

Minutes of the Roundtable between housing industry leaders & Fergus Harradence, Deputy Director for Construction, BEIS

4pm, 2nd March 2021 (online meeting)

Members

Ben Everitt MP (Chair) [BE]
Gagan Mohindra MP

Guests

Fergus Harradence [FH]
APPG Secretariat
RPS Group
Stonewater
Homes for the SW
Karbon Homes
Sanctuary Group
Land Promoters & Developers Federation
Home Builders Federation
Barratt Homes
Longhurst Group
Skidmore, Owings & Merrill
Peabody

1. Opening presentation

- FH explained that about half of his time is devoted to things for which BEIS is responsible such as:
 - (a) Prompt payment
 - (b) Construction supply chain
 - (c) COVID-19
 - (d) Promoting innovation and productivity improvements in construction.
- Whilst the other half is spent liaising with those other government departments which have a role in construction policy:
 - (a) DFE – skills
 - (b) MHCLG – housing
 - (c) DFT - transport
 - (d) Treasury – funding
 - (e) IPA – infrastructure decisions
- FH screen-shared a 9-page presentation (the pdf is available), and then talked through it
- [Page 2] Construction is 9% of GDP and 9% of employment (850k) but is atypical in being composed of many small firms, and a high proportion of self-employment, and a low average skill level, and heavily dependent on unskilled labour.
- [Page 3] Problems include poor productivity (blue line), very low investment in R&D and labour intensity.
- [Page 4] COVID-19 had a massive impact. The sector was never subjected to a full lockdown and construction has continued. The sector has nearly recovered from the COVID-19 effect.
- [Page 5] The sector is currently dependent on three main types of activity:
 - i. Private housebuilding

- ii. Public sector infrastructure
- iii. Repair and improvements by homeowners
- [Page 6] Concerns include a gradual increase in number of distressed firms, and increases in the prices of materials and the lead times for deliveries (which is partly due to Brexit)
- [Page 7] Government support includes several aspects
- [Page 8] we want to move from the traditional hierarchical supply chain structure on the left, which is reliant on sub-contractors & labour intensive. We want to move to a completely different model, much more similar to how manufacturers operate. This will include more standardisation of parts, sourcing from a range of suppliers, continual improvements of components, and more resilient supply chains.
- [Page 9] The Transforming Construction Challenge has three key goals and three main components

2. Discussion

- How can we join up government activity across the many departments responsible for housing?
 - There is a growing realisation in government that individual departments cannot continue to main their own set of individual relationships with the housing industry, especially with regard to new build, if we want to make the industry more efficient (retro fit is more challenging to get efficiencies from). We need more coordination to get the change we want. Government has to agree on its messages and its priorities. The Farmer Report is a demonstration of this new spirit of co-ordination.
- Can you share details of the technology you used in your presentation which generated a script for you? That would be useful.
 - I will send details to the secretariat.
- How can we, post-Brexit, ensure that the industry has access to the labour which it needs?
 - The fears about labour shortages haven't yet had an impact on large construction projects, but there is a risk that many of the migrant workers who left during the lockdown will not return to the UK. Skills initiatives such as boot-camps have helped us retain apprentices, but we face risks of shortages in certain areas like plumbing and joinery. MMC will solve these issues in the longer term.
- For MMC to work, factories will need a regular supply of orders because they have high fixed costs. The planning system is currently driven by demand (from customers) and supply (of land) and naturally has a highly fluctuating nature ("boom and bust"). The planning white paper will improve this, by putting the democratic decisions at the front of the planning process but the UK's planning system will prevent MMC becoming the default by 2030 because it will not allow the regularity of orders that a factory-based approach requires. The factories you envisage would be at the mercy of a slump in building. Perhaps we would need MHCLG to step in and level demand by providing social housing orders when market demand was low.
 - I accept the comments. Access to land is the key to this. Putting in place a five-year pipeline of land availability is the key requirement for our MMC goals. L&G has managed to achieve this pipeline, but most other developers are struggling to get land. We do need to reform planning, but also promote the advantages of MMC. This is not about bringing back post-war prefabs. MMC gives customers the

opportunities of customisability and choice. The Skanska-IKEA Boklok JV in Bristol is a good example of how MMC can work for everyone.

- MMC might become a red-herring outside of cities and big towns. MMC will not have the flexibility that you hope because of the nature of the housing market and the timescales involved. Will consumers really get the choice to design their units, or will these decisions be taken by the developer? The developer has to take these decisions quite early, and cannot wait for the units to be sold before the design decisions are taken. How many factories would be required, and how many vehicle movements to transport the sections? I don't think its realistic to talk about MMC becoming the default in suburban areas. Consumer demand drives housing and I don't see consumers wanting it. The idea that we can plan ahead ten years is unrealistic. MMC will work for urban regeneration but its implementation outside of this is limited.
 - MMC technology is getting more flexible, it will become more accessible to SME builders, and it will also become more attractive to house buyers because of the customisable nature. Japan is 30 years ahead of us, and they absolutely do offer homebuyers design choices. We need to catch up and it will take time, but the technology will evolve.
- Who will fund the investment towards the model you suggest? Regional developers are working on tight margins. Who will move first? There is a lot of risk in moving to a new process.
 - Public sector clients will need to accept that the margins of construction firms will have to increase from 2% to 5 or 6%, in order to fund the new investment required. At the moment, the bidding processes encourage low-ball bids in order to win the project. Builders then save money by squeezing their supply chains. This culture benefits no one. There is also too much wastage of materials (up to 30%), and too much subcontracting which causes overhead, as well as co-ordination problems, which causes defects and the expense of rework (about 20% of total costs). We need the efficiency gains in construction that we have found in other industries.
- Is it time to shorten the four-year apprenticeship program? A compressed program would generate more interest from both sides.
 - We are looking at this, we need to train more people more quickly. Boot camps etc.
- Delays on site are often caused by the planning process (getting permissions) or the bureaucracy of the utility companies. MMC will not necessarily remove these delays.
 - BEIS is doing some work with the water companies to encourage the slow ones to raise their games.

BE thanked FH for his time. FH thanked the APPG for the invite and offered to come back later in the year to report further progress.

The meeting ended at 4:57pm