

# Kent and Medway - Making a success of Brexit:

*A sectoral analysis of Small and Medium-sized Enterprises  
and the Rural Economy*

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# Background

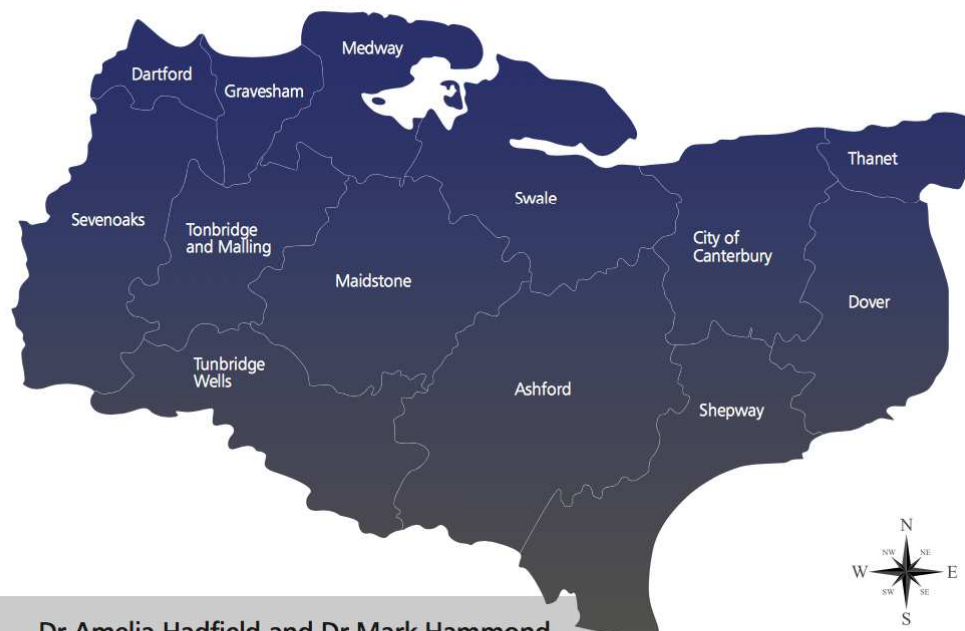
- To date, CEFEUS has written 4 reports on Brexit
- Following on from the EU Referendum, the second report was published in December 2016 providing a sectoral overview at the effect Brexit will have on key sectors in Kent & Medway
- At a follow-up meeting in January 2017, it was decided in consultation with key stakeholders across the county to examine the effect of Brexit on SMEs and Rural Economy
- Following the launch of the July 2017 report in Westminster, attention has shifted towards a sectoral analysis on Healthcare and Policing, within the scope of borders, security and customs. Publication is anticipated in early 2018



## **KENT AND MEDWAY:** MAKING A SUCCESS OF BREXIT

A Sectoral Appraisal

12 December 2016



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# Sectors looked at

- Business and Commerce
- Transport
- Agriculture
- Tourism
- Policing
- Higher Education
- Healthcare
- Environment and Natural Resources
- Local Government

# Cross-cutting themes

- EU/UK Regulation
- EU/UK Funding
- EU/UK Labour

# Opportunities

- Set against emerging spectrum of Hard vs Soft Brexit: complete removal vs partial integration
- Kent-based big business vs Kent SMEs
- Removal of EU Legislation on state aid, competition and labour: remaking a new paradigm for business, industry, commerce etc.
- Overhauling current local gov't finance regime; dovetailing with enhanced devolution to local government?
- Specific Directives e.g. Working Time, procurement, product standards, environmental protection requirements, intellectual property: changes here could encourage more flexible employment options, provide a catalyst for industry, and growth?
- Less clear: how future trade bilaterals will boost Kent markets, businesses and exports or provide non-UK markets with new consumers.



