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A spotlight on

The impact of Brexit

Threats and opportunities for the UK construction industry

Following a referendum across the United Kingdom (UK) in June 2016, in which 51.9% voted in favour of leaving the European Union (EU), the Government notified the EU of the country's intention to withdraw on 29th March 2017. This started the Brexit and withdrawal process. Transitional arrangements began when UK membership of the EU ended on 31st January 2020, and these are due to end on 31st December 2020.

Negotiations have recently stalled, and the Government has suggested that preparations for a "no-deal" are made. Regardless of whether an agreement is reached with the EU, it is expected that free movement of workers will end and border checks will be required, both of which will have implications for the construction industry.

If "no-deal" Brexit occurs, the current no-tariff position for importing materials from the EU would end, and the UK Global Tariff (UKGT) would apply, which would increase the cost of materials. It is also considered that a "no-deal" position would weaken Sterling compared to other currencies, which could also increase construction costs and cause uncertainty.

However, there is optimism that in the longer-term there are opportunities for the construction industry from the UK leaving the EU. For example, increased use of modern methods of construction (MMC) and technology, driving efficiency and modernisation.

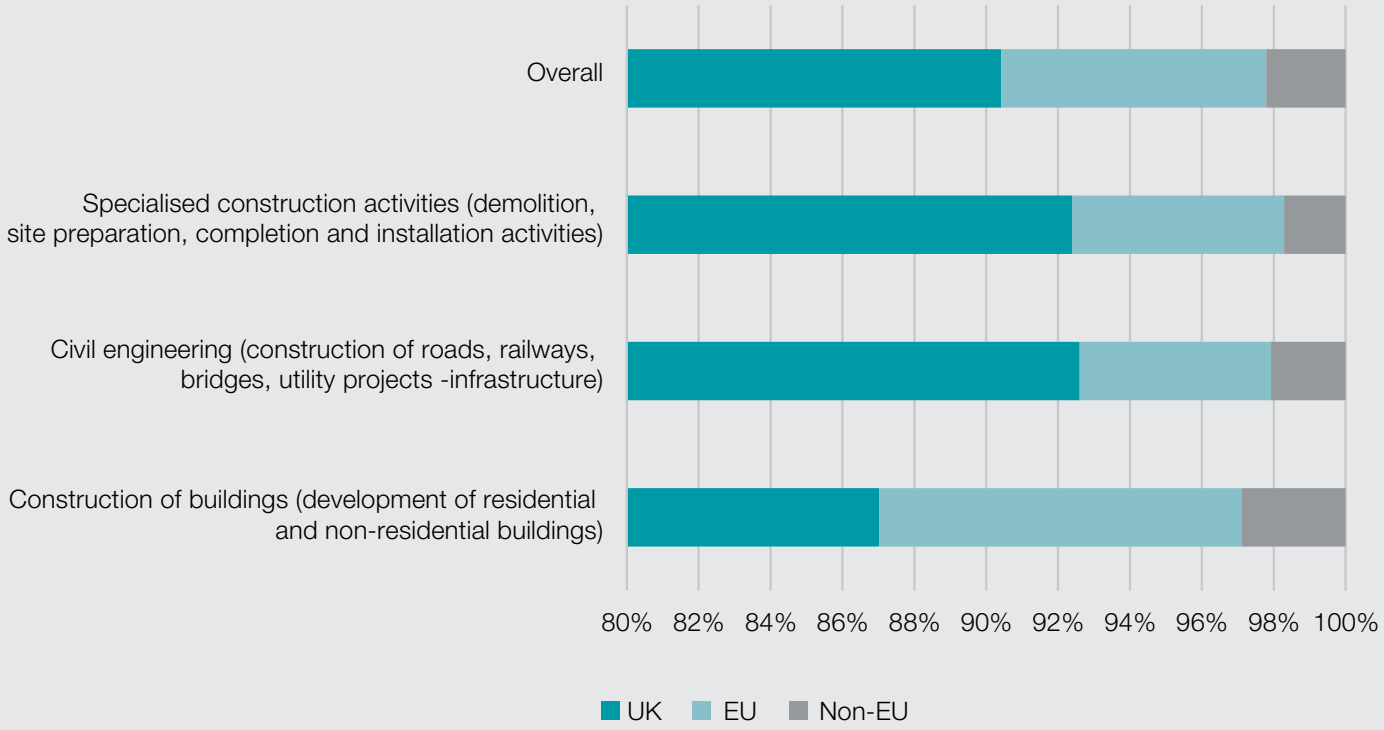
The recent challenges from the COVID-19 pandemic have shown that the construction industry is resilient, and it is hoped that this resilience will continue, in order to face the challenges brought about by the UK leaving the EU.

Impact on labour

Data from the Office for National Statistics (ONS) shows that an estimated 7% of the UK's total construction workforce and 28% of construction workers in London are EU nationals.

There is concern that the end of free movement and the development of the new migration regime (points-based system with a salary threshold) could heavily impact construction, particularly as there has been a fall in migration from the EU since the referendum. ONS estimates indicate that EU net migration has declined from peak levels of over 200,000 in 2015 and early 2016 to 58,000 in the year ending March 2020.

