



# CENTRE FOR BRITAIN AND EUROPE

UNIVERSITY OF SURREY



Analysing Brexit's Impact on  
**UK SMALL AND MEDIUM-SIZED ENTERPRISES**

# Small and Medium-Sized Enterprises (SMEs)

Brexit has sparked a fierce debate across the British business sector, including SMEs, as to the nature of the risks and opportunities presented by the UK's departure from the EU. For some, Brexit represents an opportunity for businesses to expand into differing markets, for others, a period of uncertainty and loss. Either way, this is a critical juncture at which SMEs need clarity and reassurance that their interests are at the forefront of negotiations. This CBE Briefing Note will outline the situation for SMEs in the EU, and the potential eventualities after Britain's departure.

## Overview

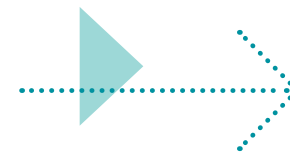
Through the EU, the UK has access to the Single Market. This means trade can operate without any internal borders or other regulatory obstacles to the free movement of goods and services. The benefits of this arrangement include the stimulation of competition and trade, efficiency, quality control over produce, and lower prices. SMEs are a critical part of this system. Small businesses are the backbone of Europe and the UK's economy. They represent 99% of all businesses in the EU (Brown & Wilson, 2019). Furthermore, over the past five years, they have created around 85% of new jobs and provided two-thirds of the total private sector employment in the EU.

Support provided by the EU for these companies include the Enterprise Europe Network, the SME Internationalisation Support Page, the Your Europe Business Portal and the Access to Finance portal which can help small businesses apply for EU funding. Whilst much of the Brexit debates focused on the promises of global trade deals, less red tape for businesses and more freedom, what has become apparent is that SMEs are struggling to deal with the pre-Brexit uncertainty, particularly after the extension of the deadline.

Experts from the Confederation of British Industry (CBI), the Institute of Directors (IoD) and representatives of SMEs themselves have repeatedly highlighted the strain

on companies during Brexit preparations, but their call for action seems to have fallen upon deaf ears. In a survey conducted by Dun and Bradstreet (2018), 65% of SMEs felt that there should be more support from government to help them weather current challenges. Financial support can help bridge financial gaps and help SMEs take their next big step, whether as a start-up or a scaling business – but only 43% of respondents received financial support last year (Dun & Bradstreet, 2018). Meanwhile, the Scottish government is offering grants of £4,000 to help SMEs to export, for instance. It has also set up a national helpline.

However, it is clear that what SMEs need at this point in time is clarity – something that Westminster is currently struggling to provide. Brexit has been blamed for the drop in the value of the pound – these fluctuations have impacted professional services the most, followed by manufacturing and health (Dun & Bradstreet, 2018). On average, the pound is now weaker than it was at the height of the financial crisis. This does not only impact on businesses themselves, but will likely result in higher prices for consumers. With the IoD forecasting that two-thirds of SMEs may be forced to relocate abroad in the aftermath of Brexit, it is time to seriously consider protective measures for British SMEs post-Brexit (IoD, 2019).



## Sector Insights

In a submission to the Sir Adrian Smith, **The Royal Society** reports that the UK has one of the best environments for starting new knowledge-based businesses. It is important that in the context of the creation of the European Innovation Council, it does not lose this advantage. The founders of the best start-ups will already have many reasons to base their business in the EU (including access to a larger market, deeper talent pool) and it is important to look at the system from their perspective, and to make the UK a most attractive offer (The Royal Society, 2019).

**Ian MacMennin** for **PSA** on the subject of business writes that both main parties have taken up positions which are distressing for British business, albeit on different dimensions. For the first time in a century, there is no British party which is clearly pro-business (McMenanin, 2019).

Steps must also be taken to replace the EU SME Instrument and ensure that the UK can buy into Framework Programme funding which is open to third country participation (The Royal Society, 2019)

**Peter Evans** for **The Sunday Times**, writes that small businesses have increased the amount of cash they hold in current accounts by 78% over the past two years in anticipation of another credit crunch. He reports that experts have said that 'any clarity on Brexit would encourage business owners to end the stockpiling' (Evans, 2019).

