CBI survey: How businesses are preparing for Brexit

Since the two-year Article 50 process for the UK leaving the European Union was triggered in March 2017, businesses across the country have shown resilience in the face of uncertainty. At the beginning of 2018, much remains unknown about the UK's future relationship with the EU, so firms must plan their future investment and growth with limited information.

The CBI has undertaken a survey of over 300 businesses, and a broad consultation with many more, to understand how firms are preparing for Brexit. This paper is designed to provide policymakers with insight into the work being undertaken on the office and factory floors. It also sets out a range of ways policymakers can help companies make Brexit a success.

Companies are diverting time and resources to Brexit that could otherwise be dedicated to growth

Firms are working hard to understand what Brexit means for their operations and their employees – both the risks and the opportunities. The majority of businesses have looked at different Brexit scenarios and attempted to assess the impact; they are devoting time at leadership level and creating internal groups to manage Brexit as a significant project. Some are investing in external help from consultants or hiring additional staff, and many are increasing engagement with Government to inform policymakers of what Brexit means for them and to seek extra information.

These efforts demonstrate businesses' willingness to respond and adapt to changing circumstances. However, they also take away time and resources that could otherwise be dedicated to developing and growing the business and so mean lost potential for companies and the country.

Brexit can impact every part of a single business, and uncertainty about those effects makes getting ready a huge challenge

Businesses are finding Brexit scenario planning a difficult exercise as so much remains unknown. Nearly all surveyed firms say that lack of information is a challenge - there are numerous different potential scenarios and a large number of short-term and long-term issues to understand, often with little certainty available. A single firm may have to consider potential Brexit impacts on its employees, trade, compliance, strategy, structure and more, with no certainty about the future for any part of that business.

Businesses are having to prepare for a 'no deal' scenario

Companies are getting ready for a 'no deal' scenario for two reasons. Firstly, because the prospect of a 'no deal' scenario is a serious and realistic one, and as such firms have no option but to develop contingency plans for this outcome. Secondly, because – with so much uncertainty about the final relationship – 'no deal' is the clearest scenario to prepare for, the nearest to a known quantity that business can anticipate. For these two reasons, firms are planning for the worst and hoping for the best.

Preparing for 'no deal' means planning for the most disruptive option. The changes businesses would have to make in such a scenario are the most drastic and expensive ones and include relocating operations, increasing prices and moving jobs from the UK. As 'no deal' remains a possibility, businesses will have no choice but to prepare for it. This will have a negative effect on the economy, before the UK leaves the EU.

Urgent agreement of transitional arrangements would help companies where uncertainty is already affecting growth and halt some contingency plans

For a significant proportion of surveyed firms, Brexit has deterred investment and negatively impacted the recruitment and retention of staff. The agreement of a transitional period to avert a 'cliff edge' in March 2019 would give businesses greater certainty about their operating environment and this survey shows that, for the majority of large firms, this will halt the implementation of their contingency plans. However, transitional arrangements must be agreed before the end of March 2018. Some firms are already past the point of no return; unable to wait any longer, a significant number have begun implementing their contingency plans.

Government and business need to work together to support small businesses preparing for Brexit in a way that protects jobs

While many – though by no means all – larger firms are advanced in their preparation for Brexit, smaller firms are much less able to get ready for Brexit. These companies are, arguably, most exposed to the potential impacts of Brexit, as they are less likely to have traded outside the EU and managing changes can absorb a more significant proportion of resource than in a larger firm. And as large businesses are only as strong as the weakest link in their supply chain, preparing small companies for Brexit matters for firms of every size, as well as jobs. Small businesses employ 60% of the private sector.

There are a number of steps the Government can take independently to offer greater certainty to firms:

1. A programme of Brexit readiness support targeted at SMEs and underprepared exposed sectors to help ensure the whole economy is ready to make Brexit a success.
2. A DExEU-led cross-government and agency effort to coordinate and streamline business input into departments to save time for both parties.
3. An online single point of contact, accompanied by a hotline, to help businesses to find information and – crucially – the right people in departments and arms length bodies that can support their efforts to make Brexit a success.
4. The publication of further future partnership papers to provide businesses with greater confidence about the Government's intentions for the sectors and policies that matter to them.
5. A "check twice" policy across Government to support businesses struggling with the cumulative burden of significant policy changes.

Business, too, will play its part.

6. CBI member companies are keen to open their doors to policymakers to help them understand what Brexit means on the factory and office floors.
7. Large firms are already taking their first steps to try and support their supply chains getting ready for Brexit.
8. And the CBI and its network of 150 Trade Associations will help Government communications reach the companies they're intended for.

For more information about this paper or the CBI's work on Brexit, please contact:
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Key findings

Businesses are taking action to assess risks and seek opportunities…

- 57% of surveyed firms have examined different Brexit scenarios and the potential impact on their business.
- Over half of businesses have increased engagement with government and other stakeholders in order to seek information or communicate identified risks.
- About half of companies have looked for potential opportunities from Brexit – of these about half have found some and half have not.

…but preparing for Brexit is difficult due to the huge number of potential issues and scenarios that are possible

- 94% say scenario planning is difficult because of lack of information available.
- 77% say the number of potential scenarios make it challenging.
- 48% say the cost required to make contingency plans is prohibitive, while 47% find the complexity of the information challenging.

Businesses are having to prepare for a 'no deal' scenario…

- 61% have, or are developing, a contingency plan for a 'no deal' scenario.
- For 25% of these firms with contingency plans, the deadline for putting these into action is January 2018. For a further 25%, the deadline is March 2018. However, for 10% the deadline already passed in 2017.

… and urgent agreement of transitional arrangements would help companies where uncertainty is already affecting growth and halt some contingency plans

- 36% say investment has been negatively affected by Brexit.
- 41% say Brexit has negatively impacted recruitment and retention of staff – with 73% of the country's biggest firms reporting this.
- 57% say Brexit has taken time away from other business priorities.
- 75% of the country's largest firms say transitional arrangements would halt their preparations for a 'no deal' scenario.

CBI member companies were invited to complete this survey over the period of 2 - 16 October 2017. 306 businesses contributed to the results. In addition, hundreds of conversations with CBI members have been used to complement the data with qualitative evidence.

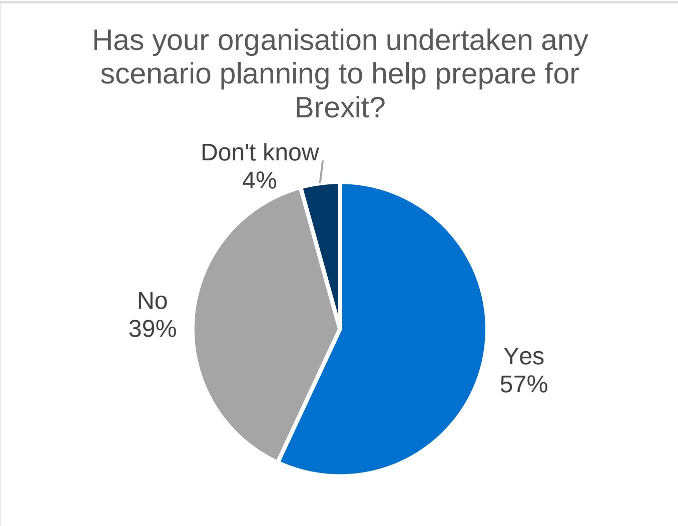
1. Companies are diverting time and resources to Brexit that could otherwise be dedicated to growth

Since the EU referendum and the triggering of Article 50, businesses have been organising, analysing, planning and working with Government to assess risks and seek out opportunities to make a success of Brexit.

