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The facts about Brexit

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Transitional arrangements & beyond

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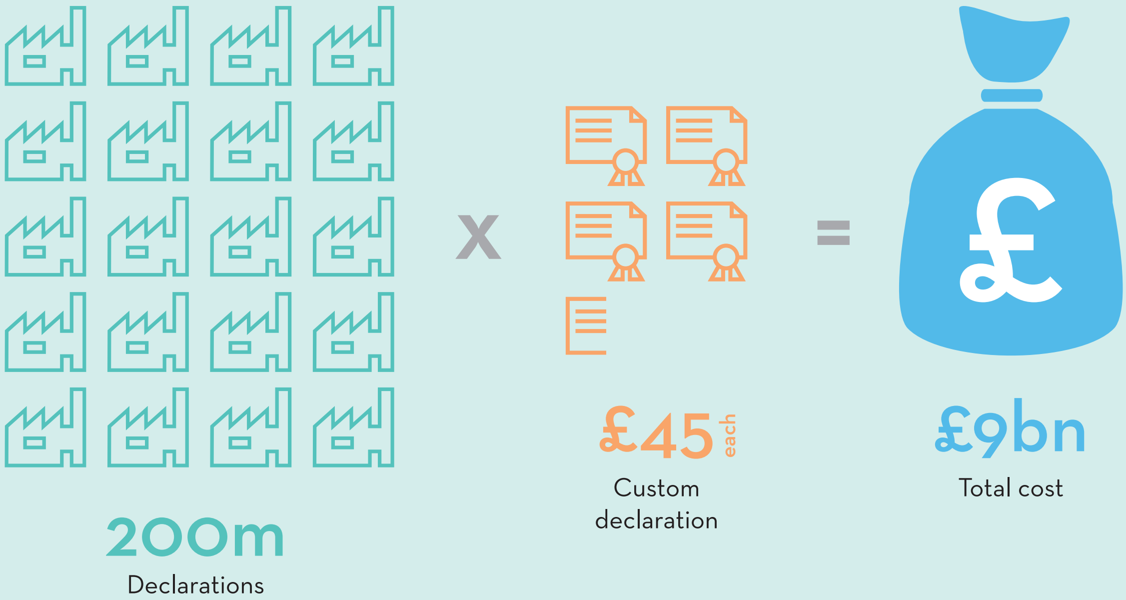

September 2017 saw Prime Minister Theresa May officially suggest a transition period as part of Brexit negotiations with the EU.

In a speech to the leaders of the EU27 nations in Florence, Mrs May suggested that she will accept a time-limited transition period – during which the UK will retain the same market access and trading rules that are currently in effect.

The PM also hinted at a timeframe of 'about two years', but reiterated that the UK would formally leave the bloc in March 2019.

This follows recent, very similar, suggestions made by Chancellor Philip Hammond to a House of Lords Committee. Hammond said that he did not want UK companies to be forced to deal with more than one shift, and that any transitional deal should 'look a lot like the status quo'.

This will please The Confederation of British Industry (CBI) who called for a period of up to three years in a letter signed by more than a hundred employers.

The Brexit Secretary David Davis confirmed that the UK would pay "roughly" £10 billion a year in contribution during that period.

The Labour Party position

Labour Party Leader Jeremy Corbyn agreed that a transitional period was sensible; however, he disagreed that a specific timeframe should be placed on it – stating that the period should last as long as necessary.

The recent Labour party conference did not debate the issue of Brexit, but Mr Corbyn and shadow Chancellor John McDonnell have said that the UK needs 'tariff-free access' to the single market.

In terms of a post-Brexit situation, the labour leader previously said that the party would leave the single market as it was 'dependent on membership of the EU', but that they would seek a trade deal that mirrored free trade benefits.

The Trade Unions, whose view will be important in determining the official policy of the Labour party, do not speak with one voice on this matter: the Trades Union Congress (TUC) campaigned to stay in the EU, whilst the National Union of Rail, Maritime and Transport Workers (RMT) is known to be in favour of leaving.

Unite, the Labour Party's largest donor, has said that it would favour whichever option prioritises jobs, but is currently unsure of which that might be.

Steve Tuner, Assistant General Secretary of Unite, said: "Right now...we'd need to be convinced of a better option than continuing our membership of the single market outside the European Union."

The Post-Brexit costs

Although a transitional arrangement is assumed as the next step, it is still far from agreed at the time of writing. There is even less certainty about how the UK will interact with Europe beyond that point as well.

Transitional arrangements & beyond (con'td)

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The cost of additional bureaucracy has been examined this month.

The Institute for Government has reported that post-Brexit customs checks could cost business up to £9 billion a year. If customs declarations cost between £20 and £45 each, and the government expects around 200 million a year, then the cost would be between £4bn and £9bn.

David Davis has suggested that a high-tech solution would be in place for 2019 to deal with customs declarations, but there is yet to be any clarity on the specifics. Mr Davis also admitted doubt over the set-ups in some EU countries.

