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Upping the ante on skills



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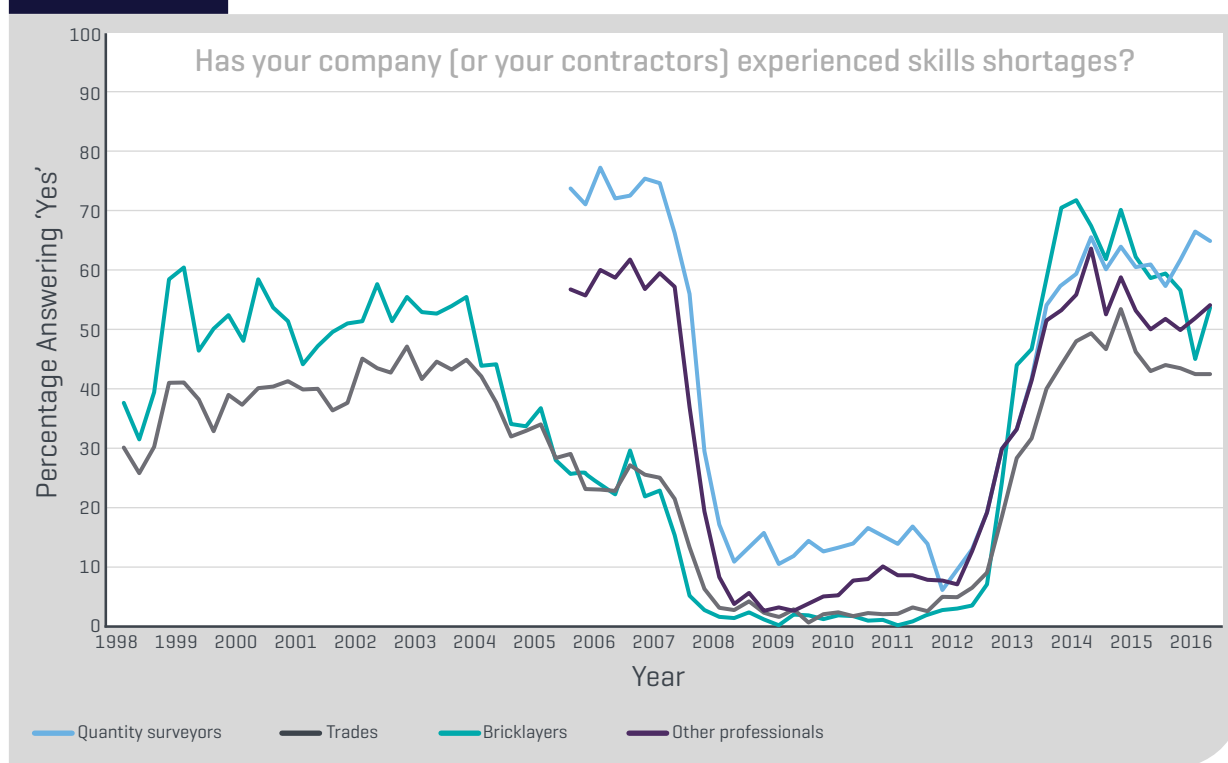
Key takeaways:

- **Reduced net migration will exacerbate the current shortage of skilled workers.**
- **Government investment in training can help to bridge the skills divide if it is targeted more on attainment outcomes rather than numbers. The apprenticeship levy is a first step but not the final solution.**
- **Given the highly cyclical nature of construction workload activity, better job skills transference could improve labour mobility and overall hiring outcomes.**
- **Introducing more diversity in the way that industry operates and simplifying the system by reducing the number of technical qualifications available could attract new entrants.**

The past two decades have witnessed unprecedented levels of global integration. Just-in-time delivery systems have redefined production processes, with the ability to offshore goods and services blurring geographic boundaries. Technological improvements have connected people and places in previously unimagined ways, with the wide and low cost availability of real-time information facilitating the near seamless movement of capital and labour. The mobility of such resources has allowed businesses to access larger and deeper pools of talent, although for the built environment this has, in many cases, been insufficient to meet demand.

