

HIE BUSINESS PANEL SURVEY

Wave 12 - Planning for Brexit



Ipsos MORI
Scotland



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

CONTENTS

CONTENTS	1
1. INTRODUCTION	2
BACKGROUND.....	2
METHODOLOGY.....	2
PRESENTATION AND INTERPRETATION OF THE DATA.....	3
2. OPTIMISM, PROSPECTS AND PERFORMANCE	4
ECONOMIC OPTIMISM.....	4
BUSINESS PERFORMANCE.....	5
ASPECTS OF BUSINESS PERFORMANCE.....	6
FUTURE BUSINESS PROSPECTS.....	8
3. GENERAL VIEWS ON BREXIT	11
MARKETS OF OPERATION.....	11
VIEWS ON THE IMPACT OF BREXIT.....	13
ACTIONS TAKEN TO PLAN FOR BREXIT.....	14
REASONS FOR NOT TAKING ACTION.....	16
4. IMPACT OF BREXIT ON TRADE	18
NATURE OF TRADE WITH OTHER COUNTRIES.....	18
IMPACT OF CHANGES TO IMPORT AND EXPORT ARRANGEMENTS.....	20
INCREASED COMPETITION IN DOMESTIC MARKETS.....	25
5. IMPACT OF BREXIT ON WORKFORCE	28
CHANGES TO FREE MOVEMENT AND IMMIGRATION.....	28
6. SUMMARY	32
7. APPENDIX	34
BUSINESS PERFORMANCE.....	34
BUSINESS PROSPECTS IN THE NEXT SIX MONTHS.....	36
IMPACT OF BREXIT ON TRADE.....	36
IMPACT OF BREXIT ON WORKFORCE.....	38

1. INTRODUCTION

BACKGROUND

The Highlands and Islands Enterprise (HIE) Business Panel was established to measure and monitor the economic health of the region through the experiences and opinions of businesses and social enterprises in the area, and to explore topical issues at a regional, sub-regional or sectoral level.

Following two waves of panel surveys in 2014 and 2015, HIE commissioned Ipsos MORI to carry out regular business panel surveys with 1,000 businesses and social enterprises, representative of the Highlands and Islands business base in terms of geographic area, organisation size and sector. The surveys ran quarterly during 2016 and 2017, before changing to three times per year in 2018.

This report presents findings from the most recent wave of the survey (the twelfth overall) carried out in February/March 2019. The survey covered a number of topics of general interest to business, including economic optimism, business performance and prospects for the year ahead. This wave also explored several topics relating to Brexit, including potential impacts on trade with other countries and workforce-related issues.

METHODOLOGY

Sampling

The survey sample was mainly sourced from businesses that took part in the previous waves of the survey and had indicated that they were willing to be re-contacted. Additional HIE panel members and HIE account-managed businesses were also approached along with companies identified from the Experian business database. The sample was designed to match the structure of the Highlands and Islands business population in terms of sector, size and geographical distribution. Quotas were set for recruitment and interviewing so that the achieved sample reflected the population of eligible organisations as defined by the Inter-Departmental Business Register (IDBR). Eligible organisations were defined by SIC code, with the following SIC 2007 Sections excluded from the sampling:

- Public administration and defence; compulsory social security;
- Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use; and
- Activities of extraterritorial organisations and bodies.

SIC codes were used to identify areas of economic activity considered to be growth sectors (as set out in the Government Economic Strategy) so that quotas could be set to ensure these were represented in the survey sample.

Within each participating organisation, the survey respondent was the owner or a senior manager able to comment on the performance and future prospects of the organisation.

Survey fieldwork

The survey fieldwork was conducted between 4th February and 4th March 2019, using telephone interviewing. In total 1,001 eligible interviews were achieved.

The achieved sample was broadly representative of the population, notwithstanding some differential non-response due to differences in availability and willingness to participate. Weighting was applied to correct the distribution of sectors to match the sample counts.

PRESENTATION AND INTERPRETATION OF THE DATA

The survey findings represent the views of a sample of businesses, and not the entire business population of the Highlands and Islands, therefore they are subject to sampling tolerances, meaning that not all differences will be statistically significant. Throughout the report, differences between sub-groups are commented upon only where we are sure these are statistically significant, i.e. where we can be 95% certain that they have not occurred by chance.

Where percentages do not sum to 100%, this may be due to rounding, the exclusion of 'don't know' categories, or multiple answers. Aggregate percentages (e.g. "optimistic/not optimistic" or "important/not important") are calculated from the absolute values. Therefore, aggregate percentages may differ from the sum of the individual scores due to rounding of percentage totals.

Throughout the report, an asterisk (*) denotes any value of less than half a percent and a dash (-) denotes zero. For questions where the number of businesses is less than 30, the number of times a response has been selected (N) rather than the percentage is given.

2. OPTIMISM, PROSPECTS AND PERFORMANCE

KEY MESSAGES:

Overall confidence in the economic outlook in Scotland was the lowest ever recorded in HIE's panel surveys: 44% said their confidence had decreased in the last six months, while 47% said it stayed the same and just 7% said it had increased. The gap between the decrease and increase in confidence was -37, compared to the previous low of -30 recorded in the wake of the UK's vote to leave the EU (July/August 2016).

Businesses were nonetheless largely positive about their own performance: 40% said their business had performed well in the last 12 months, whilst 41% had been fairly steady and 19% struggled.

Businesses also continued to report stable business performance over the last six months, particularly with regards to employment, working hours and staff training. However, opinion was more mixed in terms of financial aspects, specifically sales and turnover, and profit margins. This is in keeping with the trends reported in previous waves.

Overall, businesses remained optimistic about their business prospects for the next 12 months, with 70% saying they were optimistic. However, this proportion was down ten percentage points on the previous wave, and the lowest ever recorded in HIE's panel surveys (the previous low was 73% reported in July/August 2016).

Just under half of businesses (46%) expected stability over the next year or two, while 37% anticipated growth and 14% contraction. The proportion of business expecting growth and contraction represented the lowest and highest recorded respectively since the surveys began in 2014.

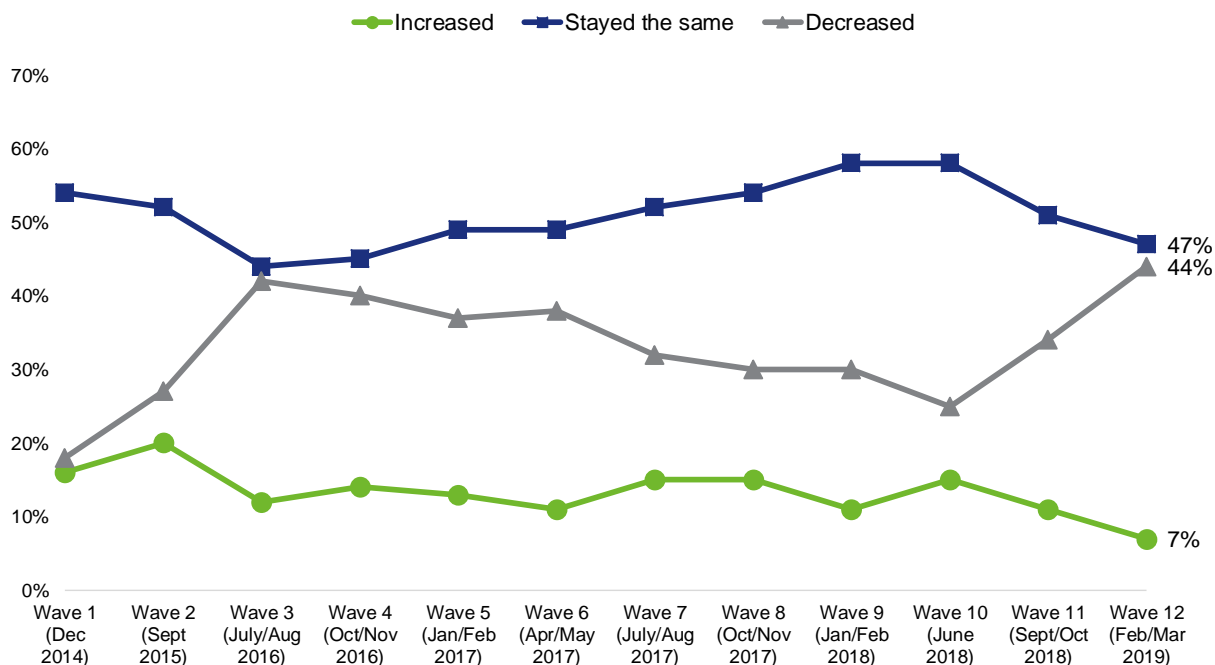
ECONOMIC OPTIMISM

Overall confidence in the economic outlook in Scotland was at its lowest level since the panel surveys began: 44% said their confidence had decreased in the last six months, while 47% said it stayed the same and just 7% said it had increased. (Figure 2.1). Overall, economic optimism had a net negative of -37. Prior to this, the lowest net score was the -30 recorded in July/August 2016 after the UK's vote to leave the EU¹

¹ The net figure is the difference between 'increased' and 'decreased' assessments at each wave. Net scores are positive when positive assessments exceed negative.

Figure 2.1: Confidence in the economic outlook in Scotland over time

Q. Over the past six months, since [date], has your level of confidence in the economic outlook in Scotland increased, decreased or has it stayed the same?



Base: All businesses

Variation by type of business

There was little variation by sector, except for food and drink businesses who were more likely than average to say their confidence in the economic outlook in Scotland had decreased (55% compared with 44% overall). Echoing the findings from the previous waves, there was no significant difference between HIE account-managed and non-account managed businesses.

Economic confidence was correlated with optimism and views on business performance. Businesses who were not optimistic about their prospects for the next 12 months were more likely to report decreased confidence in the economy: 78% compared to 32% of those who said they were optimistic about the upcoming year.

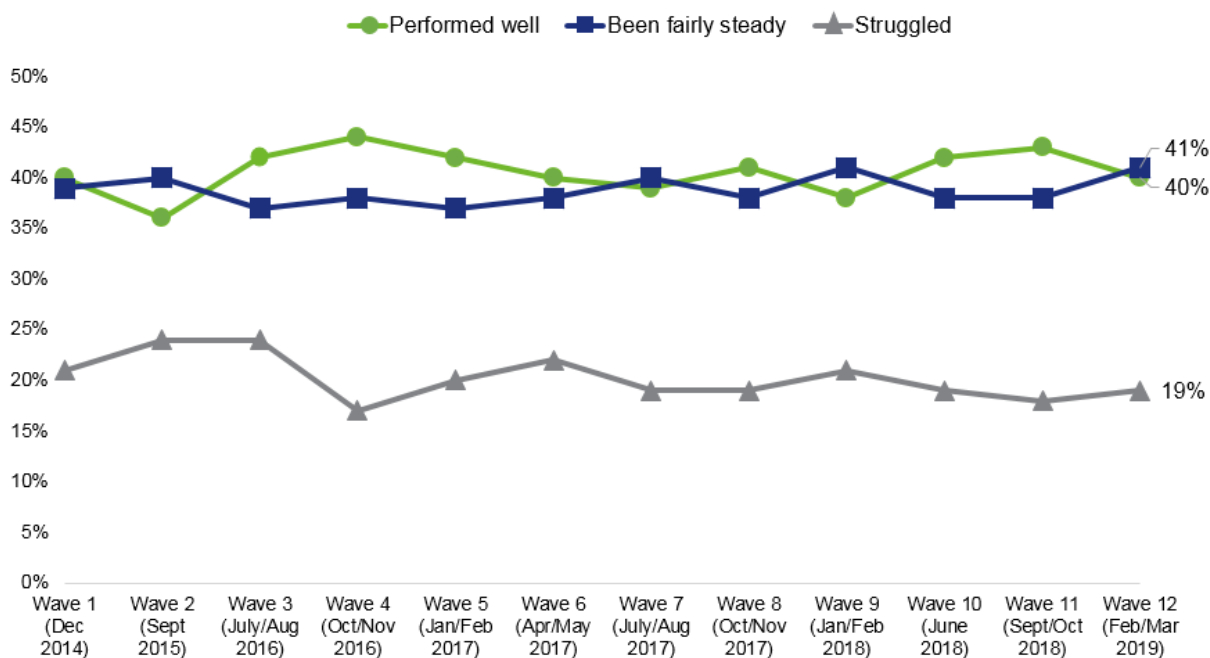
In terms of past performance, businesses that had struggled (66%) or maintained a steady level of performance (43%) in the last 12 months were more likely than those that had performed well (36%) to report decreased confidence in the economy.

