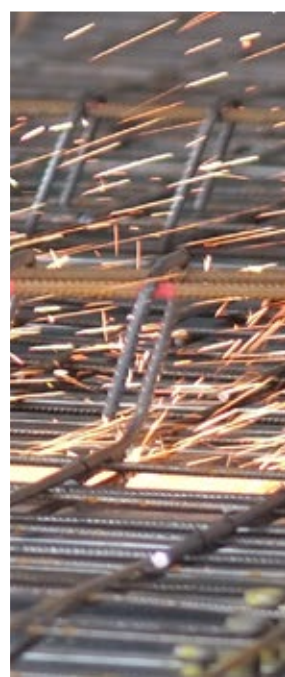


Brexit and the Irish Construction Sector








Contents

Foreword	02
Executive summary	03
Key Findings: Brexit and the Irish Construction Sector	05
1. Measure Twice Cut Once	06
2. Cost and Confidence - What does Brexit mean for the Irish construction sector?	10
3. The movement of People	12
4. Government supports	13
5. Optimism and Opportunity	14
Appendices	
Brexit “checklist” for the Irish construction sector	15
No Risk Pre-Brexit Actions for the Construction Sector	16
Survey methodology and key contacts	17



Foreword



The construction industry is critical to minimising the impact of Brexit on the domestic economy. With nearly 150,000 employees and over 45,000 SME enterprises, the industry is dispersed across every Irish community. At a macro-level, the industry is a key driver of Irish economic growth but is only now emerging from a decade long period of inactivity and underinvestment.

The potential risks of Brexit to the Irish economy are unknown. What is certain is that the negative impacts on Irish construction companies will have a multiplier effect on the Irish economy and society. Delays to infrastructure delivery, housing and the specialist construction that attracts and retains multinational FDI could all threaten Irish economic growth post-Brexit.

This survey provides evidence that construction companies, like other sectors, are struggling to plan for Brexit. The CIF has long advised its members to take steps to prepare as much as possible for a range of post-Brexit scenarios. In the immediate term post-Brexit, the supply-chain will be extremely challenged to absorb costs and many companies have already been struggling with increasing input and labour costs in the industry with minimal cost recovery. Delays in the delivery of materials also has potential to lead to penalties and additional costs that contractors and their sub-contractors could struggle to address. With house building so tenuous outside the Greater Dublin Area, even minimal Brexit-driven cost increases could be the difference between securing development finance or otherwise.

Many large contractors' scenario planning may be well developed at this stage. However, with the preponderance of SME and micro-enterprises operating in the sector, more needs to be done to help companies prepare. The checklist created from this survey will support companies that are planning as Brexit looms into focus. There is optimism in this resilient industry particularly as the Government's National Development Plan provides a strong pipeline of activity for the next decade. Specialist sectors will continue to deliver for MNCs here in Ireland and increasingly abroad. In addition, the industry will be central to delivering the accommodation and commercial needs that will arise in the case of companies relocating to Ireland.

In summary, this industry will continue to be central to the Irish economy in the post Brexit period. The construction industry is taking steps to prepare, and policy-makers should calibrate support towards the industry, particularly SMEs, to insulate the economy and society from the worst impacts of Brexit.

Tom Parlon
Director General - CIF

Executive summary



We are delighted to present the findings of the CIF / PwC Brexit survey of the member base of the Construction Industry Federation. The survey canvassed the opinion of members of the construction industry on its state of readiness and the likely impacts of Brexit.

With time running out before the UK formally leaves the European Union, the realities of Brexit are coming into focus.

Rising cost of raw materials and likely delays at ports (80%), sub-contractor and supply chain difficulties (45%), not to mention the existing concern around a shortage of talent (23%), are all likely to impact the sector in the coming weeks as Brexit edges closer.

With March 29 now looming, the Irish construction industry like many other vital industries needs to prepare for a range of eventualities. The CIF / PwC Brexit survey, of over 100 members of the Construction Industry Federation which was conducted last December, highlights the state of readiness of the Irish construction sector and gives key insights as to what needs to be addressed ahead of time. Due to the importance of the construction sector in dealing with Ireland's housing crisis and the timely delivery of essential infrastructure it's critical to the Irish economy that the industry is both Brexit ready and proof.

