

EU referendum planning



“Should the United Kingdom **remain** a member of the European Union or **leave** the European Union?”

Background

The UK's EU referendum will take place on Thursday 23rd June.

Over the last 40 years UK voters have, on average, been in favour of EU membership, albeit by a fairly narrow margin and with wide fluctuations. Over the last year the opinion polls show a marked narrowing of the pro-EU lead, partly in response to the migration crisis. Across four polls carried out over January and the first week of February, the stay vote averaged 44% and the leave 40%, with 16% undecided.

What is clear is that Brexit is a high-impact event with a non-trivial probability of materialising. The issues involved, particularly post-Brexit legal, regulatory and trading arrangements, are complex and uncertain. Inevitably given the historic importance of the issues, much of the debate around Brexit is partisan and/or speculative.

This paper is designed to help you in planning and preparing for such uncertainties.

Phases

There are likely to be three distinct phases of this process:

1. The referendum campaign up to the vote on 23rd June
2. If the vote were to be to leave the EU, the period, formally set at two years, during which the UK would negotiate with the EU and the rest of the world. During this phase existing EU arrangements would continue to operate
3. The new, post-EU business framework that would emerge, possibly piecemeal, over a number of years

Considerations

Given the uncertainties about the outcome of the referendum and the post-EU environment, there is a premium on measures which are proportionate, low cost and put organisations in the best position to manage the uncertainties and maximise opportunities.

The key considerations now are:

- **Planning:** conduct an impact assessment and identify which issues or opportunities need addressing now and which can wait
- **Reporting:** ensure that, where material risks are identified, they are addressed in financial reporting
- **Positioning:** decide whether to take a public 'campaigning position', and if so what lines should be taken.

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A structured approach

Our framework is based on previous experience of helping clients prepare for headline challenges such as the Eurozone crisis and Scottish Independence. It provides a structured approach to considering the impacts on business investments and operations and make appropriate plans if the UK were to have looser ties with the EU.