## Expert Commentary

The current perspectives of Brexit's impact on SMEs remain essentially the same as those in 2016: an ongoing lack of information for SMEs as to how to prepare for Brexit, either from government or industry, coupled with a genuine lack of practical preparations being undertaken. An unmanaged or hard Brexit scenario further separates those SMEs who have undertaken basic preparations on the basis of a deal from those with little or no contingency planning. Citing a UK-wide survey of SMEs Brexit planning undertaken by the Federation of Small Businesses (FSB), the *Financial Times* reported in September 2019 that "only a fifth of small British businesses exposed to Brexit have prepared for the UK leaving without a deal", indicating "many vulnerable companies are still ill-equipped for

upheaval" (Thomas and Bounds, 2019). The survey indicated that SMEs have undertaken average preparation costs of £3000 alongside investments in stockpiling, which together had "temporarily or permanently reduced profitability". National advertising campaigns by the government were not seen as materially helpful to SMEs in terms of the detailed preparations needed. The critical issues are twofold. First, the lack of information and assistance about how to plan, with two thirds of SMEs conceded that "they felt unable to plan". Second, an inability to prepare for a no-deal departure itself, despite evidence that "40 per cent of small companies would be negatively affected by a no-deal departure" (Thomas and Bounds, 2019).

*"I know of one food processing company who has been waiting for planning permission for five years. It has just got the permission but has decided now not to go ahead because of the threat of no deal. This would have been a major investment and hundreds of jobs."*

**Joshua Hardie**, *Confederation of British Industry Deputy Director General* (O'Carroll, 2018).

*"Uncertainty is throttling firms and threatening jobs – not in the future but right now."*

**Carolyn Fairbairn**, *Confederation of British Industry Director General* (O'Carroll, 2018).

*"Business can have no absolute reassurance that an agreement will be reached, particularly given the commitment of some Conservative leadership candidates to leaving the EU in October, with or without a deal. It feels like the extension is at risk of being wasted."*

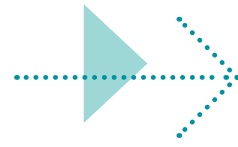
**Edwin Morgan**, *Institute of Director's interim Director General* (O'Carroll, 2018).

*"Trying to get a horse under control once it's bolted is an incredibly risky business. Today's figures clearly demonstrate the need for the Chancellor to intervene with an Emergency Budget before Brexit happens. If the Treasury delays action until after 31 October, its efforts will likely prove too little too late"*

**Martin McTague**, *Federation of Small Business Policy & Advocacy Chairman* (FSB, 2019).

### Quick Statistics

SMEs account for at least 99.5% of the businesses in every main industry sector.	Nearly a fifth of all SMEs operate in Construction, compared with less than 1% in the Mining, Quarrying and Utilities sector.
Total employment in SMEs was 16.3 million in 2018; 60% of all private sector employment in the UK.	Between 2017 and 2018, whilst the number of employing businesses increased by 23,000, non-employing businesses fell by 50,000, resulting in an overall decrease of 27,000 businesses.



## Local Stakeholders: Surrey and Guildford

### Surrey County Council

At the local level, a number of key concerns have arisen regarding preparation for both deal and no-deal Brexit scenarios. For Surrey County Council, one such issue is the use of key EU databases that help support service delivery, including Trading Standards to help clarify which various goods, foods and businesses pose possible issues. The Council has been identifying both hardware (servers and systems) and software (databases and information flow) in assessing potential impact on services locally, as well as aligning their contingency plans with those at national level (Curley, 2019).

Other issues include traffic management into and through the county of Surrey during and after Brexit. Congestion onto Surrey roads is already a key issue, but one that could be significantly worsened with knock-on effects from border delays and lorries elsewhere in the country, with heavy and sustained congestion on motorways leading to and from ports. In terms of planning, Surrey County Council and Surrey's Local Resilience Forum have undertaken a close working relationship with the Kent Local Resilience Forum (KLRF), to get to grips with the traffic and transit-related logistics of Brexit planning, with a specific focus on Operation Fennel. Operation Fennel is Kent's overarching freight and passenger traffic management plan, designed to mitigate potential congestion caused by border delays and any subsequent impacts on surrounding areas, including Surrey. Surrey County Council continues to work with Kent county authorities to refine preparations to help minimise potential impacts on Surrey's transport network and service delivery (Curley, 2019).

### Guildford Borough Council

The Guildford Borough Council has expressed concerns for local stakeholders in the event of a no-deal Brexit. One of the biggest issues is simply the uncertainty of an unknown outcome. The most recent report detailing impact of and response to Brexit was produced by the Guildford Borough Council's Audit and Business Improvement Manager within the Corporate Governance and Standards Committee on 19th September 2019. The overall goal of the report is to ensure that the Committee itself is in a position to "consider the potential risks arising from leaving the EU and the scope of the project plan to mitigate or address the risks."

