

## Position Paper

December 2016

### The impact of the EU referendum outcome on the infrastructure industry

1. Balfour Beatty is a leading international infrastructure group. With 15,000 employees across the UK, Balfour Beatty finances, develops, delivers and maintains the increasingly complex infrastructure that underpins the UK's daily life. Delivering projects across transportation, power and utility systems, social and commercial buildings: from Crossrail and the Channel Tunnel Rail link, Heathrow T2b to the M25, M60, M3 and M4/M5; Sellafield and soon Hinkley C nuclear facilities; to the Olympics Aquatic Centre and Olympic Stadium Transformation. We also have significant experience and understanding of the links between infrastructure investment and regeneration and economic growth.
2. Effective, reliable infrastructure is widely recognised as vital to a country's economic success, as well as acting as a stimulus for economic growth. However, this close link between the strength of the economy and infrastructure can also present difficulties. The vote in June 2016 to leave the EU is likely to have a significant impact on the UK economy for at least the next decade, and there is little doubt that a prolonged period of uncertainty will impact infrastructure investment and delivery in the medium to long term.
3. This paper focuses on **constructive and innovative proposals** to address some of the uncertainties and challenges created by the referendum result. It also identifies **opportunities** stemming from the vote. It also provides commentary on these ideas setting out some of the repercussions of the Brexit vote for the infrastructure industry. Any potentially positive consequences of Brexit will of course rely on the detailed outcomes of the negotiations. We urge those undertaking the negotiations to maintain their focus on the crucial role infrastructure and skills play in economic growth and therefore in the future of the country.

#### Seizing the moment – key opportunities and ideas following the Brexit vote

- Efforts should continue to address the skills gap in the UK with strong strategies from Government and industry to both maintain the skills base in the UK, as well as attract talent from overseas
- Re-training former members of the Armed Force and ex-offenders and maintaining efforts to increase the diversity of the infrastructure industry can help to address the skills shortage.
- There is scope for more specialist academies to train people in specific areas.
- Modular design and offsite construction has the potential to reduce the number of workers required to build tomorrow's infrastructure, as well as being cheaper, safer and providing savings in terms of time and money.

- With interest rates low, now is a good time for government to borrow to finance infrastructure projects.
- If the UK is no longer bound by single market rules there could be an opportunity to diversify the economy away from traditional industries.
- Brexit provides an opportunity for a debate on the financing of infrastructure and to consider new ways to raise funds for example road pricing and mechanisms for encouraging UK Pension Funds to set up direct investment funds.

### **Industrial strategy**

4. Balfour Beatty is supportive of Government's proposal to develop an industrial strategy. We believe that an industrial strategy has the potential to provide much-needed certainty and structure following the Brexit vote and that infrastructure can act as a cross cutting enabler within the strategy. As referenced above, effective, reliable infrastructure is widely recognised as vital to a country's economic success, as well as being a stimulus for economic growth to the point where governments around the world invest in it in times of financial difficulty. Infrastructure investment delivers significant benefits, not only in terms of direct employment relating to the build and long term maintenance of a scheme and the spend that goes via the supply chains; there is also a well-documented multiplier effect. Economists estimate that every £1 spent on construction generates £2.84 in total economic activity at least 90% of which stays in the UK<sup>1</sup>.

### **Skills**

5. Uncertainty around the free movement of labour in the EU could cause the industry recruitment and staffing difficulties and may increase costs where demand for labour outstrips supply, with the subsequent risk of project delays. As the costs of government funded construction projects increase taxpayers will carry the burden. For the infrastructure industry, free movement of labour in the EU has allowed us to find the skilled staff we cannot currently find in the UK. 11% of Balfour Beatty recruits in 2016 to date hold non-British EU passports and 78 of our recruits this year came to us via a pro-active campaign targeting Greece and Portugal with a further 21 recruits this year, and 40/50 in 2017. In our supply chain and the people who actually build tomorrow's infrastructure, the proportion of non-British EU workers is even higher. Only 0.2% of our 2016 recruits come from outside the EU due to the complexity, cost, administrative burden and time delays required in managing the current points based sponsor licence system.
6. As a British company with a hundred year legacy in the UK, Balfour Beatty is committed to addressing the skills shortages in the UK and investing in home grown talent. We believe it is important that industry steps up to the plate and plays. 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. Leo Quinn also leads the skills work stream of the Government's Construction Leadership Council (CLC) which is setting targets and recommendations for the construction industry to build momentum and commitment in tackling the skills shortage.

