

## **CAST CONSULTANCY PRESS RELEASE – 17<sup>TH</sup> OCTOBER 2016**

### **Construction sector must “modernise or die”, says Government-commissioned review**

Britain’s construction industry faces “inexorable decline” unless radical steps are taken to address its longstanding problems, according to an independent review commissioned by two Government departments.

*The Farmer Review of the UK Construction Labour Model* highlights construction’s dysfunctional training model, its lack of innovation and collaboration as well as its non-existent research and development (R&D) culture. Low productivity continues to hamper the sector, while recent high levels of cost inflation, driven by a shortage of workers, has stalled numerous housing schemes as they have become too expensive to build.

Led by Mark Farmer, chief executive of Cast, a real estate and construction consultancy, the hard-hitting report says we need to better align the needs of construction firms and the businesses who hire them.

“If you buy a new car, you expect it to have been built in a factory to exacting standards, to be delivered on time, to an agreed price and to a predetermined quality” said Farmer. “This needs to happen more in construction, so that the investors, developers or building owners hiring construction firms increasingly dictate the use of modern methods of delivery and invest appropriately in the skills agenda to grow this part of the industry. There are more similarities between manufacturing and construction than many people are led to believe and this perception needs to change, starting in the housing market”

One recommendation set out for the medium term is a “carrier bag charge” style behavioural deterrent scheme. This would levy a tax on businesses who buy construction work in a way that doesn’t support industry innovation or skills development. Clients could face paying a suggested levy equal to 0.5 percent of a scheme’s construction cost but would have the ability to avoid paying this tax completely by commissioning construction in a more responsible way.

Farmer, a 25-year veteran of the industry, and former partner at EC Harris, said the industry needs to be far more joined-up with its clients in how it approaches R&D and skills. He also wants ministers to directly intervene in certain areas to ensure many of the issues identified are rectified.

Commissioned by the Department for Communities and Local Government and Department for Business, Energy and Industrial Strategy, Farmer has made 10 recommendations which include:

- Using the residential development sector as a pilot programme to drive forward the large scale use of pre-manufactured construction, for example, through off-site built or modular housing.

- A wholesale reform of the current Construction Industry Training Board (CITB) and its related levy system, including a new mandate to properly fund and drive forward both appropriate skills development and innovation to suit a modern progressive industry
- Government to use its education, fiscal, housing and planning policy measures to initiate change and create the right conditions that will support the construction sector's modernisation.

With more people leaving the industry each year than joining, the construction workforce is shrinking, placing increasingly severe constraints on its capacity to build housing and infrastructure. Reliance on a fractured supply chain and self-employment also means there is little incentive for contractors to invest in long term training for the labour force.

The situation is exacerbated by the fact that many school leavers and graduates don't view construction as an attractive career choice. A YouGov poll earlier this year found that two-thirds of Britons wouldn't consider a career in construction. If Brexit results in reduced migrant labour, the situation could be made even worse.

Crucially, it hasn't raised its productivity in decades so urgently needs to explore ways to make the work less labour intensive, such as through offsite construction. This, in turn, could make a career in the sector more attractive for young people by moving the work from building sites to digitally enabled working in factories.

**Mark Farmer, report author and chief executive of Cast, said:**

"The construction industry is in dire need of change. What is clear to me following the nine months spent conducting this review is that carrying on as we are is simply not an option. With digital technology advancements pushing ahead in almost every other industry and with the construction labour pool coming under serious pressure, the time has come for action. The construction industry doesn't have the impetus needed for this change, it requires external action to initiate change.

"Unless we find some way of promoting innovation in construction and making the work less labour intensive and more attractive to new entrants, there's a very real danger of the construction sector going into an inexorable decline over the next few years. I hope this review generates some debate in the sector and all involved can consider their role in safeguarding the industry's long term health."

