

## Overview

**Rising Skills Needs:** Construction employment in London is forecast to grow considerably over the next few years with analysis predicting that 20% more workers will be needed to meet pipeline demand. However the loss of construction jobs during the 2008/09 recession, an ageing workforce and difficulties attracting and retaining education leavers present major challenges in meeting the labour requirements of the sector.

**Changing Skills Needs:** The growth of modern methods of construction (MMC) is leading to a change in the types of occupations and skills required by the industry. It is important that training providers keep pace through the provision of new specialist and broader skills to implement MMC.

**Limited Apprenticeship Completion:** SFA data reveals that whilst apprenticeship starts have grown, achievements in construction have fallen in London from 730 in 2011/12 to 500 in 2013/14. This may be partly attributable to the inflexible nature of some Section 106 agreements as well as problems with travel and mobility which could deter young people from moving from one development to another.

**Recent Announcements:** The new Apprenticeship Levy and voucher scheme may help to fund an increase in construction apprenticeships although this will partly depend on the levy's success in interacting with the existing CITB scheme.

## Introduction

As part of the Ethos led Innovate UK SkillsPlanner project, SERIO at Plymouth University is producing a series of quarterly skills briefings on developments within the construction sector. The purpose of these briefings is to make project partners and interested stakeholders aware of new developments and policy announcements related to construction skills.

This document represents the first briefing and, as such, provides a broad initial overview of the key issues affecting the demand and supply of skills within the construction sector in London, followed an outline of recent policy announcements.

## The State of the Construction Sector

*'According to many construction businesses, a shortage of skills is one of the biggest threats to the continued growth of the sector' (LCCI/KPMG, 2014).*

### At a Glance

- An estimated 20% more construction workers will be needed in London and the South East between 2014 and 2017.
- The sector is forecast to lose another 400,000 workers over the next ten years due to retirement.
- Vacancies in the construction industry were running at 25,000 between March and May 2015, 6,000 more than a year earlier.
- CITB statistics revealed that overall numbers of trainees have declined since 2007, whilst the number of apprenticeship completions in Inner London fell from 730 in 2011/12 to 500 in 2013/14

The construction sector in Greater London is anticipated to grow by 4.2% between 2015 and 2019, the second highest growth rate in the UK, with associated employment rising by an estimated 2.4% (CSN, n.d.). The London Chamber of Commerce and Industry (LCCI) and KPMG (2014) estimate that 20% more workers will be needed between 2014 and 2017 to meet pipeline demand, when compared to the period between 2010 and 2013. Whilst some of this projected growth will be in the repair and maintenance sub-sector, the bulk of demand will be centred around new construction work (CSN, n.d.).

*'Construction skills shortages are already affecting the delivery of projects. Unless these shortages are addressed, they will have fundamental impacts in the long term' (LCCI/KPMG, 2014).*

The London Housing Strategy stipulates a target of 42,000 new homes per year, double the present rate. Should the additional homes estimated to be required in the London Strategic Housing Market Assessment also be included, alongside housing requirements in the wider South East, then an annual shortfall of 48,730 workers is predicted across London and the South East (LCCI/KPMG, 2014). This will be exacerbated by additional planned large-scale commercial development, such as the five year redevelopment of Selfridges on Oxford Street, the expansion of Westfield shopping centre and the Brent Cross redevelopment project, as well as critical infrastructure projects including Crossrail, Thameslink and the Thames Tideway Tunnel (CSN, n.d.).

## The Demand for Skills

*'More than a third (36%) of employers that have tried to recruit skilled direct or self-employed staff have experienced difficulties in filling the positions'* (CITB, 2014).

