



Further and faster

Closing the construction skills gap

August 2018

Local Government

Balfour Beatty



Introduction

There is little doubt that the UK's skills base needs strengthening. Skills gaps in key sectors such as construction are well-documented and getting worse across the country. Challenges including uncertainty around access to skilled labour from the EU following Brexit, efforts to rebalance the economy away from the overheated southeast and to use infrastructure as a way of spreading economic growth, and the need to respond to increasing digitisation and automation, call for a strong, integrated response at all levels.

Local authorities are on the frontline of delivering local economic growth. Many have ambitious plans to deliver new infrastructure and local homes and to tackle issues such as congestion, to support local economic needs. To achieve this, they must be able to grow their own talent in key areas relating to construction and infrastructure. A failure to do so could impact key local policy priorities such as the need to build more housing. It may also have knock-on impacts on project costs and delivery times as skills shortages drive up wages. In addition to local schemes, local authorities and small businesses across the country need to be gearing up their workforces to ensure they are able to capitalize on transformational projects such as HS2.

However, local authorities currently have little influence over the skills training and employment support in their areas which would enable them to respond to the need to close the construction skills gap and upskill local people. To be most effective, they need to be given both greater responsibility and more resource to address skills need in their areas.

Some elements of skills devolution are already in train or planned. Many of the devolution deals concluded between 2014-2017 involved some elements of skills policy devolution. Adult education funding is planned to be devolved to Mayoral Combined Authorities (MCAs) and the Greater London Authority (GLA) from 2019 to 2020. However, in November 2017, England's seven metro-mayors jointly added their voices to calls for the Government to devolve skills funding more quickly.

The call for devolution of skills is not new. However, that does not make the benefits it could yield any less. Employers also want to work more closely with local authorities to ensure that local skills needs are being met. It is right that businesses, as local employers, should be involved in decisions that are made on skills policies and in designing and shaping the relevant education and training provision. They are best placed to advise on the needs of their businesses. Further skills devolution will only be successful if employers are closely involved. Of course, it is not just about meeting the needs of business and the economy. It is also about ensuring that people are able to find fulfilling careers that enable them to reach their potential.

Government action alone is not enough to deliver the step change in skills improvements that is needed in local areas across the country. Schools, parents, employers, the Further Education (FE) sector and independent training providers all have key roles to play.

Key points



1. Local areas must be able to grow their own talent in key areas relating to construction and infrastructure. A failure to do so could impact key local policy priorities such as the need to build more housing.
2. To be most effective, local authorities need to be given both greater responsibility and more resource to address skills need in their areas.
3. Businesses, as local employers, should be involved in decisions that are made on skills policies and in designing and shaping the relevant education and training provision. They are best placed to advise on the needs of their businesses.
4. The most effective local authorities are those with a clear understanding of their local economy, where skills shortages are and where future skills demand will arise, teamed with a coherent vision for growth and the role local employers can play in delivering it.
5. Employers need to engage more closely with the education system, building relationships and ensuring that schools, further education colleges and independent training providers are delivering the necessary skills.
6. In order to meet the increased volumes of workers the industry is expected to need, the Apprenticeship Levy must be refined and evolved.
7. The Levy will not achieve its underlying goals or deliver its full potential unless as many small businesses as possible take on apprentices. Levy spend should be allowed on shared apprenticeships, in order to enable more small businesses to take on apprentices.
8. While the Government pays 90% of SME's costs in hiring an apprentice, this is only for 16-18 year olds. The Government should consider extending this to 19-24 year olds also in order to maximize the number and broaden out the skill level of those being recruited.
9. There is a significant difference in terms of outcomes achieved, between those authorities that are understandably aiming to simply secure the best value for money for their community from each scheme; and those that tie the social value outcomes to be delivered on each scheme into a broader strategy aimed at achieving key local goals, such as building skills.

Local government



Local authorities across the country do an excellent job of developing and delivering plans that will improve the economic future of their local communities and improve the lives of the people that live there. A key plinth of such plans is ensuring that local areas have the skills to enable them to deliver those visions: a skilled workforce is one of the essential ingredients of attracting new businesses and employers to the area and retaining employers already based there. Balfour Beatty therefore believes that local authorities should be given more levers to help them articulate and address local skills needs, to help meet local economic priorities.