With the clock ticking on the two-year process, much remains unknown about exactly what the UK's future relationship with the EU will look like and companies are having to examine numerous scenarios and the impact these may have on their operations. This is time-consuming and resource intensive. Senior executives are devoting time at board meetings as well as asking directors and operational staff to create working groups to manage Brexit as a significant project. Because of the seriousness of the potential impact of Brexit on some businesses, a number are investing in external help from consultants or hiring additional staff.

Firms are also spending time and resource boosting their engagement with Government to help policymakers understand what Brexit means for them and to seek further information to guide their decision making. Much of the effort companies are putting in is being done to explain the risks they face, but firms that are able to are also working hard to discover any opportunities that may arise as a result of the UK's departure from the EU.

The majority of companies have started planning for the UK's exit from the EU



Over half of surveyed businesses have undertaken some Brexit scenario planning, but there are differences between both sizes and sectors. Of the UK's largest companies (over 5000 employees), 77% have started planning for the UK's departure from the EU, compared to 47% of companies with 250 employees or less. Small companies report that they do not possess the same resources as large companies – such as legal support and public affairs departments – and there is concern about their ability to get ready for Brexit Day One. This lack of small business planning is a concern for larger companies as well, that need their suppliers and clients to be as prepared as they are. In particular, there is concern about the 180,000 trading firms who will have to make customs declarations for the first time.

Those sectors which are generally more exposed to Brexit are doing the most planning. Real estate companies, for example, are most likely to have undertaken scenario planning, with 100% reporting they have begun preparing. This is explained by the fact that these companies have already felt the impact of issues like the decline in the value of sterling, and need to be ready for any further changes. Financial services firms are a close second: 79% of financial services firms having undertaken planning. These companies have been encouraged by their regulators to demonstrate long-term resilience, and invested significant resource to protect customers in any scenario. Information & communication and logistics firms are also very likely to have undertaken planning, with 60% and 63% respectively.

In contrast, those sectors which are less exposed to changes in the trading relationship are less likely to have started planning for the UK's exit from the EU. Only 13% of mining firms surveyed, for example, have undertaken planning – but while these companies may be registered in the UK, they predominantly operate in non-UK and non-EU markets and are therefore less exposed to changes in the UK-EU relationship. Similarly, only 33% of hospitality and tourism firms have started to plan for the UK's exit. These businesses are likely to feel the effects of any changes in availability of workers and any changes in the prices of food, but they will be less likely to need complex adjustments to respond to these challenges.

Of most concern, are those sectors which are likely to face significant Brexit effects but have done little planning. Only 35% of transport companies surveyed had started planning for Brexit, which is worrying when several transport industries – like shipping and aviation – face the potential for major disruption. Similarly, only half (51%) of manufacturing businesses have started scenario planning, yet these companies face many potential changes. This supports the concerns of large firms about the preparedness of their supply chains.

"Your supply chain is only as good as your weakest link. SMEs need to be as ready as we are," – major automotive company

"The problems posed by Brexit are much more visible if you're a small company," he says. "Because you haven't got the economies of scale, you can't just start splitting your operations. The decisions you have to make have a much more lasting importance," – Welsh manufacturer with 10 employees

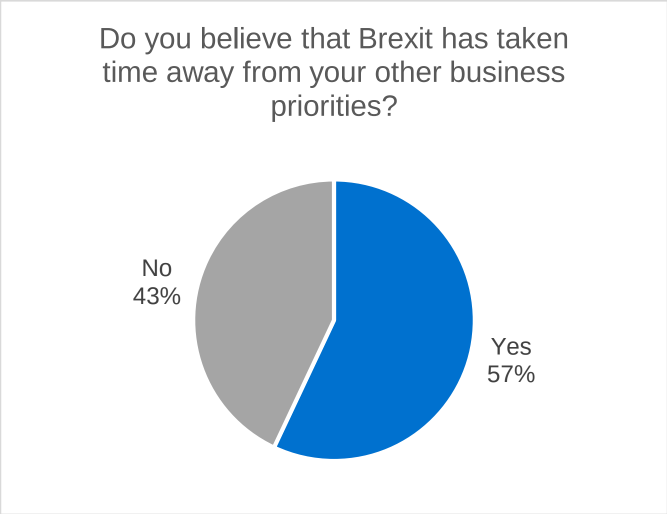
What should be done?

As Government prepares for Brexit Day 1, it must start a targeted support to help companies get ready too. In particular, small and medium-sized firms should be the focus of this support, as well as those in highly exposed sectors like manufacturing and transport that have fallen behind the pack on preparedness. The CBI, its trade associations and individual member firms are keen to help those efforts, working within sectors and supply chains, but a partnership between business and Government on preparing for Brexit would help add much needed coherence. This partnership should be properly co-ordinated, as many issues are the responsibility of multiple departments and arms-length bodies. For example, customs changes will affect 30 government departments and public bodies, and more than 100 local authority organisations.

Firms are investing significantly to make a success of Brexit

Dedicating both resource and time to prepare for the UK's departure from the EU is necessary for many firms to make Brexit a success. However, this does have consequences: 57% of firms believe that Brexit has already taken time away from other business priorities.

Much of the time being devoted to Brexit is at the most senior level within companies: 87% of firms have discussed Brexit at board level, which signals how seriously Brexit is taken within the business community. Indeed, preparing for the UK's departure from the EU is such a significant business priority, that many firms are treating it as a major project requiring real investment:



- 82% of large businesses, and one-third of firms overall, have set up an internal Brexit taskforce or steering group to project manage preparations
- 35% of large businesses, and 10% of firms overall, have hired external companies to help manage their response to Brexit – notably management consultants and legal firms
- 14% of large businesses, and 4% of firms overall, have hired additional employees to support preparations

"The day after the referendum result, we allocated three employees to work full time on our response to the vote to leave. That team has only grown since," – large financial services firm, based in Scotland

"We take preparing very seriously. Our CEO chairs a Brexit strategy group to manage our overall post-Brexit direction, and we've asked a consultancy to project manage those of us working on the nitty gritty detail. We owe it to our customers to get it right," – British publishing house

"We've doubled the size of our public affairs department in the UK to keep our overseas head office up to date on developments," – multinational chemicals company

"After the referendum, we did a scoping exercise to identify issues, but with so much uncertainty we couldn't hope to devise solutions. It was a watching brief over the spring and summer of 2017, and now there's a bit more certainty we've set up an internal working group to manage our response," – small Midlands-based healthcare firm

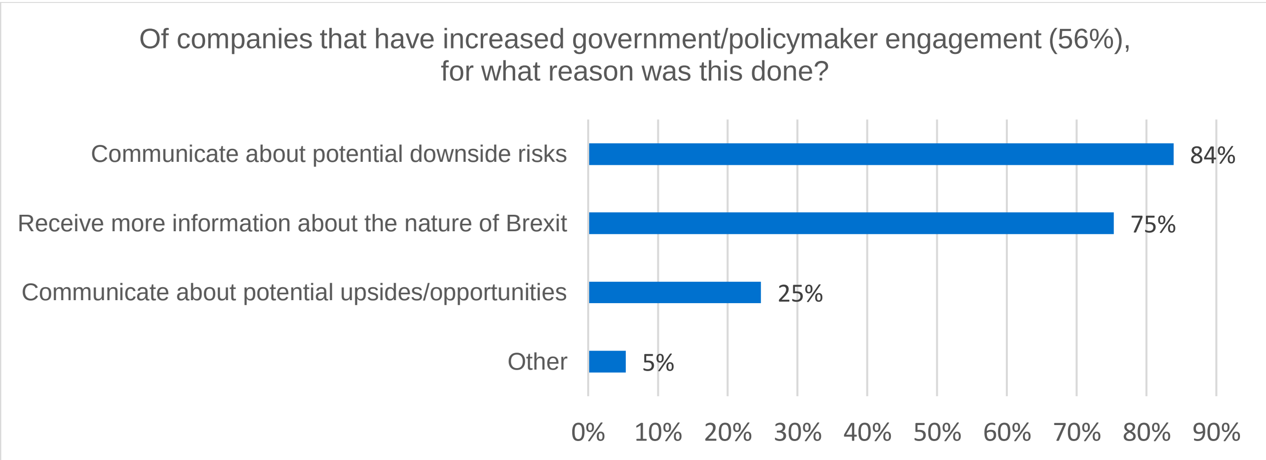
What should be done?

