Back to Work- The Construction Industry's Proposals for the Future of the Coronavirus Job Retention Scheme.

Executive Summary

The Construction Leadership Council (CLC) has convened a sub-group to consider how the industry can return their staff to work after a period of furlough in a way that does not lead to mass redundancies or the contraction of the industry's skills base.

The effect of the Covid-19 lockdown has been significant for the construction industry with activity falling at the fastest recorded rate. This has led to a collapse of the private sector and the slowdown of the public sector to the point where more than 50% of the industry has seen work dry up. As a result, 84% of the industry has utilised the Job Retention Scheme to furlough staff for multiple months.

The government faces an employment cliff edge in July if it does not introduce some form of support scheme for a defined period that allows for work volumes to rise and business to plan with greater confidence. As such a degree of continuing governmental intervention in the market is needed for some time. Although we recognise that redundancies may be unavoidable, we feel that the government does have a role in stabilising the jobs market in the short to medium term until such time as it lifts the restrictions to commerce and private life.

The paper makes the following recommendations for Government:

1. <u>Implement a work support scheme</u> from the end of June to replace the existing furlough scheme, focused on providing wage support whilst the workload picks up during the second half of the year, the main principles of which are as follows: -
    - Employees can work, undertaken training and still wage support scheme;
    - The scheme is phased out gradually over the last 6 months of 2020 to facilitate business paying employees full wages (for example up to 60% salary in July – August, up to 40% salary Sept – Oct and up to 20% Nov – Dec);
    - The £2500 limit on the total grant per employee should be maintained and available to all employees who require it - there is anecdotal evidence that it could influence employment decisions on employees earning as much as £100k;
    - Full eligibility criteria and process should be determined by Government. We feel, however, that there should be an eligibility requirement for employers to conduct an assessment of whether a role is likely to have sufficient work by the end of 2020 to be sustainable without Government support. This would avoid unscrupulous claims and facilitate restructuring of businesses where necessary for a sustainable future;
    - The work support scheme should be open to all PAYE employees and apprentices.
2. <u>Provide support to vulnerable groups</u>. There is a recognition from employers that there will need to be continued support for those employees in the extremely vulnerable category, including those shielding or with caring responsibilities. This should be considered in the design of the work support scheme or with an extension of the furlough scheme specifically for them.

The paper makes the following recommendations for Industry:

1. <u>Establish a talent retention scheme for construction,</u> recognising that different parts of the sector will recover to full operations at different rates and so to safeguard the loss of talent from the sector we suggest the industry establishes a Talent Retention Scheme based on the

aerospace talent retention scheme. This will provide an online portal and support service with the following aims: -

- To advertise and facilitate loans of teams or individuals between businesses to support continued employment
- Provide a portal for individuals to allow those facing redundancy to access jobs within the industry and post their skill sets for prospective employers

Impacts

Covid-19 has triggered the largest financial collapse in the UK since Black Monday in 1987 and the deepest global recession in peacetime. Service sector output, manufacturing and construction projects have all slipped into reverse, with the monthly purchasing managers index (PMI) barometer falling by the biggest margin since records began more than two decades ago.

This has had profound implications for the UK construction industry which accounts for 9% of UK GDP, 10% of the workforce, and comprises 13% of UK businesses. A quarter of construction industries output is in the public sector with three quarters in the private sector; 60% is focused on new build and 40% on refurbishment and maintenance. Only 15% of the industry is involved in infrastructure with the rest covering commercial, social and residential markets.[1]

2020 started off well with the IHX Markit purchasing managers' index for UK construction seeing consecutive rises in January and February to a high of 52.6 as uncertainty around the UK's long-term economic position following our departure from the European Union began to dissipate.[2] Since March UK construction activity has declined at the fastest pace since the financial crisis as many builders and end-user clients halted work and cut jobs as coronavirus hit the economy. The IHS index dropped to 39.3 that month marking the lowest reading in more than 10 years, but it has continued to fall reaching a new record low of 12.9 in April. This fall in the index is driven by the fact that a majority of businesses in the construction sector are reporting declining activity at a considerable rate. Scores of this magnitude indicate that economic activity has fallen much faster than it did during the financial crisis.[3]

Data shows that currently three-quarters or housing schemes are on hold and there are £68 billion worth of delays to construction projects all of which is having a profound effect on the industry.

The Government's job retention scheme (JRS) appears to be successfully limiting large rises in unemployment, but only a relatively low number of workers have been registered for the scheme so far. The economic shock has not hit all sectors evenly: those relying on face-to-face contact or private sector work are more likely to have reduced activity and to be seeking to make use of government support schemes. The true value of the scheme to both the industry and the country has been that it has prevented large scale redundancies that would have occurred but for the assistance provided by the government. Should this end too soon then a wave of redundancies will rock the industry.