UK's construction workforce by sub-sector and nationality 2014 - 2016



Source: ONS Annual Population Survey (APS)

Impact on projects

- Reduction in numbers of EU workers may increase labour costs – due to the industry's long-term skills shortage, there is high demand and fewer new workers; this may lead to increased wages, particularly in areas where EU workers make up a larger proportion of the workforce
- There may be cost spikes to packages if there is particular demand for a trade for which there is a labour shortage; coming out of the last recession, there were anecdotal reports of sites competing for bricklayers and paying increasing day rates to attract resource
- Due to COVID-19, the impact on the industry may be lessened as some of the workforce who have been laid off are yet to be re-employed.

Mitigation strategies

- Consider the use of MMC to reduce onsite labour requirements / improve site efficiency
- Increase funding and marketing for construction related courses and apprenticeships to attract new talent to the industry.

Importing construction materials

Tariffs

The new UK Global Tariff (UKGT) will replace the EU's Common External Tariff for imports to the UK from 1st January 2021. There are over 11,800 tariffs lines, and changes between the regimes have been considered as: 'no change', 'liberalised' (reduced to zero), 'simplified' (rounded down or banded) or 'reduced' (lowered beyond the simplification measure).

According to the ONS, 15-20% of materials used in the UK construction industry are thought to be imported from abroad.

According to the Department for Business, Energy and Industrial Strategy (BEIS) data, nearly 40% of imported construction products in 2019 came from outside of the EU. If no other trade agreement was in place, UKGT would apply.

The other 60% of imported materials and components for construction use come from within the EU. As there is currently no tariff, UKGT represents a cost increase to the present position.

	EU	Non-EU
Value of selected materials and components for constructional use imports to UK in 2019 (BEIS) (rounded)	£10,78bn	£7,37bn
Cumulative impact of UKGT to construction product imports (using 2019 figures) compared to current position of tariff-free (EU imports) and Common External Tariff (non-EU imports)	+2.2%	-1.0%

In order to put the tariff applicable to imports from the EU into context, an illustration based upon 12% of materials being imported from the EU on a project would show a cost increase of circa 0.26% (although the exact increase would be dependent on the composition of the materials imported).

It is also thought that some suppliers may absorb part or all of the tariff as part of their margin, in order to retain market share. In addition, some construction merchants may be able to negotiate profit and shipping costs based upon the large volume of their orders, to minimise the effect of the tariff change. However, this is likely to be related to supply and demand as high-demand goods orders will be more likely to pass on the tariff to customers.

Some tariffs are 6% or 10% which may mean that some trade packages are more affected than others by the tariffs.

Practical issues

Following the end of the transition period, either with or without an agreement, there are concerns over potential border delays and supply chain disruption as the current barrier-free flow of goods within the EU comes to an end.

As many construction projects operate on a "just-in-time" model for deliveries, with little stockpiling, there may be a significant impact on these imports, with increased delivery times leading to increased costs and possible delays.

The Confederation of British Industry (CBI) has suggested that non-tariff barriers (i.e. red tape at borders) etc. could amount to a further 6.5% on relevant imported material costs. This outcome would have a more significant effect on material costs than the tariff regime change.

Impact on projects

- Border delays may cause disruption to project programmes
- Extended delivery timescales and efforts may increase delivery costs
- Delays to material deliveries may cause issues with payment e.g. vesting
- Possibility of off-site storage requirements (and related costs) if ordering ahead
- Delays to import materials may increase domestic demand, potentially driving up prices
- Tariffs and practical implications of importing materials may cause cost increases, affecting the viability of schemes.

Mitigation strategies

- Plan ahead and use supply chain agreements where possible
- Consider whether there are suitable domestic alternatives or opportunities to store materials so that they can be delivered earlier
- Understand that there may be supply chain disruption, and consider alternative strategies in the event of late project delivery.

Currency

There is concern that Sterling could weaken in the event of "no-deal", which could impact construction costs due to the level of materials, plant, equipment etc. susceptible to currency fluctuations.

The exact impacts would be dependent on the type of project and the source and composition of materials used, but some indicative scenarios are below.

	Indicative impact on trade packages	Indicative impact on project budget
5.00% fall in Sterling	3.20%	1.90%
2.25% fall in Sterling	1.45%	0.90%
1.20% fall in Sterling	0.75%	0.45%

However, there is some speculation that if an agreement is reached, then Sterling will recover and bounce back.

Impact on projects

- Currency fluctuations could impact project budgets and potential viability of projects
- Contractors may seek provision for currency fluctuations in projects or reduce the period during which offers are open for acceptance.

Mitigation strategies

- Understand the proportion of a project exposed to currency fluctuations and run different scenarios to check viability.

Summing up

There are significant short / medium term risks associated with the UK leaving the EU, particularly in the event of a “no-deal” Brexit.

However, there are also some longer-term opportunities for the UK construction industry. The reduction in EU labour may drive the use of MMC and off-site to reduce on-site labour requirements which would also help to modernise the industry. Increased digitisation may help to attract new entrants to the industry and improve efficiency and outcomes.

Recent data from ONS shows that after a period of stability, UK migration levels were beginning to increase in the lead-up to the COVID-19 pandemic, driven by the increase in non-EU student arrivals, mainly from China and India. This may lead to new opportunities for investment into the UK.

The recent challenges from the COVID-19 pandemic have shown that the construction industry is resilient, and it is hoped that this resilience will continue as the UK faces the challenges brought about by leaving the EU.

Talk to an expert

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