As the Government progresses its domestic agenda, and in particular as it considers policies that require major change within companies or additional burdens, it should consider the drain on resource and senior time that Brexit is having already. This time isn't just being spent by business leaders in the UK but in headquarters abroad too, which has an impact on how Britain's competitiveness is perceived internationally. A 'check twice' policy across departments would help limit major changes to businesses that are not necessary or helpful at this time of significant pressure.

Businesses have increased engagement with government to both seek and give additional information

To make a success of Brexit, it is vitally important that there is a real partnership between Government and business as companies will be on the frontline of delivering many of the changes the UK negotiates. Firms recognise this importance, which is why 68% of large businesses and one-third of businesses overall have increased their engagement with central Government since the referendum. There are two main purposes to this engagement: to ensure that policymakers understand what Brexit means on the factory floor and to seek greater information to help deal with the uncertainty they are facing.

Businesses report that the quality of the relationship between them and Government has improved over time, particularly since summer 2017. However, there is still evidence from firms that government departments do not always share information between themselves efficiently, which is a concern. There is also a mismatch between the amount of time businesses have spent feeding into Government, and how much information is flowing back. It is important that departments take steps to reset this perception as negotiations move into Phase 2.



What should be done?

Cross-departmental coordination is key to reducing wasted time, and the Government should ensure that information given to government by businesses is shared appropriately across departments. Steps to systematically feed back to businesses how intelligence they have provided has been used would also be helpful. There are a number of sectors – such as energy and financial services – which have been waiting many months for the Government to publish future partnership papers, laying out the UK's view. The publication of these would give firms confidence that they have been heard and help move the Phase 2 debate on.

EXAMPLES: THERE ARE MANY DIFFERENT WAYS FIRMS ARE ORGANISING, BUT MOST INVOLVE A LOT OF SENIOR EXECUTIVE TIME

These are examples of how real business leaders are organising to manage Brexit impacts within companies.

A small bakery employing 250 people

The company board meets monthly, and includes:

- Chairman
- Finance Director
- Operations Director
- Sales Director
- HR Director

Since the referendum, the company has had Brexit as a standing item for discussion at the board each month. The company has had experts from legal firms and business associations as guests to try and understand more about what Brexit might mean for them. The Operations Director has taken on responsibility for helping the company get ready for Brexit, on top of his existing role.

A medium-sized manufacturing firm

The company has established a Brexit committee, attended by:

- Managing Director
- Finance Director
- Communications Director
- Commercial Operations Director
- HR Director

A consulting firm has been hired to help support the more detailed planning.

Others attend as needed, included:

- Head of Product Supply
- Head of IT and Systems
- R&D Innovation Director
- General Counsel

The company's Brexit committee meets once a month to monitor progress on scenario planning. Depending on the topic for discussion, the heads of different parts of the business present to the Committee to explain progress and discuss how changes may affect different departments.

The business is owned by a European company. The German HQ also has a Brexit committee. The UK reports its progress into the HQ meetings on a regular basis, and updates the European leads on politics as well as business changes.

A large telecommunications firm

The Brexit steering group is in charge of the project, and includes:

- Group CFO
- Head of Brexit
- Group Risk Officer
- VP Public Affairs
- General Counsel

Workstreams are managed by Heads of:

- HR
- Competition and Regulatory Law
- Investor Relations
- Procurement
- Customs
- Tax
- Systems and IT
- Treasury

Different parts of the country are also represented by the Heads of Public Affairs for:

- Scotland
- Ireland
- UK

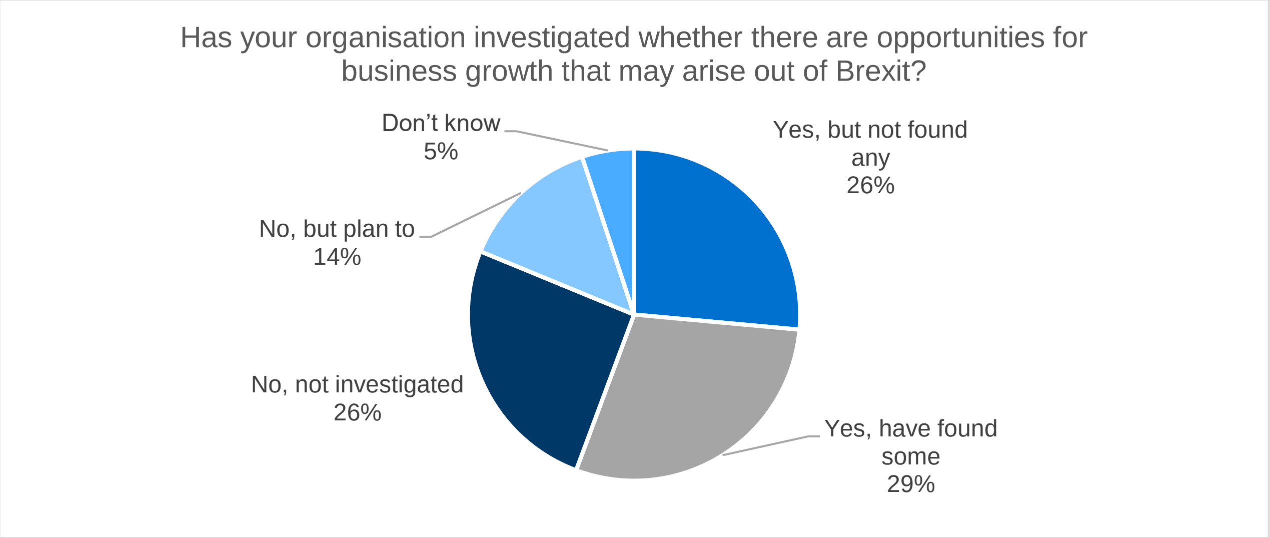
And the Director for Policy

Different parts of the business are also represented.

The group meets on a quarterly basis to ensure that information is shared across the business effectively. There are a large number of complex workstreams being run across the firm, with Brexit planning happening at different paces in different parts of the company as required. The core Brexit steering group meets every week to ensure the project is being managed effectively.