If a ‘high-tech solution’ is not put into place, the head of HMRC John Thompson suggested that the UK could need up to 5,000 extra staff to handle customs and border checks.

Divorce bill

While the UK will continue to contribute during any agreed upon transition period, there is still an expectation that it will also be required to pay a final ‘divorce’ bill of some kind.

Mr Davis has traditionally played down this notion and said this month that the number was now “£60bn and falling”. This is compared to the widely-held assumption that the EU would initially ask for £100bn.

However, EU Chief Negotiator Michel Barnier may not be inclined to lower any financial penalty given his comments to the Ambrosetti forum (a collection of politicians, economists and businessmen who debate current economic challenges). He told them that Brexit will be used to “teach the British people and others what leaving the EU means.”

What this means

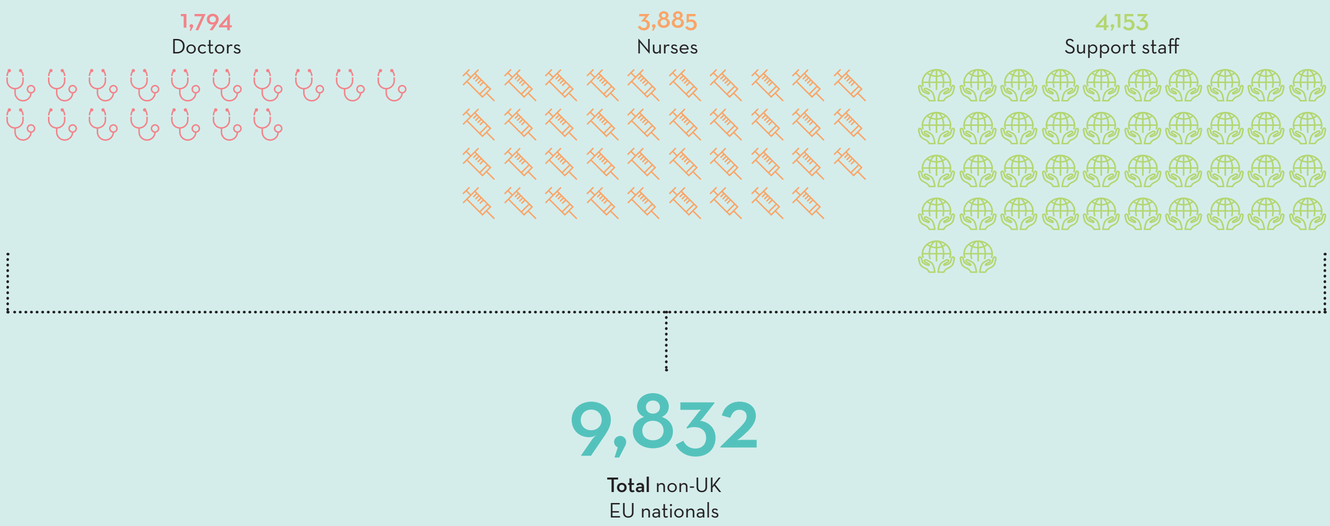
A transitional period looks more likely than ever at the moment; the question is more around the anticipated timeframe. This is largely due to comments from European Council President Donald Tusk, who this month said that he will not allow talks to proceed onto the subject of a future trading arrangement until there is progress on three major topics. Those topics are: the financial settlement, citizen’s rights and the Irish border.

Discussion around the Irish border is expected to take place during the next round of talks.

Until sufficient progress has been made it doesn’t seem to matter what anyone thinks about a future trade deal.

EU labour in the UK market

EU nationals leaving the NHS in the 12 months after the EU referendum
(Source: NHS Digital, September 2017)



Mounting evidence of EU nationals leaving UK

Evidence that larger numbers of non-UK EU nationals are starting to leave the UK is mounting.

NHS Digital reported that nearly 10,000 EU doctors, nurses and support staff left in the 12 months directly after the EU referendum. This was an increase of 22% on the previous year, and 42% on the year before that.

These figures were probably unsurprising to the British Medical Association, which found that four in ten non-UK EU doctors were considering leaving the UK, with a further one in four unsure about what to do.

Liberal Democrat Leader Vince Cable said there is now 40,000 vacant nursing posts in the NHS "as the service heads for the worst recruitment crisis in its history".

Employers are also seeing fewer applications from non-UK EU nationals. Marco Reick, People Director for fast-food chain Leon says the company has seen a "significant drop in applications from EU nationals," which is notable given that non-UK EU nationals account for 60% of the company's workforce.

To add to this recent analysis of government data, The Independent newspaper revealed that the number of non-UK EU nationals being deported from the country has also been on the rise in recent years.

In the 12 months to September 2017, almost 5,000 EU nationals were the subject of enforced renewals – both the highest on record, and a 14% increase on the previous 12 months.

What impact is this having?

It has long been suggested that if EU nationals start leaving the UK, the country will struggle to fill the jobs they leave behind – particularly low-skill roles.

The IPPR think-tank suggested it could well be "near impossible" to recruit non-skilled workers from Europe after Brexit. If the UK decides to deal with non-UK EU nationals in the same way as non-EU nationals, then more than 90% would no longer be eligible to work in the UK.

