, cooperative risk sharing will help firms to achieve the hoped-for outcomes when construction schemes are tendered.

The successful deployment of procurement and management tools will be paramount to achieving the Construction Playbook's goals

As well as guidance, the Construction Playbook contains practical tools and processes that businesses want to see successfully embedded across the public sector. In particular, the CBI welcomes the Construction Playbook's direction for public sector contracting authorities to publish commercial pipelines, and produce Should Cost Models and market health assessments. These are important processes that will improve project design, factoring in better consideration of risk allocation and balance sheet strength, and relating value-based outcomes to capital expenditure.

Alongside the requirement for procurers to conduct Early Supply Chain Involvement – which the CBI called for in *Fine Margins* – these tools will support enhanced market understanding of opportunities and objectives, which paves the way for more collaborative engagement between the public and private sectors when it comes to constructing and managing assets. Tools like Should Cost models and risk registers go a long way to enabling fair conversations about capital cost, pricing in risk, and achieving a return on outlay, especially with the Construction Playbook's clear goal of "securing the best mix of quality and effectiveness for the least outlay over the life of a project".

Using these tools consistently and extensively throughout the public sector will help collaboration between the government and businesses become a more beneficial experience for both parties, and will lead to more predictable and achievable outcomes in public sector procurements from the construction industry. It will be important that key decision makers in contracting authorities are made aware of the tools, and that supporting guidance and training are made available to ensure the approaches in the Construction Playbook are used effectively.

Recommendation

As an early priority in the Construction Playbook's implementation phase, the government must ensure training materials and training delivery are rolled out quickly across the public sector. This could be supported by funding for the Sourcing Programme to deliver training at the upcoming Comprehensive Spending Review.

Government mechanisms to compel behaviour change must carry weight – not empty threats

One of the biggest positives for the industry is that the Construction Playbook is mandatory for many public sector bodies. The government has committed to compelling the use of the Construction Playbook and will enforce compliance through a 'comply or explain' process. where contracting authorities must set out a reasonable and genuine explanation for not following Construction Playbook guidance. In conversations with the CBI and with industry, Cabinet Office officials have encouraged businesses to report poor behaviours to Crown Representatives and the Sourcing Programme team directly. The government also intends to use Cabinet Office spending controls and HM Treasury Approvals processes as part of this approach, and has also pointed to the Public Procurement Review Service as a means for suppliers to report poor practices or concerns about compliance.

There is evidence this approach can work. The government should draw confidence from the successful adoption of Building Information Modelling (BIM) in the public sector – although businesses would urge the government to consider how quickly the tipping point for adoption was reached. Nevertheless, BIM is now universally understood in the industry and deployed across much of the public sector. The government's licence to mandate guidance can deliver success.

While government has rightly made clear that the Construction Playbook's implementation will take place over years rather than months, it is vital that the 'comply or explain' mechanisms are used from the outset to drive the pace of adoption in the public sector and manage businesses' expectations. A mix of 'carrot and stick' approaches may be required, but in the short term, this should be through a supportive rather than punitive approach.

To facilitate this, the Cabinet Office, being responsible for the Sourcing Programme behind the Construction Playbook, should develop examples of scenarios where contracting authorities might have genuine justification for not following Construction Playbook guidance. Developing further guidance for scenarios that would not meet exemption from mandatory Construction Playbook use, and making these available to commissioning teams, would be helpful in preventing such scenarios before they happen.

It is equally important, however, that the consequences of willful avoidance of mandatory guidance are made clear to contracting authorities, and as the Construction Playbook implementation continues, the Cabinet Office Sourcing Programme should build up case files where enforcement action such as governance controls or approvals processes have been used to compel compliance.

In 2018, the government rebranded its ‘mystery shopper’ scheme to the Public Procurement Review Service (PPRS) to make the service easier for businesses to access and engage with. The PPRS is a route for businesses to report poor practices at any stage of public sector procurements, with concerns reviewed and investigated by the Cabinet Office. The rebrand followed strengthened statutory requirements that made it a requirement for contracting authorities to comply with PPRS investigations.

Currently, however, CBI members have voiced concern that the PPRS remains too ineffective despite the efforts to promote and bolster the scheme. CBI analysis of Public Procurement Review Service Results published in June 2021 shows that the number of cases resolved by the Service halved in 2020 from 2018 (82 in 2020, compared to 161 in 2018). Although the coronavirus pandemic may have had an impact, there had already been a fall in case resolutions in 2019. Current figures for 2021 are in line with the 2020 levels, suggesting the downward trend may not be reversing.

