THE FARMER REVIEW OF THE UK CONSTRUCTION LABOUR MODEL

MODERNISE OR DIE

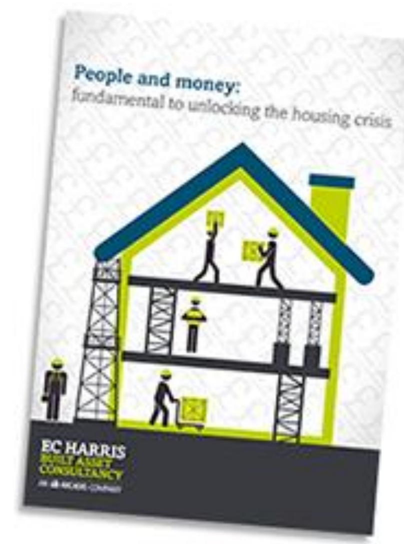
Time to decide the industry's future

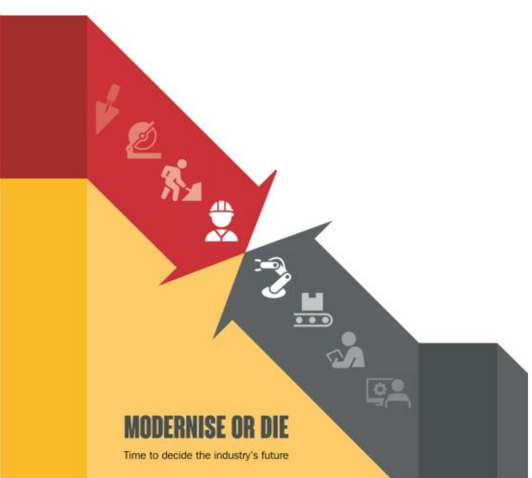
All started with EC Harris Report 'People & Money' in 2015

Key Findings:-

- Construction industry incapable of delivering government ambitions on housing
- Human and Financial Capacity were considered as critical limiting factors to UK housing output NOT LAND AVAILABILITY OR LEVEL OF PLANNING PERMISSIONS
- Critical observations made on declining workforce numbers – 700,000 new workers needed in next decade to offset retirement
- Importance of Build to Rent sector recognised as a key opportunity to link fresh capital to industry modernisation

Report was read by both Brandon Lewis MP (Housing Minister) & Nick Boles MP (Skills Minister)





Review instigated in February 2016, Terms of Reference as follows:

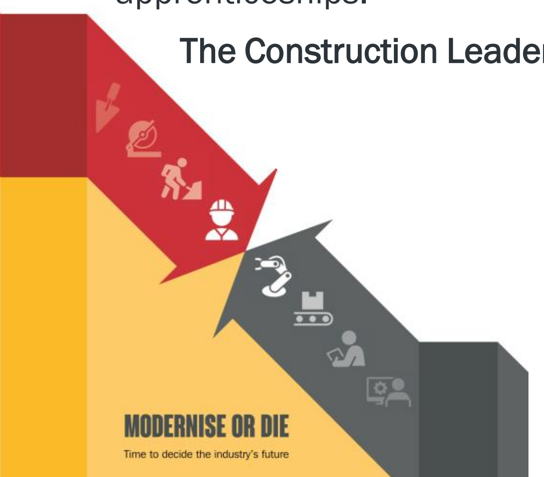
The construction industry is essential to the delivery of the Government's ambitions to increase levels of house building and to improving the UK's economic and social Infrastructure. However the sector is characterised by recurrent skills pressures, associated with its widespread reliance on extensive sub-contracting and recruiting skilled labour project-by-project.

Nick Boles, Minister for Skills, and Brandon Lewis, Minister for Housing and Planning, have asked the Construction Leadership Council to work with Mark Farmer to identify actions which will address this, **focusing on what measures will help lead house-building and other construction firms to ensure they have the skills, and the skills pipelines, that they need.** They will take recent work, including his own report (with Simon Rawlinson) People and Money, as a starting point.

The work will also examine the barriers and enablers to the greater use of off-site construction, specifically in housing.

The work will engage with construction stakeholders and take account of current practices in the sector, including what factors affect the use of and reliance on native and migrant labour, and of existing arrangements in place to support skills in construction including college and FE training, Levy systems and apprenticeships.

The Construction Leadership Council will report to Nick Boles and Brandon Lewis in the spring of 2016.