BUSINESS PERFORMANCE

Despite the decrease in confidence in the economy, views on business performance remained similar to those recorded in previous waves (Figure 2.2), with 40% saying they had performed well in the last six months (8% exceptionally well, 32% quite well). A further 41% reported steady performance, while 19% had struggled (14% struggled slightly and 4% markedly).

Figure 2.2: Assessments of business performance in the last 12 months over time

Q. Overall, how has your business performed in the last 12 months?



Base: All businesses

Variation by type of business

Food and drink businesses were more likely than average to have struggled (27% compared to 19%), while tourism businesses were more likely to have performed well (50% compared with 40%) (Table A.1, see Appendix).

Larger businesses (25+ employees) were also more likely than average to have performed well (51% compared to 40%), while HIE account-managed businesses (52%) were more likely than non-account managed businesses (39%) to have performed well.

International businesses (those that sold goods or services outside of the UK) were more likely than average to have performed well (48% compared with 40%).

As noted, there was a correlation between business performance and economic confidence: 69% of businesses whose economic confidence had increased also said their business had performed well (compared to 44% of those whose confidence had remained the same and 32% where it had decreased).

ASPECTS OF BUSINESS PERFORMANCE

Businesses continued to report stable performance on employment (76%), working hours (70%) and staff training (66%). Views were more varied in relation to sales and turnover (39% increase, 23% decrease and

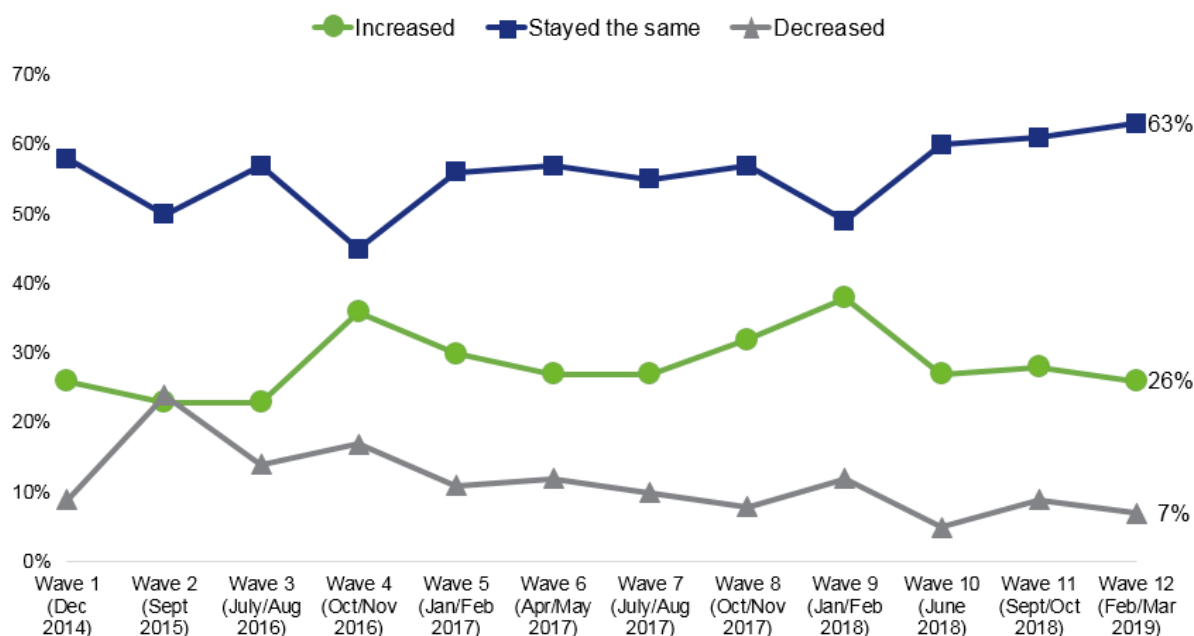
38% stayed the same) and profit margins (24% increase, 26% decrease and 46% stayed the same) (Table A.2).

Looking specifically at exports, 26% experienced an increase, whilst 63% said levels had stayed the same and 7% experienced a decrease in the last six months. As shown in Figure 2.3, the findings were broadly similar to those recorded in the last two survey waves.

Amongst exporters, businesses more likely than average to report an increase were HIE account-managed (37% compared with 23% of non-account managed), international businesses (43% compared with the average of 26%) and those who performed well in the last twelve months (38%).

Figure 2.3: Trends in exports over time

Q. Could you tell me whether exports have increased, stayed the same or decreased in the last six months?



Base: All businesses for whom this question applied (223)

To summarise businesses' experience, we scored each instance of increased performance as +1, each decrease as -1 and each 'stayed the same' as 0 and summed across the six aspects for each business.² The average score was 0.5, lower than the 0.7 reported in wave 11. However, the positive score indicates that businesses continued to report more increases than decreases overall.

Under half (46%) of businesses had an overall positive score, while 26% had a negative score and 28% had a score of zero.

² A positive score indicates that on average businesses reported more aspects increasing than decreasing or staying the same. A negative score means more aspects decreasing than staying the same or increasing.

Variation by type of business

Businesses in the creative industries and financial and business services sectors had the highest overall scores (0.6 respectively). In spite of being more likely to have performed well in the last 12 months, tourism businesses had the lowest average score in relation to these specific aspects of business performance for the last six months (0.1). Looking in more detail at each aspect, for those for whom each applied, tourism businesses were more likely to report a decrease in sales and turnover (32% compared with average of 23%) and profit margins (38% compared with 26%), along with working hours (20% compared with 9%) and employment (20% compared with 10%). Food and drink businesses were more likely to report decreased profit margins (35% versus 26%), along with sales and turnover (29% versus 23%) in the past six months.

In terms of regional variation, businesses in the Outer Hebrides (0.9) had the highest average overall score, followed by those in the Inner Moray Firth (0.7) (Table A.4). Scores were lowest in Orkney (0.2), Caithness and Sutherland (0.3), Argyll and the Islands (0.4) and Lochaber, Skye and Wester Ross (0.5). In keeping with previous waves, this is at least in part explained by the profile of businesses in different areas: in Lochaber, Skye and Wester Ross, for instance, 19% of businesses were in the tourism sector, compared to the average of 10%.

Reinforcing findings from previous waves, larger businesses tended to report greater overall satisfaction: the average score for businesses with 25+ employees (0.8) was higher than those with 0-4 employees (0.3) (Table A.5).

HIE account-managed businesses had higher positive scores (1.2) than non-account managed businesses (0.4), and a higher proportion reported increased performance in:

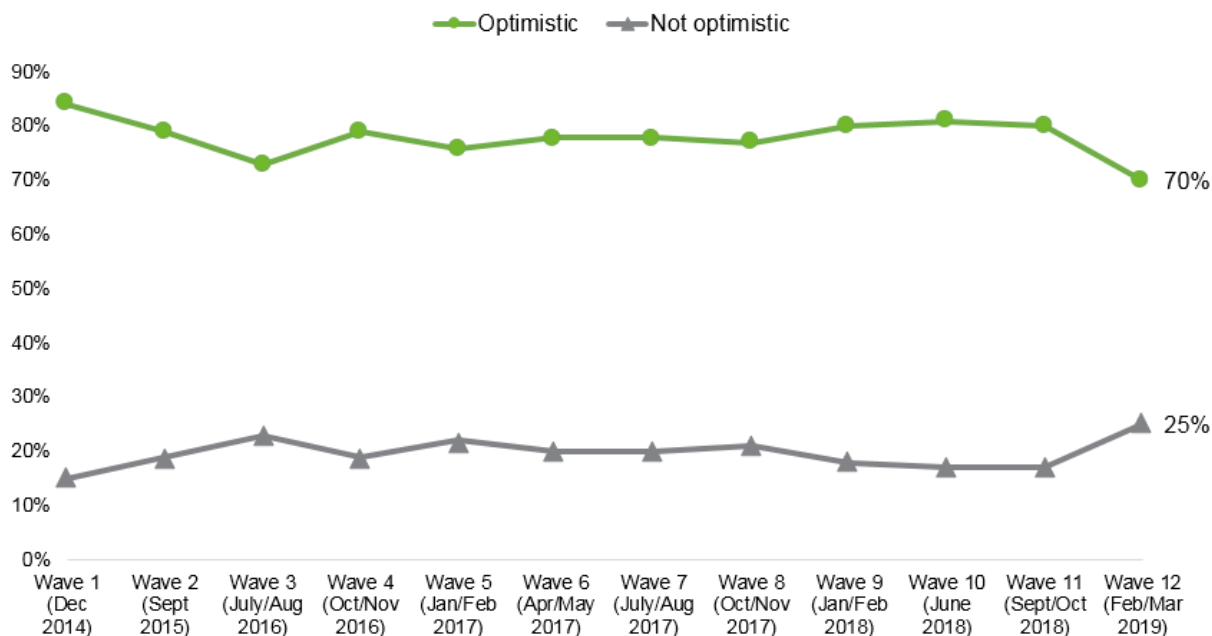
- sales or turnover (56% account-managed; 37% non-account managed);
- employment (31% account-managed; 12% non-account managed);
- exports (37% account-managed; 23% non-account managed);
- training (39% account-managed; 27% non-account managed).

FUTURE BUSINESS PROSPECTS

Seven in ten businesses were optimistic about their business prospects over the next 12 months (14% very optimistic, 57% fairly optimistic), while a quarter were not optimistic (19% not very optimistic, 6% not at all optimistic) (Figure 2.4). Though still high, optimism levels were down ten percentage points on the previous survey wave, and the lowest recorded to date for the HIE panel surveys – lower than the figure of 73% recorded in July/August 2016 just after the UK's vote to leave the EU.

Figure 2.4: Business prospects over the next 12 months over time

Q. How optimistic are you for your business's prospects over the next 12 months?



Base: All businesses

Variation by type of business

Reinforcing findings on performance, optimism for the next 12 months was higher amongst those whose confidence in the Scottish economy had increased in the last six months: 90% of businesses who said their confidence had increased also said they were optimistic about their business prospects in the next 12 months (compared with 70% overall). In contrast, those whose optimism about the economy had decreased were more inclined to say they were not optimistic (44% compared with 25% overall) (Table A.6).

Optimism regarding business prospects for the upcoming year was also related to past business performance: 86% of those who had performed well said they were optimistic, while 52% of those that had struggled said they were not optimistic (Table A.7).

