

A spotlight on

# The impact of Brexit

2021 update

Threats and opportunities for the UK construction industry

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

There will be short-term impacts, but there is also optimism that, in the longer-term, the UK leaving the EU will provide opportunities for the construction industry. 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.

A last-minute deal was reached between EU and UK negotiators on 24<sup>th</sup> December 2020 after tense negotiations. The EU-UK Trade and Cooperation Agreement sets out arrangements for a wide range of topics such as goods and services, public procurement, intellectual property etc.

Tariffs and quotas have been avoided and whilst implications for the UK construction industry remain, the situation is vastly improved compared to a "no-deal" scenario, particularly with the ongoing impact of COVID-19.

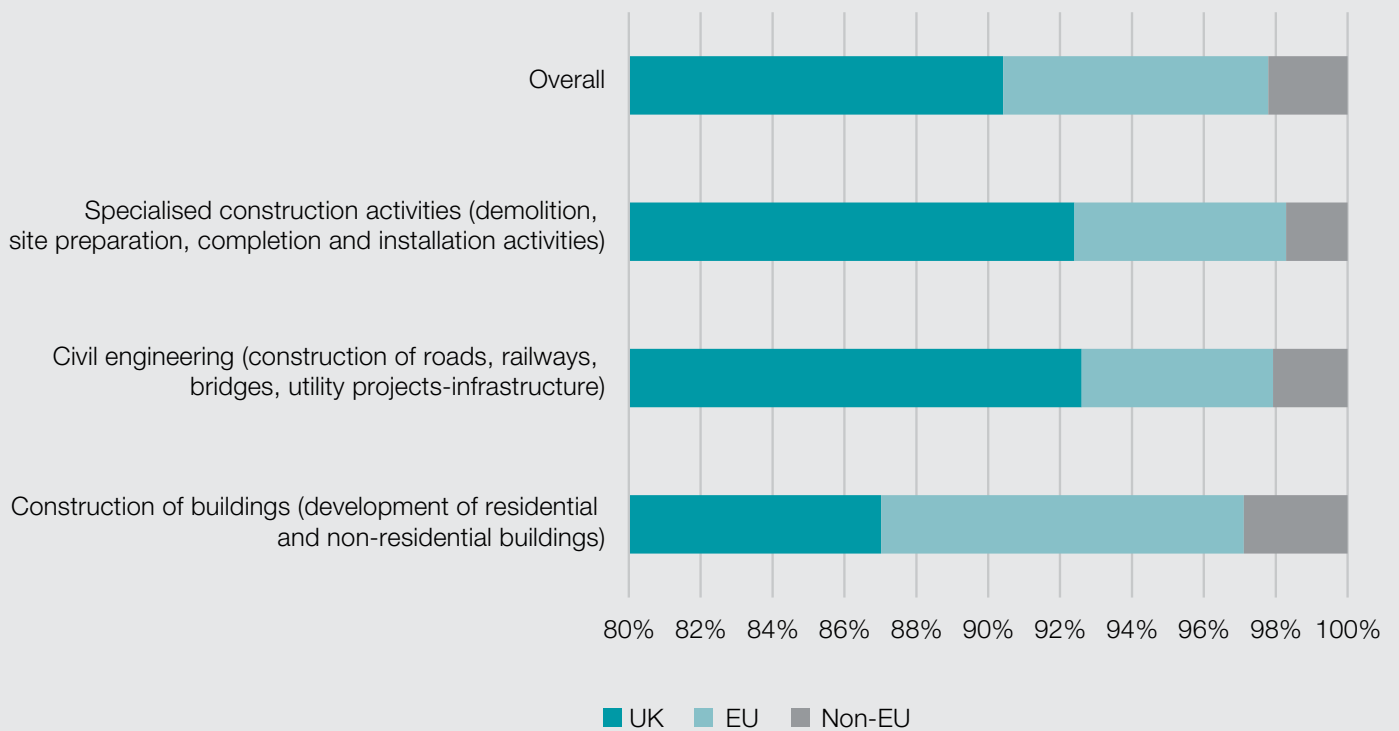


# Impact on labour

Data from the Office for National Statistics (ONS) shows that an estimated 7 percent of the UK's total construction workforce and 28 percent 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)