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<sup>1</sup> CBI, *Construction bridging the gap*, June 2012

7. Developing the skills we need to build tomorrow's infrastructure takes time. It can take a decade from starting an apprenticeship or training for someone to gain all the skills they need in specialist areas such as nuclear new build for example. With various large infrastructure projects in the pipeline, including mega projects such as HS2 and Hinkley Point C, our progress in addressing the skills gap needs to accelerate. Furthermore, while it is essential to invest in home grown skills, the increased volumes expected and the potential loss of foreign workers will not be enough to bridge the gap in skills we require to build tomorrow's infrastructure.
8. With these challenges in mind it is vital that efforts continue to address the skills gap in the UK and we need strong strategies from Government and industry to both maintain the skills base in the UK, as well as attract talent from overseas. Innovative solutions can help cut costs and address the skills shortage. For example:
  - Retraining individuals could be a viable way for the UK to meet some of the skills shortages across the construction and engineering industries through support for re-training members of the Armed Forces and ex-offenders. Balfour Beatty is a keen supporter of our Armed Forces and already employs a number of veterans. We've also joined the recently created Armed Forces/ Construction Partnership Build Force that - supported by the Chartered Institute of Building, other professional organisations and a range of employers and stakeholders - seeks to provide a formal link between Armed Forces leavers and management careers in construction. National Grid has a Young Offenders Programme which uses work based training external to the prison while the sentence is still being served and supports a seamless transition into skilled employment following release. Retention rates for employees who have come through the programme are around 10% better than for those who have come through conventional routes.
  - Efforts to improve diversity and inclusion in the infrastructure industry should continue to ensure that we are recruiting from the widest possible pool of talent.
  - The National Infrastructure Pipeline has provided industry with a longer term view of skills requirements: we should take action now to complement measures such as the Apprenticeship Levy. Measures such as the HS2 College and the Tunnelling and Underground Construction Academy (TUCA) are welcome. However, given the number of major infrastructure projects in the pipeline, more will need to be done to ensure skills shortages do not impact costs and timings for these projects. That is why Balfour Beatty believes there is a need for more specialist academies, such as the Tunnelling Academy, to train people in specific areas.
  - We also see modular design and offsite construction as very powerful innovations to reduce the cost of housing and other infrastructure. The offsite construction sector currently accounts for around 7% of total construction output in the UK and increasing. These technologies have potential beyond addressing the skills shortage: they can help address the need for new housing and the low carbon agenda also. Balfour Beatty has a purpose built off-site manufacturing facility manufacturing products including packaged plant rooms, service modules, riser modules and modular electrical systems. Working in this way is safer (e.g. significantly fewer 'at height' hours), more productive, high quality with less waste, and provides customers with substantial savings in terms of time and money.

## **Procurement**

9. Depending on the outcome of negotiations on the UK's exit from the EU, there could be implications for the infrastructure industry in terms of procurement of materials, machinery and

equipment from the EU. Raw materials, such as cement and bitumen, could be subject to tariffs or taxes. Large machinery is imported and purchased from the EU intermittently, for example boring machines for use on major tunnelling projects such as HS2 and the Silvertown development in London. Ultimately, higher prices will have an impact on end customers and taxpayers.

## Opportunities

10. Of course, every set of challenges also presents opportunities. While a period of lower growth would mean lower tax receipts for the Treasury, the current low interest rates - predicted to sink even lower - mean that now is an ideal time for government to borrow money in order to finance infrastructure projects. This is far from being an irresponsible course of action as some maintain. As referenced above, infrastructure investment delivers significant benefits, not only in terms of direct employment relating to the build and long term maintenance of the scheme and the spend that goes via the supply chains; there is also a well-documented multiplier effect.
11. As the UK may no longer be bound by single market rules which restrict an active industrial policy, Brexit could also present an opportunity for the much talked about diversification of the economy away from financial services and back towards industries such as engineering, construction and manufacturing. This, in turn, would support the rebalancing of the economy more evenly across the regions. With an infrastructure industry placed at the heart of a new industrial strategy there may also be potential to export the sector's skills overseas.
12. There is a need for an urgent debate about the financing of infrastructure. The questions that need answers are many, but important: what percentage of GDP should we spend to deliver a sustainable rate of economic growth and international competitiveness? How much should the taxpayer fund and how much should be privately funded? And what are the new financing mechanisms that could be explored, alongside initiatives such as British Wealth Funds and Infrastructure Premiums to make up the shortfall in international investment and investment from EU sources? There are a number of options, for example:
  - The Government may wish to reconsider other options for financing infrastructure such as road pricing and other user pays methods, to maximise the economic boost from infrastructure in addition to those schemes being directly financed from the public purse.
  - The Government could look also at other finance solutions, for example, mechanisms for encouraging UK Pension Funds to set up direct investment funds to ensure that British citizens can invest in UK infrastructure, as those in other countries can.

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