

# Securing the Benefits of Infrastructure in a post-Brexit World

High performing infrastructure allows our economy to grow more quickly by helping other sectors improve their productivity. It unlocks opportunity, allows the UK to access global markets and spreads wealth across the country.



Every 1,000 direct jobs created by the delivery of new infrastructure boosts wider employment by over 3,000 jobs<sup>1</sup>

The Government has established a pipeline of infrastructure projects requiring £500bn investment, £300bn of which is planned before 2020/21<sup>2</sup>. There is a risk that Brexit damages our ability to deliver the pipeline and secure the benefits it brings. The Brexit Infrastructure Group has identified a three-strand strategy to mitigate this risk:

- 1. Consolidate** the UK's status as an attractive location for infrastructure investment
- 2. Avoid** a self-inflicted skills crisis
- 3. Use** the Industrial Strategy to exploit the UK's emerging status as a global leader in infrastructure innovation and technology

## Consolidate the UK's status as an attractive location for infrastructure investment

Over half of the investment needed to deliver the National Infrastructure and Construction Pipeline will come from private investors<sup>3</sup>. The market in the UK is currently functioning well. A strong pipeline of work and well established models of economic regulation has led to many international investors, financiers and developers basing operations in the UK. Historically low interest rates make this an attractive period for further investment.



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Maintaining a healthy pipeline of activity is crucial to consolidating this position. We therefore welcome the Government's commitment to develop a new pipeline of projects suitable for delivery through Public Private Partnership, as well as the decisions to

extend the UK Guarantees Scheme until 2026, and develop a form of construction-only guarantee.

We also need to be able to access a diverse pool of investors with risk appetites suitable for different types of project at different stages of their lives. The European Investment Bank (EIB) has been an important part of this mix. It has invested €31.2bn in the UK between 2012 and 2016 alone, the vast majority of which was spent on infrastructure projects<sup>4</sup>.

<sup>1</sup> CECA (2013) Securing our economy: The case for infrastructure

<sup>2</sup> HM Treasury (2016) UK infrastructure investment to reach record high

<sup>3</sup> Ibid

<sup>4</sup> EIB (2017) The EIB in the United Kingdom (the energy sector received €9.3bn, waste, sewerage and urban development €8.8bn and transport and telecoms €7bn)

By acting as an anchor investor, it has been able to bring in other sources of funds for projects that would have struggled to reach financial close, especially during volatile periods such as the aftermath of the 2008 financial crisis. Our potential exit from the EIB presents a significant gap in the investment landscape.



Every £1 spent on infrastructure construction raises economic activity by £2.84<sup>5</sup>

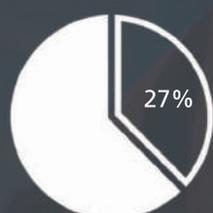
### Action needed now:

Clarity on our future relationship with the EIB should be an immediate priority in forthcoming negotiations. In preparation for the possibility of loss of UK membership, the Government should start consulting with industry now on alternative options for filling this gap in the investment mix. This should include the potential for a UK investment bank to replace EIB funding for future infrastructure projects.

### Avoid a self-inflicted skills crisis

The skills challenge facing the sector is long-standing and well-documented. The sector is still yet to recover fully from the 400,000 construction jobs lost in the recession and has an ageing workforce with 30% aged over 50<sup>6</sup> and around 700,000 set to retire in the next 10 years<sup>7</sup>.

And yet demand is only increasing. In a recent study, consultants Arcadis estimate that the UK needs an additional 36,000 workers every year to meet the demands created by our infrastructure programme. The study also suggests that by 2020, depending on the details of Brexit, the UK could suffer a net loss of up to 214,000 EU workers<sup>8</sup>.



27% of construction jobs in London are currently filled by EU nationals<sup>9</sup>

A rapid reduction of EU nationals in our workforce on this scale would be disastrous for the sector. The resulting cost inflation and labour shortages will cause delays and make some vital projects unaffordable.

