

Carl Arntzen Speech for the CPA Spring Lunch

19 April 2018

The Dorchester, London

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Ladies and Gentlemen, distinguished guests and colleagues, it's a great pleasure to join you here today for the CPA's annual Spring Lunch.

We've just finished with the AGM where members received an overview of the work of their association and our thoughts on the year ahead. It promises to be very busy and challenging for you and indeed for the Association.

Certainly the market is hard to predict, as we do not have a model for the social and political changes ahead of us.

The last 12 months have been surprisingly good for many, but we got off to a weak start in Q1, due to the collapse of Carillion followed by the "Beast from the East", which wiped out three working days in February and March.

Carillion was the UK's second biggest contractor and had over 11,000 direct sub-contractors and suppliers. We will see the impact of its demise on the supply

chain over the next 12-18 months, but keep in mind that construction activity has continued on some Carillion projects, where they involve joint ventures or major clients such as Network Rail.

Speaking of the poor weather, in some sectors we're actually likely to see little impact overall for the year. For example, the main work in house building really starts in the spring (*which seems to have finally arrived!*) and a degree of catch-up is possible on major infrastructure projects over the course of the year.

In some other sectors, however, the work has been lost as it was simply pushed back until after the bad weather passed.

For this year, the CPA is forecasting flat output, but that masks significant growth in some major sectors such as housing and infrastructure, offsetting falls in other key sectors such as commercial offices, education and health.

House building output is expected to rise by 5% this year, primarily driven by government's Help to Buy, which we expect to be extended beyond its current 2021 deadline within the next year. This will be necessary if government is going to get private house builders to deliver their 300,000 net additional homes by the mid 2020s target.

Infrastructure output is expected to grow 36% by 2020 but, as ever, this is dependent on government's ability to deliver on major projects and programmes. Without this consistent delivery, we won't see firms investing in additional capacity for products and skilled labour.

Output in the commercial sector is forecast to fall by 8% this year and 1% in 2019, as offices construction in London is affected by international investor concerns and Brexit uncertainty although activity in Manchester and Birmingham remains buoyant.

New commercial construction is also likely to suffer from continuing growth of online shopping at the expense of the high street, which skews construction demand away from valuable retail towards warehouses. We've already seen retailers like Toys R Us and Maplin go into administration so far this year and we're only in April.

We've been accustomed over the past few years for the forecasts to be particularly sensitive to external forces and events. Clearly the one event that has not only made those forecasts more difficult to gauge but has created a 'new normal' level of uncertainty, is Brexit.

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tel: 0207 323 3770 | www.constructionproducts.org.uk

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We've spent considerable time studying the ins-and-outs of this very complex issue, and working as I do for a multinational with its headquarters outside the UK, I've lost count of the number of times I've been grilled by my German board and asked to explain Brexit. But nearly two years after the Referendum, it's not getting any easier.

Regardless of which camp we're in, as businessmen and women we recognise that the way ahead is very unclear and winning investments for training and capital spend and indeed planning for future growth is very hard. Remaining in this stasis for much longer will do our industry severe harm.

The CPA has been engaging with government particularly on the future access to skilled labour; harmonisation of regulations and standards; and customs.

Unfortunately, we're still unsure what will be waiting for us post-Brexit, and the clock is ticking.

In addition to these operational issues, we've echoed concerns from some of our members, such as the British Ceramics Confederation, about increasing levels of non-compliance and even dumping of construction products in the UK market,

which could easily get much worse after we leave, when the UK is under pressure to throw open its doors in order to attract business.

All of these issues highlight that no one in this room should be under any illusions: what's waiting for us is a more competitive, more challenging, more risky environment to do business.

We'll therefore need to demonstrate leadership and work more effectively as an industry to mitigate those risks.

I won't belabor the point here because I've heard that Sir Vince has a few opinions himself about Brexit, that call into question exactly what waits for us in the years ahead.

Brexit of course is just one of the major events influencing the way ahead. For different reasons but on a similar scale of importance, the UK construction industry may find itself more dramatically changed by the repercussions of a post-Grenfell world.

When many of us here met at the Autumn Lunch last November, I outlined what were emerging as the obvious problems: poor risk management, poor

procurement, poor quality, poor building management. Not to mention complex regulations and controls. All amidst a culture of cheap, fast delivery and little vested interest or responsibility for the finished product and end-users.

Since then, a response has taken shape. The CPA has been at the heart of that response, beginning with our support for Sir Ken Knight's Independent Expert Advisory Panel which was formed to recommend immediate action that the government should take to improve public safety and help to identify buildings of concern.