Brexit has triggered a broad reassessment of the UK's immigration policy, and although the outcome is as yet unclear, the reduced net migration that is on the Prime Minister's agenda will exacerbate the current shortage of skilled workers. In the construction industry, the supply constraint became most evident in 2014 and, based on RICS' quarterly market survey data, has remained at elevated levels. Quantity surveyors and bricklayers are two prominent examples of professions where the labour market has failed to keep pace with the needs of local businesses, but the shortfalls are evident in a vast array of other occupations as well (figure 1). Increased numbers alone will not ease the bottleneck either, as two-thirds of businesses tell us that insufficient quality is the primary reason for the hiring challenge.

Figure 1 Skills shortages



Source: RICS

Skills and studies

Fostering another generation of skilled workers will require more responsive workforce development programmes that better link educators and vocational training providers with the needs of businesses. With nearly 430,000 construction workers set to have retired between 2010 and 2020, the industry must ensure that it can inspire new talent into the profession through innovative career pathways that appeal to a broader cross-section of society. Businesses have embraced technological advances throughout the design, production and building stages of project development, and the portability of some of these embedded skills to other occupations and industries needs to be made clearer. A recurring hurdle for the construction industry is the highly cyclical nature of its workload, so better skills transference could improve labour mobility and, in turn, hiring outcomes.

Government investment in training can help to bridge the skills divide if it is targeted more at attainment rather than numbers. The launch of a new T-level system from September 2019, announced by Chancellor Philip Hammond in this year's Spring Budget, will move away from the vast array of 13,000 vocational and technical qualifications currently on offer to a better-defined structure of 15 focused routes into professions such as construction. By streamlining the pathway to entry,

government aims to create parity between technical education and academic studies, thereby elevating the status of a career in the profession.

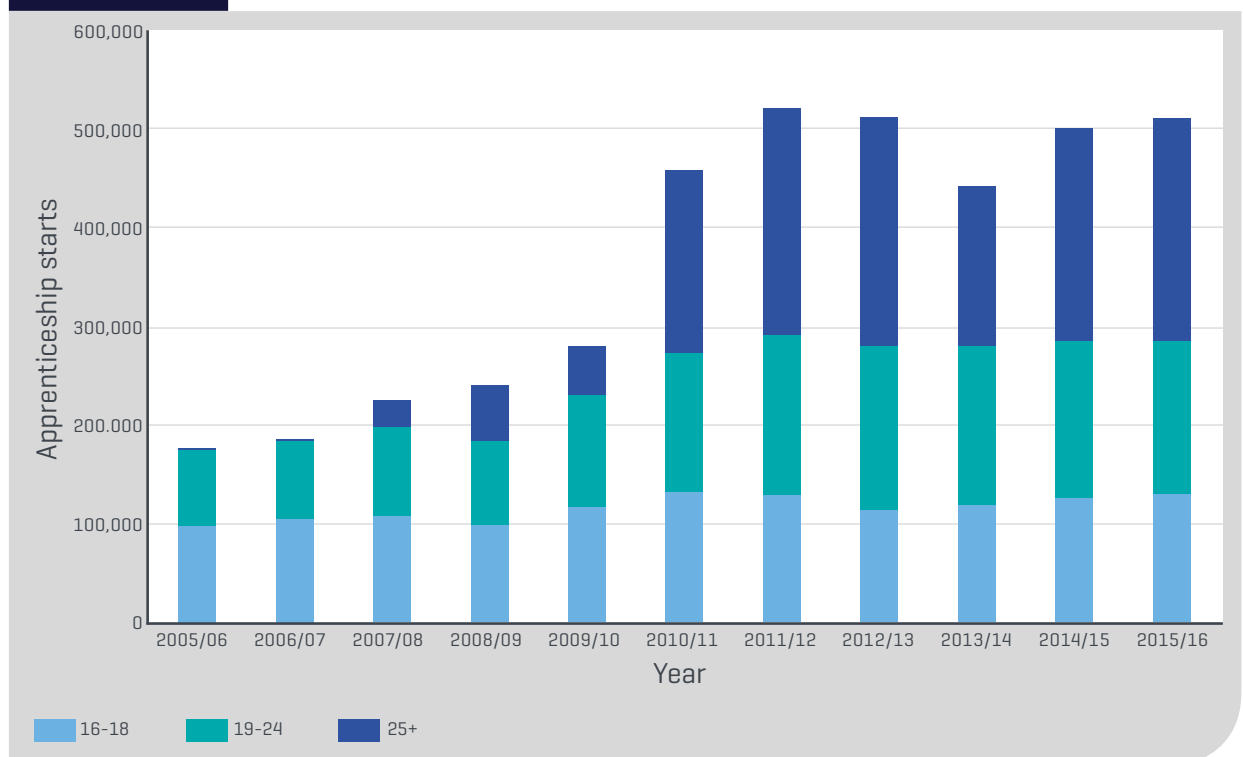
Increasing the number of training hours for technical students by more than 50% and including a three-month work placement are equally sensible proposals for bolstering the competence of UK workers. Indeed, 59% of respondents to RICS' Q1 Construction and Infrastructure Market Survey ranked improved education pathways and training as the most effective policy response to labour supply pressures, ahead of either immigration or government subsidies.

