

**Report to:** West Yorkshire Combined Authority

**Date:** 14 February 2019

**Subject:** **Brexit Update**

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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:	N/A

## 1. Purpose of this report

- 1.1 To provide an update to the Combined Authority on the organisational preparation being undertaken by the West Yorkshire Combined Authority and Leeds City Region Local Enterprise Partnership as the UK prepares to leave the European Union.

## 2. Information

### *Economic update*

- 2.1 The Combined Authority continues to monitor the impact of Brexit on the economy. The UK and local economic picture suggests that the jobs and labour market remains fundamentally strong, set against the backdrop of waning consumer sentiment and declining capital investment by business.
- 2.2 The period since the UK parliament's meaningful vote on the government's negotiated EU withdrawal deal has also seen significant volatility in sterling trades, although the depreciation in sterling needs to be seen in the context of foreign exchange and capital market views that the UK is likely to avoid a non-negotiated exit from the EU.

- 2.3 As well as monitoring the economy, the focus of Combined Authority and LEP research and engagement with local businesses has been to establish the extent to which city region businesses have considered the impact of the UK's withdrawal from the EU on their operational model. Early results from this research suggest that up to 60% of city region businesses believe that UK's withdrawal will have no impact on them. In response, the development of sign-posting and support content on the LEP website has been strengthened to enable businesses to access tailored support to help them in their planning.

### ***Additional Government funding***

- 2.4 The Secretary of State for Ministry of Housing, Communities and Local Government announced on the 28 January that they will commit an additional £56million to help councils carry out their preparations for Brexit. Upfront funding of £40million will be provided based on type of authority, with Combined Authorities due to receive £182,000 over the next two financial years. At the time of writing this report, no further details have been received on how or when this funding will be allocated, however the Combined Authority is commencing planning to employ this funding against the appropriate service needs.

*Table showing split of £40m upfront funding by type of authority:*

	2018/19 (£k)	2019/20 (£k)	Total (£k)
<i>Combined Authorities (11 including London (GLA))</i>	91	91	182
<i>District councils</i>	17.5	17.5	35
<i>County councils</i>	87.5	87.5	175
<i>Unitary authorities</i>	105	105	210

### ***Organisational preparedness***

- 2.5 This next section provides updates on the activity undertaken to prepare the Combined Authority for Brexit, and in particular a no-deal Brexit. This does not cover activity that is also being led at a local authority level or in partnership across the city region and wider Yorkshire geography, where key resilience and preparation work is also happening, particularly on preparedness for a non-negotiated exit from the EU. Officers continue to maintain a regular dialogue with both local authority colleagues and with relevant Government departments.

## 2.6 Support to businesses

The Combined Authority and LEP continue to develop and adapt a range of products and services to support the growth and sustainability of the city region's businesses. Subject to funding, two new programmes relevant to the issues of Brexit, on business resilience and investment readiness, will commence by April 2019. The investment readiness programme is currently out to tender for delivery and the business resilience programme is at an advanced stage of development.

In addition to this, the Growth Service is providing intelligence into the BEIS Growth Hub Network for local insight and Brexit preparation. The LEP website has also published Brexit guidance using .gov sources. The current "Europe Checklists" signposting on the "For Business" section of the Leeds City Region Enterprise Partnership web site has now been enhanced by the addition of a dedicated "**Preparing for Brexit**" mini-hub (this went live on the 14<sup>th</sup> January 2019); consolidating a wider range of information and support assets to business in a single resource.

Policy and economic service colleagues have also been exploring options for growth deal flexibility to provide Brexit specific business support products and services, particularly in the result of a non-negotiated exit from the EU. The intention is to engage with government on the basis of the agreed options, to seek the relevant flexibilities to growth deal monies and to flag the potential need for additional funding.

## 2.7 Skills

The Combined Authority and LEP continue to develop and adapt a range of products and services to support the growth and sustainability of the city region's businesses. The main gateway to skills support is via Growth Managers.

Appropriate messaging will be formulated for the next Skills Network meeting depending on the outcome of current Brexit negotiations. In addition, as part of exploring options for growth deal flexibility in the event of a requirement to support businesses as a result of Brexit, consideration is being given to incorporating skills products. Two new programmes, Employment Hub and Re:Boot, have recently been approved for delivery and can support businesses who may need to address skills/training challenges as a result of Brexit.

## 2.8 Trade and Investment

Business insight is being captured from companies that are engaged as part of the Investor Development programme (funded directly by the Department for International Trade) and shared across the Combined Authority, as well with the Department for International Trade and other Government bodies. The messages to date suggest that many businesses are evaluating plans for

the impact of Brexit, with the exact nature differing by sector. The main concerns remain around the effect of tariff changes, regulations, skills and recruitment and the potential for currency devaluation. This intelligence collection will continue and be used to inform decisions on any further support required for these businesses through the LEP and wider delivery partners.

The LEP website has published Brexit guidance particularly aimed at businesses with an international focus, using .gov sources.

