

From: Mark Dance, Cabinet Member for Economic Development
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To: Growth, Economic Development and Communities Cabinet
Committee, 3 July 2018

Subject: Business preparation for Brexit

Classification: Unrestricted

Past Pathway of Paper: N/A

Future Pathway of Paper: N/A

Summary: This paper provides a summary of the ongoing engagement with Kent businesses by KCC and partners to understand the issues and opportunities associated with Brexit and how they could respond. It provides a summary of what Kent businesses are telling us about the potential impacts of Brexit including in some of Kent's key business sectors. It also provides a summary of what key business organisations are saying at a national level.

Recommendation(s):

The Cabinet Committee is asked to:

(1) **Note** the ongoing engagement with local businesses, the messages that Kent businesses and key national business bodies are giving and potential opportunities to support Kent businesses to prepare for Brexit as the national position becomes clearer.

1. Introduction

- 1.1 Members have expressed interest in how businesses in Kent are preparing for the potential impacts of Brexit.
- 1.2 This report aims to inform Members about the ongoing local engagement with businesses in order to understand the issues and opportunities associated with Brexit and how they are responding.
- 1.3 There may be opportunities to work with partners to further support Kent businesses to prepare for Brexit as the national position evolves.

2. Business engagement on preparing for Brexit

- 2.1 There is a significant amount of engagement with business happening at both local and national level around the potential impacts and opportunities of Brexit and how they are preparing. This is fast-moving as the national position changes. KCC's Strategy, Policy, Relationships and Corporate Assurance division is taking a coordinating role on activity

related to Brexit and as part of this is monitoring the local and national debate on the impact on business and business preparedness, including for key business sectors in Kent.

2.2 Some of the key engagement activity that local partner organisations have undertaken so far includes:

- Ongoing research and engagement on the impacts of Brexit for Kent businesses by the Kent Business School at the University of Kent. This has included:
 - March 2017 - produced the 'Kent SME Internationalisation Study' commissioned by KCC on small and medium-sized businesses' behaviours around international trade, the impact they think Brexit will have on their business and potential barriers and opportunities;
 - January 2018 - held the Kent Business Summit with the Institute of Directors and Federation of Small Businesses which KCC officers attended and spoke at. The summit included discussion on the challenges and opportunities of Brexit and how Kent businesses can build resilience and prepare;
 - March 2018 - held one of their regular 'Business Soundbites' events focusing on trading internationally post-Brexit, covering the expected changes in trade regulations, possible ways to prepare for those changes and addressing myths around international trading.
 - June 2018 - currently producing a second study on SME internationalisation following on from the March 2017 study. This will aim to identify which sectors and types of companies could be most affected by Brexit. It will explore any barriers to international trading that Kent businesses might face and how support services could help overcome these. It will also consider which markets Kent could consider developing strategic links with and where might there be new or emerging opportunities for Kent firms.
- The Kent and Medway Economic Partnership's Business Advisory Board shares intelligence on factors impacting on local businesses and the economy at each meeting and Brexit impacts and preparedness are often raised. They have recently received reports on potential Brexit impacts and opportunities around inward investment and the tourism industry.
- The Kent Invicta Chamber of Commerce collects data for the British Chamber of Commerce's quarterly economic survey, which has followed business confidence around Brexit since the referendum. Information specific to Kent businesses is available periodically.
- Kent's inward investment agency Locate in Kent, which is supported by KCC, recently surveyed over 100 Kent-based businesses about their views on the impact of Brexit for their business.