If this service is to be a persuasive tool in the government’s armory when it comes to rooting out poor public sector procurement practices, it should more proactively create opportunities to hear from – and act on – business feedback and concerns. The government has begun to address this in the 2021 Cabinet Office green paper *Transforming Public Procurement*. The green paper’s proposals for setting up a new Procurement Unit to oversee contracting across government, and intervene where necessary, have been broadly welcomed by CBI members. This aligns with the construction industry’s preference to see more visible enforcement, so that businesses have confidence that action will be taken when they report poor behaviours.

As an example, in-scope contracting authorities could publish details for contacting the Procurement Unit as part of standard contracting and tender documentation. The Procurement Unit could also run regular drop-in sessions to engage with business more generally, and discuss common experiences firms have when procurements fall short. The Unit will also need to refresh its assurance that contracting authorities are clear on the duty to comply with investigations where complaints are made.

Whether the PPRS will stay intact or be absorbed into a new Procurement Unit is yet to be determined, but a robust enforcement function will remain a vital component of a transformed public procurement regime.

Recommendation

As part of its Transforming Public Procurement programme, Cabinet Office should strengthen its function of identifying and acting on businesses' reports of poor procurement practices, such as through the Public Procurement Review Service or similar unit.

Recommendation

The 'comply or explain' regime for mandating the Construction Playbook's use must be backed up by a mix of 'carrot and stick' approaches. This should include explanatory guidance for contracting authorities on different scenarios that do and don't require compliance with the Construction Playbook.

Government should embed the Construction Playbook in 'exemplar projects' as part of its Project Speed programme

In 2020, the government announced a 'Project Speed' agenda: a collaborative programme between Number 10, HM Treasury (including the IPA) and Cabinet Office that would look to rapidly speed up the delivery of significant infrastructure projects. The objectives include removing systemic barriers and simplifying the processes throughout project lifecycles, including the scoping, planning and construction phases.

For the CBI's members and many businesses across the construction sector, utilising the Construction Playbook achieves those aims, both removing systemic barriers from public sector procurements and encouraging more productive and rewarding processes between the procuring authority and suppliers. By aligning the ambition of Project Speed with the Playbook's detailed guidance, the government has a golden opportunity to quickly 'prove the concept' of the Construction Playbook, building an evidence base that will give public sector procuring authorities the confidence to use the Construction Playbook.

The CBI's members have been clear, however, that while implementation of the Construction Playbook is vital because it covers many different procurement processes, a 'pick and mix' approach to adopting the Playbook's best practices would be less effective. Consequently, one of the most beneficial actions that the government could take would be to conduct end-to-end projects – from defining and procuring to constructing and managing – based entirely on the Construction Playbook. Such schemes could form a series of 'exemplar' projects that the government could use to demonstrate the Playbook's value, and would enable the Cabinet Office to refine future guidance, as well as champion the effectiveness of the Construction Playbook across the public (and private) sector.

The Project Speed programme would be a sensible route to carry this out. With backing from the highest levels of government and a mandate to find ways of procuring and delivering more efficiently, the taskforce driving Project Speed forward could sponsor this exercise to develop best-in-class examples of public sector construction projects. The Project Speed taskforce should immediately identify upcoming projects that could be carried out from beginning to end using Construction Playbook guidance. As CBI members would testify, the private sector would welcome this – and would queue up to partner with the public sector to make exemplar projects a huge success.

Recommendation
The government should conduct end-to-end construction projects with every phase utilising the Construction Playbook's guidance. These exemplar projects could be driven forward as part of government's Project Speed programme.

Government should make clear how and when the Construction Playbook will be formally adopted at different levels of government

The CBI's members and the construction industry recognise that the necessary transformation promised by the Construction Playbook will not be an overnight transition. Government has committed to a "multi-year implementation period"[16], and the industry acknowledges the need to deploy the Construction Playbook's guidance step-by-step, with central government and arms-length bodies first.

However, CBI members are consistent in the view that compelling the adoption of Playbook guidance by regional and local government procuring bodies should be a priority now. The government will be familiar with anecdotal evidence from business that central government departments, and arms-length bodies like National Highways and Network Rail, are commercially capable enough to adopt the Construction Playbook without too many issues, providing the 'comply or explain' mechanism is effective.

Construction businesses believe that the Construction Playbook's impact on public sector construction will only be truly successful if it is understood and adopted at local government levels. In 2020, Tussell estimated that 64% of public sector construction spend was through local authorities outside of central government and arms-length bodies, having been 72% 2019[17].These procurements represent the lifeblood of thousands of construction businesses, who work exclusively or primarily with local authorities. If practices are not improved at this level of public sector construction, the benefits of the Construction Playbook will bypass entire sections of the industry.

