



Department for
Business, Energy
& Industrial Strategy

Department for Business, Energy & Industrial
Strategy
1 Victoria Street
London
SW1H 0ET

Andrew Wolstenholme OBE
Chief Executive Officer, Crossrail
25 Canada Square
Canary Wharf
London
E14 5LQ

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Dear Andrew,

RESPONDING TO MARK FARMER'S REVIEW OF THE CONSTRUCTION LABOUR MODEL

We wanted to set out the Government's position on the recommendations made by Mark Farmer's review of the construction labour model (*Modernise or Die*), in light of the discussion at the last Construction Leadership Council (CLC) meeting. We also wanted to place on record our sincere thanks for Mark's hard work in producing a wide-ranging and thought-provoking review.

As you know, Mark's review was commissioned by CLC in response to concerns that productivity and capacity in the construction sector are undermined by its reliance on subcontracted labour, and low levels of investment in skills and innovation. Your foreword to his report reiterated his concerns.

Since its publication in October, we have been incorporating the review's findings and recommendations into policy development. The attached annex sets out more fully how the Government has responded to each of Mark's recommendations. In particular, Mark's recommendations influenced the measures in the Housing White Paper to support increased housing supply, and helped inform the review of the Construction Industry Training Board (CITB). On Monday 10 July we announced that we support the continuation of the CITB, with reforms to make it more responsive and focused, and would encourage industry to support its continuation of the levy in the forthcoming consensus process. Alongside its recommendations to Government, *Modernise or Die* poses a stark challenge to industry to up its game on skills, embrace new and more productive ways of working, ensure the quality of design and workmanship and be more innovative. The challenging context of an ageing workforce, alongside the need to deliver a step change in housing quality and output and major infrastructure improvements, highlights the importance of rising to this challenge.

We are therefore keen to understand from you how you can best address this and drive improvement – matching the scale of the challenge with a commensurate response. We look forward to hearing your thoughts on how CLC will lead on this agenda in collaboration with the wider sector.

Yours sincerely,

Handwritten signature of David Prior in blue ink.

DAVID PRIOR

Handwritten signature of Alok Sharma in blue ink.

ALOK SHARMA

Handwritten signature of Anne Milton in blue ink.

ANNE MILTON

ANNEX – SUMMARY OF GOVERNMENT’S POSITION ON THE RECOMMENDATIONS SET OUT IN MODERNISE OR DIE

Recommendation 1: [A new ‘tripartite covenant’ between industry, clients and Government] 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.

It is vital that the construction industry steps up to the challenge posed by Mark Farmer’s review. The CLC has a key role to play in leading change in the industry so that it becomes more productive and digitally-enabled, achieves higher quality outcomes and embraces innovation. In doing so, the sector needs to become more attractive to new recruits and take greater ownership of developing and retaining the skilled workers it needs.

In terms of governance, we agree that CLC should have strategic oversight of the agenda set out in *Modernise or Die*. It is for CLC to decide precisely how, working with others, it does this. However, we agree that the working groups identified (namely those on skills, business models, and innovation) are most relevant to the modernisation challenge posed by the review. If new representation is needed – including of clients – we suggest this is done by supplementing the membership of the working groups, and working closely with other interested groups, rather than by increasing the membership of CLC. BEIS officials will continue to assist the work of CLC’s working groups, including their contribution to industry modernisation, and we intend that CITB should be able to provide good, informed support for CLC’s skills work.

More generally, we are keen to see closer working between the construction industry, its clients and Government. We are supporting this through better, more consistent procurement and through the further development of Building Information Modelling (BIM).

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

Government launched a review of the CITB and the ECITB last autumn. The review has been advised by the Government’s former Chief Construction Adviser Paul Morrell, and has been informed by the views of the industry, including those set out in *Modernise or Die*.

