



## CALL FOR EVIDENCE - BEIS COMMITTEE SESSION ON BREXIT PREPAREDNESS

Issued 30 November 2020

ICAEW is pleased to submit written evidence to the call for evidence for the BEIS Committee session on Brexit Preparedness. In our continuous engagement with ICAEW Chartered Accountants working in all sectors across the UK, Brexit has been second only to COVID-19 this year in its importance. As we swiftly approach the end of the transition period, businesses face unprecedented uncertainty with these two key issues- and we welcome action from BEIS to support businesses through this difficult time.

Many businesses are not looking at Brexit preparedness- they have a more immediate and existential threat to deal with, combined with their assessment that things will change with discussions. They do not have time to look at things as they develop and alter; they will look at it when negotiations come to a conclusion, but that leaves them little time to prepare

We have identified several actions the UK Government could take to mitigate the disruption they are likely to face from 1 January 2021:

- Certainty from a deal at the earliest opportunity- many businesses will not prepare until more is known.
- In the absence of certainty, we call for a light touch as businesses adjust.
- We ask for understanding of the challenges faced by SMEs in specific areas, such as additional paperwork and administrative costs, who are least able to bear the costs
- Ensure businesses who need the support know where to find it- including bolstering intermediaries, brokers, and freight providers to ensure SMEs can access them
- Get a data adequacy decision as soon as possible
- Look at the now lost “Brexit buffer”- the resources needed to deal with any impacts- for SMEs through 2021 as they get back on their feet
- Ensure the UK Shared Prosperity Fund can deliver and there is not more of a gap in funding or clarity

These are explored in more detail within this written submission alongside other observations made by our membership. We would welcome the opportunity to discuss any of all of this with the Committee.

There are more than 1.8m chartered accountants and students around the world. More than 186,500 of them are members and students of ICAEW. ICAEW promotes inclusivity, diversity, and fairness. We attract talented individuals and through our high-quality professional qualification in conjunction with training contracts and work in practices, business and the public sector provide the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

Founded in 1880, we have a long history of serving the public interest and we continue to work with governments, regulators, and business leaders around the world. We are proud to be part of Chartered Accountants Worldwide, a global network of 750,000 members across 190 countries, which promotes the expertise and skills of chartered accountants on a global basis. We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create strong economies and a sustainable future for all.

ICAEW's Business and Industrial Strategy team works at a UK level gathering intelligence from our members about the issues facing businesses and their perception of Government policies and actions. They ensure we put the voices of Chartered Accountants across all regions and nations, in all sectors, at the heart of UK policy making.

This response has been put together by the Business and Industrial Strategy team and has been supplemented by expert knowledge from the ICAEW Technical Strategy Department. The content most directly reflects the views of ICAEW members across the UK, in (but not limited to) the food and drink sector, financial and related professional services, manufacturing and construction who have given their views freely, and for this we thank them.

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## THE ENVIRONMENT IN WHICH BUSINESSES ARE OPERATING

1. In November 2020 ICAEW published our [Business Confidence Monitor \(BCM\)](#) with Oxford Economics, which shows how business's confidence and performance are changing and the challenges they are facing through 1,000 interviews amongst ICAEW Chartered Accountants.
2. Confidence is firmly negative, with customer demand, late payments and transport problems being the rising issues. The interviews clearly surfaced the fact that the pandemic has made it harder for companies to focus on preparing for the end of the transition period.
3. Chartered accountants in business are communicating to us reporting fatigue at the amount of information and changing guidelines they are having to deal with in this challenging year. Resources have been severely depleted, and many do not have the mental, financial, or physical capacity to exert on Brexit preparation.
4. Chartered accountants advising businesses are also in a similar position; with every new announcement comes a wave of client calls expecting accurate, simple advice. Advisors are at capacity supporting clients through COVID-19 but are still trying to support them in Brexit preparation where there is support that can be given.
5. As one member said, "When your ship is sinking, you focus on the hole in the ship- not the iceberg up ahead". As such, we support any initiatives which will make the transition easier for businesses whilst looking forward to developing a sustainable economy.
6. We have gone into more detail on our vision for the recovery in our recent submission to the BEIS super-inquiry which can be [found here](#).