Department for Business, Energy & Industrial Strategy

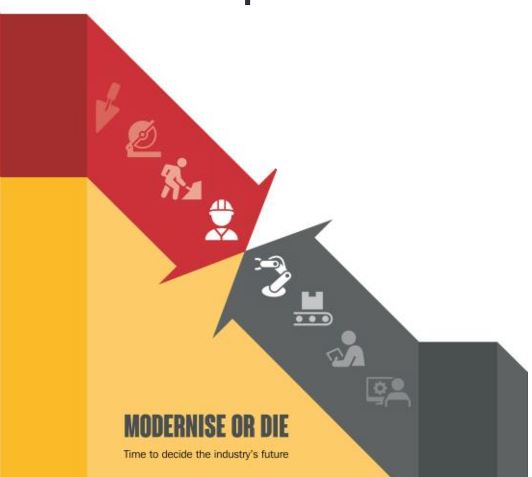
CLC

Department for Communities and Local Government

Advisory Panel Assembled

Advisory Panel

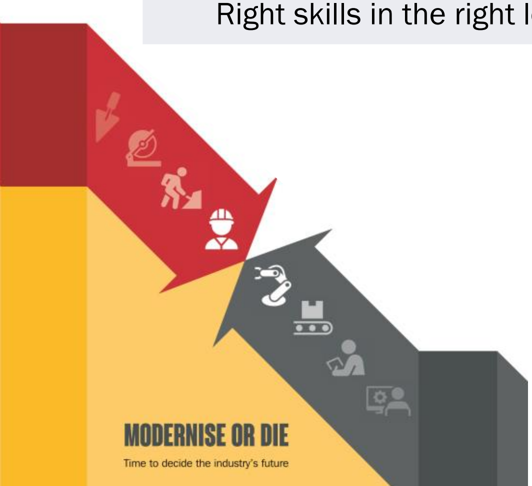
- **Nick Hammond** Managing Director, Brick Baron Ltd and Federation of Master Builders President for Yorkshire & Trent Region
- **Andrew Hulme** Lloyds Banking Group
- **Suzannah Nichol** CEO, Build UK
- **Jamie Ratcliff** Assistant Director for Programme, Policy & Services, Greater London Authority
- **Simon Rawlinson** Partner, Arcadis
- **Stephen Stone** CEO, Crest Nicholson plc
- **Stephen Trusler** Head of Accommodation, Laing O'Rourke



Key Themes & Interactions

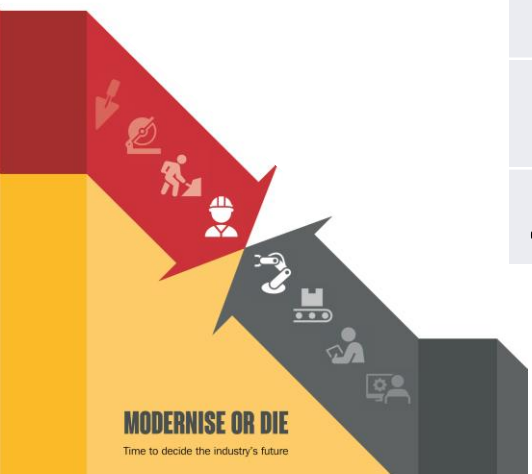
The review will provide an overview of the sector and the challenges it faces recognising the need for change through demonstrating the future position should the industry continue as is. The actions will then focus on two parts which link together as outlined below.

Addressing Labour Market Constraints		Reforming Delivery Models & Productivity
The reality of workforce size & demographic	Modernisation	Supply chain collaboration models
Apprenticeships, training programmes & providers	Underpinned by demand planning and cross stakeholder collaboration building confidence	Advanced methods of construction
Construction sector image & attraction	Long Term Thinking	Role of institutional long term investment
Right skills in the right locations		Role of public sector land, planning & direct delivery



A flavour of the themes identified from evidence taking & advisory panel meetings

Shape of the industry	Skills & training	Industry image	New Delivery Models
Industry is 8% of the UK workforce – important to GDP	Young people not encouraged to do vocational qualifications at school	Public perception is generally negative	Investment in off-site & innovation constrained by lack of demand planning
Housebuilding is 15% - 20% of construction industry	High level of non completions of apprenticeships	Seen as backward and loathe to change and modernise	Lack of common design & manufacturing protocol
Highly cyclical industry amplified from background economy	Housebuilding is not a focus within construction courses	Communications strategies with prospective new entrants & wider public need overhaul	Collaboration does not come naturally in construction
Average age of workforce is increasing and creating attrition 'timebomb'	Lack of qualifications for alternative forms of delivery e.g. offsite, CAM	Industry not seen as aspirational enough by parents and key influencers in career decision making	Fragmentation of industry prevents critical mass being achieved and sharing of risk
Women make up 11% of the industry	Age limits for Government apprenticeship funding	Often no clear understanding of career progression	Acceptance that traditional construction has low predictability
Fragmentation has forced responsibility for training down supply chain	Training programmes / lecturers not keeping up with changes in practice	Culture of the construction industry does not attract younger people	Sequential competitive procurement prevents collaborative working
Some degree of reliance on migrant workforce (?)	Ability of SMEs to take on apprentices e.g. working capital	House building loses out in internal construction fight for talent	Financing of innovation needs new, long term models
High volume of self employed workers – c.40%	Need to focus on relevant skills for workplace		Perception problems still exist re off-site product

