

The Construction Industry and Brexit



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The most understated comment that I heard following the Referendum result in June was “*well, that was a bit of a surprise!*”.

At the moment the UK, the EU and the whole world is trying to come to terms with the British people’s decision that the UK should leave the European Union. Whilst the great and good of the world wrestle with this, I intend to make a few observations from my lowly perch.

Firstly, I know that there are a number of issues which raised their head in relation to the construction industry long before the people spoke. These include:

- Housing – the UK is in the midst of a housing crisis. Home ownership is now beyond the reach of many who would have been on the property ladder if they had been born 20 years younger. There is an urgent need to build more homes and in a way that is affordable;
- Coastal Defence Infrastructure – Global warming is constantly in the news. Annually the UK and Ireland face devastating floods which have a huge economic impact. Hidden behind the headlines is the constant requirement to upgrade the flood protection and coastal infrastructure which maintains the country;
- Transport Infrastructure – HS2 and Crossrail are headline issues in England and in the meantime the infrastructure in the rest of the UK crumbles and needs to be replaced. Even brief travels abroad allow people to see the excellent infrastructure in other countries while we endlessly debate whether there should be an additional runway at either Gatwick or Heathrow; and
- Power Infrastructure – Hesitations on new power generation could be a catastrophe for the country in the future. Yet Hinckley Point is postponed and our old power stations rumble on.

These are headlines and relate to truly massive construction and procurement challenges. However, all of them are set against issues which have been ever present in the construction industry; or at least present for the duration of the experience of your correspondent. Issues such as:

1. The industry’s susceptibility to booms and crashes, and therefore the difficulty in obtaining consistent investment in terms of finance, but and also training and productivity;

2. Skills shortages – This too relates to the boom and bust culture, and is usually solved by relying on migrant skilled labour during the booms and massive layoffs in the quiet times. Brexit will have a direct implication on the former;
3. The international nature of the construction industry and the implications of currency fluctuations such as change in the value of Sterling. This is a benefit to some and problem for others. There is also the need for international investment. European firms and those from further afield are now common place in major construction projects, and a huge proportion of our supply chain links us to Europe and the whole world. Brexit may mean looser ties to Europe but potentially closer ties to other English speaking nations and inward investors.

Clearly, Brexit touches many of these. But Brexit also has specific direct implications which we are seeing being brought into effect already. Irish contractors are closely tied into the UK market. They now see their home costs in comparison to the recovery in the Sterlingzone dramatically changed. This means UK work is much less inviting. This will have a similar impact for suppliers and contractors from the rest of the EU.

On the other side, the change in the currency rate makes Eurozone work significantly more lucrative for the British. I have already seen Eurozone claims settled on terms which would have been completely unpalatable before the Brexit result and the dramatic change in the exchange rate put offers comfortably into the acceptable zone for claims. The labour and skills issue has also come dramatically to the fore. Much of the publicity, and it seems much of the rationale, in voting for Brexit was to stop the influx of European migrants, many of whom work in the construction industry. Clearly, Britain will be a much less inviting place following the Brexit vote. So where will the skills for the construction industry come from? There are a number possible answers:

1. Home grown skills – this is the most obvious answer but there is a pernicious difficulty in trying to up skill many of our fellow citizens. We need to invest in it now;
2. Greater productivity – the UK economy, we are told, is far too unproductive. A more productive workforce using the skilled labour and ingenious solutions that occasionally appear may be a more effective solution than simply recruiting more semi-skilled. This could be a significant upside to a skill shortage; and
3. Immigration from elsewhere is obviously a real possibility but rather defeats the point of cutting down on immigration.

The upshot of all of this is pressure and tension in the industry throughout the UK and Ireland, mapped onto an industry which is used to uncertainty but constantly struggling with it. The pressure this will put on the procurement of new work and the resolution of disputes is at least something that is clear amid all the other uncertainty. The only real difference is going to be where the pressure comes from.

There are a number of practical points for practitioners. The currency issue turns on who takes the currency risk in a given contract, which may come much more to the fore as an issue. The drive for productivity suggests that contractors will want to be innovative in providing the solutions demanded from them and this will put pressure on traditional contracting methods and traditional design processes. This is a long overdue development. The lack of skills and increased costs of labour will make claims more prevalent and perhaps lead to inflation within the construction industry.

