

ECONOMIC GROWTH AND STRATEGIC TRANSPORT OVERVIEW AND SCRUTINY COMMITTEE

20 SEPTEMBER 2016

Briefing paper – Potential Impact of Brexit

Report of Geoff Paul Director of Planning and Economy

Cabinet Member: Cllr Allan Hepple, Planning, Housing and Regeneration

Purpose of report

To provide an initial briefing to the Town and Parish Liaison Working Group regarding the potential impact of Brexit and the key activity now underway regionally involving Northumberland County Council to respond to this development.

Recommendations

Cabinet Advisory Group is recommended to note the details set out in this paper.

Link to Corporate Plan

This report is relevant to all priorities included in the NCC Corporate Plan 2013-2017 due to the breadth of activities that relate to the United Kingdom's membership of the European Union.

Key issues

- The situation regarding Brexit is at an early stage in the process.
- There is a range of early intelligence about the potential impact, summarised in this paper.
- There is now immediate work being undertaken involving Northumberland County Council regarding this important issue.
- This includes work to assess the potential impact, develop measures to mitigate any impact and identify any new opportunities which in combination are designed to ensure that the North East's interests are safeguarded and promoted as much as possible during the Brexit process.
- This work is principally being co-ordinated through the North East Combined Authority (NECA) and North East Local Enterprise Partnership (NELEP) and further updates will be provided as the situation develops.

Background

Following the result of the referendum, the emerging implications of Brexit (both negative and positive) on the North East are now being considered.

Northumberland County Council is working with its partners Local Authorities on this shared issue through the North East Combined Authority (NECA) in liaison with the North East Local Enterprise Partnership (NELEP) making a range of representations to government regarding the potential impact on the region.

Implications

Policy	Implications will be shaped as the terms and timetable for Brexit become clearer
Finance and value for money	Implications will be shaped as the terms and timetable for Brexit become clearer
Legal	Implications will be shaped as the terms and timetable for Brexit become clearer
Procurement	Implications will be shaped as the terms and timetable for Brexit become clearer
Human Resources	Implications will be shaped as the terms and timetable for Brexit become clearer
Property	n/a
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	n/a
Risk Assessment	n/a
Crime & Disorder	n/a
Customer Consideration	n/a
Carbon reduction	Implications will be shaped as the terms and timetable for Brexit become clearer
Wards	Countywide

Background papers:

n/a

Report sign off.

	initials
Finance Officer	AE
Monitoring Officer/Legal	LH
Human Resources	KA
Procurement	TP
I.T.	NA
Executive Director	GP
Portfolio Holder(s)	AH

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Briefing paper – Potential Impact of Brexit Economic Growth & Strategic Transport OSC 20 September 2016

Purpose of Paper

To provide an initial briefing to the Committee regarding the potential impact of Brexit and the key activity now underway regionally involving Northumberland County Council to respond to this development.

Recommendations

The Committee is recommended to note the details set out in this paper regarding:

- the situation regarding Brexit at this early stage in the process
- the early intelligence about the potential impact
- the immediate work that has been undertaken involving Northumberland County Council through the North East Combined Authority (NECA) and North East Local Enterprise Partnership (NELEP)

Introduction

Following the result of the referendum, the emerging implications of Brexit (both negative and positive) on the North East are now being considered. Northumberland County Council is working with its partner Local Authorities on this shared issue through the North East Combined Authority (NECA) in liaison with the North East Local Enterprise Partnership (NELEP) making a range of representations to government regarding the potential impact on the region.

This note sets out the outline emerging position based on initial intelligence gathering and lobbying activity. The Brexit process is at a very early stage and further announcements are expected from the Government later this year.

The Government has not yet clarified its detailed position in regards to Brexit but it will be important to understand policy choices and developments as they emerge to inform the North East's lobbying position and Northumberland's within it. Recent announcements have indicated that Article 50 under the Lisbon Treaty will not be triggered until at least next year.

The County Council will be working over the next few months within NECA to gather information on the mechanics of leaving, the potential options available and the implications of Brexit.

Once Government begins the Brexit process there will be a need to understand how that process will operate, its complexities and any opportunities to influence it. There will also be a need to understand the timing and where opportunities may lie to maximise investment and benefits to the North East from new arrangements.

Economic Summary

The view of the majority of independent economists and experts is that the UK economy will grow less quickly following the decision to withdraw from the EU. There will be an impact on businesses, but it will be difficult to determine because the influences of Brexit on investment, trade and labour are each subject to a complex set of factors.

The North East region is the only English region to consistently exhibit a trade surplus and therefore the terms of trade negotiated through Brexit will be critical to the region's future in key sectors and the region's economy. Many foreign-owned companies based in the North East have invested here specifically to gain access to European markets. Were the terms of trade negotiated with the EU to be anything less than free access to the Single Market in those goods, the new situation could put those exporters at a disadvantage. Were the terms of trade to include tariffs on imports to the EU – which would apply to higher value goods were no special terms of trade to be secured – then this could render some of those exporters uncompetitive in the long run.

