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Report to: LEP Board

Date: 19 July 2017

Subject: National Policy Update

1. Purpose

- 1.1 To inform LEP Board Members of important developments in the national policy context and summarise steps being taken by the LEP to put the Leeds City Region on the front foot in fostering inclusive growth.

2. Information

- 2.1 Since the last LEP Board meeting, the General Election and Queen's Speech have shaped the direction for national economic and social policy. The following are key features to note.
- 2.2 The overwhelming focus of this Parliament is to **take forward the UK's exit from the European Union**. There will be eight new 'Brexit' Bills, of which the most relevant to the Leeds City Region are:
- **Repeal Bill** to formally withdraw the UK from the EU and transfer to UK law EU legislation, which the UK Parliament will then amend as it sees fit.
 - **Customs Bill** so the UK can put in place excise regimes for future trade agreements.
 - **Trade Bill** to provide the legal framework for the UK to strike free trade deals with other countries and ensure domestic businesses are protected from unfair trading practices.
 - **Immigration Bill**, enabling the government to end free movement of EU nationals into the UK, but still allows the country to attract "the brightest and the best".
- 2.3 As LEP Members will be aware, the Chancellor has introduced a **more flexible fiscal policy**, including dropping the commitment to eliminate the deficit by 2019/20. The current commitment is to balance the budget by the middle of the 2020s. Post-Election, government has sought to progress some aspects of fiscal policy associated

with Brexit. For example, ‘repatriated funds’¹ will fund a Shared Prosperity Fund “designed to reduce inequalities between communities” and across the UK.

- 2.4 The funding of vital **local infrastructure and services** is, however, less certain than before the election. Previous commitments to localise 100% of business rates growth appear to have been shelved, and there is little indication that major city regions will have powers to raise their own funding for local infrastructure via a local mayoral levy on business rates. Furthermore, a genuine solution to the funding of adult social care – the most acute funding pressure facing local government – appears even more remote after Manifesto plans received a hostile reception and were absent from the Queen’s Speech. Government’s commitment “to work to improve social care” and “bring forward proposals for consultation” suggests there may not be an effective solution soon, which will continue to constrain local government’s investment in infrastructure and public goods that underpin growth.
- 2.5 The **inclusive growth challenge** is growing as real wages fall (with wage rises slower than inflation) and jobs growth hasn’t permeated across the whole labour market. This real terms fall in living standards particularly affects those reliant on benefits (which have been frozen) and low wages², who proportionately spend more on the types of goods that have risen, like food and electricity.
- 2.6 In his Mansion House speech³, the Chancellor recommitted to addressing the UK’s **productivity** weaknesses as a way to achieving sustainable growth. He cites tackling under investment (both public and private); inadequate skills and regional disparities as the three priority areas. The Queen’s Speech confirms that government “will spread prosperity and opportunity across the country through a new **modern industrial strategy**”. This corresponds with the steer from the last LEP Board meeting which resolved to consider how to move forward with an inclusive, local industrial strategy at the September away day. Ahead of that, and to put the city region on the front foot, there have been exploratory discussions with officials about how this might be co-produced by a powerful partnership of government, the LEP and Combined Authority, universities, businesses and community groups to stimulate inclusive growth.
- 2.7 The LEP and West Yorkshire Combined Authority have an established position to pursue the **devolution of powers and resources** so better, more targeted decisions can be made by people familiar with, and accountable to, local communities and businesses. This is the most effective way to achieve transformative social and economic change. The General Election campaign and post-Election negotiations have, however, paid relatively little attention to the potential of devolution. The Conservative Manifesto committed to both “consolidate our approach, providing clarity across England on what devolution means for different administrations so all authorities operate in a common

¹ Comprising European Regional Development Fund (ERDF), European Social Fund (ESF) and parts of the European Agricultural Fund for Rural Development (EAFRD).

² The ‘national living wage’ increased by an above inflation 4% in April 2017 from £7.20 to £7.50 for over 25s. The Living Wage Foundation rate outside of London is £8.45.

³ 20 June 2017 - <https://www.gov.uk/government/speeches/mansion-house-2017-speech-by-the-chancellor-of-the-exchequer>

framework” and that for “combined authorities that are based around our great cities, we will continue to support the adoption of elected mayors, but we will not support them for the rural counties”.

- 2.8 Regardless of the pace and extent of devolution, other ingredients of the industrial strategy approach are being pursued. This includes, for example, a **Science and Innovation Audit for the city region’s med-tech sector**, led by the University of Leeds. It offers the opportunity for the sector to agree with government the interventions required to put the city region at the forefront of a growing market forecast to be worth \$530bn by 2022.
- 2.9 Finally, the Queen’s Speech included a commitment for ministers to **enhance rights and protections in the modern workplace**. This follows a review, led by Matthew Taylor, Chief Executive of the RSA, about how employment practices need to change to keep pace with modern business models like digital platforms. It is due to report soon and a new approach has potential to be an important driver of inclusive growth.

3. Recommendations

- 3.1 It is recommended that LEP Board Members note the content of the report.