Key Findings

1. Measure Twice - Cut Once

According to a recent Oireachtas Housing Committee meeting, work is well under way at a Government level to minimise where possible the impact that Brexit will have on the Irish construction sector. However, many Irish construction businesses (72%) have not undertaken any form of Brexit impact assessment or "Day 1" preparation plan.

At a macro-level, this could prove costly for a sector that relies heavily on advanced planning, preparing and designing, even before activity begins.

Appropriate analysis is now needed by all construction companies and associated stakeholders so that strategic decisions related to sourcing policies and people movement can be taken ahead of Brexit.

Questions such as the following should be analysed and understood:

1. Have you spoken with your subcontractors or material suppliers to see if they will be impacted or are likely to seek to pass on directly related customs or tariff costs?
2. Will there be a delay in delivery of your materials?
3. Will currency fluctuations have a negative impact on cash flow?
4. Do your contracts allow you to mitigate any possible exposure?
5. Will certification and standards still apply to your materials?
6. Will the movement of your people be impacted?

2. Cost and Confidence

The likely rising cost of raw materials (80%), followed closely by a loss of confidence within the domestic market (40%), are seen as the biggest concerns amongst the construction sector. With Irish construction businesses sourcing a significant amount of materials from the UK, understanding what the likely increase in costs (associated with tariffs) might be post Brexit will be key as businesses look to price jobs and contracts.

In this regard, many construction firms have not considered the impact of Brexit in the context of contract negotiation (51%), to ensure that future contracts provide both protection and flexibility.

3. Movement of People and Equipment

Many firms working cross border hire large plant and machinery locally as necessary. However, the future movement of not only plant and machinery, but also equipment and tools, back and forth between contract jobs in the UK and Ireland, will incur costs, additional administration and possible delays due to customs requirements at the border.

45% of respondents say that their supply chain will be impacted and 37% have no customs experience. Where possible ensuring that the correct equipment is located in the appropriate territory for future contracts ahead of Brexit will help mitigate potential difficulties for the immediate months following the UK's exit from the single market.

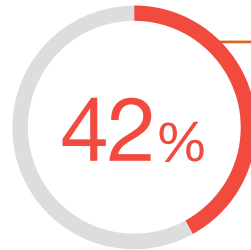
25% of respondents are concerned about the restrictions on the free movement of people to and from the UK. Therefore, reviewing your labour force and ensuring that employees of various nationalities can continue to travel to and from the UK, as required for work, is becoming a priority.

4. Government supports

The Irish Government has introduced a number of measures, including training and contingency plans, as well as the 'Brexit Loan Scheme (BLS)', to help alleviate some of the adverse effects that may arise as a result of Brexit.

Many construction firms believe support for companies taking on apprentices and more initiatives to encourage the uptake of construction related employment are needed in the area of higher education to help offset any Brexit effect on existing skill shortages within the industry.

Furthermore, Government support to ensure that any legislative amendments that may be necessary do not cause undue financial strain on private construction operators as a result of Brexit would be welcome. 40% of respondents said the delivery of the National Development Plan 2018 - 2027 was the key action Government could take to give the industry certainty in light of Brexit.



of construction businesses say that Brexit will have a declining impact on their business in the year ahead

