

A STUDY OF THE IMPACT OF BREXIT  
UPON BUSINESSES IN CORNWALL  
FOR THE CORNWALL AND ISLES OF SCILLY LOCAL  
ENTERPRISE PARTNERSHIP

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Author: Robert Rush, Managing Director



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# 1 Executive Summary

## 1.1 Introduction

The Cornwall and Isles of Scilly Local Enterprise Partnership (C&IoS LEP) wants to understand the impact on the local economy due to Brexit. Such evidence is important should the LEP be asked by Government for intel on businesses in Cornwall and the Isles of Scilly due to the referendum.

The LEP is particularly interested to understand the impacts of the Brexit vote within tourism and agriculture businesses, larger employers in general, those with foreign ownership, exporters (and those that are/were thinking of exporting) and those who are trying to or have already succeeded to secure Foreign Direct Investment.

PFA Research was asked to conduct qualitative interviews among these groups to collate evidence and influencer views of real and potential impacts of Brexit; such as changes in strategic direction, investment plans, sales or advanced orders, staff recruitment, training, marketing direction, etc. Interviews were designed to be open and independent to allow all impacts to be assessed, whether positive, negative or simply evidence of inertia.

This report has been compiled to feedback the key findings from interviews, in an anonymous format, as well as feedback from the LEP's 22<sup>nd</sup> September Annual Event.

## 1.2 Research methodology

Given the timescales involved to conduct the research and that the field is small (i.e. the focus on the large organisations), as well as the nuanced conversations expected the study was implemented using a qualitative approach through telephone interviews.

24 interviews were conducted (against a brief to conduct 20-25 interviews). On average interviews lasted 15 to 20 minutes in duration, using a pre-designed discussion guide. Outputs from each interview, in the form of anonymous summary views and verbatim comments have been analysed and collated into themes.

In addition, two questions were included in the LEP's Annual Event workshop held on 22<sup>nd</sup> September 2016 at the Eden Project. 92 people participated in the workshop feedback surveys, of which 67% were from the private sector.

## 1.3 Key findings

The majority of businesses had not adopted a formal position to expressing a preferred outcome to the referendum prior to the vote taking place.

Whilst some have experienced some impact (best described as indirect and light), which was mainly as a result of the weakened pound, few have described impacts that they would consider to be a serious detriment to their future and the one business with a

noticeable slowdown in its sales pipeline acknowledged that other factors could also be contributing.

Just over half (52%) of the private sector participants in the LEP Annual Event workshop said that Brexit had not had a direct impact as yet. 9% said it had had a positive impact and 39% a negative impact.

However, it is not to say that businesses are not expressing concern. 70% of the private sector participants in the workshop say they have adjusted or will be updating business plans/strategy.

There is noticeable apprehension over the future potential impacts of Brexit, which can be summed up as:

- Gap in Government funding, to ensure future investment in infrastructure projects;
- Decline in visitors to Cornwall as a result of less money in the economy and people taking fewer and shorter holidays;
- Availability of workforce, as a result of lack of local skilled labour and it being more difficult to recruit from overseas;
- Increased costs (likely to be passed on to customers) as a result of impacted exchange rates.

Changes in exchange rates are noted to present a positive impact for some businesses, with one or two actively exploring new sales opportunities. However, this is largely seen as short-lived and largely insignificant.

By and large the greatest concern around Brexit relates to potential future availability of labour and difficulties in recruiting skilled staff.

There was no hard evidence of any immediate impact - negative or positive – however, some businesses are considering “what if” scenarios and as a result could well be implementing cautionary measures relating to future staffing arrangements.

Overall, businesses are largely presenting themselves as “business as usual”. Investment plans are mostly unaffected although there are exceptions with two businesses (hospitality and manufacturing) reporting that new investments are being halted. Further data provided from a survey by Cornwall Manufacturers Group concurred with the LEP survey, concluding an overall feeling of positivity and recognising that manufacturing is strong in Cornwall which will cope one way or the other.

Thus the vast majority of businesses have described their response to moving forward as being one of “wait and see”, continuing with business as usual whilst seeking to reassure staff and plan for the future in what are uncertain times.

