

Brexit: Safeguarding your business

Deal or no deal? The impact to the construction industry

As conversations in Whitehall and Brussels continue over the UK's plans to leave the European market, uncertainty across UK industry is at its highest point since Article 50 was triggered.

Construction accounts for 6% of the UK economy, with nearly 3 million jobs based in the sector. A hard Brexit, soft Brexit or the complete lack of a deal are all scenarios which pose serious challenges to the industry and indeed the wider economy.

Product compliance and standards

Earlier this year, the UK government confirmed that the EU's Construction Products Regulation regime would be absorbed into UK law in the event of a no deal Brexit, meaning that construction materials produced in the EU can continue to be used in the UK post-Brexit.

Assessment of 'notified bodies' based in the UK will be conducted to authorise bodies to approve construction products entering the country, in addition to those in the UK who are already approved under the existing EU regime.

At present, products entering the country which are approved for use in the UK are affixed with a 'CE' mark, in due course this will be replaced with a 'UK' mark. 'CE' marked products already in the UK market do not need to be reassessed or affixed with the new 'UK' mark.

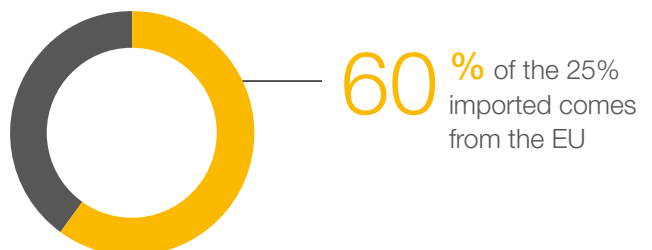
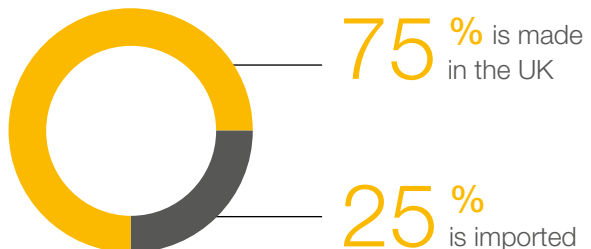
UK 'notified bodies' will no longer be recognised in the EU and manufacturers will need to contact EU 'notified bodies' for recertification for the EU market. Although the avoidance of duplication has been considered as part of a future agreement, the EU's lack of recognition of UK approved bodies will add time and cost to the process of transferring goods.

Material availability

LOGISTICS

Approving use of EU products within the UK post-Brexit does not solve the issue of extended delays at UK borders, as well as the shortage of goods drivers and licences to operate in the EU, which are anticipated after the 29th March.

Percentage of construction products used in the UK:



Certain materials, such as softwood (92%) and curtain walling (100%) are EU supply-biased and are therefore a higher risk to the supply chain.

A hard Brexit could cripple imports if the supply chain isn't geared up for changes to customs and HMRC regulations. Logistics for the movement of goods is a key risk and the Construction Products Association (CPA) forecasts that warehousing and investment in ports is likely to increase as the UK adjusts to its revised trade position.

The UK is trying to mitigate risks in delay of the flow of goods, using information-based systems rather than checking all materials which enter the UK. HMRC is due to announce changes to the UK's customs procedures to try and simplify the process and has issued a [Partnership pack](#) to help UK businesses navigate anticipated changes at borders after a 'no deal' EU exit. In terms of exports, it is not yet known how the EU will respond.

STOCKPILING

According to research issued in February 2019 by HIS/Markit /Chartered Institute of Procurement & Supply, UK manufacturers are preparing for Brexit by stockpiling materials at a record-breaking pace, as buying activity stepped up to mitigate potential supply chain risk.

Stockpiling could alleviate a soft Brexit but it is not feasible to store months of material. An assessment of the risk to each type of construction material needs to be conducted through effective supply chain management and engagement with all partners, to establish the origins of the materials and ascertain the risk to its supply.

Immigration and skills shortage

In December 2018, the government set out its vision for a post-Brexit immigration landscape, issuing a whitepaper entitled [The UK's future skills-based immigration system](#), which marks an end to freedom of movement and assesses workers based on the skills that they bring to the UK.

For those EU nationals currently residing in the UK, the government will implement the 'EU Settlement Scheme' during an implementation period of new legislation. This will give EU nationals currently residing in the UK the right to remain.

In the construction industry, this provides the opportunity for companies to increase dialogue with their affected workforce to ensure they are aware of the processes involved and can continue to live and work in the UK.

Where the previous system supported only highly skilled workers from outside the EU and workers of all skills levels from across the EU, the new system will provide a single-entry route of access to skilled workers from all countries.

However, according to the new legislation, the government's definition of a 'skilled' worker cuts out a significant chunk of construction tradespeople, who will be classified as 'low skilled' and do not meet the £30,000 salary threshold that the government will introduce. These workers will be able to apply for a twelve-month visa as part of the government's 'Temporary Workers Route' policy, which will be reviewed in 2025.

With 165,000 EU nationals working in the UK construction industry at a time when there is a skills shortage, this policy is not deemed fit for purpose by the sector.

The proposed legislation was debated at the Construction Leadership Council (CLC) meeting of 100 industry leaders including Gleeds, which took place at the end of January 2019. The CLC is due to feed back to the government on how this policy is working in practice and suggest a more frequent review to meet the industry's needs.

Safeguarding your business

Whilst the outcome and impact of a Brexit deal is uncertain, there are a number of steps businesses can take to mitigate anticipated risks:

- Due diligence to examine business risk at project level and across wider supply chain / financial fragility
- Scenario planning, considering disruption to cost and logistics / critical path analysis
- Look out for Government taxation advice and get a [UK EORI number to continue to trade within the EU](#)
- Engage with supply chain to quantify EU labour and materials involved with the project
- Quantify exchange rate impact € / £
- Look at Brexit clauses in building contracts and consider the balance of risk
- Keep up to date with building contract administration