FINISHES & INTERIORS SECTOR

21 February 2020

The Rt Hon Rishi Sunak MP
HM Treasury
1 Horse Guards Road
London
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A Budget for Construction

Dear Chancellor

Congratulations on your appointment. I write as CEO of the Finishes and Interiors Sector (FIS), the trade body for the fit-out and specialist interiors and finishing sector which accounts for around 11% of the UK Construction Market and around 250,000 workers. I write because, whilst we support the direction that the Construction Sector Deal sets down, we fear without structured intervention from Government in terms of dealing with legacy concerns and solving the liquidity issues that are hamstringing investment, progress will be difficult. Below we have set down a number of suggestions for consideration:

Government should consult on the introduction of a Building Safety Fund. This would build on the principle of the private sector remediation fund, but address the wider critical safety concerns that are becoming evident through the Grenfell Inquiry. It is now clear that there has been ultimate collective failure in the procurement, design, commissioning, construction, inspection, insurance and management of building. Beyond the immediate and paramount concern for safety we are starting to see the value of properties being slashed as they become unmortgageable and uninsurable. This month we saw one of the UK's largest drylining contractors (employing directly over 200 people and many more on a subcontract basis) enter administration due to legacy issues and, at least in part, responsibility being forced down the supply chain. Whilst overtly criminal behaviour should be investigated and action taken, we simply cannot allow a punitive and unbalanced contractual past to leave all responsibility at the foot of the specialist contractor - we must find a way to draw a line under the past so that we can build for the future.

One option would be to consider a 1% levy through Insurance Premium Tax. Depending on how it was structured this could raise round £600m per annum. If this Fund was managed in a process akin to the Pension Protection Fund, it would help to accelerate the corrective work required to ensure people are safe in their homes and, at the same time, overcome protracted legal wrangling that will be complex, drawn out and could ultimately force many construction firms out of business.

Insurance reform - A secondary impact of the Building Safety Fund would be to alleviate the potential of a looming insurance crisis. Premiums are rising for all construction associated insurance, from building insurance through business indemnity for contractors and professionals and may become difficult to secure with under-writers walking away from the sector (Vibe is the latest to do this at the end of 2019). Moving forward we would recommend a review of construction insurance, favouring a move to project insurance that aligns risk rather than being complicit in helping it to be parcelled up and passed on.

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Lead by Example on Fair Payment – there have been too many league tables, unenforceable and, worse, unpoliced or toothless policies (e.g. the Fair Payment Charter). Around a third of all construction expenditure is awarded through Local or National Government – we need Government to lead by example. There should be no retentions (at any level in the supply chain) on public sector projects or projects where Government is a key stakeholder. Contractors who endemically pay late and starve the supply chain of vital cash must stop being awarded work. At the same time, we need to review the contractual environment and strike out unfair and overly punitive clauses ensuring that risk is managed, not parcelled up and passed on.

We need to review the responsibility that is Building Ownership – Inadequate upfront investment and a lack of foresight to accrue the funds necessary to invest and maintain a building could not be better exemplified than when we look at the home of our own Parliament. The much-needed Business Rate review could look to reward investment and effective asset management. This could extend beyond building performance to ensure the environmental impact is managed at all stages of life. There is a growing realisation that we must recognise and start to make decisions based on the natural capital that is locked up in construction materials, this information needs to be collected and recorded in existing building stock.

Give us Credit – A credit crunch in construction is constraining much needed investment. Innovation such as offsite and digital solutions that will improve productivity and sustainability require capital investment. The average pre-tax margin of the top 10 UK contractors in 2018/19 was 0.1%. This coupled with the shockwave that the failure of Carillion sent out has increased the perceived risk on the supply chain and limited access to credit. Referring back to Astins, it is notable that credit availability was a third of what it had been two years ago at the time the business failed.

Where grants and support are available, they tend to favour huge projects, large enterprises, exports and blue-sky solutions. R&D Tax Credits are helpful, but retrospective and don't help raise working capital prior to investment. We must look at innovative ideas such as Carbon Trust Loans and models similar to the Export Credit Guarantee Scheme, underwriting construction projects and unlocking more support, particularly from smaller contractors and suppliers, through the Sector Deal.

Reconsider the Reverse Charge VAT – Building on our comments above on credit, we need to be wary too of things that could undermine liquidity in construction further. The introduction of Reverse Charge VAT will have serious ramifications for construction businesses, impacting cash flow when liquidity is already tight and in so doing force some companies into administration. This attempt to hang on to cash to cover the potential shortfall is likely to underpin already poor working practice as companies seek to build working capital at the expense of their supply chain.

Target investment in skills on employment, not training outcomes – We need Government, the Institute for Apprenticeships and Technical Education (IfATE) and the English Skills Funding Agency (ESFA) to do more to ensure that English Apprentice Vouchers accrued through the Apprenticeship Levy are ringfenced, easily traded and, where businesses paying cannot utilise directly, monies can be redirected to investment in the training centres and resources needed to support the delivery of occupational standards at the point of need. In this way businesses are incentivised to drive change, work with providers and develop those vital links between industry and skills provision. We need real support for FE colleges to run courses that lead to jobs and to reward progression to employment rather than retention in education and training outcomes.

I would be more than happy to meet with any of your officials to discuss these suggestions and provide additional evidence that adds substance to above.

With kind regards,

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