Apprenticeships

The apprenticeship levy launched in April is the most recent government initiative to address the issue of skills, but its goals may be overly ambitious and in some respects misguided. After decades of failed policy attempts to improve the outcomes of vocational training in the UK, a rapid and sustained acceleration of apprenticeships without underlying structural reform risks further reputational damage to the scheme. Addressing the skills gap will require a far more nuanced approach that addresses not only the total number of apprenticeships started, but completions, and the progression to higher level programmes and well-paying jobs, as well.

Figure 2

Apprenticeship starts by age, England



Source: Department for Education

Providing more off-site training at near zero cost distorts market prices in favour of “cheaper labour” and does not fit well with recent trends towards on-the-job training. With the age profile of new apprentices on the rise, the risk is that apprenticeships get diluted and become a mere front for existing training schemes (figure 2). Nearly two-thirds of businesses we surveyed invest in apprentices through direct training or hiring, so while there does appear to be broad support for the expansion of apprenticeships, it is perhaps at a more gradual pace than the three million starts envisaged for England by 2020 under current plans. Incidentally, only 29% of respondents to an RICS survey in the third quarter of 2016 felt that the levy would help to alleviate the shortages of skilled workers.

To deliver maximum value for taxpayers and businesses, the additional funding generated from the apprenticeship levy should target those sectors, occupations and geographic regions that are experiencing actual shortages – the government’s industrial strategy and Occupational Shortages List are starting points for such an assessment. Under the current system, apprenticeships are assigned to one of 15 funding bands that determine the maximum allowable training costs eligible for subsidisation, but the skew remains toward jobs in low wage sectors. Over the long run, the levy acts as a jobs tax which may disincentive employers from hiring additional workers and reduces their overall level of capital spending.

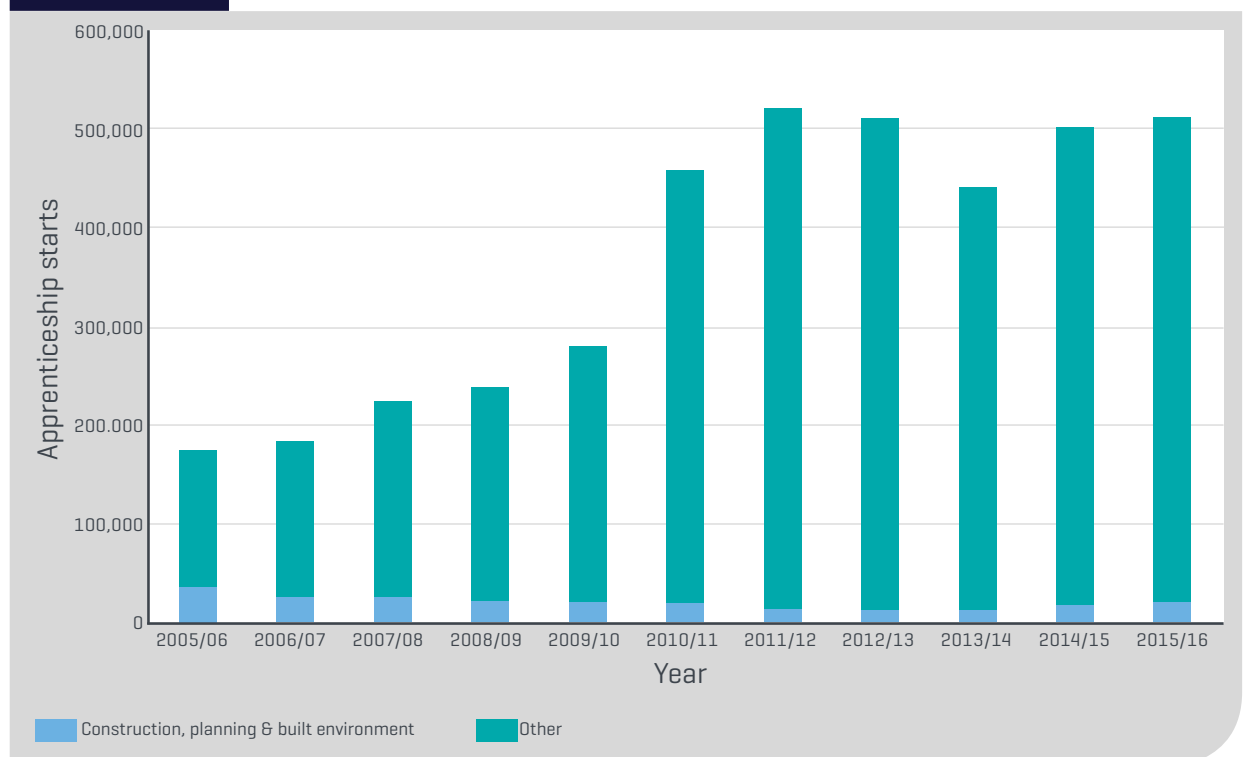
Relative to other industries, the construction workforce is employed predominately by smaller to mid-sized businesses that are amongst the least likely to be affected by the new payroll tax. While only two percent of all employers pay the levy, which is calculated on annual payrolls of more than £3 million, a disproportionate majority of employees will be impacted. According to the Institute for Fiscal Studies, one in three construction workers may be affected by the 0.3% reduction in aggregate wages as estimated by the Office for Budget Responsibility.

