

UK CONSTRUCTION: SKILLS SHORTAGES AND BREXIT WORKSHOP, FEBRUARY 2017

INTRODUCTION

Eight months after voting to leave the European Union (EU), the UK is gradually settling into the new reality that is life post-Brexit. Many questions still remain unanswered, not least what the final settlement for the UK will look like. But one thing that has become clearer since Theresa May's speech in January is that 'freedom of movement' is likely to be a red line for the Government in its negotiations. Exactly what shape or form UK immigration policy will take post-Brexit is yet to be decided by the policy makers, but it is likely that companies across many sectors will find it more difficult to recruit from EU countries. One of the sectors that will be impacted by the Brexit vote is construction. As an industry that relies heavily on the EU, the construction sector is likely to be significantly affected by the outcome of UK's final settlement and any forthcoming immigration policy.

Over the next 2 years or so while the UK extricates itself from the EU, as with other sectors in the UK, the construction industry will have to grapple with many unanswered questions and uncertainties: What could the consequences of a bad Brexit deal be for the construction sector? What will be the impact on the current skills shortage in the industry? What types of labour will be most affected? Where could future labour come from? What reassurances and actions will be needed from Government? How can transitional labour agreements aid or hinder construction? How would quotas for the construction industry be identified given that a significant proportion of the labour is classified as self-employed and unskilled? How should the industry move forward and develop in the long run? What can the industry do to help produce home-grown talent? Is there an opportunity to be had from Brexit?

These are just a handful of the issues that raise questions for the existing and future developments in the construction industry. To discuss some of these questions and to gain a better understanding of how practitioners in the industry view challenges and opportunities that Brexit will bring, the BCO in association with the RICS and Revo held a Brexit Skills Workshop in early February 2017. The workshop was hosted and chaired by aline consulting.

In this Briefing Document we cover what the group participating in the workshop considered to be the major issues facing the industry.

WORKSHOP OUTCOMES

The debate took an impartial stance with regard to the Brexit vote. The group did not consider whether Brexit was good or bad, rather it acknowledged that Brexit is happening and the industry needs to be prepared and be able to respond in such a way that will mitigate any possible negative implications on skills while also allowing the sector to maximise on future opportunities.

The main points of the discussion can be summarised as follows:

1. Brexit is a catalyst for much needed reform. Fragmentation of the construction sector in the past 30 years and its ever-increasing reliance on subcontracting and self-employment have created a model that is no longer working effectively. Brexit will mean that the sector will have to sit up, take notice and find new solutions to structural problems if it is to meet new and existing challenges as well as to maximise on medium- to long-term opportunities.
2. The industry should work more closely with the Government to address some of the issues currently impacting on it.
3. Much of the available information relating to the construction sector, for example in terms of numbers of EU/non-EU workers employed and the number of self-employed and subcontractor workers, are anecdotal. Consequently, an official survey of the construction sector is needed in order to establish a baseline regarding the actual numbers in each category, both nationally and also to acknowledge regional differentials. This will allow an assessment of the true scale of the future skills problems and will allow both the Government and the industry to prepare going forward in light of Brexit's potential impact.
4. A 'cliff-edge' Brexit would be detrimental to the construction sector, as it would exacerbate skills shortages and create problems that the industry would not be able to respond to. The structural problems faced by the industry will take a few years to resolve and solutions cannot be put in place overnight.
5. Retaining those EU workers who are already in the UK is essential to the construction sector, and the Government should provide assurances that they can stay.
6. Transitional and phased arrangements will be essential in order to provide time for the industry to adapt and

change. Measures to mitigate labour shortages are under consideration in other sectors. Agriculture is one example, given its heavy dependence on seasonal workers and EU subsidy. Could similar arrangements be put in place for the construction sector?

7. A blueprint of what the future immigration policy might look like would be useful so that the construction industry can prepare itself for what is coming down the line.
8. Any future immigration policy should address both white-collar and blue-collar workers. A quota, visa or point system would not be effective for the construction sector, where a significant proportion of the workers are blue collar, self-employed or temporary. Finding semi-skilled labour would be the greatest risk, as such workers may not pass skills barriers under a new immigration model. Where would the industry get low-skilled workers from? Who would sponsor a self-employed worker through a visa?
9. It is not all down to the Government. There is clearly a need for the industry to source, train and attract more domestic workers. However, this needs to be addressed through a number of measures, namely increasing the attractiveness of the construction sector by improving the image of the sector, offering higher remuneration, investing in training and apprenticeships, increasing diversity and ensuring there is a clear career progression path. These measures take time to put in place. The fact is that the current business model disincentivises employers in the construction sector. In an industry where contracts are often won on price competition, many cannot afford to take on trainees, as the extra cost means that someone else, with lower training standards, will undercut the price. Nor is it an advantage to pay more than the minimum wage or employ workers directly, as this increases business costs and curbs the ability to respond to workloads more flexibly. Could the Government regulate or legislate in a way that reduces reliance on self-employment or subcontracting and provides greater incentive for direct employment and training? However, this could see the sector shrinking.
10. The industry must take advantage of new technology and modernise. The construction sector has been too slow to modernise, despite numerous attempts, compared with some other sectors, and labour shortages will force this. There is a need for greater use of building information modelling (BIM) and virtual reality to reduce waste, as well as for greater use of off-site manufacturing to help the industry better manage its labour resources.