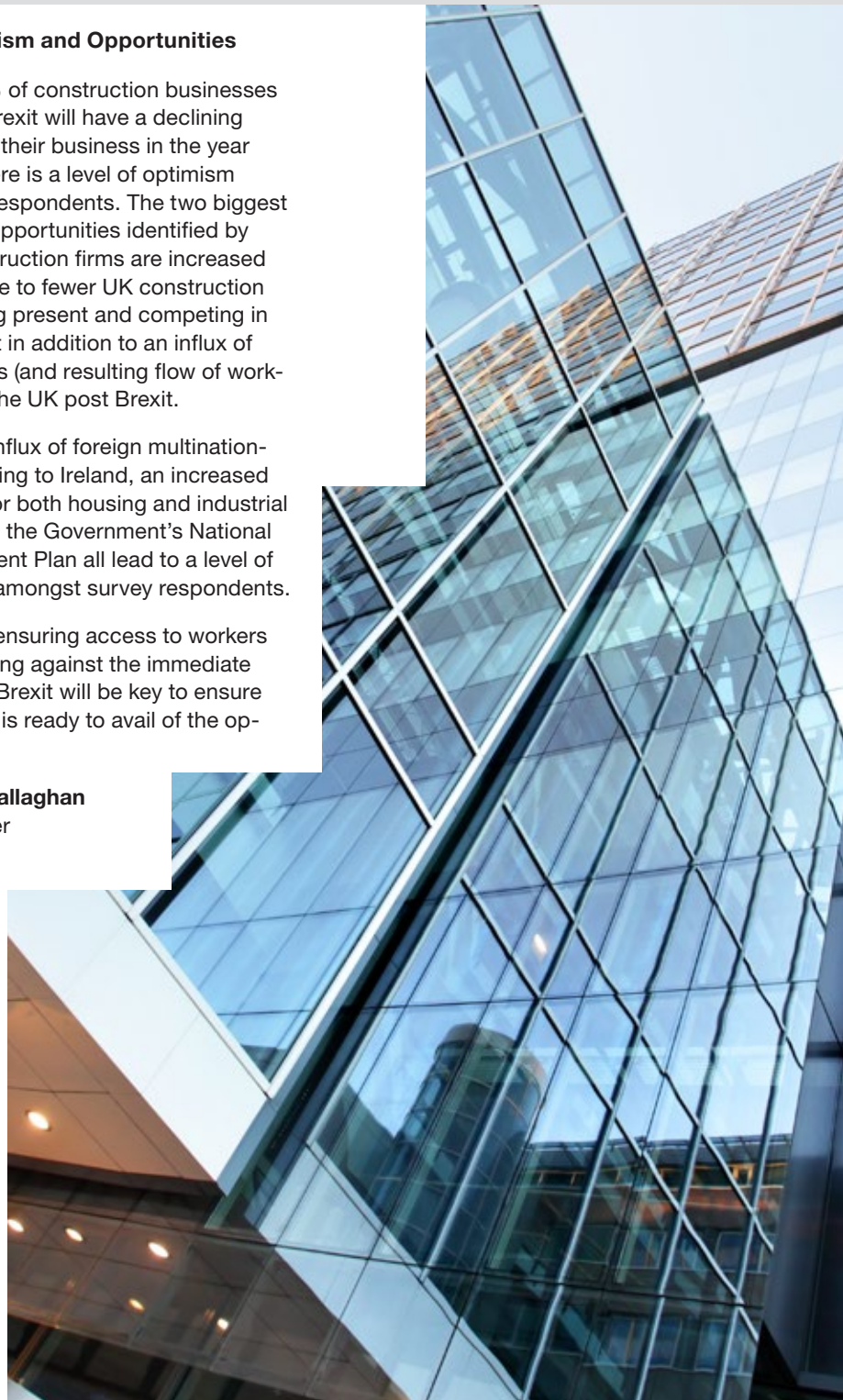
5. Optimism and Opportunities

While 42% of construction businesses say that Brexit will have a declining impact on their business in the year ahead, there is a level of optimism amongst respondents. The two biggest potential opportunities identified by Irish construction firms are increased activity due to fewer UK construction firms being present and competing in the market in addition to an influx of businesses (and resulting flow of workers) from the UK post Brexit.

A steady influx of foreign multinationals relocating to Ireland, an increased demand for both housing and industrial stock, and the Government's National Development Plan all lead to a level of optimism amongst survey respondents.

However, ensuring access to workers and planning against the immediate impact of Brexit will be key to ensure the sector is ready to avail of the opportunity.

Colm O'Callaghan
Tax Partner



Key Findings: Brexit and the Irish Construction Sector



Nearly 50% expect the cost of doing business to increase by **5%-10%** in a no-deal Brexit scenario



80% of respondents said the increased cost of materials in a post Brexit environment is the number one business concern for the construction sector.



42% of construction businesses say that Brexit will have an initial negative or declining impact on their business in the year ahead.



79% say that they are not currently looking to diversify into other territories as a result of Brexit while of those looking at alternative overseas opportunities close to **40%** are looking to the German market



The two biggest potential opportunities identified by Irish construction firms are increased activity due to fewer UK construction firms being present and competing in the market in addition to an influx of businesses (and resulting flow of workers) from the UK post Brexit.