The majority of businesses will examine what opportunities may arise out of Brexit

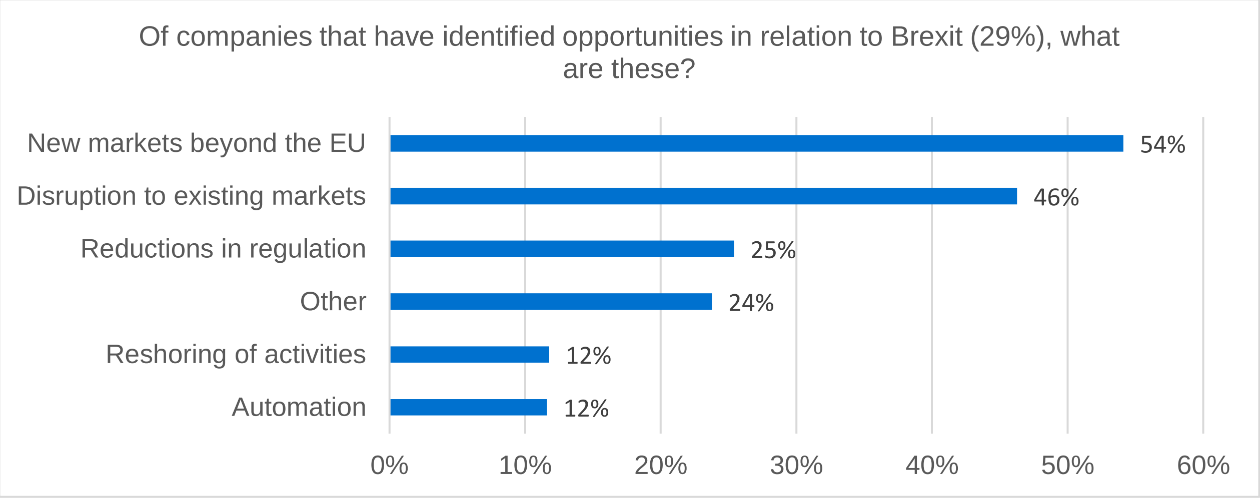
While there are major challenges to prepare for Brexit, businesses are also proactively looking for opportunities. 69% of surveyed companies have looked at, or plan to look at, potential opportunities that could arise from Brexit. Of those that have already looked, roughly half have found potential opportunities and roughly half have not.



For those firms that have identified opportunities, the most commonly cited is new markets beyond the EU, with 54% of businesses that have found opportunities seeing this as one (15% of overall survey respondents). As large businesses are more likely to have a presence abroad already, smaller companies are more likely than larger firms to see new markets as an opportunity, with 62% of businesses with less than 50 people who have found opportunities excited about this. However, it is not clear if the priority put on new markets is a result of excitement over new trade deals or about the new national impetus to focus on global relationships. There are some examples of companies that are looking abroad for certainty, as the UK's relationship with non-EU countries is perceived to face less disruption.

The majority of companies prioritise regulatory stability over deregulation, which is why only 25% of firms that have identified opportunities from changes to business regulations that originate from the EU after Brexit. Disruption to existing markets has also been identified by 46% of firms who have found opportunities.

While the potential for deregulation and increased access to new markets beyond the EU are possible long-term opportunities, there are firms which are able to take opportunities now. There are companies in the service sector – for example, legal and consulting firms – that are finding opportunities offering Brexit-related consulting to other businesses. At 12%, a minority of firms are also using Brexit as a trigger to increase investment in automation in order to reduce reliance on overseas labour.



Some exporting businesses have also been able to benefit from the decline in the value of sterling, but the impact has been negative overall. A separate September CBI snap survey revealed that almost half of businesses consider the overall impact of sterling's depreciation on their business to have been net negative (49%), with 27% finding the impact to be net positive.

"Brexit has kept the exchange rate low, driving our sales abroad," – medium-sized manufacturer based in the North East

"If there are trade barriers, we'd expect domestic demand for our plants to grow. We see that as advantage overall, as we do not trade much abroad," – small Somerset-based horticulture business

"There is a small commercial opportunity for us to provide more support services if there are customs processes needed. But that is vastly outweighed by potential reductions in trade flows if there are customs barriers. All the evidence shows we grow fastest when markets are more open," – large logistics company

"Brexit has shone a spotlight on the value of the life science sector's importance to British jobs and growth, which is no bad thing in the long-run," – large pharmaceuticals firm

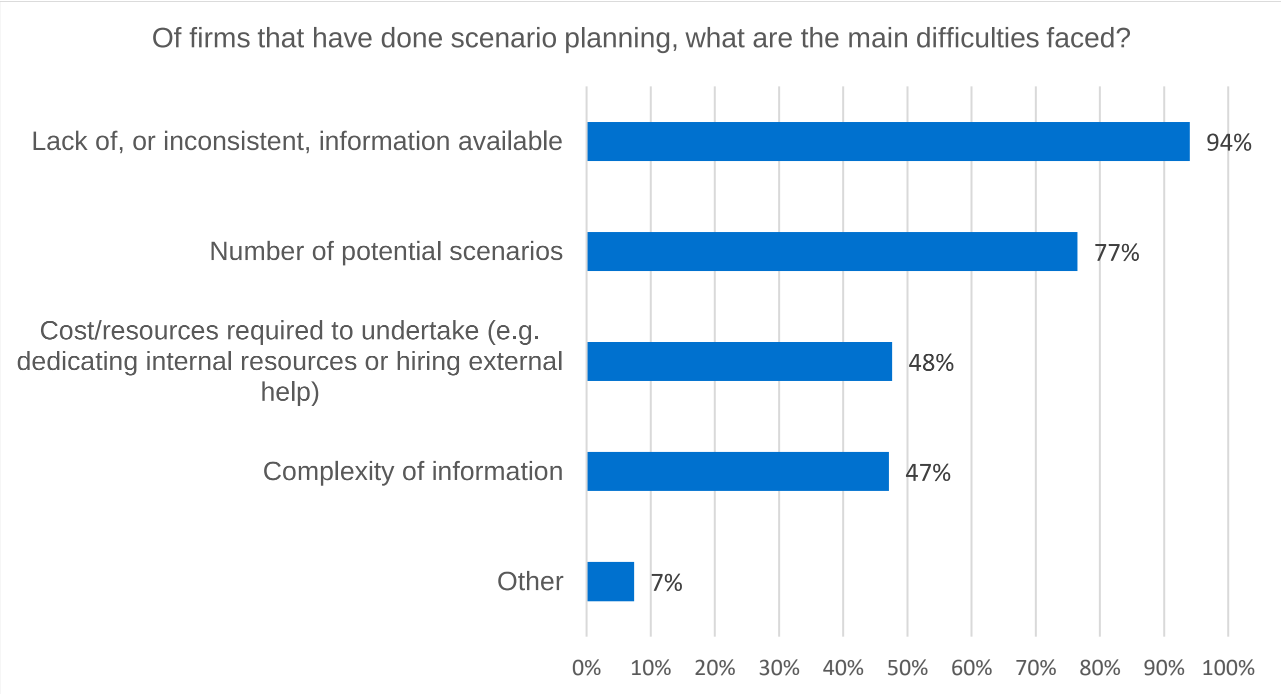
2. Brexit can impact every part of a single business, and uncertainty about those effects makes getting ready a huge challenge

Businesses are finding Brexit scenario planning a difficult exercise as so much remains unknown. Nearly all surveyed firms say that lack of information is a challenge - there are numerous different potential scenarios and a large number of short-term and long-term issues to understand, often with little certainty available. A single firm may have to consider potential Brexit impacts on its employees, trade, compliance, strategy, structure and more, with no certainty about the future for any part of that business.

Any clear and consistent information Government can give will support business' efforts to get ready for Brexit

Firms face a number of very real challenges when faced with the practicalities of preparing for the UK's exit from the EU. The most significant of these is the lack of, or inconsistent, information – with 94% of firms identifying this as a difficulty. This is alongside 47% of firms citing the complexity of the information that must be processed as a factor they struggle with.

When asked, companies cite a range of different scenarios that they have investigated, including the possibility of collapse in the negotiations and no deal being reached, different versions of a transition period from March 2019 to an unknown future date, and the future UK-EU economic relationship being all wrapped up and implemented by the end of the Article 50 process in March 2019. Preparing for this multitude of possibilities with so little information will inevitably lead to sub-optimal decisions being taken, with negative impacts for jobs and growth.



Resource is another major consideration, as companies weigh up the risk of investing in scenarios that may not come to pass. For a company to undertake an impact assessment on a certain Brexit scenario they have to assign people to working out the most likely scenarios at a political level, what it means at the business level, and what it means for the business environment. 48% of firms are finding it hard to divert resource to such tasks.

