



MPs NEWSLETTER

EDITION 7,
WINTER 2016



A MESSAGE FROM CHAMBER CHIEF EXECUTIVE - PAUL GRIFFITHS

Welcome and overview

Firstly welcome to this winter edition of the MPs Newsletter published by Milton Keynes Chamber of Commerce acting as the voice for business across Milton Keynes. Milton Keynes Chamber of Commerce currently represents approximately 400 businesses employing around 20% of the borough's workforce. Milton Keynes Chamber of Commerce in conjunction with Northamptonshire Chamber of Commerce was awarded the prestigious 'Chamber of the Year' for 2015 at the British Chambers of Commerce annual awards ceremony in London in November.

Introduction

This newsletter reports primarily on the key concerns of members of Milton Keynes Chamber. Published to provide elected representatives with the necessary information and insight to make informed decision locally; regionally; and nationally – that then enable businesses to grow, generate jobs and boost economic output. The views put forward in this newsletter have been garnered through frequent engagement with the local business community and represent the views of business leaders across the borough of Milton Keynes. Additionally, this newsletter will provide an overview of the current economic climate and will assist key decision-makers in formulating their policy priorities.

In this issue: -

-  Local economic intelligence
-  British Chambers of Commerce (BCC) UK Economic Growth Outlook
-  Firms share their views at Chamber's first Business Council
-  Latest Blog by Dr Adam Marshall, Director General British Chamber of Commerce
-  Milton Keynes Chamber of Commerce welcomes Edward Troup, Executive Director HMRC

As the British Chambers of Commerce's (BCC) only accredited chamber in the borough of Milton Keynes, Milton Keynes Chamber is keen to work with all elected representatives to influence policy formation and implementation to the benefit of the local economy and area. We can provide local evidence and, occasionally, case studies to enable elected members to put forward informed interventions in committees, debates in the House of Commons and other elected assemblies.

The Chamber is pleased to assist all elected members, therefore, should you require clarification or any further information, please contact myself on **01908 547 820** or at policy@chambermk.co.uk.



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ECONOMIC INTELLIGENCE

Milton Keynes Chamber of Commerce's Quarterly Economic Survey (QES) is a regular independent business survey and forms part of the biggest and most representative survey of its kind in the UK.

It is widely recognised as a key economic indicator by Government, The Bank of England and independent economists alike. It also provides both central and local policymakers with an important source of feedback of the performance, concerns and views of businesses across Milton Keynes.

The fieldwork for Milton Keynes Chamber Commerce's latest QES was conducted via electronic, smartphone app and hard copy questionnaire during the period 7th November to 26th. This report therefore sets out analysis and interpretation of the findings for the third quarter of 2016. A total of 50 businesses, employing 2,552 people from across the borough responded.



Businesses in Milton Keynes are thriving in both domestic and international markets as we enter the New Year, according to the latest Quarterly Economic Survey report from Milton Keynes Chamber of Commerce.

The business barometer indicates a sharp rebound for UK manufacturing sales and increased export sales across all sectors in the fourth quarter of 2016.

A total of 50 businesses, employing 2,552 people from across Milton Keynes, took part in the review of the final quarter of the year.

At home, 43% of manufacturing firms said their UK sales had increased over the past three months, versus 25% in Q3. And all of them reported that UK sales had improved or remained the same.

For the service sector, 85% of companies said their UK sales had stayed constant or increased. Both sectors saw improved UK orders in Q4, as well as impressive increases in export sales – 33% for manufacturers and 18% for those in the service sector.

In order to keep up with demand, all firms surveyed said their workforce would increase or remain in line with the previous quarter going forward, with more than half of manufacturers noting an increase in their in house team in this quarter.

Exchange rates appear to be the biggest cause for concern in external factors for all – unsurprising considering the uncertainty of Brexit over the second half of the year and in the coming months ahead.



Milton Keynes Chamber of Commerce chief executive said: "It is very encouraging to see the success of firms across all markets in the last three months of 2016 and the hiring intentions of our respondents this quarter are also very positive.

"I hope that this optimistic end to the year will also mark the start of a successful New Year which will hopefully also bring some clarity to the Brexit process and settle exchange rates. Only time will tell."

**Paul Griffiths, Chief Executive
Milton Keynes Chamber of Commerce**



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BCC UK ECONOMIC FORECAST

The British Chambers of Commerce (BCC) on Monday 12th December upgraded its UK GDP growth forecast from 1.8% to 2.1% for 2016, and from 1.0% to 1.1% in 2017. However, it has also downgraded expectations for 2018 from 1.8% to 1.4%.

