



All Party Parliamentary Group for SME House Builders

**Report on the impact of EU
Immigration on the UK's
SME House Builders**

May 2019

Foreward

Members of the APPG for SME Housebuilders have responded in good numbers to our request for their views on immigration and its impact on the sector, in light of the publication of the Home Office White Paper on Immigration in December 2018.

It is clear that there are concerns and that it is felt that the sector needs to be given a protected status – as has been accorded to other sectors – in new immigration arrangements post-Brexit. In the light of one the Government’s key objectives - and indeed a key objective for us as a country - of getting up to 300,000 new homes per year, there is merit in that “ask” and there may be a sympathetic hearing given to such a view. If the UK is moving to being a lower immigration level country, even if that is not achieved right away, however, such a status is likely at best to be only temporary.

The work we will continue to do as an APPG on how SME Housebuilders adjust and adapt to that, through modular and other modern methods of construction, through making the sector more attractive to young people and, allied to that, by providing more skills training and apprenticeships, will thus be of critical importance.”



Andrew Lewer MP

Chairman

All Party Parliamentary Group for SME House Builders

Executive Summary

In reaction to the Government's White Paper in December 2018, looking at future policy on immigration, the APPG for SME House Builders asked its members for their views on the initiative.

This report is based upon the many replies from members of the APPG for SME House Builders.

It looks at the issues raised, the likely effects of the Home Office White Paper and makes recommendations to Government on how the immigration policy can be improved, so as to ensure that the Government can hit its own new homes target of 300,000 to be built a year.

APPG members warmly welcome the Government's ambitious goal to build 300,000 new homes each year.

However APPG members felt this goal will be undermined directly, if the Home Office implements its current plans on immigration, as laid out in December 2018.

Members also called for there to be a recognition of house builders' skills and importance to the UK economy as part of the post-Brexit immigration and visa system. This could take the form of them being classified as 'skilled', or a new sub-category focussed on construction workers.

The home building industry is facing a skills gap due to rapid increases in housing supply, an ageing workforce, loss of skills during the recession and a failure to attract sufficient new recruits in to the sector. Challenges around skills are magnified for SME home builders because of other unique issues that are contributing to their decline.

Evidence from members shows that Home building would need to recruit an average of 11,000 new people a year in its key skills shortage

roles over the next six years to scale up to meet the government's housing supply objective. This level of new people entering the industry would be unprecedented.

The Government's Immigration White Paper in its current form will have a severe impact on industry's ability to recruit the migrant workers it needs, and we would welcome engagement with Government to discuss the APPG member's concerns.

The Government's own immigration initiative could perversely be the reason why the Government subsequently does not hit its target for 300,000 new homes a year, as such, it should not be implemented as currently.

It is clear that there are concerns and that it is felt that the sector needs to be given a protected status – as has been accorded to other sectors – in new immigration arrangements post-Brexit.

Context

The APPG for SME House Builders asked members of the APPG for evidence, views and solutions on the subject of EU immigration and the effects on their businesses.

This call for evidence was requested, given the very top political priority that all Westminster parties are currently giving to the delivery of house building in the UK.

After decades where supply has fallen behind the demand for new houses, all parties are now placing the issue of delivering new housing at the top of their political agenda.

The Prime Minister had stated both in Downing Street and at the 2018 Conservative Party Conference that the delivery of new homes was her top priority.

The Government has set forward a clear goal of delivering 300,000 new homes each year, in order to achieve the Prime Minister's and the Government's objective.

The Labour Party is equally clear on the need for new Homes. It states that 'Home is at the heart of all of our lives' and in order to address the issue as made a commitment that 'Labour will invest to build over a million new homes.'

The Home Office launched a new White Paper on 19th December 2018, looking at developing a future skills based immigration system, looking to provide a new route for skilled workers, strengthened border security and an end to free movement as part of a new immigration system.

It is within this context that the APPG for SME House Builders made a call for evidence from its members. The Government and Opposition parties want a massive escalation of new homes built and to do this House Builders require many more skilled workers to deliver this.

This report looks at the evidence from SME House Builders, looks at their needs in order to deliver all these new homes and from this provides practical solutions and recommendations for the best way forward.

Evidence from SME House Builders

APPG Members strongly welcomed the Government's ambitious annual target to build 300,000 new homes, with many upgrading their plans for future development in future years.