Statistical evidence clearly underlines the rising demand for skills within the construction sector nationally. Some 39% of employers responding to a CITB survey (2014) attempted to recruit skilled labour in the last twelve months compared to 26% in 2011. The survey also found an increase of +11 percentage points in the proportion of employers reporting temporary shortfalls in skilled workers. This is further underlined by vacancy data from the construction industry indicating 25,000 vacancies between March and May 2015 - 6,000 more than twelve months previously (CITB, n.d.). A number of ongoing developments are likely to impact on the volume and type of skills required over the next few years:

### The Ageing Workforce

The sector is forecast to lose 450,000 workers over the next ten years due to retirement. Special measures will therefore need to be undertaken to maintain sufficient numbers of new recruits in the industry (CPA 2015, SAMI Consulting/Experian n.d.).

### Technological Change

The growth of 'Modern Methods of Construction' (MMC), including prefabrication, off-site assembly and supply chain specifications hold a range of implications for the type of skills required by the sector. Workers will be increasingly required to possess a combined understanding of manufacturing and construction methods. For example, the computer integration of construction processes requires cross-disciplinary education for design teams; whilst the increased range of substantially different components on site will require a greater understanding of general building issues such as tolerances, air/water tightness, and the interaction between components.

### Government Regulations

Construction plays a critical role in meeting the low-carbon agenda through, for example, retro-fitting buildings and ensuring that all new buildings meet energy savings standards (UKCES, 2012). Environmental regulations necessitate skills in using green materials and methods in construction, and managing construction sites in order to reduce carbon footprints (UKCES 2012). In addition, further action is likely to be undertaken to improve health and safety which will require more training (SAMI Consulting/Experian, n.d.).

### Impact of the Recession

The construction sector was acutely affected by the 2009/10 recession with a loss of over 400,000 jobs across the UK (UKCES 2012, LCCI/KPMG 2014). Whilst there has been evidence of a sustained recovery since this point, many firms have struggled to recover from the staff losses (LCCI/KPMG 2014). Further, the cyclical nature of construction work makes it difficult to persuade those staff made redundant to return where they have found more secure jobs in other sectors (UKCES 2012).

*'We need to secure much greater commitment and buy-in from industry leaders in securing the step change that is needed to help young people secure worthwhile employment in construction, and in doing so lay the foundations for a sustainable and modern industry'* (UK Parliament 2015).

## Skills Supply

Evidence from industry stakeholders suggests that the current supply of skills to the construction industry is unlikely to be sufficient to meet the increase in demand projected over the next few years. If the labour requirements of London's construction projects are to be met further work will need to be undertaken both to increase the number of construction trainees and to improve the quality and variety of the training provided. Some of the key challenges faced by the industry and training providers are outlined below:

*'Current levels of training provision will be insufficient to meet the growing demand for labour over the coming years' (LCCI/KPMG, 2014).*

### Attracting Potential Applicants

*'The industry will increasingly need more young people with relevant skills; meanwhile, many young people are in desperate need of a job.'* (UK Parliament, 2014)

The rising demand for labour provides increased opportunity for the employment of young people. However, the industry is typified by low levels of career starters from this group, particularly those that are more likely to secure higher skilled occupations. Negative perceptions of the construction industry are prevalent amongst education professionals, young people and their parents. Further, the industry's cyclical nature may deter young people looking for more secure employment (UKCES 2012). Notably, females are underrepresented in terms of sector employment. According to CITB (2014) just 4% of construction trainees in 2013/14 were female, despite women accounting for 13% of construction employment.

### Employer Perceptions

Evidence suggests that many employers are reluctant to take on those just leaving education. In part this reflects concern regarding the financial implications, such as high insurance premiums associated with employing 16 to 17 year olds (UK Parliament, 2014). For some, there is a lack of clarity regarding the legalities of employment from this group with a wide held (albeit incorrect) belief that under-18s cannot be employed on construction sites. In this context, the limited number of construction employers offering the new traineeships is notable. Introduced in 2013, these aim to act as a bridge between education and apprenticeships (UK Parliament, 2014).

