



2015 The General Election

Impact on UK Construction

April 2015

A Special
Glenigan Report





Executive Summary

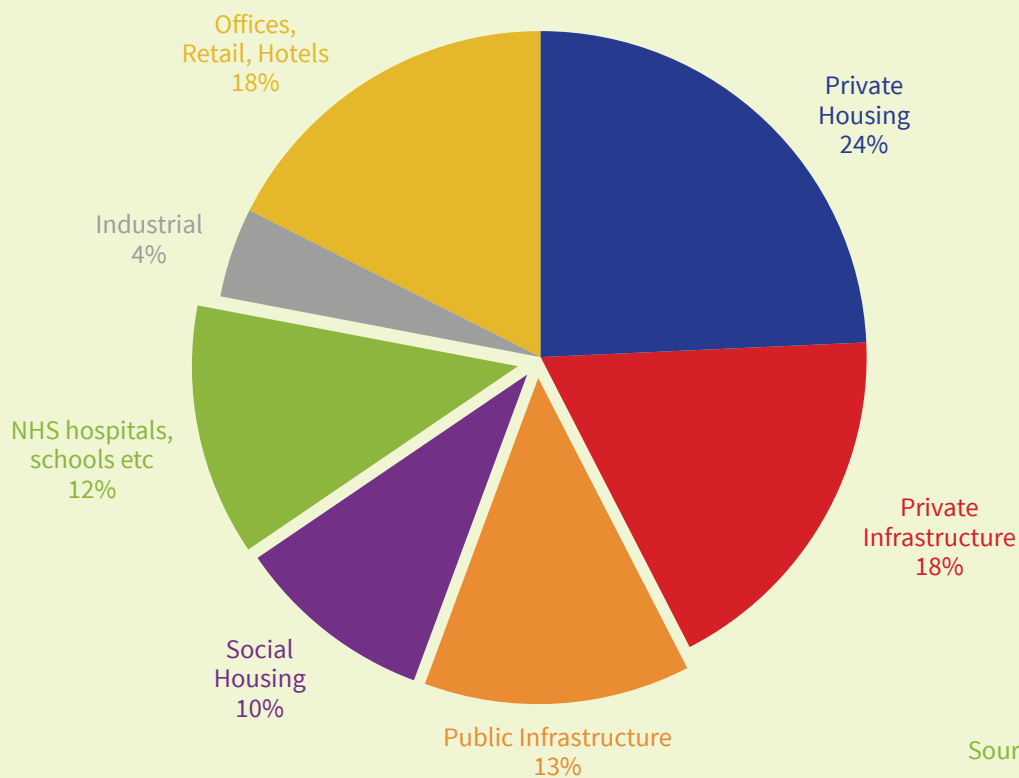
The 2015 General Election campaign is now underway. The economy and the budget deficit will be a key battleground that will also determine construction's fortunes over the next five years.

Delivering greater investment in housing and the energy infrastructure will be two pressing priorities for the new government. While all of the parties recognise the need for action, there are differing plans on how this should be achieved.

In a number of other important areas, such as health and education, the parties have so far been reluctant to detail their investment plans. Controlling overall public sector spending is core to the Conservatives' strategy.

In contrast, Labour and the Liberal Democrats argue for more public sector investment as a tool for securing long term economic growth; construction should be a beneficiary of this approach, but to date both parties have been quiet on where any extra public money would be invested.

Main contracts awarded in 2014



Government is the construction industry's biggest client. The public sector accounts for over a quarter of work awarded to the industry and related workload will be directly impacted by a change of government and spending priorities in areas such as health, education and social housing. However other areas of construction activity will also be exposed to government's policy changes and its management of the economy.





Key Battlegrounds

Allan Wilén, Economics Director at Glenigan



The political battle lines are being drawn for the 2015 general election. Glenigan has assessed current party policies and priorities, looking at construction-specific issues that will directly impact the industry. This special report summarises where the parties stand on the key issues and, with the opinion polls currently pointing at a hung parliament, identifies both areas of common ground and non-negotiable policies.