WORKSHOP OBJECTIVES

The objectives of the workshop were to:

- identify the key consequences of a bad Brexit deal for the construction industry
- identify what resources and actions the construction industry would need to see from the Government
- identify what the construction industry can do to help reduce the impact of a skills crisis.

SESSION OUTPUTS

The group was divided into three smaller working groups to discuss the key objectives in detail. Each group considered the key issues and opportunities relating to the skills challenges faced by their businesses.

SESSION 1: WHAT WOULD BE THE CONSEQUENCES OF A BAD BREXIT DEAL?

The key issues and challenges can be summarised under three headings:

Industry structure and workforce

- A lack of metrics/data means that neither the Government nor the industry knows the composition of foreign workers across the whole construction industry. The scale is unknown, and therefore the magnitude of the problem/shortage is likely to be unknown.
- What is available at present is anecdotal evidence, and this suggests that 80% of blue-collar workers are from outside the UK, although this is likely to be more reflective of the situation in London than some of the regional cities. The proportion is less for white-collar workers but this is nonetheless still high.
- Regional variation means that the percentage of foreign workers outside of London is lower.
- Fragmentation of the industry over the past 30 years has meant that it has become more and more reliant on increasing layers of subcontracting.
- Anecdotal evidence also suggests that over 50% of the industry is self-employed. Reliance on self-employment raises issues of responsibility for staff, accountability and responsibility for training, putting an immediate barrier on the efficiency and cost-effectiveness of training.
- Anecdotal evidence also suggests that over 50% of labour on a London construction site is foreign-born, which represents a substantial risk if such labour is not available post-Brexit.
- In a lowest-cost industry many cannot afford to take on trainees, as the extra cost means that someone else, with lower training standards, will undercut the price. Nor is it an advantage to employ workers directly, as this increases business costs and curbs the ability to respond to workloads more flexibly.
- There needs to be a reasonable return for businesses to invest in training, and at present there is no differentiator between employers who offer minimal training and those that train staff properly.
- Are there too many contractors? If there were fewer, they could be guaranteed work and this would make training more worthwhile.

Industry image

- Given that unskilled labour is largely imported, the industry will need to look outside the EU for workers, but will also need to find ways to attract workers from within the UK.
- Looking outside the EU to the rest of the world presents its own challenges. How do you source unskilled or semi-skilled labour?
- How do you ensure quality of work, particularly non-professional work? This could be a challenge in light of differing standards and ways of working.
- Domestically, there is clearly a need to encourage more people to consider the sector if it is to have the labour it needs. However, there is a growing reluctance (and there has been for some time) for the domestic workforce to do some of the lower skilled jobs in the industry.
- A shift in focus could be needed towards recruiting from the domestic pool of labour to fill the gap previously filled by EU migrants, but this is easier said than done. It is not something that can be done overnight. The past decades

have demonstrated a general reluctance by UK workers to enter the construction sector, where working means being outside in all kinds of weather, and the image of the sector is a lot less glamorous than that of retail or hospitality where pay is broadly the same for entry-level roles (minimum wage). To attract more home-grown talent the sector needs to differentiate itself by providing clear paths for career progression, so that those starting at the bottom know that there are opportunities for them to move into middle and senior management roles.

- A key issue for those considering entering the industry is a lack of job security. Continuity and certainty are vital in attracting and retaining a domestic workforce. At present there is little incentive for youngsters to choose the industry as a future career.
- Political and economic cycles have a big impact on the construction pipeline, particularly large infrastructure schemes which are often used as ‘political tools’. Employment in the industry needs to be seen as a secure job with a guarantee of work. There is no point in training if the boom will become a bust and businesses will lose staff. Employers often see training as ‘too much hassle’ and unsuited to business cycles.
- For many years the education system has been focused on encouraging the young to go to university. However, the Government is increasingly recognising the need to provide vocational education and apprenticeships. Education is, therefore, at the heart of what is needed to address the shortages experienced by the industry.

