

Brexit position paper of the NI Construction Group

February 2018

1 About NI Construction Group

The Northern Ireland Construction Group brings together the following trade and professional bodies that represent a broad range of interests in the building and civil engineering industry in Northern Ireland:

- Association for Consultancy and Engineering
- Construction Industry Professionals Council
- Federation of Master Builders
- Institution of Civil Engineers
- Quarry Products Association Northern Ireland
- Royal Institution of Chartered Surveyors
- Royal Society of Ulster Architects
- Specialist Engineering Contractors

The Construction Group provides a forum for these bodies to discuss, at a strategic level, issues of common interest and of industry-wide significance.

2 Economic context

Why will Brexit impact differently on the construction industry in Northern Ireland compared to Great Britain?

Before any impact from Brexit, the level of investment in Northern Ireland's built environment was significantly below pre-recession levels unlike in Great Britain where investment levels had fully recovered.

Official statistics released in January from NISRA¹ show in real terms that annual construction output in Northern Ireland had risen from its low point of £2bn in 2013 to £2.9bn in 2017. However, between the years 2000/01 to 2006/07 annual construction output (in real terms) averaged £3.4bn, so current output remains £0.4bn below pre-recession levels.

The RICS Q4 2017 Construction Survey reported that the overall workload balance at +6 percent lagged behind all other UK regions and suggests that overall growth in the Northern Ireland construction and infrastructure sectors was lacklustre in Q4.

¹ <https://www.nisra.gov.uk/sites/nisra.gov.uk/files/publications/Construction-bulletin-Q3-2017.pdf>

3 Implications

3.1 Construction activity in Northern Ireland

The construction industry is concerned that the inevitable uncertainty created by Brexit will delay capital investment plans in Northern Ireland's private sector. There are also concerns that some potential international investors who saw NI as a highly skilled, English-speaking gateway to Europe may redirect their investment to the Republic of Ireland.

On the investment side, interest from potential investors in office and retail property edge upwards after falling in Q3 2017, according to respondents of the RICS Construction Survey, whilst the data suggests that investor enquiries for industrial premises remained flat. However, the survey's indicator for foreign investor interest was negative for the seventh quarter in succession, though only marginally so.

Surveyors appear confident in the near-term outlook for the market in Northern Ireland, with interest from potential buyers evident, and the gap between supply and demand likely to put some upward pressure on prices. Looking further ahead, clearly there are some challenges expected on the political front, alongside a potential squeeze on consumers due to inflation and further potential movements in interest rates. However, despite some uncertainty, surveyors expect both prices and sales activity to be higher in a year's time.

Overall the NI Construction Group believes there is a significant risk that the fragile recovery in construction output in Northern Ireland could falter as a result of this uncertainty.

A halt in the recovery would have a detrimental impact on the local economy, on employment, retention of skills in NI and housing supply.

3.2 Workload of NI businesses working in GB

As work opportunities for NI construction companies reduced dramatically from 2007 onwards many contractors, particularly the larger ones, successfully turned their focus to winning work in Great Britain. Now it is estimated that the GB market accounts for over £1bn of turnover generated by Northern Irish construction companies.

As a result there is significant concern that a fall in the GB market, precipitated by Brexit, could have direct and serious consequences for Northern Irish contractors, professional practices and material suppliers.

Many Northern Irish jobs are dependant on construction and civil engineering projects in GB.

3.3 Funding for construction projects in NI

There is concern that EU funding which has been critically important for a number of major capital projects in Northern Ireland will not be matched by future UK governments.

The decision to honour commitments given up to November 2016 is welcome but it remains unclear about what will happen after that.

There is also concern that loans from the European Investment Bank (EIB) will no longer be available to help finance strategically important construction projects in Northern Ireland as it has benefited from EU funding (structural and EIB) for infrastructure provision.

We would urge that a concerted effort from the UK Brexit negotiation team, liaising with NI Departments, is made to maintain access to EU funding, as outlined in [RICS' Brexit position statement on Infrastructure](#)², which has been a vital source for major infrastructure across Northern Ireland and on a cross-border basis. Failing that, we would urge that the UK Government act promptly to introduce a new lender, or lending mechanism, to plug the gap created from the potential loss of funds.

3.4 Movement of people, goods and services and skills

With further progress made in Phase 1 on the transition and rights of EU citizens, we move towards clarification on the stability of the skills pipeline. Particularly in terms of construction skills, Northern Ireland not only relies on attracting talent but also provides a supply of skills. For instance, Northern Ireland already has a significant number of construction workers operating in GB, and the potential loss or restriction of EU nationals currently working in the UK's construction sector could put further pressure on the regions skills base. This could impact on our ability to deliver essential infrastructure projects and to build the necessary supply of new homes that our society and economy needs, and which investors demand.

