THE ADECCO GROUP

The facts about Brexit

June 2018

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EU Withdrawal Bill gains Royal Assent

After 272 hours of debating by the two Houses of Parliament, June 2018 saw the EU Withdrawal Bill ready for Royal Assent – just over two years since the referendum was held. Royal Assent was granted on 26 June 2018.

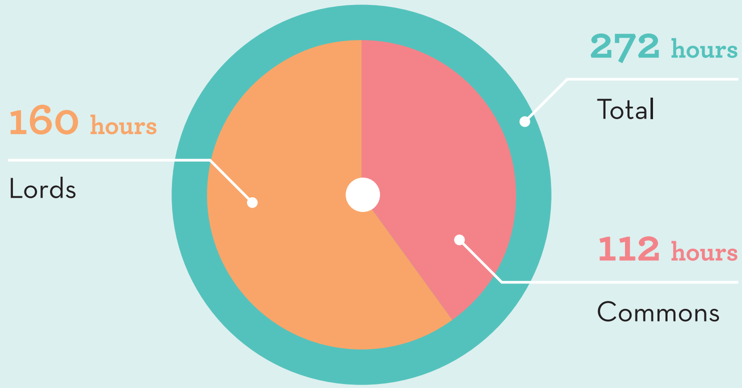
Following the 15 amendments sent back from the House of Lords, the Government made concessions on eight and accepted one in full. The remaining six were rejected and the Lords accepted those rejections, deciding not to 'insist' on them.

The accepted amendment stated that the Bill will not prevent the UK from continuing to participate in EU agencies nor prevent the UK from replicated EU law in UK law after exit day.

The six rejections resulted in the following:

- The Charter of Fundamental Rights would not be transferred into UK law
- Ministers will be allowed to use secondary legislation to establish when individuals can challenge the validity of EU law after exit day
- Ministers will have the power to amend retained EU law when it is 'appropriate' rather than just 'necessary'
- Parliament will not have a vote to approve a mandate for negotiations
- Exact date and time of exit is now included in the Bill
- Remaining in the European Economic Area (EEA) is not a negotiating objective

Hours spent considering the EU Withdrawal Bill in the Houses of Parliament:

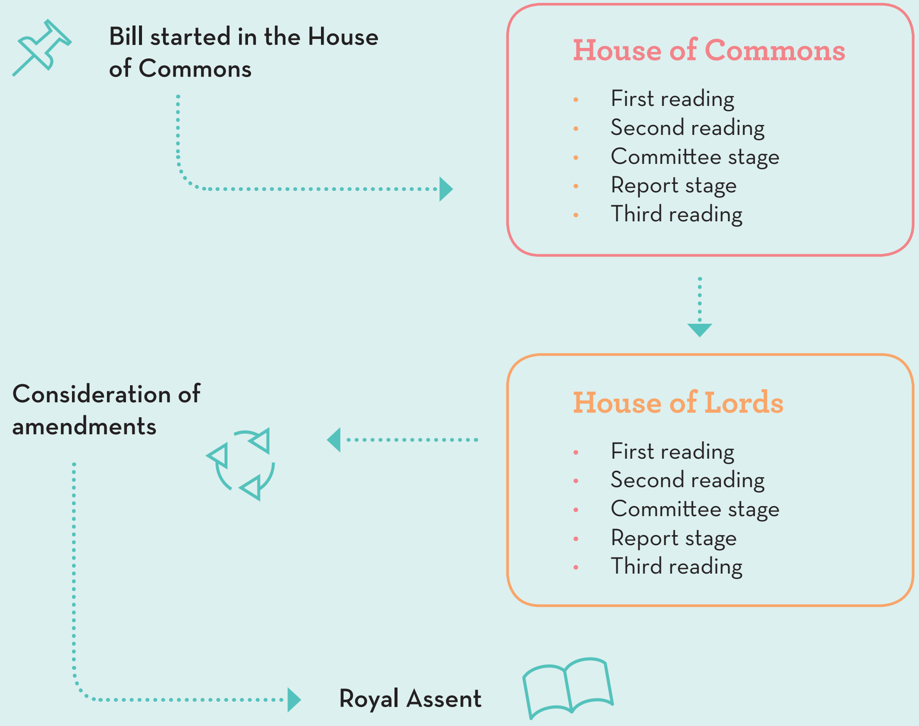


Source: IfG analysis of data from Hansard and parliamentlive.tv.

