

BREXIT: WHAT LONDON MID-MARKET BUSINESSES EXPECT THE IMPACT TO BE

Brexit means business – but not as we know it



Brexit is the pivotal issue of our time, impacting on every region and business sector in some way.

The political climate is turbulent and uncertain – and there is still much to negotiate in an extremely short period of time. What is more certain is the vast potential of Brexit to fundamentally re-write the rulebook for how business is done in the UK.

Mid-market businesses are the engine room of the UK economy. Last year we reported the findings of our Brexit survey which provided an insight into the sentiment of this robust and vibrant group. Now, with just one year to go until the country's departure from the EU on 29 March 2019, we've returned to this influential cluster of business leaders to capture their views and outlook on Brexit today.

Our survey had a particularly strong response from over 340 business leaders in three key regions: London, the East Midlands, and the West Midlands. This report focuses on the sentiment in London, where the economy grew at double the rate achieved by the country as a whole last year, and compares it to the East and West Midlands. It also recommends actions businesses can take to get ready for a post-Brexit economy.



Key findings

Our independently analysed Brexit survey of mid-market businesses nationwide was carried out early in 2018. It's revealed a shift away from the optimism we found last year, to a more downbeat mood around Brexit.

Its key findings, which are magnified in London, are:



People are needed to fill the skills gap, and immigration constraints after Brexit will widen it



Positivity felt in 2017 around business opportunities has been replaced with greater concerns about the risk of damage to trade



Confidence is unsteady around the UK's ability to be independent after Brexit

Spotlight on survey comments from London

"There's a significant drop-off in recruitment of EU staff because of the UK being a less attractive destination. Counter-intuitively, our recruitment of EU students has actually risen due to a 'last chance to study in the UK' effect."

Education

"Brexit has made firms consider how they manage their workforce - so demand for our services across the UK and Europe has increased."

HR consultancy

"There has been a flood of investment capital from overseas for UK real estate based on discounted sterling and flight-to-quality strategies."

Real estate

"The weakened pound helped exports to US, but we're back to square one now!"

Manufacturing

"We are already seeing the negative impact: projects on hold and material cost increases affecting profit margins significantly."

Construction

"There's a danger that the financial services sector will contract, with jobs moving to EU states."

Investment management

"There'll be reputational damage for the UK, with increased dependence and vulnerability against Russia, China and the US. Increased immigration from beyond the EU will exacerbate xenophobia."

Real estate

"The risk of weak performance from the UK stock market means we are investing much higher weightings in international markets. We're also preparing to invest in gold as a safe haven if the UK economy collapses."

Financial

"Many thousands of businesses which trade with the EU without 'red tape' will need to learn about customs/excise and other trade rules when the UK becomes a third country in terms of the EU."

Professional services

"Tariffs and non-tariff barriers are going to be hugely detrimental to the business environment in the UK."

Rail

"It's likely most of our European business will simply disappear after Brexit as some is related to contracts for which we may simply no longer be eligible to bid. Other contracts have already started to go cold on the idea of using a UK supplier."

Education



People and skills

People are central to almost every business, making access to a pool of talent and labour vital. Brexit will end the free movement of people, adding to the squeeze on the labour market. So what is the view of London businesses?

88% believe businesses require immigration to fill a skills gap

87% think migration restrictions will make the labour market less flexible to demand

But only a third (33%) have analysed the impact on their business of immigration and limits on the free movement of people

Our survey finds that a shortage of skills is an area of negativity across all three regions, but it is particularly acute in London where the UK's migrant population is concentrated.

Over half of London businesses in our survey (51%) rely on overseas labour, having a fifth or more of their workforce made up of migrant workers. For one in seven respondents, migrants make up over 60% of their workforce. Clearly there is a reliance on overseas workers to keep the capital's wheels turning, especially in sectors such as hospitality, health and social care, and higher education.

Immigration is integral to the success of London and its global competitiveness. A third of EU nationals living in the UK are living in London, which is around 1.2 million people. London has a distinctly mobile and flexible workforce, so has the potential to lose skilled people to overseas locations relatively easily.