A bad Brexit deal

- A bad Brexit would be a cliff edge, where there is no transitional period to allow the industry to adjust and adapt.
- A bad deal will be if the EU workers already in the UK and working in the construction sector cannot stay. This will unnecessarily exacerbate labour shortages.
- Constraints on labour will ultimately push up wages and impact the time, quality and cost drivers of a project.
- The industry would struggle to deliver key infrastructure programmes such as housing and transport without access to labour markets in the EU and elsewhere.
- As the construction pipeline, and therefore labour requirements, tends to be very different in London and the South East, for example, compared with some of the regional towns and cities, large markets such as London and Manchester may have to draw in more labour domestically from smaller regional markets, thereby constraining growth there.
- Finding semi-skilled labour would be the greatest risk, as such workers may not pass skills barriers imposed under a new immigration model.
- Who would sponsor a self-employed worker through a visa?
- Manufacturing and the supply chain will be affected too, as they are just as reliant on EU labour as are contractors.
- EU workers are here for a reason. Will these reasons continue to be a draw under a new immigration system with increased barriers at the border? Or will there be ‘too many hoops to jump through’? Or a sense of social unwelcomeness? A point-system immigration policy, for example, is most likely to attract those who are looking to come to the UK on a short-term basis rather than those looking to bring in their families, settle, invest and contribute to the economy on a longer term basis. Is there an issue with workers staying here

for a few years and then leaving, having left no benefit other than their work in a ‘smash and grab, mercenary approach’.

- There are substantial issues for white-collar workers too, not just blue-collar workers. For the professional workforce (engineers, architects, designers, etc.), one way of ensuring availability of labour to meet demand is by offshoring. That is, having offices around the globe staffed by professional/skilled people who can respond to projects regardless of where they are based. However, while offshore sourcing may be possible for large global corporates, which can take advantage of their geographic and sector diversification, this will not be so easy for small and medium-sized enterprises (SMEs), which form the majority of businesses in the UK.

SESSION 2: WHAT COULD GOVERNMENT DO?

Each group discussed what resources and actions the construction industry would need to see from the Government:

- Although there are official figures on the overall number of EU workers in the construction sector, there is no breakdown by category (skilled, professional, semi-skilled and unskilled) and little information on regional distribution. Furthermore, it is not clear what the pipeline of work will be over the medium to long term, so the industry cannot assess how many workers will be needed going forward.
- There is need for a more detailed official (ONS perhaps) national survey of the construction industry to understand how people are employed and the proportion of migrants, both blue collar and white collar.
- The Government has not provided any guarantees on the status of EU citizens currently resident in the UK. The group’s view was that uncertainty is making the UK a less attractive workplace, and therefore there is a risk that some EU workers currently working in the UK will leave. A key concern for the group was to retain those workers who are already here.
- The structural problems faced by the industry cannot be solved within a short time frame and are likely to take the best part of a decade to fix through education, investment and training.
- Transitional labour agreements were deemed to be essential to allow time to fix the structural problems in the industry and allow the industry to find the necessary skills domestically, import skilled workers from outside the EU or train up more apprentices. None of this can be done overnight and it will take time to implement. The time horizon for training apprentices, for example, is likely to be 2–3 years.
- There was acknowledgement that while a transitional labour deal will not provide long-term solution it will soften the initial impact of Brexit. A transitional arrangement would allow for a ‘trickle of workers’ out of the UK rather than them all leaving at once.
- Government should provide a blueprint of what a transitional deal could look like. Early insight into the new labour rules could help the industry to plan better and begin preparing.
- A points system will not fix the issue for the construction sector and would create too much red tape.
- Despite the validity of the argument that the industry should recruit domestically, this is still likely to be insufficient. The domestic unemployed workforce is not large enough for the industry requirements. Therefore, a quota system should recognise that the UK workforce is not large enough to deliver the UK’s current GDP and that the sector needs additional labour from outside the UK. If there is a special deal for

agriculture to allow for seasonal demands for additional workers from the EU, could construction also be seen in the same way?

- There is a need for the immigration policy to address blue-collar jobs as well as white-collar jobs in the construction industry.
- The construction industry needs to engage and work with Government – more than it has done previously. The Government needs to understand the scale of the problem and why the construction industry is so entangled with migration. There have been four construction ministers in the last 18 months. Is this turnover healthy and does it ensure that the Government truly understands the industry?
- The Government could commit to building infrastructure projects to provide greater certainty about the future construction pipeline.
- The cyclical nature of the construction market means that the sector needs to respond quickly, both in upturns and downturns. Could a model where public work fills the gap when private work falls help even out the UK boom–bust cycle? It works in some countries.

SESSION 3: WHAT COULD THE INDUSTRY DO?

Each group considered what the construction industry could do to help reduce the impact of a skills shortage and how it could take advantage of opportunities that Brexit could bring.