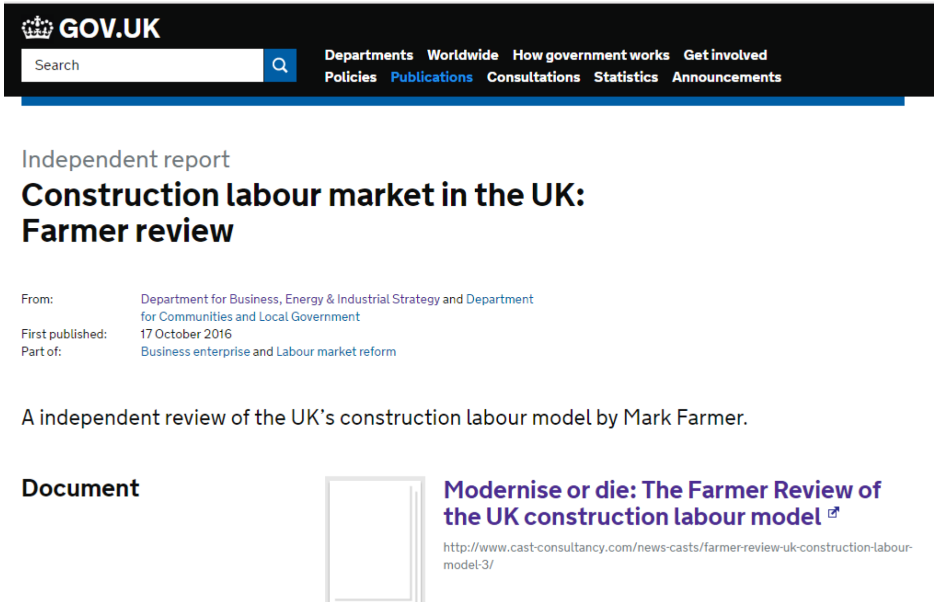


THE FARMER REVIEW OF THE UK CONSTRUCTION LABOUR MODEL

Published 17th October 2016

Issued under auspices of Construction Leadership Council

Independent status



GOV.UK

Search

Departments Worldwide How government works Get involved
Policies Publications Consultations Statistics Announcements

Independent report

Construction labour market in the UK: Farmer review

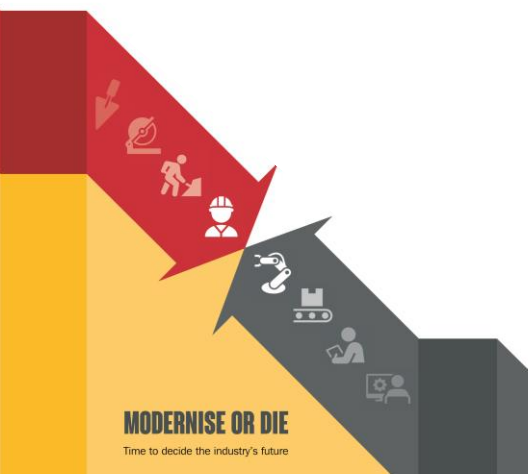
From: Department for Business, Energy & Industrial Strategy and Department for Communities and Local Government
First published: 17 October 2016
Part of: Business enterprise and Labour market reform

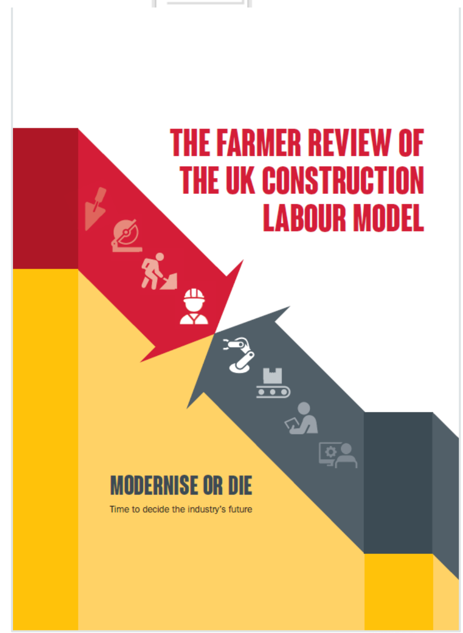
A independent review of the UK's construction labour model by Mark Farmer.

Document

Modernise or die: The Farmer Review of the UK construction labour model

http://www.cast-consultancy.com/news-casts/farmer-review-uk-construction-labour-model-3/

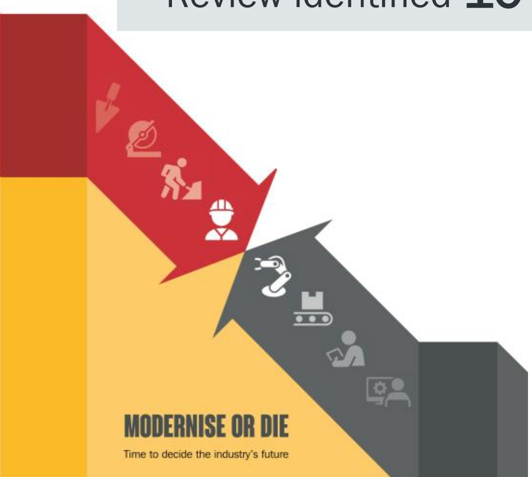




Medical Process Analogy Used as Structure for Review:-

- Identify the symptoms
- Diagnose the root causes
- Provide a prognosis
- Establish a treatment plan for recovery
- Keep the industry under observation

Review identified **10** symptoms, diagnoses **3** root causes & makes **10** core recommendations