However, the Government's own white paper on the UK's future skills-based immigration system whilst wide-ranging, does threaten the growth in new build homes.

A fundamental challenge to hitting the 300,000 target is the loss of SME builders particularly during the last financial crash. It is therefore undeniable that changes to the immigration system would be another significant challenge post-Brexit. There is already a shortage of skilled labour, even before the new target of 300,000 was announced. Therefore the existing issue will be exacerbated if there aren't clear allowances made for the construction sector. The Government's own immigration initiative could perversely be the reason why the Government subsequently does not hit its target for 300,000 new homes a year.

One APPG SME member stated that as it currently stands roughly 65-75% of our on-site workforce is of EU (non-British) origin. They would therefore have significant concerns with the recommendations about how we could fill the, already prevalent, skills gaps we are facing in the short to medium term.

As the building workforce continues to be squeezed, due to many foreign nationals already returning to the EU bloc post the Brexit vote, SME House Builders have already seen an increase in day rates for their teams at all levels to ensure they not only attract the numbers, but also the quality of staff. This would certainly get considerably worse should the announcements be implemented, making it difficult to maintain current levels of house building, let alone trying to hit the 300,000 target.

APPG members commenting on particular impacts and implications for the house building industry:

1. People coming to the UK to work will need permission to do so (as opposed to the present system under which EU nationals have open access to the UK labour market).
2. To secure that permission they will need to demonstrate both (a) that they possess a certain level of skills/qualification (broadly equivalent to A level) and (b) that they are taking up a job with a

defined minimum salary. The minimum salary recommendation set in the white paper is £30,000 per year but the government says it will consult businesses on this.

3. There will be an option (but only for a transitional period yet to be defined and for a limited list of countries also yet to be defined) for lower-skilled workers from overseas to take up employment in the UK for no more than 12 months. They will not need to meet either the skills or salary conditions of (2) above.

4. Employers will be obliged to carry out checks to establish the immigration status and 'right to work' status of all non-UK workers they employ.

5. The new rules will preclude self-employed workers from coming to the UK. People coming to the UK to work must have a firm job offer from an employer before they can enter the country

Research undertaken by HBF's Home Building Skills Partnership, supported by the Construction Industry Training Board (CITB), has found that for every additional 10,000 houses industry builds, the industry needs to recruit 8,000 workers across 12 key roles.

This includes:

- Bricklayer – 2,500
- Plumber – 300
- Plasterer/Dry liner – 400
- Carpenter – 1,000
- Groundwork/Plant Operative – 2,500
- Electrician – 300
- Roof Slater and Tiler – 300
- Wall and Floor Tiler – 150

- Quantity Surveyor – 60
- Sales Advisor – 300
- Engineer – 60
- Assistant/Site Manager – 400

The need to tackle this labour shortage is even more urgent as home builders are also under pressure to rapidly increase housing supply. In 2017/18, the industry delivered 222,190 new homes.

However, due to decades of undersupply, the Government has set the sector an ambitious target of delivering 300,000 new homes per annum by the mid-2020s. While we are determined to meet this target, it is imperative that industry has access to a broad pool of skills and talents in order to do so. ***Home building would need to recruit an average of 11,000 new people a year in its key skills shortage roles over the next six years to scale up to meet the government's housing supply objective.***

Issues and Concerns Raised

APPG Member's primary concern is about future recruitment and replacing the existing foreign workforce when it leaves. Although many EU workers settle in the UK (and make a positive contribution to the UK economy in doing so) a substantial number go back to their home countries after working here for a few years.

Members are particularly concerned that the broad focus of the white paper appears to be on supporting those defined as 'skilled workers'. The house building industry relies heavily on so-called 'unskilled workers' such as labourers and tradesmen. These are, members would argue, just as "skilled" and vital to the UK economy post-Brexit as any more degree/ technically qualified worker. This is strongly felt,

given the Government's and Opposition's goal of substantially boosting house building.

Evidence from supply chain shows that larger numbers of foreign workers are already returning home than would previously have been expected and that they are doing so earlier than would previously have been expected. Worryingly, they are not being replaced.

Because of the above, all companies are struggling to recruit and retain the workers that they need. This is more to do with general Brexit concerns and the sterling/euro exchange rate than with the immigration white paper.