With respect to concessions, the following was agreed:

- The Government conceded to outline the steps taken to negotiate an agreement to participate in a 'customs arrangement' by October 2018, as opposed to a 'customs union'
- Retained EU law can be modified but will be subject to an enhanced scrutiny procedure that has been actively approved by both Houses
- Legal challenges to domestic law will be allowed for three years after exit day
- The Government will offer details of how Parliament will have a 'meaningful vote' on the final deal and if not, then a minister will make a statement on the proposed action plan within 28 days
- The Government has set out an intention to negotiate an agreement with the EU to allow an unaccompanied child to join a relative in the UK who is a lawful resident
- The Bill no longer prevents the establishment of a border between Northern Ireland and the Republic but reduces the list of arrangements to include 'physical infrastructure, including border posts, or checks and controls'. This is subject to an agreement between the UK and the EU rather than one between the UK and Ireland. The clause now specifically refers to North-South cooperation in the Belfast agreement rather than specific areas.
- The Procedure Committee (often described as the 'sifting committee') would not oversee all statutory instruments but ministers would be required to provide a written statement if they disagree with a scrutiny procedure that the Committee has recommended.
- The Secretary of State for Environment, Food and Rural Affairs does not need to take steps to maintain the EU's environmental principles in domestic law, but there is a list of principles which should be included in a new environment bill.

Progress of the Bill



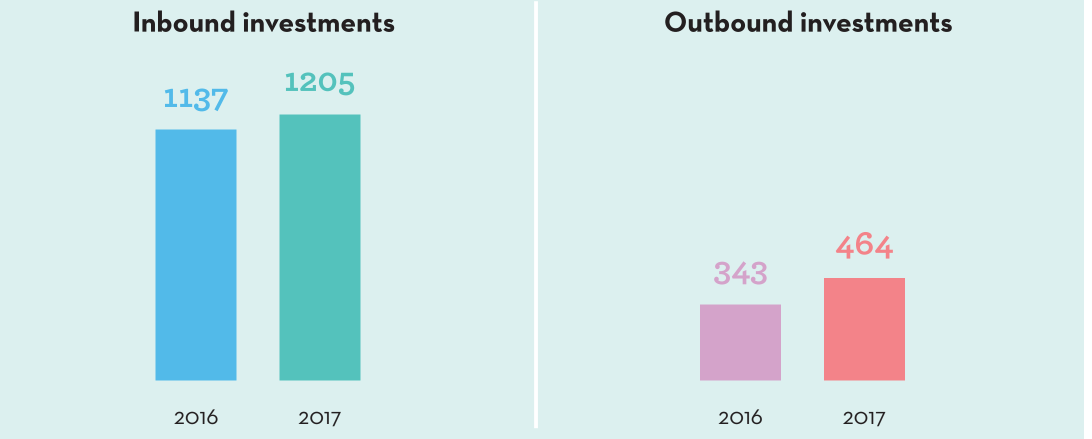
Source: https://services.parliament.uk/bills/2017-19/europeanunionwithdrawal.html

Brexit impacts business investment

The level of investment that businesses make can often be viewed as a proxy for their levels of confidence and optimism in the UK economy, and currently also in Brexit. Research from accountancy firm, BDO, and manufacturing body, EEF, report the lowest level of business investment in the manufacturing sector for a year and lay the blame on 'continued political uncertainty'.

A survey by law firm, Baker & Mackenzie, found that half of executives at large European companies (those with more than £250M in annual sales) have reduced their investment in the UK since the referendum was held.

At the same time, the EY Attractiveness Report stated that while the number of inbound investment projects grew by 6% in 2017 (to 1,205), the number of outbound investments grew by 35% to 464. Overall this still leaves the UK with a net inflow but the gap is widening.



Source: EU Attractiveness Report 2018

‘It’s quite a pick up,’ said Mark Gregory, EY’s chief economist, referring to the outbound investment project figures.

‘If it hadn’t been for the surge of digital, then the overall numbers would look pretty ugly. Lots of these digital projects are quite small. Our core is flat or shrinking.’

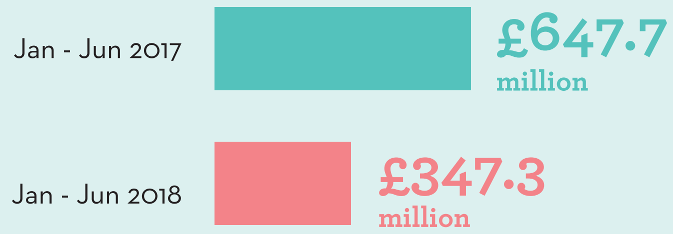
Spanish firm Ferrovial, which owns Heathrow airport, recently froze investment into the UK as it sought clarity on Brexit; this was accompanied by plans to relocate its international headquarters from Oxford to Amsterdam. It said the move would allow it to address the negative effects of Brexit.

The Society of Motor Manufacturers and Traders (SMMT) believes that this uncertainty has halved investment into the UK car industry.

‘There is growing frustration in global boardrooms at the slow pace of negotiations,’ said Mike Hawes, Chief Executive Officer of the SMMT.