Symptoms of failure

- Low Productivity
- Low Predictability
- Structural Fragmentation
- Leadership Fragmentation
- Low Margins, Adversarial Pricing Models & Financial Fragility
- A Dysfunctional Training Funding & Delivery Model
- Workforce Size & Demographics
- Lack of Collaboration & Improvement Culture
- Lack of R&D & Investment in Innovation
- Poor Industry Image

3 Diagnosed Root Causes

One

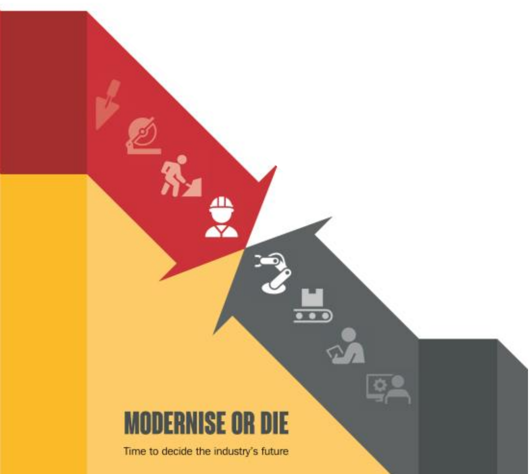
The industry has evolved a ‘survivalist’ shape, structure and set of commercial behaviours in reaction to the environment in which it operates. That environment is fundamentally characterised by low capital reserves and high demand cyclicality.

Two

The industry & its clients usually have non-aligned interests reinforced by traditional procurement protocols and a deep-seated cultural resistance to change pervading across both parties.

Three

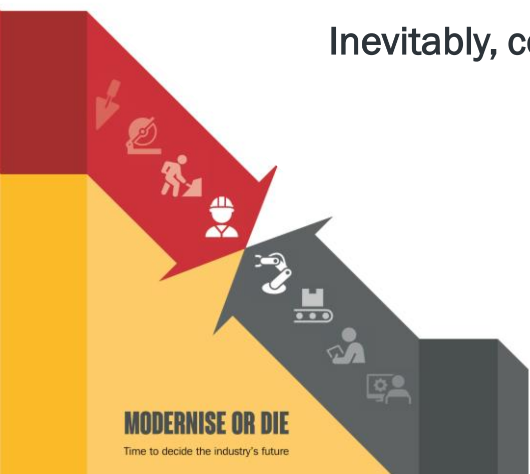
There is no strategic incentive or implementation framework in place to overcome the issues above and initiate largescale transformational change. The issues of variable demand, resistance to change and lack of alignment / integration with clients have become *de facto* accepted norms for the industry.



Future Prognosis for 'Business as Usual'

- Next 10 years are critical – could define future of construction
- Industry shrinkage through ageing and lack of new entrants could lead to 25% loss of productive capacity if we continue using traditional methods!
- We will not just recruit our way out of this – needs to be an integrated innovation and skills plan
- Future cycles of price inflation / deflation in industry could be more frequent and larger peak to trough as structural capacity further declines
- Generation Z are not attracted by the industry – needs a makeover that responds to digitisation and a better work proposition making it aspirational
- Industry faces slow and painful decline and marginalisation if matters left un-arrested
- Housebuilding has particular challenges due to increased cyclicality as affordable housing has fallen away and RP's now sell homes to create subsidy for core social housing
- Brexit increases the urgency for action, especially for London which is migrant worker dependent
- Unlikely though we will see major foreign new entrants come to UK with workforce additionality even if we had free borders

Inevitably, construction will have to adapt to future circumstances but doing it reactively will be much more painful than planned proactive action



Recommendations – the Treatment Plan

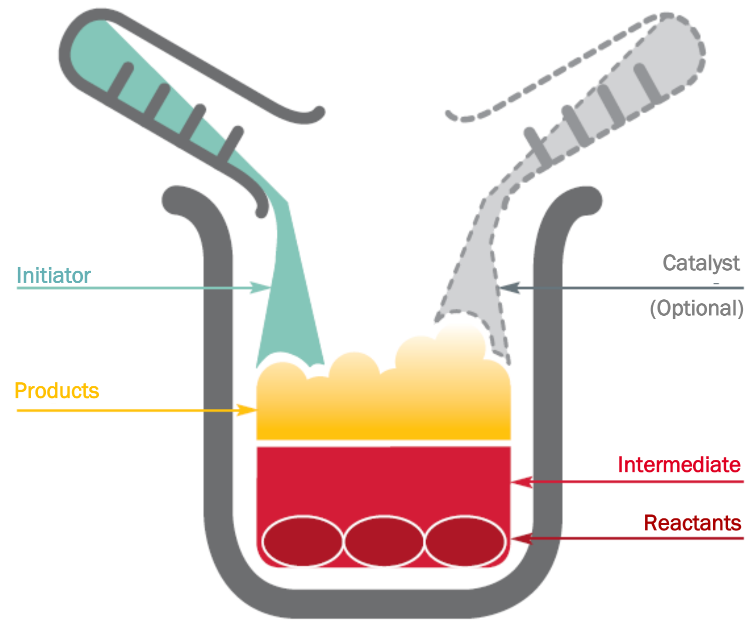
Reactants – the key elements necessary to be part of the reaction - **Integrated Tripartite Leadership across Clients, Government and Industry**