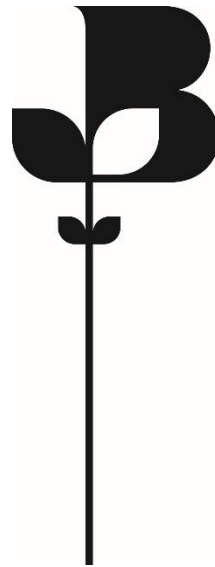
The leading business group upgraded its forecast for 2016 after the UK economy recorded stronger than expected growth in the third quarter. However, the current level of economic momentum is set to slow over the next two years, as continued uncertainty around the UK's future relationship with the EU and higher inflation are expected to dampen growth in the medium term. Based on the data and our own Quarterly Economic Survey, the BCC does not expect the economy to enter into a recession.

The depreciation in the value of sterling since the EU referendum is expected to push up inflation, impacting both consumer spending and business investment. While average earnings are to hold steady, real wage growth is likely to be eroded by inflationary pressures.

The BCC expects UK public sector net borrowing to be £15.2 billion higher over the next three years than predicted by the Office for Budget Responsibility at the 2016 Autumn Statement, with slower expected growth likely to weigh on the UK's ability to generate tax revenue.

Key points in the forecast:

- **UK GDP growth forecasts for 2016 is upgraded to 2.1%, but is expected to weaken to 1.1% in 2017 before picking up to 1.4% in 2018**
- The improved growth forecast for 2016 is driven by stronger than expected growth in Q3. Growth of 0.5% is expected in Q4 2016
- GDP growth forecast for 2017 was upgraded slightly from 1.0% to 1.1%, but is still the weakest annual rate of growth since the financial crisis
- **GDP growth for 2018 has been downgraded from 1.8% to 1.4%** with higher inflation curbing household consumption and more muted levels of investment, particularly business investment
- **Inflation is expected to breach the Bank of England's 2% target next year**, with a forecast of 2.1% in 2017 and reaching 2.4% in 2018. This is higher than our previous forecast of 1.6% and 1.8% respectively



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- Weaker economic activity and erosion of real wage growth by inflationary pressures are expected to cause **household consumption to slow down from 2.7% in 2016 to 0.6% in 2017 and in 2018**
- **Business investment is expected to fall** by -0.8% in 2016, -2.1% in 2017 and -0.3% in 2018 – better than the previous forecast of -2.2% in 2016 and -3.4% in 2017, but significantly worse than the +1.9% growth previously predicted for 2018
- **Export growth is set to slow** from 4.5% in 2015 to 2.6% in 2016 and 2.3% in 2017, before increasing to 2.9% in 2018. This is partly in response to the effect of the falling value of the pound on exports being previously overstated
- Looking at sectors, we predict growth in services at 1.7% per year, while construction activity is forecast to fall by -2% in 2017. Manufacturing growth is expected to remain steady but muted at 0.8% over 2017 and 2018
- **Public sector net borrowing** in the full financial year 2016/17 is predicted to be £3.8bn higher than the OBR predicted in the 2016 Autumn Statement

Dr Adam Marshall, Director General of the British Chambers of Commerce, said:

"In the absence of a clear road ahead, many companies have been adopting a 'business as usual' approach in the months since the referendum, which has kept conditions buoyant this year and prevented a sharp slowdown in growth.

"While some firms see significant opportunities over the coming months, many others now see increasing uncertainty, which is weighing on their investment expectations and forward confidence. Lower sterling and rising inflation are now starting to affect business communities and consumers across the UK. While a lower pound is a boon for some exporting businesses, many others see the latest devaluation of sterling less positively, as they are unable to benefit from it.

"Given our findings, deeper incentives for both investment and exporting will be needed in the months and years ahead. As the Brexit negotiations commence, steps will need to be taken to help ambitious firms overcome the risks, real and perceived, borne out of political uncertainty.

"It is imperative that government do all it can to help UK businesses overcome risk and take advantage of opportunities. Ministers should start by clarifying the future status of existing EU workers as soon as possible, to end the insecurity now facing employees and businesses alike."

Suren Thiru, Head of Economics at the BCC, said:

"We have upgraded our growth forecasts for 2016 and 2017, but the near-term outlook for the UK economy remains challenging, with the recent resilience in growth expected to weaken. That said, we do not expect the economy to enter into a recession over the next few years.



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“Higher inflation and continued uncertainty over Brexit will weigh on the UK’s growth prospects, with consumer spending and business investment likely to be hardest hit. Average earnings should hold steady but inflationary pressures are expected to erode real wages, which will hit the spending power of households.