The North East also cannot ignore the impact that the loss of European Structural Funds will have on the area. The North East has an allocation of circa £440m for the period 2014-2020 to strengthen economic and social cohesion; improve employment and education opportunities and support rural development. These funds are an integral element of the funding underpinning the North East Devolution Deal and the region's Strategic Economic Growth Plan.

Brexit Workstreams

In advance of understanding the exact Government position fully and the process that will be undertaken NECA has agreed a set of immediate workstreams. These workstreams will assist NECA in assessing the likely impact and identifying key tasks and opportunities that need to be taken forward to ensure the region is as resilient as possible to Brexit and prepared for the future. The workstreams below are currently being fully established and are subject to further development.

- 1. Understanding impact on economy, property markets and the labour market**
- 2. Understanding impact on inward investment activity**
- 3. BREXIT Negotiations**
- 4. European Funding Delivery**

1. Understanding impact on economy, property markets and the labour market

This workstream will focus on understanding the likely economic impact of Brexit. The view of the vast majority of independent economists and experts is that the UK economy will grow less quickly following the decision to withdraw from the EU. The National Institute of Economic and Social Research have predicted that GDP could be 2.1% to 3.5% lower in 2019/2020.

The consequences of the slowdown in growth will include a negative impact on jobs; reduction in tax receipts and further squeeze on government finances; a reduction in company profits; uncertainty and volatility in financial markets; a weak pound; and a rise in inflation which will impact on interest rates. Regarding Government finances the IFS has

translated the above drop in GDP into a £20bn to £40bn reduction in public finances in 2019/20.

As a result of economic conditions, the commercial property market and housing market indicators are already showing some signs of volatility. If property values are significantly impacted the viability of both commercial and housing schemes in relation to our pipeline and investment plans will need to be revisited.

The North East region is the only English region to consistently exhibit a trade surplus in goods. This was equivalent to around £4.5bn in 2014. Exports account for a higher proportion of regional GVA than in any other English region. The value of goods exported by the region's firms has grown more quickly than the value of national exports over the past ten years. Over half of all goods exports (by value) are of machinery and transport equipment (compared to 43% from England as a whole).

This category is dominated by the export of road vehicles, which accounts for over 40% of all exports from the North East region. Nearly 60% of the region's exports are to the European Union, with 13% to Asia and Oceania, and 11% to North America. In contrast, less than half of England's exports go to the EU, with 18% exported to North America.

2. Understanding impact on inward investment activity

This workstream will focus on inward investment activity in the North East and the potential impact of Brexit. The North East has been successful over recent decades in attracting major overseas investors to the region, with examples including Nissan and Hitachi. Whilst the volumes have been high, overall, the North East LEP area has a relatively low proportion of employment in foreign-owned companies, accounting for just 7.8% of employment in 2011, compared to 22.1% in Leeds City Region, 13.2% in Liverpool City Region and 12.6% in Greater Birmingham and Solihull.

Anecdotally, it is a common view that a high proportion of foreign owned investors located in the North East use their base here to exploit free access to the EU market as well as that of the UK. So, although the overall proportion employment in foreign owned companies may be less than in some other regions, their exposure to changing terms of trade is likely to be high.

Foreign Direct Investment (FDI) can create significant numbers of jobs in the economy, and UK Trade and Investment periodically provide data on the location of successful FDI projects. In 2012/13, the North East LEP secured the third highest number of FDI projects into England – 26 in total. This created nearly 1,700 new jobs, and safeguarded over 500 existing jobs within the North East LEP area.

A disproportionate level of investment into the EU comes to the UK and then within the UK the North East has secured a disproportionate level of investment up until now. As a region that has benefited particularly from foreign investors seeking access to the EU Single Market, the North East could experience a sustained reduction in inward investment enquiries as a result of Brexit.

In the run up to the referendum, the UK (and the NE) had experienced significantly reduced inward investment enquiries from foreign companies over the last six months, due to the uncertainty around investing in the UK by mobile businesses. Anecdotal evidence from Local Authorities suggest investment plans earlier in the planning phase have been put on hold whereas some projects further along the development phase have continued.

2. BREXIT Negotiations

There are several routes through which the North East can engage in the Brexit negotiation phase utilising partnerships, alliances and representative groups to ensure decisions made at the national level do not disadvantage the North East. Local Authorities, NECA and NELEP have a number of routes that can be utilised. To be effective, the region will be establishing what its key asks should be.

Pan regional structures such as the Northern Powerhouse and Transport for the North are likely to be important conduits for collectively pushing the needs of the North of England. Similarly Local Authority networks nationally such as LGA and work with business and civic representative organisations will be crucial as part of presenting a united front for the North East.