Intermediate – the enabler of a reaction - **A Reformed CITB**

Products – the desired outcomes that arise from the reaction and which also self-perpetuate the reaction - **Client & Industry Process Integration, R&D & Innovation, Skills & Training, Industry Image**

Initiator – the means by which a reaction is commenced - **The Role of Government in Pump Priming Change**

Catalyst – a mechanism to accelerate or speed up a reaction - **An Option for Accelerating Behavioural Change**

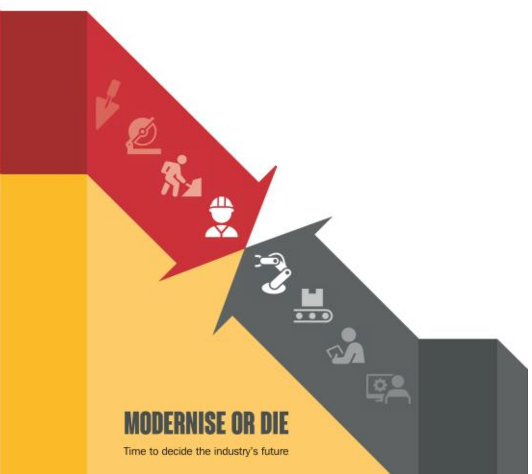


Creating a chain reaction that transforms the industry!

THE REACTANTS –

Integrated Tripartite Leadership across Clients, Government & Industry

Recommendation 1: The Construction Leadership Council (CLC) should have strategic oversight of the implementation of these recommendations and evolve itself appropriately to coordinate and drive the process of delivering the required industry change programme set out in this review.



THE INTERMEDIATE –

A Reformed CITB

- A new focus on longer term strategy (explicitly linked to the needs of clients and Government, as well as those of industry and linked to a new and integrated leadership agenda.
- A broader remit to support industry innovation and modernization, with success judged by outcomes and the performance of the sector, rather than the achievement of consensus. The key parties represented should respect where financial support is best deployed to create more holistic, longer term benefits.
- Greater digitisation and leaner overheads in operation, emulating high efficiency, digitally led large scale ‘clearing house’ platforms such as UCAS. This must minimise the cost of administration and unnecessary waste or diversion of resources.
- The ability to use its collection and distribution of funds strategically to encourage greater investment in skills and innovation. There should be broader criteria to determine contributions to CITB and, in turn, a broader range of activities funded by CITB.
- A drive to bring out of scope trade bodies back into a single umbrella levy and grant system and to leverage scale efficiencies in so doing.

Recommendation 2: The Construction Industry Training Board (CITB) should be comprehensively reviewed and a reform programme instituted.

THE PRODUCTS –

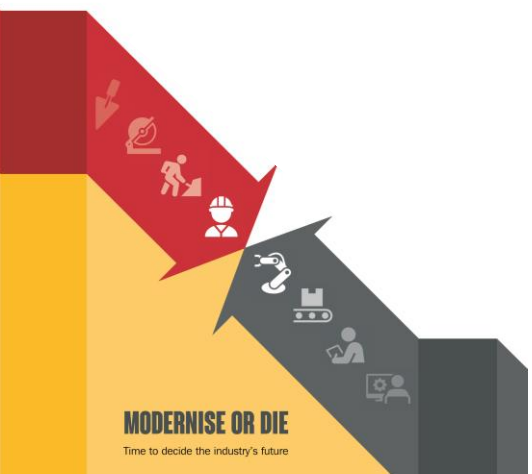
Client & Industry Process Integration, R&D & Innovation, Skills & Training, Industry Image

Client & Industry Process integration Priorities

Recommendation 3: Industry, clients and Government should work together, leveraging CLC's Business Models work stream activity, to improve relationships and increase levels of investment in R&D and innovation in construction by changing commissioning trends from traditional to pre-manufactured approaches. The housing sector (spanning all tenures) should be used as a scalable pilot programme for this more integrated approach.

R&D / Innovation Priorities

Recommendation 4: Industry, government and clients, supported by academic expertise and leveraging CLC's current Innovation work stream activity, should organize to deliver a comprehensive innovation programme. This should be fully aligned to market, benefits case led and generate a new shape of demand across industry (with a priority on residential construction). It should quickly define key measures of progress and report regularly against these as a check on the possible need for more radical measures. It should in turn also help shape CITB reform proposals in relation to technology and innovation grant funding initiatives.