Having reviewed the options for making sure that the construction industry has the skills it needs, we have concluded that the CITB should be retained. CITB has an important role to play in supporting the industry, including small businesses, to meet the challenges it faces, and the industry needs to provide stronger leadership to make sure it gets what it needs from the CITB.

We also agree that the CITB needs to be reformed. There is concern across the industry about the effectiveness, efficiency and responsiveness of the CITB. The CITB is now embarking on a major reform programme to reduce the size of the organisation and make it more focused on those aspects of the skills agenda where there is a clear market failure or where a collective approach to training can deliver real benefits to employers. Government supports the direction of these reforms, and we hope that the CLC will play an active role in supporting the CITB to see them through.

We will publish the final report of our review in the autumn, in which we will set out more details of the arrangements we will put in place to make sure that the CITB is clearly accountable to the industry it serves, and the specific expectations we have of it. We will set out what we think Government and the industry need to do in support of the reform programme and CITB's ongoing delivery of its objectives.

The industry will shortly start voting on the CITB's proposals for its levy from next April. We hope that the CITB's reform programme will be enough to persuade industry colleagues to support its proposals, but if they do not, CITB may have to close, which would have significant financial costs. We do not believe this outcome would be in the interests of the industry, and we hope that the CLC will consider how it might help to inform the industry's thinking about the consensus process.

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.

The CLC should continue to develop better models of client commissioning, with an emphasis on building longer term collaborative relationships and utilising technology to improve performance and productivity. These changes in turn should bring about greater scope for investment in skills and innovation. Government is supporting this agenda through its long term commitment to investment in infrastructure and its support for house building.

The focus of the CLC's work is not exclusively on pre-manufactured approaches to construction and Government believes it is important that CLC also seeks to drive improvements in commissioning and client/contractor relationships where traditional methods are used.

Specifically in relation to the housing sector, Government has already set out over £25 billion of spending. The Housing White Paper goes further, taking stronger action and setting out a long term, comprehensive strategy. Taken together, the White Paper and this investment will help create a step change in the number of new homes being built, across a range of tenures, both in this Parliament and beyond. It will give businesses the confidence to invest in new capacity and innovative approaches to deliver new, well-built homes quickly.

In particular, the £1.7 billion Accelerated Construction programme will seek to make best use of public sector land to encourage medium and low volume builders, new developers and innovative methods of construction, in order to build at double the rate of traditional house builders. This is part of a wider package of support for Modern Methods of Construction (MMC), which is set out in more detail below (see Recommendation 8).

Recommendation 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 to shape CITB reform proposals in relation to technology and innovation grant funding initiatives.

The CLC's innovation work stream is making good progress to undertake and recommend activity to meet the sector's future innovation needs, such as analysing the existing centres of excellence. We agree it is important to monitor the sector's innovation performance and we are working with the CLC to develop common metrics to be used in an industry dashboard.

In the context of our modern Industrial Strategy, we will continue to work closely with CLC to understand the industry's priorities, remove barriers to innovation in the sector and develop a shared innovation programme. We will use our convening powers to influence greater aggregation of demand from key strategic clients, while improving awareness of the benefits of innovative approaches. We will also consider the CLC's Innovation in Buildings recommendations on supporting uptake of 'smart construction' methods.

A key area where Government will continue to take a lead is in driving the adoption of BIM through its procurement practices and creating greater digital transparency through release of public sector land data. In addition, we are working with the financial sector to ensure that lack of access to finance and insurance do not stifle innovative modes of construction. This includes mortgages, where Government will support a joint working group with lenders, valuers and the industry to ensure that mortgages are available across a range of tested methods of construction.

We will set out in the final report of the Industry Training Board review in the autumn how we expect CITB to support the innovation agenda.

Recommendation 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, making sure that the right business models are evolved with appropriate contractual frameworks.

