Assessing the impact of Brexit on your public sector entity

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The people of the UK have voted to leave the EU. What happens next and the implications for the UK's public sector and its suppliers is unclear.

In the face of volatility and uncertainty, it is important to stay calm, review contingency plans and assess the possible implications for your public sector entity and the risks and opportunities this creates. But it may be that too much is unknown for you to make the biggest decisions.

The UK will first have to negotiate its exit terms with the EU's remaining 27 member states, which might take until 2018/2019. Separately, the UK will want to negotiate its future trading relationship with the EU. The EU will likely also undergo significant change in the coming months and years.

At Grant Thornton we see our role as helping you navigate and shape this environment. Our international advisers are well placed to help you achieve your ambitions and we have set out some considerations in this viewpoint. We will be sharing further insights over the coming months as the UK's path to exit from the EU and its implications for the public sector become clearer.

Scott King
Global leader of public sector
Grant Thornton

Assessing the impact

The public sector, and in particular, the UK's National Health Service (NHS) was at the heart of the campaigns that took place ahead of the referendum. At the centre of the debate was how any savings from the UK's EU contribution could be spent.

However, despite the current uncertainty, one thing is known – the financing of public services over the medium term is inextricably linked to the strength of the British economy. Since Brexit was announced, the UK government has abandoned its target to restore government finances to a surplus by 2020. It says the referendum result is expected to produce a significant negative economic shock to the UK economy. Despite this, Grant Thornton remains committed to stimulating ideas and actions that can create a vibrant economy – one which realises the shared potential of businesses, cities, people and communities across the UK.

In a post Brexit world, the following five factors are more than ever under the microscope:

Government policy

Many of the UK's policies (eg renewable energy, environmental issues and social determinants of health – such as the working time directive) have been largely driven by EU legislation. It is unlikely that existing policies will be reversed, but the future direction may well be different and there could be a reduced desire to push forward with new EU-driven activity, such as the circular energy policy.

EU funding has been crucial to many regeneration and infrastructure projects in the UK. This funding has been allocated using a Europe-wide assessment process but future UK governments may have different priorities.

Many commentators have noted that there appeared to be a protest element to many votes to leave the EU. The debate highlighted public distrust in political institutions and a frustration at how the benefits of economic growth in the UK are distributed. We therefore expect there to be a move away from centralised expenditure and that the calls for greater devolution will continue. However, the Brexit negotiations could be long and complex and we expect these to slow public sector reform in the UK.

Looking ahead, disentangling EU legislation from UK legislation could be a long and complex process, should the UK exit terms require it. Some existing case law may no longer be relevant.

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Access to funding

EU funding between 2007 and 2013 was €10.6 billion and the planned investment between 2014 and 2020 was a further €11.8 billion. It is unclear how this will be replaced and existing programmes may need to be unwound, with new funding sources identified in order to sustain them.

The EU has been a regular source of funding for UK local authorities and it has allowed them to fund projects that they may otherwise have been unable to deliver.

The UK's credit rating has been cut as a reaction to the referendum result and this can affect how much it costs governments to borrow money in the international financial markets. The long term costs of borrowing for the UK are uncertain in a currently volatile market but there is a possibility they could increase. The public sector could delay decisions on large projects until the full impact of Brexit is known. The longer term impact is expected to be a lowering of investment in the UK.

Overseas aid

The UK's overseas development budget may fall under scrutiny in an environment where the UK appears more insular. This could affect jointly funded overseas projects.

The uncertainty caused by the referendum result may add to other headwinds facing the global economy, which, in turn, could impair funding available to international aid agencies and development institutions.

Impact on international institutions

Many UK votes to leave were cast by way of protest. In part, this was because many voters had not felt the economic benefits of globalisation. Other votes demonstrated distrust in politicians, business leaders and institutions. In this manner, the referendum result is evidence of a phenomenon which is visible elsewhere in Europe, in Africa and in parts of Asia, Australia and the US. This has important implications for the likes of the EU, the World Bank and the IMF. Without this trust, a broad public mandate to operate on behalf of citizens is undermined, and their influence for public benefit falls away.

Access to talent

Delivery of the UK care system, both in the NHS and in social care, is dependent on staff from overseas. The current shortage of staff at every level could be even more acute if there are restrictions on people coming from the EU to work in the UK, or if working in the UK becomes a less attractive option for those staff. This could put an upward pressure on costs at a time when funding becomes uncertain.

Considerations

To keep moving forward in the post-Brexit environment, while it may be too early to make the big decisions, public sector entities must anticipate the changes it will bring and adapt to meet them. In looking at the threats and opportunities that Brexit poses for your entity, and in planning how you can create and protect services, you should:

People and talent

Short term:
- Consider what to communicate to them and what reassurance you can give
- Assess the impact of exchange rate fluctuation on global talent.

Medium term:
- Review employment contracts and take steps to protect your non-UK talent working in your UK operations
- Assess impact on any outsourcing or teams in other EU jurisdictions.

Long term:
- Plan for long-term impact on talent recruitment, development and pensions.

Strategic ambitions

Short term:
- Consider what to communicate to stakeholders
- Review existing strategy and immediate impacts.

Medium term:
- Keep stakeholders engaged
- Keep strategy under review as implications of Brexit emerge.

Long term:
- Assess opportunities and update strategy.

Finance growth

Short term:
- Assess the impact on any immediate refinancing.

Medium term:
- Review the impact on sources of capital
- Assess the opportunities and risks around re-financing

Long term:
- Assess the funding requirements for future strategy.

Master risk

Short term:
- Consider which customers or suppliers might be affected by short-term volatility
- Review risks and opportunities across the organisation.

Medium term:
- Assess the impact on operating risks including issues such as working capital management and financial reporting
- Assess the impact on existing legal contracts and mandates, and cross border data management and residency
- Identify what legal documentation will need to be changed.

Long term:
- Review your strategies for mitigating fraud, bribery and corruption risks.

Optimise operations

Short term:
- Identify your current and future exposure to interest rate and foreign currency exchange rate fluctuation.

Medium term:
- Assess the impact on processes and control
- Future regulatory compliance
  - Identify which regulations critically impact your entity
  - Consider the likely timescale for any changes in these entity critical regulations.

Long term:
- Identify opportunities for developing supply chain value in different trading relationships.

Contact us

As you face a more uncertain and volatile environment we can help you work through the issues and develop and action the best plans for you.

Grant Thornton International

Scott King, global lead	+1 210 881 1802	scott.king2@us.gt.com
Jason Levergood, global support	+1 703 637 3006	jason.levergood@gti.gt.com

Global leadership team

Africa

Gillian Saunders	+27 11 322 4572	gillian.saunders@za.gt.com

Americas

Marco Perron	+1 613 760 3535	perron.marco@rcgt.com
Alejandro Chiappe	+54 11 4105 0079	alejandro.chiappe@ar.gt.com

Asia Pacific

Vikesh Mehta	+91 11 4278 7070	vikesh.mehta@in.gt.com
Scott Hartley	+61 3 8663 6143	scott.hartley@au.gt.com

CIS

Gurgen Hakobyan	+374 10 260 964	gurgen.hakobyan@am.gt.com

Europe

Helene Baron-Baul	+33 1 56 21 04 41	helene.baron-bual@fr.gt.com
Panagiotis Christopoulos	+30 210 7280 000	panagiotis.christopoulos@gr.gt.com
Sarah Howard	+44 161 953 6370	sarah.howard@uk.gt.com
Will McWilliams	+44 20 7728 2129	william.mcwilliams@uk.gt.com

Visit grantthornton.global for more information.