Filling all types of roles will be a key challenge post-Brexit. Currently employers do not deliberately seek to fill vacancies with migrant workers but when they are the best, or sometimes the only candidate available, the migrant workforce is the right business option.

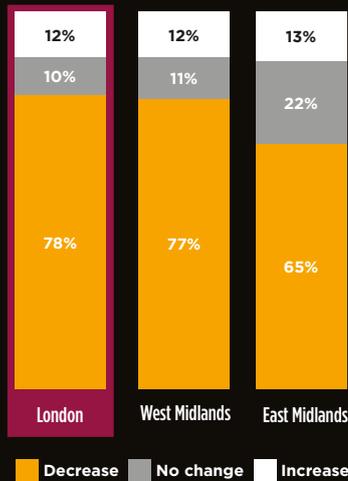
This enduring need for immigration is reinforced by a vast majority (88%) of London respondents agreeing that businesses need it to fill the skills gap in the workforce. Yet only 62% think red tape around immigration needs to be reduced, perhaps indicating a dilemma between personal attitudes and commercial rationale.

London expects a reduced flow of skilled foreign workers coming to the UK to be a key pitfall of Brexit: over three-quarters (78%) of local business leaders think this, with the remainder equally divided on whether the flow will increase (12%) or stay the same (10%). The strength of this forecasted decrease is more attuned to the West Midlands than to the East Midlands, due perhaps to the urban similarities of the capital and the principal cities of the West Midlands.

Respondents in London have a stronger depth of sentiment as the view held by 88% is that migration restrictions will make the UK labour market less flexible to demand. The two Midlands regions are aligned with 72% of their respondents seeing this as a key disadvantage of Brexit. However, the West Midlands shares London's downbeat view about immigration restrictions widening the skills gap after Brexit, with both rating the likelihood as 7 out of 10, compared to 6 out of 10 in the East Midlands.

Despite these concerns, only 38% have carried out the relatively low-cost action of communicating to their employees about the impact of Brexit on the business. A similar number (33%) have analysed the potential implications of immigration changes for their workforce; this is notably higher than in the East or West Midlands but still leaves 40% of London businesses not translating their concerns about accessing migrant labour into observable action.

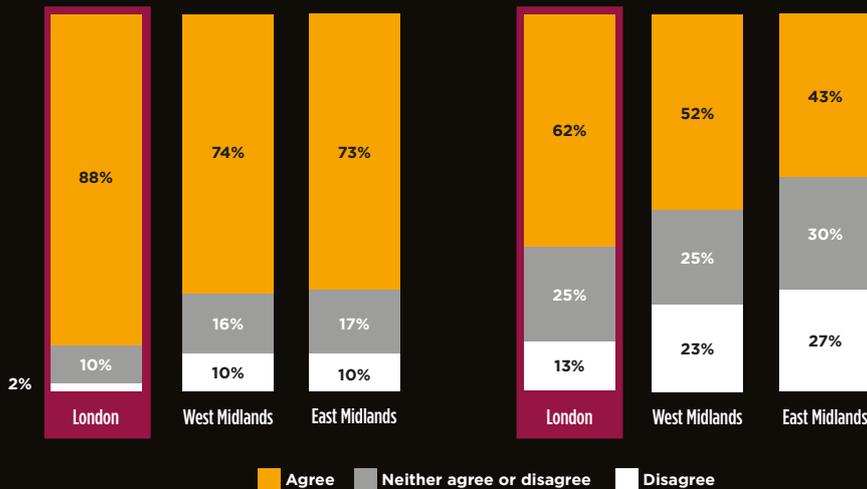
Do you think the flow of skilled foreign workers moving into the UK will increase or decrease after Brexit?



Do you agree or disagree with the following?

Businesses require immigration to fill the skills gap

There needs to be a reduction in 'red tape' regarding immigration/movement of people



What action is your business taking or planning to mitigate the risk associated with Brexit?

Analysis of potential immigration scenarios and the implications for the workforce

Communications to employees about the impact of Brexit on the business



“Immigration was a strong determining factor in the referendum and now could be a key challenge for our economy in the future.

