Balfour Beatty

Position Paper

September 2019

The impact of Brexit on the construction and infrastructure industry

Introduction

There have been unprecedented levels of uncertainty since the UK voted to leave the European Union, across the economy, but specifically for the construction and infrastructure industry. This includes delayed decisions on key schemes including Heathrow expansion, which have impacted investment and workforce retention.

As is the case for businesses across the economy, Balfour Beatty's key Brexit priority is certainty so we are able to plan and invest. Balfour Beatty has been planning for all possible Brexit outcomes in order to provide continuity for our customers and to insulate our UK business from potential impacts. This note sets out some of those points.

Steps we are taking to prepare for Brexit

In 2016, we established a Brexit steering group. Overseen by the Executive Committee, its role is to ensure that Balfour Beatty is appropriately preparing for Brexit.

Balfour Beatty is being proactive in its preparations for Brexit and we are encouraging our supply chain to take the same approach. Since the result of the EU Referendum was announced, our Brexit Steering Committee has been actively monitoring the potential impacts and advising the Executive Committee and wider organisation.

Across Balfour Beatty, we have been planning for all outcomes, including a 'no-deal', and we have contingency plans in place to ensure we can continue to deliver on our current and future work commitments.

Measures we have put in place include:

- We have implemented a process which means that teams are required to consider and document Brexit related risks for all new projects and these are considered by Senior Management as part of their reviews. Specific risks and related mitigating action are monitored and are being managed by individual strategic business units and kept under review by the Executive Committee.

- We are also reviewing our existing project portfolio. Where we have identified materials, for example, which may be impacted by Brexit, we are ensuring that we have enough to see us through a possible period of delays at borders.

- Balfour Beatty has brought in a "Brexit clause" in our contracts, which we have negotiated with our customers. This means that contracts take into account the fact that Brexit could cause delays, which could have a financial impact on our business. We are clear that we are not liable for any financial consequences associated with Brexit-related delays.

- We are encouraging EU or EEA nationals in our workforce to apply for settled status now the scheme is open[1].

- We are speaking to our strategic supply chain partners to ensure they are prepared for potential impacts such as the availability of labour, increases in commodity prices and so on. While most of them are undertaking some contingency planning, they tell us that the uncertainty which remains around almost every element of Brexit makes it hard to plan for the post-Brexit future.

- At a national level, our senior team are engaging with Government both about the challenges facing the sector and about how Government can ensure the construction and infrastructure industry is able to thrive post-Brexit and make the most of opportunities which arise, such as potential market stimulation using infrastructure as a lever.

Post-Brexit

We are hopeful that post-Brexit, there might be a renewed focus on tackling the issues which have had a negative impact on the construction and infrastructure industry but which have not received the attention they deserve in the run up to Brexit. Issues including:

- **Long-term certainty and policy consistency:** There may be growth opportunities for the construction and infrastructure industry given the significant planned public and private investment outlined in the National Infrastructure and Construction Pipeline (NICP) and the potential for investment in new and upgraded infrastructure in order to stimulate the economy post-Brexit. However, infrastructure policy must be able to provide long-term certainty to allow the industry to plan and commit investment to be in a position to capitalise on these plans. What a strong economy needs, in our view, is long-term certainty and policy consistency as demonstrated by economies such as Germany. This is something we believe should be addressed to ensure UK businesses are able to thrive and compete effectively and invest with confidence in essential skills, technology and modernising innovation. Infrastructure decisions must be made efficiently and firmly.

- **An Apprenticeship Levy which is fit-for-purpose:** Linked to the need for a long-term strategy, we are also calling for changes to the Apprenticeship Levy to ensure it

[1] https://www.gov.uk/settled-status-eu-citizens-families/applying-for-settled-status

delivers the home-grown skills the construction and infrastructure industry needs. A Levy that fails to deliver the apprentices key industries such as construction and infrastructure urgently need is essentially holding back both the economy and vital progress in social mobility to unify our country. Our recommendations on how the Levy should be amended are set out in our paper *Building the Future: Reshaping the Apprenticeship Levy*[2].

The industry also needs an immigration system which delivers for the construction and infrastructure sector. That immigration system must be flexible enough to allow the industry to access the skilled workers it needs to build these hugely complex, challenging schemes where there is a shortfall of UK workers – which there will be.

- **Addressing the sector's structural issues:** In particular, we are keen to see progress on tackling the culture of aggressive risk transfer and accepting the lowest price as best value. We welcome signs that those commissioning infrastructure are beginning to recognise the increasing concern regarding risk transfer and the unwillingness of contractors to engage in contracts that may ultimately damage their businesses and the industry's long-term resilience.

About Balfour Beatty

Balfour Beatty is a leading international infrastructure group. Our main geographies are the UK, US and Hong Kong. Over the last 100 years we have created iconic buildings and infrastructure all over the world including the London Olympics' Aquatic Centre, Hong Kong's first Zero Carbon building, the National Museum of the Marine Corps in the US and the Channel Tunnel Rail Link.

With 26,000 employees - 15,000 of them based across the UK - Balfour Beatty finances, develops, delivers and maintains the increasingly complex infrastructure that underpins the UK's daily life, with projects across transportation, power and utility systems, social and commercial buildings. We also have significant experience and understanding of the links between infrastructure investment and regeneration and economic growth.

Balfour Beatty employs over 150 apprentices each year in the UK in addition to the 320 currently under training in a diverse range of roles across the business. We employ around 700 more young people on graduate and part-time higher education / degree schemes. Balfour Beatty is also a long standing member of The 5% Club, an employer led organization set up by our Chief Executive, Leo Quinn, three years ago, aiming to address the skills gap by getting more young people into earn to learn opportunities, encourage businesses to take the lead on training and promote apprenticeships as a positive career decision.

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[2] https://www.balfourbeatty.com/media/317854/building-the-future.pdf