- 2.3 KCC is continuing its activities to support Kent businesses to work and trade internationally, including cross-border working with EU partners to support economic development and business preparedness.
- 2.4 KCC is currently working on 3 EU-funded Interreg projects on the theme of European trade. The 'Innovative Sector Exchange' and 'Boost4Health' projects provide practical support to Kent SMEs wishing to do business in mainland Europe. KCC's European partner organisations including Chambers of Commerce and some international business cluster organisations are keen to explore how we can work together in the future to ensure that businesses still have easy access to these markets.
- 2.5 The third project, the 'SME Internationalisation Exchange' project is focusing on policy improvement for SME internationalisation and export support. This project is enabling KCC and local partners (including the Department for International Trade and Kent Invicta Chamber of Commerce) to learn from other regions about how they support their companies and to consider how we might use these international partnerships to boost reciprocal trade.
- 2.6 In May, the annual Kent Vision Live event supported by KCC included two presentations for businesses on preparing for Brexit (around employment and the retail sector specifically) and a 'Big Brexit Lunch' with a panel of experts.
- 2.7 Trading Standards has recently reported to the Cabinet Committee on their activities including in preparing for Brexit. The expansion of the Business Advice and Support Partnership across five Trading Standards authorities presents an opportunity to enhance paid business support services on regulatory issues which could help to support businesses in preparing for Brexit.
- 2.8 The engagement with businesses on their perceptions and preparations around Brexit is in addition to the extensive ongoing involvement by officers in GET on post-Brexit customs arrangements and the implications for Kent Trading Standards and for transport networks. GET officers are represented at meetings with senior civil servants around implications and planning for the Channel Ports.
- 2.9 Nationally, business support organisations including the British Chambers of Commerce (BCC), Federation of Small Businesses (FSB) and Confederation of British Industry (CBI) are engaging in awareness raising, research and lobbying activity to represent businesses' interests in the national Brexit debates, including giving evidence to government select committees and enquiries around Brexit. This draws on intelligence from their local branches including in Kent. Giving evidence to a recent government select committee, the FSB reported that they are engaged on a weekly basis with government around Brexit and implications for business.
- 2.10 The BCC has published a guide advising businesses on how to prepare for business which is being shared by local Chambers of Commerce.

National organisations representing specific business sectors are also providing guidance around preparedness including the Freight Transport Association and British Retail Consortium. There has been significant interest nationally and locally on how businesses can prepare for potential changes around the employment of EU nationals including advice and guidance from law firms and HR organisations.

3. What Kent businesses are telling us

Key messages

- 3.1 Overall the message from Kent business is one of uncertainty about the potential impacts of Brexit, which are likely to be complex and vary between different sectors and types of business. The uncertainty is currently delaying or preventing most businesses from taking practical steps to prepare for Brexit, and there have been reports of planned investments in the county being postponed due to the uncertainty. Kent Invicta Chamber of Commerce, who collect information from Kent businesses for a national quarterly survey of business confidence, reported in January that plans for investment in training and equipment had decreased following the Brexit referendum, although this had started to pick up at the start of 2018.
- 3.2 However, businesses are tending to take a pragmatic approach with a degree of confidence that they will adapt to the post-Brexit conditions when these are known rather than using resources in trying to prepare when things are uncertain. For some businesses there are potential opportunities including changes to regulations that might reduce burdens and around new trade deals that might be struck. The Governor of the Bank of England has also predicted a pick-up in business investment once the final agreement is known.
- 3.3 One of the most commonly raised concerns amongst Kent businesses is whether they will have continued access to EU workers post-Brexit. In many cases this is part of wider concern about skills gaps and difficulties in recruiting the staff they need locally for both low-skilled manual jobs and high-skilled specialist roles. For businesses in agriculture and horticulture there is particular concern about the continued availability of seasonal workers, with most keen to see a Seasonal Agricultural Workers scheme introduced. The Secretary of State for Environment, Food and Rural Affairs suggested that this would happen earlier this year although no further detail has been announced. Government's announcements in March on the rights of EU nationals during the transition period to the end of 2020 has provided some reassurance for employers in the medium-term and national business bodies welcomed this.
- 3.4 Kent businesses have also expressed concern about the uncertainty around customs arrangements post-Brexit. One of the concerns is around potential tariffs that businesses may face, the impact of which is likely to vary between different sectors. There are also a significant number of businesses who have never completed a customs declaration before (because they have only traded within the EU) and will need to start doing this post-Brexit – HMRC estimate that there are 180,000 such firms across

the UK. Other non-tariff barriers that could affect businesses that trade internationally include border checks on food and plant products and the additional time that this will take. Again, government's assurance that customs and trade arrangements will remain the same during the transition period has provided medium-term assurance for businesses.