CITB can and should make an important contribution to the construction industry developing the skills it will need in a modernised future, including through its grant scheme. The report of the ITB review will set out our expectations of it, and consider the issues around its scope. We recognise, though, that CITB can only do this effectively in the context of a wider industry commitment to modernisation, led by the CLC and the professional and other industry bodies. The industry needs to support the development of standards and invest in providing apprenticeships, placements and training opportunities for people looking to develop the skills to work in the modernised, digitally-enabled industry of the future.

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’.

Government is committed to delivering more apprenticeships, including more degree and higher apprenticeships. Together with the introduction of 15 technical education routes (including one for construction), this will create easier to navigate pathways to technical and higher technical professions.

Government agrees that it is important that the construction industry presents a positive image to encourage new entrants into the sector, which in part needs to reflect a more attractive and modern employment offer to prospective recruits. CITB is already working with schools to support recruitment into the industry, as are many other organisations: with industry support, CITB will be able to develop this work further, including refreshing its ‘Go Construct’ website, and make sure the ‘story’ the industry tells reflects how the industry will develop as it modernises.

Recommendation 7: 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.

Government has published a Green Paper on its approach to Industrial Strategy. We will continue to work closely with CLC, its working groups and the wider industry to address barriers to growth in the sector. In particular, we will carefully consider any proposals (including those aimed at addressing the issues identified in *Modernise or Die*) which come forward for a ‘sector deal’ for construction and we are ensuring that the objectives of the Industrial Strategy are taken account of in the planning system.

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 prioritised 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.

As outlined above, Government has announced over £25 billion of investment to increase housing supply. This investment is across a range of housing tenures and types that reflect the needs of different housing markets across the country. The Housing White Paper sets out measures to stimulate innovation and increase the use of modern methods of construction (MMC) in housebuilding, including:

- stimulating the growth of modern methods of construction through our Accelerated Construction programme and the Home Builders Fund, as well as wider support for Custom Build, Housing Associations and Build to Rent;
- supporting a joint working group with lenders, valuers and the industry to ensure that mortgages are readily available across a range of tested methods of construction;
- considering how the operation of the planning system is working for MMC developments;
- working with local areas who are supportive of this type of manufacturing to deliver growth, provide jobs, and build local housing more quickly;
- alongside the Home Building Fund, considering the opportunities for offsite firms to access innovation and growth funding and support and the financial incentives for them to grow.

The Government is determined to ensure more houses are built more quickly, while maintaining quality, and is keen to work with firms that can achieve these goals through innovative construction methods.

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 £500 billion National Infrastructure and Construction pipeline, published last December, sets out for the first time plans to support large-scale housing and regeneration, as well as investment in new local schools, hospitals and prisons, alongside our plans for investment in major infrastructure. In addition, Local Authorities are already obliged to publish registers of land suitable for custom build and of brownfield land available for development. Government is committed to making useful data more readily available to industry to aid planning and investment decisions and encourage new entrants to the house building market and we will work with CLC to continue to improve understanding of

aggregate demand across the industry and how this can be made more visible. To help increase the level of private investment in the housing market, the Government has supported the Build to Rent sector with lending and equity commitments amounting to nearly £1 billion and through the £3.5bn PRS Guarantee Scheme. The scheme has approved loans of £975m to borrowers, the first bond of £265m was issued in November 2016, and we expect to issue another one soon. The Government has recently consulted on measures to give greater emphasis to Build to Rent in the planning system and to make the affordable housing requirements placed upon such schemes more predictable. The Housing White Paper also sets out the Land Registry's commitment to an open approach to land data and achieving comprehensive land registration by 2030. This will include all publicly owned land in the areas of greatest housing need being registered by 2020, with the rest to follow by 2025.

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.

Government agrees that involvement of the construction industry's clients in addressing underinvestment in skills and innovation is crucial to improving the sector's productivity. However, the introduction of a client charge to encourage and fund modernisation could risk damaging developer confidence and increasing costs, at least in the short term. Our focus at this stage is on the measures already outlined above (including those that will be delivered through the review of CITB) together with steps the industry may itself take following the Farmer Review.