The Confederation of British Industry (CBI) disagrees with this assessment and believes a growing number of its members are preparing to invest in automation and robotics to circumvent the skills shortages.

Public announcements of investment in the UK automotive industry:



Source: Society of Motor Manufacturers and Traders (SMMT)

Supply chain warnings

Official advice released by the Dutch government in June to its businesses, recommended they avoid using British parts ahead of Brexit. The advice points out that in order to qualify for EU free trade deals then typically 55% of a product's parts should come from within the EU, so companies with large supply chain elements in the UK should look at alternative options.

BMW and Airbus have warned recently that they might be forced to move elements of their supply chain out of the UK with the former suggesting it may be forced to close its Mini and Rolls-Royce car plants. Paul Dreschler, until recently President of the CBI, said unless Britain remained in the customs union then the UK automotive industry faced extinction.

Jaguar Land Rover, the UK's biggest car manufacturer, has recently decided to transfer all production from its West Midlands plant to Slovakia, and although the company says Brexit is not the cause, the current political situation is hardly likely to have made the decision harder to make.

The UK's National Health Service (NHS) says it already has 'significant planning' to ensure there will be no interruption in their supply chain.

Effect on talent

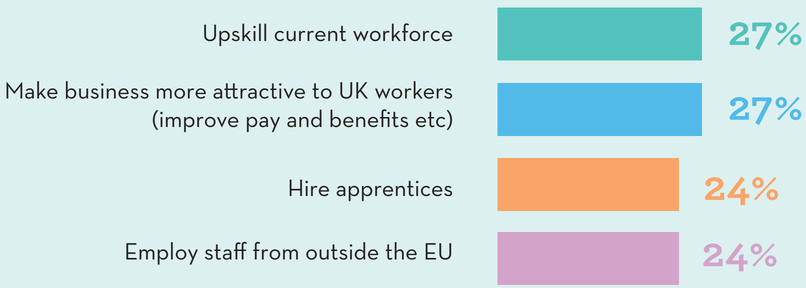
Nine in ten UK employers are struggling to recruit the skilled staff they need and expect Brexit to make this harder, according to a study by City and Guilds.

City and Guilds reports that more than eight in ten employers are already putting in place measures to mitigate the skills impact of Brexit. This stands in contrast to the Adecco Group UK and Ireland Brexit tracker report which suggests that nearly half of UK businesses (47%) have not undertaken any action related to their workforce as a direct result of the vote to leave the EU.

Both reports agree that upskilling of the current workforce is the most likely course of action to mitigate the lost skills expected due to Brexit.

The Adecco Group UK&I Brexit tracker also suggests that businesses are slowly beginning to believe they are ready to start making post-Brexit recruitment decisions, partly due to an increase in the number of companies that have reviewed their talent-management strategies since the vote.

What measures have you put in place to mitigate the impact of Brexit on your business' ability to recruit skilled people:



Source: People Power, City and Guilds, June 2018

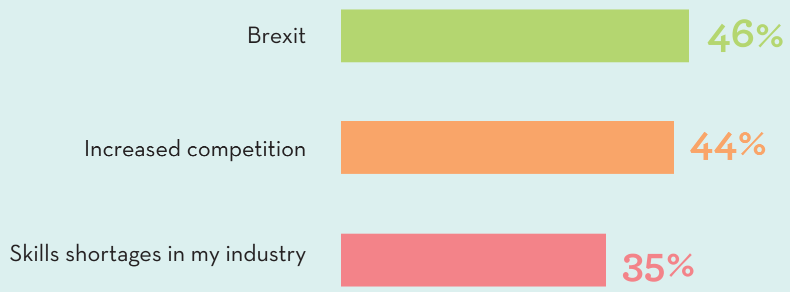
The UK announced in June that it was streamlining the process by which EU nationals living in Britain could apply for citizenship and would also create a new 'settled status' for those that have lived in the country for at least five years. These individuals would still be allowed to bring close family to the UK after the Brexit transition period ends. This should help UK businesses retain the talent they already have.

The UK unfortunately dropped three places on the list of most attractive countries for overseas workers, according to Boston Consulting Group. This still leaves the country in fifth place, despite Brexit, and in fact London remains the most attractive city in the world. This is based on a global survey of 366,000 workers to understand their opinions.

Brexit may also have a hand in the increase in British workers' desire to work abroad. The UK saw the largest increase in this category of any country, compared to the previous year.

Nick South, a partner at Boston Consulting Group, said: 'Together, these two talent trends create a major challenge for the UK. It is critical for UK private and public sector organisations to get on the front foot, and proactively take steps to attract and retain top-class talent to ensure their future success.'

What external factors might impact upon the productivity of your business over the next three to five years:



Source: People Power, City and Guilds, June 2018