

The Chartered Institute of Building (CIOB)

submission to

The Department for Business and Trade

on the consultation

Invest 2035: the UK's modern industrial strategy

22 November 2024

David Barnes
Acting Head of Policy & Public Affairs
e: dbarnes@ciob.org.uk
t: +44 (0)1344 630 881

Invest 2035: the UK's modern industrial strategy

Introduction

The Chartered Institute of Building (CIOB) is the world's largest and most influential professional body for construction management and leadership. We have a Royal Charter to promote the science and practice of building and construction for the benefit of society, and we have been doing that since 1834. Our members work worldwide in the development, conservation and improvement of the built environment. We accredit university degrees, educational courses and training. Our professional and vocational qualifications are a mark of the highest levels of competence and professionalism, providing assurance to clients and other professionals procuring built assets.

Background

In her first speech as Chancellor, Rachel Reeves MP promised to “get Britain building again” by bringing back compulsory housebuilding targets as part of a wide-ranging plan to reboot the UK economy. This included overhauling the National Planning Policy Framework (NPPF), which was consulted on earlier this year, and ending the ban on onshore wind farms in England to speed up national infrastructure projects.

The core focus for Government has been on plans to build 1.5 million homes in England over the course of this parliament which will of course rely on a significant expansion of the construction workforce to deliver these ambitions.

Data from the May 2024 Construction Industry Training Board (CITB) Construction Skills Network Industry Outlook report estimated an extra 251,500 construction workers will be needed by 2028 to maintain current and future demand, equating to 50,300 per year. From its report, it states the following job roles are most ‘in demand’:

- On the non-manual occupations ‘non-construction professional, technical, IT, and other office-based staff’ are most ‘in demand’ with an Annual Recruitment Rate (ARR) of 10,950.
- For manual occupations ‘labourers’ has an ARR of 5,100. It is followed by ‘carpenters and joiners’ (2,940) and ‘electrical installation trades’ at 2,780.
- For professional occupations ‘other construction professionals and technical staff’ (typically construction managers, etc.’ the ARR is 8,670.¹

We urge caution with the data, but it does indicate significant shortages from trades to professional skills. This forecast was also produced pre-general election and therefore does factor in the Labour Government’s announcements on housing which we believe will require significantly more skilled and competent people to join the sector in specific trade skills, such as bricklayers, dry liners, electricians, and even heat pump installers should the intent around the Future Homes Standard come into force.

With housebuilding (as well as broader construction and infrastructure projects) being central to the Government’s ambitions, the CIOB were disappointed at the lack of explicit focus on the construction sector and wider built environment in Invest 2035: The UK’s Modern Industrial Strategy.

We believe that construction and the built environment should be explicitly listed as one of the Government’s ‘Foundational Sectors’ to help realise the ambitions set out in the Industrial Strategy.

¹ CITB, [CSN Industry Outlook – 2024-2028](#), 15 May 2024

Finally, the Industrial Strategy should seek to utilise better quality-built environment data. As we have alluded to throughout this response, data on the construction sector is narrow and provides limited measures which are as likely to hinder the policy debate. Data in its current guise often perceives construction to be unproductive and one that does not innovate, routinely ignoring the value added within equipment rental, building materials manufacturing, consultancy and design, and component production.

There are major opportunities within the built environment sector, and it has a significant role to play in supporting the Industrial Strategy's growth driving sectors, but these mission driven plans must be accompanied by a joined-up level of scrutiny, oversight and direction. This will require serious cross-government engagement and true collaboration on areas such as skills.

Full response

1. How should the UK government identify the most important subsectors for delivering our objectives?

Throughout this response, we are focusing our views on **construction and the built environment**.

In our view construction and the built environment should be explicitly listed as one of the Government's 'Foundational Sectors' as defined on page 20 of the Strategy. These are the sectors which provide critical inputs and infrastructure to the growth-driving sectors.

Construction and built environment activity underpins the majority of the eight 'growth-driving' sectors, notably advanced manufacturing, clean energy industries, defence, digital and technologies and professional and business services.

But with this in mind, we believe that construction and the built environment should be explicitly mentioned given its importance at an economic, social and environmental level.

The reason for its expulsion is alluded to under the Methodology section (pages 18-19) and is highlighted under footnote 56 about the use of Standard Industrial Classification (SIC) codes. We believe that the methodology used to decide some of the sectors have significant flaws. For example, 'construction' is defined by SIC code F and amounts to work done by building (SIC 41), civil engineering (SIC 42) and specialist construction firms (SIC 43) on sites.

Defined this way the construction industry officially accounts for approximately 6% of the economic output of the UK and provides employment for 2.2-2.3 million people. However, the narrow Office for National Statistics (ONS) definition of the industry ignores the work of architects, engineers, and quantity surveyors as well as manufacturers dedicated to the sector and many other firms that support construction such as builders' merchants and plant hire providers. These are caught in other SIC codes such as SIC Code B (Mining and Quarrying) and SIC code M (Professional, scientific and technical activities), for example.