THE PRODUCTS –

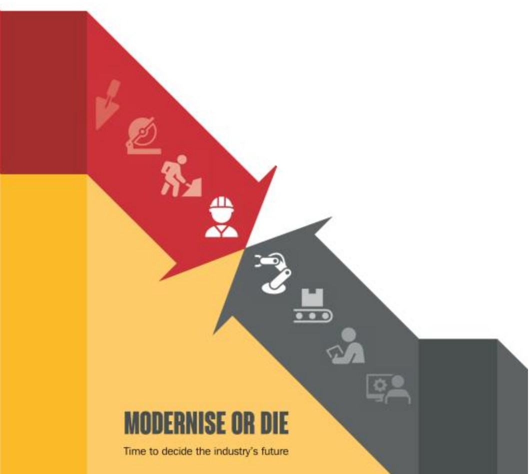
Client & Industry Process Integration, R&D & Innovation, Skills & Training, Industry Image

Skills & Training Priorities

Recommendation 5: A reformed CITB should look to reorganize its grant funding model for skills and training aligned to what a future modernized industry will need. Industry bodies and professional institutions should also take a more active role in ensuring that training courses are producing talent which is appropriate for a digitally enabled world, making sure that the right business models are evolved with appropriate contractual frameworks.

Industry Image & Outreach Priorities

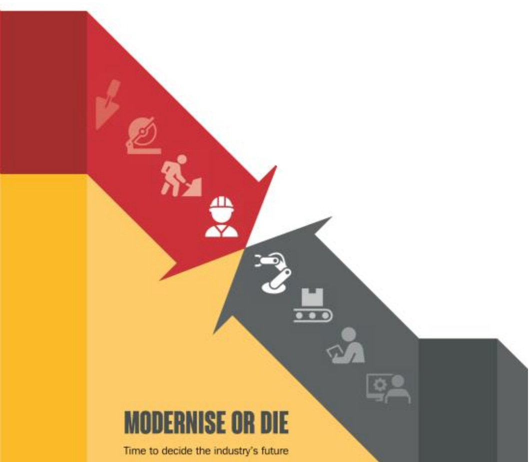
Recommendation 6: A reformed CITB or stand-alone body should be challenged and empowered to deliver a more powerful public facing story and image for the holistic 'built environment' process, of which construction forms part. This responsibility should include an outreach programme to schools and should draw on existing industry exemplars and the vision for the industry's future state rather than just 'business as usual'.



THE INITIATOR –

The Role of Government in Pump Priming Change

Recommendation 7: Government has recently reaffirmed its commitment to having a strong Industrial strategy. The Government should recognize the value of the construction sector and be willing to intervene by way of appropriate further education, planning and tax / employment policies to help establish and maintain appropriate skills capacity.



THE INITIATOR –

The Role of Government in Pump Priming Change

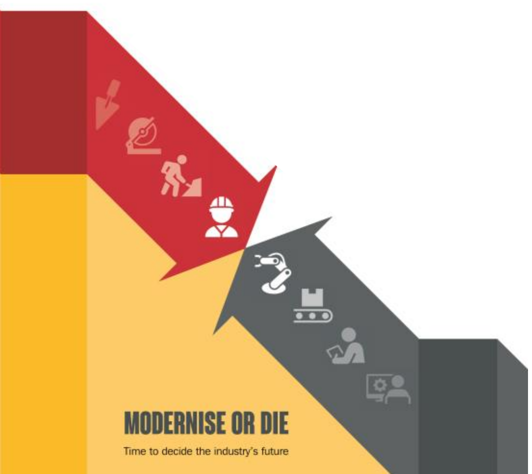
Recommendation 8: Government should act to provide an 'initiation' stimulus to innovation in the housing sector by promoting the use of pre-manufactured solutions through policy measures. This should be prioritized either through the conditional incentivisation of institutional development and investment in the private rented sector; the promotion of more pre-manufactured social housebuilding through Registered Providers; direct commissioning of pre-manufactured housing; or a combination of any of the above. It should also consider planning breaks for pre-manufactured approaches.

Recommendation 9: Government, as part of its housing policy planning, should work with industry to assemble and publish a comprehensive pipeline of demand in the new build housing sector. This should be along the same lines as the National Infrastructure Pipeline, seeking to bring private developers and investors into this as far as possible to assist with longer term innovation and skills investment planning.

THE CATALYST –

An Option for Accelerating Behavioural Change

Recommendation 10: In the medium to longer term, and in particular if a voluntary approach does not achieve the step change necessary, government should consider introducing a charge on business clients of the construction industry to further influence commissioning behaviour and to supplement funding for skills and innovation at a level commensurate with the size of the industry. If such a charge is introduced, it should be set at no more than 0.5% of construction value, with a clear implementation timetable. Clients should be able to avoid paying this by demonstrating how they are contributing to industry capacity building and modernisation by directly or indirectly supporting skills development, pre-manufacturing facilities, or other forms of innovation and R&D.