“Exports will continue to grow but at a slower pace, and the UK’s net trading position is expected to improve as import levels weaken. The decline in the value of the pound is likely to help some exporters, although the lack of responsiveness of UK exports to other sterling devaluations in recent years suggest that its impact on overall export growth has been overstated.

“Uncertainty remains over the longer-term outlook, but the UK’s structural imbalances, including the over reliance on services and household spending as drivers of growth, continues to leave the UK vulnerable to rapid changes in economic conditions.”



FIRMS SHARE THEIR VIEWS AT CHAMBER'S FIRST BUSINESS COUNCIL

Businesses shared their concerns and opinions at the first meeting of a new forum that will champion their voices in the corridors of power.

The new Business Council launched by Milton Keynes Chamber of Commerce in conjunction with its sister Chamber Northamptonshire Chamber, enables businesses to share their views on issues ranging from skills and infrastructure to business taxation and international trade.

The council's findings will lead to the creation of a Business Manifesto which the Chamber will use to help it successfully lobby local authorities and MPs on behalf of businesses.



The manifesto will also be used by the British Chambers of Commerce (BCC) to help it lobby central Government on behalf of local Chambers and their members.

The council's first meeting was held on Monday 14th November and was attended by BCC Director General Dr Adam Marshall.

He said: "Set against a backdrop of the UK's decision to leave the EU and the recent change in Government, now led by Theresa May, I was pleased to have participated in Milton Keynes and Northamptonshire Chamber of Commerce's inaugural Business Council.

"Representing both Chambers was a broad cross section of their membership, from exporters and manufacturers to training and education providers.

"This provided an excellent vehicle and opportunity to listen to issues that businesses continue to be hamstrung by, from infrastructure and skills to access to finance and the uncertainty surrounding the UK's exit from the EU.

"Here at the BCC, we are very keen to hear the views of member businesses at a local level. This enables us to effectively represent the interests of local Chamber members when lobbying Government.

"Forums such as this provide the ideal platform for the BCC to fulfil two of its four core functions, which forms the organisations foundations – place and voice – both of which are critical to representation."



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LATEST BLOG – BREXIT REFLECTION (FOUR MONTHS ON) BY DR ADAM MARSHALL, DIRECTOR GENERAL BRITISH CHAMBERS OF COMMERCE

No one, least of all myself, can yet predict either the political end game or the ultimate economic impacts of the transition that lies ahead.

Most of the pronouncements we have seen and heard so far are little more than political warning shots, with the heavy artillery and the precision weapons held in reserve for later. They may make waves in the British and international press, but until Article 50 is triggered by the end of March 2017, and the exit process is well underway, many of these positions are just speculative.

There are a number of areas that are of areas of prime importance to business.

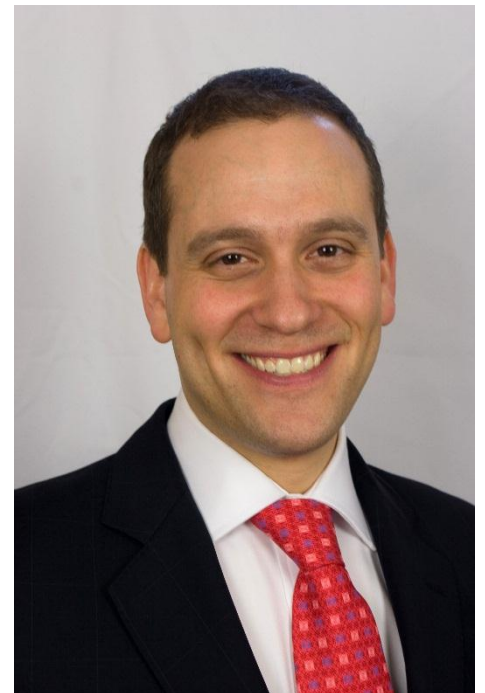
TRADE

There is universal agreement across government that Britain's future is as "a trading nation". Yet that is where the consensus ends. Many Brexiteers want a full exit from the EU customs union, eschew access to the single market, and favour the conclusion of free trade agreements with our traditional allies and the Commonwealth. Others speak more cautiously about maintaining single market access, particularly in sensitive sectors like financial services, and prioritising an in-depth agreement with the EU over free trade agreements elsewhere.

There are a number of nations who will want to do a trade deal with the UK in future - although most are careful to say that this can only take place after we leave the EU. Even where there's a will, there is caution - which will likely keep talks informal for now.