This is a serious concern in the construction industry, where a survey by the Royal Institute for Chartered Surveyors (RICS) found 53% of employers in the construction industry believe labour shortages will pose a significant challenge over the next 12 months.

A recent survey by the British Chambers of Commerce suggested that these skills gaps were fairly widespread: almost half of firms had faced skill or labour shortages in the past 12 months. The research also said that targeting overseas workers was not a general method used to counteract the problem. Less than one in ten UK companies are doing this, with far more choosing to invest in training and recruitment.

Regardless of whether companies are able to raise wages to attract more talent, Peter Gowers, Chief Executive of Travelodge, believes there isn't enough capacity in the UK to meet demand.

"Even if the hotel industry recruited virtually every person on the unemployment register there wouldn't be enough people to fill all the roles needed in the 10 years following Brexit,"

Ranjit Mathrani, Chairman of MW Eat, which owns the Masala Zone and Amaya restaurants, said this month that they were already struggling to attract candidates: applications from EU nationals were down 80% and they had been driven to increase wages by more than 10%; even then he was being forced into recruiting less qualified candidates.

EU citizen's rights campaign group the3million believe that it is impacting the ability of some EU nationals to obtain employment right now. The group presented equalities minister Nick Gibb with a dossier purported to contain more than two dozen cases of adverts which invite applications from only those with UK or Irish citizenship. The group also claim this was just the 'tip of the iceberg'.

Business reaction this month

> "Business can't wait. We need clarity right now."
>
> Paul Dreschler, President of the Confederation of British Industry (CBI)

As the politics swings into action again so does the response of UK businesses. The Recruitment and Employment Confederation (REC) reported that while confidence in hiring remained stable, optimism among UK employers fell to its lowest level since the referendum.

Similarly, optimism among the financial services industry is at its lowest level since the 2007 credit crunch, according to the CBI/PwC Financial Services Survey.

This is unsurprising given that the Governor of the Bank of England, Mark Carney, recently predicted that the major economic impact of Brexit had yet to be felt by UK businesses.

This view was backed up by credit ratings agency Moody's, who chose to downgrade the UK's rating after it claimed to be "no longer confident that the UK government will be able to secure a replacement free trade agreement with the EU which substantially mitigates the negative economic impact of Brexit".

The sterling has also suffered its worst performance in 10 months against the dollar, and saw four consecutive monthly falls against the Euro.

Alex Williams, Director of City Planning for Transport for London (TFL) recently said that uncertainty over Brexit was the reason for a recent fall (1%) in the number of trips on the underground network. This figure is often used as an indicator of economic performance.

UK Business wants answers

UK business is starting to demand answers from the government. The CBI has called for the real progress by the end of this year.

Paul Drechsler, President of the CBI, said 40% of businesses had delayed or cancelled investments due to Brexit uncertainty: "Business can't wait. We need clarity right now."

"It is more important than ever…that ambiguous negotiations urgently morph into a transparent game plan," said Sir Roger Carr, Chairman of BAE, one of the employers to sign the CBI letter.

Despite comments by Chancellor Philip Hammond that the UK is targeting a 'bespoke' deal to protect the City, Barclays Chairman John MacFarlane – who is also chairman of The CityUK lobby group – has said that: "Frustration is building in the business community".

It also seems that the automotive industry is struggling with the lack of certainty: Jaguar Land Rover recently invested in a large facility in Slovakia which was described as a 'hedge' by Group Sales Operations Director Andy Gross.

A few positives

Christopher Bailey, Chief Creative Officer for Burberry, is actually quite positive about the UK's future. He believes there is 'enormous' potential for UK trade in the future. That said, Mr Bailey did confirm that the planned £50m investment in a manufacturing site in Leeds (and the jobs that go with it) was currently on hold.

Despite the situation, Goldman Sachs is considering an increase to its UK workforce as part of plans to bring its retail banking arm to the UK.

While there continues to be concerns over the longer-term future of UK manufacturing, the industry is currently enjoying high levels of output. A survey by manufacturers' body EEF found that 34% of manufacturers expect an increase in output in Q3 2017. That was compared to just 26% in the second quarter of the year.

The EEF's Chief Economist Lee Hopley said manufacturing firms were "making hay while the sun shines".

What this means

Brexit negotiations are clearly proceeding at a slower pace than most British businesses would like. This is not because they are anxious about leaving the European Union, but rather they are anxious for some certainty so they can get on with planning.

The ability and desire to plan for the needs of the workforce is something that The Adecco Group UK&I has started to track as part of our soon-to-be-launched Brexit Tracker.

According to the first set of results, more than half of all UK businesses (57%) don't believe they have enough information to start making decisions about their post-Brexit recruitment strategy.

At the same time, there are a number of steps that businesses can take to lay the groundwork: less than 10% of companies have completed a workforce audit to understand what key skills may be in danger, and only 12% have identified roles where the share of EU nationals is particularly high.