The economy and the budget deficit will be a key battleground. The Conservatives are perceived as holding the best track record, yet Labour's budgetary plans could leave more room for government construction-related investment in areas such as health and education. In addition, political uncertainty in the run-up to the Conservative's promised EU referendum may deter private sector investment.

Housing

Encouragingly, tackling the chronic under-supply of new homes is a priority across the political spectrum. Over the last five years the Coalition has introduced a number of measures and reforms to lift new housing activity and all the leading parties are proposing a variety of initiatives to help bring forward more land for housing development. Post-election we anticipate this to be an early priority for whoever forms the new government and the industry will be expected to demonstrate that it has the capacity to deliver more new homes.

Energy

The three 'main' parties have pledged to work together to deliver the UK's promised reduction in carbon emissions. Switching to low carbon electricity generation and improving the energy efficiency of existing buildings will be pressing issues for the new government.

The Green Deal has failed to inspire households to improve the energy efficiency of their homes despite spiralling energy prices over the last few years. Labour's proposal to provide interest free improvement loans and the Liberal Democrat's plans for a council tax rebate for energy efficient homes appear to be steps in the right direction. The potential prize for the UK economy, households and the construction industry is substantial.

However, the parties have differing priorities on how best to deliver a low carbon electricity industry. Additional restrictions are proposed by the Conservatives and UKIP for new onshore wind generation, despite it being a relatively cost effective energy source. Increased investment in offshore wind and other renewables has political support, but are more costly.

Investment in new energy generating capacity is urgently required as aging plants are set to close over the next few years, with new gas fired stations likely to take the strain near term. Labour plans for a fuel price freeze and industry review would risk delaying projects planned by the major energy companies.

Infrastructure

On transport, the three main parties' support for HS2 should enable the project to complete its Parliamentary process and there appears to be widespread backing for Network Rail's investment programme. Promises of additional investment for the road network in the north of England, while encouraging, will not feed through during the next Parliament.

Post-election, the Davies Commission will publish its proposals for London airport expansion, but again progress is likely to be slow. The Lib Dems are opposed to new runways, while Labour and the Tories have adopted a 'wait and see' approach.





DeHavilland View

Anna Haswell, Senior Political Analyst at DeHavilland



Five years on from the excitement of a fateful handful of days in May, the Coalition romance looks well and truly over, with the Liberal Democrats publicly distancing themselves by offering their own parallel spending vision in contrast to the Chancellor's final Budget.

Osborne's announcement was heavy on his party's preferred themes of continuity and security, making infrastructure commitments, with their tangibility and long-term significance, an ideal vote-winning offering.

Seeking support beyond its leafy southern heartlands, the Conservatives look set to stress the Coalition's record on rail and road improvements and their impact on regional economies, while also highlighting its desire to create a "northern powerhouse".

If the election brings Tory triumph, we can expect to see more support for business growth in the regions, and perhaps new moves towards to boost tax competitiveness through devolution.

Should the Lib Dems receive a less devastating drubbing than anticipated, there could even be scope for their coalition to continue, though perhaps with fewer nuptial niceties and more misgivings.

Talking Points

- A "long-term economic plan" or an austere alternative?
- Maximising ownership or reassuring renters?
- Cutting costs or cracking down on reluctant constructors?

Whoever wins, austerity is set to continue – but the main dividing line between the parties concerns how much to cut, and how fast. Labour has clashed with the Conservatives over the "1930s" tone of the latter's spending plans, warning voters that the NHS and public services are sure to suffer.

Tensions are clear on housing, where Conservative policy has focused on shoring up ownership through Help to Buy mortgage support and social home sales.

Labour, meanwhile, has increasingly advocated for "Generation Rent" – whose plight the party has tied to its energy bill crusade through promises to improve efficiency standards.

Elsewhere, both parties are looking to build, though the Tories have pledged to achieve "Starter Homes" through waives on construction costs, while Labour has preferred to take developers to task over the impact of land banking.

But with the SNP snapping at its heels, the key question is whether Labour can govern alone, or – as Conservatives have sought to suggest – it will be forced to strike a deal with Nicola Sturgeon's Scottish nationalists.

Such an administration would present a decisive change of tone from what has gone before, as the SNP's radical, progressive vision could find support among sympathetic anti-austerity elements on the Labour backbenches.