In keeping with previous wave, food and drink businesses were less optimistic than those in other sectors: 39% were not optimistic, compared with the survey average of 25%.

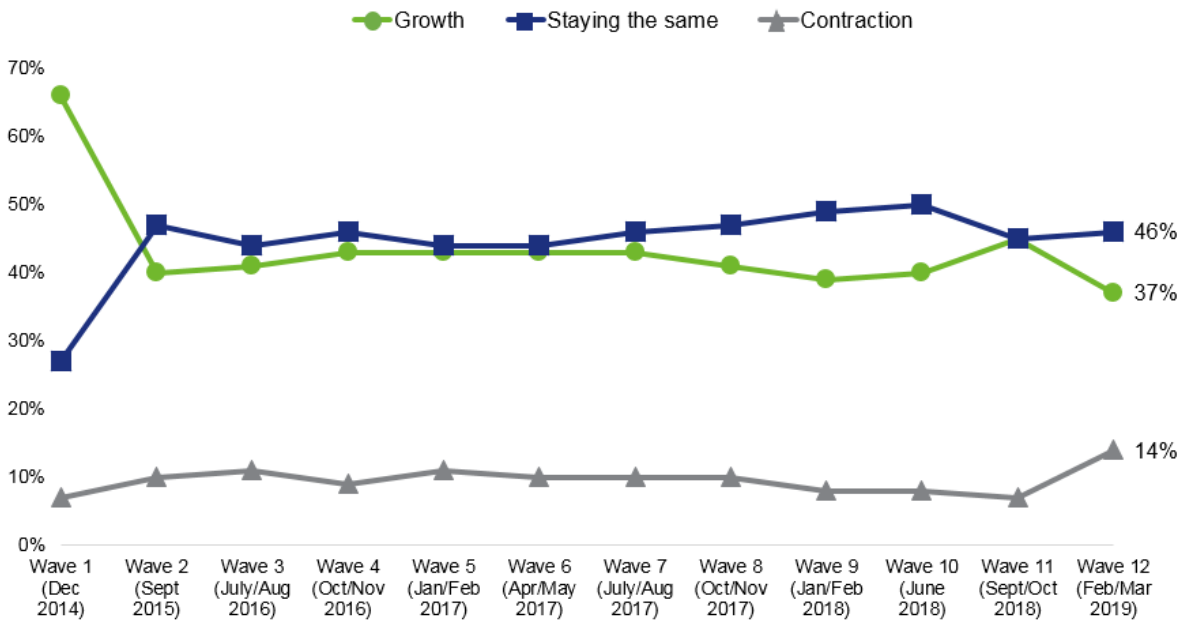
HIE account-managed businesses were more likely than non-account managed to be optimistic about the next 12 months: 79% compared with 69%.

Future business growth

Overall 46% of businesses expected to remain stable in the next year or two, while 37% anticipated growth and 14% contraction (Figure 2.5). The proportion expecting contraction was the highest ever recorded in the panel surveys, while the proportion expecting growth was at its lowest ever level.

Figure 2.5: Future growth over the next year or two

Q. Do you anticipate your business growing, contracting or staying the same in the next year or two?



Base: All businesses

Variation by type of business

Small businesses (0-4 employees) were less likely than average to anticipate growth: 32% expected to grow compared with 37% overall. Growth expectations were higher amongst businesses with 11-24 and 25+ staff: (53% and 49% respectively).

HIE account-managed businesses were more likely than non-account managed to anticipate growth (61% compared with 34%).

Businesses operating outside of Scotland but within the rest of the UK were more likely than average to anticipate growth (44% compared with 37% overall).

3. GENERAL VIEWS ON BREXIT

KEY MESSAGES:

Most business (95%) sold goods or services in Scotland, while 41% sold outside of Scotland but in the rest of the UK, and a quarter (26%) did so outside of the UK.

Half (49%) of businesses said the decision to leave the EU presented a significant risk to their business, while less than a fifth (17%) agreed that the decision would bring significant new opportunities. Over three-quarters (77%) were confident that their business could adapt to the consequences of leaving the EU.

Around half (48%) of businesses had already taken at least one action to plan for Brexit, higher amongst those who felt Brexit presented either a significant risk or opportunity, HIE account-managed businesses and those with 25+ staff.

The most common actions taken were: assessing implications on current business models (29%), considering the impact of currency volatility on cash flow (26%) and reviewing supply chains (20%). Actions least likely to be taken were stockpiling goods and seeking external finance.

Around a third (30%) of businesses did not plan to take any of the actions to plan for Brexit listed. The main reasons given were that they did not think Brexit would impact on their business directly (73%) and that they were waiting to see what will happen with Brexit (49%).

MARKETS OF OPERATION

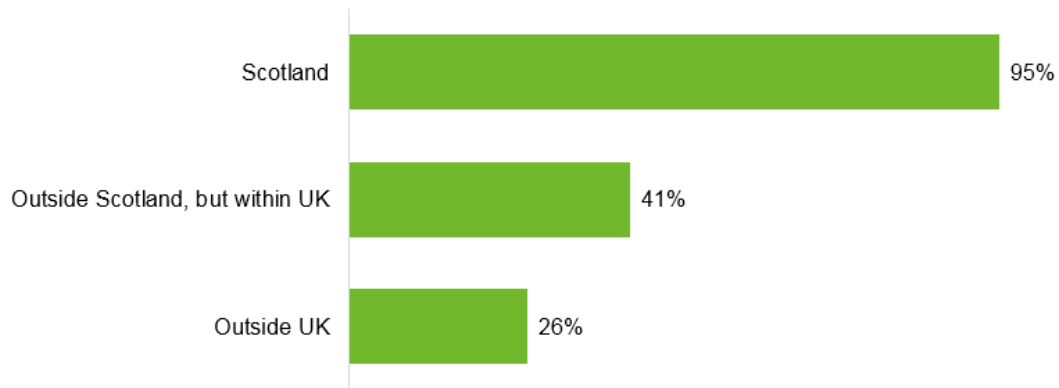
To provide context for their view on the impact of Brexit, businesses were asked what markets they currently sold goods and services in. The majority of businesses (95%) sold goods or services in Scotland, while 56% *only* sold in Scotland and not in other markets (these are referred to as 'domestic businesses'). Two-in-five (41%) businesses sold goods or services outside Scotland, but within the UK (referred to as 'rUK businesses'), and 26% sold goods outside of the UK (referred to as 'international businesses') (Figure 3.1).

The proportion of domestic only businesses was higher than in the previous wave (56% compared with 50%), while the proportion of rUK and international businesses was lower (41% and 26% compared with 48% and 33% respectively).

In terms of the *number* of markets operated in, 60% operated in only one of the markets outlined, 17% in two and 23% in all three.

Figure 3.1: Markets of operation

Q. In which of these markets does your business currently sell goods and services?



Base: All businesses

Reflecting previous waves, certain types of business were more likely than others to operate in each market:

- Domestic businesses, were more likely to be:
 - smaller businesses (0-10 employees) (59%) than larger businesses (11+ employees) (42%)
 - non-account managed (59%) businesses than HIE account-managed businesses (25%).
- rUK businesses, were higher than average (41%) among:
 - larger businesses, particularly 25+ employees (60%)
 - tourism businesses (54%)
 - HIE account-managed businesses (69%).
- International businesses had a similar profile to rUK businesses and were higher than average (26%) among:
 - larger businesses with 11-24 employees (35%) and 25+ employees (43%)
 - tourism businesses (49%)
 - HIE account-managed businesses (51%).

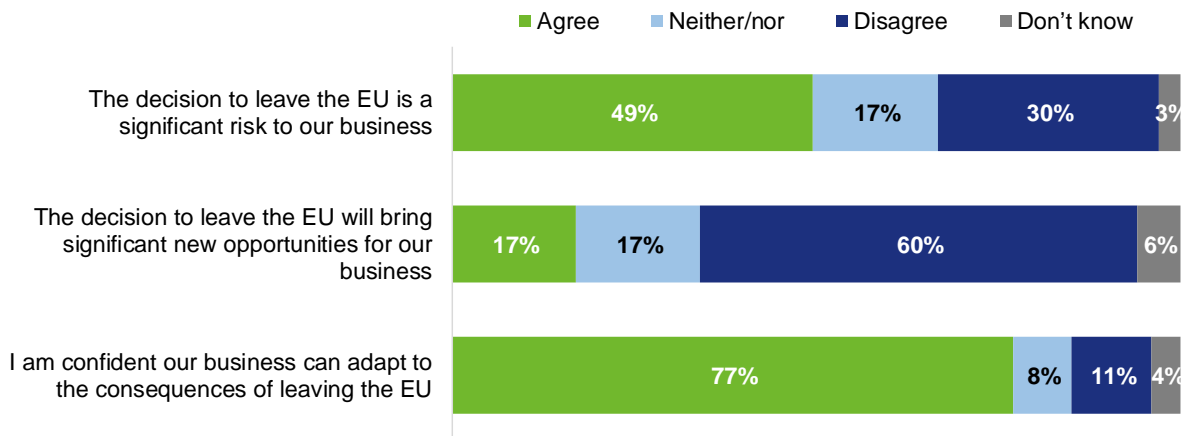
VIEWS ON THE IMPACT OF BREXIT

Half (49%) of businesses said the decision to leave the EU presented a significant risk to their business (30% strongly agree, 18% tend to agree), while 30% disagreed with this statement (15% tend to disagree, 15% strongly disagree). Less than a fifth (17%) of businesses thought the decision to leave the EU would bring significant new opportunities for their business (6% strongly agree, 11% tend to agree) while 60% disagreed (38% strongly disagree, 22% tend to disagree) (Figure 3.2).

There was more consensus in terms of confidence in ability to adapt to leaving the EU: 77% agreed they were confident their business could adapt to leaving the EU (39% strongly agree, 38% tend to agree), while 11% disagreed (6% strongly disagree, 5% tend to disagree).

Figure 3.2: Agreement with statements on the UK’s relationship with the EU

Q. Overall, to what extent do you agree or disagree with the following statements about the UK’s relationship with the EU?



Base: All businesses

Variation by type of business

Across each of the statements, there were consistent differences in views in terms of economic confidence and optimism for the year ahead (Table 3.1). Businesses that said their optimism had decreased in the last six months and those not optimistic for the year ahead showed greatest pessimism about Brexit.

Table 3.1: Views on Brexit by economic confidence and business optimism

(Shaded cells represent figures that are significantly higher than the other categories)

Statement	Economic optimism			Business prospects for next 12 months	
	Increased	Stayed the same	Decreased	Optimistic	Not optimistic
	% Agree			% Agree	
The decision to leave the EU is a significant risk to our business	30	32	71	41	71
The decision to leave the EU will bring significant new opportunities for our business	28	22	11	19	12
I am confident our business can adapt to the consequences of leaving the EU	89	87	65	84	59
Base: All businesses	76	470	441	721	236

Other differences by subgroups included:

- food and drink (61%) businesses were more likely than average (49%) to view Brexit as a significant risk to their business, as were HIE account-managed businesses (58%)
- conversely, small business (0-4) (34%) and non-HIE account managed businesses (32%) were more likely than average (30%) to disagree with this statement
- financial and business services organisations were more likely to disagree that the decision to leave the EU would bring significant new opportunities (71% compared to average of 60%), as were those in a fragile area (73%)
- food and drink businesses were less confident that their business could adapt to the consequences of leaving the EU (20% compared to 11% disagreed)
- international businesses were more likely than average to feel that Brexit presented new opportunities for their business (24% compared with 17% overall).