### Limited Completion of Apprenticeships

The latest Skills Funding Agency (SFA) data reveals

that apprenticeship starts in Inner London have remained relatively stable at 380 in 2014/15<sup>1</sup>, compared to 390 in 2012/13 and 290 in 2011/12. Furthermore apprenticeship starts across Greater London as a whole have increased by 47% from 850 in 2011/12 to 1,250 in 2014/15. In contrast, however, apprenticeship achievements have fallen from 730 in 2011/12 to 500 in 2013/14. More widely, apprenticeship achievements for the under 19s in 'construction, planning and the built environment' declined by over 50% nationally between 2011/12 and 2013/14.

According to LCCI/KPMG (2014), 60% of all apprentices in the sector are employed by micro-businesses and, as such, funding is a principal concern. City and Guild survey data, cited by the 2014 UK Parliament Inquiry, revealed that 42% of employers did not employ apprentices, whilst 56% did not plan to take any on in the next 12 months. The inquiry also noted that the halving of apprenticeship funding for those aged over 19 may have made it more costly for employers to take-on apprentices at NVQ Level 3.

### Limited Qualifications

Data from the recent CITB (2015) Workforce Mobility and Skills survey suggests that the overall qualification level of construction workers in London is below that held by other UK regions. Fifty-two percent of construction workers in Greater London hold some form of qualification, compared to 63% for the UK as a whole. Furthermore just one in two workers in the capital (50%) hold NVQ Level 2 qualifications compared to 58% for the UK as a whole.

### Migration

<sup>1</sup> Apprenticeship data before 2011/12 is not directly comparable due to the introduction of a new data collection system. However, trend analysis suggests that apprenticeship starts were declining prior to this point. NB: 2014/15 data is provisional.

The employment of overseas labour has been an important means by which employers have reduced labour market shortages and accessed high skilled workers. However, as outlined in a recent CIOB (2015) report, a steady supply of migrant workers may reduce incentives to train.

Furthermore, future restrictions on economic migration could limit UK firms' access to some of the best talent (CIOB, 2015), particularly where they have become overly dependent on this solution.

## Training Provision

According to LCCI/KPMG (2014) the recession has led to some colleges and universities reducing places on construction related courses which has in turn led to skills shortages. Further, there is evidence to suggest that some employers are concerned regarding limited provider awareness of MMC. The UKCES (2013) noted sector difficulties in recruiting designers and architects with the skills required for offsite construction. Reflecting limitations on external provision in the UK, some career starters were found to have been trained either 'in-house' or in Belgium or Austria. As the UKCES report points out, undergraduate and postgraduate programmes, as well as CPD and short course programmes, need to have more provision related to offsite construction. However the need for sufficient physical space and capital investment to undertake the training will be a challenge to increasing provision (LCCI/KPMG 2014). Building information modelling and blockwork have been cited as examples of skills which will need to be better catered for in the future (UK Parliament, 2014; LCCI/KPMG, 2014).

## Recent Developments

### Infrastructure Developments

Launched in October 2015, the new National Infrastructure Commission, was set-up to provide independent analysis of the UK's long-term infrastructure needs. In early November the commission published its first call for evidence for three critical infrastructure challenges, one of which is the London Transport System. The commission will be reviewing strategic options for future investment in large-scale transport improvements on road, rail and underground, including Crossrail 2.

In the Autumn Statement 2015 the government announced that a new National Infrastructure Delivery Plan, which will set-out how key projects and programmes will be delivered over the next five years,

## Regulations

The LCCI/KPMG (2014) report raised issues around the impact of Section 106 agreements as they are currently implemented. While Section 106 agreements enable local authorities to stipulate the training and employment to be sourced from the local area, there is a concern that councils don't always fully understand the labour demands and needs of the industry. Another limitation is the requirement on developers to only recruit trainees from a defined postcode within the vicinity of the development. This could mean, for example, that apprenticeships employed through Section 106 agreements may not be able to complete their training once the development they are working is finished, as other developments will have their own postcode requirements that they may not be eligible for.