And so, with business leaders publicly pleading for a spot of certainty, perhaps the biggest story of the 2015 General Election campaign is simply how unclear the outcome remains.





Post-election priorities and scenarios

With the Conservatives and Labour currently neck and neck in the opinion polls, the general election looks set to create a hung parliament, with one of the two main parties either forming a minority government or entering a formal coalition with one or more of the smaller parties.

Below we have set out our thoughts on the probable outcomes and the potential impact on construction.

Conservative-led government

Opportunities: Starter home support for new private housing • £7.7 billion of upgrades to English strategic roads
Risks: Spending plans cut into health, education and social housing programmes • EU referendum risks depressing commercial and industrial workflow

Potential support from UKIP and Lib Dems, albeit not together. UKIP's priorities are an early vote on Europe and tackling the budget deficit. HS2 and the possible expansion of Heathrow would be vulnerable, given opposition from both UKIP and a number of Conservative backbenchers. The cancellation or delay to these 'flagship' projects would have a direct impact on **major contractors' workload**, but the impact would ripple down the supply chain to **specialist contractors and suppliers**. The industry's skill base could also suffer, with the lack of suitable projects prompting the **loss of specialists** such as tunnellers.

Support from the Lib Dems could provide greater support for delivering renewable energy capacity and improvements to existing building stock.

Labour-led government

Opportunities: Support for greater public sector investment • Energy –efficiency retrofit programmes
Risks: Energy price freeze may deter investment • Mansion Tax policy likely to dampen London housing activity

Potential support from the Scottish National Party, although a formal coalition has currently been ruled out by Labour. The SNP is likely to press for support for Scottish economy. **Contractors and material suppliers** operating in the north of England could benefit from transport links being prioritised in that part of the country including those to the Scottish border.

Lib Dem support should be less problematic as there is synergy between many Lib Dem and Labour policies, including new housing policies and targets. Labour's 'Mansion Tax' is likely to further dampen house prices and activity in London, with adverse implications for the **contractors and suppliers involved** with the large number of prime residential schemes currently in the development pipeline.

Rail investment, including HS2, would remain the main focus of transport policy, while early progress on additional London airport capacity is likely to be slow. Increased restrictions on onshore wind projects may be eased, with greater support for energy-efficiency improvements to existing homes. The successful delivery of a retro-fit programme could provide a significant boost to **small and medium sized contractors' workloads**. The labour intensive nature of such work would also intensify competition between contractors for **skilled staff** and underlines the need for increased training and apprenticeships.





Easy guide

to the key construction related policies

Conservatives

Labour

Liberal Democrats

UKIP, GREEN & others



Housing

New housing supply

200,000 new Starter Homes by 2020. 20% discount for first-time buyers under 40.

Release of public land for the construction of up to 150,000 new homes.

Coalition created Builder's Finance Fund, lending to developers of schemes of 5 to 250 units, until 2016/17.

Help to Buy ISA to boost first time buyers' deposits.

Target set for 200,000 new homes a year in England by 2020.

Simplified planning rules for small housing developments.

Help to Build scheme providing lower cost bank lending for small and medium sized housebuilders.

"Use it or lose it" powers for councils to tackle developers "who hoard land".

Support using the "muscle of the state" to build up to 300,000 homes a year by 2020, and would appoint a ministerial taskforce to achieve this.

Will publish plans for at least ten new Garden Cities.

Coalition created Builder's Finance Fund, lending to developers of schemes of 5 to 250 units, until 2016/17.

UKIP: Would encourage small scale developments of up to 12 units. "Local people" given the veto over large scale housing projects.

Social housing

Have cut funding for social housing, increasing registered social landlords' reliance on private capital and higher affordable rents.

More mixed tenure developments to cross-subsidise new social housing provision.

Housing "a key priority for additional capital investment".

Councils will be able to suspend Right to Buy.

Green: Build 500,000 new social rented homes by 2020.



Public Sector

Health

NHS Budget would be protected in real terms until 2020. The budget was protected in real terms during the 2010-15 Parliament; however rising operational costs means capital spending decreased.

Promised additional funding will be used to increase current spending on staff.

Promised additional funding will be used to increase spending on mental health.

