



## **CONSTRUCTION ALLIANCE NORTHEAST'S CHARTER TO BUILD RESILIENCE INTO THE NORTHEAST CONSTRUCTION INDUSTRY**

CAN is an organisation which represents the interests of over 500 regional SMEs engaged in construction and civil engineering. With a combined turnover of £3 billion, these companies employ in excess of 100,000 people in the region and typically, are reliant upon successfully tendering for public sector contracts using industry procurement processes.

This charter sets out the reasons why a re-think on public procurement policy is required, which, if adopted by the public sector bodies procuring construction work, would enable the sustainability of the regional construction sector so that it makes a greater contribution to GDP within the North East region.

### **INTRODUCTION**

The north east is a crucial part of the UK economy and vital to the country's future success.

We are the only region with a consistently positive balance of trade and our workforce of some 1.2 million has a reputation for loyalty and hard work.

The region is predicted to see an annual average growth rate of 1.5% in its total construction output between 2016 and 2020, which is lagging behind the rest of the UK at 2.5%, but still puts us at 3.2% of base 2016 employment, which is well above the UK rate of 1.7%.

With growth returning across the country demand for construction workers is high and skills shortages are emerging. It's never been more important to attract, train and retain the next generation of workers.

The level of activity in each of the main market sectors of the industry – new housing, new building, infrastructure and repair & maintenance – will have a significant impact on training needs as each has its own requirements for skills.

There are five universities in the region, two of which are members of the Russell Group. Combined, they enable the region to benefit from one of the highest graduate retention rates in the UK - 59% cent of students stay and work here. This is why we must ensure that there are sufficient employment opportunities for them - with a healthy level of construction sector output, the development of a strong, local supply chain will follow.

## **CONTEXT**

### **The need for change**

During the recession the workload of many regional construction businesses was badly affected by the lack of private sector development.

At the same time, there was a shift in public sector procurement practice, largely driven by central government, resulting in national and large regional framework agreements for publicly funded projects - even for projects of relatively small value. Due to the selection criteria of these frameworks, focusing on high turnover and evidence of large numbers of completed, similar projects, many of the region's long established smaller firms were locked out.

### **The Impact**

Because the public sector plays such a large part in the overall regional economy here in the north east, it accounts for a large slice of potential construction projects for many regional businesses.

When however regional public sector contracts are awarded to firms on national government frameworks, it is likely that none of them will have their head office in the region with the result that all of the surpluses generated from these projects will be reinvested elsewhere.

As a result, after pledging that 33% of its construction projects should go through SMEs - up from 25% - the impact of the government's procurement practice has been totally contrary to its stated aim of increasing the involvement and award of public contracts to SMEs.

Quite apart from the negative effect that procurement practice has had on the economic growth of the region, it has also impacted the local supply chain and significantly reduced the number of training opportunities available to young people, further aggravating the skills shortage.

### **The Lost Opportunities**

Because of the way in which national frameworks are set up, it is difficult for regional SME firms to secure a place on them. The thinking behind the government's procurement strategy has been shaped by lobbyists who have persuaded Whitehall that it will save money to work in this way. In practice, this is simply not the case.

This is in part why so many regional construction companies have gone out of business and it must stop.

## **A CHARTER FOR REGIONAL CONSTRUCTION PROCUREMENT**

There are large numbers of highly skilled and talented construction personnel in the region and we must find a way of utilising these skills to build resilience into the north east construction industry, which can be a catalyst for growth.

If the sustainability of the construction sector is not given priority, the delivery of new homes, workspace and infrastructure to underpin a modern economy will not be realised which will significantly disadvantage the region.

From its own research with the 12 regional local authorities and other public sector bodies, CAN knows that some organisations are already taking steps to implement fairer procurement policies which put local companies first, whenever possible.

Looking ahead, we ask that CAN is given the chance to collaborate with construction industry policy makers over the development of any new public procurement strategy that will increase local and regional contractors' opportunities to bid for work procured by local public bodies. In this way the sector will be able to contribute significantly to the region's economic prosperity.

We are not asking for projects to be handed to regional SME contractors outright, merely the chance for firms to compete fairly for them in the open market against a set of well-reasoned criteria.

### **CAN's MANDATE FOR CHANGE**

We are seeking to

#### **Change policy:**

- The launch of a consultation programme between CAN and other regional bodies involved in setting procurement policy
- The involvement of a select number of SME construction/contracting representatives in this process alongside CAN representatives
- A commitment by commissioning services to talk to their local provider market first to ensure value for money as well as value for the community
- Consistency of thinking
- A commitment to ensuring fairer payment terms throughout the supply chain with legal redress for firms that are unfairly treated

#### **Change selection criteria emphasis:**

- A greater focus on increasing local contractor participation
- A greater focus on the inclusion of social, economic and environmental considerations, particularly on carbon footprint reduction and the eco benefits of using regional contractors
- A greater focus on training and job creation, particularly apprenticeships
- A greater focus on best practice in line with national examples

#### **Change the structure of bids:**

- Catering for smaller/medium value works as distinct from higher value works
- Making use of various models of procurement so that the most appropriate is adopted on a contract by contract basis

We wholeheartedly support the ambition of NELEP to create 100,000 new jobs by 2024 and believe the creation of a new procurement process, which allows SMEs to play a leading role, will help achieve this goal. More opportunities to tender for work will lead to greater confidence in the sector, resulting in a more dynamic recruitment, training and job creation environment.

We wish to work closely with NELEP and NECA as well as other construction sector bodies to develop a cogent plan that will enable the regional construction sector to fulfil its potential as a key driver for growth.

We are therefore looking to local government to redefine public procurement policy so it makes adequate provision for SMEs. Lessons must be learned from the past. The North East region is perfectly placed to be a beacon of best practice.