

**77% of UK professional firms are currently analysing the likely impact of hard and soft Brexit on the UK's largest sector, with 20% of contingency plans already being implemented**

The Forum's second Brexit survey was conducted in January 2018. The primary purpose was to provide a reliable benchmark for Forum members and Government. This report will be shared with the media, survey respondents, Forum members, the MPF Advisory Board, Government officials, the Professional & Business Services Council (PBSC) and the House of Lords.

**KEY FINDINGS**

- **Contingency planning** – 77% of respondents are analysing their options with 20% of contingency plans already being implemented. 37% of respondents report that more than 50% of their clients are in the process of planning for Brexit.
- **Impact of hard v soft Brexit** - Respondents anticipated a short-term boost to their firm's financial performance, followed by modest decline under soft Brexit but significant decline under hard Brexit. Under hard Brexit, revenues from EU27 clients will decline by more than revenues from other countries, and work for EU27 clients will increasingly be serviced from non-UK offices.
- **Talent** - 54% of respondents considered recruitment of non-UK nationals to be either essential or important for their firms. 48% often sent their UK nationals to EU27 countries to deliver services to local clients on a temporary basis.
- **Trading arrangements** - 74% of respondents considered the EU Services Directive to be essential or important to facilitate supply of services to EU clients. There was strong agreement that WTO membership would not allow most exports of services to the EU27 to continue as at present.
- **Legal structures** - 39% of respondents believed that Freedom of Establishment for individuals had an essential or important impact on their firm's legal structure, with 56% of these respondents looking to restructure their firm if there is no mutual recognition of corporate structures between the UK and the EU27.
- **Priorities for Government** - the top priorities for Government in helping professional firms to navigate Brexit: maintain freedom of movement for EU27 nationals; withdraw Article 50 (reverse Brexit); focus on making the UK a more attractive place to do business.

**DETAILED COMMENTARY**

Brexit can be confusing so background notes were included with relevant questions to ensure that respondents understood the precise nature of the question. These can be found in the glossary at the back of this report.

**Contingency planning**

Firms are at various stages of planning for Brexit:

In the process of implementing a contingency plan	9%
Yet to start implementation of a contingency plan	0%
Currently designing a contingency plan	20%
Currently identifying Brexit risks and opportunities, but have yet to start contingency planning	26%
Currently identifying Brexit risks and opportunities, but consider no need for a contingency plan at this stage	23%
No plans made and unsure where to start	6%
No plans made and no intention to do so	17%

The timing for contingency plans is as follows:

	If contingency plan is in place, when will it be implemented?	If no contingency plan, when do you anticipate that you will start contingency planning?
Implementation has already started	20%	
Q1 2018 (i.e. January-March 2018)	0%	11%
Q2 2018	10%	21%
Q3 2018	30%	32%
Q4 2018	40%	11%
Q1 2019	0%	5%
Transition period		21%

Respondents were also asked the extent that their clients were taking steps to manage their Brexit impacts:

More than 50% of the clients that I talk to are in the process of planning for Brexit	37%
Between 25% and 50% of the clients that I talk to are in the process of planning for Brexit	23%
Fewer than 25% of the clients that I talk to are in the process of planning for Brexit	20%
Our clients are not planning for Brexit to any material degree	20%

### Comparing hard and soft Brexit

Unsurprisingly, respondents expected a massive difference between hard and soft versions of Brexit:

High Impact expected under:	Hard Brexit	Soft Brexit
• The attractiveness of the UK as a place to do business	60%	6%
• Trade rules and regulations	60%	6%
• Ability to retain UK-based EU27 nationals	54%	17%
• The economic outlook of the business	51%	0%
• The attractiveness of the U.K. as a place to live	51%	9%
• Ability to hire non-UK nationals	40%	6%
• UK employment rules and regulations	37%	9%
• The ranking of the most important international markets	31%	0%
<i>% of respondents selecting High rather than Medium or Low impact</i>		

Compared with a non-Brexit trend, respondents anticipated a short-term boost to their firm's financial performance, followed by modest decline under soft Brexit but significant decline under hard Brexit.

	The period pre Brexit and the immediate aftermath	Medium and longer term post a 'soft' Brexit	Medium and longer term post a 'hard' Brexit
• Revenues	61.4	48.6	27.1
• Profits	58.6	48.6	28.6
• Headcount	58.6	44.3	31.4
• Investment	55.7	48.6	34.3
<i>Diffusion indices (Above 50 indicates growth; Below 50 indicates decline)</i>			

Respondents did not expect revenues from EU27 clients to be replaced by revenues from other countries. They also expected less work to be delivered to EU27 clients from the UK with an increase in the work for EU27 clients serviced by their non-UK offices.