Brexit as a catalyst for change

- There was acknowledgement that the current model is not working in an optimum way. The issues have been around for decades, but in the past attempts to change the model have been pushed aside as there was no urgency to change the status quo or the fact that the industry is based on lowest price. However, Brexit is the perfect catalyst for the industry to sit up, look inwardly, take notice of the broken model that is in operation and implement much needed reform.
- There is a need for a united property forum to discuss what is needed. Currently there are a lot of different groups discussing similar things, and a combined voice would be more powerful.
- There is a need for the creation of firm regulation and legislation (e.g. around self-employment and subcontracting) that forces the industry to take things seriously and implement change.

Tackling the talent gap

- There needs to be a proper understanding of the pipeline of work alongside skills, so that the skills gap can be defined.
- The industry should look to actively attract the next generation, promoting the industry to children of school age, i.e. early enough to inform their career choice before they have made their main educational choices.

- Two-thirds of the apprenticeship levy is tax. There is a need for employers to understand the apprentice levy model.
- We should be aware of the 5% club, a scheme in which all members commit to having 5% of their workforce being young people on structured training schemes, and interface more with the Construction Industry Training Board.
- To train an employee, employers want to retain that employee for at least 5 years to get their money back, but this counters the self-employment model.
- There is a need to recognise we have a model that disincentivises training.
- Arguably, the Government could lead by legislating to cap the number of self-employed or subcontractors that can be used (Transport for London is an example of where this has been done), but that would shrink the sector significantly and could lead to many smaller construction companies going under as they fail to compete effectively. A smaller industry may, in turn, impact on the economy and the delivery of infrastructure projects. Therefore, the industry needs to be careful about the incentives it uses. There needs to be a balance.
- There is a need to start training people now, but it will take 10–15 years to see the benefits.
- There is a need for more diversity in the industry.
- There should be more investment to improve conditions in order to attract more people.
- The industry should offer better career prospects. The employment model should consider both economic and social factors (i.e. fitting around workers' life goals). The youth of today are cause-driven, and are as much interested in the ethical and social values embraced by the company they work for as the remuneration and perks. A combination of both is needed if the sector is to compete successfully with other sectors such as retail, hospitality and finance.

Embracing the digital and technological revolution

- Other industries have changed but the construction industry has been slow to follow. BIM, for example, has been adopted on public-sector work, but the private sector (with exceptions) has been slow to embrace BIM to its full potential.
- The industry should target inefficiency and waste caused by poor uncoordinated design.
- Virtual reality, robotics and prefabrication could all have a positive and large impact on the skills crisis, but would require massive investment, something that has been a barrier to previous initiatives. While this is something that larger, global companies can consider, it is unlikely to be affordable by SMEs. Initiatives need to be supported by a secure pipeline in order to see a return on investment.

CALL TO ACTION

The group called on the Government to:

- Establish an official survey of the construction sector to understand how migrant workers are employed in the industry; shed light on the regional variations and provide a better understanding of the scale of the existing skills problem.
- Guarantee the rights of EU workers already in the UK so that the industry can retain them.
- Introduce a transitional period and phased arrangements in order to give the industry time to adapt and deal with structural problems.
- Recognise that the construction sector is entangled with migration and put in place special measures in the same way as for some other sectors such as agriculture.
- Provide the industry with a blueprint of what any future immigration policy might look like. An early insight into new labour rules could help the industry prepare itself.
- Commit to building infrastructure projects to provide greater certainty about the future construction pipeline.
- Ensure that the education system addresses the vocational and apprenticeship needs of the industry.

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ABOUT THE PIA

The Property Industry Alliance (PIA) is an informal umbrella group established a decade ago and designed to encourage liaison between the principal representative bodies within the property world. These include: CREFC Europe, Investment Property Forum (IPF), Revo, RICS, the Association of Real Estate Funds (AREF), the BCO, the British Property Federation (BPF) and Urban Land Institute (ULI).

ABOUT THE BCO

The BCO is the UK's leading forum for the discussion and debate of issues affecting the office sector. Established in 1990, its membership base comprises organisations involved in creating, acquiring or occupying office space, including architects, lawyers, surveyors, financial institutions and public agencies.

The BCO recognises that offices don't just house companies, they hold people and so what goes on inside them is paramount to workplace wellbeing.

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PARTICIPATING COMPANIES

The BCO would like to thank the following companies who took part in the workshop

aline consulting	Make
Arcadis	RICS
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CITATION

British Council for Offices (2017) *Briefing Note. UK Construction: Skills Shortages and Brexit. Workshop, February 2017*
http://www.bco.org.uk/Research/Publications/Briefing_Note_UK_Construction_Skills_Shortgaes_and_Brexit_Workshop.aspx