Clearer pointers from the Government have emerged on securing residence rights of EU migrants. The proposals are that those lawfully living and working here can carry on after Brexit, and EU citizens planning to come here can do so freely during the 21-month transition period. What happens after that is yet to be decided. A work permit is likely along the lines of that for non-EU nationals, opening up the prospect for many employers of having to navigate intricate and often costly immigration territory.

Decisions to migrate are complex but Brexit has created a set of circumstances – such as a fall in the value of the pound, and increased uncertainty about future status – that could make the UK less attractive.

What is clear is that businesses must prepare for a new era of reduced migration and more restrictions. Many of our clients who rely on skilled migrant labour are taking action to reassure their EU staff of their integral value to the business and its future. Others are finding new ways to recruit UK-born workers and upskill existing staff.”



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Trade

The mood music from big businesses is that Brexit will hamper trade. But what's the view of mid-market businesses in thriving London?

London has a far more pessimistic view of trade opportunities after Brexit than in the East or West Midlands

85% of businesses want to see a comprehensive trade deal agreed with the EU – but just 19% expect it to happen

More businesses than in the East or West Midlands feel they are being held back by Brexit, with one in four pulling projects

Since our survey last year, there's a shift to a gloomier view which is particularly marked in London where over two-thirds (67%) of businesses think the UK's leverage for trade deals will decrease after Brexit. Indeed, when compared to the other regions, London is particularly downbeat about trading predictions across all our survey measures.

London is strikingly more negative about the Brexit opportunity of having greater freedom to strike new trade deals, cited by just 50% compared to 68% in the West Midlands and a highly expectant 73% in the East Midlands. It reveals a weak conviction locally that it will become easier to secure trade deals with other countries, a central plank of the Brexit vision. It is also a logical finding, given that London was the only region in England to vote overwhelmingly to remain.

Optimism is moderated with realism when it comes to what businesses would like to see from a trade deal and what they expect to happen. A large majority of business leaders (85%) – more than in the West Midlands but similar to the East Midlands – want a comprehensive trade deal with the EU but just 19% expect it will happen. This is a vast 66% gap between preference and expectation.

While only 3% would like no trade deal with the EU after Brexit – perhaps reflecting the notion that “no deal is better than a bad deal” – the general view is that a

partial trade deal will be reached (47%). It is notable that a higher number of London respondents than in the other regions expect no trade deal (16%) or are unsure about what they expect the outcome to be (19%).

Anxieties around trade are also evident with 83% seeing the cost of imports increasing as a main pitfall of Brexit. This is understandable given concerns around custom tariffs and VAT on imports, now heightened by the Government confirming that leaving the single market and customs union remains the UK's central intention.

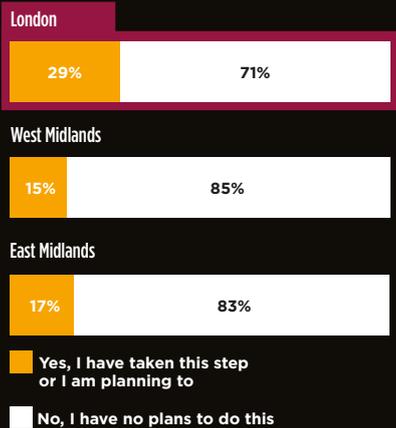
Brexit is already having an impact on some London businesses. As might be expected during this prelude to Brexit, the majority (64%) have experienced no change in their EU dealings. But 29% – distinctively more than the other regions – say they have moved or are planning to move functions to an EU site. A further 6% say they are moving functions to Ireland. Both are perhaps reflective of London businesses feeling they need to have an EU presence to keep their supply chains moving and of the agile nature of the region's core financial services sector.

A quarter of London businesses (25%) say that due to Brexit they are pulling one or more strategic projects. Others have commented that rather than pulling a project, it had been cancelled or not renewed. Only time will tell what the impact will be of these decisions.

