The Chartered Institute of Building

submission to the

All Party Parliamentary Group for Excellence in the Built Environment

on the inquiry into

the impact of Brexit on future skills needs in the construction industry and the built environment professions

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APPG for Excellence in the Built Environment: Inquiry into the impact of Brexit on future skills needs in the construction industry and the built environment professions

Introduction

The Chartered Institute of Building (CIOB) is at the heart of a management career in construction. We are the world's largest and most influential professional body for construction management and leadership. We have a Royal Charter to promote the science and practice of building and construction for the benefit of society, which we have been doing since 1834. Our members work worldwide in the development, conservation and improvement of the built environment. We accredit university degrees, educational courses and training. Our professional and vocational qualifications are a mark of the highest levels of competence and professionalism, providing assurance to clients and authorities who procure built assets.

Professionalism at all levels and stages within the construction industry is at the core of our work. We play a leading role in the development and continued improvement of standards in the industry at a national and international level. We recognise the challenges facing the built environment, such as skills shortage in the professions, the ageing workforce and the complexity of developing policy that improves coordination, design and the overall decision-making process, and we work with government and industry to outline and implement solutions.

We welcome the opportunity to respond to this inquiry and are happy to be involved in the debate as it develops.

General comments

In March 2015, the CIOB launched a report into migration in construction (CIOB Perspectives: An analysis of migration in the construction sector), with a particular focus on the UK sector. Our response to this commission of inquiry is primarily based on the findings from this report, which contains a wealth of relevant data and information, updated where possible and supplemented with additional relevant material.

The report was launched ahead of the 2015 General Election to inform policy debate and, naturally, before the planned date of the referendum on European Union membership. In taking on the challenge of presenting construction's position within the immigration debate, it was seen as important not to stray into the wider intertwined political issues, such as whether the UK should be in or out of the EU. The intention was to gather relevant facts and dispassionately assess the socio-economic losses and gains and the problems and solutions that flow from migration. The focus was to be firmly on the industry and its interests, but with a recognition that construction is at the heart of communities. Clearly, with the vote to leave the EU we can no longer put the issue aside as in 2015, but our response will still present facts and independent analysis nonetheless. The report concluded, primarily, that freedom of movement is necessary to a healthy construction industry. It dampens the harmful effects of having a volatile labour market and helps to provide, in part, the flexible workforce that the industry needs.

The Office for National Statistics (ONS) Labour Force Survey in 2009 put foreign-born employment in UK construction at 228,000 people. This represented about 10% of the construction workforce at the time. The figures are roughly comparable with the workforce as a whole, with ONS Labour Market Statistics showing that the share of non-UK nationals in the workforce increased from 4.1% in 1998 to 9.8% in 2013.

More recent figures from 2014 continue to show that, overall, the construction sector's use of migrant workers is not particularly high, at 12%. As in 2009, this is roughly similar to the economy as a whole.

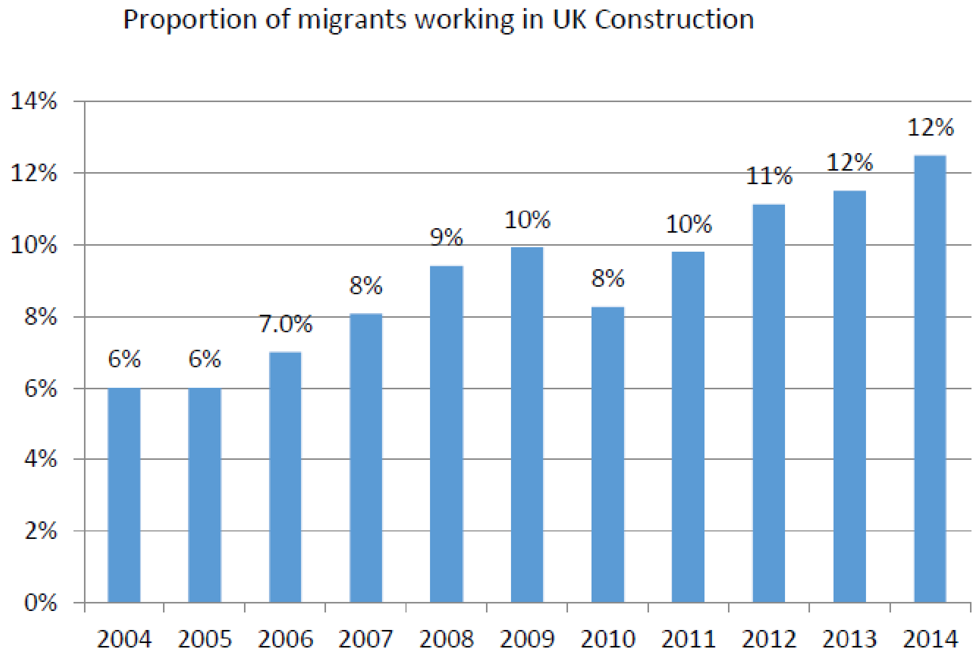
However, in London, migrant workers account for a much higher percentage of the construction workforce: 54%, in fact. London is of course an anomaly in construction terms anyway; it accounts for 20% of all UK construction, it is the only region in the country where output has not shrunk or stagnated since the recession (it increased by 20% between 2007 and 2013 while the construction industry overall shrunk) and, unlike in all other regions, its workforce is now bigger in size than it was in the 2007 construction boom.