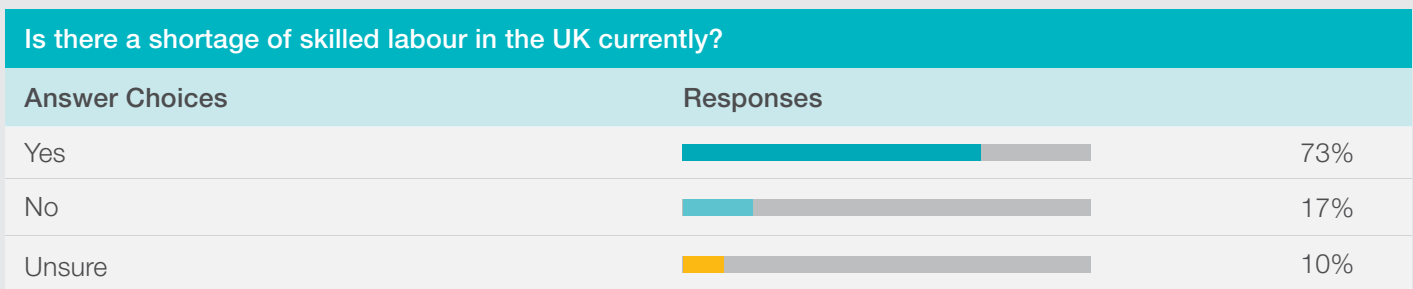
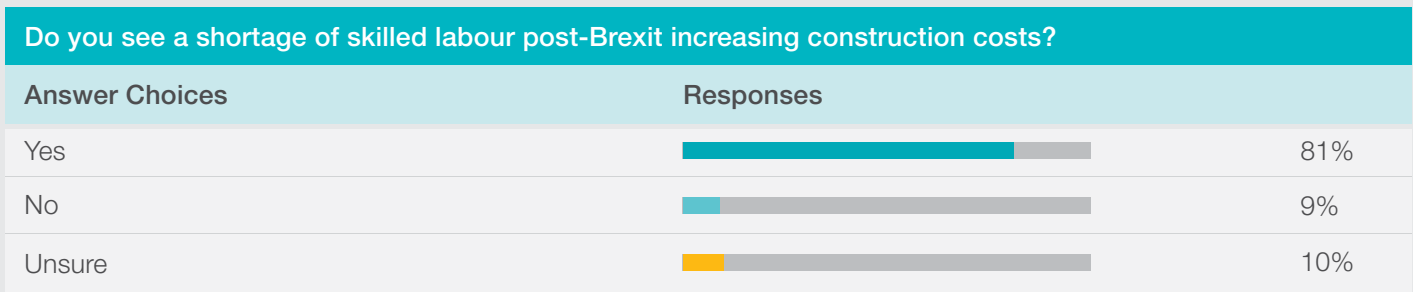
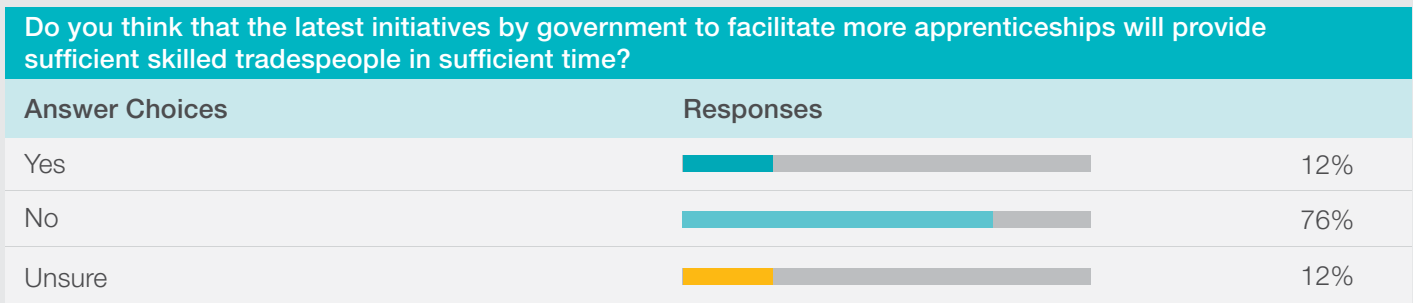


Our recent market survey showed that 73 percent of respondents think there is a shortage of skilled labour currently and 81 percent said that a shortage of labour post-Brexit would lead to increased construction costs.

There is concern that particular trades and/or areas could be significantly affected. Eve Livett, of the Association of Brickwork Contractors, said to Construction News that “There are large London-based bricklaying companies that have 80 percent of their workforce as EU nationals.”

The Home Office decided not to accept recommendations from the Migration Advisory Committee (MAC) to add masons, bricklayers and welders to the shortage occupation list, preferring to wait to see how the labour market develops with the new immigration system and how quickly there is recovery from the effects of COVID-19.

Whilst there is a key opportunity to attract new entrants into the industry, there is concern that apprenticeships will not fill the gap quickly enough. With this in mind, 59 percent of contractors who responded said that their organisation’s contingency plans for Brexit included greater use of modern methods of construction (MMC).



Services makes up approximately 80 percent of the UK economy with its largest export market being the EU. Under the Trade and Cooperation Agreement, services trade has become more difficult. One particular concern is the mutual recognition of professional qualifications (e.g. legal, architectural, engineering, etc.).

There is a future framework identified in the Agreement for mutual recognition through the Partnership Council on a case by case basis, but this will take time to be developed. Until then, qualifications will be recognised on an EU state by state basis.

## Potential threats to 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.

## Opportunities for mitigation

- 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.