ACTIONS TAKEN TO PLAN FOR BREXIT

Businesses were shown a list of potential actions that might be taken to plan for Brexit. Around half (48%) had already taken at least one of these actions, while a further 17% had not but planned to do so. A further 30% did not plan to take any of the actions listed.

Businesses who felt Brexit presented either a significant risk or significant opportunity appeared more proactive than others. Among those who felt Brexit presented a risk, 57% had already taken at least one action and a further 20% planned to, while 18% did not plan to. Similarly, among those who felt Brexit presented opportunity, 53% had already taken action, a further 22% planned to, and 22% did not plan to.

There was further variation by type of business:

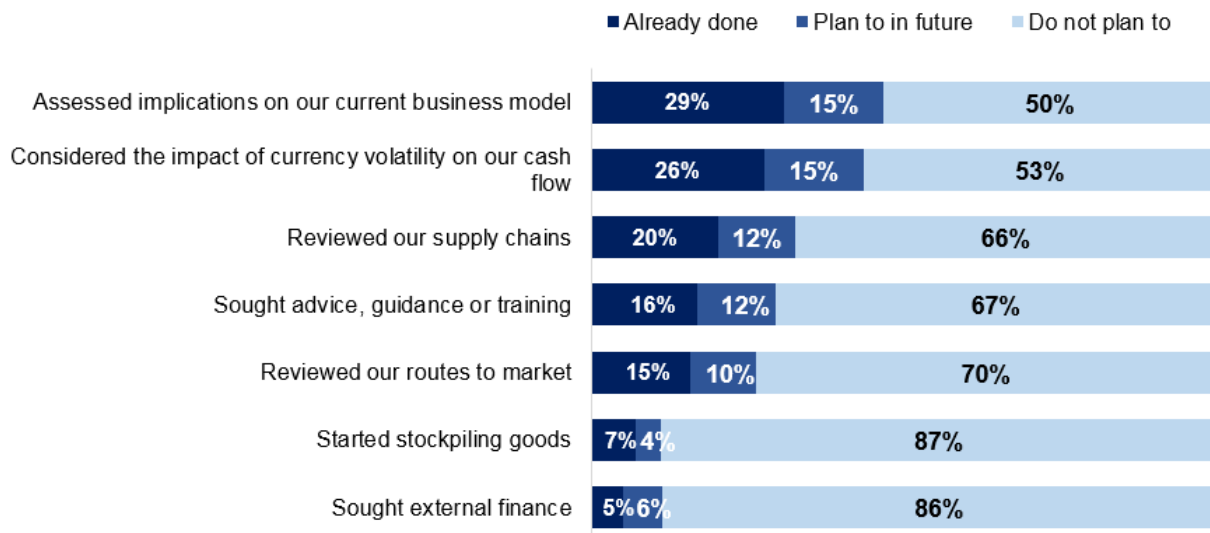
- HIE account-managed businesses were more likely than non-account managed businesses to have already taken any action (73% compared with 47%)

- Large businesses (25+ staff) were more likely than average to have already taken any action (73% compared with 48% overall), and less likely to say they did not plan to take any (17% compared with 30%). Mirroring this, small businesses (0-4 staff) were more likely than average to not plan to take any action (37%).
- International businesses (64%) and rUK businesses (57%) were more likely than domestic businesses (41%) to have already taken action, and less likely to say they did not plan to take any action (21% and 24% respectively compared with 30%).

The most common actions businesses had taken, or planned to take, were: assessing implications on current business model (29% already had, 15% planned to), considering the impact of currency volatility on cash flow (26% and 15%) and reviewing supply chains (20% and 12%) (Figure 3.3).

Figure 3.3: Actions taken to plan for Brexit

Q. Please tell me if this is an action you have already taken, plan to take in the future, or do not plan to take?



Base: All businesses

HIE account-managed businesses and those employing non-UK EU staff were consistently more likely to have taken each of the actions (Table 3.2).

Table 3.2: Actions already taken by HIE account management and employment of non-UK EU staff

Action	HIE account management		Employ non-UK EU staff	
	Account managed	Non-account managed	Yes	No
	% Already done		% Already done	
Sought advice, guidance or training	36	14	27	14
Sought external finance	10	4	8	5
Reviewed our supply chains	36	18	33	17
Reviewed our routes to market	35	13	26	13
Assessed implications on our current business model	50	27	40	27
Considered the impact of currency volatility on our cash flow	41	24	36	24
Started stockpiling goods	18	6	14	6
<i>Base: All businesses</i>	<i>108</i>	<i>893</i>	<i>169</i>	<i>832</i>

There were also differences by organisation size, with smaller organisations (0-4) least likely to have taken or planned to take each of the actions, and large businesses (25+ staff) most likely to (Table 3.3).

Table 3.3: Actions already taken by size of business

Action	Size			
	0-4 staff	5-10 staff	11-24 staff	25+ staff
	% Already done			
Sought advice, guidance or training	12	19	24	31
Sought external finance	5	4	6	8
Reviewed our supply chains	14	21	29	44
Reviewed our routes to market	12	13	19	34
Assessed implications on our current business model	23	36	38	50
Considered the impact of currency volatility on our cash flow	22	27	28	47
Started stockpiling goods	5	12	7	18
<i>Base: All businesses</i>	<i>625</i>	<i>165</i>	<i>100</i>	<i>108</i>

Businesses who felt Brexit presented significant risk and those who felt it presented significant opportunity were both more likely to have already: reviewed their routes to market, assessed implications on current business models, and considered the impact of currency volatility on cash flow. In addition, those who felt Brexit presented a risk were more likely to have already reviewed their supply chains (Table 3.4).

Table 3.4: Actions already taken by views on Brexit

Action	All	Views about Brexit	
		Presents significant risk	Presents significant opportunity
		% Already done	
Sought advice, guidance or training	16	19	17
Sought external finance	5	6	7
Reviewed our supply chains	20	25	23
Reviewed our routes to market	15	20	22
Assessed implications on our current business model	29	36	37
Considered the impact of currency volatility on our cash flow	26	32	31
Started stockpiling goods	7	9	8
<i>Base: All businesses</i>	<i>1001</i>	<i>490</i>	<i>171</i>

REASONS FOR NOT TAKING ACTION

Amongst businesses that had not taken and did not plan to take any action (30% of all businesses), the main reason given was that they did not feel Brexit would impact on their business directly (73%). Around half (49%) said it was too soon to say, and they were waiting to see what would happen and 38% said they did not know what actions were available to them. Over a third (36%) said Brexit planning would divert time away from other aspects of the business, while 29% did not have the resources and 18% lacked the skills needed to put actions into place (Figure 3.4).

There were no significant differences by subgroups.

Figure 3.4: Reasons for not taking actions to plan for Brexit

Q. You said you did not plan to take any of the actions to prepare for Brexit we discussed earlier. Why do you not plan to take action?



Base: All businesses not taking any action or planning to take any action (206)

4. IMPACT OF BREXIT ON TRADE

KEY MESSAGES:

When asked about potential changes to import arrangements after Brexit, 29% of importers said they would be impacted to some extent by at least one of the changes. A lower proportion of exporters (17%) said they would be impacted by potential changes to export arrangements.

Importers felt that they would be most affected by: the introduction of tariffs on imported goods, disruption in their supply chain, and customs delays on imported goods. Among exporters, potential changes to export arrangements that would have most impact were: introduction of tariffs, changes to documentation required on exports, customs delays impacting on cash flow, and changes to regulations and standards on exported goods. Large businesses (25+ staff) and those working in the food and drink sector were more likely to foresee impacts, both in terms of imports and exports, as were those who felt that Brexit presented a significant risk to their business.

Among import/export businesses, 35% had taken at least one action to plan for potential changes to customs arrangements, while just over a quarter (28%) did not plan to take any. The most common action that businesses had either already taken, or planned to take, was reviewing their supply chain to assess any future risks.

In terms of changes to import and export procedures around one in ten (12%) had taken at least one action to plan for these changes, while 50% did not plan to take any actions. The most common action that businesses had either already taken, or planned to take, was training existing staff to prepare for new systems.

Businesses were asked how concerned they were about the prospect of businesses currently operating in EU markets starting to trade more in domestic markets, potentially increasing competition in these markets. Around three quarters (77%) were not concerned while 22% were concerned.

Among businesses who said they were not concerned, the main reasons were: having a loyal customer base, a strong brand reputation, competitive pricing, being confident in their financial position, operating in very local markets, and having a unique product or service.

Among those that were concerned, 89% had taken some action to mitigate the impact of increased competition. The most common actions were minimising their debt, and growing customer loyalty or customer base.

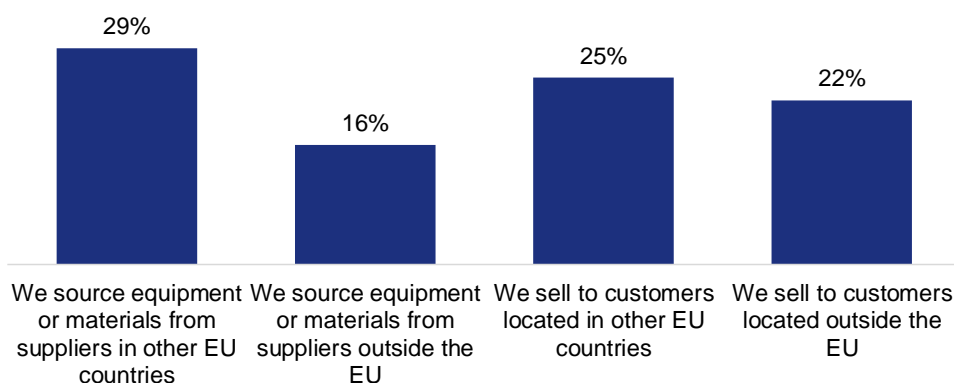
NATURE OF TRADE WITH OTHER COUNTRIES

A third (33%) of businesses imported from other countries; 29% did so from suppliers in other EU countries, while 16% did so from outside the EU. Around a quarter (27%) exported to other countries; 25% to customers located in other EU countries, and 22% to customers located outside the EU (Figure 4.1 and Table 4.1).

Thirteen percent (131 businesses) both imported and exported, while 20% *only* imported (i.e. did not also export) and 14% only exported.

Figure 4.1: Nature of trade with other countries

Q. Which of the following statements applies to your trade with other countries?



Base: All businesses

Large businesses (25+ staff) were more likely than average to both import and export, and to do so both from within and outside the EU (Table 4.1).

Table 4.1: Nature of trade with other countries, by size of business

	All	Size			
		0-4 staff	5-10 staff	11-24 staff	25+ staff
We source equipment or materials from suppliers in other EU countries	29	23	38	35	51
We source equipment of materials from suppliers outside the EU	16	13	18	23	28
We sell to customers located in other EU countries	25	21	25	34	42
We sell to customers located outside the EU	22	18	22	34	38
Import (either within EU or outside EU)	33	26	41	37	56
Export (either within EU or outside EU)	27	23	26	36	45
<i>Base: All businesses</i>	<i>1,001</i>	<i>625</i>	<i>165</i>	<i>100</i>	<i>108</i>

In terms of sectoral variation, tourism and creative industries businesses were more likely than average to export to other EU countries (45% and 49% respectively compared with 25%) and to countries outside the EU (46% and 44% compared with 22%).