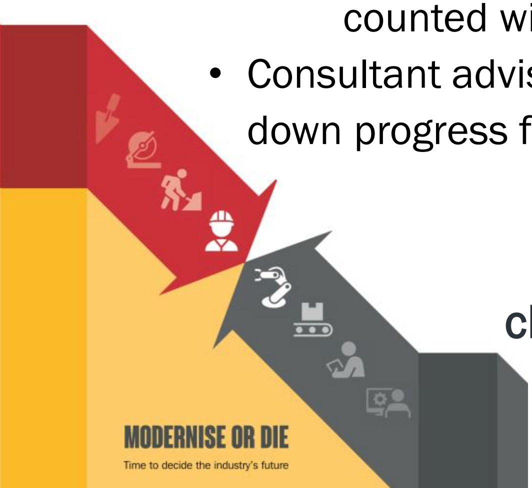


THE CATALYST –

Beyond the press 'soundbites'

THE FARMER REVIEW OF THE UK CONSTRUCTION LABOUR MODEL

- A 'last resort measure'
- A 'pay or play' measure
- Success will be measured by how little levy is being collected!
- If considered then clear implementation programme needed to get industry prepared (as Code for Sustainable Homes)
- Levy offset activities should be clear and initially very easy to achieve **without costing money and threatening viability**
- Key areas that could be promoted:-
  - Use of BIM
  - Use of collaborative procurement deeper down the supply chain
  - Use of DfMA principles
  - Use of pre-manufacturing where appropriate
  - Specific skills and innovation programmes linked to major projects (not to be double counted with s.106)
- Consultant advisors role will be key - designers, QS & PM's all need to embrace or will slow down progress for clients who want change in the industry



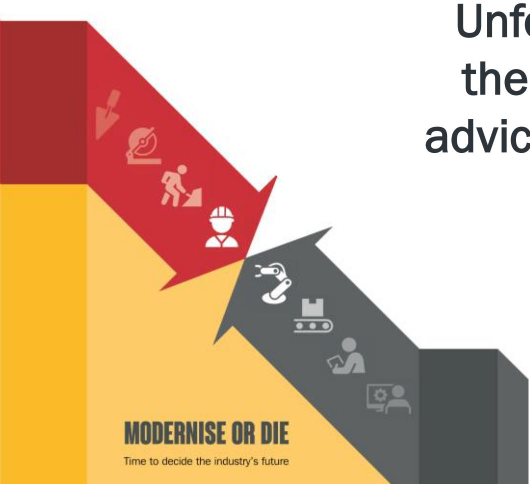
The end game is an improved industry where clients get better value for money and much improved predictability. Until we all change behaviour, supported by government, we will get more of the same!

CIC role in modernisation

Extract from CIC website asking for members responses to Farmer Review:-

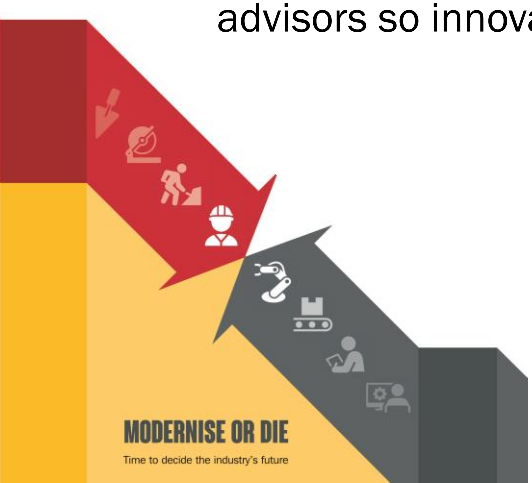
"How - and by whom – a judgement might be made on whether private sector clients are contributing to innovation is unclear; why clients should pay to sort out the construction industry is also not made clear; and bearing in mind that a 0.5% "charge" on a £20m project is £100,000, it is also not clear whether the author has considered the impact on overseas investment in a post-Brexit climate of applying such a charge.   Members' views are welcome on these and other points in relation to the review."

Unfortunately, this pre-positioning by CIC does not bode well for the creation of an industry which is underpinned by high quality advice and a collective sense of responsibility for modernisation!



CIC role in modernisation (CONT'D)

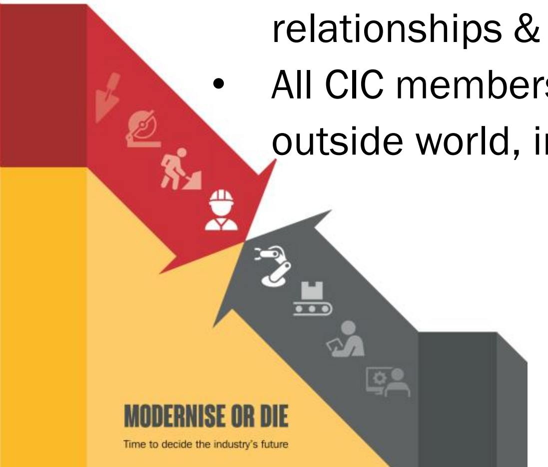
- Many clients will be looking to their advisors for support in understanding how you can navigate modernisation in a safe and structured way and AVOID THE LEVY PRINCIPLE IN ITS ENTIRETY
- If the levy becomes reality it will have meant that the industry hasn't managed to seize the initiative. IT WILL STILL BE CRITICAL FOR ADVISORS TO DRIVE AND EMBRACE POTENTIAL QUALIFYING ACTIVITIES THAT AVOIDED THE LEVY
- If the professional institutions are not at the table on the journey they are a barrier to modernisation
- Self interest and emotion will be high on any journey that challenges how certain parties interact with each other for wider benefit – need to see through this
- Industry research bodies will be critical to driving the innovation agenda but need to critically focus on the tangible client benefits case and get messages through client advisors so innovation can be taken to market