Complementing that, we were pleased to also be asked by government to form an Industry Response Group alongside our colleagues at Build UK and the Construction Industry Council.

This "IRG", amongst other responsibilities, has been tasked with leading an urgent and collaborative effort to mobilise industry and provide essential advice to government on possible solutions to ensure that homes, offices and public buildings are safe.

The CPA has very actively engaged with many of you in these sensitive discussions, acting as an essential conduit with the manufacturing sector,

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responding to key questions and also informing and prioritising topics pertinent to the products industry.

This year, we've also been asked by Dame Judith Hackitt to contribute to her Independent Review of Building Regulations and Fire Safety. We are supporting three of her working groups and Peter Caplehorn has chaired the one on regulation.

Dame Judith is expected to publish final recommendations next month. I'm sure we'll be asked to work closely with government and our colleagues across construction to help implement those recommendations immediately following. What does it all likely mean for our industry? The threats for the manufacturing community are very much about not grasping the opportunity that currently presents itself. The whole construction industry is under a cloud following Grenfell. It is crucial that manufacturing steps forward and drives the kind of change we know is needed.

We should, for example, reassess technical performance data versus marketing information, and provide greater clarity about our products.

Fortunately, we are a long way down the road in terms of taking the industry towards unified information to make sure products can be clearly identified and understood. The CPA's work on both LEXiCON and Digital Object Indicators fits in perfectly with this requirement. It is very important that we work together on a unified approach, definitions and information.

Driving such changes will help ensure our products are identified and specified correctly, with absolute clarity that outcomes can be proven. It should also help ensure that the process of substitution or 'value engineering' is largely side-lined in the future.

When good quality manufacturing and products are recognised and rewarded, our industry will have one more reason to support innovation and make sure that performance is central to all our business decisions.

There are other major changes underway in the post-Grenfell world that, as I said earlier, will have major impacts on the culture and best practices of UK construction, but I won't detail them all here.

I will only add that I hope all of you will contribute where you can to addressing those changes and creating the kind of culture and practices that will prevent such tragedies from ever happening again.

Very briefly, before introducing Sir Vince, I'd like to point out that despite whatever lies ahead – Brexit, Grenfell or any number of other external forces or events – construction products manufacturers and distributors are more than capable of meeting these challenges head-on and are, in fact, on the front foot in many regards.

I'm encouraged, for example, by how our industry is consistently seen by policy-makers to be a success story. Some of whom tell us frankly that we're not "part of the problem". Instead, we're on the leading edge of modernising UK construction. This is even reflected in the government's recent announcement to include a sector deal for construction in its Industrial Strategy.

We bring inherent strengths through our ingrained focus on R&D, product standards and guarantees, advanced systems and materials, productivity and crucially the higher skilled workforce which supports it all.

Digitisation is also key. We have seen how it has impacted other high-value manufacturing sectors such as automotive and aerospace before us, and it's happening on our shopfloors as well. But what's more noteworthy is how it is sweeping away old models of distribution and ways of doing business with clients and consumers in areas such as retail.

To be fair, much of our industry is playing catch-up in this particular area, and I suspect the sector is ripe for disruption from an outsider like Amazon, but the CPA is working on providing insights as well as the tools to make sure the sector is able to embrace digitisation without too many false starts and incompatible technology.

These are just a few examples of how the CPA is working to raise the profile of our industry, help it grow and mitigate the key risks. As I said earlier about Brexit, there is a heightened level of uncertainty lately; unfortunately, we don't have any crystal balls to respond with.

But combining our ability to provide valuable insights to you, to share intelligence that helps you take action, and to provide that collective, respected voice for manufacturers and distributors alike, seems to me one of the best ways to meet that uncertainty head on.

Sir Vince Cable was first elected as the Member of Parliament for Twickenham in 1997, and last summer became the Leader of the Liberal Democrats. An economist by trade in both the private and public sectors, he pioneered the creation of the world's first Green Investment Bank.

We at the CPA first came to work with him when he ran the Department for Business, Skills and Innovation during the Coalition Government. He has consistently been a strong advocate for manufacturing and policies relevant to us such as supporting a long-term industrial strategy, promoting science and innovation, ensuring energy efficiency in the home, driving greater diversity (especially for women at the top of companies) and supporting young people through apprenticeships.

We're very glad to have him here today. Ladies and gentlemen, Sir Vince Cable.