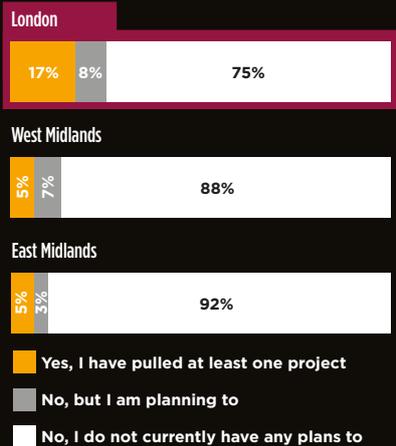
Do you believe the amount of leverage for trade deals the UK has will increase or decrease after Brexit?



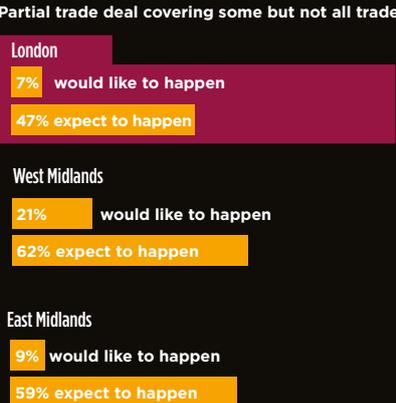
Is your business moving functions or operations from the UK to an EU site because of Brexit?



Are you pulling any projects because of Brexit?



What would you like to happen in terms of a new trade agreement with the EU after Brexit? And what do you expect to happen?



A small percentage of respondents selected 'no trade deal' or 'unsure'

“Our survey echoes what we know from our clients: most recognise Brexit as a risk but only feel able to take decisive action where there is a present and clear hazard to viably manage. So, for example, a financial services firm has moved all its decision making and tax planning functions to Dublin, and businesses with a solid supply chain across the EU are taking the manageable step of switching their corporate hub to their EU base and making the UK a division of it.

For all businesses, there are two areas to focus on now. Firstly, look at the possible effects of Brexit and consider what you'd do in each scenario; there may be no time to plan at the point when it becomes obvious. Secondly, be alert to regulatory change. While it can seem this is out of businesses' hands, lobbying through trade associations - which is happening in the energy and pharmaceutical sectors - is a way to try to shape outcomes. Good regulation exists to correct market failure and protect consumer interests. As the UK and EU work to achieve a balance between harmonisation and mutual recognition of regulation variances, businesses will want the decision-makers to have their eyes open to the impacts.”



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National strength

Mid-market businesses are predetermined to find a way to succeed whatever the market conditions. But do they think the UK is strong enough for Brexit?

Belief in the UK's ability to be independent is considerably weaker in London compared to the Midlands, with less than half (47%) of the capital's businesses thinking the country has the strength needed to go it alone

Over two-thirds of London businesses (70%) think the UK's global influence after Brexit will decrease

Businesses are split in their views about whether inward investment after Brexit will increase (48%) or decrease (42%)

Belief in the UK's ability to be successfully independent is significantly weaker in London than in the East or West Midlands. It reflects the overall picture from our survey that national belief in the UK's ability to be independent has become more fragile.

The mood also mirrors the wariness felt in the capital towards Brexit since the referendum. The highest 'remain' votes were in places that have seen sustained economic growth, as epitomised by London.

It is a sign too of the continuing contradiction between a consistent trend of strong economic performance and weak levels of confidence about the future. With the inherent political uncertainty, it is perhaps inevitable that business leaders will feel more negative towards the implications of Brexit and the country's ability to secure the best advantages.

This is concerning given that mid-market businesses have an inborn positivity. But realism often outplays optimism which may explain why the more operations a UK business leader has in the EU, the less likely they are to feel that Britain is strong enough to be independent.

Increased pessimism is also evident in the findings about the UK's global influence after Brexit, with almost three-quarters (70%) predicting a fall in our global sway – far more than in the more upbeat East and West Midlands.

It's not a rosy picture for the EU either, with 77% of local business leaders believing Brexit will damage the reputation of the EU. There are also concerns from almost three-quarters of businesses (73%) that the UK's attractiveness as an inward investment destination will decline after Brexit.

In contrast, there's greater positivity for increased levels of inward investment (48%), with predictions that this will marginally outstrip the risk of them either declining (42%) or remaining static. The belief that laws applying to the UK will be made in the UK after Brexit remains upbeat but at 50% it is less than the optimism felt in both the East Midlands (65%) and West Midlands (62%).