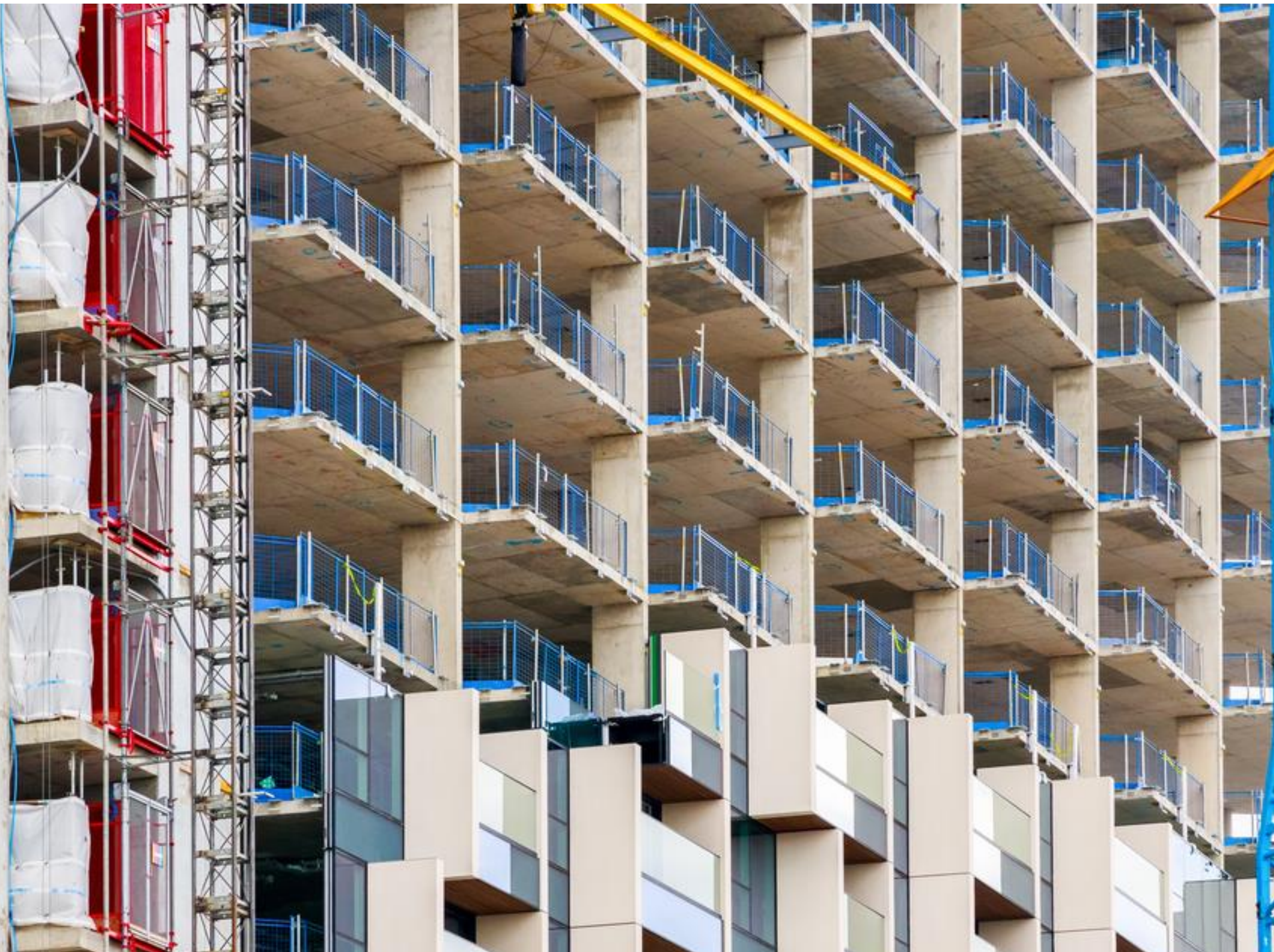
CBI members also point out that the scope of the Construction Playbook currently excludes the UK devolved administrations. Many firms in the construction industry do business throughout the UK, and while acknowledging that public procurement regimes are devolved legislation, the Construction Playbook's best practice could act as a baseline for procurement behaviours across the devolved nations. This would assist businesses to plan their operations and equip their workforce more effectively if the 'rules of engagement' with public sector clients in all parts of the UK were consistent, while ensuring that, where necessary, existing practices are reviewed and improved.

