



3 March 2010

The Rt Hon Alistair Darling MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

Budget 2010

UKCG represents over 30 leading contractors, who together produce some £36 billion of construction turnover - some 30% of the construction industry's total output. We are writing to highlight two key issues for your consideration as you prepare the next budget.

Capital spending on infrastructure

Because of its fragmented nature, construction's full value to the economy is not always fully appreciated. Yet it consists of 300,000 firms, contributes directly 8.5% of GDP and employs some 3 million people.

As general construction is a lagging indicator, the full effects of the recession have not yet impacted upon us. Even so, as a consequence of the credit crunch the industry has already seen a

20% reduction in its output in the past 12 months and expects further reductions over the coming year. Private sector investment remains fragile and on your own capital spending plans, public sector investment in infrastructure is set to fall by 50% between now and 2014. This is likely to lead to further significant job losses in the sector, further eroding our skills base and our ability to run apprenticeship schemes.

There is, however, compelling evidence that action by government to protect investment in infrastructure is one of the best ways of stimulating the whole economy and a good way of stimulating employment. Investment in construction results in more than just immediate consumption. As you are no doubt aware, it has a long term positive impact on the economy. Delivering new schools, hospitals and transport infrastructure that all provide long term economic and social benefits.

These facts have recently been verified in an independent report produced by L.E.K. Consulting. Key facts from the L.E.K study show that:

- Every £1 invested in construction generates £2.84 in total economic activity;
- Each £1 spent yields a return of 56p to the Exchequer – net investment is therefore 44p;
- 92p of every £1 spent is retained in the UK;
- Construction provides 28.5 jobs per £1 million invested; and
- Investment in construction is vital to the low carbon agenda; it is necessary to achieve 80% of the current emission reduction targets.

A copy of the full report is attached.

UKCG urges you to protect planned spending in infrastructure and focus further cuts in the public sector on current expenditure. This will help stimulate economic growth and help preserve the UK's international competitiveness.

Procurement of public sector construction

UKCG believes that there is considerable scope to cut the costs of public sector construction procurement, thus freeing up more resources for capital spend. We therefore welcome the appointment of the government's chief construction adviser and the fact that efficient and effective procurement is one of his key tasks. Sharing our collective experience, UKCG would like to work more closely with the government to help achieve better value for the taxpayer in this area. We believe a lot of lessons could be learnt from our collective experience.

We would very much welcome the opportunity to meet with your ministerial colleagues and officials in the near future to discuss some of these issues directly. I would very much like to bring along with me a delegation of Chief Executives from some of our leading members so that you can hear further about some of the issues confronting the construction sector directly..

I look forward to hearing from you shortly.

James Wates
Chairman