Most businesses expect supply chain difficulties and delays will be their biggest challenge post Brexit with only **21%** of those surveyed of the view that our Ports and Airports will be ready on 1 April.



57% have not considered the impact additional customs duties and administrative requirements will mean for their businesses while **72%** have limited or no customs experience



Only **8%** say that they have engaged with all of their suppliers and subcontractors to determine their exposure to Brexit and potential supply chain implications, while a further **42%** have had only limited engagement.



40% of businesses in construction believe there will be a loss of confidence in the sector as a direct impact of Brexit



Increased construction activity to service the influx of businesses (and resulting flow of workers) from the UK post Brexit is identified as the biggest opportunity that exists for the Irish construction sector resulting from Brexit



Only **37%** have considered the impact Brexit will have on existing contracts. While **51%** have performed no review whatsoever as to the impact it will have on their contracting arrangements.



72% of construction businesses within the Irish construction sector have not undertaken any form of Brexit impact assessment or 'Day 1' preparation plan



25% say that the biggest People impact on their business will be restrictions on the free movement of people to and from the UK. While a further **23%** have concerns around the ability to source talent.



40% believe that the Government should support the Irish construction sector by enhancing and supporting the continued development of National Development Plan and housing plans

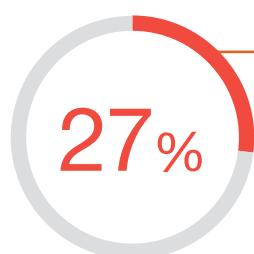
1

Measure Twice Cut Once

Uncertainty has surrounded the entire Brexit process since the UK referendum result in June 2016. This has contributed to a widespread “wait and see” approach to preparing for Brexit and the survey results show that the Irish construction sector is no different.

With just over three weeks to go, 27% of Irish construction companies have made some form of Brexit impact assessment on their business. However, due to the large proportion of SMEs and micro-enterprises in the industry, many have perhaps lacked the resources or information to carry out a robust analysis.

While uncertainty has undoubtedly contributed to difficulties in preparing, the lack of readiness, the limited direct exposure that many Irish construction businesses have to the UK market (only 40% of businesses are currently trading in or with the UK) may also be a contributory factor. Furthermore, the UK market is not a significant revenue driver for many of those trading in or with the sector (67% of respondents indicating that less than 20% of their revenue is derived from the UK market).



of Irish construction companies have made some form of Brexit impact assessment on their business



67% of respondents have indicated that less than 20% of their revenue is derived from the UK market

However, the implications of Brexit will extend far beyond UK activity levels and UK generated revenue into the domestic economy:

Cost of materials and movement of equipment:



Tariffs will apply to both imports into the UK from the EU and imports into the EU (including Ireland) from the UK. These tariffs will vary by product and will lead to cost increases.

Supply chain:



As a result of the introduction of a border for trade to/from the UK, supply chain lead times will become longer and more expensive with the need to allow for increased inventory within supply networks.

Route to market:



UK market access will become more difficult as EU and Irish imports may become more expensive versus UK competitors. As a result, opportunities for Irish construction companies in the UK may become more challenging post Brexit.

Customs compliance:

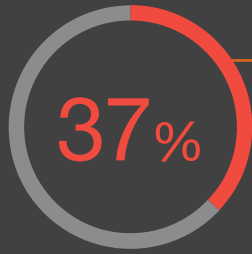


This will drive incremental costs for businesses as they seek to firstly understand this new regulatory and compliance environment and secondly comply with the additional customs requirements both on the Irish and UK sides of the border.

People:



Restrictions may create barriers to obtaining the right people with the right skillset or may limit the movement of your workforce for UK and NI based contracts.



of businesses have assessed the robustness of their existing contracts

Contracts

In terms of contracting and negotiating new jobs and projects - 37% of businesses in the Irish construction sector have assessed the robustness of their existing contracts in order to ascertain whether they will adequately support their businesses post-Brexit.

There has been limited engagement with suppliers and subcontractors to understand their exposure to Brexit. Brexit-related clauses have generally not featured in contracts in the Irish construction sector. This has the potential to lead to even more uncertainty post-Brexit as contractors, sub-contractors, suppliers and customers struggle to understand who is responsible for customs related cost over-runs, supply chain delays, knock-on project delivery disruption and any potential regulatory divergence issues on raw materials. It is somewhat concerning therefore, that only 50% of respondents report to having had some form of engagement with either their subcontractors or suppliers on their exposure to Brexit - possibly due to the complexity of relationships within this fragmented industry.

