West Yorkshire Combined Authority

Report to:	West Yorkshire Combined Authority
Date:	13 December 2018
Subject:	**Brexit/Autumn Budget Implications**
Director:	Alan Reiss, Director of Policy, Strategy and Communications
Author(s):	Patrick Bowes

Is this a key decision?	☐ Yes ☒ No
Is the decision eligible for call-in by Scrutiny?	☐ Yes ☒ No
Does the report contain confidential or exempt information or appendices?	☐ Yes ☒ No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	N/A

1. Purpose of this report

1.1 To update the Combined Authority on continuing organisational work to support preparations for the UK's exit from the European Union.

1.2 To update the Combined Authority on the latest intelligence relating to the Government's proposed transition deal.

2. Information

2.1 At its meeting held on 11 October 2018, the Combined Authority considered a detailed report setting out progress to date in preparing and developing our support offer to the city region's businesses and communities as the UK prepares to transition out of the EU. Since that report was discussed and noted work has been ongoing to further prepare and support Brexit planning, including:

- Further work with MHCLG (Ministry of Housing, Communities and Local Government) to set out the work undertaken to date to support businesses and communities across the city region.

- Engagement with central government to seek more flexibility on the city region's Growth Deal funding in order to deploy reactively at short notice if required - for example if there is a need to safeguard companies and support investments, and further support required on skills and training. The central message in our engagement with government is that stabilising (where Brexit related volatility may be evident) the city region economy should come ahead of rules around funding pots, and we are seeking Government's agreement to this.

- Establishing a cross organisational resource tasked with overseeing, co-ordinating and planning the Combined Authority and Leeds City Region Local Enterprise Partnership response to the UK's exit from the EU. The cross organisational team that will support this work will be led Alan Reiss, Director of Strategy, Policy and Communications.

Maximising funding to support our Growth Ambitions post Brexit

2.2 At its meeting held on 11 October 2018, the Combined Authority endorsed the recommendation that the Leeds City Region should seek to ensure that the totality of the funds we need to secure from the UK Shared Prosperity Fund (UKSPF) to support our growth ambitions should encompass (at least) what we receive from European Structural and Investment Funds (ESIF) and LGF (Local Growth Fund) – which is up to £200 million annually.

2.3 The Autumn Budget largely parked most significant departmental and funding decisions until next year's spending review – no further clarity or insight was provided on key funding and policy going forward (such as on the UK Shared Prosperity Fund or the ongoing LEP review). The government did announce that the competitive element of the Transforming Cities Fund, for which the Leeds City Region had already been shortlisted, will be increased by £440million.

2.4 Work is ongoing to ensure that Leeds City Region maximises the drawdown of its remaining ESIF allocation (currently estimated at just under £100 million) – focusing additional calls for projects and working with the Managing Authority to streamline the business appraisal process for applicants.

2.5 Responding to MHCLG enquiries on local preparations for Brexit (a copy of the Combined Authority's letter to MHCLG is attached at **Appendix 1**) we have clearly set out that we will be seeking more flexibility on our Growth Deal funding in order to deploy it at short notice if required (depending on the exact nature of the UK's transition from its EU membership) – where the focus of Growth Deal Funding may need to respond to the imperative to safeguard companies and support existing investments and more support may be needed on skills and training. It is our view that in this situation much greater flexibility in the deployment of Growth Deal monies will be needed.

Supporting our businesses, people and communities as the UK transitions to a new trading model

2.6 Since 2016 the Combined Authority and LEP have continued to develop the products and services we provide to business to help strengthen our support offer so that it remains relevant to the needs of our businesses in the current climate. We have also been working to maximise the drawdown of European Structural funds to help enhance the services we provide in those areas that will provide most benefit to our businesses and our citizens (such as skills development and upskilling of the labour force).

2.7 Our progress to date includes:

Support to businesses – **using our business support schemes to provide greater resilience**

- The LEP/Combined Authority is developing an extension to the current LEP Growth Service to specifically focus on business resilience and future-proofing. This will involve expanding the current SME Growth Manager resource to provide more tailored and intensive support for a targeted cohort of strategically-important SMEs.

- We have developed further our sign-posting business advice to City Region businesses by developing tailored content on the Leeds City Region Enterprise Partnership website.

Skills – product development to support upskilling and meet the needs of businesses specifically impacted by Brexit

- Advice for businesses on their training needs is available through the LCR Skills Service, with subsidy available for training required.

- Skills Service advisors can (and are) supporting businesses to develop a plan to upskill their existing staff to meet new requirements and to find appropriate training, with training subsidies available.

- Where individuals want to re-train in order to access new employment opportunities, tailored support will be available through the [re]boot programme (DWP as the managing authority has confirmed “In-Principle” approval of £3 Million for the programme).

Investor development – ensuring we have the capacity to respond the needs of key local businesses

- In May 2018 the LEP/Combined Authority Trade and Investment team in partnership with the Department or International Trade established an investor development team. The team was set up to initiate strategic conversations with specific foreign owned companies that currently do not have an established relationship with Government.

- The team in its current structure will target active relationships with circa 100-120 key LCR companies (managing the relationships with these companies as we transition out of the EU will also provide invaluable intelligence on business issues and sentiment).