However, APPG members felt that Government needs to recognise that this is the situation in which the rules proposed by the White Paper will operate. Given this outflow of labour and talent, if the building industry are to maintain the size of it's workforce needed to meet the government's housing targets members felt that it will take 15 years post-Brexit to achieve this by training UK nationals. And that will be if we start that process now. The gap to deliver the shortfall in skilled house builders therefore in the short to medium term needs to come from the UK welcoming skilled EU workers.

The removal of annual cap is broadly welcomed by APPG members as this has the potential to see a greater influx of qualified and skilled workers brought in to the country.

Some members asked that Government could assist SME House Builders by lifting or easing existing levies in place across the house building -4- sector, from materials to invisible costs, as well as direct investment. By doing so, the Government would act to reinvigorate the sector and engender a wave of house building as these unclaimed revenues are reinvested in worker wages, apprenticeships, or skills training for example.

APPG members emphasised how London is particularly dependent upon non-UK workers with around 50 per cent of the construction

workforce coming from overseas. The two regions with the next highest proportions are the East of England (16 per cent) and the East Midlands (11 per cent).

Impact of the Home Office proposals

APPG members felt that the proposals in the White Paper would have a significant detrimental impact on SME house builders, the wider construction industry (and other sectors of the economy such as health and care services).

The Home Office White Paper itself lists building services and construction among the 15 industry sectors that would be most affected by the proposed skills and salary thresholds. It also quotes data that shows that “around 40 per cent of self-employed EEA (European Economic Area) workers can be found in just three sectors – construction of buildings; specialised construction activities; and services to buildings and landscape.” The Migration Advisory Committee says that 80 per cent of construction industry migrants under the current arrangements would be prevented from entering and working in the UK under the new arrangements. Comment from industry bodies has been consistently negative.

- The Federation of Master Builders says: “The white paper states categorically that it will make no allowances for so-called low skilled workers. “This is wrong on two levels – firstly, the definition of low skilled will cover most construction tradespeople and secondly, genuinely low skilled workers, such as labourers, are essential to the safe and smooth running of any construction site. “What is particularly worrying is the government’s obsession with salary thresholds for migrant workers entering the UK. The figure of £30,000 was floated in the Migration Advisory Committee report and was met by fierce opposition from almost all sectors. It makes no sense to draw meaningless lines in the sand when we should base our immigration policy on what will make our economy strong and

productive. “12-month work visas for occupations in short supply during the transition period simply won’t cut it. Small and medium-sized construction firms, which make up 99 per cent of the industry, do not advertise for roles internationally. Also, from a migrant worker’s perspective, why go to the UK for just 12 months when they can settle in other countries for much longer and put down roots if they wish? “The government describes the construction and house building sectors as strategic and central to delivering its own aims. However, the plans set out today would make it impossible to meet the government’s house building targets and the world-class infrastructure projects we have in the pipeline will be nothing but a pipedream.”

- Mark Reynolds, who holds the skills brief on the government-sponsored Construction Leadership Council, says: “It is vital that the UK construction industry maintains access to migrant workers of all skill levels following Brexit. “From labourers to bricklayers to architects, construction relies on migrants across a range of occupations, earning a variety of salaries.” Immigration controls and the salary ‘threshold’ are not just issues for the on-site labour force. There will be detrimental impacts across the construction industry, including in the ‘professions’ upon which house builders depend.
- The Royal Institute of British Architects says: “A £30,000 salary threshold would be a disaster for the architecture sector, locking out talented international architects at the start of their career”.
- The Royal Academy of Engineering says: “Access to skilled workers is a critical issue for engineering and it is vital that businesses can hire the workers they need at all skills levels regardless of whether they meet the proposed £30,000 salary threshold. This includes technicians and teachers of STEM subjects who help inspire future engineers.”
- The Royal Institute of Chartered Surveyors says: “Data from our construction survey indicated that 8 per cent of the workforce could be lost due to Brexit, and evidence received from respondents to

RICS' quarterly construction and infrastructure market surveys regularly cites labour shortages as an issue impeding growth. "Whilst the proposed points system could allow UK access for skilled construction professionals, the £30,000 salary cap could inhibit migration of talented international property professionals who have just started their professional vocation."