Strength in size

Larger construction companies operating in the Irish construction sector appear to be best placed to withstand an initial deluge of new customs duties and checks, supply chain disruption, gridlocked ports and the inevitable cash flow impact that will stem from that. Furthermore, larger respondents are generally in a more advanced state of readiness and should be able to respond and recover more rapidly.

However, for small to medium sized construction companies, the same issues will be present and will represent significant challenges for all.



report to having had some form of engagement with subcontractors or suppliers



5 actions that companies of all sizes should take now:

- 1 Analyse your existing supply chains** to identify key risks as well as potential competitive opportunities. A key risk area will be understanding if subcontractors are Brexit ready and if delays at port are likely to impact contracts or just in time deliveries of materials. Early conversations can avoid longer lead times and place you ahead of the curve to exploit the competitive opportunities.
- 2 Understand your competitor landscape** and ways to gain advantage through repositioning your organisation for growth. While an influx of construction related companies is not expected, be proactive in winning new contracts from industries that are expected to relocate.
- 3 Engage with key customers** to understand their specific Brexit related needs and ways in which you can support them, be it through new housing developments for staff moving to Ireland, more office space or general renovations to deal with the increased space demands.
- 4 Consider the need for contingency planning** which will minimise any supply chain delays on your business. Ensure all necessary customs registrations and a customs broker is in place. You should ensure that you are satisfied that all goods continue to meet the necessary safety and regulatory frameworks within the EU. If not, then consider looking at alternative supply chain routes from within the EU to source your materials. Furthermore, companies should engage with all Brexit related supports currently available through various Government agencies.
- 5 Undertake financial modelling** to understand the impact of Brexit on your business. Consider areas such as potential sterling devaluation, increased costs driven by tariffs and new customs requirements, and the associated cash flow implications. This can be done by evaluating the level of revenue received from UK contracts and understanding the financial impact this may have on specific contract margins.

2

Cost and Confidence - What does Brexit mean for the Irish construction sector?

At a macroeconomic level, 42% of respondents within the sector believe that Brexit will have an immediate negative impact on businesses operating within the Irish construction industry. This is not totally unsurprising given that it has been widely acknowledged in Ireland, across the EU, and indeed in the UK, that Brexit will have a harmful macro-economic impact.

A recent revised assessment (post-Budget 2019) of the economic and fiscal impacts of a no-deal Brexit by the Department of Finance revealed that by 2023, the economy could be 4.25% smaller than current projections and 6% lower than a no Brexit baseline.

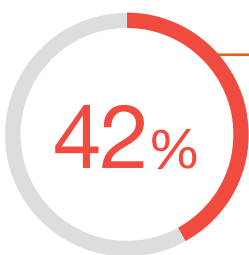
The two biggest potential opportunities identified by Irish construction firms are increased activity due to fewer UK construction firms being present and competing in the

market in addition to an influx of businesses (and resulting flow of workers) from the UK post Brexit.

A steady influx of foreign multinationals relocating to Ireland, increased demand for both housing and industrial stock, and the Government's National Development Plan all lead to a level of medium-term optimism amongst survey respondents.

Against this, the likely rising cost of raw materials (80%), is seen as the biggest concern amongst construction companies. With Irish construction businesses sourcing a significant amount of materials from the UK, understanding what the likely increase in costs (associated with tariffs) post Brexit will be key as businesses look to price jobs and contracts.

In this regard, it is imperative that more than the 51% of respondents consider the impact of Brexit in the context of contract negotiation, and ensure that future contracts provide both protection and flexibility



believe that Brexit will have an immediate negative impact on businesses operating within the Irish construction industry

Key Brexit impacts



Material Costs

In an industry with already tight margins, the imposition of tariffs and import VAT on materials will be significant on goods imported from the UK. Even single digit cost increases could have a material impact on margin levels. For example, a duty of 7% could apply on insulating material or 3.7% on the likes of domestic electrical cabling.