# Asks

- Gov't take account of the high value placed by Kent and Medway's universities on Horizon 2020, and ETC (Interreg) in actively supporting business research, innovation, & investment.
- Formula-based distribution of funding at national level which reflects the importance of leading counties like Kent and Medway as both a source for local growth and a catalyst for national growth. Funding allocated on the basis of (1) delivering outcomes at local level, (2) regional level (e.g. European partners) and (3) national level, rather than being absorbed centrally.
- Work to minimize barriers to collaboration with European partners; promote need for continued UK participation in future European collaborative research programmes, allowing Kent itself, and its host institutions and businesses to remain both a *world leader* in science, research and innovation, and the "UK gateway to/from Europe".
- Support the continued involvement of Kent and Medway in ETC programmes in order to help ensure the integrity of the cross-Channel link and to maximise the benefits to the UK of international trade.

## KENT AND MEDWAY: MAKING A SUCCESS OF BREXIT

A SECTORAL APPRAISAL OF SMALL AND MEDIUM SIZED ENTERPRISES  
AND THE RURAL ECONOMY

July 2017



Professor Amelia Hadfield and Professor Mark Hammond  
Centre for European Studies  
Canterbury Christ Church University



# Impact on SMEs

- 15 months on from the Referendum, both sectors have reported a need to adjust to the outcome of the vote as there has been difficulty in recruitment due either to a reluctance to continue to work in the country or the drop in valuation of the British Pound Sterling when compared to the euro
- For SME's, the biggest concern raised has been the difficulty in preparing for the departure due to the inconsistency shown by the Government. Many businesses in particular voiced frustration at the result of the 2017 General Election and the instability caused

# Impact on Rural Economy

- For the Rural Economy, a major concern raised was the loss of EU subsidies. Agricultural representatives stated that many small farms relied on the financial assistance from Brussels, and hoped the Government would follow through on promises from the campaign and continue to match these contributions
- The loss of EU labour is of primary concern. In particular, the rural economy has been wholly dependent on cheap labour from Central and Eastern Europe since 2004

# Opportunities

- Businesses are most excited by a reduction in EU regulations and thereby less 'bureaucracy', and the opportunity to simplify tax codes
- The ability to negotiate trade deals with BRIC nations, the USA and commonwealth nations + opportunity to renegotiate high agri-tariff agreements with China and New Zealand
- A desire to 'buy British', in particular within Agriculture
- Drop in Pound Sterling encouraging trade with foreign nations within manufacturing

# Cripps/Kent Invicta data



Section	Description
UK Sales	The numbers of firms reporting increases in UK sales have fallen since the middle of 2015, when about half were doing so, but there has been a change since the referendum. In Q1, 35% of firms reported increased sales, 50% no change and 15% a decrease, overall not much changed compared with the picture in Q4 2016.
UK Orders	Q1 was the most positive quarter for forward orders from the UK since Q4 2016. Some 35% of firms reported increased orders, up from 25% in Q4 2016, with 49% seeing no change and 15% a decrease. The last time companies were reporting an increase in orders was in 2Q 2015.
Export Sales	Exports sales posted their weakest quarter in Q1 since at least 2Q 2015, despite the weaker pound making UK goods and services more affordable abroad. Only 17% of firms reported an increase in export sales, compared with 24% in Q4 2016, while 71% reported no change and 12% a decrease.
Export Orders	Some 17% of companies reported an increase in export orders in Q1 compared to the levels of the previous two quarters but roughly in line with the levels of the previous two quarters ending with Q2 2016. Some 71% of firms said they had seen no change and 12% a decrease. Manufacturing fared better, with 36% reporting an increase in Q1 compared to 10% of services.