It is unknown how exactly Brexit will impact on the movement of people, goods and services but the construction industry would be concerned about about:

- the introduction of any barriers to the movement of goods or services particularly any barriers between Northern Ireland and the Republic of Ireland.
- the impact on the cost of importing building materials from the EU and exporting goods to the EU
- any restrictions on the ability of NI companies to employ staff from EU countries, particularly the Republic of Ireland.
- any obstacles to NI citizens working in EU countries, particularly the Republic of Ireland.
- political and community tensions that would be created by any change to the current approach to free movement of people across the island of Ireland
- recognition of professional qualifications

Impact on Skills

The DoF Budgetary Outlook 2018-2020 (published in late 2017) outlines budget pressures on the NI Departments, referencing a £1 billion gap by 2019-20. Included within these pressures

² <http://www.rics.org/uk/news/news-insight/comment/rics-brexit-position-statements/>

is 'Investment in skills to drive economic development now and post EU Exit'. In addition to the potential loss or restriction on EU nationals, the construction sector is facing a retirement 'cliff edge', industry, supported by Government, needs to ensure it can inspire new talent into the profession. We would urge that within the Department for the Economy's resource budget for example, that potential cessation of support for Post Graduate Studentships, and its detrimental impact to the research capacity of our local universities, be further considered. And the importance elevated of improving the skills profile of the population at all levels and in particular in Science, Technology, Engineering and Maths subjects. The high quality of STEM graduates of local universities, is a key component of the regions competitive package on offer to attract foreign direct investors.

We would urge the Government to address the current and future skills gap simultaneously as a top government priority. This means ensuring we retain existing EU workers while leaving open the possibility to attract further talent we need to meet current ambitions, at the same time as working to build up the domestic skills base the sector need for the future.

3.5 Standards

Standards are documents that set out specifications, codes and guidance for industry. They are distinct from regulation, because they are not issued by government and their usage is not compulsory. They are developed consensually, through processes managed by independent standards organizations, in the UK's case the British Standards Institution (BSI). The built environment sector has perhaps the longest history of any industry when it comes to the use of formal codes and standards.

Currently the UK has full membership of the European standards organizations, CEN and CENELEC², through BSI. This gives UK experts considerable influence on the content of European standards. European standards have to be implemented (adopted) identically in 34 countries³ by their national standards bodies. Any conflicting national standards must then be withdrawn, leaving a single standard across Europe for each aspect of a product or service where a standard is needed. This is known as the 'single standard model'. European standards are widely used: for example, the suite of Structural Eurocodes is currently used by some 500,000 engineers across Europe.

Membership of CEN and CENELEC is not dependent on being a member of the EU as such, but it is dependent on meeting those organizations' rules. Leaving the single standard model would lead to a loss of competitiveness for the UK construction industry and increased costs. UK industry would still have a strong incentive to use European standards when exporting to the EU, but would lose influence on the development and maintenance of those standards.

If the UK were no longer able to continue as a full member of CEN and CENELEC, likely negative effects would include:

UK would lose its decision-making power and influence over the content of European standards. This influence currently includes full governance rights, more than 80 technical body secretariats, and 566 technical committee chairs and working group convenors in CEN and CENELEC.

UK industry may be less commercially competitive. Depending on the nature of the eventual UK-EU settlement, industry would face either using two standards regimes (UK and

European) or using European standards alone without being able to influence their content to any significant degree. Trading construction products between the UK and Europe will be made more difficult and costly if different standards are recognized in the respective jurisdictions. The outcome of the Dame Judith Hackett review of building regulations is yet unknown, and this is likely to influence the future compliance regime for a range of building products.

The possibility of fragmentation of the standards (and market) environment even within the UK, if any of the member countries of the Union retain European standards while others do not (note Scotland's express desire to remain within the EU); a particular issue for construction products.

Confusion about the status of existing regulations (or long-term commercial contracts) incorporating European standards.

Weakening the position of UK academics in delivering influential research, given that standards enable research to be translated into industry practice and thus accelerate innovation.

We see major opportunities for the UK to exploit its global reputation for shaping business and industry standards through:

- Supporting industrial strategy across the UK: simplified national regulation relying on standards to provide technical specifications can enable the development of innovative products within a flexible regulatory environment.
- Standards can also accelerate the transfer of innovations from research to market; BSI and Innovate UK are already working with other innovation infrastructure partners on the role of standards in new emerging technologies and particularly in the future digital economy.
- Supporting trade with European partners: continued full membership of CEN and CENELEC would maintain UK influence over the content of European standards, without necessarily being tied to European regulation.
- Supporting UK's international ambitions through embedding UK commitment to international standards in free trade agreements: international standards from ISO and IEC simplify international trade. Through continued influence both in Europe and internationally, the UK could seek global collaboration leading to a greater alignment between markets through the use of international standards.