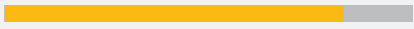
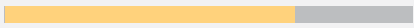
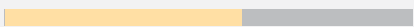


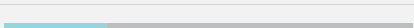
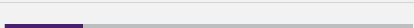
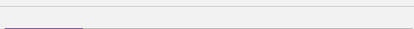
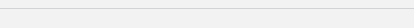
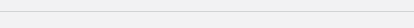
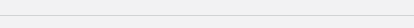
# Importing construction materials

Although while the Trade and Cooperation Agreement tariffs have been avoided, there are still some practical issues which remain that will have consequences for the UK construction industry.

According to the ONS, 15–20 percent of materials used in the UK construction industry are thought to be imported from abroad, with 60 percent coming from the EU, according to data from the Department for Business Energy and Industrial Strategy (BEIS).

Depending on the type of project (sector, value, design (particularly façade design), new-build/refurbishment, etc.) the proportion of imported materials can be significant. Respondents to our survey identified the top five packages having the highest risk of being impacted by Brexit as:

- 1) Façade related packages
- 2) M&E services
- 3) Drylining
- 4) Finishes and
- 5) Roofing.

For which packages do you see most Brexit risk? (Please select all that apply) Contractors		
Answer Choices	Responses	
Façade related packages		83%
M&E services		71%
Drylining		58%
Finishes		40%
Roof		33%
Steel frame		25%
Carpentry		19%
Joinery		19%
Concrete frame		10%
Groundworks		8%
Demolition		4%

From 1<sup>st</sup> January 2021, goods entering the EU from the UK have faced numerous checks including customs declarations, rules of origin checks, product safety certificates and inspections. In response to COVID-19, the government is delaying full customs checks on goods entering from the EU until 1<sup>st</sup> July. The situation should be monitored as it is likely that there will be delays when checks start which could impact materials and supplies used by the construction industry.

Towards the end of last year, there was mounting pressure on ports and deliveries due to the pandemic and stockpiling. There is concern that border delays will reduce trade. The BBC reported that 85 percent of the volume of trade between EU and Great Britain (GB) is undertaken by European hauliers who are paid by the kilometre rather than the hour and delays could impact on their willingness to travel/undertake crossings.

Felixstowe, the UK's largest container port, has been experiencing delays since October 2020 and a shortage of empty shipping containers in Asia is causing further problems as the costs for containers escalates due to demand. Delays as vessels dock is causing carriers to favour European ports instead, meaning containers are then moved by truck, adding further cost and time to the deliveries.

The survey results show that 82 percent of contractors who responded to our survey said that their organisations have made contingency plans to assist with importing materials after the construction period has ended. Of those contractors, 68 percent said that this involved the use of alternative products or materials and 73 percent said that their organisation was pre-ordering and storing materials.

### Potential threats to 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
- The government are recommending the use of freight forwarders / customs agents or brokers to make the process easier, which will have a cost. There may also be impacts related to the 'rules of origin' parameters.

The UK Conformity Assessed (UKCA) marking came into effect on 1<sup>st</sup> January 2021 for goods being placed on the market in GB, however CE marking can be used until 1<sup>st</sup> January 2022. The UKCA marking cannot be used alone in Northern Ireland. There is concern that the transition to UKCA and completion of conformity assessment procedures will be costly and damaging for some businesses although it is hoped that the standards will closely align and that there will be acknowledgement via the Mutual Recognition Agreement. However, this is subject to ongoing negotiations.

### Opportunities for mitigation

- Understand which items are to be imported on a project and seek information to understand if there are any issues / requirements to facilitate the importing of such
- 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 was real concern that Sterling could have weakened in the event of “no-deal”, which could have impacted construction costs due to the level of materials, plant, equipment etc. susceptible to currency fluctuations.

Whilst currency should be monitored with effect of the coronavirus pandemic and economic uncertainty, significant currency fluctuations are not anticipated.

## Changes to Public Procurement

Any (UK) opportunity posted before 11pm on 31<sup>st</sup> December 2020 has to follow OJEU and TED rules.

All contract notices and procurement notices have to be published on Contract Finder as per previous requirements. Any valued above the following thresholds have to be posted through Find a Tender:

**£122,976** for Central Government

**£378,660** for Defence and Security

**£189,330** for other contracting authorities

**£70,778** for small Lots

## Other implications

### Data Protection

- The General Data Protection Regulation will still apply but will be UK GDPR rather than EU GDPR (same terms)
- The UK is now bound by UK GDPR and the UK Data Protection Act 2018
- There is a six-month transition period for free flow of personal data from EU states, after this it will be treated as transfer of data to a third party.

### Dispute Resolution

- The UK has applied to accede to the Lugano Convention 2007 as an independent state
- Legal advice should be obtained for implications on dispute resolution clauses and for the consideration of adding exclusive jurisdiction clauses.

### Opportunities — New Trade Agreements

- Previous EU trade agreements have effectively rolled over on same terms to the UK
- Other Trade Deals are either agreed (Japan) or are in discussion (notably USA, Canada, New Zealand)
- Will bring new trade opportunities and the chance to better terms.

## Summing up

Whilst there are short/medium term implications associated with the UK leaving the EU, 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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