**Industry Minister Jesse Norman said:**

"This Government is determined to support more housebuilding, more quickly and in the places people want to live. Given the launch of the £3 billion Home Building Fund, Mark Farmer's important review in this vital sector is very timely. It makes a strong case for change in the industry, identifies areas

where it needs to improve, and sets out areas for action. We will now carefully consider his recommendations.”

**Paul Stanworth, Managing Director of Legal & General Capital, said:**

“This review sets out a clear way for the construction sector to reinvent itself in order to meet the ever-growing demand for homes and infrastructure. With such a chronic shortage of homes in the UK, we see rapid evolution as a “must have” for the industry, not just a “nice to have”. Having identified such a requirement, Legal & General is helping to address this problem by investing in a modern factory to produce homes using manufacturing processes seen in the production of cars and other consumer goods. This construction method is safe, clean, and fast, providing a high level of consistency and durability. We sincerely hope that Farmer’s review galvanises the entire sector to invest in innovation and secure its future.”

**Richard Meier, partner at Argent, said:**

“This report makes quite clear the scale of the challenge, and the opportunity, that the construction industry faces today. There is significant appetite to invest in both existing asset classes and emerging asset classes such as Build to Rent. But the industry must make some bold changes to ensure there is sufficient capacity to actually deliver all this, thereby helping to unlock this investment. Partnering will play a key role going forward, not just on major regeneration schemes such as King’s Cross, but on a smaller scale too.”

**Ray Theakston, construction director at Essential Living, said:**

“This review should be worrying reading for anyone involved in the construction industry, which needs to change drastically or risk becoming unfit for purpose.

“We’re exploring modular construction throughout our portfolio thanks to the key advantages it offers us as a rental developer and operator, whether that’s shorter programme time or design consistency. So it’s good to see Farmer carry on as such a strong proponent for these methods.”

**Ray O’Rourke, chairman and chief executive at Laing O’Rourke, said:**

“Laing O’Rourke has invested heavily in innovation and continuous improvement, and therefore I welcome many of the findings and recommendations of the Farmer review. The report shines a light on the serious and systemic issues in UK house building and the wider construction industry, and we cannot afford to ignore them any longer.”

“There is significant scope for radical transformation through the adoption of new technologies and advanced manufacturing approaches. This will deliver the quality housing stock the UK urgently requires and directly address the

acute skills gap that threatens our very future. Government, developers and deliverers need to invest collectively to achieve these shared goals and future-proof the industry.”

**Mark Reynolds, chief executive officer at Mace, said:**

“Farmer’s review makes it clear that the construction industry needs to invest in training and R&D to boost productivity and ensure we have adequate capacity to deliver the UK’s economic and social infrastructure. It underlines the importance of introducing new skills and technology to the sector. We all need to embrace this catalyst for change to attract a new breed of talent to revolutionise our industry”.

**-ENDS-**

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**About the Farmer Review:**

In the review, Farmer makes 10 recommendations to be considered by the government, the construction sector and its clients:

1. 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.
2. CITB should be comprehensively reviewed and a reform programme instituted.

3. Industry, clients and government should work together leveraging CLC's *Business Models* working party 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.

4. Industry, government and clients, supported by academic expertise and leveraging CLC's current *Innovation* work stream activity, should organise 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.

5. A reformed CITB should look to reorganise its grant-funding model for skills and training aligned to what a future modernised 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, ensuring that the right business models are evolved with appropriate contractual frameworks.

6. The government has recently reaffirmed its commitment to having a strong industrial strategy. The government should recognise 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.

7. 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 position industry exemplars and the target future state rather than just 'business as usual'.

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 prioritised either through the conditional incentivisation of institutional development and investment in the private rented sector; the promotion of more pre-manufactured social house building 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.

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, on 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.

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 offset their contribution by demonstrating how they are contributing to industry capacity building and modernisation by directly or indirectly investing in skills development, pre-manufacturing facilities, or other forms of innovation and R&D.