Awaiting policy details

Education

Disappointingly, policy announcements aimed at tackling the current shortage of primary school places and the looming shortage of secondary capacity have been thin on the ground.



Infrastructure

Rail network	<p>Supports 'One North' proposals for the co-ordinated improvement of road, intercity and urban rail networks across the north of England, including £65 billion of rail improvements from 2020 onwards.</p>	<p>Plans to create a 'Guiding Mind' to improve integration between track and train operations.</p> <p>Will devolve transport funding to city and county regions.</p> <p>Support for adding capacity to rail network through electrification.</p>	<p>Supports 'One North' proposals for the co-ordinated improvement of road, intercity and urban rail networks across the north of England, including £65 billion of rail improvements from 2020 onwards.</p>	<p>Green: Expansion of rail freight network. Safeguard land for potential freight distribution projects. Bring rail services under public ownership.</p> <p>SNP: Support for HS2 but maximising benefits for Scotland.</p>
Road network	<p>Existing road investment strategy includes £7.7 billion of enhancements to the English strategic road network during the next Parliament.</p>	<p>Will devolve transport funding to city and county regions.</p> <p>Long term funding for cycling projects, with £250 million ear-marked for cycling between 2015 and 2021.</p>	<p>Existing road investment strategy includes £7.7 billion of enhancements to the English strategic road network during the next Parliament.</p>	<p>Green: Divert money from major road projects to public transport.</p> <p>UKIP: Opposes tolls on public roads.</p>
London airport expansion	<p>Awaiting Davies Commission review into expanding airport capacity in the south east.</p>	<p>Promise a swift decision after Davies Review is published</p>	<p>Opposed to any net increase in runways.</p>	<p>Green: Opposed to any airport expansion.</p> <p>UKIP: Opposed to Heathrow expansion.</p>
Crossrail 2	<p>Support in principle from the three main parties but project at early stage of development, with cost and funding unclear. No party has yet committed to building the line.</p>			
High Speed 2	<p>All three main parties support HS2.</p>			<p>UKIP: Plans to scrap HS2.</p> <p>Green: Opposed to HS2.</p>



Energy

Retrofit

Phasing out Energy Company Obligation (ECO) will cut available funding for home energy efficiency improvements.

Free energy efficiency improvements for 200,000 homes at risk of fuel poverty.

Interest-free loans for the energy efficient improvement of one million homes.

Committed to insulate 5 million homes over the coming decade.

£2 billion p.a to be spent from 2018/19 on energy efficiency improvements.

Council tax discount of £100 for energy efficient homes.

Would transform Green Deal into 'Green Homes Loan Scheme'.

Target to insulate 10 million homes over the coming decade.

Green: Free home insulation programme for all homes that need it, with priority for pensioners and those living in fuel poverty.

Energy-policy and renewables

Greater emphasis on solar and offshore wind farms.

Onshore wind power would face subsidy cuts and tighter planning regulation, with a moratorium on new onshore wind farms from 2020.

Energy price freeze could deter investment in new plant.

Support a binding CO2 reduction target to remove all carbon from UK electricity generation by 2030.

Heating & Energy Efficiency Bill to set a target for decarbonising UK electricity generation.

No public subsidy for new nuclear power stations.

Green: Accelerate on and offshore wind developments plus support for other forms of renewable energy. Wind to be main source of power by 2030. Opposed to nuclear power; would end public subsidy and cancel construction of new nuclear power stations.

SNP: Opposes new nuclear power stations in Scotland and strong advocate of renewable energy.

Hinkley Point C

Agreement already reached between EDF and government. Scheme's progress will now be determined by private sector partners.

Greens are against.

UKIP are in favour.



Apprenticeships

Apprenticeships

Three million new apprenticeships funded by cutting benefits by £1 billion over next Parliament.

Create up to 100,000 apprentices over five years by requiring apprentices on all major government contracts, including up to 33,000 on HS2.

'Large' firms recruiting non-EU workers required to hire matching number of apprentices.

Extend Apprenticeship Grant for Employers for the duration of next Parliament (currently due to end in December 2015), providing £1,500 grant per apprentice for companies of fewer than 50 employees.

Awaiting policy details



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