3.6 Research and development

Recent technological advances have paved the way for a leap forward in construction productivity. The support received to date from Innovate UK, R&D tax credits and EU programmes such as Horizon 2020, has already helped produce some excellent results. Improvements will come from advances in automation, digitisation, supply chain logistics, process automation and smart infrastructure. Knowledge transfer between industries has been particularly valuable. NI firms have been involved in much successful collaborative research. Government support has played an important part in bringing this about.

Continuing support for construction-related research is essential to help achieve the 2025 targets, but there is also a need to develop an innovation culture in the industry.

Evidence shows that the UK has achieved an excellent return on investment in EU research related activities, with a net gain of €€3.4bn from 2007 to 2013⁵. Construction-specific research is difficult to separate out, as there is often crossover with other industry sectors, but we also expect the transfer of knowledge into construction from other sectors to become increasingly important. Therefore the UK Chancellor's commitment to underwrite EU Horizon 2020 research funding beyond our formal membership of the EU is welcome. It's a positive sign. But, as an industry, we must ensure that innovation delivers the productivity gains and return on investment that will justify government support beyond the end of the decade.

Perhaps the greatest risk of Brexit to construction research comes from threats to academia. Construction research benefits from the impressive capabilities of our universities and colleges. A decline here would have significant consequences.

We have a tremendous opportunity to transform our industry in terms of productivity by encompassing digitalisation and innovation. Leadership will be crucial to ensure that clients and contractors, together with universities and consultants, work effectively together to make real progress. Continuing government support for collaborative research, in NI and across Europe will provide that leadership.

4 Next Steps

Due to the likelihood that Brexit will have a more detrimental impact on the economy in Northern Ireland than on the UK overall, the NI Construction Group calls for the UK Government to provide a boost to funding for public sector capital investment in Northern Ireland that is additional to any general increase in capital investment that is provided across the UK.

The NI Construction Group calls on the UK Government to maintain free movement of people, goods and services between Northern Ireland and the Republic of Ireland ensuring adequate time for businesses to adapt to any new arrangements. However maintenance of a soft border with the Republic of Ireland must not result in any restrictions of movement within the UK between NI and GB. We recognise that as Brexit Phase 1 negotiations came close at the end of 2017, it was agreed by parties that Brexit should not affect the peace process or cross-border trade, but the 'the devil is in the detail' and it remains to be seen what comprehensive solution to the Irish border issue will be finally agreed in print. For now we can assume that commitments remain to the Good Friday Agreement and the Common Travel Area will in principle continue.

The NI Construction Group calls for tariff and barrier-free access to the single market

The NI Construction Group seeks clarity from the UK Government on how it intends to replace the EU funding of capital projects beyond the commitments given to date. We call on the NI Executive to identify any planned construction projects that would be impacted if no replacement for this EU funding was forthcoming.

The NI Construction Group calls on the UK Government to retain access for Northern Ireland to loans from the European Investment Bank or to provide an alternative but equivalent source of loan funding.

The NI Construction Group calls on both the UK Government and the NI Executive to engage with the industry to agree radical steps to increase the supply of social, affordable and private market housing and to provide enabling funding.

The NI Construction Group calls on both the UK Government and the NI Executive to ensure that the needs of the Northern Ireland construction sector is represented in areas such as procurement and health and safety, when consideration is given to any divergence from retained EU law after departure – impact on bidding for work in the Republic of Ireland.

The NI Construction Group calls on both the UK Government and the NI Executive to put in place additional measures to help companies in the construction sector in Northern Ireland benefit from the increased opportunities available in the Republic of Ireland.

The NI Construction Group calls on the NI Executive to mitigate the effects of Brexit on the local construction sector by redoubling its efforts to deliver a steady stream of public construction projects to the market. This requires a focus not only on the strategically important schemes but also a wide range of other new build and maintenance projects in health, education and roads etc.

The NI Construction Group calls on the UK Government to add construction workers and built environment professionals to the UK occupation shortage list as soon as possible. The NICG recognises that industry must also play its part in ensuring a sustainable construction sector throughout the uncertainty of Brexit, for example, by collectively working to secure the domestic and diverse skills pipeline. We should take the opportunity to highlight the initiatives, such as degree apprenticeships, in our sector that aim to drive the talent pipeline forward.