## Local Issues

In addition to the aforementioned problems with skills supply, research revealed that issues in London may be further exacerbated by its location. Several employers responding to a recent CITB (2014) survey indicated that recruitment was hindered as potential employees were discouraged by the cost of parking and the congestion charge. According to the recent UK Parliament (2014) enquiry, the existence of gang territories can also limit the mobility of young people wanting to become apprentices in the industry.

will be published next spring. Of further importance to the sector, the housing budget was doubled to £2 billion a year with a target of 400,000 new affordable homes by the end of the decade. The fresh emphasis on infrastructure and housing projects will serve to further stimulate an already growing construction sector, prompting associated increases in labour demand.

## Apprenticeship Funding

In October 2013 the government announced that a series of apprenticeship standards designed by employers (or 'trailblazers') to meet the needs of specific industries, including construction, would be



developed. As of November 2015 a total of 15 apprenticeship standards had been approved for occupations in construction, whilst a further 13 were in development. The 15 approved standards will be developed into a set of corresponding assessment plans, following which they will be ready for delivery. Through the 2015 Autumn Statement, the government also announced that a new employer-led body would be established to set apprenticeship standards.

The Autumn Statement also provided greater clarity regarding the 'Apprenticeship Levy' on large employers to help fund future apprenticeships. This will be charged at a rate 0.5% of an employer's paybill where this is in excess of £3 million. Employers who pay the levy and are committed to apprenticeship training will get out more than they pay in through a top-up to their digital accounts. At the time of writing it was unclear how this new levy would relate to the existing construction training levy run by CITB on behalf of the industry, which funds apprenticeships alongside other training programmes. However the government consultation response states that they will be consulting with the industry through the CITB.

### Further Education Funding

In November 2014, a House of Commons paper raised concerns around the impact of funding cuts on school sixth forms, sixth form colleges and FE colleges. The 2015 Autumn Statement protected the funding rate in cash terms for 16 to 19 year olds, however as the Association of Colleges (2015) point out this comes after a 28% cut in the overall adult skills budget. This is part of a wider shift which will see a marked reduction in education and training funding, potentially resulting in the development of new funding models, such as employer/employee co-financing and increased employer contributions (Keep 2014). The Autumn Statement also pledged a commitment to expand tuition fee loans for further education to 19 to 23 year olds at Levels 3 and 4 and 19+ year olds for Levels 5 and 6. This measure could go some way to supporting the expansion of provision for higher level construction skills.

### Higher Education Funding

The 2015 Autumn Statement included a pledge to lift the age cap on new loans to postgraduates from 30 to 60 (from 2016/17) and to introduce new maintenance loans for part-time students (from 2018/19). In addition, tuition loans will be made available for graduates wishing to undertake a second bachelor's degree in a science, technology, engineering or maths subjects (STEM) from 2017/18. This could enable new opportunities for upskilling existing construction employees or encouraging older workers to enter the industry.

### Area Based Reviews

Another government policy change likely to have a major impact on the construction industry is the area based reviews of post-16 education, announced in July 2015. These will involve FE and Sixth Form College Commissioners working together with local authorities, LEPs and Regional School Commissioners to consider how post-16 provision can be re-structured to improve efficiency. This government's vision is for a sector with fewer, larger and more resilient providers with a greater degree of specialisation. In addition the reviews will also consider the establishment of Institutes of Technology which will focus on providing higher level skills in demand from employers.

According to the London Enterprise Panel (2015), FE and Sixth Form College Commissioners have identified significant scope for greater efficiency in the sector in London. However, the merger of providers which might result from the review could reduce local provision in some areas and may exacerbate issues of mobility in London. Conversely, greater responsiveness to local employer needs and increased economies of scale may provide an opportunity to more adequately address construction skills needs through, for example, better equipped construction courses.

The London Growth Deal, originally agreed in July 2014 and expanded in January 2015, includes competitive investment in Further Education colleges and other skills providers. This might be used to provide some of the facilities needed for training students in MMC.

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