Tariffs will vary by product but will inevitably lead to overall cost increases and an erosion of competitiveness and margins in the sector



Supply chain

Supply chains between the UK and Ireland currently operate under the principles of the Customs Union and Single Market.

With a significant amount of certain types of construction material used in Irish construction projects being currently sourced in the UK, any new regulatory and customs border will present significant logistical barriers, slow down trade and increase business costs.

This will result in an even greater squeeze on margins and/or delays in the supply chain.



Currency and project pricing

Many construction businesses have already seen currency volatility make project pricing significantly more challenging.

However, weak sterling has also resulted in cost savings in relation to materials imported from the UK post June 2016.

Businesses should continue to plan for increase currency volatility as they look to tender for new contracts.

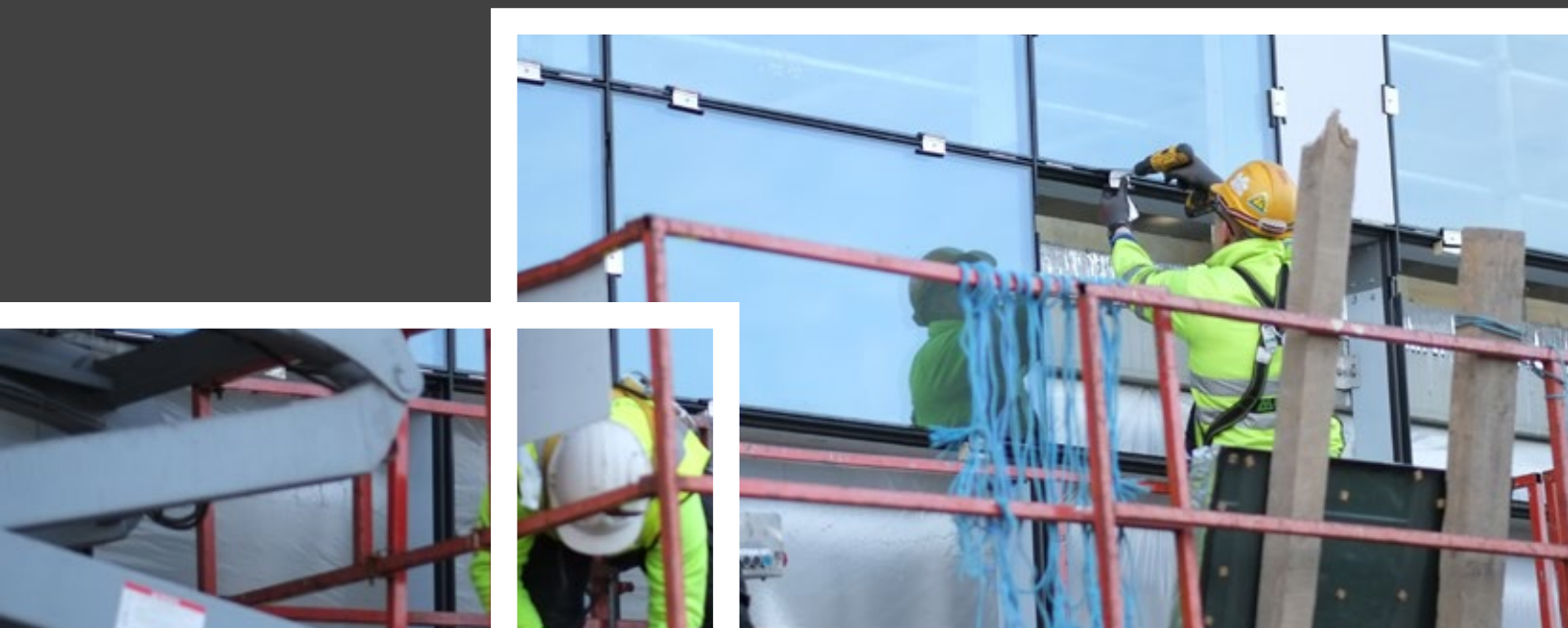


Labour

Labour market restrictions may create barriers to obtaining the right people with the right skillset.

Increasing demand for certain key skills, e.g. engineers, skilled crafts-people etc may also increase pressure on already scarce talent pools.

