

CONSULTING EXCELLENCE AFTER BREXIT

New Economy 2020 and Beyond

Discussion document



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INTRODUCTION

As part of its Consulting Excellence After Brexit Action Plan, the MCA has committed to develop a vision for the UK's economic future. This vision, entitled New Economy 2020 and Beyond, will inform our dealings with those charged with forging a new economic settlement for the UK outside the EU, from politicians leading the Brexit negotiations to Britain's business leaders coping with the commercial implications.

New Economy 2020 and Beyond will also underpin our input to the Government's own industrial strategy. This forthcoming set of priorities and policy initiatives will be developed by the Department for Business, Energy and Industrial Strategy. The strategy will be a post-Brexit blueprint for the UK. Ministers, who have indicated that the strategy will have an 'interventionist' feel and that ideas relating to digital and devolution will feature significantly, are keen to receive input from all economic sectors. New Economy 2020 and Beyond thus provides an opportunity for the MCA to influence important Government thinking.

This document sets out the various discussion topics the New Economy 2020 and Beyond project will consider in the coming months. Our aim is to complete the project by the end of 2016.

The topics include matters urgently requiring attention owing to Brexit. They also touch on certain pre-existing issues and new opportunities, which Brexit has brought into focus. Some topics, such as new approaches to skills, market diversification, further digital modernisation, and the devolution of economic opportunity, have a Brexit dimension, while also being the likely central elements of any meaningful future industrial strategy, whatever the outcome of negotiations with the EU.

SINGLE MARKET ACCESS

The recent G20 Summit has dramatized the importance of this issue on which the Government, as well as Brexiteer opinion, appear divided. President Obama has indicated that the business of striking new bilateral trade agreements between the US and the UK must await the conclusion of what for the US are more vital negotiations with the EU. Japan has suggested that UK withdrawal from Single Market would jeopardise its investment in the UK car industry and banking.

Continued Single Market access for the UK, however, is likely to depend on retention (possibly in modified form, but certainly not radically curtailed) of freedom of movement for EU labour. For some Brexiteers, however, border control is a paramount consideration.

The project will examine

- Whether MCA members consider Single Market Access a non-negotiable 'red line' for consulting
- Whether a prosperous future for the UK is realistic outside the Single Market
- The importance of Single Market Access for clients
- The importance of the Single Market for consultant/client access to skilled labour (including non-EU workers)



SKILLS

The most frequently cited basis for MCA member firm opposition to Brexit prior to the referendum was access to skilled labour.

For reasons covered in the first section, however, a bald restatement that the MCA would like to retain the status quo in migration policy may prove problematic. The reaction to the apparent rejection of a new points-based system by the Prime Minister illustrates how sensitive this issue is.

Nevertheless, there may be ways in which rationality can be introduced to the debate. Assuming that most people would like to maintain or improve the UK's economic standing and assuming that output capabilities of the 'indigenous' workforce is currently insufficient for that objective, there are broadly three ways of enhancing capacity: improved domestic education and workplace participation; productivity gains; and migrant skilled labour in target industries.

Given that even with access to the Single Market many industries complain of insufficient skills supply, it is highly unlikely that gains in the first two areas alone will prove sufficient to deliver economic success. However, by connecting all these elements coherently and linking them to a new industrial strategy, the Government could ensure that skills and migration are considered rationally. The degree to which the access of the EU pool is abused to depress wages or is in itself a default recruitment strategy, one which does not necessarily address the UK's long-term skills requirements in a targeted way, can also be considered. This would allow an appropriate balance to be struck between pragmatism, inclusivity and skills targeting in any future arrangements, including work permits.

The MCA should back this sort of comprehensive approach.

The project should also examine:

- Numbers of consulting firm staff from the EU
- Numbers from outside the EU
- Skills scarcity in consulting and in client industries
- Whether the current EU labour arrangements are consistent with and complementary to a flourishing domestic labour market
- How far the EU alone provides access to target skills, and the role of a wider skills/migration strategy

NEW MARKETS

A nation's prosperity depends in large measure on its ability to export goods and services. The timeliness, quality, reputation and desirability of those goods and services will be important. So too will the extension of free trade arrangements with an expanding number of jurisdictions. These issues matter to the UK in any circumstances. In the context of Brexit, they are especially sharp. Some Brexiteers argue that the UK's dependence on the EU both as a market and as a trade negotiator has undermined efforts to expand markets elsewhere. Others (on all sides of the debate) now suggest that the uncertainty of the UK's relationship with the EU as a market and its likely medium-term irrelevance as our prime negotiator make the cultivation of new markets a serious imperative.

Any new market engagements will need to be expertly targeted – and also managed by experts.

So our New Economy 2020 and Beyond project will examine:

- UK negotiating capacity
- Market priorities: which new markets to open up and why
- UK competitive advantage: actual and potential
- Prominence for professional services and consulting in any new market approach

DIGITAL

The UK's future is digital. Brexit presents challenges, as well as opportunities.

The principal challenge is that digital is inherently international. Patents, privacy protection, anti-cyber measures: these are all sustained by a variety of pan-national institutions, not least the EU. Withdrawal from these arrangements would have consequence for the relevance of the UK digital market – as well as its security.

The opportunities relate to the degree to which the UK can use Brexit to reinvent the regulatory landscape for digital, to develop new investment models and a radical approach to supporting and scaling digital enterprises. Much regulation is 'corporate era' in feel, relating to premises,

workforce issues, safety and standards. These may be of profound indifference to a bedroom-based entrepreneur, keen to rip up the rulebook, busy developing open-source, integrative innovations. The UK's track record in turning new ideas into large industries is suboptimal. Whether or not we remain within the EU Single Market for digital, Brexit affords a pause to re-examine aspects of the UK's approach and embed beneficial changes within the future industrial strategy.

So our project will consider:

- Protecting the UK's international digital standing, within the EU and beyond
- New regulatory opportunities in digital
- UK digital differentiators
- Scaling the UK's digital businesses
- Digital skills needs
- The degree to which any future industrial strategy must essentially be a digital strategy



DEVOLUTION

Much of the strength of digital stems from its position as an economic and social enabler. One economic issue digital channels might help address is the devolution of economic power and opportunity. The Brexit vote's distribution across areas of economic alienation and disadvantage was a reminder of the need to challenge the concentration of economic power and opportunity in the South East.

The MCA will pursue a separate project on devolution, commencing with the Northern Powerhouse event in Manchester on 29 September. However, the main New Economy project will need to touch on economic and political issues associated with that specific work-stream. Our vision of the New Economy

should assume that it will be significantly less centralised. Early indications on the likely shape of the Government's industrial strategy suggest that ministers will be sympathetic to that assumption.



INDUSTRIAL MODERNISATION

In the course of the MCA Think Tank's growth projects, our Years of Digital and Growth, the Association has explored the UK's industrial modernisation. These themes be taken up and re-examined in the New Economy project.

As well as digital, the project will consider:

- The respective roles of services, hi-tech (and low volume, high value) manufactures, and onshoring in the new economic normal;
- Infrastructure investment needs and models
- New approaches to leadership
- Productivity

Significant work is underway already under a number of these headings. Each is likely to be a central component of the Government's industrial strategy.



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