## 2 Research Findings

### 2.1 Participants

24 businesses participated in the study, across a variety of sectors, and summarised (to preserve anonymity of participating businesses) as:

- Tourism and hospitality
- Agriculture
- Engineering and manufacturing
- Food and drink manufacturing
- Construction
- Services

All businesses were among Cornwall's largest, employing over 400 people on average.

92 people participated in the annual event workshop providing responses to the survey questions. 67% of participants were from the private sector (33% public sector).

### 2.2 Position on Brexit

Participants were asked what position, if any, their organization took on Brexit prior to the referendum and whether that position has changed since.

The majority of businesses did not adopt a formal position prior to the referendum, sometimes deliberately because the subject was considered a political issue rather than an economic one, even if the

potential impact was going to be economic. Three participants (tourism, marine, manufacturing) stated their board's position was to remain.

There is no evidence that boards have changed views in any hard way, only to take a waiting and watching brief. Given the timing of the referendum, some are only just turning attention to consider impacts following the summer season, as if everything was put on hold until after the holidays.

*"No position as such. We have not had a full meeting with senior staff present since July, due to holidays....in another two months maybe things will be clearer."*

### 2.3 Impact on Sales

Participants largely fall into one of three categories:

1. Those who consider themselves immune, essentially because their business is either local or primarily UK focused.

Four of the businesses (in food & drink manufacturing x 2, tourism, and services) fell into this category, although one expressed caution that essential government funding might be reduced if Brexit was to have a negative impact upon the economy as a whole.

2. Those potentially impacted but not detecting any movement thus far. The majority of businesses, across all sectors, reflected the "no noticeable impact so far" position.

However, many issued caveats that general economic conditions were non-standard (e.g. fewer wet days this summer benefiting tourism, commodity markets "always volatile" therefore the "Brexit decision is simply another factor affecting it", or indeed other global markets (oil prices) are having bigger impacts.

Most participants described business as usual, with some saying it was simply too early to be talking about impacts and only in the mid-term future (say, two years out) will anything actually happen.

*"No effects noticed so far; the tourist market is so busy during the summer anyway and the sunshine has more impact. This may change in the future but that's as yet unknown."*

*"Little sales impact. In the future we may be able to get more British produce into the supermarkets though we're constrained by seasons. Prices are not likely to go up much as it's tightly controlled by the supermarkets."*

*"Currently the impact is neither positive nor negative, though we need to keep our eyes open. It is premature to anticipate difficulties or to react."*

3. One business (civil engineering/construction) reported that its sales pipeline had slowed, reflecting on the long lead times for projects therefore it was possible that developers may have been holding back on decision making before the vote as well as since now the outcome is known. However, the caveat is "though other factors may be involved too".

4. Those receiving short term positive benefits (manufacturing, tourism x2, Marine), as well as anticipating future benefits, essentially as a result of a weaker pound.

*"Short term and short lived increase in overseas tourists due to the weak pound, this cannot be seen as a positive."*

*"The only slight impact so far is the drop in the pound which is a benefit to our associate companies who are selling to the EU. But the pound is not as weak as it was in 2008 and we weathered that OK. We've done it before so sure we can again."*

Just over half (52%) of the private sector participants in the LEP Annual Event workshop said they had not experienced any impact from Brexit, to date. Of the remainder, 9% have experience a positive impact and 39% a negative impact.

The Cornwall Manufacturers Group has recently run a survey of members concerning impact of Brexit (see Appendices, 3.1). Most said they had not been affected, apart from "a few signs that the value of the pound against the dollar is helping". Some reported the signs as neutral-positive impact.

*"Sales enquiries have increased from overseas customers/prospects. UK demand has not been affected."*

*"No, apart from exchange rates. Orders have increased if anything."*

*“Brexit does not appear to have affected us yet although we have remarked that export orders are up with the drop in the pound.”*

## 2.4 Export Market

As well as the revenue uplift noticed by some businesses as a result of a weaker pound, many dismiss it as being insignificant and no more than temporary, with a few nervous of a negative kickback (engineering, manufacturing, tourism).