On all measures of difficulty (cost, complexity, lack of information and number of scenarios), the survey results indicate that large companies are finding it more difficult to plan than their smaller counterparts. This is because the complexity of large businesses makes it more challenging but also because – as seen above – large firms have undertaken greater analysis and as such are more aware of potential issues.

"Our business made a deliberate decision to continue as usual after the referendum, but started planning. We're now at the stage of having to spend serious money. It will mean less for product development, wages and recruitment," – large consumer goods company

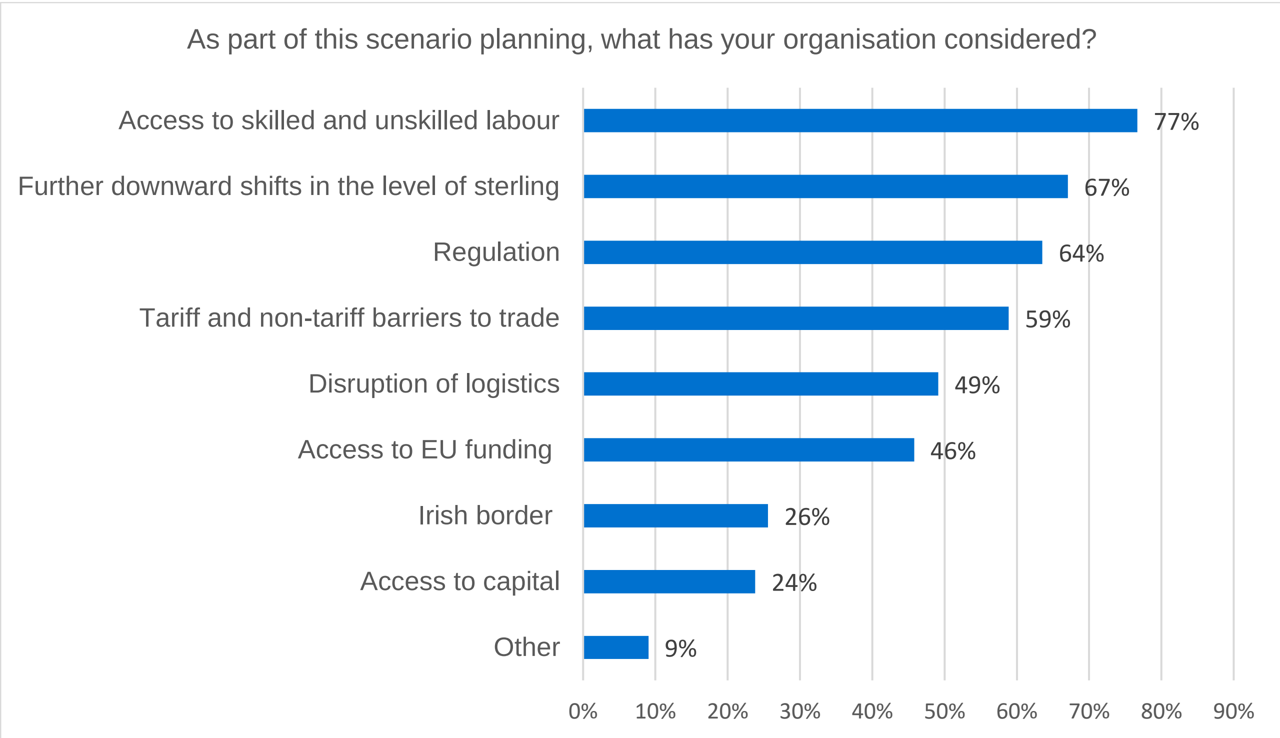
"Lack of information and legal clarity from the UK Government on what the scenarios even are is a challenge," – medium-sized Welsh manufacturer

"All companies manage risk, every day. Weighing options and uncertainty is what we do, particularly with global markets. But no single policy change has ever had as far reaching an impact as this one," – family-run shipping company

What should be done?
As negotiations move into Phase 2, the UK Government should place a premium on clear communication as things are agreed or taken off the table. The CBI and its member Trade Associations are happy to help this information reach the hundreds of thousands of companies in their combined membership, and support Government in communicating in a clear and accessible way for business leaders.

Companies are preparing to face a huge range of potential issues at the same time

40 years of economic integration between the UK and the EU has left its mark: the EU has some impact over almost every aspect of business. A single company may have to consider effects on its finances, people, compliance, structure, client relationships, suppliers and more. Few firms can therefore look in detail at all aspects of their exposure to Brexit, and have to prioritise.



The most commonly cited considerations in planning are related to those impacts which businesses are already experiencing: 67% of firms are looking at what Brexit means in terms of further downward shifts in sterling and 77% of firms are looking at what Brexit means for their access to people. A majority of firms are also looking closely at what changes to the policy environment will mean for them in terms of potential regulatory changes, additional tariff and non-tariff barriers to trade, and potential disruption to logistics. Evidently, firms are therefore having to include a very wide range of factors in their planning, as the UK's relationship with the EU is complex.

What should be done?
The Government should make best use of the information it produces to support companies navigating this complexity by establishing an online one-stop shop and dedicated hotline as a single point of entry to Government Brexit information. Both Government departments and arms-length bodies should have additional resource made available from the preparedness fund the Chancellor allocated in the Autumn Budget, specifically to provide support and advice services for companies. Co-ordinating this work through a single point of entry will make it much less burdensome to manage.

EXAMPLE: A SINGLE FIRM MAY FACE BREXIT IMPACTS IN EVERY PART OF THEIR OPERATIONS

This case study is of a real consumer goods company. It imports products it makes in Europe, China and Turkey to warehouses in England and Scotland, for sale in shops in the UK and Ireland.

It faces a number of challenges, some it can respond to and some it can't….

The change in the currency…
… has made its imported products 10% more expensive. It has therefore put prices up by 10%. This in turn has led to a 10% fall in sales volume, and the firm has had to make redundancies

The risk that Brexit will require them to make UK-specific products instead of EU wide ones…
…means time has to be scheduled now. As a product takes 5 years from concept to shelf, the UK company is trying to persuade its pan-European R&D divisions to introduce time in their development plans to make those products. But it won't be worth it for many products, and it takes time away from innovation for European products

Changes in migration rules…
… is a risk for their warehouses. During busy periods, 10-20% of their staff can be EU nationals. It is not in the company's power to give these people certainty, but they are giving reassurance

…And some impacts have complex knock-on consequences.

Barriers to trade with the island of Ireland may require the company to restructure operations
The company's warehouses in England and Scotland receive and sort all deliveries for Ireland and Northern Ireland as well as for Great Britain. After Brexit, barriers may mean it costs too much to send goods out of the EU and back into it, so the firm has two contingency plans: to set up a warehouse in Ireland, though this may not be financially viable for some years, or expand a European warehouse. The company is undertaking cost-benefit analysis to plot its course. Whatever it chooses, a number of extra actions will be needed

Buying or expanding a warehouse is a big task
Land will need to be purchased, planning permission secured, licenses agreed and people hired. This all requires funding and must be sustainable

This will require IT system changes
The company has a complex database and online programme that tracks all consignments. Instead of Irish products automatically coming to the UK, the system will need to be changed across the company. This work could start from the Autumn, but the firm wants to hire IT consultants earlier as they worry about other firms seeking them for similar reasons

It has impacts on other companies too
The firm wants to make a decision quickly so it can inform the company that supplies its trucks and drivers of the changes, as they will need fewer lorries in Great Britain

Potential delays in trade have made the company consider stockpiling
The company wants to avoid delays at ports preventing customers receiving goods on time, so are planning to stockpile three months' worth of products in advance of the UK's exit – just in case.