- The investor development team currently has secured funding until March 2019. Subject to further funding and dependent on the source and volume of funds the investor development team can engage with a variety of businesses to secure business intelligence and business support areas related to Brexit.

Trade – maximising domestic and international trade opportunities in a new and emerging environment

- The LEP International Trade Plan (2016-2021) sets out the principles and practical arrangements for collaboration with trade delivery partners across the City Region. The plan's ambition is to increase the number of SME exporters in Leeds City Region and to drive up the value of exports across Leeds City Region. Clearly the current global trade tensions between the US and its major trading partners was not envisaged when the original trade plan was developed so further work be undertaken by the Combined Authority to consider the specific policy implications for the plan.
- Leeds City Region LEP has secured up £75,000 in funding to support Northern level work designed to drive up local domestic purchases from large UK and international OEM's (Own Equipment Manufacturer) and Tier 1 companies through the NP11 consortium.

Inward investment – driving investment from key global markets

- The city region is working hard to build investor confidence to help drive investment after the UK' s formal departure from the EU as evidenced by the December outbound mission to China (Hangzhou, Qinqdao and Hong Kong) led by Cllr. Blake (alongside key business and universities from LCR). The mission showcased the strengths of Leeds City Region with key intermediaries, potential investors and government organisations. The mission met with over 100 businesses and government contacts.
- Accelerating and building brand awareness and leveraging collateral from the City Regions success in securing Channel 4's national headquarters.

The economic impacts of the agreed EU transition deal

2.8 Following the approval of the UK's Transition Deal by EU27 heads of government and the agreement of the political framework that will shape the UK's future trade relationship with the bloc the government has identified that parliaments meaningful vote on that transition deal will take place on the 11th December 2018.

2.9 To support Parliament in its deliberations both HMT and the Bank of England have published additional economic impact material to set out the potential impacts on the UK economy. The HMT report focuses on the long term

potential impacts on the UK economy whilst the BoE report (both published on the 28 November 2018) focuses on the short term impact to the UK economy with the emphasis on financial stability.

2.10 Both reports conclude (in both the short and long term) that the impacts on growth would be significant if the UK left the EU under a no deal scenario – HMT concludes that the UK economy could be up 7.7% smaller over the long term compared to the UK's current arrangements (the Bank calculates that no deal arrangements could trim between 7% to 10% from the UK economy between 2019 to 2020).

2.11 It should be noted that both HMT and the BoE have developed a range of modelled scenarios using assumptions to capture the likely scope of the potential economic impacts (this reflects the high degree of uncertainty given the uncharted nature of the potential structural economic forces that might be at work) – but the greatest certainty across both is the impact of no deal arrangements. The key areas where these assumptions are made relate to trade barriers (or Free Trade Agreements), Tariffs (their level, scope and timing) and so called "Non-Trade" barriers (such as those relating to migration).

2.12 The FPC (the Financial Policy Committee of the BoE) has made clear that the 2018 financial system stress tests show the UK banking system is strong enough to serve the needs of UK households and businesses in the event of a no deal Brexit. The Bank goes on to conclude that the implementation period built into the agreed transition deal will mitigate most near term financial stability risks to the UK economy. In the Bank's modelling of the close economic partnership set out in the political declaration accompanying the transition deal it believes the UK economy would grow by an additional 1.75% (relative to Bank's baseline forecast in the November 2018 Inflation report) and would contract by 0.25% (between 2019 to 2023) with a less close arrangement.

2.13 The HMT work is a more detailed assessment of the trade, migration and regulatory effects across 5 core scenarios (the July White Paper "The Future Relationship between the UK and the European Union", EEA membership, Free Trade Arrangements and no deal arrangements) – it should be noted that all these scenarios would imply the UK's long run growth would be lower compared to the UK's current arrangements. This work concluded that the policy position set out by the government in its White Paper would have the least impact on long run UK growth with average annual growth 0.6% lower. The results for the scenarios above assume some form of migration from the EEA, the impacts to long run UK growth would be greater if there were no net inflows of EEA workers.

2.14 The HMT work also included some regional level modelling across the policy scenarios analysed – this work concludes that long run GVA in Yorkshire and Humber could be up 8.2% lower in a no deal scenario and up 3.2% lower in the policy position set in the July 2018 White Paper *The future relationship between the United Kingdom and the European Union*.

3. Inclusive Growth Implications

3.1 There are no inclusive growth implications directly arising from this report.

4. Financial Implications

4.1 There are no financial implications directly arising from this report.

5. Legal Implications

5.1 There are no legal implications directly arising from this report.

6. Staffing Implications

6.1 There are no staffing implications directly arising from this report.

7. External Consultees

7.1 No external consultations have been undertaken.

8. Recommendations

8.1 That the Combined Authority notes the contents of this report in updating progress on Brexit Planning.

8.2 That the Combined Authority note funding update and announcement relating to the allocation of Transforming Cities Funding.

8.3 That the Combined Authority note the key messages from the latest Brexit Economic Impact work undertaken HMT and the BoE (Bank of England).

9. Background Documents

There are no background documents associated with this paper.

10 Appendices

Appendix 1 - Letter to Cities and Local Growth Unit, MHCLG.