The reason this is important is that construction, as defined by its SIC code is considerably smaller and is likely seen as a less productive industry, given the labour intensity of standard work on-site. We believe the creation of a **satellite account**, which would include the aspects from more productive sectors such as real estate and professional services, would garner a better picture of the most valuable 'subsectors' for the Industrial Strategy.

This satellite account would pull together data into a coherent and easily comprehensible form that would better describe how the wider construction industry is performing. This would include all the contractors, consultants and dedicated suppliers to the industry, whether they are classified as in the construction sector, the service sector, mining or quarrying or manufacturing.

Separately, we believe that any growth driving sectors and associated subsectors must be intrinsically and explicitly linked with Governmental objectives.

Within 'construction' this includes the delivery 1.5 million homes over the course of this parliament, boosting minimum energy efficiency standards for rental properties by bringing all homes up to a decent standard by 2030 and remediating buildings as covered in the Government's building safety programme.

2. How should the UK government account for emerging sectors and technologies for which conventional data sources are less appropriate?

There is a perception that the construction industry fails to sufficiently invest in research and development (R&D). The construction industry product group spent £2.1 billion on *formal* R&D in 2022 (4.1% of total R&D performed by UK). This is significantly less than the pharmaceuticals product group which made the largest contribution to the total business R&D performed in 2022, with £9 billion (17.9% of total R&D performed by UK businesses).² However, it still demonstrates significant spending from within the industry on R&D, particularly when a large percentage is made up by SMEs.

A 2010 report from the University of Salford on innovation still reads true today in that traditional output methods such as R&D expenditure are often not sufficient to measure the innovation process as a whole, and this is especially the case in construction.³ The report cites NESTA research which suggests that traditional indicators of innovation performance are heavily biased towards investments in scientific and technological invention and do not capture innovation in non-research-intensive industries.

In the construction industry, for example, innovation usually occurs on a project basis; through problem-solving exercises or changes in process and organisation structure that will not be patented nor trademarked. Since these activities are missed using traditional indicators, it would be naïve to base the construction industry's commitment to innovation purely on formal R&D investment.

Instead, wider innovation should be measured by business expenditure on training and skills development, software, advertising and market research or expenditure on other improvements in organisation design or process – a point that was made in 2013 research by the Department for Business, Innovation & Skills in their economic analysis of UK construction.⁴

It is also important to recognise that innovation takes place within building design and product manufacturing.

This tends to increase the overall productivity in the process of delivering and maintaining the built environment. It also frequently improves the quality of the buildings and infrastructure. But as design and manufacturing add value in offices and factories and not on-site, they do not necessarily raise productivity on-site.

Productivity and Modern Methods of Construction

It must be noted that the UK Government has rightly placed a great deal of need to provide large swathes of new housing across the UK and there is a need to ensure that the capacity and capability of the construction sector is understood as to how this can be practically implemented.

² Office for National Statistics (ONS), [Business enterprise research and development, UK: 2022](#), 27 February 2024

³ The University of Salford, SCRI, [Innovation in Construction, A Project Life Cycle Approach](#), May 2010

⁴ Department for Business, Innovation & Skills (BIS), [An economic analysis of the sector](#), July 2013

The Government cannot rely on increasing the amount of labour to deliver housing as it will take significant time to train and provide workers with the necessary competency and qualifications to carry out their roles.

It is therefore critical that we use modern technology, including the much vaunted “Modern Methods of Construction” or MMC to both reduce the labour content and also to transfer more of that labour from the site to the factory environment.

A recent CIOB report on MMC in Ireland stated the benefits it could provide to the sector in that “Greater use of MMC offers many potential benefits to those working within the sector and to society at large. It provides opportunities for a more sustainable built environment, better working conditions, and a more productive construction sector that can deliver high-quality homes more quickly than conventional, onsite construction.”⁵

Successful MMC demands investment in R&D and manufacturing plant and equipment. This in turn requires those investing to be happy that the fiscal and economic environment works for them.

Significant strides have been made in this direction but, there have also been notable failures, particularly around volumetric production. More of this is discussed in our response to question 7 under ‘innovation’.

It is clear the whole of the construction industry needs a clear long-term pipeline of work so that it can have the confidence to invest and train and to find solutions to delivering the challenge. However, it is crucial that MMC should not be seen as the panacea for the housing shortage as it has once been and we should learn from recent failures, such as Legal & General Modular who were the shining example of MMC done correctly.

3. How should the UK government incorporate foundational sectors and value chains into this analysis?

As highlighted in our response to question 1, the Industrial Strategy must be linked with Governmental objectives with explicit delivery plans as to how it will achieve these targets.