What's most interesting is that, in this era of protectionism and conflicting interests, many also express a private belief that doing a trade deal with the UK will be easier than doing a deal with the EU, as one country is easier to reach agreement with than 27.

So there are some who believe that there is a real opportunity to increase the flows of two-way trade between the UK and a range of other countries, something that we must continue to explore. Our growing network of British Chambers and business groups in markets around the world will be key partners in helping to seek out intelligence and opportunities in this regard.





LABOUR MARKET

Of all the Brexit-related subjects we're dealing with, this is the most pressing one for many of the UK and multinational firms we speak to, and possibly the most frustrating for me. We continue to call for guarantees for existing EU workers in the UK. It's the right thing to do for our businesses, for the economy and for the individuals concerned.

Ministers, even those sympathetic to our arguments, demur. They insist on their responsibility to British citizens living elsewhere in the EU, and that formal guarantees can only be made when both issues are resolved. The issue with this "bargaining chip" approach when it comes to existing EU workers is that businesses are left with unacceptable levels of uncertainty about their workforce planning.

My present worry is a short-term crackdown on non-EU skilled workers and students - so that ministers can say they are making progress on migration. We will have to fight this as a business community, to protect both the interests of our firms and the universities and colleges that serve as anchors for many local economies and as links to many markets around the world.

REGULATION

Good news here. Regulatory stability, at least in the short-to-medium term, looks to be the order of the day. Businesses around the UK, and those they trade with around the world, cite potential regulatory instability during the Brexit transition as a key concern. Ministers have, to date, sensibly spoken of maintaining regulatory equivalence for a period of time, including bringing forward a Great Repeal Bill, to transpose all existing EU law into the UK statute books before we leave the European Union.

The early talk is of making regulatory change as painless as possible - a good aspiration when compared to the long history of burdensome, resource-sapping regulatory change that businesses have often faced.

EU FUNDING

Here, the Chamber Network has already had a significant - if incomplete - win. Following on from our protests about the impact of the potential withdrawal of EU funding for key local growth projects, research collaborations and infrastructure schemes, Chancellor Philip Hammond responded with a swift Treasury guarantee for all projects signed off by Autumn 2016. This will keep many local projects, as well as match-funded schemes for trade with other countries, going until the end of the current parliament in 2020.

TAXATION AND CUSTOMS

Indirect taxes, such as VAT, and questions of origin, are important concerns for UK companies doing business across Europe - and beyond - during the Brexit transition.

While the UK itself is very likely to adopt much of the EU Union Customs Code as a point of departure, there will be opportunities to sharpen and improve some elements of this in the interests of our importing and exporting firms. While it is still very early days, the Chambers of Commerce plan to engage at both political and technical levels to achieve a good outcome for businesses and the Chambers that support them.



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The Prime Minister and her team have a real chance to craft a bespoke set of arrangements that are both advantageous to UK firms and acceptable to our trading partners in the EU and beyond.

The diverse businesses in the Chamber Network are – rightly – focused on the impact of our transition on their own business models and prospects. They expect HM Government and the Bank of England to deliver stability of markets, further clarity on the timetable for transition, and firm action on those matters that are entirely within Westminster’s gift. Calm, rational consideration is the order of the day.



MILTON KEYNES CHAMBER WELCOMES EDWARD TROUP, EXECUTIVE DIRECTOR HMRC

Our members received exclusive access to talks with one of the Government's highest ranking civil servants.

Edward Troup, who is the Executive Chair of HM Revenue and Customs and its most senior tax professional, visited Milton Keynes Chamber to help our members learn about his department's plan for Making Tax Digital.

Members also used last month's meeting to raise with Mr Troup their view that there had been a lack of communication from HMRC about the proposal, especially for SMEs and micro businesses.

Milton Keynes Chamber policy executive Simon Dishman said: "It was a useful discussion which enabled our members to raise their questions at the highest levels of Government.

"Members were concerned about the lack of communication about the proposal and questioned whether the digital connectivity in the area could support the plans. This is a subject that we are lobbying on locally as well as nationally via the British Chambers of Commerce (BCC).

"It is rare for businesses to have access to such a high profile Government figure.

"We are able to put on events like this for our members because we are hugely proactive and we work closely with the BCC."

During the meeting it was suggested that Chamber members could potentially adopt a trailblazer approach to testing the software for Making Tax Digital when the situation arises.

Other issues discussed included HMRC's Your Charter, which is the department's pledge to provide a service that is fair, accurate and based on mutual trust respect.

Information about Making Tax Digital and HMRC's Your Charter is available on the Chamber's website at <http://www.chambermk.co.uk/membership/benefits/benefits-representation>



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