

Scrutiny Committee

30 September 2016

Update on working with New Anglia Local Enterprise Partnership and early implications of leaving the European Union

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Introduction

- On 23 June 2016 a referendum was held to decide whether the UK should leave or remain in the European Union. The “Leave” campaign won by 52% to 48%. The referendum turnout was 71.8%, with more than 30 million people voting. Scrutiny Committee has requested a report on what the potential impacts of this decision will be on the local economy and what role the LEP can play to mitigate any negative impacts and capitalise on any opportunities that arise.

Specific questions from Scrutiny Committee

What is known about the early implications of “Brexit” for the national economy?

- Economists have been divided over the potential economic impact of Brexit. Bodies such as the International Monetary Fund, the Bank of England and the Institute of Fiscal Studies predicted a significant downturn whilst organisations like the Institute for Economic Affairs forecasted a more positive outlook.
- The immediate aftermath of the vote saw a sharp drop in share prices globally and a 10 per cent plus reduction in the value of sterling. Ratings agencies downgraded the UK’s credit status and Bank of England Governor Mark Carney described the outlook at the beginning of July as “challenging”.

4. Subsequently, there has been some evidence of a “Brexit bounce” – largely due to falls in both interest and exchange rates. Share markets have rebounded and key economic surveys published in August have recorded a rise in both household spending and factory orders. It is not yet clear whether this upturn is sustainable or whether it will be stalled by any corresponding rise in inflation or by the fundamental changes that will be necessary to the UK’s terms of trade.
5. Alongside the impact on trade, the long-term effects of withdrawal are likely to be on areas such as foreign direct investment (FDI), the UK’s contribution to the EU Budget and the effect of immigration on the labour market. Possible changes to immigration rules following the UK’s withdrawal from the EU are likely to affect businesses and the economy, if it becomes more difficult for employers to recruit workers from other EU countries. The extent to which employers are affected will depend on the new rules. Employers may be able to compensate for any changes to immigration rules by recruiting more UK nationals, but this will depend on their ability to find workers with the same skills and to attract workers from a smaller pool of potential recruits.

What is known about the early implications of Brexit for the local economy?

6. Economic analysis suggests that the most significant early impacts of Brexit are likely to be felt through:
 - a) The creation of uncertainty

It is possible that increased uncertainty around what the post-referendum landscape will look like and the many unanswered questions generated by the vote could see business activity across the region, in terms of hiring, investment and financing, cool off in the short term. This would particularly impact upon, but will not be restricted to, industries and businesses that are especially connected to the EU whether through trade, ownership or regulation.
 - b) The fall in the value of sterling

This has made exports more competitive and will have created a boost for some local businesses. The World Travel & Tourism Council for example recently predicted that the British tourism sector will grow for the next two years in the wake of the referendum vote to quit Europe. Conversely, the continued depreciation of the pound is likely to impact negatively on those businesses such as transport and logistics companies in the region whose supply chains are reliant on imported goods such as fuel.
7. It is too soon for local economic surveys to pick up any significant impacts of Brexit at sub-regional level yet. However, early data does indicate a positive local outlook in the immediate aftermath of the UK’s vote to leave the European Union. For example, the Lloyds Bank East of England Purchasing Managers’ Index (PMI) for the East of England showed a rebound in output and new orders during August. Growth was reported both by manufacturers and service providers in the region, with the strong rate of job creation accompanied by an increase in new work ahead of the average for the UK as a whole. However, the survey also showed that the fall in the value of the pound has resulted in higher prices for imported items, resulting in input costs (wages and materials) rising at their fastest for five years.

How will the LEP and its partners maintain an overview of the welfare of the local economy as further implications of Brexit become clear?

8. The LEP has written to a number of local partners to ask them to participate in an ongoing intelligence gathering exercise on the impacts of Brexit which will involve collecting and sharing factual and anecdotal evidence and linking this to Strategic Economic Plan (SEP) priorities where possible. The intention is that collectively we can gather information across sectors, geographies and themes which will enable us to gain a much wider sense of the economic mood than any one partner would be able to achieve individually. Information gathered will be reported to the LEP Board and to Government at regular intervals, and shared with partners.
9. In addition to this, the LEP is developing a number of indicators and measures on an ongoing basis to help inform us of the health of the local economy in the run up to and post-Brexit period. The LEP has also agreed with the East of England European Partnership in Brussels (Brussels Office) to commission a detailed analysis of EU funding programmes currently available to Norfolk and Suffolk so that we can assess the gaps in local investment opportunities that may result from Brexit and plan and lobby accordingly. This work will begin shortly and is expected to report by the end of the year.

How can local government and business support the LEP in this work?

10. The County Council will discuss with the LEP the possibility of jointly commissioning a piece of research to identify those key businesses and sectors in the local economy that will be most significantly impacted by Brexit. We will work with these businesses / sectors to help explore the opportunities and challenges that Brexit will create and to gain a better understanding of the type of support that local authorities and the LEP can most usefully provide.

What is being done to develop early dialogue with local businesses about the issues raised by Brexit?

11. The County Council maintains regular dialogue with business representative organisations, such as the Suffolk Chamber and Country Land and Business Association, sector bodies such as Tech East and Visit East Anglia and with individual businesses and we will use these contacts to gauge their views on the impacts of Brexit. We will also use our attendance at business events such as the Anglia Business Exhibition and MENTA Trade Fair to have these conversations with the small business community.

What role can councillors play to support this work?