Balfour Beatty has worked with many local authorities and is keen to continue to support them in progressing local economic growth initiatives by sharing our knowledge and experience. The most effective local authorities, in our experience, are those which map detailed data on where skills shortages are and where future skills demand will arise, teamed with a coherent vision for growth and the role local employers can play in delivering it. Skills strategies are created jointly with local employers following roughly these steps:

- The strategy for future growth in the area, which all local authorities have, is the starting point. This usually builds on the area's current strengths and successes and plots a course to further developing these. Key to the strategy's success is to assess what the current and future skills needs are. This requires reliable labour-market data developed by the local authority in partnership with local employers and education and training providers. It must respond to key points including:
 - What are the area's current skills needs?
 - Which skills are not currently catered for by local providers?
 - What are the area's anticipated future skills needs?
 - How do local providers need to respond to this future demand?
 - How does the work-readiness of those entering employment need to be improved?
 - How can structures be improved to ensure that employers are more closely involved?
- Local government should continue to engage closely with employers to ensure they are tied in to overall strategies and overarching visions, and that they are able to play their part in delivering them.
- Employers need to engage more closely with the education system, building relationships and ensuring that schools, further education colleges and independent training providers are delivering the necessary skills.
- Flexibility must be built in to allow for changing skills needs.
- Once this is in place, other elements can be brought in to play their part in the delivery of the overarching vision, including business support, strengthening of key transport infrastructure and so on.

The Apprenticeship Levy

The much-cited Farmer Report¹ outlined the scale of the skills gap in the construction industry in stark terms. The report described the skills shortage as a “ticking time bomb”, predicting a 20-25% decline in the available construction workforce within a decade. The report also found that only 57% of construction employers provided any training in 2015 – the second lowest of all sectors.

The Government’s main tool for addressing these skills shortages is the Apprenticeship Levy which local authorities are of course familiar with, as most have to pay it. Local authorities have two additional levels of engagement with the Levy in addition to paying it: they are able to access funding themselves to employ apprentices; and they have an important role in supporting the creation of apprenticeships more widely within their local areas to help plug skills gaps.

Introduced in 2017, the Levy has now been in place for a year, although it is yet to have a positive impact on the number of apprenticeship starts. Balfour Beatty believes that supporting apprenticeships as a path into industry has never been more important. We have welcomed and supported both the Apprenticeship Levy and the target to create three million new apprenticeships by 2020, providing they are underpinned by a focus on completions rather than enrolments, and on standards of quality. However, Balfour Beatty believes that in order to meet the increased volumes of workers the industry is expected to need, together with the need to retrain and replace the ageing workforce as it reaches retirement age, the Apprenticeship Levy must be refined and evolved.

In our view, the following refinements should be a priority to ensure the Levy is responding to the current and future needs of local communities across the country and the economy more broadly:

1. In our experience, smaller employers need more support to ensure they understand how the Apprenticeship Levy can benefit them. Many of them remain unaware of it or view it as an initiative for larger businesses only and risk being left behind as a result. In the construction and infrastructure industry, the crucial trade-level jobs are all carried out by small and medium sized enterprises (SMEs), which must be encouraged to undertake training. The Levy will not achieve its underlying goals or deliver its full potential unless as many small businesses as possible take on apprentices. We welcome work being done by many local authorities to highlight the Levy to local businesses. Balfour Beatty is encouraging its supply chain to take on apprentices, but this needs to be done more consistently across the board by other large companies.

It is important to remember that for a small business, taking on an apprentice represents a relatively more significant commitment. To take on an apprentice requires the employer to provide meaningful work. The number of apprenticeship places in the industry is restricted by the number of live projects, investment and security of future pipeline of work. For a small business to commit to taking on an apprentice requires as much certainty around future work and visibility of the future pipeline as possible, in a trickle-down effect through assurances to Tier 1 suppliers.

2. One way of encouraging more construction firms to take on apprentices would be to allow Levy spend on shared apprenticeships and to promote their use. Shared apprenticeships are an effective way of addressing the difficulties faced by some smaller firms in sustaining long-term placements for the full duration of an apprenticeship. They allow apprentices to be employed by a specifically-created body rather than one company, and then to be placed with different companies to complete the qualification. This gives the apprentice a range of skills and experience, and allows contractors to participate in apprentice training even if they have only short placements available.

¹ Modernise or Die, Construction Leadership Council, October 2016

3. While it is for employers to decide how many apprentices to train in which discipline, we believe the Levy must be structured in such a way as to encourage apprenticeships in new areas for the construction industry, for example, digital and construction robotics.
4. While the Government pays 90% of most SME's costs, this is only applicable to 16-18 year olds². The Government should consider extending this to 19-24 year olds also in order to maximize the number and broaden out the skill level of those being recruited.
5. Employers must do more to engage with the skills system to ensure that vocational courses meet their needs and that local skills priorities are being met. In many cases, Balfour Beatty, companies in our supply chain and other employers find it difficult to access relevant training provision to service local priorities, especially in rural areas and in specialist skills. Examples of best practice which have been set up to address this, such as the creation of the Greater Manchester Employment and Skills Board and the similar scheme in Sheffield should be followed. These bodies have driven co-design of apprenticeship courses by local employers in order to respond to local skills needs.

Balfour Beatty has engaged with around 22,000 students across the UK over the past three years, via a series of live interactive broadcasts, site tours and classroom visits to help increase awareness of the wide range of rewarding careers available to them throughout construction and engineering.

Specifically targeting students from different backgrounds and cultures, the scheme gives students a first-hand look at the roles they can play a part in. Students have been given the opportunity to observe engineering works being undertaken from the top of a tower crane, ask questions of industry specialists and venture out on construction sites.