In total, this means foreign-born employment in UK construction stands at about 252,000 people and the overall proportion of migrant workers in the workforce has increased by 4% since the 'boom' times in 2007. Below are a series of scene-setting figures from the National Institute of Economic and Social Research (NIESR) from a report launched in April 2016.[1]

[1] Heather Rolfe and Nathan Hudson-Sharp, NIESR, *The impact of free movement on the labour market: case studies of hospitality, food processing and construction*, April 2016

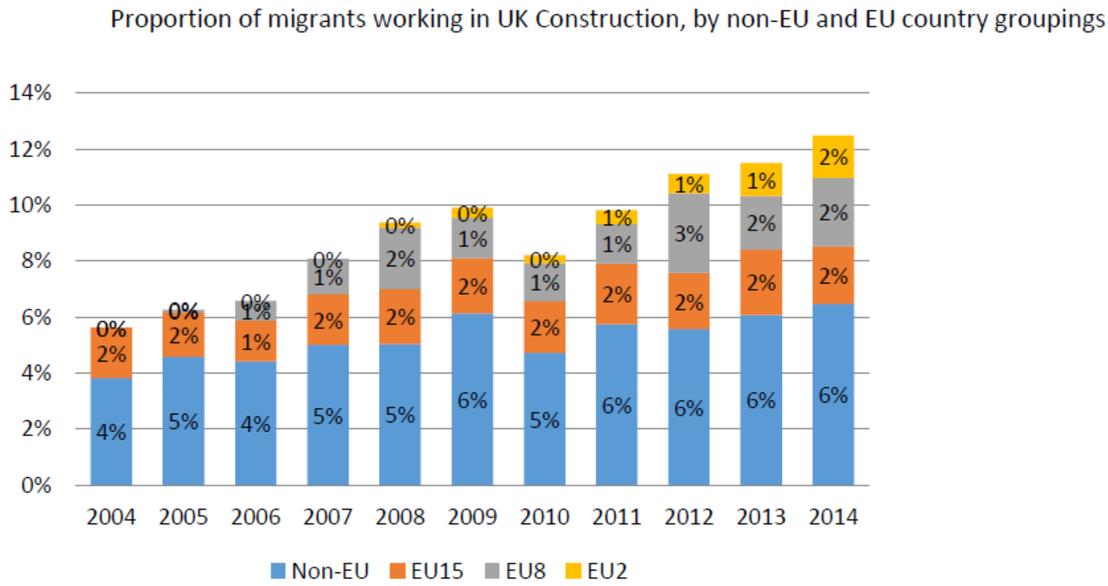
Chart 1 shows the proportion of migrants working in UK construction increased between 2004 and 2014, with the exception of 2010 and 2011. This is probably explained by the recession and departure of some migrants either from the industry or from the UK altogether.

Chart 1



Non-EU migrants consistently contribute the largest foreign labour workforce to the UK construction industry, averaging around 5% of the total. The increase in foreign workers in the construction industry in recent years is largely attributable to the growth in EU8 and EU2 migrants (chart 2).

Chart 2



The concentration of migrant labour in the construction sector is in London (chart 3). Migrant workers are also highly concentrated in the construction, completion and finishing of buildings (chart 4).

