

## Top 3 priorities for the new Government: Construction and Infrastructure

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The UK construction and infrastructure industry is critical to the economy. It contributes c.7% of GDP to the national economy and employs 3 million people – c.10% of the workforce<sup>1</sup>. It also builds and maintains the infrastructure we all rely on, from roads and railways to schools, hospitals, houses, power stations and flood defences and will play a central role in addressing some of the key challenges the nation faces, such as moving to a clean energy low carbon future to the housing crisis.

Bringing Brexit to a successful conclusion is a key priority for the new Government and for business. However, there are many issues which have been put on hold since the referendum in 2016 and these must now be brought to the fore to ensure a strong, resilient post-Brexit economy.

If the construction and infrastructure industry is to continue to drive growth and prosperity across the country, it is our view that the following, pressing – and interrelated - issues should be included in the Government's agenda for change:

### 1. A clear commitment to and guaranteed funding for infrastructure investment

In addition to a climate of uncertainty, the UK construction and infrastructure industry, and indeed the wider economy, has also suffered from piecemeal and short-term policy-making. What a strong economy needs, in our view, is long-term certainty and policy consistency as demonstrated by economies such as Germany. This is something we believe should be addressed to ensure UK businesses are able to thrive and compete effectively and invest with confidence in essential skills, technology and modernising innovation. Infrastructure decisions must be made efficiently and firmly.

Investment in infrastructure is widely acknowledged as being one of the best ways of stimulating the economy and driving employment and other social value benefits, from training and employing the long-term unemployed and previous offenders, to boosting local small, medium and micro businesses. Infrastructure investment delivers benefits which far outweigh the initial investment: every £1 spent generates at least £2.84 in total economic activity<sup>2</sup>. For these reasons, investment in high-quality infrastructure has been proven to be the foundation for economic growth.

However, of equal importance to the investment in infrastructure is ensuring a well-laid out, smooth pipeline that enables suppliers to make their own investments in skills and modernisation, with confidence.

High-quality infrastructure is also core to ensuring the UK remains competitive and open for business and investment. Transformative schemes including Northern Powerhouse Rail, Heathrow expansion and HS2 should be firmly committed to and delivered in order to ensure that the UK remains connected at a national and a global level. These schemes are also major opportunities for the UK to showcase its design, engineering and construction skills and expertise to the rest of the world, helping to make our infrastructure industry exportable. We urge that the new Government make a firm commitment to HS2 and other schemes which have been delayed be made with all possible speed.

Shovel-ready schemes, which are advanced enough to allow construction to begin quickly, should be prioritised in order to provide a boost both to the economy and to the construction and infrastructure industry.

### 2. Skills

The construction and infrastructure industry relies on being able to hire, retain and train the talented and often highly-skilled people it needs at the right time, in the right locations. We know that we must continue to build our skills and capability and as a company, Balfour Beatty has a proud history of doing so. However, the sector is facing skills challenges including the UK's aging engineering base and widening skills gaps across a range of disciplines as young people choose other sectors.

The reforms to technical education must be delivered and efforts to modernise the skills system must continue. Apprenticeships are central to the solution given how increasingly structured and accessible they are, offering opportunities for people from all backgrounds in a wide range of disciplines.

Infrastructure is a key employer of apprentices. In the transport sector alone, around 2,000 new apprentices have been taken on each year since 2016, with this annual figure set to rise as high as 5,000-8,000 by 2022<sup>3</sup>.

<sup>1</sup> BEIS

<sup>2</sup> LEK Consulting

<sup>3</sup> The Strategic Transport Apprenticeship Taskforce

Unfortunately, as it is currently designed, the Apprenticeship Levy does not deliver for the construction and infrastructure industry. We believe that the new Government should fully review and consult on the Levy, as the Government under Mrs May committed to doing. The Levy must be changed to ensure that it is fit for purpose and delivering the skilled workforce the economy needs. A Levy that fails to deliver the apprentices that key industries such as construction and infrastructure urgently need is essentially holding back the economy. Beyond that, given the important role apprenticeships play in creating opportunities for young people, a Levy which does not work is also impacting social mobility.

The industry also needs an immigration system which delivers for the construction and infrastructure sector. That immigration system must be flexible enough to allow the industry to access the skilled workers it needs to build these hugely complex, challenging schemes where there is a shortfall of UK workers – which there will be.

The post-Brexit immigration system must be flexible, easy to navigate and must keep the administrative burden on employers as low as possible. It must also allow employers to access workers at all skill levels. In construction, this is particularly relevant for the supply chain across the UK, which is largely made up of small and medium sized enterprises (SMEs).

Balfour Beatty has some concerns about proposals to introduce an Australian Points Based System. As they have been outlined, the plans are likely to make existing shortages in the construction and infrastructure industry worse, as the sector needs additional workers across all skill levels to fill skills gaps until the domestic workforce is fully able to do so. This is especially the case for our supply chain.

Specifically regarding the salary threshold, it is our view that the proposed £30,000 is too high for some of the roles which the construction and infrastructure industry relies on. Within the construction sector, we have skills shortages for tradespeople and so on, who often earn below this level. Salaries depend on industry, role and occupation. Salary thresholds should therefore also be varied by sector and should reflect experience and skill sets. There should also be lower salary thresholds for those roles which are in shortage.

The sector is also struggling under the burden of many of the older workforce retiring. This has an impact both on the size of the workforce and on having enough skilled people to train the next generation of construction and infrastructure professionals. While it is incumbent on the sector itself to ensure there is support in place for older workers, more needs to be done at a national level to break down negative perceptions relating to older people in the workforce.

Ensuring that these issues are addressed is vital if, as a nation, we are to deliver the homes and infrastructure we need to prosper and grow.

### 3. Modernising the construction industry

The construction and infrastructure industry faces a number of challenges in addition to skills shortages and a lack of pipeline certainty. Key amongst these are the sector's sluggish productivity and the growing need for it to take a responsible approach to reducing its carbon emissions. Modernisation of the sector is an important part of the solution to both these challenges and to the skills gap: as we push the boundaries of technology and construction, we increase our ability to inspire and capture the brightest and the best talent, attracting a new generation to the sector. And by improving processes and fundamentally changing how we work, we will see the sector's productivity soar alongside significant reductions in carbon emissions and improvements in efficiency, safety, sustainability and quality. While there is much that the sector must do itself to modernise, the Government also has two key roles. These are to:

- Adopt a more realistic position of what a viable risk-reward profile is for the industry, and ensure more collaborative, value-driven procurement processes in order to enable the sector to make a reasonable margin which it can use to invest in innovation, skills and new equipment. We believe this is essential in order to ensure the UK has a resilient domestic construction and infrastructure industry;
- Use its position as the sector's key customer to help speed up the pace of technological change in areas such as automation and increasing offsite capacity, thereby simultaneously helping improve its productivity. This includes support for investment in new technology and methods of construction and creating an environment that rewards innovation and new ways of thinking.

In our view, the real benefits of offsite will not be reaped for the next decade. However there are real skills and capability which companies including Balfour Beatty are using to add significant value today, such as BIM, digital solutions, and 3D. We must ensure that these are fully supported.

### Conclusion

The next five years will be a defining period for the construction and infrastructure industry. We believe the sector has significant potential to support the Government in important areas, including securing its position in the global economy, social mobility, and local economic growth.

The changes in the Ministerial team offer an opportunity for the Government and the industry to work together to address these challenges together with renewed vigour.