## GIVING BUSINESSES CERTAINTY

7. At ICAEW's Business Representatives meeting on 4 November 2020, a Midlands representative in the manufacturing sector said "more clarity on Brexit and trade negotiations is our number 1 ask"- and this is a sentiment echoed across much of our membership. Businesses are resilient and have shown they can handle difficult situations - but uncertainty is the biggest killer of confidence and planning.
8. In recent weeks uncertainty has heightened around post-transition relations with the EU, and this is having a serious impact on business confidence. We urge government to recognise this and to redouble its efforts to secure a fair deal so businesses know what situation they will be in.
9. Michael Izza, ICAEW's Chief Executive, recently said "With less than 40 days until the end of the Brexit transition period, government should be moving heaven and earth to secure the best possible trade deal to help stimulate and sustain our economic recovery". His further thoughts on the need for a deal can be [found here](#).
10. Businesses are putting off preparations despite there being clear implications in key areas. Government has confirmed that there will be controls at the UK and EU borders (with the exception of the NI-ROI border) and has published its operating model for the UK border. Yet many businesses, due to the constraints on their resources, will not expend more energy on preparations until they know the parameters in which they will be operating. A Practice in the South East recently said "Brexit is not currently a key focus for small business but it is clear that a deal is essential. Difficult to plan or give guidance until the details become clear".
11. Members at a recent Brexit roundtable in Scotland highlighted that the "goal posts are constantly changing" and that there is concern about the reliability of information they are hearing. To this end, Government must do what they can to provide the clearest of communication as speedily as possible to stop business and consumer reliance on non-official channels of communication.

12. The regulation which businesses will face is still uncertain in a number of areas. Areas raised by members have included product compliance, labelling, data, audit rights and what constitutes EU presence.
13. As relating to point 4, advisors and specialists are under pressure to provide advice to businesses, at least those who can still afford it in the current climate. With the lack of clarity, what we are seeing is conflicting advice being given to businesses as they try to give the best advice without being liable.
14. For example, three different definitions were given to one member over what constitutes a Food Business Operator (FBO) address- with the government guidance to this end being just a short paragraph.
15. If clearer guidance is given where the situation is known, with less room for interpretation, businesses will have more clarity and can focus resources to more important things- such as adapting and growing the business to economically contribute in a sustainable way.

### **IF NOT CERTAINTY, THEN A LIGHT TOUCH**

16. Businesses cannot change operations almost overnight, should clarity on the terms of a deal, or indeed no-deal, be reached so close to the end of the transition. As such, much pressure and concern could be alleviated by showing understanding to businesses adapting to new rules and regulations at the beginning of 2021. This applies to both the UK Government itself and regulatory authorities.
17. We have welcomed moves so far to this end; allowing settled status applications to continue until June 2021, for example. We have received a number of suggestions from our members as to other options that would be useful, for example;
18. Payment of tariffs and VAT: we warmly welcome the reintroduction of postponed accounting for VAT. This will be a major benefit not only to businesses that import from the EU, but also from the rest of the world. We also welcome the lower UK tariff rates, and the waiver of the customs guarantee for smaller traders. However, despite these measures some businesses will struggle with the capacity to comply with the new import and export formalities – further thought needs to be given to how they can be supported and the situation kept continually under review.
19. Origin: the origin of goods will become very significant following transition, particularly if there is deal. Access to the EU and tariff free entry to the UK would then depend on being able to evidence origin and business models may change in response to the rules on origin in any free trade agreement. Yet there is little information on gov.uk on this – certainly little for a general readership. We understand that in the event of a free trade deal, businesses are likely to be required to prove where their goods ‘originate’ from. If they cannot prove they are from the EU, then they will not be able to benefit from any preferential tariff that has been negotiated.
20. We ask that government clarifies what documentation they will need to prove origin; how will this be communicated? We also ask what approach they can expect HMRC to take on evidencing origin in the first six months – year (and retrospectively)? Clarity on these points is particularly important for smaller businesses.

### **UNDERSTAND THE ISSUES FACED BY THOSE LEAST ABLE TO ABSORB COSTS**

21. SMEs constitute the vast majority of the UK’s business base, employing almost half of the country’s workforce, and they are those that are least able to deal with the disruption of the transition period regardless of a deal or no deal. As illustrated in points 3 and 4, they are

fatigued and have lost any buffer in resources. Any focus in policy support therefore needs to target those small businesses who are struggling to deal with multiple challenges in 2020.

