THE ADECCO GROUP

The facts about Brexit

October 2018

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Brexit deal progress – council meeting cancelled

Back in September 2018, with politicians on all sides making comments about an imminent deal on Brexit, an extraordinary meeting of the European Council was called for the middle of November. The council comprises the heads of state of all EU members and would be the forum in which a deal would be informally agreed upon. The council was not originally due to meet this month.

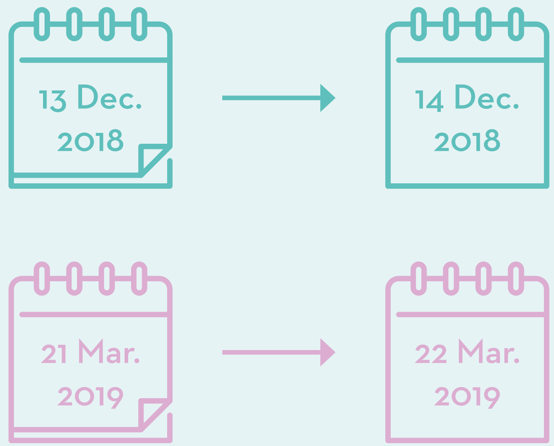
At the time of writing, this meeting has now been removed again and the Council is not scheduled to meet in November.

European Council meetings tend to be quarterly, so the next one is scheduled for 13-14 December 2018 followed by 21-22 March 2019. If a deal is to be reached before 29 March deadline, then additional meetings may well need to be called.

A poll of economists by Reuters showed the possibility of the UK leaving the EU without a deal is still significant – around 25%.

One deal that was made in October was between the UK and Norway, which is not a member of the EU but is a member of the European Economic Area. British citizens living in Norway and Norwegians living in the UK will be allowed to remain even in the event of a 'no deal'.

Schedule of European Council Meetings:



The latest budget

The UK Budget Statement (previously known as the Autumn Statement), is traditionally delivered in November but was brought forward to the end of October this year. As noted in the September version of 'The facts about Brexit' this was, officially, to allow parliament more time to debate budget measures before the commons rose for recess on 6 November.

When the decision was made, the timing of the special European Council meeting in November was also likely to have been a factor.

The budget itself is not directly related to the Brexit negotiations but there are some corollaries that are worth commenting on.

Although immediately before the UK is due to leave the European Union, and without a deal, Chancellor Philip Hammond announced the end of an era of austerity. He announced the biggest giveaway since 2010 with increased spending for the NHS and defence, and an increase in the personal tax-free allowance, all on the back of improved growth forecasts for the UK economy.

The Chancellor also commented that the outcome of Brexit negotiations could affect future plans.

Recently upgraded growth forecasts for the UK provided by the Office for Budget Responsibility (OBR) has allowed the chancellor to spend more. He has also maintained £15.4bn of 'fiscal headroom' which is being held in reserve. He admitted that both could be affected by the lack of a deal which could also cause him to call an emergency budget in the spring.

> “The budget itself is not directly related to the Brexit negotiations but there are some corollaries that are worth commenting on.”

Both the Confederation of British Industry (CBI) and the Institute for Directors (IoD) had asked for an increase in spending on advisory services for businesses in the lead-up to Brexit, but this was not mentioned.

‘It is not enough simply to announce a potential “no-deal Brexit Budget”, businesses need to get ready now,’ said **Stephen Martin, Director General of the IoD**. ‘While we hope the chancellor’s confidence that there will be a Brexit deal is well-placed, firms have to look at all possible scenarios and will be deeply disappointed to see no funds have been allocated to helping them map out potential outcomes.’

This comes after the **Chair of the Public Accounts Committee, Meg Hillier**, wrote to the HMRC to say she was concerned that small businesses expected to be affected have not been identified.

Mrs Hillier, MP for Hackney South and Shoreditch wrote: ‘I am both concerned and disappointed that nearly two months in you have made little progress. You gave us no assurance that HMRC has a plan to ensure that businesses are aware of what they will need to do. We are particularly concerned about the 100,000 small traders that HMRC can not engage directly with, as you do not know who they are.’

At the other end of the scale, the **Financial Reporting Council (FRC)** has told companies listed in the UK that they must explicitly explain how Brexit could affect their business rather than put generic concerns in their annual reports.

Mr. Hammond did announce a further £500m for government departments to prepare; this comes on top of the £3.7bn already announced.

Budget for government departments to prepare for Brexit:

£4.2 billion

£2.2 billion
initially

£1.5 billion
at Spring Statement 2018

£0.5 billion
2018 Budget – October (normally November) 2018

Contingency planning continues to rise as Brexit affects investment

Planning and contingency announcements continued throughout October 2018. A survey by the CBI suggested that 82% of small and medium businesses will start to implement contingency plans by December if the Brexit process does not get any clearer.

This could well start to affect recruitment decisions as well, given that nearly one in five businesses told the British Chambers of Commerce (BCC) they would cut recruitment if the UK left the EU without a deal in place.

Manufacturing has consistently been a topic of conversation in this report and now the automotive industry's trade body, the Society of Motor Manufacturers and Traders (SMMT), has announced a contingency programme for Brexit.

One in five (18%)

of UK businesses would cut recruitment if the UK left the EU without a deal in place.

Source: British Chambers of Commerce

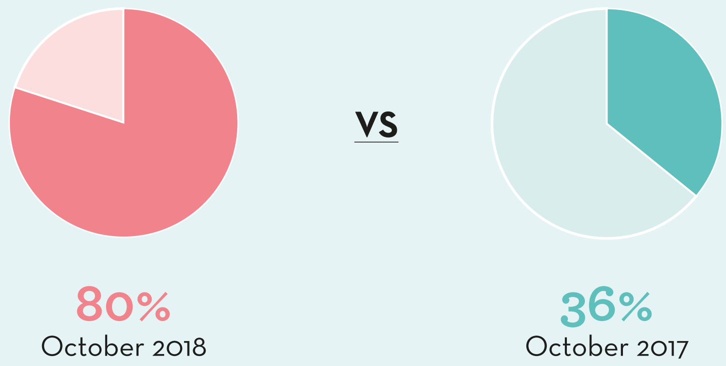
The SMMT has said the programme has highlighted 'a contingency planning minefield', with changes to regulations, onerous customs processes, tariffs and restricted access to talent among the challenges facing the sector in a 'no-deal' scenario.

Phase one of the readiness programme will see legal and accountancy firms offer advice and consultancy services on trade and tax arrangements outside of the EU, customs procedures and adapting to regulation changes from chemicals to data protection, employment law and immigration.

Nissan, which made nearly a third of the UK's 1.67 million new cars in 2017, has gone further than contingency planning and has decided to delay wage discussions until there is further clarity on the future of Brexit. Negotiations on a new two-year pay deal were due to have already started, but employee representatives have agreed to postpone them until the new year.

It's no longer just a planning conversation, however. EEF, the manufacturer's trade body has reported that one in three manufacturers (36%) have reduced planned investment in plants and machinery. The CBI reports that negative impact on investment is even higher, affecting four in five companies (although this is related to a wider idea than plants and machinery).

Brexit has had a negative impact on my investment decisions:



Source: Confederation of British industry