The Construction Playbook implementation team should therefore make clear how it plans to establish the Playbook throughout UK construction beyond central government schemes. This could be in the form of a roadmap or timeline that indicates how and when awareness, training and implementation of the Construction Playbook to local authorities will be delivered. The team should also help firms understand how the Playbook aligns with and complements existing, devolved procurement policy.

More broadly, the industry would benefit from regular updates on the progress of Construction Playbook implementation across government. As *New Foundations* is published, we are already nine months on from the Playbook's publication in December 2020. While there have been undoubted positives in uniting the industry behind the document, and raising awareness at senior levels across government, there is as yet less tangible evidence to point to regarding formal adoption of the Construction Playbook, and impact on procurement behaviours. It is early days, of course, but to ensure its success, businesses want to see regular reporting – such as every six months – on the implementation of the Construction Playbook by the Cabinet Office team leading the Sourcing Programme. Holding the government to account on progress could be coordinated by a group such as the CLC or the CBI's Construction Council.

Recommendation
The government should set out a delivery plan for adoption of the Construction Playbook at local authority levels, and develop guidance on how the Playbook should correspond with devolved procurement policies across the UK.

Recommendation
The government should provide regular progress updates to the industry, reporting on activities delivered to support the Construction Playbook's implementation.



The full breadth of the private sector must engage with the ambition to transform procurement behaviours

For all the good work in the Construction Playbook, and industry's shared belief that it will create change, any direct impact will be limited – at least initially – to public sector construction. While government is the industry's largest client, public sector schemes account for around 30% of total orders[18]. Combined with Tussell's research showing how much public sector construction spend is through local authorities, comfortably more than three-quarters of construction contracts will be outside of the Playbook's statutory scope.

Private enterprise needs to step up. The contract between private sector clients and businesses in construction should be one of co-investment: partnering to achieve valuable social and economic outcomes for society. Rather than facing off against each other, commercial clients and suppliers should be collaborating to make sure high-quality, safe, and sustainable construction improves places and communities around the UK.

The role of development financers is also noted as a significant driver of client behaviours towards risk allocation. Being one step removed from the practical reality of construction risks, funders can exert undue pressure on developers to take a more aggressive stance on risk transfer, ignoring the principle of allocating risk to the entity best placed to manage or mitigate it. Until this influence on the procurement process is addressed, and better collaboration between investors, clients and suppliers exists, the private sector will continue to fall behind the improvements being made by the public sector.

Businesses believe there is a greater chance of accelerating change if private sector schemes adopt at least the most necessary guidance outlined in the Construction Playbook. In this chapter the CBI recommends ways in which the private sector should consider taking ownership of improvement, complementing the Construction Playbook's publication and implementing better practices in private construction schemes.

The industry must be its own champion for better practices to private sector clients

A poor understanding of risk, unsustainable levels of risk transfer to suppliers, hurried single-stage tenders and a failure to engage suppliers early in a procurement process are hallmarks of poor procurement that exist regardless of whether the client is a public or private sector organisation. Many CBI members – like the industry at large – deliver public and private sectors construction contracts, and agree that behaviour change needs to be established across both arenas.

In this goal, it is essential that businesses in the industry become vocal and consistent advocates for the mechanisms and tools in the Construction Playbook when talking to private sector construction clients. Moving between projects procured by government and commercial clients, construction contractors and suppliers can share evidence from public sector projects where the Construction Playbook has been deployed and is leading to successful outcomes. In this early period since the Playbook was launched, evidence could include ways in which the guidance has enabled more efficient, effective procurement processes, for example where contractors and clients have co-designed a project to arrive at a better understanding and allocation of risk.

The Playbook also advises that standard contract clauses and terms should be prioritised in public sector contracts. This is a step that should be replicated in the private sector, with suppliers promoting the use of standard contract clauses and amendments during procurements with private clients.

Over time, businesses will be able to transfer their experiences to the private sector by sharing case studies, data and outcomes from successful public sector projects to demonstrate the positive impact of utilising Construction Playbook practices with private sector clients.

In *Fine Margins*, the CBI recommended that businesses should be willing to walk away from contracts where onerous contractual terms or unrealistic fees were insisted on by a client. Some CBI members were already making this decision when being met by impractical demands from clients. When dealing with private sector construction clients, there are cases where practices outlined in the Construction Playbook and demonstrable benefits delivered in the public sector are ignored. On such occasions, the CBI recommends that suppliers consider taking this approach.

