

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

Date: 22 November 2018

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 regions businesses and communities ahead of the UK's withdrawal from the EU, whilst focusing on key areas of opportunity to support the city region's growth ambitions.

2 Information

- 2.1 This report presents recent developments in the global, national and local economies. The report is now produced on a regular, quarterly basis. As such the latest available version will be presented to the Board for each of its meetings. When no new report is available from the previous meeting, a brief update will be provided to the Board covering any recent major developments.
- 2.2 The version presented here is the November 2018 Economic Update.
- 2.3 The economic report now includes dedicated commentary on the extent to which current local and national economic data offers insights on the health of the LCR and wider economy as the UK moves towards its formal exit from the European Union.
- 2.4 A contextual assessment is also presented in the covering paper (which accompanies the economic report) on progress to date in the design and development of our support offer to the city region's businesses and communities as the UK prepares to withdraw from the EU.

Main national and international headlines

- 2.5 The main national and international headlines include:

- The IMF has recently revised down its forecasts for global growth to 3.7% for both this year and next – down 0.2% from its forecasts in April. Recently announced tariffs and trade measures are the key reason for this downward revision, which keep growth projections in line with 2017.
- The IMF forecast growth in the UK to slow from 1.7% in 2017 to 1.4% and 1.5% in 2018 and 2019 respectively. Poor weather in Q1 is a factor in this, though anticipated higher barriers to trade post-Brexit are also a factor in the medium term despite the IMF assuming that UK-EU trade remains tariff-free.
- UK GDP increased by 0.7% in the three months to August. This is substantially higher than the 0.1% growth in March-May. Warm weather was an important factor in this. The service sector expanded by 0.5%, though this was outpaced by growth of 0.7% in production and 2.9% in construction.
- UK productivity increased by 0.5% in Q2 2018, following a QonQ fall in Q1. Productivity growth remains below the pre-recession trend.
- Inflation fell to 2.4% in September, down from 2.7% in August whilst average earnings increased by 3.1% in the three months to August, the highest annual growth rate since 2008. Real pay has increased by 0.7% in the past three months, with wage growth outpacing inflation for five consecutive months.
- Total employment in the UK was largely unchanged in the three months to August, according to ONS. The employment rate dipped to 75.5% from a record high of 75.7%.
- Unemployment also fell by 47,000 to 1.36 million, an unemployment rate of 4%.

Leeds City Region economic headlines

2.6 For Leeds City Region, the key headlines include:

- The value of goods exports from Yorkshire & Humber increased at a faster rate than any other English region between Q1 2018 and Q2 2018. The region's goods exports increased by 3.4% in Q2, compared to a 2.2% fall nationally, according to HMRC data. The region has seen the joint fastest growth in goods export of any English region since the EU referendum in June 2016.
- New ONS analysis suggests Yorkshire & Humber exported services worth £7.78bn in 2016, an increase of 8.1% on 2015. This growth rate is third lowest among UK regions, and falls between North West (-0.9%) and North East (+14.3) at a northern level.
- Business activity continued to expand across Yorkshire and Humber through September according to the Natwest Regional PMI, albeit at a reduced pace.

- Yorkshire businesses reported increased domestic and international demand in the PMI survey, and remain optimistic that output will continue to increase over the next year. As such, headcounts continue to expand.
- Total employment in Leeds City Region increased by 4,000 (0.3%) between Q1 and Q2 2018, taking the employment rate to a new record high of 73.7%. Employment increased faster than in the UK as a whole where it increased by 0.1%.
- Unemployment in the City Region fell by 3,100 (4.5%) in Q2 2018. There are now 65,200 people unemployed, the lowest level since 2005. The unemployment rate is 4.4%, also its lowest since 2005.

Brexit commentary and assessment

- 2.7 There are signs that UK businesses are beginning to become increasingly alive to the uncertainty of Brexit negotiations and the perceived higher risk of a “no deal” outcome. A CBI survey suggested 1 in 5 businesses had already begun to implement contingency plans, with increasing numbers of companies planning to follow suit if no certainty emerges before the end of 2018. Similarly, the Chambers of Commerce have reported lower levels of investment in their national survey for Q3.
- 2.8 At City Region level, the labour market remains relatively strong with employment increasing and unemployment decreasing. However, it is notable that some of the sectors that have seen strong employment growth of late are among those with reliance on EU workers which may pose a challenge to these industries in future, most notably logistics and hospitality sectors.
- 2.9 The region’s goods exporters continue to see the benefit of sterling’s fall and have seen export activity expand strongly in the past two years. This may be a factor in the continuing levels of confidence among the region’s businesses, who remain more optimistic than those in most other regions. The apparent fall in new business starts does however suggest a degree of hesitancy in some quarters.
- 2.10 That same hesitancy is evident in the housing market, where sales volumes point to a slowdown despite rising prices. Many households, like businesses, appear to be waiting for clarity and confidence in future arrangements before making significant investment decisions. This pattern may be more evident in the consumer sector as it enters the critical Christmas trading period.

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

- 2.11 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).

2.12 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. 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 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 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 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 LCR 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 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 (this work is captured in the Annex A assessment).
- Leeds City Region LEP is leading Northern 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.
- The most recent EY Attractiveness Survey showed that Leeds remained in the top 3 cities in England underlining the attractiveness of the LCR inward investment package more generally and helping to drive an 18% increase in Foreign Direct Investment (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.

Maximising funding to support our Growth Ambitions post Brexit

- 2.13 At its 11th October meeting 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.
- 2.14 Equally 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.
- 2.15 Responding to MHCLG enquiries on local preparations for Brexit 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.

Conclusions, implications and next steps

- 2.16 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.
- 2.17 The Research & Intelligence Team will continue to monitor the impact of Brexit on the City Region economy and its businesses. The Quarterly Economic Survey with the Chambers of Commerce has now been re-established and will report results for Q4 2018 in early 2019. This will provide further insight on the views of City Region businesses on Brexit. The annual Leeds City Region Business Survey will build on this in early 2019.

3 Financial Implications

- 3.1 There are no financial implications directly arising from this report.

4 Legal Implications

- 4.1 There are no legal implications directly arising from this report.

5 External Consultees

5.1 No external consultations have been undertaken.

6 Recommendations

6.1 The LEP Board is asked to note the analysis presented in the economic update and dashboard and consider how this relates to the work of the LEP and its strategy, and to note the planned approach to surveys to ensure timely and relevant intelligence.

6.2 That the LEP Board notes the progress made in developing our support to businesses as the UK prepares to leave the EU.

7 Background Documents

7.1 None

8 Appendices

Appendix 1 – Leeds City Region Economic Update Report – November 2018

Appendix 2 – Leeds City Region Economic Dashboard – November 2018