To determine the true effect of the shut down on the UK construction sector CLC has surveyed the industry to ascertain the degree to which the industry has responded to government support.

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[1] https://www.gov.uk/government/publications/construction-sector-deal/construction-sector-deal
[2] https://ihsmarkit.com/products/pmi.html
[3] https://www.resolutionfoundation.org/publications/the-economic-effects-of-coronavirus-in-the-uk/

CLC survey key findings are:

- ***Over 50% of respondents have seen work stopped during this period;***
- ***84% of respondents have accessed the JRS;***
- ***48% are furloughing more than 50% of their staff for multiple months;***
- ***80% of respondents stated that lack of work was the biggest barrier to unfurloughing staff;***
- ***84% stated that staff concerns about their personal safety was a barrier to returning to work.***

Furlough Use Across Industry

The economic impact of the lockdown has not affected all sections of the industry equally as some parts have been able to continue to operate in lockdown while others have had to shut down most or all of their work streams.

Our industry survey shows that on average

- ***Contractors*** have furlough > 60% of their staff but SME's have furlough > 90-100%;
- ***Manufacturers*** have also furloughed > 60% of their staff;
- ***Consultants*** have been able to continue to operate and have furloughed < 20% of staff but SME's have been harder hit with most furloughing >70% of staff;
- ***Suppliers and Merchants*** have been the hardest hit with respondents stating > 90% of staff are furloughed;
- ***Property Developers*** sit in the middle with respondents stating > 40% staff have been furloughed.

Enablers for a Return to Work

The primary reason why survey respondents have embraced the JRS is that it has allowed firms to delay the consideration of staff redundancies due to the collapse of work volumes. For staff to return to work there needs to be a corresponding upturn in commercial activity. As 75% of the industry is focused on the private sector this will require considerable market confidence to be achieved.

Clients must commission work at a volume that can allow businesses to invest with confidence in the supply chain. As the private sector currently lacks the confidence to invest this means that the public sector will have to be the one that carries the industry's capacity for the short term. This will require public sector clients to bring forward work projects to generate income streams for the industry. The Infrastructure pipeline and Construction Sector Deal provide the vehicles for this to take place.

In addition to large new-build projects, the construction industry also plays a crucial role in servicing, maintaining and upgrading existing assets for commercial, industrial and domestic clients. Our survey has confirmed respondents' view that a full return to work will take longer to achieve here than on construction sites and will depend on a wider restoration of economic activity and customer confidence that adequate safeguards are in place to protect against infection.

The recommendations below should not be seen as a standalone but sit beside the CLC Construction Industry Recovery Plan and are designed to support and enable that plan.

Once work is assured for furloughed workers to return to, the workers themselves must be able to return to work safely and easily which will require a series of enablers to be adopted.

Governmental Enablers

- Childcare will need to be addressed as families will need to be confident that their children will be provided for before they return to work. This will mean schools and day care services reopening before the furlough scheme comes to an end;
- Public transport will need to enable more people to travel safely between home and work;
- There is a need for the HSE to maintain temporary relaxations on extended home working without full DSE provision if staff are to return to work;
- There should be a relaxation on stamp duty to encourage purchases;
- There should be an automatic HMRC PAYE deferral for 3 months;
- Alongside relaxing Tax and VAT payments further into the financial year with payment plans agreed with both parties;
- Government should ensure a maximum of 30 days payment for all works;
- Changes to the redundancy consultation arrangements for larger businesses should be brought in;

Commercial Enablers

- Offices and sites will need to be able to be accessed safely and easily by staff. Very clear H&S / PPE requirements (and availability) must be introduced with available testing for the workforce;
- Clients/ main contractors/ major contractors should release retention money;
- There should be more use of shift working on sites to overcome (some) social distancing constraints and alleviate pressure on roads and public transport.
- Supply chain employers should be fully reimbursed by clients/ main contractors/ major contractors for any additional wage costs incurred as a consequence of the introduction of shifts.
- If social distancing and other restrictions are still in place for some time, completion dates must be lengthened, with no costs for overrunning contracts or penalties;
- End-user clients, including domestic householders, should receive clear, consistent and regular reassurance that adequate safeguards are in place to ensure their and others' safety from infection.

Flexible Work Support Scheme

The government faces an employment cliff edge in July if it does not introduce some form of support scheme for a period that allows for work volumes to rise and business to plan with greater confidence.

To counter this, we are recommending that a new Work Support Scheme (WSS) should be introduced to replace the JRS from the end of June focused on providing employee wage support whilst the workload picks up during the second half of the year. This would provide employers with the option to reduce the pay of employees for a short period to avoid redundancies where work volumes remain temporarily unpredictable and/or depressed. Any gap in income would be made up by the government so long as the full cost of the employee's national insurance costs and PAYE were paid by the employer. Should the employee find themselves working a reduced week then they could fill this time with training and/or voluntary work.