## 2.9 Growth deal

The Combined Authority and LEP are seeking flexibility on Growth Deal funding to deploy at short notice if required. The Growth Deal is already over programmed, however some projects may not materialise or are now delayed, and therefore there could be flexibility for new programmes to be introduced with specific Brexit focus (subject to Investment Committee approval).

Flexing the current growth deal may also require approval from Central Government to allow us to spend money on the Growth Deal beyond March 2021. In the short term, if there is a need to introduce support programmes specifically around Brexit that do not fit within the Growth Deal we may have to borrow money to fill in the gap funding. This area therefore remains a significant risk to the organisation, and therefore further engagement with government will take place outlining the need for flexibility.

## 2.10 European Funding and UK Shared Prosperity Fund

The Combined Authority and LEP are concerned both with ensuring continued delivery of European Structural and Investment Funds (ESIF) and with leading on the region's input to the shaping of the UK Shared Prosperity Fund.

Based on current exchange rates the total value of ESIF in LCR is £345.48m. Of this, based on the programme pipeline, 61% is already committed. Plans are in place to attempt to commit the remaining 39% by summer 2019. If not, the remaining money will be pooled in to the national Reserve Fund to help Government maximise the programme and manage exchange rate fluctuations.

In terms of the Shared Prosperity Fund the Combined Authority is engaging with Government to influence the design, structure and quantum of UKSPF, and will respond to the Green Paper consultation once published.

## 2.11 Research and intelligence

The research and intelligence team are monitoring and modelling the potential impacts of Brexit and collecting qualitative evidence to inform decision making. This has included producing a Brexit economic report that has been discussed at LEP board. Deeper dive questions are also being deployed through the Chamber of Commerce's Quarterly Economic Survey.

The Business and Household Surveys will also offer further opportunities to analyse the impact of Brexit on the city region – fieldwork for the former will be

completed by March, however the latter is only due to be piloted on a small scale in March, with the majority taking place after local elections in May.

## 2.12 Programme delivery

In terms of programme delivery, the main concern is controlling for the impact on existing and future programme delivery of Combined Authority projects. Any slowing down of private sector investment into key schemes (e.g. Enterprise Zones, housing, or other employment sites which have been 'unlocked' by the West Yorkshire Plus Transport Fund) could cause a delay in realising additional jobs and homes in the region. This risk remains particularly high, and is reflected more widely in the economy where anecdotal evidence suggests businesses are more reluctant to invest. There is also potential for there to be impact on access to skilled labour in specialist areas related to programme delivery (e.g. full fibre connectivity). The Delivery team are monitoring key schemes to understand any potential risks.

## 2.13 Transport Services

The service has been monitoring the risks to delivery of the Combined Authority's Transport Services functions, including the supply chains for train and bus assembly and legislation affecting transport operations.

Initial discussions have taken place with transport operators, and have flagged up potential impact on:

- The supply chain of labour, particularly exacerbating an existing shortage of bus drivers
- Insurance costs (upward), which may also affect the Combined Authority.
- A weaker pound impacting on fuel prices (given fuel is traded in dollars), and vehicle parts prices
- Availability of parts purchased either directly from suppliers or through vehicle manufacturers (particularly European), with a risk also of some suppliers or consumers stockpiling parts
- Coach operators who operate abroad, and a particular concern for the implications for drivers in Europe in a non-negotiated exit from the EU

These risks will be raised again at the Operator Group and operators will be asked what contingency plans they have in place.

## 2.14 Procurement

The Combined Authority's procurement team are exploring how procurement may operate in the future, outside of OJEU processes, and the requirements on state aid. The team are following the latest government guidance issued, and will look to engage with further engagement from Government on how to deal with ongoing procurement procedures in the handover period that may develop between two systems.

## 2.15 Human Resources

Human Resources are preparing for any new regulations with regards to the employment of EU nationals and ensuring compliance in new recruitment.

As Government has now provided further information about the ongoing employment of EU nationals, the Combined Authority is communicating with all members of staff to highlight how EU nationals can apply for settled status and the support available to help individuals in that process.

## 2.16 Communications

Web content, including business checklists and links to gov.uk content, is now live on the LEP website. This incorporates information from other communications activity that has taken place, which include:

- 5 trade checklists published on LEP website,
- 6 trading in Europe events delivered,
- digital advertising throughout Autumn 2018 promoting events,
- Shared Prosperity Fund press releases

### ***Talking to Government***

2.17 The Combined Authority is currently engaging with individual government departments on a number of fronts. These include:

- Discussion with BEIS in relation to business intelligence
- Regular teleconferences with MHCLG coordinated by the LEP network
- An initial letter to MHCLG on the Combined Authority's preparations, with follow up conversations on the recent funding announcement from the Secretary of State

2.18 This is in addition to the wider government engagement taking place with local authorities and partners, in particular through the West Yorkshire Resilience Forum. We anticipate that this engagement will increase in the coming months, in line with the progress of national government negotiations and decisions.

## **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, which provides an update on progress on organisational planning for the UK's departure from the European Union.

**9. Background Documents**

9.1 There are no background documents associated with this paper.

**10 Appendices**

10.1 None