Clearly, London is anticipating to be hit by poor economic outcomes from Brexit. But rather than depending on high levels of confidence, it is relying on its impressive track record and dynamic industries to be resilient in the face of the tumultuous changes ahead.

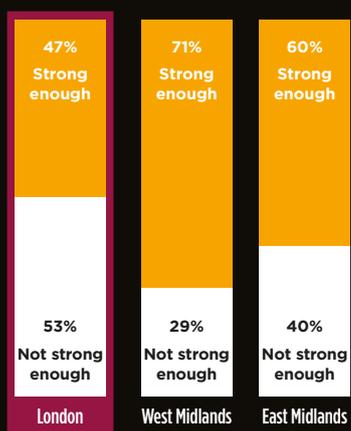
After Brexit, to what extent do you believe the level of inward investment into the UK will increase or decrease?



After Brexit, to what extent do you believe the influence the UK has globally will increase/decrease?



Do you think Britain is strong enough to be independent?



Expert insights

“Overseas investment is a vital part of London’s growth story over recent times. There are understandable concerns that Brexit will dampen its attractiveness to investors. But from my perspective of advising international trading businesses and families, particularly from Turkey and the surrounding region, London is still regarded as a safe place to invest and so will continue to attract global wealth.

There was a lull soon after the referendum but since then the fall in sterling, coupled with the enduring popularity of London and the UK’s investor-friendly fiscal regime and independent judiciary, has kept foreign investment levels buoyant. Going forward I expect investors will be cautious but not inactive, as they are driven by other geo-political considerations closer to home. Brexit may bring a degree of turbulence – but this pales in comparison to the perceived or actual volatility of investors’ own jurisdictions.

London’s resilience is boosted by being the largest financial centre in the world, and I do not anticipate that it will lose this status. Erosion will happen around the edges, with some types of trading going elsewhere, but London has the competitive advantage of a huge head start.”



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View from CEO at London Chamber of Commerce

At our recent Brexit event at The Shard, we talked to Colin Stanbridge, chief executive of the London Chamber of Commerce and Industry.

“As shown in your survey, London businesses are more likely than other regions to have acted in response to Brexit due to the huge imperative felt around trading, tourism and staffing impacts. London feels it has both more to gain and more to lose. Only a few decades ago, we were not as eminent on the world stage as now. So there’s uneasiness about the economic impacts of Brexit, and also about the danger of diluting the incredible vibrancy of our internationalism and Big City status.

I know we have the entrepreneurialism and capability to handle change, and trust we can maintain our prized cultural diversity too. All types of businesses and people will always be welcome here. So we are widening our collaborations and fostering business links to benefit us all.”

Take action for Brexit

As the deadline for Brexit emerges into view, businesses need to steer a path through the uncertainty and be driven by their innate determination and self-sufficiency. Now more than ever is the time to take realistic and cost-efficient steps to prepare for Brexit.

On the other side, business will go on but not as we know it now.

These 4 actions are an overview of how to power through in the run up to Brexit.

1 Focus on your people

Have you assessed the impact of losing any migrant labour and your options to close the skills gap? Review and confirm your workforce records, such as people's nationality. It's an unsettling time for EU employees so do all you can to support them. A tightly squeezed labour market also calls for creative retention and recruitment strategies.

2 Manage supply chain risk

Are you prepared for the unprecedented changes ahead? Knowledge is key to running a lean and agile operation, where regulatory compliance and an effective supply chain can help you withstand disruptions and a hike in costs. Aim to gain end-to-end oversight of your supply chain to gauge your direct and indirect risks and find efficiencies.

3 Develop financial resilience

Do you feel as ready as possible for unpredictable economic consequences? Use information available today to assess the risk from Brexit and ways to tackle challenges or capitalise on opportunities. Put a focus on managing your cash flow to keep your business financially sound and running smoothly.

4 Collaborate for support

How good is your network of supporters? Make connections with sector organisations which understand the challenges you face. With a shared voice they can act as advocates to influence policy changes or simply be your supportive allies. Make relationships with advisors who can help you chart the most profitable course through to the time and place where the landscape is clearer.





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