Chart 3

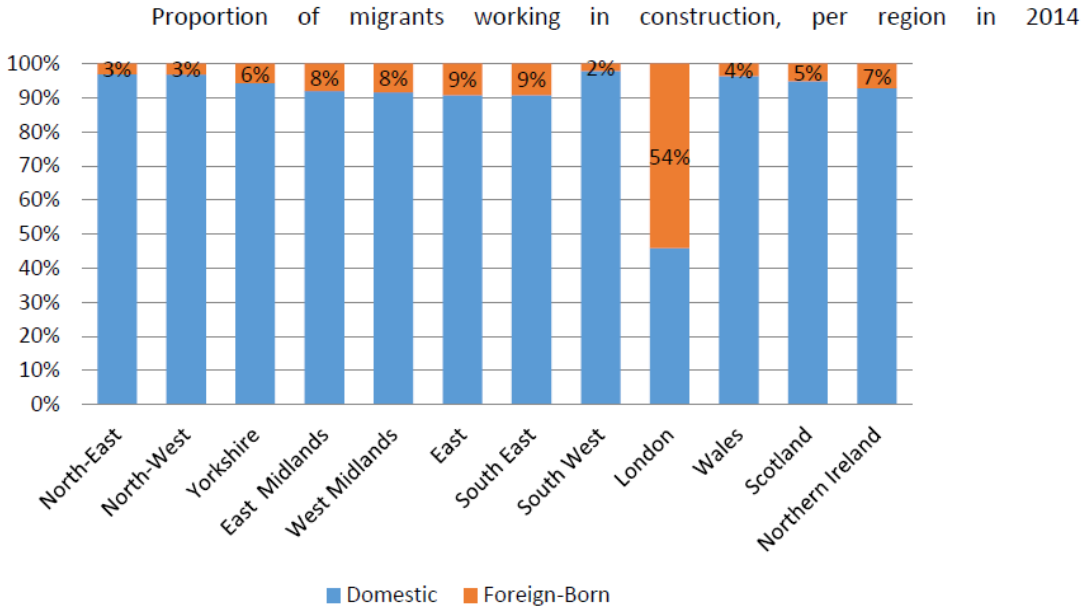
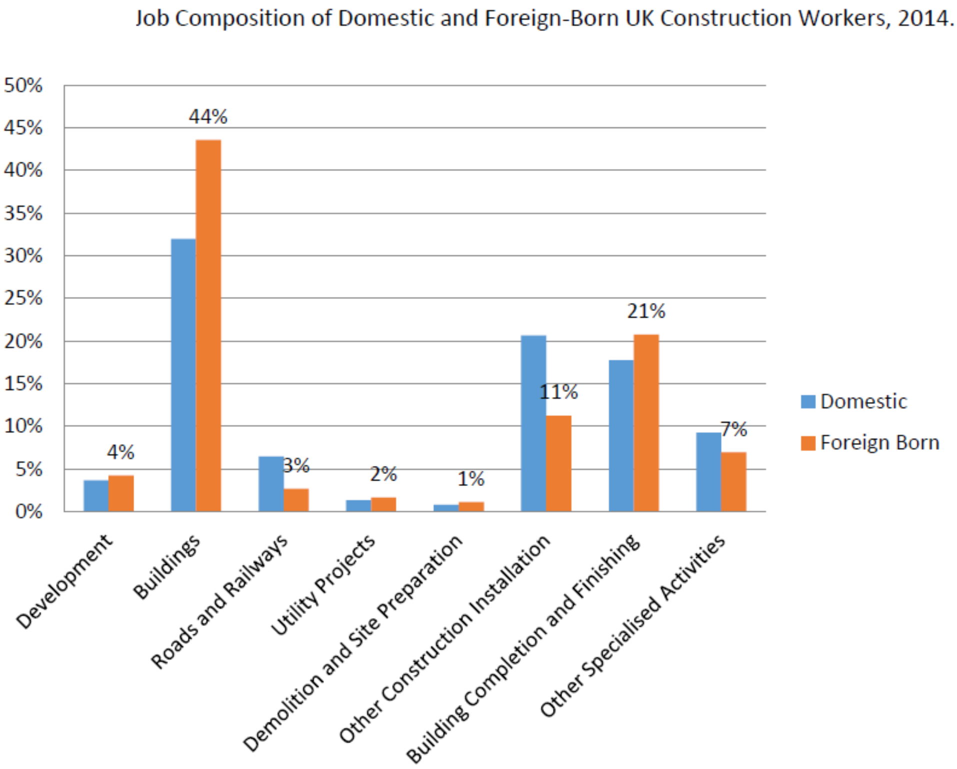