With regard to the wider economy, the Government's White Paper itself concludes that:- Imposing a salary threshold and skills threshold could significantly reduce the level of long-term EEA (European Economic Area) work migration. This will have an impact on the macro-economy; meaning that GDP is likely to be lower than it would have been under free movement.

- The East Midlands would be second only to Northern Ireland with regard to the impact of a salary threshold and skills threshold.

While the Home Office proposal may make it easier for skilled labour to stay in the country it will not guarantee them work and therefore our developers question the value of the incentive to stay in UK when there is so much work available in the EU currently and other areas.

Home Office definition of Skilled

The Government has made it clear that the proposed new system will prioritise skilled migrants. For those who are highly skilled, this includes removing the cap on numbers in the existing Tier 2 route; abolishing the resident labour market test; making the sponsorship system less bureaucratic for employers; and lowering the skills threshold in Tier 2 to include occupations at the intermediate skills levels - NQF 3-5 (A Level or equivalent).

This presents a problem for the home building industry because in many cases those working in trade roles on site are unlikely to have or require qualifications at the level required for eligibility under the Tier 2 rules. Such jobs are nevertheless skilled and operational

competence and speed are essential. This is reflected in the earnings levels for the roles which for competent, qualified and experienced workers are generally above £30,000 per annum, with wage inflation significantly above the national average experienced over recent years due to an acute shortage of skilled workers to fill certain roles, such as bricklaying and site management. In the months preceding the White Paper, the Migration Advisory Committee (MAC) published its findings into EEA migration.

The Committee recommended that there should not be a dedicated migration route for workers skilled below level NQF3 (low skilled and unskilled) which the Government intends to accept. Unfortunately, this covers this majority of people working in the homebuilding trade and will have a significant impact on the industry's ability to recruit the workforce it requires.

While the White Paper's proposed transitional measure (to institute a time-limited route for temporary short-term workers to come for a maximum of 12 months, with a cooling-off period of a further 12 months) until at least 2025 is welcome, it is not clear how well this would actually meet industry needs and may not be long enough for the home building sector, particularly for SMEs, to adapt and establish an adequate workforce from indigenous recruits to deliver the housing supply the country needs.

It is also questionable how attractive that option would make the UK to migrant workers, because of the short period in which they would be able to stay in comparison with other countries and the lack of access to benefits should they not be able to work. Therefore, APPG members would like further information from the Government on how they intend to "engage extensively with business and stakeholders as part of the engagement process on the duration and cooling off periods".

If industry is to continue to increase the delivery of houses, it is vital that this engagement starts as soon as possible.

The need for early and effective engagement between the APPG for SME House Builders, the construction industry, including home builders, and the Government to discuss the Immigration White Paper proposals was one of the key conclusions of the Conference held by the Construction Leadership Council on Brexit planning on 28 January.

It was agreed that “The CLC will be convening a group to address how the industry can recruit, retain and support foreign nationals within the UK construction workforce, and engages with the consultations on the Government’s Future Skills Immigration White Paper.

The Home Office’s salary threshold

APPG members broadly welcomed the commitment in the white paper to consulting industry on the level of the salary threshold.

However, their view was that the proposed level of £30,000 per year is arbitrary and unfair and would have a detrimental impact on the construction industry for the reasons set out above.

More generally, they noted that the white paper itself estimates that:

- These long-term work proposals could reduce the UK workforce by between 200,000 and 400,000 EEA nationals over the first five years, which could mean GDP is between 0.4 per cent and 0.9 per cent lower than it otherwise would have been in 2025. This represents a reduction in GDP per capita of between 0.1 per cent and 0.2 per cent in 2025.

- There will be a cumulative fiscal cost [to the Treasury] of between £2 billion and £4 billion over the first five years (2021-2025).

- An EEA national aged around 20 with no dependents would only need to earn between £10,000 and £15,000 to provide a positive fiscal contribution [to the UK economy]. The average age of an EU immigrant to the UK is around 26 years¹⁰. Non-UK nationals in the construction industry are younger (18 per cent aged 45 years and

older) compared to UK nationals (47 per cent aged 45 years and older). See graph below.

