

Culture, Tourism, Europe and External Affairs Committee

Inquiry - Article 50: Preparedness

Written submission from Highlands and Islands Enterprise

Introduction

Highlands and Islands Enterprise welcomes the opportunity to respond to this call for evidence. The UK decision to leave the EU is bringing about major changes that businesses must respond to. HIE's business panel survey has tracked business thinking about Brexit and is currently exploring the degree to which businesses are actively planning for it. This submission summarises findings from HIE's panel surveys to date. Findings of the survey currently in progress will be shared with the committee when available.

Who Are We?

Highlands and Islands Enterprise (HIE) is the Scottish Government's economic and community development agency for the north and west of the country. Our region comprises over half the Scottish land mass (including 94 inhabited islands) and is home to around 470,000 people.

HIE's role is to lead regional growth and development in line with Scotland's Economic Strategy (SES), improving competitiveness and building a fairer society across the Highlands and Islands.

HIE's approach to regional development is drawn from to the national priorities described in SES: Investment, Innovation, Internationalisation and Inclusive Growth. We help build successful businesses, social enterprises and resilient communities; support the growth of industry sectors, and invest in the strategic interventions which create the conditions for a competitive region. Our current priorities, planned activities and budget information can be found in our Operating Plan 2018-19¹.

HIE's Business Panel surveys are undertaken with around 1,000 businesses and social enterprises across the region, with findings weighted to ensure they are representative of the regional business base in terms of geographical area, sector and business size. Panel surveys undertaken since July 2016 have explored the impact of the UK's decision to leave the EU on businesses in the Highlands and Islands. All survey reports and summaries are available on the HIE website.² Key findings are summarised below.

Impact of Article 50 negotiations (and the decision to leave the EU) on businesses

Business Confidence (July 2018)

The UK's vote to leave the EU has affected business confidence. Confidence in the Scottish economy fell immediately after the UK's vote to leave the EU, and has remained low since then, the proportion of businesses expressing decreased confidence being consistently higher than the proportion expressing increased confidence. In the July 2018 survey, 25% of

¹ [HIE Operating Plan 2018-19](#)

² <http://www.hie.co.uk/businesspanel>

businesses said that their confidence in Scottish economic prospects had decreased, compared to 15% who said it had increased. The remaining 60% indicated no change in their view.

Conversely, business confidence in their own prospects continues to be high. In the July 2018 survey, 81% of businesses expressed confidence in their own prospects over the following 12 months compared to 17% who were not optimistic.

Importance of the EU (July 2018)

There is clear and consistent recognition of the importance of free movement of people across the EU and access to the European single market by businesses in the region:

- 82% view free movement of people across the EU as important to the Scottish economy; around two fifths (40%) feel it is important to their business
- 74% see access to the single market as important to the Scottish economy, and just over half (52%) as important to their business – particularly those in the food and drink sector

These figures have remained consistent over successive surveys.

Business Challenges (July 2017)

While some businesses, mainly exporters and tourism businesses, have capitalised on the short-term benefits resulting from the weak pound, political uncertainty is one of the main challenges facing businesses in the region, with 79% of businesses expressing concern about this.

Rising labour costs (64% concerned) and the ability to recruit and retain skilled staff (58%) are key concerns for businesses in the region, with the former a particular issue for tourism businesses and those with 11-25 staff. The prospect of a change to the free movement of people across the EU adds to this issue with 63% of businesses agreeing that leaving the EU will threaten the future of businesses relying on non-UK EU workers.

More than half of businesses were worried about the impact the continued weakness of sterling (64%) and response of European customers to future trading conditions (53%) will have on their future prospects.

Some businesses did identify opportunities to capitalise on new markets, with 53% of respondents agreeing that the UK leaving the EU will force businesses to source more products from within the UK, encouraging the growth of UK-based production.

Employment of non-UK EU nationals (December 2016)

More than a fifth (23%) of businesses in the Highlands and Islands with staff employ non-UK EU workers – and see these staff as an essential part of the workforce. The vast majority of non-UK EU nationals employed by businesses in the region (91%) are permanent staff. Employment of non-UK EU nationals was most prevalent amongst larger businesses and those in the Tourism sector

Businesses highlighted the difficulties they face in recruiting people with the skills and experience they need, with recognition that a reduction in the flow of EU migrants will further impact on recruitment challenges. This highlights a risk of skills shortages amongst permanent employees if the flow of EU migrants is reduced.

International Trade (April 2017)

28% of businesses in the region trade with other countries within the EU – both selling to customers located there and sourcing equipment/materials from EU suppliers.

Businesses who sourced products from the EU had either already seen, or were anticipating, an increase in the cost of imports due to the low value of the pound. These costs are being absorbed by the businesses or passed on to customers.

Businesses anticipated that any changes in trading conditions between the UK and EU, for example new customs procedures, tariffs and differing product rules and regulations, would add complexity to international trade, making it more difficult and expensive to do business. This would be a heightened concern in a “no deal” scenario where such changes will be particularly challenging and onerous.

Businesses in the Agricultural, Energy, and Life Sciences sectors expressed concerns about what would replace EU funding, noting that any change in funding may impact on the level of business they are able to do.

Exporters and Tourism businesses felt that the weak pound had helped them to become more competitive.

Preparations for Brexit

The December 2016 Business panel survey explored the Brexit preparations being made by businesses in the months after the EU referendum. At that time, 50% of businesses had taken no action and did not anticipate having to do so and 23% had taken no action but did anticipate doing so in future. The remaining 27% had taken some action, including reviewing investment, reassessing recruitment and training and offering advice to employees.

Subsequent anecdotal evidence suggests that a large proportion of businesses have continued to “wait and see” before taking specific actions to address the impact of Brexit.

The October 2018 Business Panel Survey, currently under way, is exploring the degree to which businesses are actively planning and preparing for Brexit and is seeking views on additional support that businesses may need to do this. Results will be available in November and will be shared with the committee when available.

HIE is content to provide additional input to this enquiry and to discuss in further detail with the committee.