Chart 4



The above charts 1 - 4 have been reproduced with permission from Heather Rolfe at the NIESR, and have been taken from *The impact of free movement* *on the labour market: case studies of hospitality, food processing and construction* report from April 2015.

At this point it is worth stating that data on migrant labour in construction is subject to errors and confusion resulting from difficulties such as varying definitions, high levels of fluidity in the population, survey design and small sample sizes. Two measures generally used to scale the number of migrants are *foreign born* and *foreign nationals*: neither is perfect. All migration figures should therefore be treated with caution. Labour surveys are prone to underestimate the numbers of migrants when they are rising, as new arrivals and those set to leave can be underrepresented in survey samples and the census. Definitions of 'construction' also vary (for example, some exclude professional services, architecture, consultancy etc.) adding further to difficulties of interpreting the data. This is not to say that the data above is significantly incorrect, just that caution should be used when interpreting figures.

The report from the NIESR echoed the findings from our own report – while there is little evidence that employers are actively choosing to recruit EU migrants instead of training UK workers, it is clear that most construction employers train only for their immediate and short-term needs, leaving little spare capacity. This raises questions about industry image, better careers guidance and the need for a stable, longer-term pipeline of work.

Migration in construction

The main conclusions of the CIOB's migration research are:

- Migration has always been a necessary part of the construction industry. It dampens the harmful effects of having a volatile labour market. We believe that tight regulation of migration would damage construction activity in the UK.

- The greatest opportunity to expand the UK base of expertise in construction lies in boosting overseas activity. The new department for Business, Energy and Industrial Strategy (BEIS) alongside the Department for International Trade provides a particular opportunity here to ensure construction is at the heart of an industrial strategy and front and centre in terms of exports. But a perception of having closed borders through, for example, greatly restricting freedom of movement, would weaken the UK's prospects of expanding its positive balance in construction-related trade.

- Construction firms are attracted to draw more heavily on migrant workers as the industry emerges from periods of downturn. Ensuring the industry has a consistent long-term pipeline of work is therefore important in this regard.

- Without regulatory control, the most effective way to reduce migration into construction jobs is to invest heavily in training, mentoring and developing young UK citizens. This in the process reduces the burden of youth unemployment. Again, having a pipeline of work gives the industry confidence to invest in training a future workforce.

- To reduce the skills shortages, the industry must find ways to retain older workers.

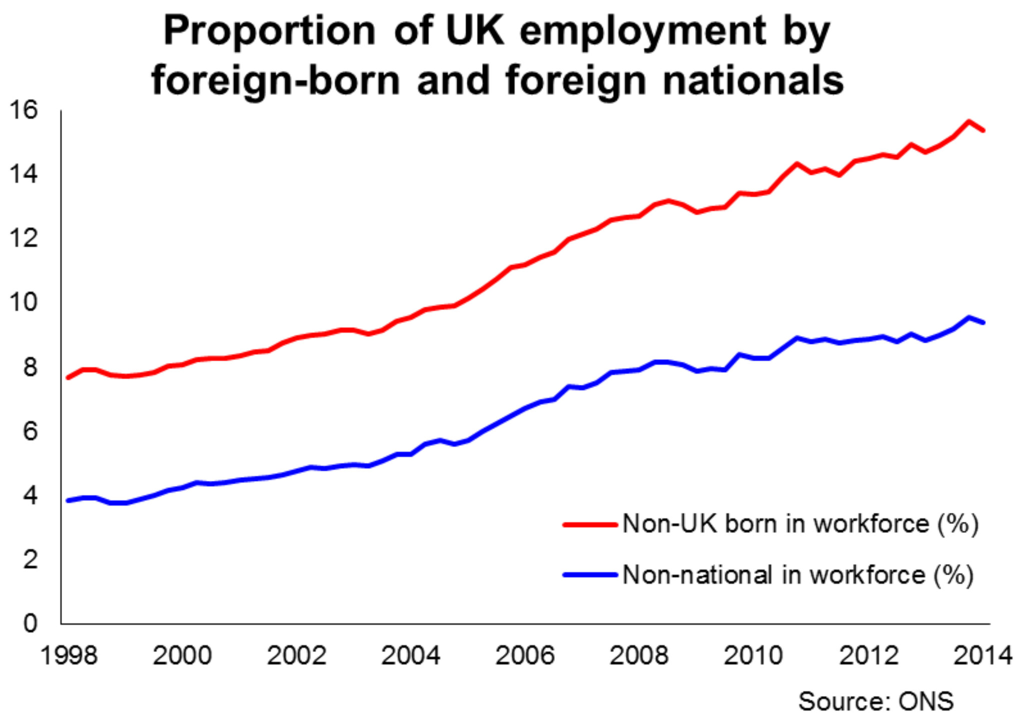
- If we wish to reduce the stresses on the community created by migration (e.g. increased pressure on housing and public services) investment in construction must rise.