CIC role in modernisation (cont'd)

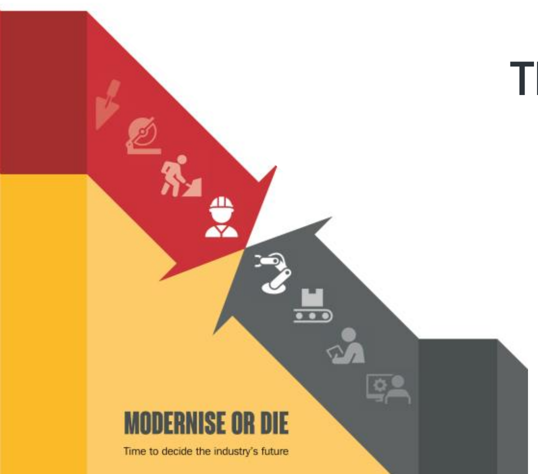
THE FARMER REVIEW OF THE UK CONSTRUCTION LABOUR MODEL

- Need for fundamental adoption of BIM across industry – critical change agent
- Need to understand and deploy DfMA principles (using new RIBA Plan of Work)
- Need to see shift towards collaborative procurement outside of infrastructure sector and exemplar clients
- Need for professions to innovate new solutions that integrate pre-manufactured solutions
- JCT and legal profession has opportunity to develop contracts aligned to pre-manufacturing
- Need for RICS to provide support for valuation protocols for pre-manufactured products
- Need for RICS to help define and promote new measure of Pre Manufactured Value (PMV)
- Many professional advisors act for funding banks and institutions – need to fully and correctly understand risk of innovation to give appropriate advice – funding will be blocker to some forms of innovation
- All the professions & industry bodies need to review the accreditation of courses providing professional qualifications towards a future state industry where skills will be different and relationships & behaviours may be altered in the value chain
- All CIC members have a role to play in changing the image of the industry presented to the outside world, including our recruits of the future!



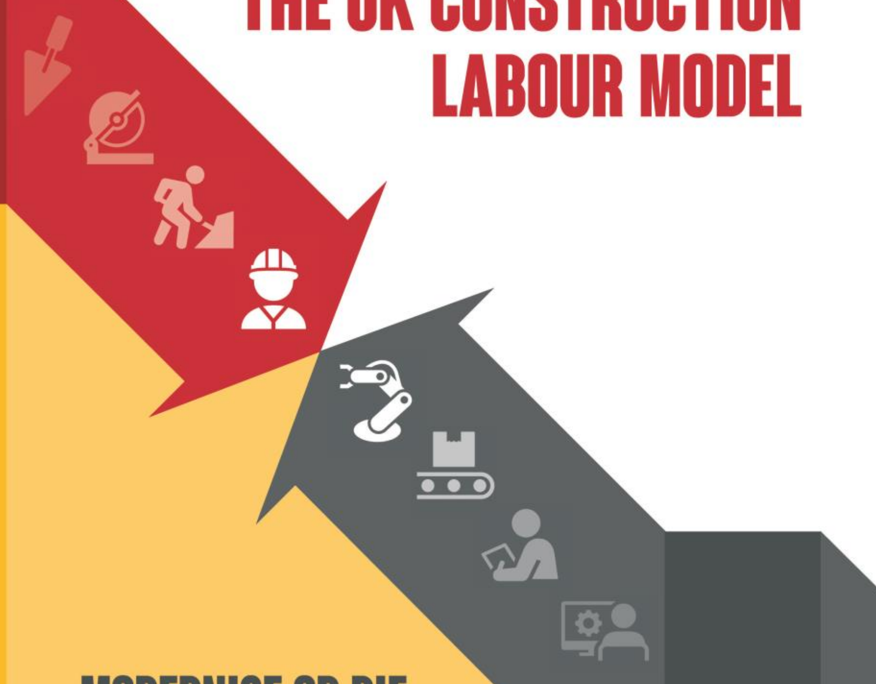
NEXT STEPS

- Government will gauge industry reaction
- Gavin Barwell has confirmed likely influence on Housing White Paper to be issued in November 2016 and detail of Accelerated Construction Fund
- Needs to be reflected in National Housing Taskforce '*skills , materials and new technology*' work stream (advance copy shared with CIOB)
- Possible call to give evidence to Commons Select Committee looking at Housing Capacity
- Clear statement by Skills Minister, Jesse Norman, of review's relevance to informing detail of £3billion Home Building Fund
- Possibility of further announcements in Autumn Statement due on 23rd November 2016
- Government's Post 16 Skills Plan due to be implemented early next year is likely to embrace full reform of CITB
- MF already met with Housing Forum & initiated action plan. Pan industry speaking engagements being scheduled
- Meeting set with JCT to discuss impact on standard form contracts
- Build UK already looking at addressing supply chain cohesion and client integration recommendations
- CLC need to decide their strategy for adoption – **CRITICAL**



The CIC 's member bodies have a key role to play in driving a modernisation agenda – it's in your hands!

THE FARMER REVIEW OF THE UK CONSTRUCTION LABOUR MODEL



MODERNISE OR DIE

Time to decide the industry's future