The scheme would

- Allow employees to work, undertake training and still receive the top up from the wage support scheme;

- The scheme would be phased out gradually over the last 6 months of 2020 to facilitate business paying employees full wages (for example up to 60% salary in July – August, up to 40% salary Sept – Oct and up to 20% Nov – Dec);
- The £2500 limit on the total grant per employee up should be maintained and should be applicable to all employees who require it as there is anecdotal evidence that it could influence employment decisions on employees earning as much as £100k;
- Full eligibility criteria and process should be determined by Government. We feel, however, that there should be an eligibility requirement for employers to conduct an assessment of whether there is likely to be sufficient work for the role by the end of 2020. This would avoid unscrupulous claims and facilitate restricting of businesses where necessary for a sustainable future;
- The work support scheme should be open to all PAYE employees and apprentices.

The industry is concerned that continual governmental support for wages has the potential to paralyse the industry and prevent it reforming and restructuring itself but is aware that without some short-term support the industry faces large scale redundancies. Our recommendation is based on our recognition that there will be reduced productivity on sites, in factories, and for suppliers and merchants for the duration of social distancing needs and so some form of income support for those who will earn lower wages for a prolonged period will be needed. This scheme would support that and retain employment once social distancing is lifted.

Talent Retention Scheme

Balancing supply and demand in construction can be difficult in normal times but it will be much harder in the coming months and years. To maximise the value of the talent within the industry we recommend the establish a talent retention scheme within construction and across other engineering sectors such as oil and gas, aerospace. We recognise that different parts of the sector will recover to full operations at different rates and so to safeguard the loss of talent from the sector we suggest the establishment of a Talent Retention Scheme based on the aerospace talent retention scheme.

The CTRS will be an industry-led not-for- profit programme that will help to facilitate that collaboration. Its aim would be to limit redundancies across sectors by assisting with talent transfers both within companies and the wider industry. The scheme will provide an online portal and support service with the following aims: -

- To advertise and facilitate loans of teams or individuals between businesses to support continued employment
- Provide a portal for individuals to allow those facing redundancy to access jobs within the industry and post their skill sets for prospective employers

Return to Work

The period of time when a staff member returns to work after having been furloughed under the JRS is a sensitive time for both them and their employer. We would recommend that the CLC issues an HR guidance note to help employers deal with their staff in the fairest way possible. We have looked at this issue and feel that the following should be taken into account by the CLC in the drafting of that note.

To assist staff on their return to work employers must have a formal and detailed approach to the process they will use to re-integrate staff back into their business.

Appendix A- Case Studies

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A Midlands based structural and civil engineering SME firm employing 40 people operating in the public and private fields. The firms found that the bulk of its work stopped in March forcing them to consider redundancies of staff. They did not have to do this in the end as JRS provided a better alternative for the company.

As a result, they have placed 30% of staff on furlough in April but have been forced to increase this to 70% in May due to the further contracting of their work pipeline. To show support for their staff they are toping up the salary of staff on furlough to 100%.

Looking ahead they have seen the complete stoppage of private sector work and do not see this coming back online anytime soon and so are reliant on public sector work to survive. They are, therefore, forced to contemplate large scale redundancies in July if there is no further support provide by the gov't. They would prefer a flexible support scheme that would allow them to keep on staff in the short term.

Cundall

A large multinational multi-disciplinary engineering firm with over 500 staff in the UK. They have been faced with a huge degree of uncertainty over the business with an uneven contraction of work depending on the projects involved. They have been particularly affected by the closure of UK construction sites.

This has led them to furlough 20% of their workforce for the whole period of April-30 June. Staff are a mixture of technical staff and business support staff who have both faced a work stoppage due to shut down. These are not staff who are able to effectively work from home. They have decided not to top up staff salaries at this time but have encouraged staff to access training.

Although the bulk of furloughed staff have been furloughed for the entire period a small part has been furloughed for three-week periods depending on flow of work. As project work has begun to creep up, they have begun to bring staff back to work earlier than anticipated and hope to continue this going forward. Should support not continue after 30 June, they envisage a redundancy programme that will be affected by work flows at that date.

Hankinson Group

Hankinson Painting Group is a National Painting and Property Maintenance Contractor providing a wide range of services from commercial painting to industrial painting, to a broad range of sectors across both the public and private sector.

The immediate impact of the lockdown was almost a complete stop across all sectors as clients assessed the situation. This led to the immediate furloughing of 75% of the site delivery team and 50% of the office-based team. The only exception was the team involved in delivering critical healthcare projects.

There was an immediate lack of visibility on other workload and no idea when that situation might change. An exception was with their relationship with Highways England.

Hankinson have framework contracts direct with Highways England in four areas of the strategic road network. They quickly adopted to maintaining as close to a business as usual approach whilst operating within the guidance issued by Public Health England and the Site operating Procedures (SOP).

Key worker letters were issued to allow movement of our key staff. They looked at delivering planned schemes as well as accelerating schemes that were planned for later in the year. Regular communication was issued by the client which was exceptionally useful and comforting. A collaborative approach was taken to sharing information and best practice amongst the supply chain.

This commitment allowed Hankinson to retain the site-based team on this contract and also start the process of both un-furloughing the site delivery team and look at future recruitment. The site-based team are keen to return and are confident that the Company and its client are giving their personal safety the highest importance.

Barratt Homes

Barratt is one of the UK largest house builders employing 6,500 people across the UK. The company, like all Housebuilders, has been hit hard by the implications of the Covid-19 lockdown and the closure of sites.

As a result of this, Barratt has announced that it has furloughed roughly 85% of its employees while its, offices, sites and sales centres are closed. This mirrors the shut downs in other companies in the sector like Taylor Wimpey, Countryside and Crest Nicholson. The company has stated it will not be reducing salaries of staff at present but will ensure furloughed staff continue to be paid 100% of their wages.

In mid-May Barratt will start a phased return to sales and construction activities on site, operating strict social distancing protocols. Sales Offices cannot open to the public as housebuilders' sales activities are not deemed to be essential under lockdown rules. However, Sales Advisers will operate in a safe environment and support remote selling, with the assistance of technology, including home video tours. A return to a "normal" level of sales will be vital to increasing construction activity back to pre-COVID-19 levels.

The Brick Development Association

The Brick Development Association whose members produce 80% of the UK's bricks has announced that manufacturers are closing their facilities as part of the coronavirus lockdown. Not seen as essential services by the government, the manufacturers were left with no option but to close their sites with a corresponding effect on construction sites.

As a result, the bulk have chosen to furlough their staff for the duration of the lockdown until such time as they can again re-open their plants. Staff are broadly on 80% of their wages with no top up provided by employers. The BDA sites that there will need to be notable upturn in the market before members can afford to return to work.

Although there is currently are 400 million brick in stock, the construction industry will face a problem in the medium term if there is an upturn in work before the brick manufacturers are able to return production to full levels.

GKR Scaffolding

GKR Scaffolding operate predominantly in London and the South East providing scaffolding solutions on larger and complex construction projects. Due to the industry's inconsistent approach in the immediate aftermath of the government announcement, GKR stood down all of its staff in order to ensure safety processes could be implemented on the sites they operate on.

As the construction sites temporarily closed, GKR furloughed 80% of its workforce which included all site operatives and site management. Half of furloughed workers are now back to work as sites have opened under new Site Operating Procedures. However, under these procedures and limits on capacity, each project will now only allow smaller teams on site meaning a proportion of each team cannot go back to work for potentially the duration that social distancing measures will be in place. Additionally, future pipeline is at risk with a number of significant schemes being put on hold.

GKR are in a position where although staff are on furlough, it is uncertain as to whether there will be jobs available for all previously employed staff in the short to medium term. GKR is concerned that the hidden costs of carrying staff on furlough such as holiday pay will be detrimental the longer we carry staff without jobs to release them into.

ECA

ECA is the UK's leading trade and employer association representing the electrotechnical and engineering services sector. It has over 2600-member firms, ranging from major contractors to SMEs and microbusinesses.

ECA members operate across a wide range of markets, including repair and maintenance, facilities management and domestic work, as well as new-build construction. As such, the precise impact of the pandemic tends to vary from firm to firm, although overall ECA members have reported relatively high usage of furlough, especially for their hourly-paid operatives (typically between 50% and 60% of whom have been furloughed at some point). Topping up wages above the 80% cap tends to be the exception more than the rule.

As more construction sites start to reopen, ECA members expect the proportion of employees still on furlough to diminish, although it is feared that commercial constraints and ongoing issues with social distancing, transport and overnight accommodation may slow this process of returning to work down. Owners and occupiers of existing buildings are proving less able or willing to let electricians and other trades back in, especially in the domestic market – suggesting that any recovery here is likely to be less certain and much more drawn out.

The UK electrotechnical sector has an especially strong tradition of apprenticeship training, with typically around 6,000 new apprenticeship starts every year. ECA survey results indicate a continued commitment to apprenticeships among employers but concerns about existing apprentices' continuity of employment and ability to progress, and the feasibility of recruiting the next cohort of apprentices in the usual way, in summer/ early autumn this year.