This increasing demand could have a knock on effect on the ability to deliver on the NDP and further increase trends on the production of housing stock



3

The movement of People

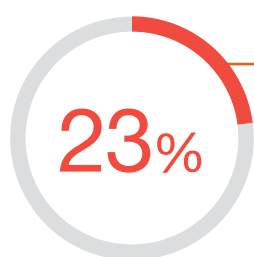
A big challenge currently facing the construction industry is access to the necessary skilled workforce. This survey echos this, with 23% fearing the ability to source the required talent on foot of Brexit.

Workers from abroad have helped bridge the skills gap, between what is required and the level of skilled workforce that is naturally available. This has supported the current level of activity within the Irish construction sector. A reduction, however limited, in an already small pool of skilled workers, will cause huge strain in an industry with a decade-long pipeline of activity.

Survey participants are not expecting an influx of construction industry workers into Ireland from Britain. However, a steady influx of foreign multinationals relocating to Ireland, an increased demand for both housing and industrial stock, and the Government's National Development Plan will intensify the war for labour and talent in the sector.

Furthermore, the skills shortage has put significant pressure on wage costs. Brexit may further exacerbate this as activity levels increase and the demand for skilled labour becomes even more acute. Increased wage costs are also a major concern for 17% of respondents when it came to the likely impact Brexit will have on employees.

Finally, for those construction businesses that undertake jobs in Northern Ireland or have contracts in the UK, 25% are concerned about the restrictions on the free movement of people to and from the UK. Businesses should review their current labour force and ensure that employees of various nationalities can continue to travel to and from Northern Ireland, and the UK, in order to continue to fulfill contracts post Brexit.



fearing the ability to source the required talent on foot of Brexit

25%



are concerned about the restrictions on the free movement of people to and from the UK

4

Government supports

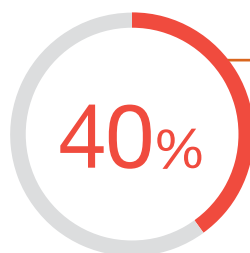
Brexit will undoubtedly put a strain on Irish businesses, in particular the SME sector. In order to support these businesses, the Irish Government have introduced a number of measures and contingency plans, chief amongst them is the 'Brexit Loan Scheme (BLS)', which was established following Budget 2018.

The scheme is operated by the Strategic Banking Corporation of Ireland (SCBI) on behalf of the Government and offers affordable working capital to eligible Irish businesses who face challenges as a result of Brexit. Thus allowing them to respond to the threat posed by Brexit. The €23 million exchequer funding originally announced has been further leveraged to provide a fund of up to €300 million over the lifetime of the scheme through the European Investment Bank (EIB) Group.

However, the latest data released by the SCBI indicates that of the 240 applications received under the scheme (as at 2 October 2018), only 11 (or 4%) of the applicants were Irish construction companies. It would appear that some Irish construction businesses are unfamiliar with the Brexit-related supports potentially available to them. It is clear, therefore, that more needs to be done to raise awareness about available supports to construction companies in advance of Brexit.

Furthermore, 20% of Irish construction businesses believe that the Government should increase access to funding and / or alternative funding options for the Irish construction sector in light of Brexit. This indicates that some businesses believe they still need greater funding support in order to deal with the Brexit fallout.

Finally, 40% of businesses in the sector believe that, in light of Brexit, the greatest support the Government could offer would be further enhanced measures to ensure the continued roll-out of the National Development Plan and housing initiatives.



of businesses in the sector believe that, in light of Brexit, the greatest support the Government could offer would be further enhanced measures to ensure the continued roll-out of the National Development Plan and housing initiatives

5

Optimism and Opportunity

Companies that are prepared for Brexit will be best placed to respond to the challenges it brings and capitalise on the opportunities that emerge. Increased construction activity due to an influx of businesses and workers relocating to Ireland from the UK is seen as an opportunity for the Irish construction sector.

In January 2019, the IDA announced that over 55 Brexit-related investments with over 4,500 associated jobs had been secured. More relocation announcements are anticipated in advance of 29 March 2019. The Irish construction sector's expectation that Brexit would result in more construction activity seems well founded.

A decline in the number of UK construction firms operating in the Irish market is also expected to bring more opportunities for Irish construction businesses.

