

**Report to:** West Yorkshire Combined Authority

**Date:** 11 October 2018

**Subject:** **Leeds City Region Brexit resilience and opportunities assessment**

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Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	

## 1. Purpose of this report

- 1.1 To update the Combined Authority on ongoing work to prepare and support the city regions businesses and communities ahead of the UK's withdrawal from the EU, whilst focusing on key areas of opportunity to support the city regions growth ambitions. To provide information to support future policy planning and to inform discussion on the shape of the services provided to Leeds City Region businesses and communities.
- 1.2 To consider the key policy themes and potential future resource opportunities identified in section 2.15

## 2. Information

- 2.1 In December 2016 the Combined Authority considered an item on the "City Region response to Brexit", endorsing the assessment contained in the report of the headline policy issues that were identified and delegating authority to the Combined Authority Managing Director and the LEP Chair to flex our response (in those areas) based on that assessment.

- 2.2 This report contains a detailed matrix setting out those actions that have been taken to address the key issues identified in the 2016 (attached at Appendix 1) whilst also building in an opportunities assessment to consider areas for further work that can developed as the UK's formal departure from the EU approaches.
- 2.3 In the period since the Combined Authority last formally considered the issue of the UK's departure from the European Union growth in the UK economy has slowed but the UK jobs market has remained fundamentally strong (total UK employment is now higher than at any since January 1971, with the employment rate raising to a high of 75.7%). The most visible macro-economic effects have been those directly related to the devaluation in sterling and the effects this had on the UK's imports and wider supply chains cost base (Consumer Price Inflation peaked at 2.8% in September 2017 remaining at that level until January 2018, it is now 2.3%).
- 2.4 Since December 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 and 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).
- 2.5 Our achievements to date include:

**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. These will be identified by the LEP/Combined Authority and its Local Authority partners with the criteria for identification including size, sector, and position within supply chains, exposure to international trade and exposure to changes in the regulatory environment.
- We will continue to closely review the range and scope of the Brexit "No Deal" information notices produced by the government, recognising the current status of the UK's negotiations with European Commission. At this point in time we feel it would be premature to offer specific advice and guidance through the Growth Service on the local implications of these notices and we would encourage businesses in short term to consider any industry specific guidance that may be relevant to them (from trade or business representative groups).

### **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 Leeds City Region 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 (it is anticipated that the fund will be operational from April 2019 subject to approval by DWP).

### **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 of 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 Leeds City Region companies (managing the relationships with these companies as we transition out of 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 principals and practical arrangements for collaboration with trade delivery partners across the City Region. The plans 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 (this work is captured in the Annex A assessment).
- Leeds City Region LEP is leading Northern work designed to drive up local purchases from Norths top 30 OEM (Own Equipment Manufacturer) and Tier 1 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 Councillor 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.
- The most recent EY Attractiveness Survey showed that Leeds remained in the top 3 cities in England underlying the attractiveness of the Leeds City Region inward investment package more generally and helping to drive an 18% increase in FDI from the previous year. FDI results into Yorkshire & Humber overall have remained consistent in the past two years but it is now becoming widely regarded that the 'innovation ecosystem' is becoming a more predominant factor influencing the location of FDI.

- 2.6 The LEP Board now receives a detailed Brexit economic report with dedicated commentary on the extent to which current local and national economic data offers insights on the health of the Leeds City Region and wider economy as the UK moves towards its formal exit from the European Union, this commentary will deepen in insight and detail as the UK approaches the March 2019 exit date.
- 2.7 The Combined Authority has taken a leading role in monitoring the impact of UK's withdrawal from the UK having formally responded to the Migration Advisory Committee's consultation on "EEA Workers in the UK Labour Market" in October 2017, whilst providing vital local insight on business views of Brexit to the DEXU select committee in March 2017. Going forward the Combined Authority and LEP will significantly enhance its evidence base to help better understand business and household views.
- 2.8 The Combined Authority and LEP is also working closely with our local and regional partners supporting complimentary work at both the district and Yorkshire and Humber regional level. Individual local authorities in the city region are monitoring the risks to their localities and local services, as well as engaging with the national work by the Local Government Association, Special Interest Group of Municipal Authorities (SIGOMA) and the Core Cities and Key Cities groups. At the Yorkshire and Humber level a working group has been established by Council Leaders working together with the four Local Enterprise Partnerships, considering the shared priorities for Brexit for the region when engaging with government.
- 2.9 Since the report to the Combined Authority in December 2016 the governments approach to the repatriation of UK structural funds receipts has become clearer, although it should be noted that the policy backdrop to this will continue to evolve.