4. European Funding Delivery

There has recently been some clarification provided by the Government at this stage, The Chancellor Phillip Hammond announced on 13th August that in regard to the current EU programme:

- All projects with offer letters signed before the Autumn Statement (Nov 2016) will be honoured even if they have financial commitments which fall after the UK leaves the EU.
- This provides some re-assurance regarding a number of key programmes in Northumberland including for NCC/ARCH the Mental Health Trail Blazer; ARCH Business Support Programme, NECA Technical Assistance. This announcement should also protect the ESF element of the Big Lottery Programme, but this is subject to further confirmation from Big Lottery. This also provides an opportunity for projects submitted within the current open calls for Low Carbon to secure funding.
- The Treasury are also looking to put arrangements in place to guarantee funding for specific projects signed after the Autumn Statement. This may include major strategic regional programmes of investment.
- DEFRA have advised that the LEADER programme may continue to commit funds up until the Autumn Statement. Announcements on further funding for LEADER will be made in the Autumn Statement.
- EAFRD (Rural Funds) There are £10.5m of EAFRD funds within the North East ESIF Growth Programme. Work is continuing with partners to develop the local priorities for Business Development, Tourism and Food Processing. Calls for which are unlikely to be issued before the Autumn Statement. Due to delays in State Aid, policy approval and procurement requirements it is now not possible to support Broadband activity with EAFRD funding.

- CLLD (Community Led Local Development) and FLAG (Fisheries Local Action Group) Managing Authorities have advised that the development of these programmes is to continue. It is not yet clear when confirmation will be given on the availability and longevity of funding for the programmes.
- Where UK organisations bid directly to the European Commission for funds e.g. universities bidding to Horizon 2020 for research, the Treasury will underwrite these awards even where the project is delivered outside UK EU membership.
- The current level of funding to the agricultural sector under CAP Pillar 1 (farm payments scheme) will be retained until 2020.
- The Government will commence consultations on nationally funded successor schemes to the current EU schemes.
- From the statement there are assumptions that no further calls other than those currently open will be issued for projects until after the Autumn Statement

Alongside the decisions regarding the current programme, in the longer term the key issue will be how the range of EU funding that the region benefits from will proceed, either as part of a Brexit settlement with Europe or via a renationalised funding approach. The key funding areas to consider are:

EU Structural Funds

- To date, the North East LEP area has £89.5million of its £437million EU structural funding committed to projects for the 2014-2020 period.
- A further £104.5million worth of projects were put forward to Government for approval in advance of the Referendum.
- Collectively these projects will support over 7,400 businesses across the North East LEP area, which covers Durham, Northumberland and Tyne and Wear, driving growth and job creation.
- The funding is a crucial match element of a wide range of funding programmes aligned to the regions Strategic Economic Plan.

Horizon 2020

- Today, the UK receives a net surplus of EU research and student mobility funding.
- Most of this funding is delivered through Horizon 2020, the EU Framework for Research and Innovation. The UK has received £1.8bn of funding over the last two years and total investment was expected to reach £10.4bn by 2020, according to European Commission figures, accounting for almost 16.7% of the total.
- The bulk of this funding is directed to higher education institutions however when the grants to institutions and businesses are aggregated at the city level, it is clear major research cities will be impacted.
- Since 2007 the North East has received £167.18m of funding.
- Continued access to EU research funding will constitute another plank of the UK's exit negotiations. However, it is possible that any ongoing access to EU grant funding will be contingent upon the UK's willingness to sign up to the free movement of people.
- The EU is due to commence consultation next year on the next generation of EU research funding, given the strength of the UK university sector, this may provide a

window to argue for the UK's further inclusion, which will be vital if the UK's university cities are to compete globally.

Common Agricultural Policy (CAP)

- The Common Agricultural Policy is a cornerstone of the EU, costing nearly 40pc of its budget year.
- The CAP scheme has two main pillars: direct payments, known as the Basic Payment Scheme, and funding for the wider rural economy.
- In 2015, UK farmers received almost €3.1bn (£2.4bn) in direct payments. Farmers have access to the €5.2bn (£4bn) pot of funding that has been allocated to the UK for rural development projects over the period 2014-2020, including €2.3bn that has been transferred from the BPS to the UK rural development programmes.
- In total, 55 per cent of UK total income from farming comes from CAP support.
- The farming and agricultural sector is lobbying to secure the best possible access to markets in the rest of Europe as the UK's major trading partner for the foreseeable future.
- During the Referendum period these schemes were assured until 2020, allowing farm businesses to plan ahead.
- The farming and agricultural sector is now asking for reassurance that the Rural Development Scheme and the Basic Payment Scheme, will remain in place with safeguards being made in the forthcoming period of negotiation.
- The sector is also setting out the ask for post 2020 which is that support given to UK farmers should be equal to that given to farmers in the EU, who will still be their principal competitors.

Conclusion

Northumberland County Council is playing an active role in considering the shared regional issue of Brexit at both political and officer level through NECA.

Further updates on progress will be provided to members and Council as the Brexit process is defined and as the workstreams commissioned regionally develop.