HIE account-managed businesses were more likely than non-account managed businesses to import from the EU (57% compared with 26%), and from outside the EU (34% vs 14%), and to export to the EU (55% vs 22%) and outside the EU (46% vs 20%).

IMPACT OF CHANGES TO IMPORT AND EXPORT ARRANGEMENTS

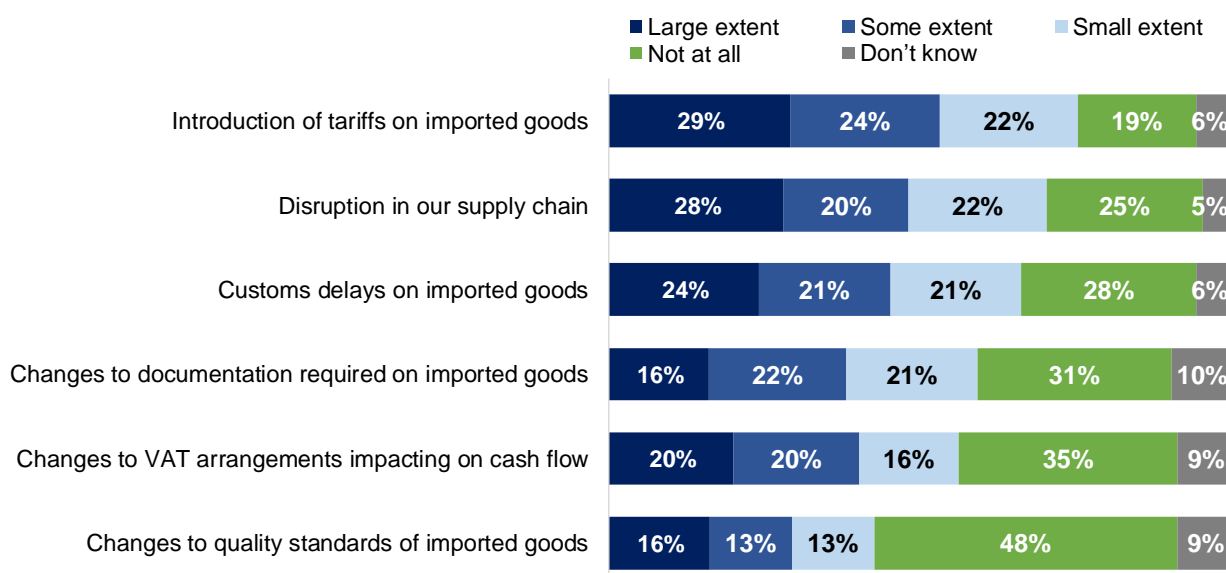
Changes to import arrangements

Asked about the potential changes to import arrangements after Brexit, 29% of importers said they would be impacted to some extent by at least one of the changes.

Businesses that imported were most likely to be impacted by: the introduction of tariffs on imported goods (75% said this would impact on their businesses to an extent); disruption in supply chain (70%), and customs delays on imported goods (66%). Other potential impacts were: changes to documentation required on imported goods (59%), changes to VAT arrangements (56%) and changes to quality standards of imported goods (43%) (Figure 4.2).

Figure 4.2: Impact of potential changes to import arrangements

Q. Now thinking about potential changes to import arrangements after Brexit, to what extent would each of these have an impact on your business?



Base: All businesses that import (321)

Views on the impact of potential changes were broadly similar between those that imported from within the EU and those that imported from outside the EU; there were no significant differences between their responses (Table A.8).

Businesses that felt Brexit presented a risk were more likely than average to be impacted by each change: the introduction of tariffs on imported goods (87% compared with 75%); disruption in their supply chain (79% compared with 70%); customs delays on imported goods (74% compared with 66%); changes to documentation required on imported goods (68% compared with 59%); changes to VAT arrangements (68% compared with 56%); and changes to quality standards of imported goods (56% compared with 43%).

Those that felt Brexit presented an opportunity were more likely than average to be impacted by changes to documentation required on imported goods (71% compared with 59%), though mainly due to those anticipating being impacted to a small extent (33% compared with 21%).

Large importing businesses (25+ staff) were more likely than average to anticipate impacts from a number of changes including: disruption in their supply chain (89% compared with 70% among all importers); customs delays (83% vs 66%); changes to documentation (78% vs 59%); and changes to VAT arrangements impacting on cash flow (71% vs 56%).

Importers in the food and drink sector were also more likely than average to anticipate impacts from: introduction of tariffs (87% vs 75%); customs delays (76% vs 66%); and changes to quality standards (52% vs 43%).

Changes to export arrangements

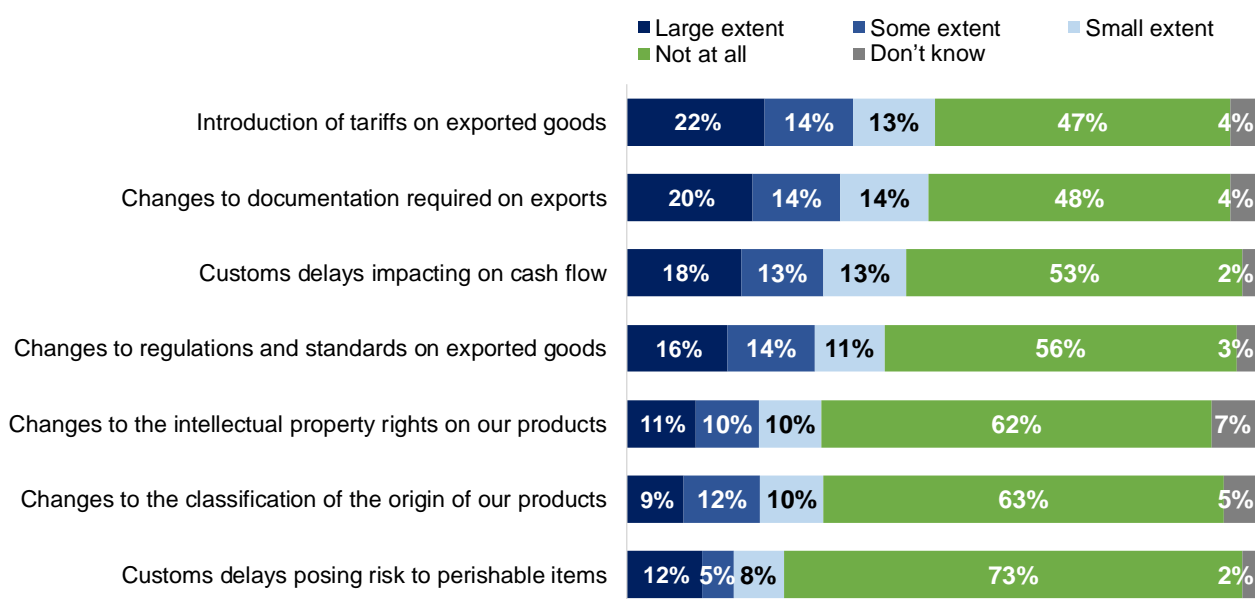
Asked about the potential changes to export arrangements after Brexit, 17% of exporters said they would be impacted to some extent by at least one of the changes, fewer than the 29% of importers that would be impacted by changes to import arrangements.

Among exporters, the potential changes they felt were most likely to have an impact on their business were: introduction of tariffs (49%); changes to documentation required on exports (48%); customs delays impacting on cash flow (45%); and changes to regulations and standards on exported goods (41%). In terms of other changes, around a third of exporters felt they would be impacted by changes to the classification of the origin of their products (31%) and to the intellectual property rights on their products (31%), while a quarter (25%) felt they would be impacted by customs delays posing a risk to perishable items. (Figure 4.3).

It is worth noting that some of these factors would not be of relevance to all exporters, for example intellectual property rights and custom delays on perishable items would only be of relevance to businesses that deal with particular types of product.

Figure 4.3: Impact of potential changes to export arrangements

Q. Now thinking about potential changes to export arrangements after Brexit, to what extent would each of these have an impact on your business?



Base: All businesses that export (291)

Views on the impact of potential changes were broadly similar between those that exported from within the EU and those that exported to outside the EU; there were no significant differences between their responses (Table A.9).

Business that felt Brexit presented a risk were more likely than average to be impacted by: the introduction of tariffs (61% compared with 49%); changes to documentation required (59% compared with 48%); customs delays impacting on cash flow (56% compared with 45%); and changes to classifications of the origin of products (41% compared with 31%).

Large exporting businesses (25+ staff) and those working in food and drink were more likely than average to foresee impacts from the following changes:

- Introduction of tariffs (73% among large businesses, and 87% among food and drink businesses, compared with 49% overall)
- Changes to documentation (73% and 85%, compared with 48%)
- Customs delays impacting on cash flow (71% and 83% compared with 45%)
- Changes to regulations and standards on exported goods (60% and 71% compared with 41%)
- Changes to classification of the origin of products (60% and 59% compared with 31%)
- Customs delays posing risks to perishable items (40% and 56% compared with 25%)

Actions taken in response to changes to customs arrangements

Among businesses that either imported or exported, 35% had taken at least one action to plan for potential changes to customs arrangements, and a further 30% planned to in the future. Just over a quarter (28%) did not plan to take any actions.

Businesses who felt Brexit presented either a significant risk or significant opportunity were more likely to have taken, or plan to take, action. Among those who felt Brexit presented a risk, 41% had already taken at least one action and a further 34% planned to, while 19% did not plan to. Among those who felt Brexit presented opportunity, 40% had already taken action, a further 35% planned to, and 22% did not plan to.

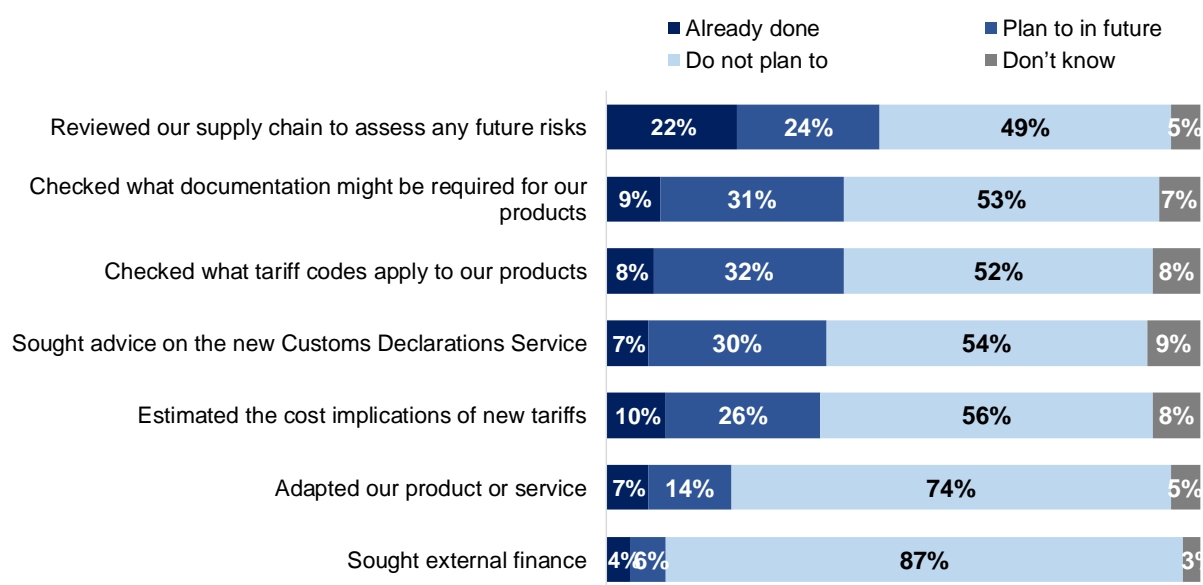
There was further variation by type of business:

- HIE account-managed businesses were more likely than non-account managed businesses to have already taken any action (55% compared with 24%)
- Food and drink businesses were more likely than average to have already taken any action (54% compared with 35% overall)
- Larger businesses with 11-24 and 25+ staff were both more likely than average to have already taken any action (59% and 56% compared with 35% overall). Small businesses (0-4 staff) were more likely to not plan to take any action (36% compared with 28% overall).