*“We have received price increase warnings from some suppliers relating to currency fluctuations and price increases from European suppliers, however these are yet to happen.”*

*“There are signs that the exchange rate may pick up, certainly against the Euro as the Eurozone has its own problems.”*

*“There could be a secondary effect if, for example, companies currently importing [material] decide to buy in the UK because of the exchange rate. That would increase demand and potentially cause the price to increase.”*

*“In the near term our export sales are benefitting from preferential currency rates.”*

Most businesses in the study were not exporting and therefore considered any impact upon export markets as not applicable.

One FMCG manufacturer has proactively decided to respond to the opportunity of the more attractive exchange rates for exporting:

*“We have been exploring new overseas markets as the devaluing of the pound has made our products more affordable and competitive, for example, India, China, and North America. And we have had some unsolicited enquiries coming in which is interesting.”*

Brexit has had a positive impact upon one particular manufacturer participating in the Cornwall Manufacturers Group survey (see Appendices, 3.1), looking to reach global markets;

*“The vote to leave has helped with our global competitiveness due to the renormalisation of the pound’s value to where it probably should already have been vs USD/EUR. The overinflated pound had been limiting our ability to increase export prices to cover increasing costs at home (living wage, auto-enrolment etc).”*

## 2.5 Investment Plans

The majority of businesses report business as usual as far as investment plans go, with either no changes or no expectations and plans for change in ownership.

However, two businesses (hospitality and manufacturing) report new investments being halted.

*“...have halted one or two small investment opportunities. We’re waiting to get clarity on the impact, locally, nationally and internationally.”*

Further, one participant in business services reports having noticed a few businesses (clients) thinking about the possibility of moving abroad, with Ireland as a possibility, though with a footnote that this may just be kneejerk speculation.

One participant in the Cornwall Manufacturers Group survey (see Appendices, 3.1) described difficulties securing partnerships with other EU organisations on projects (where this had previously not been difficult).

## 2.6 Supply Chain

The majority of businesses report little attributable impact upon the supply chain although some are reporting modest increases in costs related to imported goods as well as services such as plant support/maintenance that is hired in from Europe, but generally participants did not raise significant concerns about the increased costs, other than seeing such rises as opportunistic. One business specifically mentioned that it will be looking to pass on cost increases to the customer.

*“...if anything, the easing of demand has meant costs have actually dropped. Most materials are sourced in the UK. We have discussed one key raw material that is in short supply in this country, that’s currently sourced in southern Ireland*

*so we’re watching prices there. We’ve not seen them rise as yet.”*

*“Consumables supply costs are not an impact as yet and only a small percentage of overall costs – perhaps just 5%.”*

*“There are some supply chain pricing issues as some raw materials are dearer. This may be outweighed over time by new markets and sales overseas but there will be a lag as prices go up almost immediately. We’re currently measuring a 5% increase in unit costs so we’ll need to look at passing on price rises.”*

Several participants in the Cornwall Manufacturers Group survey (see Appendices, 3.1) that had been affected by Brexit described impacts as a result of Sterling weakened against the Euro impacting cost of raw materials. However, some recognized global price movements as also have impact and not necessarily a direct impact of Brexit.

*“Yes, our most expensive components are imported so we’ve seen significant price increases. We have also seen one of our major suppliers start to suffer badly with cancelled orders from Germany with a very shaky long term outlook as a result. The weaker pound is a positive but with no significant impact yet.”*

*“Yes on import prices for raw materials from Europe (exchange rate effect), but not on consumables so far.”*

*“Yes. Mainly as a result of increased prices of items purchased from Europe as a result of the exchange rate re-balancing.”*

*“Yes, we are seeing supply chain material and parts costs rising where sourced from the EU. Predominantly due to exchange rate, however we expect to see a rise in manufacture costs due to steel prices rising, which isn't directly impacted by Brexit.”*