In a challenging period following the economic shock of the coronavirus pandemic, contractors should be united in taking this approach. While there could be an understandable dash for cash in the near-term after the pandemic, leading to low-ball bids to win contracts, ultimately history shows what happens to firms of all sizes that prop up their business and balance sheets by winning work at unsustainable fee levels.

Recommendation

Businesses should be prepared to walk away from private sector deals where clients are unwilling to discuss more collaborative and fair procurement processes.

Professional advisory firms should champion best practice over best price

One of the concerns that construction contractors and suppliers raised in *Fine Margins* was clients seeking advisory services from consultants, quantity surveyors and law firms to keep project costs down. While this advice plays a role in maintaining competitive cost envelopes for projects, CBI members have frequently warned that it creates an adversarial atmosphere as clients and suppliers battle over prices, and conversations about equitable risk allocation are stifled.

In the private sector, CBI members suggest that squeezing costs and getting concessions from suppliers is seen as a ‘badge of honour’. This comes at the expense of open and co-invested partnerships on what should be a shared purpose between private enterprises: contracting the construction industry to develop and enhance the UK’s built environment.

It is fair to point out advisory professionals are contracted to provide specific advice that meets a client's brief, and are not the client or investor themselves. Clearly, the more pressing need and a theme throughout this paper is the necessity to re-educate clients in the public and the private sectors about the consequences of suboptimal procurement processes and behaviours. Nonetheless, a shift in responsibility throughout the advisory services sector would be welcome.

The advisory professions play an essential role in enabling clients to get the best outcomes from their budgets. While the focus from clients may be to look for areas where money could be saved, the objective must be to maximise the outcomes from a construction project that deliver the greatest whole-life value. By focusing their advice towards this aim – beyond the quest for cost-cutting – advisory firms can highlight the impact that poor budget-setting, risk allocation and early engagement practices have on businesses' ability to deliver desired outcomes. This, in other words, is another good opportunity to promote the practices in the Construction Playbook that firms want to see adopted by the private sector.

While leading advisory services businesses are already moving in this direction – including some firms in the CBI's membership – the CBI is calling on the sector to go further, and determinedly move away from prioritising cost-cutting. The breadth of advisory professions should advocate for better procurement practices to private sector clients with the same enthusiasm as contractors and suppliers, and play their part in transforming behaviours.

Recommendation
Professional advisory firms should prioritise helping clients achieve value-led outcomes from construction projects above seeking ways to keep costs down.

Private sector clients must recognise their critical role in supporting behaviour change

This government's clear economic and social agenda – and the direction of future investment trends – mean private sector construction clients will need to evaluate their procurement practices and project outcomes. Clearly, an overarching 'build back better' ambition requires a built environment that helps industry thrive, in modern, productive and sustainable places. Achieving this depends on a well-functioning construction sector, with investment flowing into new technologies, and greener, safer construction processes and materials.

It is therefore in private clients' interests to support the stability and prosperity of UK construction so that it can respond to demand, and creatively find ways of delivering construction projects – from warehouses to residential schemes to modern workplaces – that advance the sector's low-carbon, high-quality and safety credentials. Combative contracting practices that create a race to the bottom on price do nothing to enhance the sector's output. This is no longer an option if private clients want to be proud of the projects that carry their name.

There is no need for this paper to lay out the better practices required: the Construction Playbook points the way. However, as its scope does not encompass the private sector, private clients need to take the initiative to support industry-wide change through their procurement behaviours. A body such that brings private clients together could begin to establish how commercial clients in the private sector could adopt the Construction Playbook.

This is not something that can happen overnight, with the unique nature of individual private sector construction schemes, and decades of confrontational behaviours baked into business models. The reward, however, is great: a vibrant and sustainable built environment will underpin the success of UK PLC and drive value that investors seek in the UK. Both outcomes are priorities for private construction clients, but the industry will be hampered in delivering successfully if clients choose conflict over collaboration. Leadership is required, and the CBI supports the early work of the Construction Productivity Group being facilitated by Be the Business.

Recommendation
The industry should establish a client leadership group that can support the adoption of Construction Playbook behaviours throughout private sector construction.

The forthcoming Value Toolkit can drive a new understanding of value, which industry should support

To align outcomes across the construction industry, establishing a single source of truth when it comes to defining and measuring whole-life value, or value-led outcomes, will also be key. This will help construction firms commit their resources to projects more predictably, regardless of whether the client is in the public or private sector. Developing a value definition is a well-trodden theme, highlighted in the Construction Leadership Council's (CLC) paper Procuring for Value[19], which called on government to provide a definition for value that the public sector could adopt consistently and would form a basis for the whole industry.