As shown in Figure 4.4, the most common action that businesses had either taken, or planned to take, was reviewing their supply chain to assess any future risks (22% already had, 24% planned to), followed by: checking what documentation might be required for their products (9% and 31%); checking what tariff codes applied to their products (8% and 32%); seeking advice on the new Customs Declarations Service (CDS) (7% and 30%); and estimating cost implications of new tariffs (10% and 26%). Fewer had, or planned to, adapt their product or service (7% and 14%) or seek external finance (4% and 6%).

Figure 4.4: Actions taken to plan for changes to customs arrangements

Q. Please tell me if this is an action you have already taken, plan to take in the future, or do not plan to take?



Base: All businesses that import or export (472)

Businesses that imported from within the EU were more likely than average to have checked what tariff codes applied to their products (14% compared with 8%). Otherwise, views were similar between those that imported and exported from within and outside the EU.

Large businesses (25+ staff) were more likely than average to have already taken certain actions: reviewing supply chains (46% compared with 22% among all importers and exporters); checking what documentation might be required (21% compared with 9%); seeking advice on the CDS (18% compared with 7%); and checking what tariff codes applied to products (17% compared with 8%). Small businesses (0-4) were more likely to say they did *not* plan to take each of these actions (Table A.10).

There was further variation by sector. Food and drink businesses were more likely to have already reviewed their supply chain (34% compared with 22%) and sought advice on the CDS (14% vs 7%), and more likely say they planned to check what documentation might be required for their products (42% vs 31%), check tariff codes (47% vs 32%) and seek advice on the CDS (44% vs 30%). Tourism businesses were more likely to say they did *not* plan to take each of these actions (Table A.11).

Actions taken in response to changes to import and export procedures

Businesses that either imported or exported were asked to think specifically about potential changes to import and export procedures and the actions they were taking in response. Around one in ten (12%) had

taken at least one action to plan for these changes, while a further 33% planned to in the future and 50% did not plan to.

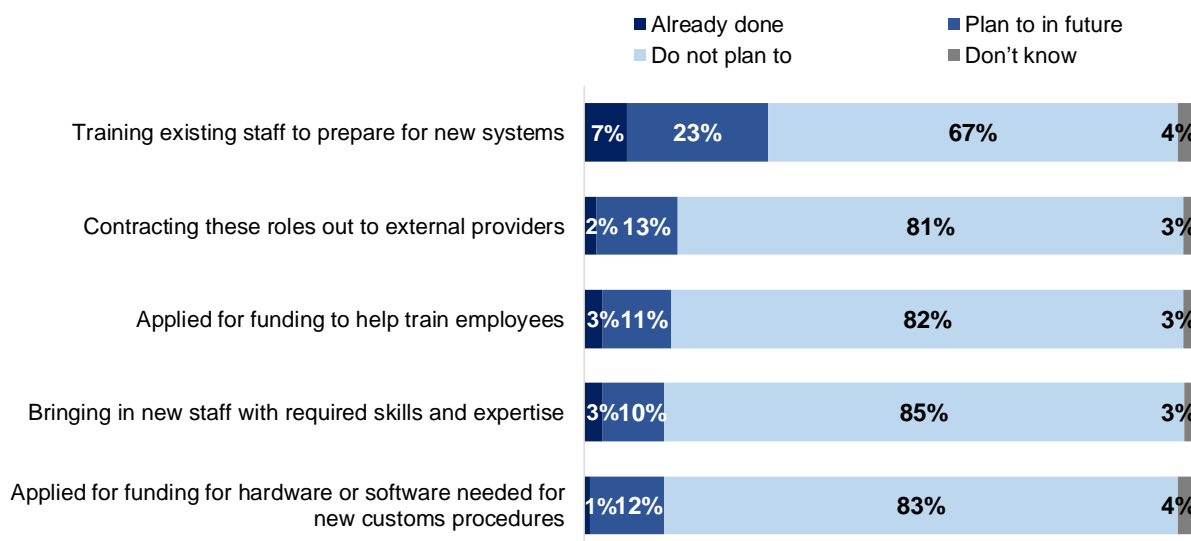
Businesses who felt Brexit presented a risk were more likely than average to have already taken action (15%) or planned to take action (41%), and less likely to not plan to (39%). There was no significant difference in results for those who felt Brexit presented an opportunity.

Large businesses (25+ staff) were more likely than average to have already taken any action (20% compared with 12% overall). Otherwise, there was no significant variation by type of business.

The most common action that businesses had either already taken, or planned to take, was training existing staff to prepare for new systems (7% had already, 23% planned to in future). No more than 15% had taken or planned to take any of the other actions (Figure 4.5).

Figure 4.5: Actions taken to plan for changes to import and export procedures

Q. Which of these actions have you already taken, plan to take in the future, or do not plan to take?



Base: All businesses that import or export (472)

Large businesses (25+ employees) were more likely than average to say they planned to train existing staff to prepare for new systems (39% compared with 23% overall) and contract roles out to external providers (23% compared with 13%).

Food and drink businesses also showed a greater propensity to take action. Businesses in this sector were more likely than average to say they planned to: train existing staff to prepare for new systems (33% compared with 23% overall); apply for funding for hardware or software needed for new customs procedures (30% compared with 12%); contract roles out to external providers (23% compared with 13%); and apply for funding to help train employees (23% compared with 11%).

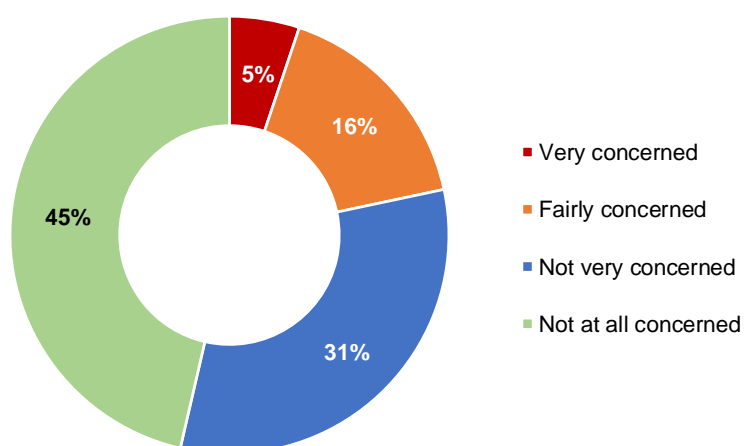
INCREASED COMPETITION IN DOMESTIC MARKETS

Extent of concern about increased competition

Businesses were asked how concerned they were about the prospect of businesses currently operating in EU markets starting to trade more in domestic markets, potentially increasing competition in these markets. Around three quarters (77%) were not concerned (31% not very, 45% not at all), while 22% were concerned (5% very, 16% fairly) (Figure 4.6).

Figure 4.6: Concern about potential increased competition in domestic markets

Q. Businesses that currently operate in EU markets may start trading more in domestic markets, potentially increasing competition in these markets. How concerned are you about increased competition of this kind?



Base: All businesses

Those who felt Brexit was a risk were more likely than average to say they were very (9%) or fairly (25%) concerned.

There was little other variation by different types of business. The main exception was food and drink businesses, who were more likely than average to say they were very (13%) or fairly (27%) concerned.

Businesses with lower than average confidence in the economy were also more likely to be concerned: 32% of those whose optimism had decreased in the last six months were concerned, compared with 22% overall. Similarly, those whose business had struggled were more likely than average to be concerned (36%).

Reasons for not being concerned

Among businesses who said they were not concerned about increased competition in domestic markets (77% of businesses), the main reasons were: having a loyal customer base (78%), a strong brand reputation (72%), competitive pricing (69%), being confident in their financial position (68%), operating in very local markets (65%), and having a unique product or service (60%). A further 20% said they were not concerned because they already had a plan in place to respond to these challenges. (Figure 4.7).

Figure 4.7: Reasons for not being concerned about increased competition in domestic markets

Q. You said you were not concerned about increased competition in domestic markets. Why do you say that?



Base: All businesses not concerned about increased competition (769)

International businesses (trading outside of the UK) were more likely than average to say they were not concerned because they had a unique product or service (72% compared with 60%).

Large businesses (25+ staff) were more likely than average to say they were not concerned because they had a strong brand reputation (83% compared with 72% overall), while those with 11-24 employees were more likely to say they already had plans in place to respond to challenges (32% compared with 20%).

There was little variation by sector, with the exception of those working in creative industries, who were more likely than average to say they had a unique product or service (78% compared with 60%).

HIE account-managed businesses were more likely than non-account managed to say they had a unique product or service (72% compared with 59%). On the other hand, non-account managed were more likely than account-managed to say they operated in very local markets (66% compared with 49%).

Actions taken in order to minimise impacts

Among those that were concerned about increased competition in domestic markets (22% of businesses), 89% had taken action in order to minimise the impact. The most common actions were minimising their debt (66%) and growing customer loyalty or customer base (61%), followed by: doing more competitor analysis (48%), reviewing their pricing structure (44%), developing workforce skills and expertise (44%), investing in new technology (42%), and adapting their product or service (42%) (Figure 4.8).

Figure 4.8: Actions taken to minimise impact of increased competition

Q. What actions are you taking in order to minimise the impact of this competition on your business?



Base: All businesses concerned about increased competition (218)

Those who operated in the rUK and those who operated outside the UK were both more likely to have carried out more competitor analysis (61% and 63% respectively compared with 48%).

There was little variation by type of business, with the exception of HIE account-managed businesses who were more likely than non-account managed businesses to take most of the actions (Table 4.2):

Table 4.2: Actions taken to minimise impact of increased competition, by account management

Action	HIE Account managed (%)	Non-account managed (%)
Minimising our debt	69	66
Growing customer loyalty or customer base	89	56
Doing more competitor analysis	75	43
Reviewing our pricing structure	71	40
Developing our workforce skills and expertise	81	38
Investing in new technology	78	37
Adapting our product or service	74	8
None and don't anticipate having to	-	2
None yet but recognise we have to	-	
<i>Base: All businesses concerned about increased competition</i>	31	187

5. IMPACT OF BREXIT ON WORKFORCE

KEY MESSAGES:

Asked about potential changes to free movement and immigration after Brexit, 38% of employers said they would be impacted to some extent by at least one of the changes.

Employers were most likely to be impacted by: fewer candidates being available to fill vacancies, and increased demand for potential candidates from other businesses.

Large businesses (25+ staff), tourism businesses, and HIE account-managed businesses were more likely to be impacted by each of the potential changes they were asked about.

Among those that employed staff, 45% had already taken action to plan for potential employment changes after Brexit, and a further 17% had not but planned to in future. Around a third (34%) did no plan to take any actions.

The most common actions that employers had either already taken, or planned to take, were: upskilling their existing staff to reduce the need to recruit, reviewing staff remuneration, and communicating with staff about potential changes.