*“Yes, suppliers intend to increase in October if GBP doesn't recover. (5-9%)”*

## 2.7 Workforce and Recruitment

Whilst there was no hard evidence of any immediate impact (negative or positive), the greatest concerns emerging through the study related to potential negative impacts on the future availability of labour and difficulties in recruiting skilled staff. Some expressed that the labour market was already difficult enough, let alone what may happen in the future as a result of Brexit. For example, one tourism sector business expressed trepidation around being able to hold staff over for the winter season (whereas they have previously) with lots of uncertainty expressed by others over future employment of EU nationals. Another in agriculture was especially concerned about future access to Eastern European labour upon which they currently depend. However, although the work is seasonal and most workers return home at the end of the season, most feel that Britain can't manage without them so the expectation is that a solution will be found.

*“The main impact could be on recruitment of staff. Currently most are from Eastern European countries; if freedom of movement is restricted then that could be an issue.”*

*“The BIG concern is staff – they are all Eastern European, and we cannot get them elsewhere....we pay the living wage so the staff who are motivated and work well in teams earn very well – it's not a low paid job. It's usually three months at a time which is fine for the Eastern EU staff as they earn so much more than in their home countries – then they can go home and work at their local rates for the rest of the year. It's the one reason why local people in Cornwall don't want these jobs, because of the short term nature. I'm trying to reassure staff – a few have gone home but most feel that the UK can't do without them so a solution will be found.”*

*“Staffing is likely to be the biggest issue. We already have staff shortages....even with easy recruitment from the EU. So that means the EU staff are not displacing local staff and so this could be an issue next spring. Many of our staff are seasonal so if they feel they are not welcome, or that other opportunities in Europe are more attractive, then that could reduce the staff available.”*

*“...skills are always hard to find, especially in Cornwall, such as civil engineers. We have to attract them from other areas or develop internally using apprenticeships and graduate schemes – we do both.”*

*“There’s already a labour shortage, with many vacancies across the group. If recruiting from the EU becomes more difficult then this will reduce the pool of labour. We need skilled staff, nurses, etc.”*

There are also a number of indirect concerns around workforce, as a result of losing skills and scalable capacity through a downturn in markets.

*“We keep a core casual workforce who are taken on and let go as work comes in and is completed. The danger is the risk of losing skilled people as there is a restricted skills set here in Cornwall.”*

*“Currently the UK comes at 2<sup>nd</sup> or 3<sup>rd</sup> most attractive to tourists within the EU, but only 16<sup>th</sup>-18<sup>th</sup> on quality of welcome. This perception will now drop even lower. All this means fewer visitors...lower turnover therefore fewer staff employed.”*

Whilst for others there are no direct or indirect impacts expected, some EU nationals employed within those businesses are worried.

*“No impact on recruitment as yet. We employ a lot of EU national and we have put out statements to staff repeating our commitment to supporting them and that we will try our best to make sure their status is not affected. Naturally some people are worried.”*

## 2.8 Expectation of Future Impacts

As expressed through other sections above, there is an amount of apprehension over the future potential impacts of Brexit, summed up as:

- Gap in Government funding, to ensure future investment in infrastructure projects;
- Decline in visitors to Cornwall as a result of less money in the economy and people taking fewer and shorter holidays;
- Availability of workforce, as a result of lack of local skilled labour and it being more difficult to recruit from overseas;
- Increased costs (likely to be passed on to customers) as a result of impacted exchange rates.

*“Our main concern for the future is funding for future projects. Will the Government fill the gap left behind when EU funding ends? This is the biggest uncertainty in Cornwall and would have the biggest impact on our business.”*

*“Our best hope is for the pound to stay relatively cheap to attract business.”*

*“It’s too early to say. There is some anecdotal evidence from some of the German tour guides that some tours are being cancelled for next summer, but I can’t see that will have much effect, even if it does happen.”*

*“The long term impact is more uncertain and unpredictable. We remain open and vigilant to any risks.”*

*"We have a number of Europeans working for the company and we foresee some additional requirements for them. In terms of trading, exports would remain strong as the UK and EU continues to not be a prime market for us at present. However, import of goods and services could see an increase in cost, dependent on how free circulation of goods is negotiated... or not."*

*"Investment has slowed, so we're looking at price rises. In the longer term there's some concern about the labour market. On the positive side, possibly greater opportunities in export markets."*

*"We will survive as people take more holidays at home but the impact could be terrible overall for other people and businesses."*

## 2.9 Overall Response to Brexit

The vast majority of businesses participating in the study described their response to Brexit as being "wait and see", continuing with business as usual whilst seeking to reassure staff and plan for the future in what are uncertain times. One or two others, however, are trying to anticipate what Brexit means and therefore how to respond.

*"Overall it's business as usual. Would rather it wasn't happening, the uncertainty, but other matters - for example, IT - have more impact."*

*"Wait and see – we're not expecting a great impact."*

*"We have two plans: one for a 'soft Brexit' or for an actual reversal of the decision; and one for the worst, the 'hard Brexit' situation."*

*"Steady as she goes, and keep reviewing. Brexit is there in the background but not that big an impact at the moment. And it probably won't be in the medium term either unless there is a recession."*

*"Overall the current company response is to be a spectator, watching until things become clear and the economic implications start to emerge."*

*"Business as usual, which means watching and waiting."*

A similar picture has emerged from the Cornwall Manufacturers Group Survey (see Appendices, 3.1), with the majority expressing they will carry on as usual, albeit with a measure of caution.

*"We are pressing on with our existing plans."*

*"We are looking for internal stability and have aimed for business as usual. Therefore we have stuck with our short and long-term plans which were already looking outside of the EU. We are trying to monitor things and be ready to maneuver quickly if required."*

*“It’s too early to assess and act on the impact. It would be foolish to try and predict what could happen. We remain flexible and alert so that we are able to react should the need arise.”*

70% of the private sector participants in the LEP Annual Event workshop said they had already adjusted or would be updating business plans/strategy as a result of Brexit, or 84% (21 of 25) of those which have experienced an impact versus 57% (16 of 28) of those who have not. (See Appendices, 3.1)

## 3 Appendices

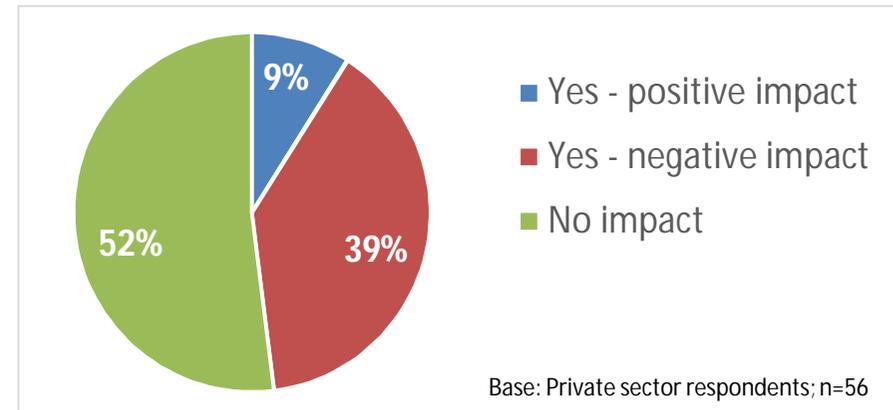
### 3.1 LEP Workshop – Brexit Questions

The LEP held its annual event on 22<sup>nd</sup> September 2016 at the Eden Project. Following introductions and keynote addresses from the LEP board as during the first part of the event, the second part of the event consisted of a workshop among over 90 participants.