12. There is an opportunity for councillors to play a key role in discussing the potential impacts of Brexit with the business community in their local area and feedback any issues or opportunities raised so that local authorities can feed this into the ongoing development of our business support services. Councillors will also play a critical role in lobbying national government to ensure that the £5.3bn of funding that English councils currently receive from the EU is preserved to avoid local growth projects stalling.

What is known about the impact of Brexit on funding received by the LEP from the EU, set in the context of the LEP's wider funding structures

13. The EU is currently an important funder of growth and regeneration projects which are critical to the delivery of the LEP's targets and objectives. The main EU sourced funding stream that the LEP currently directs is the European Structural and Investment Funds (ESIF). ESIF includes three separate elements:
 - a) European Regional Development Fund (ERDF): which funds activities that support the competitiveness of small and medium sized enterprises, innovation and research and development and the low carbon economy.
 - b) European Social Fund (ESF): which funds projects that support people in and out of work and businesses with skills provision and for improving social inclusion and labour mobility.
 - c) European Agricultural Fund for Rural Development (EAFRD): which is predominately provided directly to rural businesses to support investment in business growth, farm diversification and food processing facilities, but also for activities that enhance small scale tourism infrastructure and co-operation between tourism providers.
14. The New Anglia LEP area has been notionally allocated approximately £86.4m of ESIF funding for the period 2014-2020.
15. Whilst the UK starts to negotiate its exit from the EU, there will be debate around how the funding currently sourced through Europe is replaced or enhanced by the UK Government in the future. Whether funding is routed through the EU or comes directly from the UK Government, it is critical that funding levels are maintained if the LEP is to deliver its Strategic Economic Plan. Given the economic uncertainty caused by the Brexit vote, it is all the more important that this funding, much of which is targeted at improving skills levels, improving the competitiveness of businesses and supporting research, is still available.
16. As such, the LEP has already started to work with partners including the LEP Network, the Local Government Association as well as partners in Higher Education and research institutes to lobby Government to ensure funding in these areas is protected.

What projects are currently in progress and how might these be affected?

17. There are currently six project areas with a value of just under £9m that have been contracted across the New Anglia LEP area under the ESIF programme as well as a significant number of proposals that are currently going through the assessment process.
18. The government has recently issued a formal guarantee that the funding for key projects supporting economic development will be protected across the UK. Assurances set out by the Treasury include:
 - a) all structural and investment fund projects signed before the Autumn Statement will be fully funded, even when these projects continue beyond the UK's departure from the EU;

- b) the Treasury will also put in place arrangements for assessing whether to guarantee funding for specific structural and investment fund projects that might be signed after the Autumn Statement, but while we remain a member of the EU;
 - c) where UK organisations bid directly to the European Commission on a competitive basis for EU funding projects while we are still a member of the EU, for example universities participating in Horizon 2020, the Treasury will underwrite the payments of such awards, even when specific projects continue beyond the UK's departure from the EU;
 - d) the current level of agricultural funding under the Common Agricultural Policy (CAP) Pillar 1 will be upheld until 2020, as part of the transition to new domestic arrangements.
19. In light of the current guidance, the LEP has advised that:
- a) Projects that are already contracted should continue to deliver, claims will continue to be paid and contract monitoring and assurance activity will continue. Projects must continue to remain compliant;
 - b) Calls for projects which are currently live on gov.uk will continue to remain live and applicants are being encouraged to continue to develop and submit projects;
 - c) New Calls will continue to be prepared but their publication may be delayed;
 - d) Projects submitted and in the pipeline will continue to be appraised and progressed through the system;
 - e) The local ESIF Sub-Committees will continue to meet and be consulted on projects submitted in readiness.

What opportunities does Brexit present, and how can we capitalise on these?

20. The impact of Brexit will vary across the business community – creating significant opportunities for local companies operating in some markets and industries while creating costs and challenges for others. Until the Brexit negotiations are well underway, it is not possible to predict how the prospects for local companies will be affected but it is possible that opportunities may be created by:
- a) Movements in exchange rates which may make some local exporters more competitive.
 - b) Changes to regulatory regimes which may make the UK more attractive to specific inward investors from outside the EU.
 - c) Changes to procurement rules which could make it easier for small businesses to compete for government contracts.
 - d) The renegotiation of the UK's trade agreements which might open up new markets to local companies.
21. The County Council will work proactively with the LEP and local businesses to help identify opportunities as they emerge and support local companies to exploit them.

What are the potential direct implications for the LEP and other stakeholders?

22. Brexit will have a significant impact on business opportunities in the region which will need to be factored into New Anglia LEP's targets and Strategic Economic Plan. Brexit will have direct implications for the funding available to support LEP growth projects (see above) and may alter the sort of support services that businesses need the LEP to provide.
23. There will also be important direct implications from the referendum for local authorities. EU regulation impacts on many council services. The regulatory framework for a range of services such as waste, employment, the environment, consumer protection, health and safety and trading standards originates in Brussels, as does the legal framework for public procurement. In the medium term, the UK has choices about how and where future rules are formulated. Substantial new legal arrangements will have to be drafted for public services which have to date been based on EU regulation. Any new framework would be influenced by the exit negotiations which could range from a Norwegian-style model based on a close association with the EU to a more detached Swiss-style model.
24. Councils may also be affected by any changes to employment legislation and rights to work. In the longer term if movement from the EU is restricted, the Council could face labour shortages in areas where it has relied upon immigrant workers, such as highly technically skilled areas and the care sector.

Officer recommendations

25. The Committee is invited to note the content of this report and may wish to receive further information items as the Brexit negotiations commence.