- To reduce the migrant flows into and out of the construction industry, investment in the built environment needs to be such that it reduces volatility in demand nationally, locally and by sector.

Data

ONS Labour Market Statistics show the share of non-UK nationals in the workforce almost doubling over the 15 years to 2013, rising from 4.1% to 9.8% of the workforce. The proportion of non-UK born workers rose from 8.4% to 17.3% of the workforce. More than a third of the rise in non-UK born workers over the past 10 years was from the new entrants to the EU.

Chart 5



The age profile of those employed in construction has shifted towards an ageing demographic (chart 6) whilst younger, new recruit numbers has fallen significantly over the last 30 years (chart 7).

Chart 6

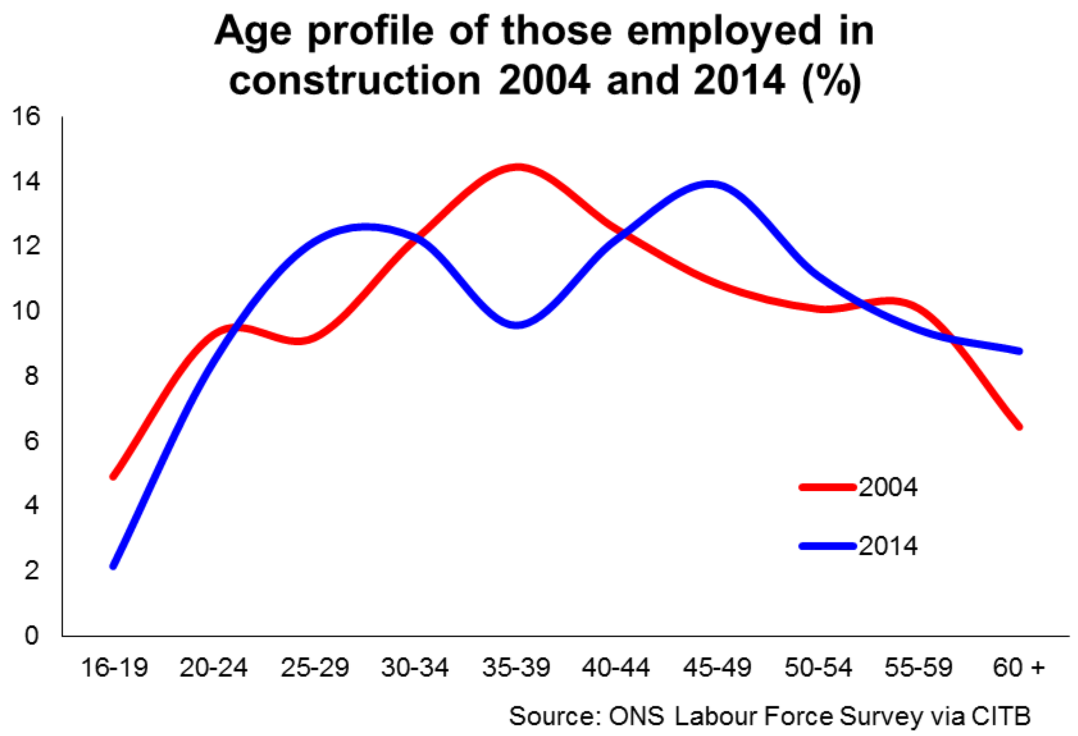
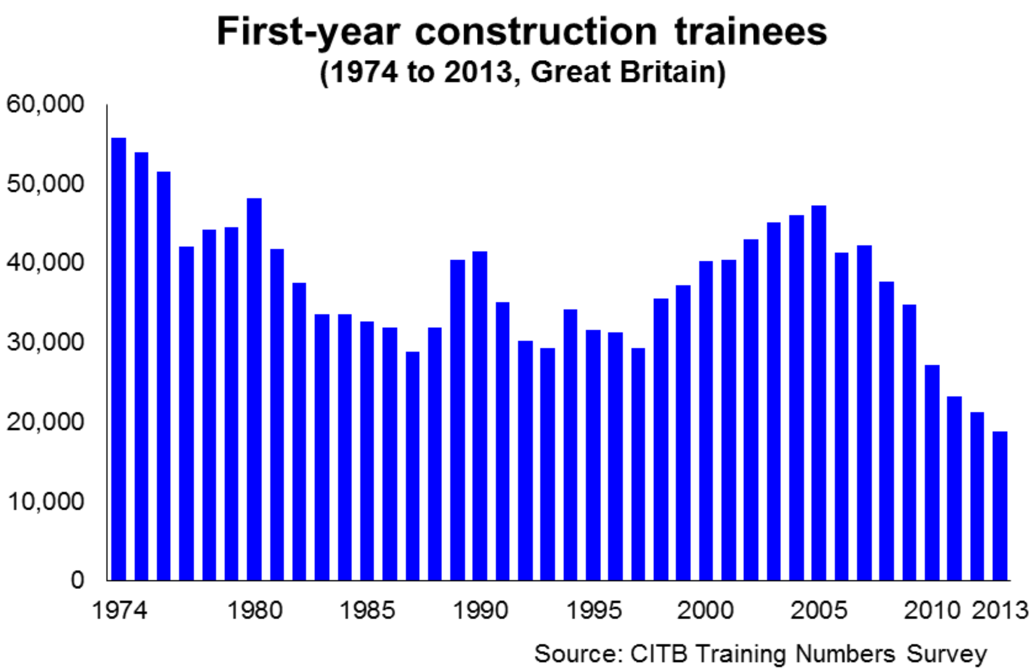