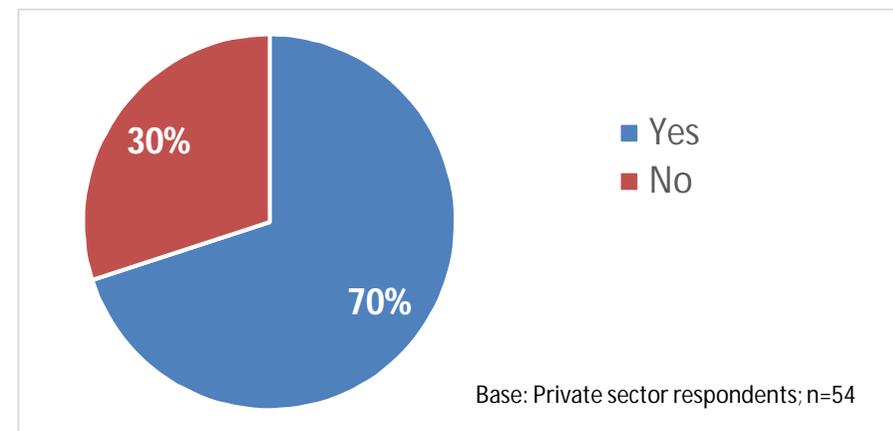
The event worked through a number of key topics in turn. Each table of 8-10 participants discussed the issues around each topic before each participant voted their preferred response using a remote Qwizdom voting terminal.

The results of the overall workshop are the subject of a separate report, however two questions were included on the subject of Brexit. 81 and 83 participants responded accordingly – the data below present the data from private sector participants.

**1) Has your business already been directly impacted as a result of Brexit?**

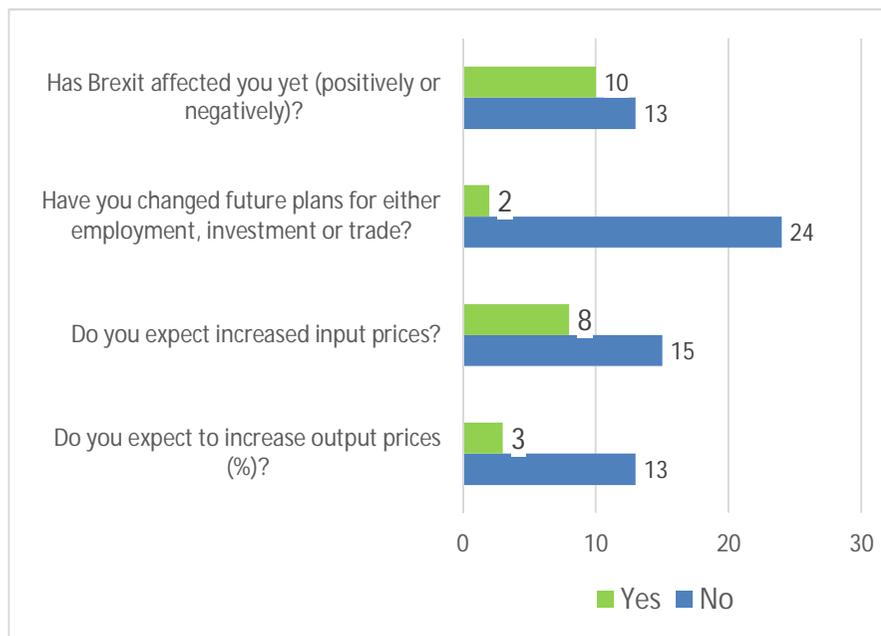


**2) Have you already adjusted or will you be updating business plans / strategy as a result of Brexit?**



### 3.2 Cornwall Manufacturers Group Survey

We are grateful to the Cornwall Manufacturers Group which has shared the following data and comments from its September 2016 Brexit Impact Survey. 26 businesses responded to the survey.



Some comments from the Cornwall Manufacturers Group survey have been included within the report above. Full data with verbatim comments may be requested from the Cornwall Manufacturers Group directly.

### 3.3 PFA Research Contacts

Robert Rush – Managing Director

T: 07710 332614 | E: robert.rush@pfa-research.com

Beate Galke – Project Manager

T: 07747 815756 | E: beate.galke@pfa-research.com

PFA Research Ltd

Tremough Innovation Centre,  
Penryn, Cornwall, TR10 9TA

T: 01326 375705

E: info@pfa-research.com

[pfa-research.com](http://pfa-research.com)

Registered in England No. 2638871 | VAT No. 688 400 428

Registered Office Address: c/o Bennett Jones & Co, Unit 22, Callywith Gate Industrial Estate, Launceston Road, Bodmin, Cornwall, PL31 2RQ

