

DeHavilland Briefing

DeHavilland Construction & Brexit

Anna Haswell

Senior Political Analyst

For more information on DeHavilland and how we can help with political monitoring, custom research and consultancy, contact:

+44 (0)20 3033 3870

info@dehavilland.co.uk

www.dehavilland.co.uk



Uncertain Times

In an EU Referendum result that left large sections of the business world scrambling to gauge the impact and protect themselves against calamity, the construction sector was one of the high-profile sectors hit hardest, primarily because of the economic instability and political risk fostered by the result.

The large-scale nature of construction projects means that investment decisions can be jeopardised by policy uncertainty – an effect that had already begun to make itself felt as finance providers reacted to the pre-referendum campaign.

Infrastructure

Prior to the vote, warnings had come from various sectors about the prospective negative impact of Brexit on **major infrastructure projects** including energy generation and supply, with National Grid noting that leaving the EU could cost the UK as much as £500m per year in the 2020s because of uncertainty over investment.

Association for Consultancy and Engineering Chief Executive Dr Nelson Ogunshakin declared the implications “very worrying for our industry”, declaring that members felt EU membership was “vital to the investment decisions needed to build the infrastructure network in our country”.

A number of infrastructure projects are part funded by the **European Investment Bank (EIB)** which should not be affected by Brexit. There is nothing stopping the UK remaining a shareholder and beneficiary of the EIB, but this would be up to the government and the other shareholders (member states) of the EIB. The EIB has warned that applications from the UK are less likely to be approved during the period of uncertainty.

In a sign of this uncertain political climate, Transport Secretary Patrick McLoughlin confirmed on Tuesday that the Government would yet again delay its decision on expanding **airport capacity** in South East England.

On Heathrow expansion, expect a cold response from Conservative party leadership candidates Theresa May and Michael Gove, whose constituencies would be directly affected. On the other hand, Andrea Leadsom has implied she would be in favour of Heathrow expansion.

There is more certainty on projects such as **HS2**, with most of the candidates recognising its importance and the message it would send internationally if it was to be cancelled.

“The pain will be meted out slowly. Any hold-off on the development pipeline will take a while to show.”

KPMG Head of Infrastructure, Building and Construction Richard Threlfall

Market access

Much of the big picture uncertainty surrounds the UK's future relationship with the **EU and global markets**, and whether the UK plans to adopt European Economic Area (EEA) membership, negotiate bilateral agreements or adopt a WTO-only model.

The Grid report was largely focused on the impact of leaving the **Internal Energy Market (IEM)**. Businesses appear to be uncertain over whether leaving the EU will definitely mean leaving the IEM, with SSE stressing that collaboration with EU partners was vital and calling for greater clarity on future relations.

Nevertheless, this uncertainty will inevitably affect business decisions, with the French CGT Union already calling on EDF to delay its decision to invest in the troubled **Hinkley Point nuclear power plant**.

Indeed, PwC Global Head of Nuclear Capital Projects and Infrastructure said that the Leave vote could have a "significant impact" on the UK's nuclear programme, necessitating change including the renegotiation of major treaties. **EDF**, on the other hand, have been clear that Brexit does not affect the Hinkley Point project.

Regulations and legislation

Some have tried to focus on the positive possibilities of Brexit by endorsing the potential for further **deregulation**, with PwC Power and Utilities Lead Steve Jennings commenting that "many will applaud the opportunity to remove perceived European 'red tape'".

However, Town and Country Planning Association (TCPA) interim Chief Executive Hugh Ellis said: "The EU has always provided a strong framework for the built environment, energy and climate change sectors, and the responsibility of long term stewardship for the quality of places we live in".

Environmental campaigners have also expressed their shock and dismay at the result, arguing that the campaign elided concerns such as decarbonisation, and had frequently been dominated by Leave supporters who combine euroscepticism with an antipathy to carbon taxes and efficiency requirements.