With over 150 schools already engaged, Balfour Beatty is planning to reach thousands more students with further activities planned in Warrington, Dundee, and Cardiff. The approach further supports Balfour Beatty's commitment to The 5% Club, a UK employer-led initiative focused on creating momentum behind the recruitment of apprentices and graduates into the workforce.



² SMEs employing fewer than 50 people get 100% apprenticeship funding for 16-18 year olds.

Procurement

A key way for local authorities to drive improvements in skills in their areas is of course to use their buying power, via procurement, to help boost jobs and skills. This involves commissioning authorities awarding contracts not just on the basis of price, but on the basis of wider social value outcomes, such as the number of apprenticeships or work experience placements to be offered, environmental benefit that will be delivered, or voluntary work that will be undertaken.

Although this is a well-explored idea, indeed, the Social Value Act (2012) requires all public bodies to consider, when letting contracts, how such outcomes can be achieved, there are some examples of best practice which secure benefits for local areas beyond what others might achieve. In Balfour Beatty's experience, there is a significant difference between those authorities that are understandably aiming to simply secure the best value for money for their community from each scheme; and those that tie the social value outcomes to be delivered on each scheme into a broader strategy aimed at achieving key local goals, such as building skills. We believe the second approach delivers more sustainable outcomes for the local community. Where contractors are also involved in the design of the overarching strategy from the outset, even more value can be added.

In order for the public sector to maximise its formidable purchasing power, collaborative procurement frameworks are increasingly being used, due to the better value for money, high performance and continuous improvement they have become associated with. There are now over 7,000 construction-related frameworks being used by local authorities, government departments and other public bodies across the UK. Balfour Beatty currently sits on, or has worked on, several of the leading frameworks, including the Scape Civil Engineering and Infrastructure Framework. However, not all of the many frameworks which exist are as effective as these examples.

In Balfour Beatty's experience, the best frameworks combine a number of characteristics beyond the economies of scale, lower procurement costs and greater market leverage, which they all aim to deliver. Those which deliver the best outcomes for their clients are used to assist those public bodies using them in the delivery of other elements of their local strategies in addition to cutting the administrative costs and time associated with tendering. These priorities are clearly defined and measurable. They could include a range of outcomes, from social value priorities such as jobs and training and use of local suppliers, to sustainability deliverables. The most effective frameworks are also closely managed. Contractors are held to account and benchmarking, to ensure consistency of delivery and continuous improvement, is rigorously undertaken.



New skills

A number of welcome measures have been put in place in recent years to address England's poor performance in international literacy and numeracy rankings³. These include making it compulsory for young people to stay in education or training until the age of 18; making maths and literacy compulsory in 16-19 education; and measures to improve the teaching of these key subjects. However, in addition to poor maths and literacy, we also face a challenge in ensuring the country is digital-ready: 11.5 million people in the UK are classified as not having basic digital skills, according to 2017 figures⁴.

Automisation and digitisation will continue to disrupt the construction labour market, seeing new roles emerge and some disappear, as they have done since the Industrial Revolution – however, the pace of change is now beginning to accelerate. To succeed in future-proofing the skills base, local authorities and their partners must focus on raising skills levels to ensure that local areas can capitalize on the high-skill roles that will result from automation, as the number of low-skill roles diminishes.

This will involve steps such as building closer relationships between employers and the education system, to ensure young people are being exposed to the skills they will need to succeed in the future, especially the ability to solve problems and think creatively; improving school standards in areas where they are low, for example in key parts of the North and Midlands; increasing the focus on lifelong learning and upskilling; and strengthening the further education sector to help adults retrain and ensure they are ready for the changing labour market. This area in particular calls for more powers and resources to be devolved to local areas, to ensure they are ready for future skills needs.



³ OECD, January 2016

⁴ Lloyds Bank, 2017

Conclusion

Upskilling and reskilling the workforce and creating a robust pipeline of new talent is of critical importance to local economies across the country, especially in the light of Brexit. For sectors such as construction, which have longstanding skills shortages, decisive action is even more important.

Businesses, schools, colleges, and local government must work together in a more coordinated way to deliver the skills local areas need. But local authorities should also be given more responsibility, teamed with resource, to ensure they can meet the challenge.

Balfour Beatty believes that a strong and resilient construction industry needs a robust domestic skills base. As a British company with a hundred year legacy in the UK, Balfour Beatty is committed to addressing the skills shortages in the UK and investing in home grown talent. Balfour Beatty employs over 150 apprentices each year in the UK in addition to the 320 currently under training in a diverse range of roles across the business. We employ around 700 more young people on graduate and part-time higher education/degree schemes.





About Balfour Beatty

Balfour Beatty is also a long standing member of The 5% Club, an employer led organisation set up by our Chief Executive, Leo Quinn, four years ago, aiming to address the skills gap by getting more young people into earn to learn opportunities, encourage businesses to take the lead on training and promote apprenticeships as a positive career decision.



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