With just 23% of the revenue generated earmarked for apprenticeship funding in England, the levy may soon be perceived as a cash cow for alleviating budget shortfalls elsewhere. In such an environment, large businesses may consider restructuring themselves for tax avoidance purposes rather than operational efficiency. Perversely, this would reduce the government’s tax base while distorting labour market signalling.

Productive capacity

As with other forms of investment, workforce training and development occurs along a continuum with relatively long lead times. According to RICS market surveys, skills shortages have consistently been cited as a key impediment to growth in the construction and infrastructure industry for the past three years, and any reduction to the current workforce could jeopardise a

Figure 3 Apprenticeship starts by sector, England



Source: Department for Education

predicted £425 billion project pipeline. The UK already suffers from low levels of productivity compared with most other G7 countries, so there is a pressing need to enhance opportunities for knowledge exchange and the upskilling of the workforce.

While Brexit negotiations have barely begun, 35% of the construction professionals we recently surveyed reveal that hiring non-UK workers is important to the success of their businesses. Indeed, our research indicates that over 285,000 jobs in the industry are filled by immigrants to the UK; by comparison, just over 21,000 apprenticeship starts were managed in England in 2015/16 (figure 3).

The notion that foreigners are somehow responsible for today's labour market disequilibrium – characterised by a lack of skills amongst UK workers and lower levels of literacy and numeracy in its young people – remains unsubstantiated. To the contrary, official data from the 2016 Annual Population Survey show that non-UK nationals are three times more likely to be in jobs for which they are over-qualified. Nearly half of EU migrants possess some form of higher education compared with just a quarter of those born in the UK. Taken across all professions, this has resulted in EU nationals earning more than the national average earnings, not less. This suggests that imported labour can meaningfully address areas where domestic skills are deficient without placing undue downward pressure on wages.

Looking ahead

With firms reporting to have to turn down work due to shortages of staff, opportunities are abundant for those with the right skills in the right places – ability and agility are important in equal measure. The skills picture in the UK is a complex one that will require workforce development policies that evolve with the changing needs of the economy.

Inevitably the process will need to start much earlier with children being encouraged by their parents that a career in a professional trade is both sustainable and desirable. Nurturing this pipeline of talent from cradle to grave, and introducing more diversity in the way that industry operates, will help to smooth out some of the cyclicalities that the industry faces, thereby reducing future bottlenecks. Simplifying the system by reducing the sheer number of technical qualifications available would attract diverse new entrants into the sector as well.

Rapid urbanisation and ageing demographics mean it is urgent for the industry and the government to work collectively to find ways to keep UK businesses competitive in a globalised market. Smart cities require smart people to employ smart strategies. The country's economic future depends on it.





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