

Report to: Leeds City Region Enterprise Partnership Board (LEP)

Date: 23 January 2019

Subject: **Preparing for Brexit**

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1 Purpose of this report

- 1.1 To provide an update on the latest economic and business intelligence for the Board and to consider the key messages from this as the UK prepares to leave the European Union.
- 1.2 To update the LEP Board on ongoing work to prepare and support the city region's businesses and communities ahead of the UK's withdrawal from the EU.

2 Information

- 2.1 This report presents the latest headline trends and developments in the global, national and local economies (a detailed update of the Board Quarterly Economic report will be presented to the Board at their meeting on the 23/03/19).
- 2.2 The report highlights ongoing organisational work to refine and develop the LEP's messaging and engagement around Brexit preparations to support the city region's businesses and communities.

Main national and city region economic headlines

- 2.3 The main national and international headlines include:
 - There has been significant volatility in sterling following from the postponement of the House Commons vote on the UK's EU transition deal despite rallying following the announcement of a deal, sterling was trading some 13% below its pre-referendum value at the end of 2018 and had seen similar falls against the dollar.
 - New labour market data (covering the period August to October) shows that the UK labour market continues to expand (despite wider macro-economic volatility) with the headline rate of employment climbing to 75.7% by October (the highest since labour market records began in 1971). At

national level total employment rose by 79,000 in the three months to October compared to the quarter prior to this – with most of this increase driven by a rise in full time employment. Wages are also growing at a solid pace compared to recent years, increasing by 3.3% in October.

- Inflation fell to 2.3% in November – its lowest level for almost two years and significantly below its peak of 2.8% in November 2017. Falling fuel and oil prices have been a significant factor in this.
- The latest survey from the CBI shows an upturn in orders for UK manufacturers on the back of increased export demand in November. The Markit PMI manufacturing survey also reported an increase in activity, though the export picture was more mixed. There is a sense that some of this increase in activity is a result of firms building their inventories ahead of any potential supply disruption in the event of leaving the UK without a deal.
- The service sector continues to report a slowdown, with expansion at its lowest pace in two and a half years according to the latest PMI. Brexit uncertainty has led to consumers and businesses cutting back spending, according to the survey.

Brexit commentary and assessment

2.4 Working closely with the city region's Chambers of Commerce the LEP deployed a series of questions on the Q4 Quarterly Economic Survey designed to ascertain how our business are preparing for a range of Brexit transition outcomes, key insights from the survey show that:

- Manufacturers across Leeds City Region reported a slowdown on most indicators in Q4 2018, though sales activity was more resilient in the service sector. Despite this, companies continue to seek to expand their headcount though skills shortages remain a challenge and the time taken to fill vacancies has lengthened.
- Profitability expectations declined among manufacturers, having been resilient through most of 2018. The fall was less marked for the service sector but the longer term trend remains downward.
- 61% of respondents say they have devoted management time to considering the implications of Brexit on their business, and 45% say they have mapped their supplier and customer base and considered how changes to the trade relationship could affect them.
- 10% of businesses have made changes to their strategies or operational model already in response to Brexit. 15% are planning to make changes prior to the UK leaving in March, with the same proportion planning changes post-March. However, 60% of businesses are not planning any changes.

2.5 To support Parliament in its deliberations (when it votes substantively on the UK's transition deal) 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.

- 2.6 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).
- 2.7 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).
- 2.8 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.
- 2.9 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.
- 2.10 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.

Supporting our businesses and maximising funding for growth as the UK transitions for EU membership

- 2.11 Work is ongoing to ensure that Leeds City Region maximises the drawdown of its remaining ESIF allocation (currently estimated at £135 million) – focusing on additional calls for projects and working with the Managing Authority to streamline the business appraisal process for applicants.
- 2.12 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. 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 in principle.

- 2.13 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. The group is developing a forward work plan and will review all internal and external intelligence on key Brexit issues making recommendations as required to develop the organisations marketing and support packages to businesses and communities.
- 2.14 We are working to develop LEP signposting and marketing content resources to ensure that the city region's businesses have access to the latest support packages available from government to prepare businesses for a post Brexit trading model. The current "Europe Checklists" signposting on the "For Business" section of the LEP web site has now been enhanced by the addition of a dedicated "Preparing for Brexit" mini-hub (which went live on the 14/01/19) consolidating a wider range of information and support assets to business in a single resource. The hub will help support some of those 60% of Leeds City Region businesses (see point 2.4) who have not as yet considered the impact of Brexit on their operational model.

Conclusions, implications and next steps

- 2.15 The assessment presented in this paper sets out clearly the progress achieved to date in preparing our businesses and communities for the UK's future trading relationship with the EU and highlights the ongoing work in developing our planning to ensure our packages of support remain relevant depending on the specific nature of the UK's departure from the EU.
- 2.16 The detailed information produced by both the Bank of England and HMT on the economic impact of a range of potential Brexit trajectories has clearly set out for the 1st time the scale of no deal Brexit impact.
- 2.17 The latest national and local economic headlines show the labour market continues to expand but both business and consumer sentiment is clearly starting to falter. The latest Q4 2018 Quarterly Economic Survey with the Chambers of Commerce has clearly show that city regions businesses are now more focused on Brexit related resilience planning compared to a year ago.

3. Financial Implications

There are no financial implications directly arising from this report.

4. Legal Implications

There are no legal implications directly arising from this report.

5. Staffing Implications

There are no staffing implications directly arising from this report.

6. External Consultees

No external consultations have been undertaken.

7. Recommendations

7.1 The LEP Board is asked to note the headline economic update provided in this report and to consider how this relates to the work of the LEP and the Combined Authority in its forward Brexit planning to support the region's businesses and communities.

7.2 That the LEP Board notes the progress made in developing our support to businesses and our ongoing engagement with government.

8. Background Documents

None

9. Appendices

Appendix 1 - WYCA LCR LEP MHCLG Preparations for EU exit Letter response