It will need space for these products
The company was hoping to get rid of a warehouse they no longer required, but will now continue paying for it to store these emergency goods

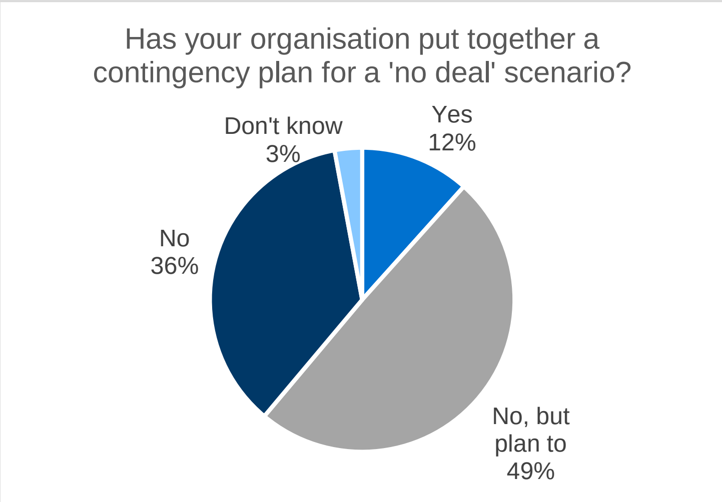
It will need to commission these products in advance
The busiest time for the factory is October-January, where they operate at capacity. The only time these products can be made is therefore June-August 2018, and the firm has already had to book in this time. This has cashflow implications for the firm

3. Businesses are having to prepare for a 'no deal' scenario

Companies are getting ready for a 'no deal' scenario for two reasons. Firstly, because the prospect of a 'no deal' scenario is a serious and realistic one, and as such firms have no option but to develop contingency plans for this outcome. Secondly, because – with so much uncertainty about the final relationship – 'no deal' is the clearest scenario to prepare for, the nearest to a known quantity that business can anticipate. For these two reasons, firms are planning for the worst and hoping for the best.

Preparing for 'no deal' means planning for the most disruptive option. The changes businesses would have to make in such a scenario are the most drastic and expensive ones and include relocating operations, increasing prices and moving jobs from the UK. As 'no deal' remains a possibility, businesses will have no choice but to prepare for it. This will have a negative effect on the economy, before the UK leaves the EU.

An increasing number of businesses are developing contingency plans for a 'no deal' scenario



Without a new comprehensive relationship between the UK and the EU, and a transitional arrangement that provides certainty until this new relationship is in force, businesses in every sector will face a serious economic cliff-edge. The effects would include:

- Risings costs for consumers and businesses
- Disruption at ports and airports
- Confusion over everything from contracts to chemicals regulation
- Uncertainty for 4 million citizens
- Cross-border services in disarray

As long as a 'no deal' scenario remains a possibility, companies must plan for it. 12% of businesses have already put in place a contingency plan in the event of a 'no deal' scenario but a further 49% say they plan to do this in the future. This is the inevitable result of this scenario remaining a possibility and the political negotiations having taken longer to progress than initially anticipated. Of large companies, only 1 in 5 say they will not plan for 'no deal'.

Of those companies that already have contingency plans (12% of respondents), the measures taken include adjusting supply chains, moving jobs, currency hedging, increasing prices and putting aside contingency funding.

There is little real relationship between sector or size in the way that firms are preparing for the possibility of 'no deal' – though services businesses that will no longer be able to provide their services to the EU without a deal are most likely to be moving staff. Instead, the differences come down to company structure and exposure to the EU market, with those most exposed more likely to take significant steps of shifting production or jobs, and those least exposed more likely to attempt to 'absorb' the impacts without major changes - through rising prices or adjustment in business strategy, for example.

"Being part of a German company's supply chain, operating on a 'just in time' basis, meant we had no option but to move operations from Wales to Germany in order to protect against risks of delays – or our many customers might look elsewhere," – medium-sized manufacturer

"The current regulatory approval process for our products takes more than a year, and continuing to do it in the UK might no longer be an option. We have thousands of products, so we've already started moving testing facilities from the UK to the EU and applying for the approvals we need to protect patients," – multinational life-sciences company

"At the moment, it's very difficult to see how we can keep broadcasting into the EU from our base here in London. We'll have to start working out how to move staff into the EU if we have no clarity by the end of Q1 this year as we need to ensure they have housing, schools for their kids and healthcare sorted before the move," – broadcasting company

"The global board has requested that we move a number of customer service operations outside the UK, just in case. It's not in our power to say no to, and jobs will move as a result," – UK-subsidiary of US IT company

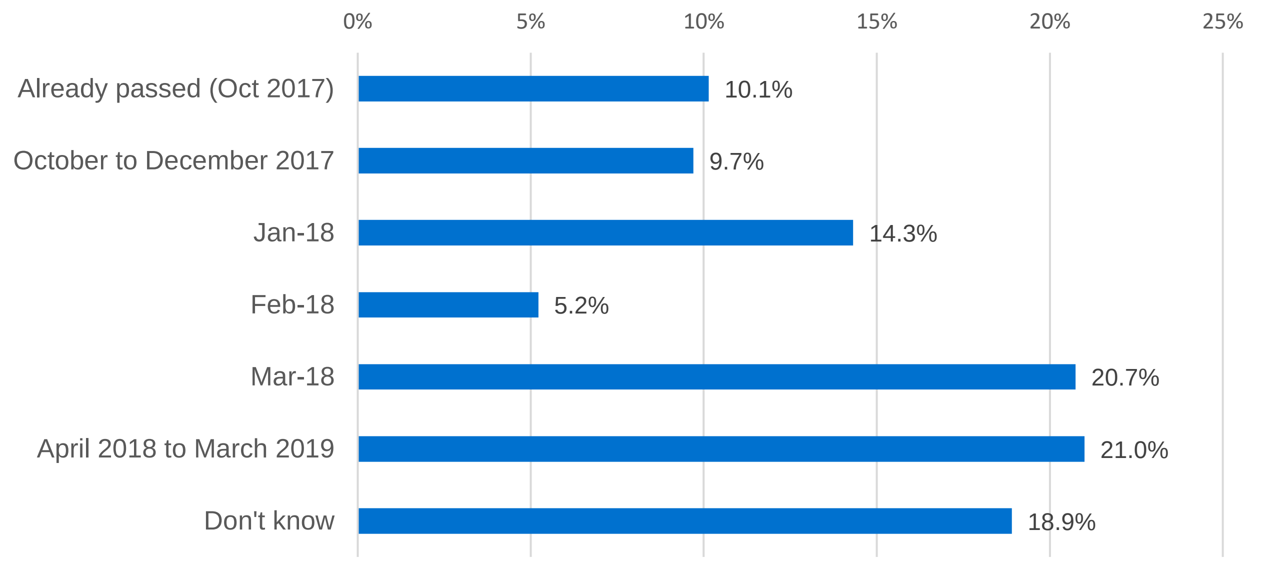
"If goods from the UK are subject to tariffs and delays through border controls, our European customers are likely to turn to our competitors in Spain and Italy. Unless transition is agreed, it's only a matter of time before we have to move our EMEA office out of the UK," – automotive components business

Some of these 'no deal' contingency plans have already begun becoming reality

With the set date of March 2019 firmly on business planning horizons, companies have to calculate how long changes would take to implement, and work backwards from that moment. That means plans are becoming reality at an increasingly rapid rate.