For example, the Government’s housing targets will require significant focus on building up industry capacity and capability as well as a detailed plan about how it intends to hit the targets that have been set. Currently, construction policy, for example, is still fragmented over multiple departments (notably Cabinet Office, Department for Business & Trade, Department for Energy Security & Net Zero, HM Treasury and the Ministry of Housing, Communities & Local Government), each with their own understanding and policy lever to tinker with issues.

An example of this is the MHCLG’s consultation on changes to the National Planning Policy Framework (NPPF) in which we are unsure about how much coordination and engagement has taken place within Government. If carried out in isolation, it is unlikely that any amendments and changes are as impactful as they could be.

4. What are the most important subsectors and technologies that the UK government should focus on and why?

⁵ CIOB, [Modern Methods of Construction: barriers and benefits for Irish housing](#), January 2024

As alluded to elsewhere in this response, we believe that construction and the built environment is a foundational sector that has a fundamental role to play in the majority of 'growth-driving' sectors and the associated 'subsectors'.

7. What are the most significant barriers to investment? Do they vary across the growth-driving sectors? What evidence can you share to illustrate this?

There are numerous barriers to investment into construction and the built environment, at a broad level, these cover **people and skills, innovation, energy and infrastructure and the regulatory environment**. A short summary of some of the most significant barriers to investment under each of these headings has been detailed below:

- **People and Skills**

Ensuring the construction industry has a steady supply of labour with the necessary skills continues to be one of the biggest issues for the construction industry.

It has long suffered from challenges posed by skills shortages and skills gaps, and the cyclical boom and bust nature of construction means workloads and staffing requirements are heavily dictated by the general condition of the economy. Data from the May 2024 Construction Industry Training Board (CITB) [Construction Skills Network Industry Outlook report](#) 2024 estimated an extra 251,500 construction workers may be needed by 2028 to maintain current and future demand, equating to 50,300 per year.

We urge caution with the data, but it does indicate significant shortages from trades to professional skills. Additionally, this forecast was produced pre-election, and the Labour Government has made several construction and housing announcements, including the target to build 1.5 million homes in this five-year parliament, the 700-775 billion infrastructure pipeline and the Net Zero transition. This will likely require even more workers to join the sector, as well as making the shortages even more acute, e.g. trade skills such as bricklayers, dry liners, electricians as well as newer roles such as heat pump installers with the new Future Homes Standard set to come into force. This will require new skills and techniques to be learnt which again, takes time to train and upskill.

Construction is a traditionally apprentice-reliant industry; however, it has struggled to meet government targets relating to the number of new apprentices needed in the industry per annum in recent years. Alongside this, employers in the construction industry critique that the current apprenticeship system fails to meet its needs. A number of the 'in demand' professions listed above are subject to apprenticeship routes within the sector. However, it is commonly accepted that significant barriers exist from both a provider and consumer perspective to starting or hiring apprentices.

Despite 2023 witnessing a sharp increase in apprenticeship starts in construction, planning and built environment related routes (33,610 between 2022 and 2023)⁶, the number of new apprentices continues to fall short of the needs of industry and only represents a small contribution to government targets.

Regardless of the fact that the number of new apprenticeships has increased in recent times, the numbers starting on built environment apprenticeships should not be an indicator of success in its own right. Statistics showcase the low levels of completion and attainment on these apprenticeships, highlighting a plethora of potential issues. These might be as a result of low levels of pay, training or might centre around the more challenging aspects of construction that

⁶ CIOB People, [National Apprenticeship Week: construction shows sharp rise in popularity](#), 5 February 2024

young people are not ready for such as early morning starts and the locational variations that are often inherent in construction.

Industry Levies

Separately, CIOB has long held concerns about whether an Apprenticeship Levy is necessary for the construction industry when large numbers of businesses already pay the CITB Levy.

For instance, there are a number of larger employers that are required to pay both the CITB and Apprenticeship levies which can create a financial and administrative burden rather than opportunities to invest in skills and training. It is therefore crucial that the CITB and apprenticeship levies adds value to businesses and the wider construction workforce.

On the Apprenticeship Levy, reforms in recent years have been the subject of well-documented critique. The Confederation of British Industry (CBI) noted that the approximate fall in apprenticeship starts of 31% since the introduction of the Levy cannot be ignored,⁷ while Balfour Beatty reports that only 10 per cent of the ring-fenced Levy funds were spent in the first year and many of those paying in find it difficult to spend it all. In 2023, FE week reported falling numbers of entry-level apprenticeships since the launch of the apprenticeship levy in 2017, with official government data showing that level 2 apprenticeship starts have dropped by two-fifths from 161,390 in 2017/18 to 91,520 in 2021/22.⁸

We believe it is vital for the future of construction to have an apprenticeship system that works for the industry to address skills gaps and skills shortages. With the current labour landscape, unemployment levels continue to decline with fewer available skilled workers in the market. More could be done to stimulate recruitment for the construction industry and mechanisms to incentivise recruitment by SMEs who hire apprentices could be offered.

