

Scenario planner – Impact of ‘Brexit’

The people of the UK have taken the decision to leave the European Union. What happens next – and the implications for businesses and organisations in the UK – is less clear.

There will be a wide range of dynamic factors at play over the coming months and years that will affect the impact on your organisation. Grant Thornton has produced a prediction of how these could pan out. This is a provocative scenario to help business planning; it should be noted that the reality may be very different.

	First 100 days	2 years	Long term								
Economic	<p>Initial shock?</p> <ul style="list-style-type: none"> Market volatility Fall in London listings Sterling falls? Analysis from HSBC suggests that the pound would drop by about 15-20% against the dollar. link 	<p>Instability and uncertainty?</p> <ul style="list-style-type: none"> The UK continues to have access to the single market and is treated as a full member during the negotiation period Investment decisions may be delayed until there is greater clarity over the UK's future trading relationships IMF estimates increased inflation and fall in consumer spending 	<p>Gradual transition?</p> <p>The long-term economic consequences are disputed, though the majority predict a negative long-term impact. Forecasts include:</p> <table border="1"> <thead> <tr> <th>Org.</th> <th>Effect of GDP, 2030</th> </tr> </thead> <tbody> <tr> <td>Open Europe</td> <td>-2.60 to +1.55</td> </tr> <tr> <td>LSE</td> <td>-2.60 to -1.30</td> </tr> <tr> <td>Oxford Economics</td> <td>-0.39 to -0.10</td> </tr> </tbody> </table>	Org.	Effect of GDP, 2030	Open Europe	-2.60 to +1.55	LSE	-2.60 to -1.30	Oxford Economics	-0.39 to -0.10
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Business behaviours	<p>Dealing with uncertainty</p> <ul style="list-style-type: none"> Investment decisions delayed Some immediate disinvestment 	<p>Period of business transition?</p> <p>Some decisions still delayed; other businesses may take decisions within first 6-12 months (not wait for political / legal settlement)</p>	<p>New business models embedded?</p> <p>With our new relationship taking shape businesses have adapted to the new environment</p>								
Political	<p>Instability</p> <p>Government likely to trigger Article 50 quickly – David Cameron:</p> <p><i>“If the British people vote to leave, there is only one way to bring that about, namely to trigger Article 50 of the Treaties and begin the process of exit, and the British people would rightly expect that to start straight away”</i></p> <ul style="list-style-type: none"> Leadership in government and Opposition will be wounded, potentially challenged The majority of MPs are pro-EU and there is no clear plan for parliament to negotiate Brexit 	<p>Continued instability</p> <p>Domestic uncertainty:</p> <ul style="list-style-type: none"> Leadership may change, divisions in the parties may increase and government may struggle to command its parliamentary majority – possible election? <p>Constitutional issues:</p> <ul style="list-style-type: none"> Scotland may push for independence Northern Ireland: Good Friday agreement stretched as dependent on open border with Republic of Ireland <p>International uncertainty:</p> <ul style="list-style-type: none"> Elections in: US (November 2016), France (spring 2017), Germany (Sept 2017), Poland (2019) 	<p>Realignment for 2020 elections?</p> <p>Realignment and clarity:</p> <ul style="list-style-type: none"> New leadership in main parties by 2020 and agreement on their post-EU policies Either majority government or hung Parliament 2020 								
Legal & regulatory	<p>No change</p> <p>Government notifies EU of intention to leave, triggering Article 50. There is now two years to negotiate exit from the EU</p>	<p>All change ●.....→</p> <ul style="list-style-type: none"> Direct regulations fall away after 2 years (eg financial services) Comprehensive review of UK law will be required. Parliament to agree new legal and regulatory framework 	<p>Continued transition period</p> <p>2 years unlikely to be enough to agree new UK legislation – especially with no political consensus and slim parliamentary majority</p>								
Market access	<p>No change</p> <p>As with legal and regulatory, market access remains the same during the negotiation period</p>	<p>Continued access</p> <ul style="list-style-type: none"> Access to the Single Market and 3rd country EU trade agreements continue during renegotiation. (This access is terminated on leaving the EU) Finalising a trade relationship with the EU is separate from Article 50 exit negotiations New deals with the EU and 3rd countries will need to be agreed 	<p>New relationships?</p> <ul style="list-style-type: none"> On-going trade negotiations. Government hampered by lack of skilled trade negotiators? Focus / deals likely to be on goods – services may be slower; movement of people may be more limited 								

Assessing the impact and developing plans

The impact of this will be different for every organisation. In looking at the threats and opportunities these create for your business, and planning how you can create and protect value, you may wish to consider issues such as:

People & talent

- If you have employees of EU or non-EU origin, consider what to communicate to them and what reassurance you can give.
- Review employment contracts and take steps to protect your non-UK talent.
- Plan for longer term impact on talent recruitment, development and pensions.

Strategic Ambitions

- Consider what to communicate to stakeholders.
- Review M&A transactions and assess longer term opportunities for organic growth, JVs and acquisitions.
- Identify transitional and longer term markets and commercial opportunities.

Finance Growth

- Consider what to communicate to investors.
- Identify opportunities and risks around refinancing and sources of capital.
- Assess future funding requirements and opportunities.

Master Risk

- Which customers or suppliers might be affected by short term volatility?
- Assess impact on business risks including issues such as working capital management and financial reporting.
- Assess longer term plans for tax structure, pension structures and strategies for mitigating fraud, bribery and corruption.

Optimise Operations

- Assess the impact on processes and control and identify exposure to interest rate and exchange rate fluctuation.
- Review operational effectiveness and efficiency including back office and manufacturing/cost base.
- Identify opportunities for developing supply chain value.