	<b>Period pre Brexit and immediate aftermath</b>	<b>Medium and longer term post a 'soft' Brexit</b>	<b>Medium and longer term post a 'hard' Brexit</b>
Share of revenues from EU27 clients	16%	12%	6%
Share of revenues from clients in other countries	25%	27%	34%
Services delivered to EU27 clients from the UK	83%	78%	70%
Services delivered to EU27 clients from non-UK offices	19%	25%	37%

### **Inbound and outbound talent**

*Inbound* - 54% of respondents considered recruitment of non-UK nationals to be either essential or important for their firms, with some 40% having a very significant or significant number of non-UK nationals in their UK workforce, hired for the following roles:

	EU27 nationals	Non-UK nationals from other countries
Frontline advisers	93%	100%
Administrators (eg receptionists)	53%	27%
Management	53%	33%
Technology experts	60%	60%

*Outbound* - 48% of respondents often sent their UK nationals to EU27 countries to deliver services to local clients on a temporary basis. 43% considered that Freedom of Establishment is essential or important to facilitate cross-border provision of services, and 52% considered that the EU Professional Qualifications Directive was essential or important in allowing recognition for qualifications.

### **Trading arrangements**

Respondents reported that their five most important international markets are the USA (70% of firms); Germany (48%), France (39%), China (35%) and Netherlands (35%).

74% of respondents considered the EU Services Directive to be essential or important to facilitate supply of services to EU clients, and 57% considered EU regulatory equivalence to be essential or important.

There was a lack of agreement among respondents over whether a comprehensive EU free trade agreement would allow most cross-border services to EU27 countries to continue as at present, and whether the EU's free trade arrangements with other countries would provide more helpful access to those countries than is available under World Trade Organisation (WTO) rules. However, there was strong agreement that WTO membership would not allow most exports of services to the EU27 to continue as at present. Respondents were also asked over their usage of the four standard WTO modes of service, and the importance that they attributed to each mode.

WTO standard modes of service	High usage	High importance	Allow export of services from the UK to the EU27?
• Cross border supply	30%	30%	32.6
• Consumption abroad	17%	17%	30.4
• Foreign commercial presence	30%	35%	19.6
• Movement of natural persons	26%	26%	23.9
	<i>% of respondents selecting high usage and importance</i>		<i>Below 50 indicates disagreement</i>

### Legal structures

39% of respondents believed that Freedom of Establishment for individuals had an essential or important impact on their firm's legal structure, and 56% of these respondents considered that their firm would need to be restructured if there is no mutual recognition of corporate structures between the UK and the EU27. As regards timing, 13% will start restructuring in the first half of 2018; 38% in the second half of 2018; and 50% are undecided.

### Priorities for Government

Respondents advised what they felt should be the top priorities for Government in helping professional firms to navigate Brexit:

Maintain freedom of movement for EU27 nationals	57%
Withdraw Article 50 (reverse Brexit)	54%
Focus on making the UK a more attractive place to do business	43%
Recognise professional qualifications of EU27 nationals	29%
Simplify UK employment rules and regulations	20%
Set sensible quotas for foreign nationals coming to the UK	14%
Organise more international trade visits	11%
Provide more advice on exporting	6%

Respondents also advised what they felt should be the Government's negotiating priorities with the EU27 on behalf of the UK Professional Services sector. These are their verbatim comments:

- Enabling clients to be able to choose when and how and from whom they receive services in the EU27 and UK.
- Ensure that professional service firms can continue to operate in European markets as they can today.
- Freedom of movement - or as much freedom as is politically possible - and not just for the very highly paid. We really do need to be able to move/second individuals at senior and newly qualified levels both from and to the UK. This is important not just for the London economy but for our business and the career opportunities for staff around the country.
- Maintaining our standards as a place for quality services in a well regulated environment
- Maintain freedom of movement for EU27 nationals, and mutual recognition of EU27 professional qualifications.
- Maintain free movement
- Ensure that UK businesses continue to enjoy free trade in services and free movement of people throughout the EU member states.
- To stay in the EU
- Minimise disruption; sustain and strengthen UK as the professional services hub for Europe; allow top talent flow in both directions