## European Structural and Investment Funds (ESIF) and the UK Shared Prosperity Funds

- 2.10 The Government has made a commitment to create a new UK Shared Prosperity Fund (UKSPF) to replace ESIF. The emergence of the UK Shared Prosperity Fund provides a real opportunity to transfer power direct from the European Union to local places to ensure funds can be best used to be more responsive to the needs of local people. Set within the current government policy and devolution framework, the SPF should be seen as the key instrument available to areas that will both strengthen and accelerate devolution using localised industrial and economic development strategies as the key drivers of sustainable and inclusive growth and prosperity.
- 2.11 Work is ongoing in helping government give consideration to how the fund could work when addressing the need to raise both productivity and drive inclusive growth. It should be noted that LEPs and Combined Authorities will play a key role in working with government to ensure that any future funding model is aligned and supports the delivery of Local Industrial Strategies (the government has said Local Industrial Strategies should use to help prioritise and maximise the long term impact of the UKSPF).
- 2.12 A key task for the Combined Authority is to make sure we have continuity with the EU funds ending in December 2020 and with UKSPF starting in 2021. Going forward this will mean that the Combined Authority will need to play a key role in shaping and influencing the design of the new fund over the next year (this role will be critical to our future funding envelope).

Suggested asks of Government are set out below:

- We would want a commitment from government that the **value of the SPF available to areas would be at least of an equivalent value** to those EU and other domestic funds previously received prior to Brexit. As a net contributor to the EU there is an expectation that the new SPF would include at least repatriated funding and that this would be shared fairly across the UK, increasing values previously distributed.
- **Going forward in local terms we would expect that the quantum of funds needed to support our growth ambitions would at least encompass the totality of the current ESIF and LGF funds** (government has confirmed that there will be no further rounds of the Local Growth Fund which will be subsumed into the UK SPF) meaning annual funding from UK SPF should be at least £200 million to ensure that Leeds City Region can support its growth ambitions.
- We are committed to tackling the challenges posed Brexit and seizing any opportunities but this requires a commitment to considering an instrument that provides **something different, flexible and more responsive to local needs**.

- Set within the current government policy and devolution framework, the SPF should be seen as the key instrument available to areas that will both **strengthen and accelerate devolution** using localised industrial and economic development strategies (including innovation) as the key drivers of sustainable and inclusive growth and prosperity. Funding must be allocated initially only at the strategic level, leaving local areas free to allocate to programmes and projects according to local priorities and plans.
- Any new SPF has to **commit to breaking down both the institutional and operational silos previously and currently witnessed in ESIF programmes**. This requires a commitment to developing fully integrated programmes that **bring together the people, place and business driven funding**. Typically, ERDF, ESF and Rural Growth funds have proved incredibly difficult to align and provide integrated and holistic people and place based solutions. Maximum integration into place based programmes must be a key objective of any new SPF.
- Further to this, funding should be developed with the aim of delivering within a **'single pot'** for areas, thus removing unnecessary complexity, bureaucracy and the subsequent plethora of rules and eligibility conditions that emerge from separated and fragmented funding programmes.
- A new SPF has to be built on developing long term objectives for sustainable growth and inclusion. To this end programmes need to adopt the principles established in the EU multi-annual financial frameworks **and be set in 7-10-year funding periods as a minimum**. Further consideration should be given to aligning these to devolution timetables.

2.13 Flexing our policy response, depending on the form and function of the UK's formal departure arrangements from the EU (notwithstanding any transition arrangements), and regularly reviewing this, is an important part of the monitoring arrangements we are implementing. Our assessment of the issues identified in the 2016 paper to the Combined Authority and our progress to date in addressing these is shown at **Appendix 1**.

### **Developing policy the response to maximise opportunities**

2.14 Building on our progress to date (outlined above) further work has also been undertaken to help shape the broad spectrum of the Combined Authority's policy products, this work is designed consider how we flex our support to businesses and local communities (shown at **Appendix 1**).

2.15 The key message underlying the assessment is that the city region must be prepared to seize the opportunities that flow from our strong investment offer as the UK builds a new trading model by ensuring that we have the products and services which allow our business and people to grow in new geographical and human capital markets.

Set out below are the key opportunities we have identified from the assessment, they provide a high level context to the design and prioritisation of our policy response:

- Developing our business support capacity to meet the needs of our businesses – especially in the key area of aftercare support whilst ensuring that the existing Growth Service offer is scalable.
- Boosting resources and skill sets in key policy areas such as supply chain development and engagement to seize the opportunities presented as new markets emerge.
- Work closely with firms in key sectors heavily reliant on EEA migrant workers to support their skills needs and to make sure they have access to a local workforce that meets their labour needs.
- Ensure our intelligence (from economic intelligence to management information) is fit for purpose and responsive to the needs of our businesses and communities.
- Provide leadership to national work in the development and alignment of the UKSPF (UK Shared Prosperity Fund) to meet local need and support our future growth ambitions. Actively shape the development of the fund and ensuring maximum local flexibility in its design. Going forward in local terms it is expected that the quantum of funds needed to support the growth ambitions would encompass the totality of the current ESIF and LGF funds.

### **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 and endorses the work and progress to date in supporting the city regions businesses and communities ahead of the UK's departure from the EU.

- 8.2 That the Combined Authority notes and considers the ongoing work to develop our support offer to city region businesses and communities, maximising the opportunities identified.
- 8.3 That the Combined Authority discusses the key issues addressed under item 2.15

## **9. Background Documents**

There are no background documents associated with this paper.

## **10. Appendices**

Appendix 1 – Developing policy products to meet the needs and opportunities of Leeds City Region business and people in a post Brexit world.