EMPLOYMENT OF NON-UK EU NATIONALS

Around three quarters (76%) of businesses employed staff and of these 22% employed non-UK EU nationals. The number of non-UK nationals employed is shown in Table 5.1, grouped by business size.

Table 5.1 – Number of non-UK EU nationals employed

Number of non-UK EU employees	% of employers
None	79
1-4	15
5-10	4
11-24	2
25+	1
<i>Base: All businesses employing staff</i>	763

Non-UK EU nationals made up 9% of the overall workforce employed by businesses participating in the survey – businesses employed approximately 11,700 staff, of which approximately 1,030 were from outside the UK but within the EU.

Employment of non-UK EU nationals was more likely among certain types of business:

- larger businesses (25+ staff) than smaller businesses (0-4) (67% compared with 9% respectively)
- tourism (40%) and creative industries (37%) businesses, while those in the financial and business services sector (9%) were less likely to employ non-UK EU staff

- businesses in the Inner Moray Firth (34%) and Shetland (31%), and lower than average in Argyll and the Islands (13%)
- HIE account-managed than non-account managed businesses (47% compared with 16%).

CHANGES TO FREE MOVEMENT AND IMMIGRATION

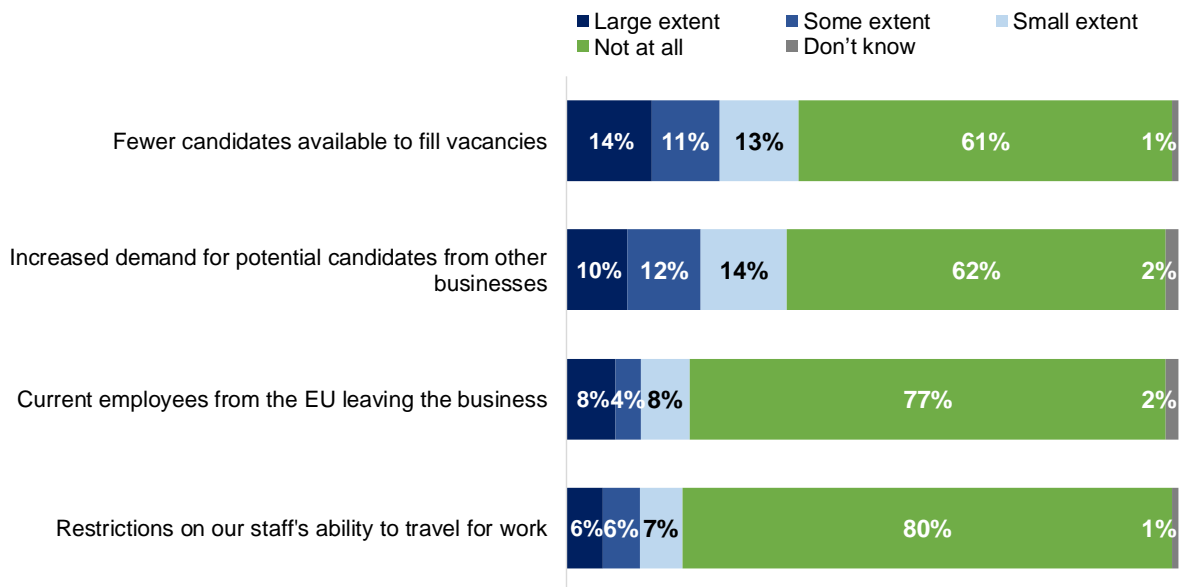
Impact of potential changes

Asked about the potential changes to free movement and immigration after Brexit, 38% of employers said they would be impacted to some extent by at least one of the changes.

Employers were most likely to be impacted by: fewer candidates being available to fill vacancies (38% said this would impact on their businesses to an extent); and increased demand for potential candidates from other businesses (36%). Around one-in-five said they would be impacted by: current employees from the EU leaving the business (21%); and restrictions on their staff's ability to travel for work (19%) (Figure 5.1).

Figure 5.1: Impact of potential changes to free movement and immigration

Q. Thinking about potential changes to free movement and immigration after Brexit, to what extent would each of these have an impact on your business?



Base: All businesses that employ staff (768)

It is worth noting that the impact of current employees from the EU leaving the business would only be of relevance to businesses currently employing non-UK EU staff. Reflecting this, businesses that employed EU staff were more likely than other employers to say they would be impacted by this change (64% compared to 9%). They were also more likely to foresee impacts from each of the other changes listed: fewer candidates available to fill vacancies (68% of those that employed EU staff, compared with 30% of those that did not); increased demand for potential candidates (54% compared with 31%); and restrictions on staff's ability to travel for work (37% compared with 14%).

Those who felt Brexit presented a risk were also more likely than average to be impacted by each change: fewer candidates being available to fill vacancies (49% compared with 38%); increased demand for potential candidates (45% compared with 36%); current employees leaving the business (28% compared with 21%); and restrictions on staff being able to travel for work (26% compared with 19%).

Similarly, international businesses were more likely than average to be impacted by each change: fewer candidates being available (51%), increased demand for potential candidates (44%), current employees leaving (34%) and restrictions on staff's ability to travel for work (29%).

Large businesses (25+ employees), tourism businesses, and HIE account-managed businesses were more likely to be impacted by each of the potential changes they were asked about (Table 5.2), reflecting the higher than average proportion employing non-UK EU nationals within these groups.

Table 5.2: Impact of potential changes to free movement and immigration, by type of business

Potential change	All	Large (25+ staff)	Tourism	HIE Account managed
	% impacted to any extent			
Fewer candidates available to fill vacancies	38	63	56	55
Increased demand for potential candidates from other businesses	36	57	45	53
Current employees from the EU leaving the business	21	46	37	34
Restrictions on our staff's ability to travel for work	19	30	25	35
<i>Base: All businesses that employ staff</i>	768	108	92	104

Actions taken to plan for employment changes

Among those that employed staff, 45% had already taken action to plan for potential employment changes after Brexit, and a further 17% had not but planned to in future. A third (34%) did no plan to take any actions.

There was variation by different types of business:

- HIE account-managed businesses were more likely than non-account managed businesses to have already taken any action (56% compared with 34%)
- Tourism businesses were more likely than average to have already taken any action (61% compared with 45% overall)
- Larger employers with 11-24 and 25+ staff were both more likely than average to have already taken any action (63% and 64% compared with 45%). Small businesses were more likely to say they did not plan to take any action (43% compared with 34% overall).

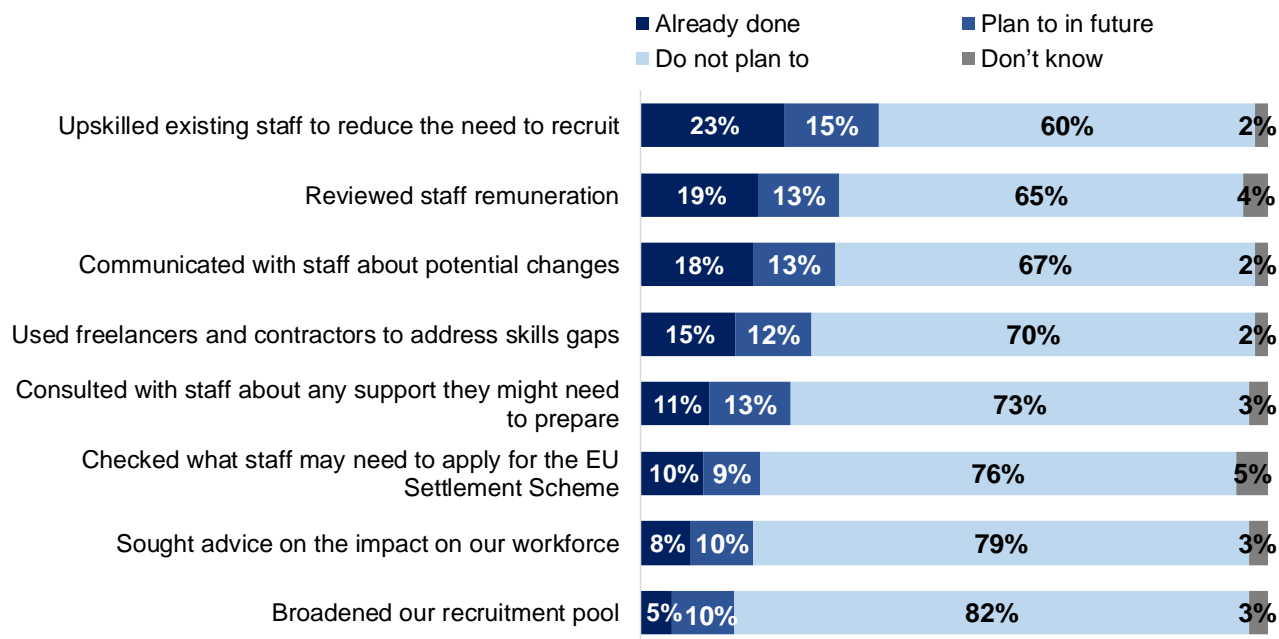
There were no significant differences in views between those who felt Brexit was a risk to their business and those who felt it would bring new opportunities.

The most common action that businesses had either already taken, or planned to take, was upskilling their existing staff to reduce the need to recruit (23% already had, 15% planned to), followed by: reviewing staff remuneration (19% and 13%); communicating with staff about potential changes (18% and 13%); using freelancers and contractors to address skills gaps (15% and 12%); consulting with staff about any support they might need to prepare (11% and 13%); checking what staff may need to apply for the EU Settlement

Scheme (10% and 9%); seeking advice on the impact on their workforce (8% and 10%); and broadening their recruitment pool (5% and 10%) (Figure 5.2).

Figure 5.2: Actions taken to plan for employment changes

Q. Please tell me if this is an action you have already taken, plan to take in the future, or do not plan to take?



Base: All businesses that employ staff (768)

Those that employed non-UK EU staff were more likely than average to have already taken most actions: checked what staff may need to apply for the EU Settlement Scheme (34% compared with 3% of those without EU staff); consulted with staff about any support they might need to prepare (34% vs 5%); reviewed staff remuneration (34% vs 15%); communicated with staff about potential changes (32% vs 14%); upskilled existing staff to reduce the need to recruit (32% vs 20%); sought advice on the impact on their workforce (19% vs 5%); and broadened their recruitment pool (13% vs 2%). Only a small proportion (8%) of those that employed non-UK EU staff said they were not taking any actions.

Those that felt Brexit was a risk were more likely to have already communicated with staff about potential changes (23% compared with 18% of all employers).

Tourism businesses were more likely than average to have already: upskilled existing staff to reduce the need to recruit (42% compared with 23% overall); reviewed staff remuneration (31% vs 19%); consulted with staff about any support they might need to prepare (24% vs 11%); checked what staff may need to apply for the EU Settlement Scheme (18% vs 10%); and broadened their recruitment pool (10% vs 5%).

In addition, large businesses (25+ employees) were more likely than average to have already taken each of these actions (Table A.12), while HIE account-managed businesses were more likely than non-account managed to have taken each of the them (Table A.13).

6. SUMMARY

Optimism, prospects and performance

Businesses remain pessimistic about the economic outlook in Scotland, with economic confidence the lowest recorded since the panel surveys started in 2014: 44% said their confidence had decreased in the last six months and just 7% said it had increased. The gap between the two positions was the widest recorded: -37 compared to the previous low of -30 recorded in the wake of the Brexit referendum (July/August 2016).

