

# BREXIT IN THE BOARDROOM: THE VIEW FROM BUSINESS

## AUTUMN 2018 UPDATE

EXPERTS WITH IMPACT™

### Executive Summary

The findings from our survey indicate that large companies across the four biggest economies in the EU are, in the main, still expressing optimism about their growth prospects following Brexit. Significant majorities of those we surveyed are expecting their business to grow in the aftermath of the UK's exit but this confidence has reduced by 7% vs our December 2017 survey – we see similar patterns of reduced confidence in the future in terms of turnover, employee numbers and client/customer numbers. Given the fractious nature of the negotiations since December 2017, this isn't surprising. Confidence and resilience may well be based on an overly optimistic assessment about the outcome of the deal and with many still assuming there will be little impact on the movement of people and goods.

#### Key findings include:

- **Timing:** Back in December 2017, 75% of firms expected clarity on the UK-EU relationship by June 2018. That deadline came and went. Now only 12% in the UK and 20% in Europe believe they have clarity, with 74% expecting they will now get clarity by February 2019
- **Decision making:** Previously 84% of respondents had said that they will make irreversible decisions by September 2018, but only 19% have done so. Now three-quarters (75%) of respondents said they will make irreversible decisions to manage Brexit by February 2019, which is when they now expect to have clarity on the outcome of negotiations
- **Expectation of 'soft' Brexit:** 58% of these large companies believe the UK will continue to have tariff-free access to the single market after Brexit (but this is down from 65% in December 2017), with that belief being 68% for UK firms (down from 75%)
- Despite this, 83% of businesses **expect to increase or maintain turnover** in the year following Brexit
- **No-deal plans:** 76% of businesses say they have a no-deal contingency plan prepared or in place
- **Impact on UK R&D:** 63% of UK firms and 61% of European ones said they planned to move R&D facilities from the UK to the EU as a result of Brexit, with UK financial services firms the most likely to move (76%)
- **Impact on UK jobs:** Two-thirds (69%) of respondents said they were concerned about job losses post-Brexit, with that figure rising to 80% for UK firms
- 79% of firms said they have established a dedicated **Brexit team**, with most saying they were 'fully' prepared for Brexit, but an important minority of 42% saying they were only 'partly' prepared.

Since our last survey in December 2017, the confidence that clarity will emerge from the negotiations has significantly diminished. Our previous survey found that 75% of respondents expected to have clarity by June 2018 – a moment that is long behind us, without any clarity having emerged. Only a quarter of respondents now expect to receive clarity by the time of the EU Council session in October, badged as the moment when a political consensus needs to be reached on the Withdrawal Agreement and accompanying political statement on the future relationship. By the time we reach February 2019, 74% of firms now think they will have clarity on the negotiation outcomes. With only a month left until the UK leaves the EU, this leaves implementation plans to manage Brexit highly dependent on the transition agreement being ratified. In the light of such uncertainty it is heartening that a majority of those surveyed have put in place plans based on a no-deal exit of the UK from Europe.

Businesses also indicated that they feel less well-informed now than they did in December 2017. In the UK, Germany and Spain, an average of just over 60% of respondents said they felt 'fully informed' overall about the impact of Brexit in December 2017, with that figure declining to 53% now. The outlier to this was French businesses, 67% of whom said they were 'fully informed' last year, which has now risen to 69%.

In terms of the outcome, in December 2017 we found that businesses were broadly expecting a 'soft' Brexit, with the UK retaining many of the fundamental aspects of EU membership. Now, we find this is still broadly the case, but with reduced confidence. For example, last year 63% of UK businesses expected to see freedom of movement for citizens maintained, whereas that figure is now 55%, with similar reductions in the other three countries surveyed. In addition,

on tariff-free access to the single market, last year 75% of UK firms said they expected this to be maintained, but now this figure is 68%. Despite these declines in confidence, overall there are still a significant number of firms who, effectively, expect the status quo (a 'soft' Brexit) to be maintained in the future UK-EU relationship, particularly as it relates to free movement of people and jurisdiction of the European Courts of Justice (ECJ) over the UK. The fact that overall sentiment has dropped slightly shouldn't be surprising considering the way that both sides have firmed up their red lines in the negotiations. But it is concerning that over half of the respondents are making plans assuming that the UK would continue with free movement of people after Brexit, considering the UK government has made this a clear red line.

Perhaps because of this optimism that the status quo will broadly be maintained, most firms believed that their preparations for Brexit were in a good shape. Almost two-thirds (68%) of respondents said their company was prepared for Brexit, which is an identical figure to our survey last year.

This sense of preparedness is probably a result of the large number of firms who have established a dedicated Brexit team. 79% of respondents said that such a team was in place; with 59% of those saying that the team was 'fully' prepared. However, significant gaps remained, with 9% of respondents saying they intended to set up a Brexit team, but hadn't yet done so. With critical milestones in the Brexit process now looming, those companies may need to begin preparations immediately and urgently to ensure they can manage any potential outcome.

We asked new questions of our respondents in this survey, and these have uncovered perhaps

the most worrying findings for the UK. We find that huge numbers of firms are planning to move functions and people out of the UK as a result of Brexit. 63% of UK firms planned to move R&D facilities to the EU with 61% of European firms also planning to do the same thing. In addition, 62% of firms are planning to place new teams or initiatives in the EU rather than UK. 80% of UK businesses and 75% of Spanish businesses fear Brexit will result in job losses within their company, with businesses in France (57%) and Germany (66%) also fearful.

As with our last survey, this report is structured in three parts:

- What do businesses think will happen on Brexit?
- What will be the impact of Brexit?
- What are businesses doing to prepare for Brexit?

The findings will provide businesses, policymakers and parliamentarians with insight into how large companies are preparing themselves as we enter the last stages of the Brexit negotiation process. In less than six months' time, the UK will almost certainly be leaving the EU. Now is a critical time for all concerned to ensure that businesses are aware of the issues that could impact them and what they need to do to mitigate against the effects. With the outcome still far from certain, we hope this report can add to the policy debate and focus the minds of negotiators from both sides as they seek to secure a deal

**To view the full report, please visit: [www.fticonsulting.com/brexit](http://www.fticonsulting.com/brexit)**

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