Case Study: The Value Toolkit

The production of a 'Value Toolkit', led by the Construction Innovation Hub, integrates several of the common structural challenges in the construction industry, including risk, value definition and measurement of outcomes. It builds on four widely understood forms of capital to capture how value in different forms is produced, and identifies critical decision points during the design, procurement and delivery of a construction project that can lead to value creation.

The Value Toolkit allows clients and investors to develop a unique 'value profile' for any individual project that prescribes what the ideal outcomes should be, but which is based on a common set of principles and language. Crucially, the Toolkit has been mapped against private commercial processes and government programmes, including the business case processes in the Construction Playbook and HM Treasury documentation. This means the Toolkit can be utilized by projects in either the public or private sectors.

The Value Toolkit's role in creating and embedding a shared definition of value in the construction industry should not be underestimated. A common approach will mean a resolute focus on project outcomes that deliver value beyond capital expenditure savings, with clients and suppliers targeting better performance of the built environment over its lifetime, generating a greater positive impact for citizens and communities. It will help businesses respond to project briefs more consistently, reducing inefficiency and waste in the industry, and will unlock more objective, collaborative conversations between clients and suppliers when scoping, planning and pricing construction schemes.

The Value Toolkit is currently in testing phase ahead of an industry-wide launch later in 2021. Once it has been refined, published and widely available, the government should advocate for its use to support the guidance in the Construction Playbook. In the private sector, clients and investors should proactively seek to understand and apply the Value Toolkit in their investments. Right across the industry, contractors, architects, consultants and suppliers should be advocates for the Value Toolkit to drive its adoption.

Recommendation
All businesses in the industry should seek to utilise and promote the Value Toolkit among peers, with clients and their supply chains.

Recommendation
The Construction Innovation Hub should work with established client leadership groups for the public and private sectors to introduce and embed the Value Toolkit across construction.

Recommendation
The government should make sure that future Construction Playbook guidance on 'value-led procurements' continues to be in lockstep with the Value Toolkit.

Investors have a critical role to play if project delivery is to align with societal and economic objectives

In the public sector, the budget holders for capital and operational expenditure on construction projects can differ, sometimes within a single procuring authority or even between separate departments. CBI members who operate in the public sector say that this frequently leads to a misalignment of investment because unlike capital expenditure (capex), which tends to be on more predictable activities, a scheme's operational outcomes are harder to forecast for construction schemes, and therefore harder to accurately budget for. Additionally, CBI members repeatedly flag that it is difficult to persuade government departments responsible for 'capex' to appropriately plan and budget for operational expenditure (opex), because typically the opex budget holder is a different team or department, left to fend for themselves.

Despite these shortcomings, however, public sector spending is marshalled by strict governance and policies, and while this brings its own challenges, it does mean that the government has a variety of tools available to align expenditure with strategic social and economic objectives, like net-zero carbon emissions and improving productivity.

Conversely, market forces play a far greater role in dictating what outcomes and objectives are delivered and how budgets are used towards them in private sector construction. Individual investors will each have preferred outcomes from the projects they finance, and although these are likely to be in common areas, like sustainability and social value, there is far more inconsistency across the private sector when it comes to benchmarking and measuring performance against outcomes.

Similarly, in private sector construction, the client is not necessarily the investor. It is normal for an asset investor and asset owner to be entirely separate organisations, with sometimes a third organisation acting as the project client. The client ultimately contracts the main contractors, architects and suppliers. Not only does this disconnect create a misalignment between a budget holder's expectations of a scheme's cost against its risk profile, but it can also mean the link between investment and its ability to achieve outcomes is obscured.

The work done by the Project 13 initiative recognises this disconnect and outlines a new business model approach to rectify it. As the CBI noted in *Fine Margins*, there is a greater role for the asset owner to play in sharing more of the construction risk, recognising the value delivered over time from a constructed asset[20]. But outcomes and lifetime value are intrinsically tied to the finance that unlocks a new scheme. Far from being a background bankroller ready to tighten the purse strings at the first sign of trouble, investors in private construction schemes need to be exactly that: co-invested in the end result; active collaborators with clients, contractors and suppliers to extract the maximum social and economic value from construction.

It is therefore critical that procurements in private sector construction take more of an alliancing approach, with the involvement of the investors as part of the alliancing team. Opportunities should be created for budget holders to collaborate directly with businesses involved in the design, construction and operation of assets as they are procured. This will ensure that the link between investment and objectives is clearly established, with contractors and suppliers able to transparently design and price realistic outcomes from available budgets – which can then be flexed if necessary.