The survey asked when is the latest point at which businesses need certainty on transition arrangements in order to halt the implementation of their contingency plans: of the 61% that have or are developing contingency plans, 10% of these say the point had already passed (as of October 2017), for 25% of these it is December 2017 or January 2018, and for another 25% it is end of March 2018. Only 21% of these firms gave a date after March 2018.

Of companies that have or are developing contingency plans for a 'no deal' scenario (61%), what is the latest date by which greater certainty in the Brexit negotiations is required to halt their implementation?



Businesses can only change these plans when they know that the potential March 2019 'cliff-edge' has been avoided for certain. Achieving "sufficient progress" in December 2017 has sent a positive signal that negotiations are going in the right direction but it is not enough to halt the implementation of contingency plans of many businesses. A large multinational that has well-developed contingency plans that are due to begin in January 2018 informed the CBI in December 2017 that this progress in the negotiations has done nothing to alter their plans. Only certainty on a 'status quo' transition period from March 2019 will achieve this.

EXAMPLES: COMPANIES ARE WORKING TO PRESSURED TIMESCALES

These case studies are of real companies that have described their plans to get ready for Brexit to the CBI.

A major automotive company

Step 1: Begun September 2017

The company currently makes a number of different cars and engines in the UK, for sale to both the UK and across the European Union. The parts and each type of car has to go through a stringent testing process to achieve approval, before it is placed on the market.

There is a serious risk that UK approvals will no longer be automatically valid in the EU after Brexit. As this approvals process normally takes between 6 and 18 months, the company has begun applying for EU approvals already. The average cost of this is £350,000-£500,000 per car.

Step 2: Begun January 2018

The company cannot afford delays at the UK's ports and airports, as it operates a just-in-time supply chain. Products arrive at the factory and are almost immediately incorporated into the production line. If they don't arrive, a carefully balanced operation can be thrown off and the manufacturing process can even have to stop, which is very costly.

There is a serious risk of delays in the months after Brexit, and the firm has therefore decided to start stockpiling parts in advance. It has already started talking to its suppliers in Europe about how it can source these. The company will have to pay for these goods well in advance of normal, which will have cashflow implications.

Step 3: Begins March 2018

In order to store the stockpiled products, the company will have to build warehousing. The first step is to apply for funding from its HQ. After that, the firm will have to find land of suitable size, apply for zoning permits, construct a warehouse, and source personnel to manage it.

March is the latest the company can start this work, it will cost millions of pounds.

A multinational manufacturing company

Step 1: Begun April 2017

The company is concerned about the uncertainty that Brexit presents when it comes to considering new deals. In April 2017, it began inserting 'Brexit clauses' in all its customer and vendor contracts, to go some way towards protecting it from the risk of – for example – tariffs after Brexit. These clauses help it continue as much business as usual activity as it can.

Step 2: Begun October 2017

The parent company has a number of subsidiary businesses, including in the European Union. It has received legal advice that the best course of action might be to set up separate legal entities for these businesses to protect them from Brexit effects. This is a complex processes, made even more complex as these businesses operate in different countries with different legal jurisdictions. Separating these businesses will also mean having to renegotiate long-term contracts with customers.

Step 3: Begun January 2018

Some of the company's products require a small amount of radioactive material, which has a half-life of 6 hours. If this material gets stuck in customs, it will be dead by the time it reaches customers. The firm has decided to move this part of the business to Denmark to ensure patients can continue receiving the products without delay. This move will take a year.

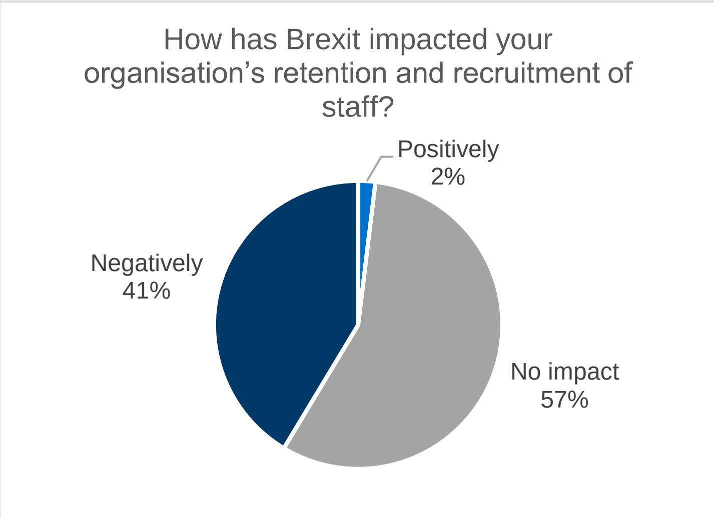
Step 4: Begins April 2018

The company has estimated that it will need 12 new people to help handle new customs procedures. Concerned that lots of firms will be competing for a small pool of experts, it will start the recruitment process a year before the UK leaves the EU.

4. Urgent agreement of transitional arrangements would help companies where uncertainty is already affecting growth and halt some contingency plans

For a significant proportion of surveyed firms, Brexit has deterred investment and negatively impacted the recruitment and retention of staff. The agreement of a transitional period to avert a 'cliff edge' in March 2019 would give businesses greater certainty about their operating environment and this survey shows that, for the majority of large firms, this will halt the implementation of their contingency plans. However, transitional arrangements must be agreed before the end of March 2018. Some firms are already past the point of no return; unable to wait any longer, a significant number have begun implement their contingency plans.

Brexit is already negatively affecting the recruitment and retention of employees



Companies have been experiencing increasing difficulties in their ability to recruit and retain the people they need since the referendum. Firms report anecdotally of EU nationals working in the UK feeling less welcome because of Brexit, and being unsettled by lack of clarity over future immigration status.

Also, for many mobile workers, the decline in value of the pound has made the UK less attractive in comparison to other countries. This has recently been reflected in official statistics that have shown a decrease in net migration from the EU to the UK since the EU referendum.

41% of surveyed firms say that recruitment and retention of employees has been negatively impacted by Brexit. Large companies are more likely to be affected by this, with 73% of the biggest firms citing this as opposed to just 23% of the smallest.

These impacts are being experienced at both ends of the labour market. Firms in the retail, agricultural, and construction sectors that rely on non-graduate labour from the EU, often – though not exclusively – on a seasonal and short-term basis, are experiencing these impacts now. However, companies in other sectors such as technology firms, financial services and universities are also reporting that it is harder to get employees from across the world to transfer to UK roles as they are unclear on their future immigration status, and that EU nationals currently in the UK are more reluctant to move to postings in other countries for fear it will impact their prospects of being able to remain in the UK in the long-term.

"Many existing EU employees currently feel unwelcome and unsure about remaining in the UK, with some already starting to leave. As a result, we have seen a tightening of the labour market for our front-line factory operatives and temporary labour. This has already had an impact on production and caused disruption in supplying some of our customers," - food manufacturer, East Midlands

"So far this year we have already lost 22 EU nationals. Not only is it quantity, but quality. We are seeing our brightest workers leave first as they seek to secure the best jobs elsewhere in Europe before competition increases as more EU nationals leave the UK," - professional lighting manufacturer, West Midlands

"Our shortage of skilled machine operators has been compounded by a third of our EU workforce returning to the continent post-referendum," - small manufacturer, South West

"Last year, we lost 4% of our daffodil crop due to a persistent labour shortfall. This year's loss equates to 20 million stems of daffodils left unpicked in the fields," - international fruit and vegetable supplier, East Midlands