- **Innovation**

This has already been covered to some extent in our response to question 2. However, it is worth commenting that the rapid collapse of multiple modular home providers over a two-year period has been challenging for those who championed modern methods of construction (MMC). The list is extensive of failed firms that sought to revolutionise housebuilding by delivering large modular elements, such as Legal & General Modular, Swan Modular Homes and Urban Splash.

For almost a decade we have seen growing enthusiasm, high hopes, public investment and wider government support, along with the formation of a trade body (Make UK Modular) all pointing to a new world for housebuilding. One in which significant numbers of homes are primarily built in factories and shipped to sites for erection and connection to services.

If a major investor like L&G with an ample supply of patient money and a big footprint in the housing market cannot make it work, who can? Perhaps more worryingly, the collapse of so many firms set up to deliver modular-built homes will inevitably casts a dark shadow over future attempts to modernise how we build homes. It will also raise questions over whether widespread prefabrication is possible within the housebuilding market.⁹

We are of the belief that the housing challenge will require a mixture of traditional build and modular to deliver at the pace of change that the Government wishes. However, any industrial strategy must take into consideration previous failures and learn from previous mistakes.

⁷ HR Magazine, [Apprenticeships have plummeted since levy introduced](#), 31 October 2023

⁸ FE Week, [Level 2 apprenticeship spending down by £200m since the levy](#), 23 June 2023

⁹ Brian Green (RIBA Journal), [Modular house-building firms may have failed but modern methods are on the rise](#), 2 May 2024

Finally, further work must be undertaken with the lending market to ensure that prefabricated homes, or other homes and buildings built through MMC, are eligible for mortgages and insurance in the same manner that brick-and-mortar properties are. We are aware that there are numerous other challenges in the construction products market, notably around the use of certain types of insulation which could also be a further barrier to uptake and investment in new materials.

- **Energy and infrastructure**

As highlighted under 'People & Skills' this is going to be the biggest barrier to Government getting close to any of its targets. Not only is the challenge there to build 1.5 million new homes, build new infrastructure, but also the challenge of retrofitting 17 million homes and non-residential buildings in the UK below EPC rating C.

Regardless of the ability to retrofit homes is the fact that confidence for energy efficiency investment measures in the home improvement sector remains low. Scams, poor standards of workmanship and declining financial and policy support for energy efficient schemes, such as the Green Deal, Green Homes Grant and the Energy Company Obligation (ECO), have all taken a toll. Eroded consumer trust in energy efficiency schemes will only impede progress towards the decarbonisation of housing and place net zero objectives out of reach.

Consumer advice and guidance is paramount to helping people make informed decisions and identify support available for measures to improve energy efficiency in their properties. In the UK, the Government-endorsed 'Simple Energy Advice' website goes some way to providing this guidance and we are pleased to see that while refurbishment and retrofitting measures are listed as methods to improve the energy efficiency of properties, the various benefits that can be accrued from good building maintenance and repairs have also been referenced.

Good repair and maintenance work, such as clearing gutters to prevent overflow onto walls, not only helps to minimise energy wastage and living discomfort, but also increases the durability and longevity of a building's fabric, yielding further long-term benefits in terms of the retention of embodied carbon. Thought must also be given to the needs of households in specific situations, including those in rural areas and heritage buildings. Repair and maintenance work are listed in the BSI 7913:2013 guide to the conservation of historic buildings as the most effective way of ensuring historic buildings do not suffer from avoidable decay that would require energy and carbon to rectify. This standard can be applied to any building, therefore highlighting the correlation between proper repair with energy efficiency and ultimate sustainability.

- **Regulatory Environment**

In recent years, the construction sector has undergone significant, and almost wholesale change to the way it operates. Primarily this has been due to new legislation such as the Building Safety Act 2022, which seeks to enshrine a new era of building safety, as well as new and upcoming regulation such as the Future Homes Standard which will guide the development principles for a new era of low carbon homes.

Broadly, these changes have been welcomed by the industry as they have sought to address critical challenges or failures. However, not all regulation is good regulation. In many instances it can place greater, unnecessary strain on productive sectors, complicate systems or introduce multiple operating principles where only one is needed. This has also been the case in recent years in examples like the Retained EU Law Bill.

While the Bill sought to introduce new regulatory powers for government to revoke, repeal or retain large swaths of EU law that were retained in the gap between the Brexit referendum result and the formal agreement to leave the European Union, the unintended consequence of the

legislation could have seen law relating to energy and industrial strategy, health and social care, workers' rights and other areas repealed without suitable replacements agreed. The CIOB campaigned against these proposals and thankfully they were abandoned.