- maintain same as current access to single and common markets
- Continuity and certainty of rights of existing EU nationals living and practicing in the UK (and vice versa). Work hard to dispel inevitable perceptions of bigotry in UK business world.
- Just get the negotiations over and settled.
- English law and courts/disputes should continue as preferred choice in cross border matters
- Securing/conceding freedom of movement.
- Negotiate continued access to free market for services
- Reverse Brexit freedom of movement for EU27 nationals
- Ensure can operate in EU27 as freely as possible.
- Ensuring that the international standards set and exported by UK professional services businesses across the world are recognised for what they are: world class. Ensuring that UK professional services businesses can continue to function on both the European stage and the global stage.
- Freedom of movement
- Maintain as many of the trade benefits and customs benefits of the EU as possible, and avoid losing positive protective legislation.
- Highlighting that we are the leading nation in the world for professional services and that European countries would do well to position themselves to continue following our lead.
- Ensure recognition of UK professional qualifications and ability to provide services within the EU27.
- great question - access to professional team is essential wherever they are from EU or the rest of the world, allow migration of economic labour as requested by the professional firms otherwise we cannot service our clients - this is essential the regulations need a complete re-think so we do have to have all the nonsense in locating the correct team for the job or the government can undertake to locate the people we need - I do not mind which...
- Ensure that status quo is sustained
- To ensure that there is an opportunity for consideration of any negotiated deal by Parliament To ensure that the UK Courts and judicial system continue to be regarded as the paramount jurisdiction in which to resolve disputes
- Honest business. Fair competition should stabilise the markets.
- maintain status quo
- Trade Agreements
- Simplifying the tax regime and ensure that we remain a competitive place to do business but not by lowering corporation tax any further, rather with investment incentives such as R&D to continue and improve
- Get a status quo transitional period, and then negotiate as liberal a legal services reciprocal market access chapter in a trade agreement as possible
- To remain in the EU or failing that ensure our trading ties to the EU are as close as possible to how they currently are and to do so as soon as possible. Phillip Hammond at Davos has it right.

### **Demographics and indices**

- **Survey:** 35 responses had been received from named firms when the survey closed on 26 January 2018 (19 SMEs – defined as a firm with UK headcount of less than 250 - and 16 larger firms). The Forum does not publish a list of participating firms.
- **EU exporters:** 34% of responding firms do not currently provide services to clients in the EU27. They were not asked to complete questions solely of relevance to firms that currently export their services to the EU27.
- **Firms:** 43% of the firms were law firms, followed by accountancy and consultancy sectors with 20% each, and property at 17%. As regards footprint, global firms constitute 37%, followed by regional firms (32%), national firms (17%) and London firms with 14%.

- **Respondents:** 60% are based in London and 40% elsewhere in the UK. 71% are firm-wide leaders and 17% C-Suite or divisional leaders.
- **Indices:** The diffusion indices in this report are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of respondents report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on.

### Brexit glossary

Brexit can be confusing so the following background notes were included with relevant questions to ensure that respondents understood the precise nature of the question.

- **CETA** - A comprehensive EU free trade agreement, such as CETA, abolishes customs duties, goods checks, and various other levies, facilitates mutual recognition of diplomas and regulates investment disputes by creating a new system of courts. It does not usually cover services.
- **Freedom of Establishment** - The EU Professional Qualifications Directive lays down rules for employed or self-employed professionals who wish to establish themselves on a permanent basis in another EU country where they did not obtain their professional qualification.
- **Professional Qualifications Directive** – This enables the free movement of regulated professionals such as architects. Other professions such as statutory auditors are governed by specific legislation. Special laws also exist for lawyers.
- **Regulatory equivalence** - Certain EU regulations envisage the possibility for third countries (ie countries outside the EU Single Market) to obtain 'equivalence'. In practice, this means the EU acknowledges that the legal, regulatory and/or supervisory regime of a third country is as good as its own. Equivalence is outcome-based – that is, the regulations of the third country do not need to replicate the EU's word-by-word as long as they achieve the same objectives – and can bestow passport-like rights in some cases.
- **Services Directive** - The objective of the EU Services Directive is to realise the full potential of services markets in Europe by removing legal and administrative barriers to trade. This has increased transparency and made it easier for businesses and consumers to supply or use services in the Single Market.
- **Standard modes of service** – The WTO defines four modes: Cross border supply - Service delivered within the territory of the Member, from the territory of another Member (Mode 1); Consumption abroad - Service delivered outside the territory of the Member, in the territory of another Member, to a service consumer of the Member (Mode 2); Foreign commercial presence - Service delivered within the territory of the Member, through the commercial presence of the supplier (Mode 3); Movement of natural persons - Service delivered within the territory of the Member, with supplier present as a natural person (Mode 4)
- **Trade Agreements** - The EU lists 50 countries with which it currently has a trade agreement of one kind or another. Not all of these are "classic" free trade agreements — a customs union like the one with Turkey, for example, makes trade easier but is different to a 'free trade agreement'. Other deals are part of a more wide-ranging treaty, or an agreement with poorer countries aimed at economic development as well as trade.
- **WTO membership** - The World Trade Organisation (WTO) deals with regulation of trade in goods, services and intellectual property between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements. The General Agreement on Trade in Services (GATS) is a WTO treaty. Countries are not obliged to sign international treaties such as GATS. While the overall goal of GATS is to remove barriers to trade, members are free to choose which sectors are to be progressively liberalised; which mode of supply applies to a particular sector; and to what extent liberalisation will occur over a given period of time.