Chart 7



Migration policy options

To aid a better understanding of the options open to government and their relevance to construction, we have characterised below the policy approaches under four broad headings. They are stylised for clarity and are not meant to be complete or their elements exclusive to any one potential overall policy framework.

1. *Do nothing*

Politically, this approach and outcome is unlikely given the result of the EU referendum, but we will outline it nonetheless.

Migration both internal and external has served construction well over the years. On balance, the costs and benefits to construction from migration appear to be weighted heavily towards the positive. But there are troublesome issues that should not be ignored.

From a national perspective, a net-positive level of migration does increase the demand on existing services, buildings and infrastructure. These costs must be addressed and remedies found.

From a construction perspective, the increase in demand for buildings and infrastructure is a clear opportunity for expansion. Irrespective of public finances, the boost to economic activity resulting from an expanded population will drive construction growth.

A laissez-faire approach might appear to suit construction. However, there are downsides. A ready source of unfettered migrant workers can easily become accepted as a more-flexible and less-expensive substitute for training UK citizens. Such an approach would lead to a less resilient industry in the long term, with its destiny resting on migrant labour. It would also deprive UK citizens of valuable careers.

2. *Tighten the EU migration regime*

Seeking to restrict EU migration would very likely mean losing membership of the single market, as it conflicts with the basic EU principle of freedom of movement. As has become clear over the past few months, to “take back control” would in all likelihood require fully leaving the EU i.e. a “hard Brexit”.

In the years before 2016, international legislation was leaning towards greater liberalisation of the movement of labour as the global trade in services grows. Recent events here and abroad have now thrown this into doubt and could have potentially negative side effects for construction.

The UK benefits by many billions of pounds a year from overseas trade in professional construction services – it should be seen as a UK success story. As a nation seeking to expand its trade in services internationally, these efforts could be jeopardised if tight controls of foreign workers were viewed as anti-competitive. Furthermore they could hamper the ability of UK firms to compete for the best international talent.