Employment and skills

With **skills shortages** being one of the biggest problems facing the sector, the prospect of the UK leaving the single market and significant changes to immigration policy have made many anxious.

Brian Barry, Chief Executive, the Federation of Master Builders noted the reliance of the sector on migrant workers and commented it was the "Government's responsibility to ensure that the free-flowing tap of migrant workers from Europe is not turned off."

The leading Conservative leadership candidate, Theresa May said she could not guarantee the status of EU nationals currently residing and working in the UK, creating even greater uncertainty in this area.

Housebuilding

The immediate market crash that followed the Brexit vote damaged the interests of construction firms in the residential sector. Mr Ellis highlighted this, insisting that the UK “cannot afford for housebuilding to slow” amid a housing crisis.

Estate agent Foxtons was one of the first high-profile firms to respond to the referendum result with a profit warning about the Brexit impact. Newspapers have reported anecdotal tales of deals falling through, while Bank of America Merrill Lynch is predicting a ten per cent correction in house prices over the coming year.

Next steps

A key consideration in the decision to keep business operations in the UK is the timing of the Government’s invocation of Article 50, officially setting in motion the process to leave the EU. However, with David Cameron stepping down as Prime Minister, the process will likely be undertaken by the UK’s new leader, in autumn at the earliest.

The shape of a post-Brexit settlement

The most important question of them all is about the shape of a future EU-UK settlement. This has generally been spoken about in terms of existing models. Hence we have the '**Norwegian option**', which involves full single market access but a passive acceptance of most EU laws, the '**Swiss option**', with its patchwork of bilateral agreements, and even the '**Albanian option**', with some sort of association agreement.

In practice though, the deal will not follow any established model, but will involve some kind of trade-off between single market access and adherence to EU regulations. There will now be months, and probably years, of intense negotiation between the two sides as the UK tries to retain the most beneficial aspects of membership such as the financial services ‘passport’.

Parliamentary and legislative agenda

The process of Brexit will begin and end at home. Whilst the UK Government will need to take part in negotiations with the European Union, the UK Parliament will undoubtedly play an important role in scrutinising and voting on the agreements brought about by the process.

There could be several complications along the way. Among these are concerns about the **capacity of the Civil Service** to handle such an administrative and legislative challenge. The FT has already reported on the skills gap in Whitehall and suggested that outside law firms or consultancies could be hired.

Debates, Statements and Urgent Questions on the matter could become a regular part of proceedings, according to former Commons Clerk Crossbench peer Lord Lisvane. There would be in-depth inquiries from relevant **Select Committees** and even the possibility of a Joint Committee being established to examine the issue.

There will also be the need for **primary legislation** to cover some aspects of the Brexit agenda. These would include measures to spend some of the £8bn to £10bn that Brexiteers believe leaving the EU would deliver. An example would be a **Finance Bill** to abolish the five per cent rate of VAT on energy bills.

The repeal of the European Communities Act would **require new legislation** for the areas previously covered by EU regulations, according to the UCL Constitution Unit. These would include consumer protection, health and safety and the environment. Any EU Directives transposed into UK law would also cease to apply after withdrawal.

Bolder aspects of the agenda set out in the Queen's Speech, such as prison reform, could be affected by the departure of the minister acting as the driving force behind them.

In the most immediate sense, the impact of Brexit could be the paralysis of the legislative process as ministers struggle to contend with fractious backbenchers and then a shift brought about by a change of Government.

Let DeHavilland support your Brexit strategy

DeHavilland's Construction and Brexit factsheet is an example of the political intelligence we provide to organisations in the UK and EU every day.

As the UK begins its separation from the EU, it's vital to keep on top of latest developments, understand the process, and learn about the key players on both sides of the negotiating table.

DeHavilland's market-leading political intelligence service can help your organisation identify opportunities, manage risk, and find new ways to get your voice heard in a post-Brexit world.

Find out how DeHavilland can support your Brexit planning and engagement with policy makers: www1.dehavilland.co.uk/brexit.