- 3.5 It remains unclear what the future relationship will be and when new customs arrangements will be ready to come into force. The forthcoming White Paper setting out government's priorities for Britain's future relationship with the EU may provide more clarity. Whether they trade internationally or not, Kent businesses have raised the potential issue of transport congestion due to delays at Kent's ports under new customs arrangements and the impact this could have on their operations.

Kent Business School research

- 3.6 Research by Kent Business School commissioned by KCC provides the most comprehensive picture so far of how Kent business expect to be affected by Brexit and how they may be positioned to respond. The first study on the internationalisation of SMEs (Small and Medium-sized Enterprises) was published in March 2017 based on a survey completed by over 260 Kent SMEs.
- 3.7 The study found that 16% of those surveyed believe Brexit will have a positive effect on their operations and 45% believe it will have a negative effect. The study focused on international trade and found that one third of businesses are engaged in exporting, and for one third of those this contributes 50% or more of their turnover. 80% consider the EU to be their key export market. Businesses think that losing access to markets will be the biggest Brexit-related factor for them, particularly those in manufacturing.
- 3.8 The study also explored what the main barriers are for Kent businesses in starting to trade internationally. These are finding access to local markets and finding the right partners and distributors. When asked about support mechanisms that help with this, businesses preferred to access support through organisations such as the Federation of Small Businesses rather than local government.
- 3.9 An extension to the 2017 study has been commissioned by KCC to explore some of the issues in more depth and the report is expected shortly. This will aim to provide a greater understanding of the types of business that could be most impacted by Brexit. The study will again focus on international trade and how business support services provided by KCC and partners could boost international trade and capacity. It will consider how KCC and partners can ensure ongoing trade links with the EU and maximise new trade opportunities within and outside Europe.

Locate in Kent research

- 3.10 Research from Locate in Kent (Kent's inward investment organisation) completed in May 2018 helps to provide further intelligence on what Kent businesses think about Brexit and provides insights from larger Kent-based companies. Locate in Kent carried out a survey of over 100 medium

and large sized Kent businesses. The results reflect the complexity and uncertainty surrounding Brexit for businesses, with 42 of the businesses reporting that they do not know whether Brexit will have a positive, negative or neutral effect for them. Of the other respondents, 6 thought it would have a positive impact, 29 a negative impact and 26 a neutral impact.

- 3.11 Comments from respondents highlight several post-Brexit issues that businesses are thinking about. This includes the impact of the fall in sterling since the referendum which has increased costs for some businesses but had advantages for others, and the impact of uncertainty which is delaying investment decisions and preparations for Brexit. In line with overall messages from Kent businesses so far, respondents also mentioned concerns about future access to EU workers and tariffs and trade barriers. Potential changes in regulations post-Brexit were seen as a potential barrier to some but a significant opportunity for others, e.g. in banking and insurance.

Sector-specific issues

- 3.12 The SPRCA division is monitoring potential Brexit impacts for a number of business sectors that are particularly important to Kent's economy. The common issues raised (as set out above) are found within all sectors, but in addition there are a number of potential sector-specific issues.

3.13 Agriculture and food production

In 2016, Kent organisations received £52.5 million in Common Agricultural Policy (CAP) payments. Post-Brexit, a new environmental land management scheme will replace the payments provided by the CAP in the UK. Payments will gradually reduce and will shift towards rewarding greener land management. Farming unions have initially welcomed the proposals. Kent-based farmers have expressed some concerns about the loss of subsidies.

The agricultural sector could be particularly impacted by tariff and non-tariff barriers to international trade including sanitary checks and a wide range of regulatory requirements. Fresh produce is also particularly vulnerable to delays at ports. Concerns have been raised about whether legislation and IT systems needed to support post-Brexit trade in food will be ready in time.

As previously mentioned, the agriculture and horticulture sectors are particularly dependent on seasonal workers, many of whom currently come from the EU. It is estimated 20,000 seasonal agricultural workers are employed in Kent each year, and some Kent farmers have reported a reduction in numbers of workers intending to return for next year. They are hopeful that a Seasonal Agricultural Workers scheme will be introduced. At the end of May, the NFU published a manifesto calling on government to provide urgent clarity around access to migrant workers, frictionless trade, an efficient regulatory system and a clear domestic agricultural policy.