On the other hand, good regulation, such as the introduction of a New Homes Ombudsman (NHO) to oversee the new-build housing sector and hold housebuilders to account on failures in quality during the sale, post-sale and occupation of a home, have helped to create fair systems of redress and level the playing field between housebuilders and their customers.

Ultimately, bad regulation can be a significant barrier to investment as lenders become unsure about markets, confusion hampers investors and increased costs get drawn down to consumers, but good regulation, done in tandem with industry can improve on historic failings and create a more equal and fair industry.

8. Where you identified barriers in response to Question 7 which relate to people and skills (including issues such as delivery of employment support, careers, and skills provision), what UK government policy solutions could best address these?

[Skills England](#), the new body launched to bring together key partners to meet the skills needs of the next decade across all regions has the potential to be transformative in its impact for people and skills across the built environment, but it requires fundamental analysis and understanding of the wider sector, including the numerous different roles that exist (e.g. trades and professional) and how the supply chain works.

We welcome the formation of Skills England and its intention to reform the apprenticeship system including changing the current Apprenticeship Levy into a broader Growth and Skills Levy. Subsequently we were pleased to see an additional £40 million promised in the recent budget to deliver new foundation courses and shorter apprenticeships in key sectors, although it is unclear what these key sectors will be.

We understand that the process necessary to transfer the functions to secure quality technical qualifications and apprenticeships away from the Institute for Apprenticeships and Technical Education (IfATE) is currently being dealt with through the House of Lords IfATE (Transfer of Functions etc) Bill. We were pleased to see that construction played a key role in the second reading of this Bill. However, at present we have struggled to engage with those heading up Skills England to understand what is to come for the industry and we feel that bodies, like CIOB, who not only represent large swaths of the construction industry, but also provide apprenticeship courses, have not been engaged as part of this process.

9. What more could be done to achieve a step change in employer investment in training in the growth-driving sectors?

We would guard against any further taxation or levy placed on employers to encourage investment in training given many employers pay into the CITB levy and the Apprenticeship Levy which is currently undergoing reforms.

10. Where you identified barriers in response to Question 7 which relate to RDI and technology adoption and diffusion, what UK government policy solutions could best address these?

This has broadly been covered in our innovation section response to question 7 and relate to the unfortunate collapse of several prominent modular firms and the need to learn lessons from

these. Despite the collapse of a number of firms, MMC is now very much embedded within the industry, with major house-building firms steadily shifting to MMC.

A big prompt for them to adopt new construction methods is the Future Homes Standard. This introduces challenging changes to Part L (energy) and Part F (ventilation) of the Building Regulations for new dwellings. Furthermore, MMC also offers the potential for greater control over the supply of both materials and labour, delivery times, and quality. It also has the potential to drive greater diversity in the sector. Ad hoc conversations with Starship Group a modular builder indicated that around 10% of their factory staff were women. With the average number of women employed in construction amounting to 15.8% of the workforce between April and June 2023 this shows the great potential for offsite construction to encourage women to enter the industry.¹⁰

While there are positive signs on MMC emerging from established firms, it leaves tough questions over what went wrong with those lauded as 'disruptors' and what lessons can be learned. The collapse of multiple modular house-building companies came despite large injections of public cash and heavy funding by investors. This was also examined by the House of Lords Built Environment Committee brief inquiry into modern methods of construction. In a letter to the then Secretary of State for Levelling Up, Housing and Communities, The Rt Hon Michael Gove MP, the Committee Chair, Lord Moylan stated, 'throughout the course of the inquiry it has become increasingly difficult to understand why Category 1 housing has failed to fulfil its potential. As a result, this inquiry has sought to place these business failures in context and consider the Government's progress towards delivering its objectives for MMC. We note that undertaking this inquiry has been challenging owing to a lack of a comprehensive dataset on MMC usage.'¹¹

Part of these problems may lie with perceptions that the construction industry is poor at innovating and has unreasonably low productivity. Meanwhile, as discussed earlier, it is quite possible that increasing MMC might lower the productivity in construction, as it is statistically defined currently, if high-value work once done on a construction site is shifted to a factory and into the scope of the manufacturing sector.

With this in mind, we recommend that the Government consider a report by the UK Collaborative Centre which suggests re-framing away from MMC and towards modern methods of development (MMD), with a view to reframe policy and industry debates away from a narrow focus on construction to a broader consideration of how the key components of residential development can enable or constrain MMC uptake.¹² The report states a key drawback for the debates around MMC is the fact that it is seen as a problem of construction methods.

The review indicates that wider adoption of MMC requires a comprehensive look at the whole development process. This requires a change in perception, and the report argues that the scope for modernisation will remain limited until sufficient focus is placed on the wider development context. It also suggests this change in perception would also help to better address systemic supply issues rather than seeing MMC simply as a quick fix that can boost the construction speed of housing units in the short term.