Restricting UK infrastructure companies from deploying UK staff throughout the EU will also fundamentally affect their ability to participate and compete in European markets. Free movement of labour within the EU enables important knowledge transfer and best practice sharing to take place throughout the entire EU construction workforce.

Government and industry need to take immediate action to avoid this scenario. Looking further ahead, Brexit may be the wake-up call the industry needs. Infrastructure and the construction supply chain are going through a period of rapid technological transformation. We need to be planning now to upgrade the skills of the existing workforce, update the sector's business models and practices, and develop the next generation of employees.

<sup>5</sup> CECA (2013) Securing our economy: The case for infrastructure

<sup>6</sup> DWP (2015) DWP: Statistics on workers by sector

<sup>7</sup> Arcadis (2015) People & Money: Fundamental to unlocking the housing crisis

<sup>8</sup> Arcadis (2017) Talent Scale: The real extent of the Britain's construction labour crisis

<sup>9</sup> GLA (2017) Housing in London 2017

**Action needed now:**

Government should guarantee the status of existing EU nationals currently working in the UK. Securing the status of UK workers in the EU should also be a priority objective at the outset of the Brexit negotiations. Government and industry should collaborate to map the skills required to deliver the National Infrastructure and Construction Pipeline and prioritise them within any post-Brexit immigration system.



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**Use the Industrial Strategy to exploit the UK's emerging status as a global leader in infrastructure innovation and technology**

The UK infrastructure sector is fast gaining a global reputation for developing and deploying new technologies to manage assets and networks more effectively and improve services to end users.

Government action to promote BIM Level 2 has also given us a head start in digital construction, opening up opportunities for a step change in the cost, speed and quality of project delivery.

The construction supply chain is beginning to change its business models and practices to adapt to this new world.



In 2015 UK productivity was 18% lower than the average for other G7 countries, 35% behind Germany and 27% behind France<sup>10</sup>

Our world-leading universities have been critical in establishing the UK at the forefront of these changes. Much of this work has been delivered through EU collaborative research programmes. We therefore welcome the Government's commitment to underwriting EU Horizon 2020

research funding beyond our formal membership of the EU. However, uncertainty about access thereafter, remains exacerbating the risk that Brexit undermines our universities' ability to attract the most talented students and staff from around the globe.

We welcome the inclusion of infrastructure as one of the pillars in the recent Industrial Strategy Green Paper. We are committed to working with the Government to exploit these advantages. This will be key to securing the cost effective, affordable, high performing networks we need to thrive. When combined with our world-leading finance, legal and advisory capabilities it can open up high value export opportunities at a time of global demand for infrastructure.

**Action needed now:**

Infrastructure must remain a priority in the final Industrial Strategy. Government and the infrastructure sector must establish a shared programme to exploit the UK's existing advantages in innovation and technology.

# BREXIT INFRASTRUCTURE GROUP

## About the Brexit Infrastructure Group:

The Brexit Infrastructure Group was established to provide expert insight for the Government on the key risks, challenges and opportunities the infrastructure industry faces as we start the Brexit negotiation process.

The group has produced five papers on investment, skills, research and innovation, codes and standards, and procurement.

## Our Leadership Board:

**Chair: Sir John Armitt**

**Nick Baveystock**, Director General, Institution of Civil Engineers

**Amanda Clack**, President, Royal Institution of Chartered Surveyors

**Geoff French**, Chair, Enterprise M3

**Richard Laudy**, Partner and Head of Global Infrastructure Sector, Pinsent Masons

**Paul Nash**, President, Chartered Institute for Building

**Mike Putnam**, Chief Executive Officer and President, Skanska UK

**Nick Roberts**, Chief Executive Officer, UK & Europe, Atkins

**Dr Scott Steedman CBE**, Director of Standards, British Standards Institution

**James Stewart**, Chairman Global Infrastructure Practice, KPMG

**Andrew Wolstenholme OBE**, Co-Chair, Construction Industry Council

## Further Information:

e: [policy@ice.org.uk](mailto:policy@ice.org.uk)