22. Regardless of whether or not there is a deal, UK businesses buying and selling into the EU now face two sets of customs procedures and potential tariffs which currently do not exist: for UK businesses, that is one set of export procedures at the UK border and then a second set of import procedures at the EU border. Completing these new customs formalities means incremental costs for each shipment, and this cost will be proportionally higher for smaller shipments. For some SMEs this may mean exporting is no longer viable.
23. Some businesses are finding that customers do not want to assume the cost and administration responsibility of these processes. Consequently, many businesses may find that they need to become an EU importer and make sales in the EU. Not only does this then entail registration with EU customs authorities and the completion of import declarations, it may also require VAT registration in the EU. That may not be easy – some countries require a ‘fiscal representative’ to act on behalf of the business and joint and several liability may discourage those qualified to do this from taking on new clients. While the UK government has acted to resolve similar issues on the UK side of the border, the committee could usefully explore what progress has been made in this regard with key trading partners.
24. These issues become significantly more problematic if there is no free trade agreement and tariffs are levied. In particular, tariffs at the UK and EU borders could mean that businesses that import into the UK and then re-export into the EU face a double tariff. These issues can be expected to lead to a significant incremental demand for customs warehousing and it can be questioned whether this can be met within the timescale. These issues are particularly acute for SMEs, for whom it may not be economical to operate their own customs warehouse.
25. We recognise the government has already done much in this space. The reintroduction of postponed accounting for VAT will provide a real cashflow benefit for many businesses and was welcomed by ICAEW when it was announced. The removal of joint and several liability from agents will benefit SMEs. The lowering or elimination of external tariff rates for many goods will also provide a welcome boost to businesses – although the tariff changes have been small, they could be significant for some low margin business models. The recent decision to waive duty deferment guarantees for smaller traders is also welcome, although we understand the application process is still somewhat complicated and those smaller businesses that do not open their own deferment account face a fee to use that of their agent.
26. Nevertheless, should there be no deal, the introduction of tariffs on imports from and exports to the EU could have a crippling impact to some business models. For those who would face tariff increases, we ask government to carefully consider and keep under review the implications of tariffs. It is vital that they can access materials and remain competitive, whilst contributing to the recovery of the UK economy and driving the entrepreneurial spirit that we are so keen to cultivate
27. One example from an exciting food produce scale up business says they are facing a 12% tariff on raw material coming to the UK from their suppliers in Europe. They cannot access this raw material in the UK as we do not produce it in any commercial quantity, and due to their size cannot pass this cost on to the consumer as it will be detrimental to their sales. They also cannot afford to absorb this cost, and so are faced with a situation where they may not be able to grow and contribute more to the economic recovery of this country.

28. Many SME's have either never exported or only to the EU. Exporting to other countries sounds easy but at the best of times it is a challenge. Government could consider how they can encourage more businesses to become exporters and enable those who already export to be able to keep going with those contracts, given the issues above.
29. Many shippers are also now imposing a Brexit surcharge, which drives up costs on both imports and exports- one member in manufacturing has estimated the cost will be around £10,000 for their SME, which they can ill afford. It is suggested that government investigate the causes of these cost increases and consider how they might be mitigated to ensure exporting is affordable for SMEs. The funding government has provided for customs recruitment and training is a welcome intervention in this space, but government should review whether it is sufficient to develop the capacity needed. As noted above, it is possible that uncertainty is also having an effect on the cost and availability of services.
30. If we support these entrepreneurs and scale up businesses to export more, they will be growing and sustainable contributors to the economy.

### **ENSURE SME ACCESS TO SUPPORT**

31. Deal or no deal, these will be extremely complex times for businesses. As mentioned in point 3 about the lack of time and financial resources to prepare, we must ensure businesses who need the support know where to find it and can access it.
32. Much work has been done by the accountancy profession to this end, including our Brexit Hub ([icaew.com/brexit](https://www.icaew.com/brexit)) and our Business Advice Service which offers free consultation with one of our expert member practices. We understand this is replicated across other professions such as legal, and at a regional level with excellent initiatives in place. One member commented recently that they have never seen so many national and regional business support schemes.
33. We therefore recommend that Government continues to promote business support and advice schemes, and look at making the communication clearer - with so many schemes, businesses need to know which will best meet their needs. In the run up to exit date in 2019 ICAEW helped government get the message out to our members about the need to prepare. We continue to promote government resources on our Brexit hub, which has attracted high levels of traffic. We stand ready to assist further in this space.
34. It is also about ensuring the funds being given to support these schemes at a local level are being targeted- the risk of duplication in a digital era is high, so more generic support must be national with the funds used for more specific support and targeted advice,
35. We are also hearing reports of a lack of availability in intermediaries, brokers, and freight providers. For many SMEs that are using them for the first time, and for example members in Cornwall recently said they are struggling to get quotes for Brexit related work as these operators reach capacity. As noted above, government should urgently review whether the customs grant scheme is resulting in sufficient additional capacity.
36. Many SMEs will not be cost-effective for these operators to service, and yet they cannot hope to complete the necessary paperwork and arrangements on their own. As such we ask that Government looks at what more can be done to ensure SMEs have access to the necessary support.