Additionally, the regulatory environment has a major impact on change. The Future Homes Standard, for example, is a major prompt to adopt MMC. Indeed, regulatory change was a key prompt in the 1970s that nudged English housebuilders to adopt timber-frame house

¹⁰ Construction News, [Percentage of women in construction hits new post-Covid low](#), 20 May 2024

¹¹ Lord Moylan, Chair of the Built Environment Committee, [Letter to Secretary of State for Levelling Up, Housing and Communities on Modern methods of construction in housing](#), 26 January 2024

¹² UK Collaborative Centre for Housing Evidence, [The potential role of Modern Methods of Construction in addressing systemic supply issues](#), April 2023

construction. This should continue, so long as smart regulation is developed in consultation with industry bodies and benefits consumers and businesses.

12. How can the UK government best use data to support the delivery of the Industrial Strategy?
13. What challenges or barriers to sharing or accessing data could the UK government remove to help improve business operations and decision making?

We have long argued for better quality data for construction and infrastructure to better inform policy decisions. We are aware that colleagues who sit on the Consultative Committee on Construction Industry Statistics (CCCIS) are particularly concerned with data that covers housing repair, maintenance and improvement which they no longer see as reliable and is distorting the picture of construction activity overall.

Additionally, given that location (in relation to timing) is a key factor in the efficiency and effectiveness of delivering and resourcing construction, a vast improvement would be made if there was better spatial data relating to where and what types of construction activity are in the pipeline.

14. Where you identified barriers in response to Question 7 which relate to planning, infrastructure, and transport, what UK government policy solutions could best address these in addition to existing reforms? How can this best support regional growth?

Earlier this year, CIOB responded to the Government's consultation on proposed changes to the NPPF. Within this response we outlined some of the barriers to investment that are present in the current planning system and those that may emerge with a reformed NPPF.

We have outlined some of our headline concerns below:

- **Constant changes to the NPPF and planning rules** - Consistent efforts in recent years to tweak the planning system rather than opting for wholesale change have resulted in stop-start policy making that has only served to further obscure the rules behind new housing and infrastructure rather than making them clearer. The built environment thrives on stability and assurance of investment, which has been something that has been long removed from the planning system.
- **Need to be realistic about the speed of change** - Many of the changes set out in the NPPF consultation, such as the defining and unlocking 'Grey Belt' land will take many years to come to fruition, therefore it should not be seen as the panacea to unlocking housebuilding in the short term. Additionally, implementing reforms to the NPPF alone will not be the solution to sustained economic growth in the UK as suggested in the supporting documentation. This is one of issue that needs to be addressed in combination with other fixes to the sector that will help to boost its productivity and output such as skills.
- **Conflicting objectives** - We hold concerns about the guiding principles of the reform to the NPPF. Whilst we understand the need to focus on speeding up the delivery of new homes in the UK, we are concerned with the lack of acknowledgement that these new homes must be high-quality and sustainable and that the delivery process needs to align with existing and emerging policies such as the Future Homes Standard and Building Safety Act 2022. The Future Homes Standard, as an example, is a policy that will improve the sustainability of new homes and is an effort to future-proof housing to assure that it

will not need further remediation. However, this policy will make the construction process rightly more complex not simpler. It would be beneficial to provide clarity about how these proposals will work in tandem with policies other policies relating to new homes that have been put in place in recent years.

- **Clarity of language** - Unclear language in previous iterations of the NPPF has left too many options open for disputes to be raised about the soundness of local plans as well as too many opportunities for housing commitments to be lessened without proper justification. Removing this language might also lessen objections to the NFFP in its basic form on the basis that it is 'unclear'. However, we would also advise against replacing this language with equally unclear advice as has been done in the guidance associated with the consultation, such as the use of "all efforts to" and "strengthen expectations". We recommend taking the time to make sure the language used is as clear as possible given how often unclear language has been used in the past to justify moves away from national planning policy.
- **Diversifying housing supply** - In recent years the housing development market has been dominated by a small number of large volume housebuilders whose resources and financial strength have allowed them to price out SME developers on materials and land values. The [Federation of Master Builders](#) (FMB) annual House Builders' Survey 2023 highlighted some of the key issues currently facing SME housebuilders. These included, a lack of available land, the ongoing materials shortages, access to development finance, opportunities for small sites, a lack of interesting in custom and self-build homes as well as a lack of certainty over the outcome of planning applications. This is evidenced by the fact that in the 1980s, SMEs built 40 per cent of new homes. This figure slowly reduced to 23 per cent in 2008 and then 12 per cent in 2021.

While some of these aspects are addressed as part of the proposed NPPF changes, there are still concerns about the crucial role SMEs play in the development market. With this in mind, there must be due consideration in protecting SMEs to ensure competitiveness as diversification of the housing delivery market is crucial to maintaining a consistent stream of new home completions.