With this approach, investors benefit twice: a more reliable expectation of the financial return on their investment, and a more informed view of a scheme's achievable social and economic outcomes.

Recommendation
Private sector construction clients should actively involve investors in conversations about value and outcomes alongside contractors and suppliers, so that project finance can be more accurately forecast against objectives.

Clear and consistent sustainability strategies and reporting standards would assist the industry to deliver sustainable developments

CBI members recognise that the prevailing winds in global investment trends are already moving towards investment activities that have a permanent, positive impact on society. A previous CBI report found that, with more than $1trn globally being invested in environmental, social and corporate governance (ESG) funds, 'social responsibility' has recently overtaken 'environmental issues' as the primary aim for investors[21].

Financial markets and private businesses are becoming familiar with the drive towards a sustainable finance regime, where finance is deployed on activities that produce long-lasting, resilient, and positive societal and economic outcomes. To increase the flow of sustainable capital into UK construction projects that create value-led outcomes, the government needs to ensure it has robust decarbonisation strategies, as well as consistency in sustainable finance standards and measurement frameworks.

When it comes to driving investment from domestic and international funders, the government can send a clear signal to the market through its policymaking. There are myriad policies to consider: a long-promised Heat and Buildings Strategy to set a direction for the UK's building and heating performance standards has yet to emerge. This will – hopefully – be aligned to the Future Homes Standard and Future Buildings Standard, once they too are both published in full. The government has now published a UK Hydrogen Strategy, which will send a further signal to the utilities and energy markets. The newly established UK Infrastructure Bank intends to attract private capital to the UK's infrastructure opportunities, but will take time to fully capitalise.

Above all of this, HM Treasury is set to publish a final Net Zero Review into the cost of meeting the UK's 2050 target, and a whole-government Net Zero Strategy has also been promised by the end of 2021. It is paramount that the government makes sure these strategies are in sync with one another, as well as being bold in ambition. Consistency breeds confidence and strengthens the private sector's ability to deliver. Inconsistency leads to confusion and risks failure.

While ESG investment opportunities will grow organically – and will likely accelerate as the government publishes sector-focused decarbonisation plans – businesses still face dealing with inconsistency in how ESG outcomes are procured, measured and delivered. Across different built environment assets, from transport infrastructure to hospitals to commercial and residential buildings, there is widespread variance among regulations governing the benchmarks for performance. This gives private sector clients leeway to reduce, vary or ignore performance indicators linked to social and economic impact.

More consistent measurement and standards would help construction businesses to deliver more effectively for clients and investors. When firms can deploy their expertise and technical skills more efficiently and cost-effectively, faster progress can be made towards political and economic objectives, such as those in the Prime Minister's 'levelling up' agenda and the 10-Point Plan for a Green Industrial Revolution. The construction industry wants to not just play its part but set a higher bar.

For corporate firms, sustainability reporting practices are also evolving, as the UK begins to develop a sustainable finance regime and an integrated Sustainability Disclosures Requirements framework, announced by the Chancellor in June 2021. The government should make sure that these developments are joined up, by providing consistent taxonomy, definitions and principles for what constitutes sustainable finance. This will make it easier to achieve sustainable development through construction schemes and help the construction sector deliver projects that attract greater ESG investment. These requirements should synchronise with the targets set out in the government strategies mentioned above, so that there is consistency across the array of legislation.

At the same time, it is equally important that the UK's sustainability reporting framework accounts for, and does not contradict, international developments, such as the International Sustainability Standards Board by the IFRS Foundation, which will set out a global framework for sustainability standards. Getting this right will mean the UK's attractiveness for investment grows, with investors viewing the UK as a destination for achieving and multiplying value – while delivering positive societal and economic impacts.

As well as attracting long-term investors to back the UK's built environment, the government action could accelerate supply chains to invest in the technologies, skills, materials and processes that will be essential to 'greening' the country's infrastructure and buildings, and make or break the net-zero 2050 target. While the government rightly takes a hands-off approach to market intervention, it has recently shown appetite to incentivise private sector investment by introducing a 130% 'super deduction' capital allowance on machinery and equipment investments. Similar thinking could be applied to developing low-carbon construction materials and technologies, and capital invested in training the workforce to support low-carbon construction, encouraging firms to make safer bets on a green future.

