



Lunch with BLP 2017/18

Progress made but more urgency required: The construction industry 18 months on from the Farmer Review

Presented by guest speaker **Mark Farmer**



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Executive Summary

Over a year and a half has passed since the publication of Mark Farmer's highly critical and widely-lauded report on the construction industry, *Modernise or Die*. The report examined the construction sector, its ills and what is needed to ensure that the industry is fit for the 21st century.

Kim Vernau, CEO at BLP Insurance, highlights the key points raised at an interactive discussion organised for industry peers at which guest speaker Mark Farmer examined the

progress the industry has made since the publication of *Modernise or Die*, concluding that although there are signs of progress the sector has still a long way to go.

Introduction

Are we working in an industry which is markedly different from where we were 18 months ago? The honest answer is no but it is difficult to expect wholesale transformation in that kind of timescale and there is evidence we are at the beginnings of a journey that could transform our industry.

with an increasing spectre of a declining and ageing workforce coming into focus. This problem is further exacerbated and complicated by impending complexity of Brexit and the fact the sector's workforce is migrant-dependent.

The construction industry is at a crossroads in terms of its labour model

All this means a radical transformation in the way in which the sector produces and utilises its workforce is required.

The numbers game

To deliver the homes we need (more than 300,000 homes a year), critical national infrastructure needs to be constructed, including the likes of HS2, Hinkley Point and Crossrail 2. This requires a construction industry that has the capacity to produce at a level beyond where it currently is. To achieve this, the sector either needs to attract more people or to become more productive.

basic delivery model, changing its whole approach to design, procurement, interaction with clients, advisers and the supply chain. All of these challenges have to be attacked head-on and in a synchronised fashion if we are going to change our industry at scale.

Given the barriers to attracting new talent to the industry and its ageing workforce, more will have to be achieved with the same or less resources going forward. This challenges the sector's

Herein lies the problem in revolutionising an industry as vast and fragmented as construction where you have 2.6 million workers and 270,000 businesses. To act in unison is pretty much impossible. Creating a sense that there is a common direction of travel that everyone can go on, from SME to large player is vital.

CITB reforms

The Farmer Review was very critical about the performance of the Construction Industry Training Board (CITB) and as a result the CITB carried out a review which showed an ambition to reform. Is it happening quickly enough? Probably not, reforming the skills and training agenda of the construction industry is a huge undertaking. However, we really need to transform the skills requirements now, not in five years' time. The industry requires consistency through standard accreditations, with

manufacturing assembly sectors better supporting the industry.

At the moment there is a sense that the training within the manufacturing sector is quite bespoke; being carried out employer to employer and there's no real sense of progress to a different model. There is hope that some of the work that's currently going on through the skills work stream with the Construction Leadership Council will instil urgency and tangible progress can be made quicker.

Housing white paper

The government housing white paper was published in 2017, with some explicit references to the Farmer Review and recognition from the government that to deliver on housing targets we need to take a different approach. Innovation within our physical production techniques must be a cornerstone of this delivery along with how we expand consumer choice through different tenure and financial models. The leadership team at Homes England clearly see the role

of innovative construction techniques and delivery as being part of a range of solutions that needs to be applied. While there's a lot of mobilisation in the background, not much of this has really landed in the market yet.

For instance, modern methods of construction (MMC) will increasingly become part of the decision-making process as to how Homes England distributes its money.

The penny has dropped for MMC

The penny has finally dropped that if the government wants a fit-for-purpose construction industry that's going to deliver on infrastructure and housing, key tenets that underpin economic growth then wide-reaching change is needed. In November 2017, the Chancellor made some very significant announcements on what the government was going to do as a client of the industry, moving five of the biggest spending government departments towards a presumption of MMC use, including offsite manufacturing by 2019.

billions of pounds worth of capital expenditure to construct the country's vital infrastructure in a more intelligent manner through an outcome-based procurement process.

The government has recognised, particularly when it comes to physical and social infrastructure, the merits of using MMC for the prison building, schools, hospitals, defence and roads and rail programmes. Potentially, the government's going to make a conscious decision to commit

This is all still to be proven but it's a very clear policy statement of intent that the government has woken up to the fact that as one of the largest clients of the industry it has a role to play. It won't change the industry on its own but it will hopefully set the scene by taking a leadership position that can positively influence supply chains. This will have an indirect impact on the housing market. As the manufacturing sector responds to this shift to offsite methods, there will be more funds invested into factory production and machinery. This will increase the capacity for absolute application of these methods within the home-building sector.

Offsite barriers

At the moment, the fragmentation of the offsite market is one of the barriers to it evolving. The fact that several of these different offsite manufacturing systems are all to an extent slightly unique might sound logical from a point of competitive difference but it's not. It's actually going to hold the market back. Bringing down the competitive barriers and collaborating on methods and standards is key to progress in the offsite sector and could result in systems that can accommodate all build materials such as steel, timber and concrete.

in the level of pre-manufactured value on all construction jobs.

The move towards offsite is not binary; it's not traditional versus volumetric modular. The volumetric modular market is going to be an important element of the overall solution but it's not the only solution. There is an increasing trend towards hybrid manufactured solutions and there will be an incremental increase

We are witnessing a shift in the way even some volume house-builders are looking to deliver. They recognise that if they keep doing what they're doing, particularly in terms of the quality of some of the product they've been putting in the market, they face a big brand and reputational risk for their businesses. Driven by the skills crisis, there are the beginnings of a move among the volume housebuilder fraternity to embrace MMC in a very gradual way. This is not some big revolution but there are signs of change such as developers piloting different approaches, appointing R&D teams and innovation directors. They appear to be turning a corner and perhaps that's a bellwether for people realising we need a better way

Offsite barriers (continued)

of building consistently at a higher quality than what we have in the past.

Initiatives such as the Buildoffsite Property Assurance Scheme (BOPAS) have had an impact in the market in terms of getting the financiers and the mortgage providers engaged in

understanding how MMC is not some black art. However, the government needs to do more to open this market up and make MMC mainstream. Ensuring that the increased proportion of pre-manufactured value within the housing sector is reflected within the mortgage market would be a big step towards normalisation.


Conclusion

Modernise or Die acted as a wakeup call to many in the construction industry, forcing them to take an introspective look into a sector that was deficient in technological adoption, innovation and collaboration while wholly unprepared for worsening skills and labour shortages. The review was a catalyst for government and industry players across the supply chain to take action on issues such

as skills, training and development of non-traditional methods of construction.

Things are changing, albeit at a slower than desired pace. The industry has not been wholly transformed in the 18 months since the report was published but there is enough green shoots of progress to suggest that tangible improvement is on the horizon.



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Author of the 2016 review of the UK construction labour market; Modernise or Die, Mark Farmer is at the forefront of the progressive modernisation of the construction industry and is a member of the RICS, Vice Chairman of the ULI UK Residential Council, member of the BPF Build to Rent sub-committee and co-chairman of Constructing Excellence.

Images from 24 May, 2018 at the Luton Hoo Hotel



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