If controls on freedom of movement were put in place, an overall clamp on migration into the UK would restrict the construction industry's ability to grow. It would hamper innovation and reduce the talent pool of trades and professionals available to the industry. The UK would also lose out on an opportunity to benefit from any innovations that migrants frequently bring from their home countries. Securing the rights of those EU migrants already living and working in the UK would seem a logical step to ensure the industry does not have its growth restricted in the short to medium term, but there has as yet been no concrete announcement from government on whether this is to be the case.

There are also questions about the mechanism to work out how many skilled or unskilled migrants are needed in the construction industry. Freedom of movement with the EU means that a ready supply of labour is available as and when needed. If a visa regime or similar is put into place, it may be difficult for the industry to know exactly, or to communicate to government, how many migrant workers may be needed to fill in skills gaps and skills shortages. The CITB currently produces the *Blueprint for the Industry* document which showcases how many skills in particular disciplines are needed over a five-year period, but this an estimate and is subject to economic fluctuations.

Furthermore, controls on freedom of movement could also frustrate the outward migration of UK construction workers in times of slack demand. The dampening effect two-way migration provides to the volatile construction labour market is beneficial.

The loss of the dampening effect of migration on the UK construction labour market would, all other things equal, make working in construction more precarious and less attractive. It would also mean huge losses in the investment in human capital from period bouts of deep job losses.

The benefit of tighter migration is that, arguably, it would oblige UK firms to train more UK nationals. But given the fragmented nature of the construction industry and the ease with which trained workers are poached, the outcome could be more people trained less well, which would hamper the industry's productivity and reduce the quality of its products.

3. Tighten the non-EU migration regime

Ultimately, legislation to toughen non-EU migration may prove extremely awkward in relation to construction given the international agreements that are in place. Notable are the moves to liberalise trade in services by the World Trade Organization General Agreement on Trade in Services. This could in theory apply to the international supply of construction trade or professional services.

Assuming workable legislation could be implemented to curb non-EU migration, it may prove ineffective in reducing the bulk of recent construction-related immigration; approximately 6% of the construction workforce are non-EU migrants, with 6% being EU migrants, though the latter has increased rapidly since 2004. There is also the associated political climate – a key facet of the Vote Leave campaign was that leaving the EU would present an opportunity to strike trade agreements with nations outside the EU, so therefore limiting the ability of non-EU citizens to work in and trade with the UK would be politically difficult.

There are other dangers in seeking to further control non-EU migration. It could limit UK firms' access to the world's best talent, putting them at a competitive disadvantage, particularly in overseas markets. This would be detrimental at a time when the UK is establishing itself increasingly as a hub of construction expertise.

4. *Focus on non-immigration-related measures to mitigate costs and maximise benefits*

Retaining the pool of migrant workers available to draw on during periods of rapid expansion in construction has strong net benefits to the industry. However, relying too heavily on migrant labour across business cycles has downsides, as mentioned above in option 1. Opportunities to develop UK citizens can be undermined. Migrants can be exploited. And rapid rises in net migration puts pressure on housing and services, creating resentment and unease within the broader community.

Policies can be developed that lean against over reliance on migrant labour. High on the list would be developing the local workforce and improving the route of young local people into construction firms. This would reduce the need for firms to seek workers from overseas.

This would mean higher levels of investment in training and development, which in construction is expensive. However, the financial return from reducing the long-term cost of supporting thousands of those not in education, employment or training (NEETs) is great. There would be benefits to the exchequer, society and the NEETs.

At the other end of the age spectrum, the industry faces a rapid increase in job shedding as a demographic bulge in workers shifts into the 50's age range. Reducing the numbers leaving the industry in their 50's would greatly reduce the demand for migrant labour to fill the skills gap.

Furthermore, the reduction in the number of migrants needed to support construction industry growth would mean, theoretically, less pressure on public services and housing.

Policies could be pursued to strengthen policing of standards and provide better support and advice for legitimate migrant workers. This would help to undermine any competitive advantage unscrupulous firms might gain from exploiting migrants, associated corruption and other bad practice. CIOB has explored this separately through [a report into modern slavery in construction industry supply chains].

Looking at maximising the benefits of migration, policies could be adopted to encourage to the UK the best construction talent from around the world. Construction-related planning, design and management services are becoming increasingly globalised. The UK has a fine international reputation in terms of its education, standards and the quality of its businesses.