T-FAT <sup>™</sup>	made the	Vinyard	Soft Fruit	Vegetable Grower	Fruit Grower	Vegetable Grower	Water Purification	Plastics Manufacture	Building Contractor	Medical Analysis	Online Clothes Retailer	Retail Manufacturer	Wholesale Delicatessen	Employment Agency	Roofing Manufacturer	Translation Agency	Textile Importer	Motor Accessories	Medical Diagnosis	Cleaning Products	Lighting Supplier	NA Fields	Measurable Fields	Total Possible	Actual Score	Dependency	
<b>Key</b>	0=0% 1=1-25% 2=26-50% 3=51-75% 4=75+%	£7M	£250k	£3M	£750k	£100M	£370k	£4M	£2.5M	£6M	£61M	£4M	£7.5M	£2M	£2.3M	£700k	£7M	£4M	£1.2M	£3M	£2.5M						
1	How much of your business is exported to the EU?	0	0	1	1	0	0	0	0	2	1	2	0	0	0	1	1	1	3	0	1	0	20	80	14	18%	
3	How much of your business is imported from the EU?	0	1	1	1	2	2	3	1	4	3	0	2	0	0	0	1	1	0	1	0	0	20	80	23	29%	
5	What percentage of your supply chain is in the EU?	1	0	1	0	4	2	1	3	4	0	1	3	1	1	2	0	1	1	1	1	0	20	80	28	35%	
7	What percentage of your permanent workforce is from other EU countries?	0	3	3	1	3	1	0	0	1	3	1	1	0	3	0	0	0	0	1	1	0	0	20	80	22	28%
9	What percentage of your temporary workforce is from other EU countries?	3	4	0	4	4	0	0	3	0	4	0	0	0	1	2	0	0	0	0	0	0	0	20	80	25	31%
11	How much of your business income is from EU subsidie/or grants?	0	3	0	1	0	0	0	1	1	0	0	0	0	0	0	0	0	0	1	0	0	0	20	80	7	9%
	<b>Level of dependency on EU (not turnover-based)</b>	17%	46%	25%	33%	54%	21%	17%	33%	50%	46%	17%	25%	4%	21%	21%	8%	13%	25%	13%	8%						
<b>Key</b>	0=Irrelevant 1=Unimportant 2=Important 3=Very important 4=Essential																										
14.1	How important is availability of investment funding to your business?	3	4	3	4	4	2	4	1	3	2	1	1	0	3	1	1	1	3	1	1	0	20	80	43	54%	
14.2	How important is availability of labour to your business?	4	4	4	4	4	4	4	4	3	4	1	3	3	3	4	1	2	2	2	1	0	20	80	61	76%	
14.3	How important is central government support to your business?	1	3	1	1	4	2	1	0	2	4	1	1	2	1	1	1	1	2	1	1	0	20	80	31	39%	
14.4	How important is support from business organisations to your business?	1	1	1	1	3	2	1	3	3	3	2	0	3	1	2	1	2	1	3	1	0	20	80	35	44%	
15.1	How important is finance (eg export guarantees) as a barrier to business?	1	0	3	0	3	0	0	1	2	1	1	1	1	1	1	2	1	1	3	2	0	20	80	25	31%	
15.2	How important is understanding of product standards and regulations as a barrier to business?	1	0	1	0	2	0	0	0	4	3	2	4	2	1	1	2	2	3	3	2	0	20	80	33	41%	
15.3	How important is understanding other country's cultures and attitudes as a barrier to business?	1	0	1	0	3	0	0	0	3	3	2	2	2	3	3	2	1	3	3	2	0	20	80	34	43%	
15.4	How important is understanding tariffs as a barrier to business?	1	0	2	0	4	0	0	1	2	3	1	2	0	3	0	1	3	1	0	2	0	20	80	26	33%	
15.5	How important is understanding non-tariff barriers (eg quotas, standards,licensing) as a barrier to business?	1	0	3	0	3	0	0	2	2	3	1	2	0	2	1	1	2	2	0	2	0	20	80	27	34%	
	<b>Requirement for Knowledge and Support</b>	31%	27%	42%	22%	67%	22%	22%	27%	53%	58%	27%	36%	29%	40%	31%	27%	33%	40%	36%	31%						
23	Would you consider use of a Brexit Compliance Officer? 2=yes 1=no	1	1	1	2	1	2	1	1	1	2	2	2	2	2	2	1	1	1	2	1		20	40	29	73%	
24	How well do you understand WTO terms of trade? 3=Nothing 2=A little 1=Well	1	2	3	2	2	3	3	3	2	1	1	2	3	3	2	3	1	3	3	2		20	60	45	75%	
20	Do you keep a register of business risks and is Brexit on it? 3=no 2=yes and Brexit is not on it 1=yes and Brexit is on it	1	3	1	3	1	3	3	3	3	1	1	3	3	1	1	3	3	3	3	2		20	60	45	75%	
	<b>Rural Economy Specific Questions</b>																										
12	Do you receive any RDPE funding? 2=yes 1=no	1	1	2	1	1	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na		5	10	6	60%	
13	How important are subsidies or RDPE funding to your business? 1=Unimportant 2=Important	1	2	1	1	1	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na		5	10	6	60%	
18	Have you struggled to recruit seasonal workers since the referendum? 2=yes 1=no	1	1	1	1	2	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na		5	10	6	60%	
19	Do you think a similar scheme to SAWS could reduce labour shortages? 2=yes 1=no	2	2	2	2	2	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na		5	10	10	100%	
21	Would you consider new technologies/agricultural diversification to respond to Brexit? 2=yes 1=no	2	1	2	2	2	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na		5	10	9	90%	
22	Do you think it is a good idea to make CAP funds conditional on fulfilling specific climatic/environmental change requirements? 2=yes 1=no	1	2	1	1	2	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na		5	10	7	70%	
	<b>Requirement for Support or Change</b>	67%	75%	75%	67%	83%																					