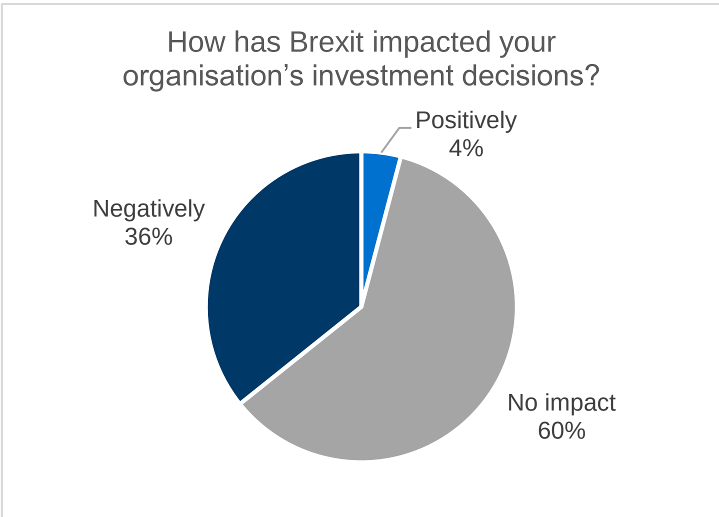
"Over the summer we suspend our production line to allow holidays and many of our EU nationals go home for a short period. This autumn a far higher amount than usually chose not to return. From the exit interviews the primary reasons were: increasing uncertainty about their right to remain, experiencing increased levels of xenophobia and their earnings going not going as far due to the exchange rate," - international car manufacturer

"We are a global university and compete with other institutions from around the world to attract top academics. Historically this has not been an issue and we continue to recruit competitively. However, we are increasingly seeing hesitancy amongst some candidates worried they may not be welcomed in the UK," - University, Scotland

Brexit is already negatively impacting businesses investment decisions

A majority of firms have been able to invest as normal since the referendum result. However, particularly for multinational companies, the lack of clarity around the business environment beyond March 2019 can make it very hard to justify investments in the UK. Multinational companies may want to take advantage of the many benefits of the business environment in the UK but the lack of clarity is a major deterrent, especially if the UK is being considered alongside other markets.

While companies tend to have continued to maintain or increase levels of investment in skills and digital technologies, large capital investments – such as buildings and equipment – are more likely to have been put on hold or cancelled.



36% of firms in this survey state that Brexit has negatively affected their investment intentions. The Bank of England's own surveys on the effect of Brexit on investment reported 40% of companies stating that investments had been stalled or halted in the UK because of Brexit (Bank of England, 2017, *Decision Maker Panel*).

"We could not commit to a sales contract which required fixed price over a longer period as we had no certainty on price and/or availability of raw material due to suppliers not wishing to commit to UK as can sell raw material to other countries," – medium-sized food wholesaler

"Additional recruitment needed for future development has been put on hold until we have a clearer understanding of what is likely to happen. Generally, we have a risk averse attitude to starting new projects. Salary awards we would like to make are being postponed," – medium-sized cosmetics company

"We are looking to purchase a piece of specialist capital equipment from the US, but the change in exchange rates has meant we have delayed this decision until next year," - animal feed manufacturer employing 100 people

"Brexit has made us cautious about investments in IP that we then turn into books that we sell to high street retailers. There are already signs of consumer confidence falling which will impact the confidence of our retailers. As a result, we are being cautious about our investment in IP. This is a direct result of Brexit. Our print costs are rising due to the relative value of Sterling. This is eating cash, challenging our margins and making us cautious about the cash we have available for investment in IP," – book publisher with 200 employees

"We need to buy a new building but we're holding back because Brexit is pushing up overheads and we're not certain what deal will be on the table at the end," – textile company employing 50 people

Urgent agreement of transitional arrangements would halt some contingency plans and halt some of the negative effects firms are already experiencing

In December 2017, the UK and EU took a welcome step in stating they would seek agreement of transitional arrangement as early as possible in 2018. This move would reassure a large number of businesses: 75% of the country's largest firms, and 41% of companies overall, say transitional arrangements would halt their preparations for no deal.

These transitional arrangements must deliver the status quo: participation in the EU single market and a customs union, in order to avoid an imperative for companies to prepare for two sets of adjustments. And further effort must also be made to protect the preferential market access companies have at the moment to non-EU countries through the EU's free trade agreements. Transitional arrangements must also provide enough time for negotiations on a final deal to conclude and allow businesses enough time after that point to implement any changes required by the final deal.

Transitional arrangements are valuable whenever they are agreed as, whatever the deal secured in March 2019, businesses will need time to implement changes. However, transitional arrangements will be more valuable if they are agreed earlier rather than later, given the clocks that are ticking within every company with a contingency plan – in line with but running well in advance of the Article 50 clock.

Indications are that legal restraints mean that transitional arrangements cannot be delivered in legal force in isolation and must be part of the withdrawal agreement. However, a joint statement presented by both the UK and the European Commission, confirmed in principle by the Council and swiftly translated into legal text in preparation for legislation would go a long way for a significant proportion of firms.

Conclusion and Recommendations

A year and a half since the EU referendum, businesses have little further certainty as to how their operating environments will look in March 2019, let alone March 2021. This means they are having to prepare in the dark, and many are investing significant amounts of senior time and resource to get ready for Brexit Day 1 in spite of and because of this.

The most effective thing that Government can do to remove this uncertainty is the rapid agreement of a comprehensive new relationship with the EU. This would not only halt the implementation of 'no deal' contingency plans that will impact jobs in the UK, but also bring an end to hesitancy over investment, recruitment and retention. However, securing this new relationship will inevitably take time. In the meantime, a joint statement by the UK and EU, swiftly translated into legal text stating that companies will not face a cliff-edge in 2019, will drastically reduce the need for and severity of these 'no deal' contingency plans. Transitional arrangements are more valuable the earlier they are agreed.

However, there are also a range of other steps the Government could take to reduce this damaging uncertainty and reassure companies in a way that supports jobs:

1. **A programme of Brexit readiness support targeted at SMEs and underprepared exposed sectors** would help ensure the whole economy is ready to make Brexit a success. A strong partnership between business and Government to deliver this would make sure that the firms that need most support receive it if it focuses on clear communication of "knowns". At the moment, these "knowns" are limited to how the UK's relationship with non-EU countries works, but even that would be helpful if placed in business-friendly terms. As "knowns" about the UK's relationship with the EU increase after each stage of negotiations, this programme could be expanded.

2. **A DExEU-led cross-government and agency effort to coordinate and streamline business input into departments** would save time and boost confidence. Publishing a clear and transparent mechanism by which businesses can see how the information they share is distributed across and within departments would be a big step forwards. It has never been more important that both Government and business time is used effectively.

3. **An online single point of contact, accompanied by a hotline,** would help businesses to find information and – crucially – the right people in departments and arms length bodies that can support their efforts to make Brexit a success. Funding should be made available for all departments and arms length bodies to communicate and advise businesses managing changes, without taking away from resource to supporting the Government's own efforts to get ready for Brexit.

4. **The publication of further future partnership papers** would provide businesses with greater confidence about the Government's intentions for the sectors and policies that matter to them. Many industries have not received communication about the Government's intentions on Brexit for them since the White Paper publication in February 2017.

5. **A "check twice" policy across Government** would support businesses struggling with the cumulative burden of significant policy changes – such as National Minimum Wage rises and the apprenticeship levy – in combination with the major task of getting ready for Brexit. Efforts should be made in every department to limit policies that result in major disruption for businesses at this time of change.

Business, too, will play its part.

1. CBI member companies are keen to open their doors to policymakers to help them understand what Brexit means on the factory and office floors.

2. Large firms are already taking their first steps to try and support their supply chains getting ready for Brexit.

3. And the CBI and its network of 150 Trade Associations will help Government communications reach the companies they're intended for.

Only through a true partnership between Government and business will the country be ready to make a success of Brexit from Day 1. Efforts have already started, but must be ramped up as we enter Phase 2.