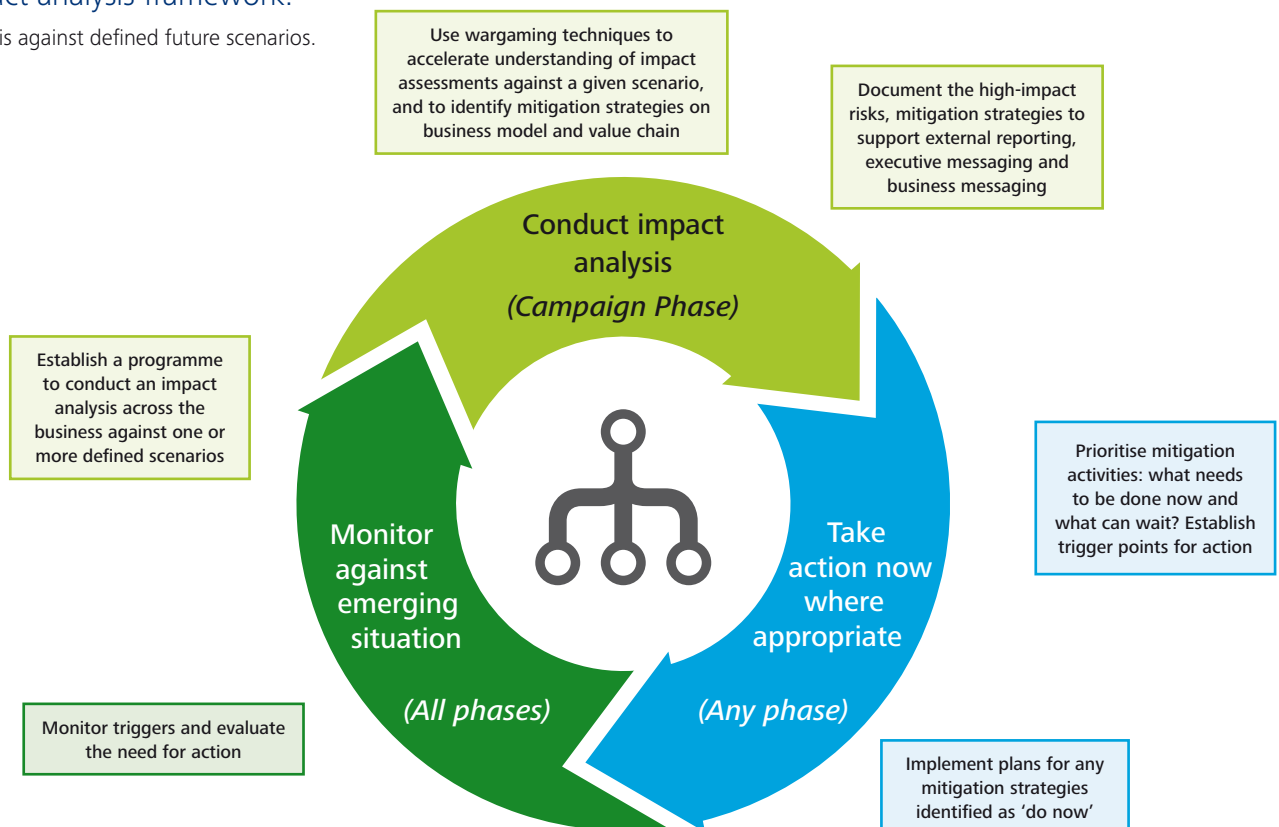


Exposures and Opportunities



Impact analysis framework.

Analysis against defined future scenarios.



Impact analysis: Assess exposure to EU and potential impact of Brexit

Key themes	Key questions to consider
 <p>Britain's influence</p>	<ul style="list-style-type: none"> • What are the potential long-term up/downsides of the renegotiation and/or possible 'Brexit'? • Is my industry/national position represented by think tanks or other groups in Brussels and how should we deal with any change in this situation? • Would further devolution or Scottish Independence as a result of a Brexit create additional impacts or opportunities?
 <p>Economics</p>	<ul style="list-style-type: none"> • How much of my business is from EU/Eurozone markets? • Do we receive EU funding; how might that be impacted – and impact us? • What impact would uncertainty and change have on growth rates?
 <p>Strategy & Operations</p>	<ul style="list-style-type: none"> • How will my operational footprint and future strategy be impacted? • How will my supply chain be impacted (in terms of both the EU and what are currently third countries)? • What opportunities are likely to exist and how should we prepare for these?
 <p>Tax & Legal</p>	<ul style="list-style-type: none"> • What legislation continues to apply and what falls away in the event of a Brexit? • How might changes to international trading agreements affect us? • Will international tariffs and duties change? • What will be the impact on business systems and processes for tax reporting?
 <p>Regulation</p>	<ul style="list-style-type: none"> • What have been the effects of regulatory decisions made in Brussels? • In the event of Brexit would the UK's regulatory framework for my industry change? Would the Government push a deregulatory strategy in my industry?
 <p>Talent</p>	<ul style="list-style-type: none"> • If changes are made to freedom of movement within the EU, how will this impact my business (both current and future strategy)? • What about my company's ability to attract/retain the best talent from within the EU or to deploy UK citizens within the EU?
 <p>Communicatons</p>	<ul style="list-style-type: none"> • What should our communication lines be internally and externally? • Will these communications be affected by regulation during the referendum period? • If so, do we need to put compliance processes in place?

One of the key considerations will be which issues to focus time and effort on now, ahead of the referendum. Organisations may wish to identify activities or investments (current and future) which could be affected by market volatility, scarcity or demand or supply-side changes in the lead-up to or immediately following the referendum.

How we can help

Deloitte can help you understand and prepare for the uncertainty in light of the referendum. We bring deep experience in contingency planning for uncertain events and specifically in supporting clients through planning and preparations for Grexit and Scottish Independence, as well as specialist subject matter and industry sector expertise.

Our approach is designed to help you achieve the right balance between what you should do now and waiting until there is more clarity on the eventual outcome. It will also provide the analysis necessary to take a public stance if desired, support external reporting of potential risks and in preparation for analyst briefings.

Doing nothing may leave you vulnerable if your stakeholders ask questions or your activities are sensitive to changes in market rates, demand or supply changes in the lead up to or immediate aftermath of the referendum.

Structured Approach

We can work with you to conduct a broad impact analysis against one or more defined scenarios:

- Programme/task-force management office
- Scenario definition, impact assessment, trigger point definition
- Prioritisation ('do now'/'wait till later')
- Action based planning against trigger points

Specialist Expertise

Deloitte has a wealth of subject matter experts who are able to provide advice or input on specific issues as part of your overall programme or task-force. These include:

- Finance and Treasury
- Tax Policy and Best Practice
- Technology
- Operations and supply
- Regulatory Policy
- Industry and sector specific issues

Information Briefings

Sign-up to receive Ian Stewart's Monday Morning Briefing, at www.deloitte.co.uk/mondaybriefing, which includes a dedicated Brexit news section and information on the latest polling data.

