

Briefing Note to the Overview and Scrutiny Management Committee
6th December 2021

Brexit Related Issues

Briefing Paper of the Director of Regeneration

1. Purpose of the Briefing Paper and Summary

- 1.1 This briefing paper follows previous discussions at OSMC, when it was agreed that a regular update on key Brexit issues would be presented.

2. Introduction

- 2.1 This update provides further information on a range of Brexit and economy related issues, including relevant Autumn Budget announcements, import/export issues, supply chain issues, labour shortages and local trading/intelligence.

3. Autumn Budget/Spending Review 2021

- 3.1 There were a number of budget announcements relating to trading overseas. The UK's tonnage tax regime is to be reformed from April 2022 to help the UK shipping industry grow and compete more effectively in the global market. The reform is intended to make it easier for shipping companies to move to the UK, ensuring they are not disadvantaged compared to firms operating from other countries. Reforms are also being introduced to reduce unnecessary administrative burdens.
- 3.2 Freeports were announced in 2020 and following a competitive process, various sites in and around the Humber ports were agreed as one of the eight approved locations. In the budget an amendment was introduced, adding a VAT exit charge in order to avoid an unintended tax advantage from the zero rate in the free zone model. Regarding the Humber Freeport, a full business case is being prepared for the end of January and the two tax sites have now been confirmed at East Hull and Able Marine Energy Park.
- 3.3 A 20% increase in budget for the UK Export Finance scheme was also announced. UKEF exists to support UK exporters, ensuring that appropriate finance and insurance are available for viable UK exports. In 2020/21 £12.3Bn was provided to UK businesses through this initiative.

4. Import/export issues.

- 4.1 There continue to be concerns that exporting to Europe is becoming uneconomic for a number of businesses. Import duties into the EU and paperwork have

impacted the level of exports with Europe. A recent Dispatches programme for Channel 4 “Did Brexit Work for Businesses” which is still available to view on the All4 app, highlighted a number of experiences from businesses that have largely seen a negative impact from Brexit. It was stated that in January 2021 UK exports were down 40% and imports by 30%. As previously stated, the pandemic has also had an effect and it is difficult to disentangle the effects of Brexit from the pandemic, although trade with the rest of the world has not been so detrimentally impacted. By August these figures had recovered some lost ground, as new processes and systems bedded in, with average reductions over the Jan-June period of 13.1% for exports and 24.8% for imports. Many UK exporters have had to either fully or partially absorb increased costs of exporting to the EU, or if unable to do so, increase prices which inevitably affects demand. A gin producer was highlighted – pre-Brexit they supplied the German market with a bottle of gin costing £35 plus postage. With the introduction of alcohol duties and VAT, that price has increased to £65 and consequently sales to Germany have stopped. A toy importer was also highlighted – toys are imported, largely from China and then distributed across various EU countries. Whilst previously there was no VAT charged on such goods moving from China to the UK or the UK to the EU, in the post Brexit world with the goods not being produced in the UK, there is now a tariff for sales into the EU. It was stated that new tariffs are affecting @25% of all UK exported products to the EU, amounting to several £billion of extra cost to date.

4.4 Paperwork issues continue to ease, but it is claimed, delays in movement of goods has led to hauliers increasing their charges to compensate.

4.5 In an IOD survey of 635 exporting members on behalf of Dispatches covering the January to October period showed the following:

- one third stated that sales remained the same
- 17% had seen an increase in sales
- 47% were doing less trade or had stopped trading with the EU completely.

4.6 A report from the National Audit Office (5th November 2021) looking at the UK Border: Post UK-EU transition period made a number of observations. It acknowledged that new operating systems had been successfully implemented by the end of the transition period but that more work was required to bring in import border controls, reduce the burden on traders and resolve the Northern Ireland issue. The report can be found under the publications tab on the NAO website <https://www.nao.org.uk/>

4.7 There continue to be some supply chain issues, partly attributed to the shortage of drivers which is being tackled with a number of initiatives previously outlined (short term visas, simplifying testing, widening HGV apprenticeship schemes and the introduction of ‘golden hello’ incentives to take/switch positions).

5. Energy costs

5.1 As highlighted previously the rapid increases in energy costs is a further continuing concern for many businesses. Although the costs have fallen from the highs of 4-6 weeks ago, wholesale gas prices, for example, remain around four times higher than more normal levels.

6. Labour shortages

6.1 Besides the driver shortage, a number of other sectors continue to face severe staff shortages, with high vacancy levels becoming the norm. The hospitality sector is one such sector and with the busy Xmas period fast approaching there is concern that staff shortages will impact, businesses ability to adequately serve customers, opening times and in some cases on offering certain services at all. There are also high staff shortages across much of retail, the care sector and production. Recent employment figures point to a strong bounceback in employment levels and highlight the shortage issues. Average wage growth has also been increasing quite rapidly, exacerbated in some cases by staff shortages and this places a further strain on employers.

6.2 There remains a cohort of people who are not accessing training and employment, through the work of the Employment Hub, Youth Hub and links with DWP we are focussed on supporting this group to access employment opportunities.

7. Summary

7.1 This paper outlines a number of business trading issues, most are attributable to a variety of external factors, to a lesser or greater extent, including Brexit.

7.2 Regular update papers will continue to be provided as required by Scrutiny.

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Officer Interests: None

Background Documents:
None