However, businesses continue to be positive about their own performance: 40% said their business had performed well in the last 12 months, while 41% said it had been steady and 19% struggled. Food and drink was the sector most likely to have struggled. Additionally, larger organisations (particularly those with 25+ employees) tended to have had a better year than smaller organisations (0-4 employees), as did HIE account-managed businesses.

Businesses largely reported stability in performance in terms of training, employment, working hours and exports. Views remain more mixed in relation to financial aspects of business performance (sales/turnover and profit margins).

Seven in ten businesses were optimistic about their business prospects for the year ahead, while a quarter were not optimistic. The proportion optimistic about the upcoming 12 months was down ten percentage points on the previous wave, and below the previous low of 73% recorded in the wave after the Brexit referendum (July/August 2016).

This wave also saw a slight increase in the proportion of businesses expecting contraction within the next year or two: whilst 37% of businesses were forecasting growth and 46% expected to remain stable, 14% said they expected contraction – more than the previous high of 11% reported in waves 3 and 5 during 2016. Correspondingly, the proportion of businesses anticipating growth was the lowest level recorded to date for the HIE panel surveys.

General views on Brexit

Half of businesses viewed the decision to leave the EU as a significant risk to their business and less than a fifth (17%) agreed that leaving the EU would bring significant new opportunities to their business. However, over three quarters (77%) were confident that their business could adapt to the UK leaving the EU.

Around half of businesses (48%) had already taken at least one action to plan for Brexit, higher amongst those who felt Brexit presented either a significant risk or opportunity to their business, HIE account-managed businesses and larger businesses (25+ staff).

The most common actions taken were: assessing implications on current business models, considering the impact of currency volatility on cash flow, and reviewing supply chains. However, just under a third did not plan to take any of the actions listed. Actions least likely to be taken were stockpiling goods, seeking external finance and reviewing routes to market

The main reasons given for not taking any action were not thinking Brexit would impact on their business directly and waiting to see what will happen with Brexit.

Impact of Brexit on trade

When asked about potential changes to import arrangements after Brexit, 29% of importers said they would be impacted to some extent by at least one of the changes. A lower proportion of exporters (17%) said they would be impacted by potential changes to export arrangements.

Importers felt that they would be most affected by: the introduction of tariffs on imported goods, disruption in the supply chain, and customs delays on imported goods. Among exporters, potential changes to export arrangements that would have most impact were: introduction of tariffs, changes to documentation required on exports, customs delays impacting on cash flow, and changes to regulations and standards on exported goods. Large businesses (25+ staff) and those working in food and drink were more likely to foresee impacts, both in terms of imports and exports.

A third of import/export businesses had taken at least one action to plan for these changes to customs arrangements, higher among those who felt Brexit presented a significant risk or opportunity for their business, HIE-account managed businesses, those working in food and drink, and larger businesses with 11-24 or 25+ staff. The most common action was reviewing their supply chain to assess any future risks. A further one in ten had taken action to specifically plan for changes to import and export procedures, most commonly training existing staff to prepare for new systems.

Businesses were asked how concerned they were about the prospect of businesses currently operating in EU markets starting to trade more in domestic markets, potentially increasing competition in these markets. Around three quarters (77%) were not concerned while 22% were concerned.

Among businesses who said they were not concerned, the main reasons were: having a loyal customer base, a strong brand reputation, competitive pricing, being confident in their financial position, operating in very local markets, and having a unique product or service.

Among those that were concerned about increased competition in domestic markets, the majority (89%) had taken some action to minimise the impact. The most common actions were minimising their debt, and growing customer loyalty or customer base.

Impact of Brexit on workforce

Asked about potential changes to free movement and immigration after Brexit, 38% of employers said they would be impacted to some extent by at least one of the changes.

Employers were most likely to be impacted by: fewer candidates being available to fill vacancies, and increased demand for potential candidates from other businesses. Large businesses (25+ staff), tourism businesses, and HIE account-managed businesses were more likely to be impacted by each of these potential changes.

Among those that employed staff, a third had already taken action to plan for potential employment changes after Brexit, and a further 13% had not but planned to in future. Employers more likely to have already taken action were those working in the tourism sector, the HIE-account managed, and those with 11-24 and 25+ staff. The most common actions that employers had either already taken, or planned to take, were: upskilling their existing staff to reduce the need to recruit, reviewing staff remuneration, and communicating with staff about potential changes

7. APPENDIX

BUSINESS PERFORMANCE

Table A.1: Business performance by growth sector³

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	N
Overall	8	32	41	14	4	1	1001
Tourism	15	35	31	12	7	1	118
Financial and business services	8	36	39	11	4	3	79
Creative industries	4	34	42	17	2	0	45
Non-growth sector	8	31	43	13	3	1	496
Food and drink	6	27	40	21	6	0	202
	N	N	N	N	N	N	
Energy	3	7	10	1	0	0	23
Life sciences	0	1	1	0	0	0	2

Base: All businesses in each sector

Table A.2: Aspects of business performance in the last six months

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	N
Sales or turnover	39	23	38	1	987
Working hours	21	9	70	1	994
Staff training	29	5	66	*	788
Exports	26	7	63	4	223
Profit margins	24	26	46	4	978
Employment	14	10	76	*	885

Base: All businesses saying each aspect applied to them

³ As the base size for Energy and Life Sciences is less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors are the weighted, rather than unweighted, base.

Table A.3: Overall assessments of business performance by growth sector⁴

Growth Sector⁵	Assessment of business performance (mean score)	Base
Creative industries	0.6	39
Tourism	0.1	98
Financial and business services	0.6	86
Non-growth sector	0.5	496
Food and drink	0.3	223
Life Sciences	1.9	2
Energy	1.3	21

Table A.4: Overall assessments of business performance by location

Location	Assessment of business performance (mean score)
Lochaber, Skye and Wester Ross	0.5
Outer Hebrides	0.9
Argyll and the Islands	0.4
Moray	0.6
Inner Moray Firth	0.7
Orkney	0.2
Shetland	0.6
Caithness and Sutherland	0.3

Table A.5: Overall assessments of business performance by size of business

Size of business	Assessment of business performance (mean score)
0-4 staff	0.3
5-10 staff	0.6
11-24 staff	1.2
25+ staff	0.8

⁴ Please note the small base sizes for Life Sciences and Energy.

⁵ Although Energy had an average score of 1.3 and Life Sciences had an average score of 1.9, these do not represent a significant difference from other sectors due to the small base size for these sectors.

BUSINESS PROSPECTS IN THE NEXT SIX MONTHS

Table A.6: Business prospects over the next 12 months by confidence in the economic outlook in Scotland

	Optimism for future business prospects					
	Very optimistic	Fairly optimistic	Not very optimistic	Not at all optimistic	Don't know	Base
Confidence in the economic outlook in Scotland	%	%	%	%	%	N
Increased	41	49	6	2	3	68
Stayed the same	18	68	8	2	4	472
Decreased	5	46	32	12	4	443

Table A.7: Optimism for future business prospects by past business performance

	Optimism for future business prospects					
	Very optimistic	Fairly optimistic	Not very optimistic	Not at all optimistic	Don't know	Base
Past business performance	%	%	%	%	%	N
Performed exceptionally/quite well	26	60	8	2	4	406
Been fairly steady	7	60	22	6	5	401
Struggled slightly/markedly	3	41	37	15	4	186

IMPACT OF BREXIT ON TRADE

Table A.8: Impact of potential changes to import arrangements, by import markets

	All importers	Import from within EU	Import from outside EU
	% to impacted to any extent		
Introduction of tariffs on imported goods	75	80	72
Changes to documentation required on imported goods	59	61	65
Customs delays on imported goods	66	69	67
Changes to quality standards of imported goods	43	44	48
Changes to VAT arrangements impacts on cash flow	56	59	58
Disruption in our supply chain	70	73	70
<i>Base: All businesses</i>	321	294	162

Table A.9: Impact of potential changes to export arrangements, by export markets

	All exporters	Export to within EU	Export to outside EU
	% to impacted to any extent		
Introduction of tariffs on exported goods	49	50	46
Changes to documentation required on exports	48	49	44
Customs delays impacting on cash flow	45	46	42
Customs delays posing risks to perishable items	25	26	24
Changes to regulations and standards on exported goods	41	42	40
Changes to the classification of the origin of our products	31	32	31
Changes to the intellectual property rights on our products	31	31	31
<i>Base: All businesses</i>	291	253	222

Table A.10: Actions taken to plan for changes to customs arrangements, by size

	All	0-4 staff	25+ staff
<i>Checked what documentation might be required for our products</i>			
Already done	9	6	21
Plan to in future	31	28	36
Do not plan to	53	59	36
<i>Checked what tariff codes apply to our products</i>			
Already done	8	5	17
Plan to in future	32	31	40
Do not plan to	52	58	35
<i>Sought advice on the new Customs Declarations Service</i>			
Already done	7	3	18
Plan to in future	30	28	38
Do not plan to	54	60	34
<i>Reviewed our supply chain to assess any further risks</i>			
Already done	22	13	46
Plan to in future	24	21	35
Do not plan to	49	62	16
<i>Base: All businesses that import or export</i>	472	260	70

Table A.11: Actions taken to plan for changes to customs arrangements, by sector

	All	Food and drink	Tourism
Checked what documentation might be required for our products			
Already done	9	13	6
Plan to in future	31	42	17
Do not plan to	53	33	69
Checked what tariff codes apply to our products			
Already done	8	13	5
Plan to in future	32	47	14
Do not plan to	52	29	70
Sought advice on the new Customs Declarations Service			
Already done	7	14	4
Plan to in future	30	44	7
Do not plan to	54	32	71
Reviewed our supply chain to assess any further risks			
Already done	22	34	17
Plan to in future	24	28	14
Do not plan to	49	30	58
<i>Base: All businesses that import or export</i>	472	88	72

IMPACT OF BREXIT ON WORKFORCE

Table A.12: Actions taken to plan for changes to employment by size

Action	0-4 staff	5-10 staff	11-24 staff	25+ staff
	% Already done			
Upskilled existing staff to reduce the need to recruit	15	29	23	41
Reviewed staff remuneration	15	17	26	32
Communicated with staff about potential changes	15	17	21	29
Consulted with staff about any support they might need to prepare	8	8	14	26
Checked what staff may need to apply for the EU Settlement Scheme	6	7	17	22
Used freelancers and contractors to address skills gaps	12	18	14	21
Sought advice on the impact on our workforce	4	6	15	20
Broadened our recruitment pool	2	6	5	12
<i>Base: All businesses that employ staff</i>	395	165	100	108

Table A.13: Actions taken to plan for changes to employment by account management status

Action	HIE Account managed	Non-account managed
	% Already done	
Upskilled existing staff to reduce the need to recruit	30	22
Reviewed staff remuneration	25	18
Communicated with staff about potential changes	24	17
Consulted with staff about any support they might need to prepare	16	10
Checked what staff may need to apply for the EU Settlement Scheme	16	9
Used freelancers and contractors to address skills gaps	18	14
Sought advice on the impact on our workforce	13	7
Broadened our recruitment pool	10	4
<i>Base: All businesses that import or export</i>	<i>104</i>	<i>664</i>

FOR MORE INFORMATION CONTACT:

hie.co.uk

T: +44 (0) 1463 245 245

E: hieresearch@hient.co.uk

Highlands and Islands Enterprise
An Lòchran
10 Inverness Campus
Inverness
IV2 5NA



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean