

# Platform seminar: Undeclared work in the construction sector

Bratislava, Slovakia (Hybrid), 16 May 2023

## EXECUTIVE SUMMARY

This Platform seminar provided an opportunity for stakeholders to exchange good practices and to address issues related to undeclared work in the construction sector with a particular focus on the repair, maintenance, and improvement (RMI) sector. The hybrid seminar brought together 63 participants from among the Platform members, observers, invited experts and ELA representatives.

### Introduction to the theme of the seminar

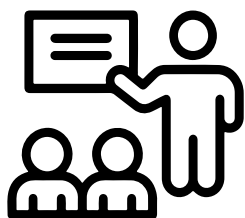


ELA representatives welcomed participants and took the opportunity to encourage and promote active collaboration between national authorities in carrying out concerted and joint inspections (CJIs), including targeted cross-border inspections.

ELA also presented a report on the construction sector, covering information provision, labour mobility laws, social security coordination, and member-state cooperation. The report includes input from Member States, national agencies, and social partner organisations and addresses the information needs of workers, fraud prevention, labour shortages, and language barriers. The report will be published in June 2023, and a launch event is scheduled for September 2023.

The thematic expert from the Central European Labour Studies Institute (CELSI) outlined how the objective of the seminar was to explore and share existing knowledge and practices dealing with tackling undeclared work in the construction sector, with a particular focus upon the RMI sector, and presented the main inputs of the discussion paper. The expert focused on the challenges in measuring undeclared work and identified various types of undeclared work, including underpayment, and undeclared work in supply chains. It was stressed that only by understanding the drivers of undeclared work is it possible to effectively tackle it. He concluded by emphasising the need to learn from national experiences to develop effective approaches and practices to address undeclared work in these sectors.

## Parallel workshop I: Tackling the demand for undeclared work in the construction sector, including repair, maintenance, and improvement (RMI)



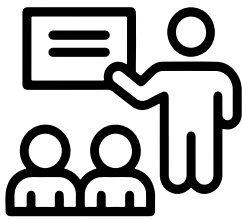
An academic expert introduced the rationales for purchasing Undeclared Work in the European Union and two participants from Member States presented different strategies implemented to address undeclared work in the construction and the RMI sectors.

- ▶ The introductory presentation examined the motivations and characteristics of consumers who purchase undeclared home renovation and repair services in the European Union. Based on a Eurobarometer survey conducted in 2019, the study revealed that price is not always the primary driver for choosing undeclared work, but rather also the lack of availability, quality and reliability of declared providers and social/redistributive reasons. Demand-side measures such as tax deductions, incentives, and consumer education were recommended to address the issue effectively. Two country specific initiatives were then presented.
- ▶ **Sweden:** The presentation focused on the Swedish practice of tax deductions for consumers in the Repairs, Conversion, Extension (ROT) and Cleaning, Maintenance and Laundry (RUT) sectors as a means to tackle undeclared work. These systems, by offering deductions on labour costs, reduce price differences between declared and undeclared work and encourage a change in public attitudes. The Swedish Tax Agency plays a vital role in identifying rogue businesses and ensuring transparency, while the deductions have created new jobs and have had a positive impact on curbing undeclared work.
- ▶ **Finland:** The presentation focused on the tax credit for household services, aiming to promote employment, combat the grey economy, and encourage declared RMI work in Finland. The system, implemented in 2001, allows individuals to claim credits for various purposes such as home repair, improvement, and renovations, as well as household work and care services. The tax credit serves as a tool to gather information on companies, but its exact impact on employment support remains uncertain, and discussions for system improvements are ongoing.

Participants raised questions seeking clarification on whether workers involved in renovation projects need to be notified to receive benefits and tax deductions in Sweden. They also inquired about the Swedish government's involvement in supporting the environment and energy efficiency in the services sector and whether the work for these installations is checked for proper declaration in Sweden.

Sweden mentioned that incentives for renovating houses to increase energy efficiency, such as deductions for solar panel installation and car charger installation, have been successful. Customers appreciate the immediate deduction upon payment. Additionally, Sweden explained that they follow a similar process but do not conduct daily checks unless there are suspicions. The key difference is that the deductions for environmental initiatives apply to both labour and materials, whereas other deductions are solely for labour.

## Parallel workshop I: Tackling the demand for undeclared work in the construction sector, including repair, maintenance, and improvement (RMI) – continued



During the debate, participants were invited to share their experiences, challenges, and initiatives in tackling undeclared work in the construction and RMI sectors from their respective countries. Points included:

- ▶ Challenges in tackling undeclared work, such as the lack of coordination at the policy level, high competition between employers, lack of information about where undeclared work is happening, and the challenges of conducting inspections in private households. The overlaps between RMI and personal and household services and the need for better collaboration between the tax administration and social inspectors were also mentioned.
- ▶ Different experiences and initiatives were shared by different countries. Examples included the service voucher system in Belgium, how Cyprus tackles undeclared work, shared responsibility measures in Slovakia, and the electronic working time registers and minimum wage agreements in Latvia. The importance of inspections and cooperation between controlling institutions and tax authorities was emphasised.

Successful practices from the construction sector that can be applied to the RMI sector mentioned included tax incentives, the Estonian register, and others.

## Parallel workshop II: Tackling the supply of undeclared work in the construction sector, including RMI



An academic expert discussed a field study conducted in Romania on undeclared work in the construction industry and two participants from two Member States presented valuable insights on combating undeclared work in the construction sector in their respective countries. These presentations shed light on the prevalence and perception of undeclared work, addressed labour issues and enforcement of regulations, and drew lessons from previous experiences.

- ▶ **Romania:** The presentation provided an overview of a field study conducted in Romania to examine the prevalence and perception of undeclared work in the construction industry. The study was prepared for FGS FAMILIA and produced by the collaborative efforts of the Federation of Construction Society Employers (FPSC) and the Norwegian United Federation of Trade Unions (Fellesforbundet). The study gathered data through in-depth interviews, focus groups, and surveys from over 600 companies and 1,020 employees. The findings revealed that both employers and workers believe that a significant portion of the workforce engages in undeclared work, although there were differing views on what constituted undeclared work. The study stressed the importance of policies changing social norms and bolstering trust in peers to act compliantly, as it found that often people engage in undeclared work because they know other people doing so.

## Parallel workshop II: Tackling the supply of undeclared work in the construction sector, including RMI - continued



- ▶ **Netherlands:** The presentation focused on tackling undeclared work and enforcing minimum wage regulations in the construction industry in the Netherlands. It emphasised the importance of reporting undeclared work, highlighted the chain liability under the National Employment Act, and discussed practical inspection challenges. The presentation also addressed the rules and procedures for inspections, including the need for owner permission to enter houses and the option to involve the Assistant District Attorney. This process typically takes around 10 to 15 minutes.
- ▶ **France:** Drawing from the lessons learned from the 2012 London Olympic Games, the presentation addressed the practices adopted in Paris to avoid (as much as possible) undeclared work in the construction sites set up for the 2024 Olympic Games. The presentation focused on preventative practices, the cooperation between stakeholders and the crucial involvement of the social partners. The challenges of 39 construction projects were addressed, promoting compliance, labour communication, and equipping project owners with tools to do so. Labour inspection interventions ensured site compliance, combating illegal practices.

Questions from participants sought clarification on the share of inspections performed in the RMI sector in private homes in the Netherlands. The Netherlands participants explained that the frequency depends on the workload. They mentioned that once a week, inspectors would drive around and observe ongoing restoration work in private homes.

During the discussions, participants were invited to share ideas and experiences about the challenges and issues related to labour inspections and undeclared work in various countries. These included:

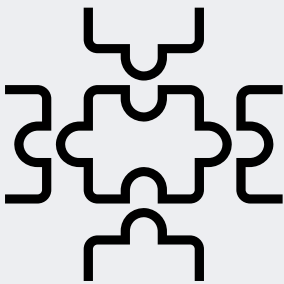
- ▶ Challenges of inspection in private houses and the effectiveness of inspections in combating undeclared work. The lack of precise data on the frequency of inspections in the construction sector in private homes was acknowledged. Participants shared personal experiences indicating that many private homeowners are unaware of the regulations and often employ uncertified contractors. The Netherlands explained that homeowners are responsible for ensuring that the workers are not engaged in undeclared work and, if so, they can be fined.
- ▶ Issues regarding undeclared work involving workers from third countries, such as Georgia, and the difficulty of verifying their legal status in countries like Poland. The importance of providing information campaigns to educate homeowners about their obligations and the consequences of hiring illegal workers was emphasised.

## Social partner perspectives on tackling undeclared work in the construction sector



The participant from the European Construction Industry Federation (FIEC) highlighted joint projects with the European Federation of Building and Woodworkers (EFBWW) and addressed the issue of undeclared work in the construction sector from the social partners' perspective. The presentation highlighted the importance of awareness campaigns, training, inspections, and best practice guidelines. The emphasis was on involving social partners, strengthening labour inspections, and promoting fair competition and social protection to eradicate undeclared work in the industry. The importance of social ID cards was also stressed to tackle undeclared work.

## Member State policy approaches and practices to tackling undeclared work in the construction sector, including repair, maintenance, and improvement (RMI)



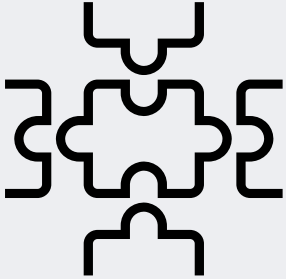
As an introduction to this session, an interactive exercise using Slido was conducted, consisting of two questions posed to the participants:

- ▶ The first question addressed the frequency of undeclared work in the RMI sector compared to the wider construction sector. Participants expressed that dealing with undeclared work in the RMI sector can be equally challenging or even more challenging than in the commercial construction sector. It was noted that RMI activities remain in a grey area, demanding greater attention.
- ▶ The second question focused on how difficult it is to tackle undeclared work in the RMI sector compared to the wider construction sector. Participants emphasised that it is equally or even more difficult to tackle undeclared work in the RMI sector, with accessing private residences being a particularly significant obstacle.

Four participants presented examples of Member States' approaches and practices to tackling undeclared work in the construction and RMI sectors.

- ▶ **Romania:** The presentation focused on the efforts of the Builders Social House in Romania to combat undeclared work in the construction industry. They promote social protection for employees through paying declared workers welfare benefits in the winter months when they are not working, providing vocational training, lobbying for favourable legislation, and running awareness campaigns. The presentation also introduced a project called IDCARS, which aims to tackle undeclared work through a non-discriminatory system funded by grants and developed by social partners.

## Member State policy approaches and practices to tackling undeclared work in the construction sector, including repair, maintenance, and improvement (RMI) - continued



- ▶ **Denmark:** The presentation discussed the Danish labour authority's ability to inspect private households, emphasizing their access to all workplaces. They rely on a notification system for foreign service providers and conduct proactive visits to areas with construction work. The presentation highlighted the importance of proper notification and shared statistics on inspection efforts against social dumping.
- ▶ **Italy:** The presentation discussed the powers of labour inspectors and their limitations in Italy, especially in accessing private homes. The presentation focused on the 2020 decision of the Court of Brindisi excluding places of private residence from the powers of labour inspectorates and on the 2022 decision of the Court of Appeal of Lecce which overturned such a ruling. The presentation also raised concerns about the challenges posed by remote work and the blurred boundaries between workplaces and private residences. Regarding the issue of entering to private residence, it was noted that inspection access is not prohibited if there is a founded suspicion of infringement of the law.
- ▶ **Cyprus:** The presentation focused on tackling undeclared work in the construction sector through law amendments, inspection practices and method, and collaborations. The Cyprus labour inspectorate conducts over 6,000 inspections annually, applying a legal presumption-based progressive penalty system on employers engaged in undeclared work. Challenges remain due to illegal workers, under-declared salaries, and the elusive nature of eradicating undeclared work entirely.

ELA and CELSI concluded the seminar by summarising key learning from the meeting. The construction sector is facing labour shortages and major shifts due to green and digital transitions, while also experiencing an increase in undeclared work. The challenges include non-compliance with working conditions, fraudulent practices, and low awareness of workers' rights. A holistic approach including preventive and deterrence measures, policy measures aimed at changing the social norms, policy coordination, capacity building, and stakeholder involvement are deemed essential to address these issues. Collaborative efforts, such as co-ordination between enforcement authorities and social partners, along with effective measures such as social ID cards and collective agreements, and single integrated national websites were highlighted as successful approaches that can multiply the impact in tackling Undeclared work in both construction and RMI sectors. ELA encourages further exchange of best practices and emphasises the importance of nuanced and well-designed measures.

**Further information:** The Seminar was an integral part of a larger mutual learning process among Platform members and observers and provided opportunities for exchange and collaboration. The information from the event will be fed into a Learning Resource Paper.