To better diversify housing supply, we would recommend that local plans include a quota for sites to be provided by SME housebuilders rather than focussing on just the size of the site, where small sites are not available. This could initially be tested as a small percentage of sites allocated within local plans but could grow to a more solid and consistent percentage depending on success and uptake. Small alterations to the NPPF combined with strategic advice from the Planning Inspectorate could help kickstart this process.

For more information you can find our full response to the NPPF consultation [here](#). We would also advise that you seek views on this issue from the Chartered Institute of Housing (CIH) and Royal Town Planning Institute (RTPI).

15. How can investment into infrastructure support the Industrial Strategy? What can the UK government do to better support this and facilitate co-investment? How does this differ across infrastructure classes?

Investment in infrastructure is crucial across all the growth-driving sectors identified in the Industrial Strategy. This is why a well-supported and equipped construction sector is crucial as a 'foundational' sector as it is pivotal in the effort to reduce greenhouse gas emissions, cut water and energy consumption and reduce waste. It is essential for building the homes, schools,

hospitals and workplaces the nation desperately needs. The infrastructure it provides is crucial to improving the nation's productivity.

There are numerous studies which have shown how poor buildings and poor infrastructure burden the economy and reduce our health, wealth and wellbeing.

This is why the Government must work with the construction sector to prioritise and plan on how it intends to deliver its aims and how. The Government has recently announced that it is aiming to build 1.5 million more homes in the next five years and is reintroducing mandatory housing targets for local authorities. Of course, ambition is welcome, but there is a significant concern by industry bodies like us about the supply of labour and industry capacity to deliver on these ambitions, particularly to the standards that should be expected. Housing on this scale must therefore be seen as an infrastructure project in terms of the resources that will be needed and strategic importance.

16. What are the barriers to competitive industrial activity and increased electrification, beyond those set out in response to the UK government's recent Call for Evidence on industrial electrification?

The electrical grid is critical to achieving a net-zero carbon future, with electrification emerging as the key strategy for decarbonising economies, most notably the transport and housing sectors. As new technologies that are less carbon intensive have emerged, most of which are powered by electricity, there is a greater need to focus on understanding the current capacity of the UK's electrical grid and what might need to be done to upgrade it to account for increased usage and demand.

One of the key issues that appears to have arisen as part of the need to upgrade our existing electrical infrastructure has been the constrained and complex planning system.

An Environmental Audit Committee (EAC) report titled, *Enabling sustainable electrification of the economy*, published in 2024 which took a 'broad look' at Great Britain's electrification concluded that problems such as inappropriate planning regulations are presenting obstacles for electrification, amongst others. The report found that the planning system for new projects might be a "bottleneck", as local authorities lack the resources or in-house knowledge to accelerate clean energy projects.¹³

To advance electrification and therefore net zero objectives, the grid must be modernised and upgraded at speed. This relates to projects not just for new renewable generation but also for storage and transportation. Storage solutions are needed to bridge the gap between peak demand at night and renewable production during the day. A flexible and adaptable grid is needed to withstand and adapt to increasing infrastructure growth requirements and shifts in peak demand curves. And as consumers switch to electric vehicles, infrastructure must be expanded to accommodate the increased load.

Therefore, major projects to facilitate these upgrades must be given primacy, such as the Great Grid Upgrade.

The Great Grid Upgrade is the "largest overhaul of the UK's electricity grid in generations and is made up of 17 major infrastructure projects in various parts of the country".

The project that is based at various locations across the UK aims to provide new or improved power lines, substations, underground and underwater cables and other infrastructure. The overarching aim is to increase the grid's capacity to transmit clean electricity more efficiently

¹³ Environmental Audit Committee (EAC), [Enabling sustainable electrification of the economy](#), 22 May 2024

across the country, as well as to connect new wind and solar farms. It will also include new “super-highways” between England and Scotland.

Outside of the clear benefits the project will create for net zero aims, it is predicted that the project will create 130,000 new jobs, from engineers and surveyors to construction specialists and apprentices, with additional job creation in related sectors such as solar and wind power, as well as the electric vehicle and heat pump markets.

These private sector-led projects could prove invaluable to the UK’s future energy supply but risk being caught up in the red tape of the planning system if not given priority from Government. Going back to the EAC report, it recommended that the government enable local authorities to have the personnel and expertise they need to reach planning decisions quickly. Equipping local authorities with the skills necessary to work through projects for grid upgrades quickly and efficiently could help speed up their much-needed delivery.

Alongside this, there may be an opportunity through a revised and expedited planning process to avoid projects being caught up in planning committees with automatic permissions given to those that meet certain criteria.

20. Do you have suggestions on where regulation can be reformed or introduced to encourage growth and innovation, including addressing any barriers you identified in Question 7?

The construction sector is already heavily regulated and a great deal of changes in building safety legislation have come into force through the Building Safety Act 2022 and Fire Safety Act 2021. These are welcome pieces of regulation that improve industry safety, and we await the Government’s response to the Grenfell Tower final report in due course to understand about any further changes.