Creating an international hub of construction-related expertise in the UK offers great hope to the nation as it looks to rebalance the economy. But it would require attracting leading lights from around the world – including those from EU nations.

Key policy recommendations:

- The CIOB believes that government should not resort to legislation that would greatly restrict migration. The evidence suggests that the construction sector is best served by free movement of labour. Judicious constraints and safeguards may be appropriate, but should be based on sound evidence. Introducing policies that threaten labour mobility or endanger the view that the UK is among the more open trading nations would damage the reputation of the construction industry in international markets. Construction work is expanding most rapidly in developing nations. A loss of reputation could damage potentially highly lucrative international trade in construction-related services and, in so doing, would damage the wider UK economy.

- That said, construction remains an industry that simply does not train its own people in sufficient numbers. Industry and government should look with urgency at boosting support for training, mentoring and developing young UK citizens in construction skills as the most effective way to moderate the inflow of migrant workers into the construction sector. The most effective way to control the inward migration of construction workers without resorting to immigration legislation is to provide UK citizens with high levels of training. The construction sector as a whole should with urgency look holistically at the long-term financial and social costs and benefits of boosting training and development in construction in light of the current high levels of demand for construction, high youth unemployment and the value it places on lower levels of migration.

- Central and local government should seek, as public procurers and planning regulators, to secure from developers and construction businesses workable obligations to train and develop local people. The quality and long-term effects should be monitored thoroughly. Consideration should be given to a system of payments or reimbursements to businesses that secure lasting beneficial results and value added. This would provide an incentive to achieve excellence and encourage firms not to seek “easy wins” in the selection of trainees.

- Communication is vital in the recruitment process. If more UK citizens are to be attracted to construction, the industry needs to continue and enhance its outreach work in schools, ensuring the careers advice presents a fair representation of the huge opportunities available at both trade and professional levels. The industry also needs to raise awareness of these opportunities among experienced workers who may be considering a career change, or those facing redundancy, particularly among those with similar or easily-convertible skills. Such communication needs to be supported by presenting and providing clear pathways for candidates into the industry.

- The industry needs to put greater emphasis on mentoring and pastoral care if it wishes to attract and retain young adults. Construction is at the heart of communities and has a social responsibility within these communities. It can play a hugely significant role in transforming troublesome youths with little future into responsible adults with fine prospects – and there are examples to prove it. CIOB research due for release in December 2016 shows that the working public view construction as an industry that provides great economic mobility. The industry, working with other agencies, should seek to establish new mechanisms to fund and deliver higher numbers of disadvantaged young people into the construction workforce and provide adequate support to retain and develop them.

- With rising life expectancy and a rising pension age it is incumbent on business to rethink its approach to older workers. Construction firms and the industry as a whole need to take urgent action to avoid its demographic bulge in older workers tipping rapidly into retirement over the next five to ten years. It needs to find and develop long-term solutions that will retain older workers for longer within the workforce. This will involve creative thinking. It may mean reshaping the work. It may mean finding new roles, such as training, overseeing and mentoring apprentices. But the industry can ill afford to lose so much human capital at such an early age when the demand for skills is rising.

- The industry must remain vigilant and ensure migrant workers receive excellent induction and suitable training, particularly in relation to health and safety. Adequate monitoring should also be in place to discourage the exploitation of migrants.

- To mitigate the effects of migration there should be cross-party support to prioritise investment in the future infrastructure needed to boost productivity and accommodate and take advantage of the expanded population. The £23bn announcement in the Autumn Statement of the National Productivity Investment Fund is a step in the right direction, but more can always be done and it must be recognised in the Fund that construction also builds the very built environment that every other economic sector relies on. With borrowing costs exceptionally low, the government should take a more pragmatic and long-term view of capital investment.

- Much of the public's concern over immigration relates to the growing housing crisis. House building has remained at low levels despite numerous incentives and large-scale state interventions to stimulate the private sector. If the evident market failure continues, the government should not for ideological or political reasons shy from greatly increasing direct investment in house building and align this with a major policy of locally-based construction skills training and development. Such an intervention could be designed to be revenue neutral in the long-run or indeed designed to result in a net surplus to the Treasury.