The UK has no time to lose on this journey. Ensuring that investors are clear on the country's landscape for financial and environmental targets will help the flow of private capital into world-leading construction projects that have sustainability and longevity at the centre, and equally create a more predictable environment for construction firms to operate in. Creating a favourable environment for low-carbon investments by businesses is also vital. Even if future standards are considered stretching targets from the industry's current position, consistency and certainty are two hugely valuable assets for the construction sector – financers, clients, contractors, architects et al – as it undergoes a necessary transformation over the years to come.

Recommendation
The government must ensure that its overarching Net Zero Strategy and related Strategies have consistent and aligned decarbonisation targets, giving confidence to investors and constructors.

Recommendation
As it develops sustainability disclosure requirements, the government must ensure businesses can rely on clear consistent sustainability reporting standards, definitions and principles.

Government can encourage private sector clients to invest in value-led outcomes through new policy and legislative changes

As well as using its strategies to send signals to the wider investment and built environment markets, the government has policy levers that are due to be updated or launched soon which, used effectively, could stimulate an acceleration in sustainable private sector investment.

Last year's planning white paper *Planning for the Future* set out a new direction for England's planning system, and is currently being prepared as a draft Planning Bill ahead of the autumn. While the white paper acknowledged the opportunity for a streamlined planning system to fast-track greener developments that reduce pollution and increase biodiversity net-gain, the CBI's response to the consultation pointed out that there was almost no discussion of how reform could improve the delivery and sustainability of the infrastructure, buildings and public spaces that make up our wider built environment[22].

The white paper's focus on housing also overlooked the end-to-end opportunities for the planning process to incentivise more socially impactful development as enterprises grow and succeed. A reformed planning system gives government the scope to incentivise new developments of all types to meet higher levels of social and economic impact, by favouring developments that meet or go beyond expectations of sustainable development and environmental targets.

Allied to this, in its 2020 National Infrastructure Strategy the government outlined its intention to overhaul the Nationally Significant Infrastructure Projects (NSIP) regime so that it can speed up decision making on important infrastructure. The objectives of refreshing the NSIP are to cut timescales for delivering major infrastructure projects, accelerate development consent order decisions, and improve coordination between government departments and planning bodies. One area for improvement already identified in the National Infrastructure Strategy is central departments producing more useful departmental policy statements.

Policy statements that provide more detail on planning rules, targets and incentives can help the private sector understand the objectives of policies that will marshal development and building decisions. This can 'nudge' private sector clients towards the objectives they need to consider from new development, and focus schemes squarely at the value-led outcomes that construction businesses are readying their workforces to deliver.

The new planning system, once rolled out, will govern decisions made by private sector firms of all sectors as they grow and invest. By promoting and incentivising environmental, social and corporate governance outcomes across its proposed reforms and updates to the planning system, the NSIP and central government policy statements, the government can accelerate the flow of funding that will support the construction industry to deliver truly impactful, progressive outcomes for society.

Recommendation

The government's reformed planning system must contain mechanisms that will accelerate investment in and delivery of sustainable development.

Conclusion: the foundations and the fabric of success

A stable and sustainable construction industry will be essential to the success of the UK in the coming decades. Not just towards the goal of a carbon-neutral economy, but in developing a world-class built environment: the foundations and the fabric of a modern, globally competitive and sustainable UK economy and society.

The industry will be essential to developing and regenerating the places where the private sector thrives and communities prosper, creating value for investors in UK PLC and accelerating skilled employment opportunities in a future-focused economy. A financially sustainable construction industry will provide lifelong, highly skilled careers itself, attracting talent from all over the world, creating high-value exportable services and expertise.

All of this is achievable, and should be the common goal for government and private enterprise. But it is only through financial stability and a secure operating environment that business investment will create the technologies, innovations and skills to drive the transformation of the construction industry needed, at the pace needed.

The industry's response to the coronavirus pandemic shows what is possible when a sector pulls together in the same direction. A similar accord between the private sector and government is needed now. If UK construction is to develop strong, new foundations on which to build back better and construct the future the country needs, it must seize this moment to change behaviours once and for all.

The Construction Playbook is the blueprint for better procurement practices. While government must prioritise its adoption across public sector projects, the private sector must step up too, transferring better practices into private sector schemes, and engaging wholeheartedly in the ambition to implement these industry-wide. At this critical juncture for our economy, *New Foundations* highlights the routes that investors, clients, policymakers and industry firms can take to collaboratively inspire the success of UK construction – and for the country to share in the rewards.

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Produced by Tim Miller and the CBI Policy Unit
To share your views on this topic or ask us a question, contact:

Head of CBI Policy Unit
Elizabeth.Crowhurst@cbi.org.uk