As noted elsewhere, improvements to the sustainability of buildings have been made by the [Future Homes and Buildings Standards](#) and we are awaiting the Government’s response to the consultation held under the previous administration.

Furthermore, we know that buildings and construction form a substantial portion of UK carbon emissions, contributing both operational carbon emissions (due to energy and water use) and embodied carbon emissions (due to the use of construction materials). The sum of these operational carbon emissions has reduced in recent years due to the decarbonation of the grid, a trend set to continue alongside transitioning to electric heating.

As such, the embodied carbon emissions in construction contribute an increasing proportion of the whole life carbon emissions for most buildings, with one study indicating that over two-thirds of a low energy new building’s emissions are embodied. Operational carbon emissions are directly linked to operational energy use, which are limited by Part L of the Building Regulations. There is no such parallel legislation limiting embodied carbon emissions.

Due to the significant contribution that the embodied carbon of buildings makes to the climate emergency, we believe there is a need to introduce legislation towards mandatory reporting of carbon emissions in the built environment, along with limiting embodied carbon emissions on projects.

In response, several leading industry figures have drafted a Part Z and Proposed Document Z as a proof of concept of the regulation that could be used in the UK.¹⁴ If enacted, Part Z would ensure that embodied carbon is assessed on all projects, as part of a comprehensive whole life

¹⁴ <https://part-z.uk/>

carbon assessment. It would also ensure that the embodied carbon emissions are then capped on all major construction projects - initially through limits on upfront embodied carbon, but over time expanding to cover all aspects of embodied carbon.

Regulation like Part Z could contribute to better measures of carbon usage associated with construction projects, but also stimulate innovation for new product materials, transportation and waste management.

21. What are the main factors that influence businesses' investment decisions? Do these differ for the growth-driving sectors and based on the nature of the investment (e.g. buildings, machinery & equipment, vehicles, software, RDI, workforce skills) and types of firms (large, small, domestic, international, across different regions)?

Construction is a volatile sector that is reliant on stability and visibility of work. It is also a sector made up primarily of SMEs and sub-contractors who often face cash flow issues due to numerous factors including delayed payments, delayed invoicing and cash flow forecasting. More broadly, construction SMEs are grappling with cost escalation of materials, energy and labour, alongside supply chain challenges and rising interest rates.

A number of unique challenges cause SMEs to be more exposed to economic disruption, including more limited access typically to liquidity and less consistent pipelines of work making it more difficult to secure financing at good rates.

With this in mind, it is unsurprising that 4,264 UK construction firms went into insolvency in the year to September 2024, according to the Government's Insolvency Service.¹⁵

It is not just smaller businesses that are at risk of insolvency, and we are still yet to see the full impact of the administration of ISG, which was the sixth largest contractor with £2.2 billion turnover, going into administration in September 2024. Inevitably this will have an impact on sub-contractors as outlined above.

This is why visibility and project certainty are needed, to enable businesses to better plan workloads and recruit where needed. We also note our response to question 9 where 'tinkering' with voucher schemes and funding pots often creates uncertainty and prevent businesses in investing in new skills and technologies.

26. Do you agree with this characterisation of clusters? Are there any additional characteristics of dimensions of cluster definition and strength we should consider, such as the difference between services clusters and manufacturing clusters?

We broadly agree with the characterisation of clusters as outlined in the strategy.

There is growing pressure for the construction sector to undergo a major reshaping, changing its focus from lowest cost to highest value and to increase its uptake of labour-saving technologies.

Construction is also fundamental to reducing the impact of climate change, which may entail radical changes to current practices. There is also significant expansion in the global construction market which presents UK firms with huge opportunities.

¹⁵ The Insolvency Service, [Individual Insolvency Statistics, September 2024](#), 18 October 2024

This is a period when the industry would seem to benefit greatly from clustering. It could prove a critical tool in fostering closer cooperation across the supply chain and opportunities for knowledge sharing essential to meet the challenges ahead. Clustering of businesses is seen as positive for innovation, productivity and raising the potential for international trade.

We recommend that both local and central government seek to promote and support clusters of construction-related businesses to act as hubs of excellence and innovation.

Incentives, such as low rents or low rates and provision of other services, such as business mentoring, that support development of the sector should be provided for a diverse range of businesses such as engineers, architects, surveyors, contractors, specialists and product manufacturers. These clusters should be near to and linked to centres of education and training. Incentives should, however, where appropriate be tied to engagement and training, with detailed assessments of their effectiveness.

31. How should the Industrial Strategy Council interact with key non-government institutions and organisations?

What has been suggested in the document is sufficient. However, we note that the construction industry and wider built environment is more nuanced than just large housebuilders and tier one contractors.

The construction and wider built environment supply chain is complex and voices from across the industry are required to make well-informed decisions.