AGE DISTRIBUTION OF THOSE WORKING IN THE CONSTRUCTION INDUSTRY BY NATIONALITY GROUPING 2014 TO 2016. Source: ONS - <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/articles/migrantlabourforcewithintheconstructionindustry/2018-06-19>

Members felt that the clear inference to be drawn from the statistics is that EU nationals in the UK construction workforce are net contributors to the UK economy.

Training and Skills

In order to meet the challenge of the housing crisis we have to ensure we have a workforce with the necessary skills to deliver the homes that are needed. This must be a priority for both Government and the housebuilding sector and has two implications:

(i) Government must ensure that necessary arrangements are in place post Brexit so that we can maintain – indeed, speed up - the pace of starts and completions.

(ii) The housebuilding sector/CITB must ensure it re-trains its existing and future workforce with design and building skills that will allow them to play an active role in the future labour market, and allow SME housebuilders to take advantage of opportunities in the expanding MMC sector.

The Government also needs to tackle the skills shortage created in this country through over-promotion of university, rather than vocational education, which has led to a dearth of similarly qualified students seeking too few jobs and at the other end a shortage of

skilled 'trades'. This also includes making this option seem attractive to people in schools, considering their future careers.

One industry member highlighted that when the Carillion academy closed in Sittingbourne in Kent, a significant proportion of the apprentices, having received little support from Government and Agencies, simply changed their chosen career and left the industry.

To enable UK workers to take up the shortfall likely to be created through tradesmen who are currently either leaving the UK or not choosing to come here, more emphasis and legislative/funding support needs to be given to housebuilders and, in particular, SME housebuilders to enable them to provide on the job training and apprenticeship opportunities. This should be linked to a vocational qualification to enable progress and betterment. It is considered that a minimum 3 year lock-in should be suggested, which could be part-funded by the Govt. This will give housebuilders certainty over ROI, as well as would-be apprentices regarding ability to grow skills over time. This should naturally be subject to certain caveats, such as ability to terminate employment should apprentices/tradesmen not meet certain standards at which point any funds not used by SME's should be returned to the Govt.

Conclusions and Recommendations

APPG members consistently agreed on what the general effect of the Home Office's White Paper would be. The Government's own immigration initiative could perversely be the reason why the Government subsequently does not hit its target for 300,000 new homes a year.

A sector based, rather than skills-based immigration system, would mean the right mix of skilled individuals would be attracted to the UK to ensure the demands of the housing industry are met – at least in the short to medium term. For the longer, or possibly even medium term, it may be necessary for the sector to move away from reliance on foreign labour, at least to the extent it relies on it now, as per the Chairman's Foreword.

The changes will choke off the supply of labour that the government is relying upon in order to meet its house building targets. Experience clearly indicates that once changes in something like immigration rules are made it is difficult to undo them. And by that time, in any event, the message will have gone out from the UK that we no longer welcome construction industry workers into the UK – and many of the companies that currently rely on such labour will have gone out of business.

APPG members recognise that issues around immigration were central to the Brexit referendum result and that it would be unrealistic for us to ask the government to simply abandon these proposals (although many felt that would be their ideal).

Instead APPG members ask the Government to:-

- To set both the skills and salary thresholds lower than are currently envisaged in the white paper. They may subsequently be increased over time once their impact has been measured but the UK construction industry cannot simply absorb the 'shock to the system' of implementing them as envisaged (even accepting that there will be some transitional period).
- To have a recognition of house builders' skills and importance to the UK economy as part of the post-Brexit immigration and visa system. This could take the form of them being classified as 'skilled', or a new sub-category focussed on construction workers. It is clear that there are concerns and that it is felt that the sector needs to be given a protected status – as has been accorded to other sectors – in new immigration arrangements post-Brexit.
- To extend the proposed 'waiver' for low-skilled workers to come to the UK to work for 12 months to (at least) 24 months, again lessening the shock to the system.
- To incorporate some allowance within the rules for overseas construction workers who are self-employed to come to the UK to work – perhaps setting some retrospective earnings threshold such that if they fail to meet a minimum target, they can be required to leave the country.
- To minimise the costs and administrative burden on employers of checking the employment and immigration status of workers. SME house builders and their supply chain are not the Border Force and should not be seen as an unpaid extension to it. Businesses should be consulted on how the new rules will work and their views should be listened to and acted upon.

For further information, please contact the Secretariat to the APPG, Andrew Cumpsty, at andrew.cumpsty@hotmail.co.uk