Major risks include loss of direct EU funding, the subsequent impact on inward investment on Guildford and the surrounding region, its broader economic future, business rate income, services pressures, housing/ homelessness and housing development, ICT and digital needs (including data transfer), and the impact to suppliers. More broadly, the report raises concerns about the impact of tariffs on business and the effect of delays at border controls, particularly where firms operate just in time supply chains, are also at the forefront of discussions (Poole, 2019). The report highlights a general feeling of anxiety around the possibilities of financial downturn, multinational companies relocating their business either in part or entirely to an EU country and the potential that travel to the EU might be more difficult if extra checks are introduced. At an individual level, basic issues such as medical supplies, living costs and food supply (30% of UK food is imported from the EU) are at risk of being strained if protective measures are not put in place. The report concludes that the Council faces a number of "potential risks and challenges" arising in the wake of a no-deal Brexit and outlining the need "to be in a position to limit the risks to the Council and to identify new opportunities as and when they arise" (Pool, 2019, 8).



## Impact Analysis

### Short term

- The single largest factor concerning SMEs is uncertainty regarding future regulatory change. Smaller businesses appear to be particularly worried, as were exporters. Other major issues to address include increased import costs (52%) and uncertainty regarding future access to EU markets (59%) (Brown & Wilson, 2019).
- A major issue for manufacturing firms is the threat of higher tariffs or long waiting times at customs checks. Many companies are therefore stockpiling in order to avoid shortages. However, certain companies, such as those in catering, are unable to fall back onto this tactic.
- Around two-thirds of SMEs had scaled back plans for future capital investment to 2020.
- The current slowing of the world economy due to the trade war between the US and China puts even more strain on the Brexit-battered British pound.

### Medium term

- SMEs in Scotland and Northern Ireland are particularly worried regarding the effects of Brexit on devolved areas.

### Long term

- Some SMEs have even concluded that their business might be better off outside of the UK, with 31% admitting that they have considered leaving the country to gain better support and increase their chance of success (Dun & Bradstreet, 2018). If this materialises, the impact on the UK economy and employment could have very serious and long-lasting implications.
- The CBI has pleaded that conversations are steered away from immediate impact such as food shortages, and more attention is paid to our competitiveness in business in the long term, which is at risk (Institute of Export & International Trade, 2019).



## Policy Suggestions

<p><b>Short-term</b></p>	<p>Enhanced top-down support between national and local government, and more joined up coordination between specific Whitehall departments and local councils is required to reduce the enormous anxieties arising from the current state of flux.</p> <p>Improved support to and within local councils in terms of accessibility to EU databases, support to local government providers and suppliers to understand any additional risks and is establishing contingency plans and providing support for their preparations (particularly critical health and social care where staff shortages could prove damaging to vulnerable residents).</p> <p>Locally, the Surrey Chambers of Commerce supplies an up-to-date Business Brexit Risk register to keep businesses as informed as they can be in order to mitigate potential problems.</p> <p>Ensuring that SMEs are connected to local and regional Business Brexit Registers that identify their specific needs, type of assistance, and level of preparedness will be of benefit to the whole community.</p>
<p><b>Mid-term</b></p>	<p>Ensure government has clear and consistent support for:</p> <ul style="list-style-type: none"> <li>Points of exposure in businesses, from financing and tax liabilities to regulatory compliance requirements and an EU employee audit.</li> <li>Risk assessment with the board and shareholders.</li> <li>Cross-border operations and activities under a new economic arrangement between the UK and EU.</li> <li>Ensuring all business have correct EORI numbers.</li> <li>Cash flow implications of continued volatility in the exchange rate. This could be through hedging/forward contracts or setting aside enough cash/capital reserves.</li> <li>More generally, identifying and preparing for different Brexit scenarios.</li> <li>Companies who may lose out on EU funding benefits.</li> <li>Companies who need a specific person/team assigned to Brexit contingency planning.</li> <li>Licensing requirements in other EU countries.</li> <li>Companies that will be affected by customs delays.</li> <li>Effects of the weaker pound on marketing strategies and forecasting.</li> <li>Protecting intellectual property after Brexit.</li> <li>Companies who could potentially share, or conversely outsource, Brexit planning expertise.</li> </ul>
<p><b>Long-term</b></p>	<p>The government needs to start putting foundations in place now to tackle what will become long-term issues: trade, customs, tax, regulation, the labour market as well as replacement EU funding.</p> <p>Business too needs to prepare for long-term needs, including certification, trusted trader options, enhanced regional business support, and business-to-business support.</p>

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