However, only 15% of Irish construction businesses are anticipating better access to labour as a result of Brexit. Therefore, the current skills shortage means that Irish construction businesses are unlikely to be able reap any potential Brexit dividends unless significant support is provided to develop construction related trades and professional education to meet demand.

Increased construction activity due to an influx of businesses and workers relocating to Ireland from the UK is seen as an opportunity

Appendix - Brexit “checklist” for the Irish construction sector

Whatever form it takes, Brexit will impact all Irish construction businesses and the strong advice is - prepare now!

While there is uncertainty around the final outcome of the process, there are no risk actions that businesses can take now to ensure that they are Brexit-ready, particularly if engaged in cross-border trade.

Thorough planning, clear governance, and effective decision making are critical to navigating Brexit. Construction businesses who have already been proactive in addressing their risks, and making the tough calls, will be best placed to succeed. Those lagging behind must take swift action now to help them navigate the disruption ahead.

Your Brexit Plan

Some specific questions that businesses in the construction sector should be asking include:

- 1 Have you reviewed your supply chain and supplier base to ensure continuity of supply?
- 2 Are you in a position to minimise delays and mitigate the effect of potential cost increases due to tariffs/customs duties?
- 3 Have you reviewed your contracts to determine if increased contract prices are viable in the market to counteract reductions in already tight margins?
- 4 Have you ensured you have the skills and capacity to manage new customs obligations?
- 5 Have you plans in place to mitigate supply chain disruption immediately after Brexit?
- 6 Have you considered the cash flow impacts of currency fluctuations?
- 7 Have you reviewed the suitability of existing contracts to mitigate any exposure?

No Risk Pre-Brexit Actions for the Construction Sector

While the above questions are being considered at a strategic level, there are practical **no risk actions** that can be undertaken now which will immediately increase a business' Brexit readiness.

1. Registrations and authorisations

Prepare the necessary customs and trade registrations and authorisations now in order to be able to be in a position to facilitate customs clearance and duty payments day one. In addition, ensure a customs broker is engaged to lodge customs declarations on your behalf.

Furthermore, checking as to whether key materials and supplies will continue to have the necessary regulatory approvals will be key.

2. Invest in customs expertise

Irish companies will need to think strategically about customs and trade. On import and export, there will be a need to file customs declarations for all goods imported and exported to or from the UK. Expert customs and trade knowledge will be essential for day to day operational activities. This should lead to a robust customs function to support products crossing international borders.

3. Have enough cash flow and inventory

Cash flow problems will increase for companies that need to hold extra inventory as insurance against potential border delays. Furthermore foreign exchange volatility will pact on cash flow.

4. Develop a contingency plan

There is no guarantee that border procedures will operate smoothly immediately after Brexit. Companies need a contingency plan to mitigate against any risk of delay when goods enter or leave the country. Customs reliefs available to reduce customs duty payable should be explored as part of any Brexit planning. Developing a contingency plan will enable businesses to prepare, respond and recover sooner!

5. Move Machinery to appropriate locations

Moving machinery now can avoid incurring significant customs duties and delays post Brexit. It will also be important to discuss with subcontractors to determine whether they have considered Brexit and their ability to deliver on the contracts they are engaged to undertake.

6. Check your workforce

Immigration is the one area where a clear picture is emerging. The UK has outlined details of its settlement scheme and temporary residence scheme. Registration for UK citizens will be a big change for employers. Systems and immigration policies will need to be updated. Firms should already have completed an impact assessment on what this could mean for their business.

Survey methodology and key contacts

This report has been informed and guided by views, perceptions and opinions of over 100 members of the Construction Industry Federation. In addition to the survey, the research also included interviews conducted in January and February 2019.

PwC and the Construction Industry Federation would like to thank all those who contributed to the research.

For more information, contact:

PwC

T: +353 1 7926000

Web: www.pwc.ie



Colm O'Callaghan

Tax Partner

T: +353 1 793 6126

colm.ocallaghan@pwc.com

Construction Industry Federation

T: +353 1 406 6000

Web: www.cif.ie



Shane Dempsey

Director of Communications and
Government Relations

M: +353 87 9884465

sdempsey@cif.ie



John O'Loughlin

Global Trade & Customs Partner

T: +353 1 793 4217

john.p.oloughlin@pwc.com



At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with over 250,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.ie.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

© 2019 PwC. All rights reserved