# How can Government help SMEs?

- By securing market-access, preferably via a free-trade deal with the EU on the best terms possible, driven by a non-tariff commitment that ensures labour mobility and skills availability
- By allowing an extensive transition period of 5+ years to ensure cliff-edge scenarios do not happen
- By negotiating an early agreement with the EU on the ways in which the customs border can be managed effectively and efficiently, including pre-clearance procedures
- By giving greater clarity as to what will be retained/changed regarding tax issues



# How can Government help SMEs?

- By securing a stable regulatory framework, seeking first to minimize disruption and the costs of shifts in compliance, and then subsequently to streamline some areas to improve their UK-EU business
- By immediate and guaranteed certainty on the residence rights of the existing EU workforce, including clarity on their status vis-à-vis the cutoff date, the intervening grace period, and the post-cutoff date
- By further clarity on the current area, coverage and timing of funding programmes guaranteed by the UK government

# How can Government help rural economy?

- By investing in business advice and training
- By committing to 'growing' a new crop of 'farmer-entrepreneurs'
- By working more directly with the rural economy sector during and after the Brexit negotiations in solidifying current markets and identifying new ones, within and beyond Europe
- Use of apprenticeship schemes to fill certain voids in the labour market when potential for career progression exists, in addition to a system similar to the defunct SAWS.



# Advice for Business Community

- Certification: The Authorised Economic Operator (AEO) status
- Trusted Trader
- Brexit may present an opportunity in the medium and long term for the national, regional and local business communities to achieve a step-change in the scale, reach and effectiveness of mechanisms to support SMEs, but only if enhanced collaborative opportunities are seized between these communities, and local and national government

# Business to Business Support

- Keep Calm and Keep Trading: prepare for the outcomes of Brexit and talk to peers and business networks
- Take advantage of the support systems the Government funds and provides
- Utilise business networks: large ones (IoD, CBI) or SME-specific (FSB) or sector-specific (Rural Plc.)
- Explore the notion of a Brexit Compliance Officer who can help your business be ready for change and ready to grasp opportunities

# What next?

- Two further reports due out:
  - Health and Social Care (March 2018)
  - The Border (April 2018)

# Health and Social Care

- 6 focus areas:

1. Workforce/Labour/Skills
2. Medical Industry & Medicines
3. Reciprocal Healthcare
4. Health and Social Care funding
5. Public Health
6. Regulatory regime, eg Procurement and Work Time Directives

# The Border

- Provisionally entitled ‘Delivering a Brexit Border’; 4 primary focus areas:
  1. Frontier Control
  2. Immigration
  3. Policing Cooperation
  4. Transport/Infrastructure