3.14 Construction

The construction sector, particularly in the South East, is facing a significant skills shortage and the sector is concerned that Brexit could exacerbate this if it becomes more difficult to attract and employ EU workers. The sector also suffers from low productivity. Impacts on the construction industry may be particularly significant for Kent due to our high house-building targets. However, the sector is also positive about the opportunity for the liberalisation of some regulations that affect them, including around procurement.

3.15 Tourism and hospitality

The Kent tourism economy has seen some positive impacts from Brexit due to the fall in sterling after the referendum, although there is evidence that this effect is now slowing. The sector is concerned about continued ease of movement through ports – the visitor economy lost over £1 million per day (estimated) during Operation Stack in 2016. The sector also employs a large number of EU nationals and there are concerns around the future supply of workers. However, there are a number of potential opportunities of Brexit around deregulation, including relaxing of package travel rules and the easing of VAT on hospitality.

3.16 Transport and logistics

Kent representatives from the transport and logistics sector have raised post-Brexit concerns for Kent about freight delays caused by increased time to process customs declarations and potential delays at ports due to new requirements around driver licensing.

3.17 Cultural and creative sector

One of the main concerns for the sector is the loss of access to EU funding streams which creative organisations in the UK have been successful in securing significant funds from. Government has committed that the UK will continue to be part of EU structural funds to the end of the current programmes which provides some medium-term reassurance.

4. National picture

4.1 The national picture from the business community is very similar to what we are hearing from Kent businesses, with the same issues and concerns being raised. Some business organisations are seeking to help businesses understand and prepare for the impact of Brexit, although others including the FSB have told government select committees that they have been unable to do any planning about the impacts on businesses because of the high level of uncertainty about the future relationship.

4.2 One of the most in-depth national studies has been a report by CBI in April 2018 on EU regulations that affect 23 different UK business sectors. The report 'Smooth Operations – An A-Z of the EU rules that matter for the economy' was produced through consultation with hundreds of UK businesses and aims to provide evidence to support the negotiations. The view of business overall is that there are opportunities for rules changes,

for example in agriculture and tourism, and ways of regulating better within current frameworks, such as in procurement for defence and construction. However, these opportunities will be outweighed by the costs that will be incurred if the UK's rules change so much that it reduces smooth access to the EU's market.

- 4.3 Also in April, the British Chambers of Commerce (BCC) and the Port of Dover released a report on Brexit preparedness based on a survey of over 800 businesses that currently import and export. The headline findings are that 36% of firms rely on 'just in time' delivery of material or components. 29% of firms are sensitive to delays or congestion at UK or European ports and 33% are sensitive to the implementation of new customs procedures but are not yet planning for this in both cases. Only 13% of firms are planning to adapt to new customs declaration software. As well as urging government to provide further clarity on customs and border arrangements, the BCC have used this study to promote their Business Brexit Checklist of actions that businesses should take to prepare for Brexit including on workforce, cross-border trade (including preparing for possible border delays, tariffs and customs checks) and taxation.

5. Next steps and potential future actions

- 5.1 The SPRCA division will continue to monitor the potential impacts and opportunities around Brexit for Kent businesses, covering both local and national developments. This will continue to look at specific issues for Kent's most important business sectors and issues raised by Kent's exceptional position as the gateway to Europe. This will include ongoing work on border preparation with government representatives.
- 5.2 The Economic Development division will continue to promote co-operation between Kent and European regions to support Kent businesses, prepare for Brexit, continue to access European markets and support trade.
- 5.3 As the national position becomes clearer, it will be easier to identify challenges and opportunities for Kent businesses following Brexit and determine whether any support is needed either to the entire business community or specific sectors.
- 5.4 Partners including Kent Business School have committed to continuing their research and engagement with local businesses on Brexit impacts. There may be opportunities for KCC to support and complement this work as well as the ongoing support that businesses access through Chambers of Commerce and other business organisations which tend to be their preferred routes for support.

6. Recommendations

6.1 The Cabinet Committee is asked to:

(1) **Note** the ongoing engagement with local businesses, the messages that Kent businesses and key national business bodies are giving and potential opportunities to support Kent businesses to prepare for Brexit as the national position becomes clearer.

Appendices: None.

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