On request we can provide specific or regular information briefings covering the facts, economics and sentiment (pre and post referendum), summarising key information from:

- Poll data and other relevant statistics
- Political statements
- Relevant media analysis
- Economic analysis

Appendix 1: Exit Scenarios

UK's range of options inside and outside the European Union

There is no template for Brexit. The scenarios following a vote to leave the EU would be decided during a two-year Negotiation Phase, with many uncertainties as to how this phase would progress. The outcomes below are an illustrative guide to the most talked about alternatives to EU membership. Working through potential outcomes will support **contingency planning** and prepare management for **effective response**.

		Possible scenarios and current members				
		EU Member 28 European member nations	European Economic Area Norway, Lichtenstein, Iceland	Free Trade Agreements (EFTA) e.g., Switzerland	Most Favoured Nation e.g. Australia	
Current EU obligations	Free movement of goods, people, services and capital	✓	✓	✓ Some conditions apply to Swiss migration	✗	
	Free to negotiate trade deals and set tariff levels with non-EU countries	✗	✓	✓	✓	
	EU laws and regulations	Influence	✓	— Slight/Indirect	✗	✗
		Compliance	✓	✓	✓ but some opt-outs	✗
	Fiscal contributions	✓	✓ (e.g. Norway pays 83% of full rates)	✓ (e.g. Switzerland pays 40% of full rates)	✗	
	Common Agricultural Policy	✓	✗	✗	✗	

Looser ties with Europe

Appendix 2: Key reading

These are some of the sources that we have consulted while researching this topic. We have found them useful in illuminating some of the key issues in the debate. The range of views held by the authors also serves to illustrate the uncertainties that surround many of these key issues.

Bibliography

This House of Commons Library briefing provides an objective – and relatively concise – discussion of the main legal aspects of withdrawal and the possible alternatives to EU membership (138 pages).

Exiting the EU: UK reform proposals, legal impact and alternatives to membership, House of Commons Library
<http://researchbriefings.files.parliament.uk/documents/CBP-7213/CBP-7213.pdf>

Also from the House of Commons Library, this briefing provides a more detailed assessment of the withdrawal process, as well as a very useful outline of the potential impact of an EU-exit in different policy areas (137 pages).

Leaving the EU, House of Commons Library
<http://researchbriefings.files.parliament.uk/documents/RP13-42/RP13-42.pdf>

This study by Dr Rebecca Driver examines the economic benefits that accrue from the UK's membership of the EU, and argues that membership is essential for the UK's economic success (98 pages).

Analysing the Case for EU Membership: How Does the Economic Evidence Stack Up?, TheCityUK
<https://www.thecityuk.com/research/analysing-the-case-for-eu-membership-does-the-economic-evidence-stack-up/>

This Confederation of British Industry (CBI) analysis take a look at the most discussed alternatives to UK EU membership, before concluding that no credible alternatives currently exist and that "half-way house models such as Norway and Switzerland are not the answer." (15 pages)

Doing things by halves? Alternatives to UK EU membership: Lessons from Switzerland and Norway, CBI
http://www.cbi.org.uk/media/2133649/doing_things_by_halves_-_lessons_from_switzerland_and_norway_cbi_report_july_2013.pdf

The CSFI survey, published in April 2015, gives an indication of the City's position on Europe and where their main concerns lie (29 pages).

The City and Brexit: A CSFI survey of the financial services sector's views on Britain and the EU
<http://static1.squarespace.com/static/54d620fce4b049bf4cd5be9b/t/5536a1e8e4b0eb6a74abaf16/1429643752526/CSFI+The+City+and+Brexit.pdf>

In this comprehensive analysis, the authors identify six stages of "staged separation and recovery" following a vote to leave the EU, and then present a vision for the UK's long-term development outside Europe (420 pages).

Flexcit: The Market Solution to Leaving the EU, Dr Richard A E North and Robert Oulds
<http://www.eureferendum.com/documents/flexcit.pdf>

Iain Mansfield's paper won the Institute of Economic Affairs' (IEA) 2014 'Brexit Prize' and provides a vision for how the UK may be able to prosper outside the EU (67 pages).

A Blueprint for Britain: Openness not Isolation, Iain Mansfield
http://www.iea.org.uk/sites/default/files/publications/files/Brexit%20Entry%20170_final_bio_web.pdf

A finalist for the IEA's 2014 Brexit Prize, Daniel Pycock presents a detailed analysis of how an EU-exit could work practically, and why he thinks such a process could work in the UK's favour (58 pages).

The plan to leave the European Union by 2020, Daniel C. Pycock
http://www.iea.org.uk/sites/default/files/publications/files/Pycock%20BREXIT%20entry_web_0.pdf

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