## GET A DATA ADEQUACY DECISION AS SOON AS POSSIBLE

37. We have had a number of members raise the concern about their continued right to hold and process the personal data of EU citizens; it is vital to their businesses that they can continue to do this. They are waiting for an adequacy decision from the EU for the UK's data protection laws. These businesses are often more digital and may have weathered the COVID storm more easily- but there could be significant disruption to their operations post transition if a data adequacy agreement is not reached. The UK has been relying on the economic contribution of these digital businesses that were able to keep contributing at a time when many could not.
38. For example, a member In East Anglia in asset management recently commented that there was a significant concern on the board that come 1 January 2021 their entire operation would have to cease unless an adequacy agreement was reached given the volumes of data and the number of contracts they hold.
39. Looking at this area- along with the legal context of contracts - requires significant resource and expertise. Also, because it is less "visible", it is an area many SMEs have not looked at or considered yet. Urgent action from Government to alleviate this issue through adequacy is crucial.

## HAVE BUSINESSES STILL GOT A "BREXIT BUFFER"?

40. Since the vote in 2016, we understand some businesses have built up and then run down a "Brexit buffer" – the resources they need to deal with the impacts of any change- multiple times, in the form of stockpiling and ensuring access to cash. This time around, businesses' buffers have been used on COVID and they have very little resource on top of that accessed through the very welcome COVID support schemes to deal with disruption from Brexit. They have been "cut to the bone".
41. For example, one member in manufacturing with sites across UK and Europe has said they are undertaking their annual pricing review with its pan European customers with pricing effective 1st January 2021. What price do they offer? Who pays the shipping costs estimated to be at least 20 pounds per shipment? They estimate the company shipping costs will increase by £25,000 pa. The client will not pay for this, and for many SME's this is perhaps 10% of the order value.
42. We would therefore urge government to consider funding for SMEs through 2021 as they get back on their feet. Just as the effects of Brexit begin to be felt, government loan schemes will close, business rates will be reintroduced, and deferred VAT payments become due. This will put extreme pressure on many businesses. At the same time those that import from and export to the EU face the costs of extra paperwork, extra staff, and extra advice.
43. Government must ensure that access and delivery of any support provided is uniform so that SMEs do not face a "Brexit support postcode lottery".

## CLARITY ON STATE AID

44. The pandemic has radically alerted the level of government support and involvement in the economy. At the end of 2020, the state will be supporting a great many businesses in one way or another. It is vital that these businesses are helped back onto their feet so that a healthier balance can be returned to the economy as quickly as possible and government finances placed on a sustainable basis. Nevertheless, it is conceivable given the current

uncertainty and economic impacts of COVID-19 that the government may adopt a more active policy in relation to supporting business.

45. We have seen little detail so far about what the government envisages for the state aid regime post-transition. But it is widely reported that greater flexibility is sought in the free trade agreement with the EU. If a more extensive system of state aid is to be put in place it is vital that this is developed in consultation with business. Businesses need a transparent system about the eligibility criteria for any state aid support schemes and the application process and timetable for decisions. It would be a pity were an opaque or uncertain system to emerge which businesses had to invest significant time and cost to navigating.

## **UK SHARED PROSPERITY FUND**

46. We welcomed the Government's reiteration that the UK Shared Prosperity Fund will at least match EU receipts in the recent 2020 Spending Review. We and many businesses will be keen to hear more details as soon as possible- at a time where businesses are facing low confidence from uncertain customer demand, which is locking up investment, clarity on the Fund as soon as possible-earlier than the suggested Spring 2021- will help boost confidence and unlock investment.
47. At this late stage, knowing when the Fund can be accessed will help organisations to efficiently plan- to delay, and have a gap in funding, will be detrimental to the recovery and the businesses that are involved in the regions that utilise the funds. With Wales and Scotland having been the highest recipients of EU Structural Funds, the timing and the detail of the Fund will be of particular importance to these devolved administrations.

## **TO CONCLUDE**

Many businesses are not looking at Brexit preparedness. They are dealing with the more immediate and existential threat of COVID-19, on simply surviving. They have limited resources, are facing increased costs and an increased administrative and regulatory burden.

We therefore welcome all steps Government can take to support these businesses, through certainty, a light touch and an understanding of the challenges. They must be able to get access to clear guidance and support along with a broker or an agent should they need one. They need clarity on how to handle data and have the time and support to regain their "Brexit buffer".

We would welcome the opportunity to discuss any of all of this with the Committee, and to share the voices of our members and technical experts.