

# LEAVING THE EU

## Scrutiny Briefing Report



### Introduction

On 23<sup>rd</sup> June 2016, the UK voted to leave the EU. Since this date, the Leaving the EU Working Group has been gathering evidence as to how this will impact upon Plymouth and the wider region. While the scale of the impact is largely dependent on the terms negotiated on leaving the EU, the recent Brexit White Paper and other government announcements have given an insight into what sort of a 'Brexit' is anticipated. This briefing provides an initial high-level summary of the information collected so far.

### Brexit White Paper

Following the parliamentary vote on the European Union (Notification of Withdrawal) Bill which granted Theresa May the power to invoke Article 50, the government published its White Paper on 2<sup>nd</sup> February 2017, setting out how the UK proposes to leave the EU.

#### Key points:

- Article 50 will be triggered no later than the end of March this year.
- An immigration system will be designed to control EU migration and therefore, in future, the Free Movement Directive will no longer apply.
- The Government are seeking to secure 'the freest and most frictionless trade possible in goods and services' with the EU outside of the single market via 'an ambitious and comprehensive free trade agreement.' The UK will also leave the customs union but wants to seek a new customs agreement with the EU. The UK will not seek to adopt an existing model used by other countries but will try to take in elements of current Single Market arrangements.
- A Great Repeal Bill will be introduced which will remove the European Communities Act of 1972 from the UK statute book and convert the body of existing EU law into domestic law. Following exit from the EU, Parliament will then be able to decide which elements of legislation to keep and which to repeal.
- The Government will ensure the continued protection of workers' rights as the body of EU law is converted into domestic legislation and also seeks to enhance them.

### Opportunities and risks of leaving the EU

#### Potential opportunities

- Opportunities to drive local growth following access to new markets and linking in with the Government's Industrial Strategy
- Ability to influence legislation as it devolves back from the EU
- A predicted increase in tourism and 'staycations'

Identified risks:

- Reliance on access to EU markets
- Potential workforce shortages in key sectors such as manufacturing, construction, tourism, care and higher education
- Replacing EU funding and the what form this will take

## **Opportunities**

### ***Local growth***

The Government's new Industrial Strategy, which aims to improve living standards and economic growth by increasing productivity across the whole country, was published in January 2017 for consultation. Plymouth and the wider HotSW region have a number of ambitious plans for economic growth and work is now underway to identify how the opportunities provided through Brexit and the Industrial Strategy will allow us to build on these.

### ***Legislation***

Procurement and State Aid are two areas of legislation that will need immediate replacement following departure from the EU and where a domestic alternative will be needed. This provides an opportunity to allow greater flexibility in the procurement process, which is one of the main priorities. Additional priorities include:

- Allowing for post tender negotiations
- Increasing thresholds
- Narrowing the criteria for suppliers to bring about a challenge

Reform is recommended rather than the total abandonment of existing procurement rules. However, it is necessary to recognise that much EU legislation is based on rules that originate from the World Trade Organisation (WTO). Adherence to EU Procurement Directives may be a prerequisite of trading with Europe following exit from the EU depending on the terms negotiated.

Exiting the EU provides an opportunity to review and reform the state aid regime. In the post Brexit landscape, greater flexibility to ensure how public grants and subsidies can be used to maximise the benefit to business is of great interest in particular administering grants and subsidies to;

- Local suppliers who support the economic development of the city;
- Suppliers who support the economic development in the region;
- Local social enterprises

### ***Tourism***

Plymouth had over 5 million visitors in 2014 and the total value of tourism to the city is £316 million, supporting 7,420 jobs. Plymouth has the highest amount of day visits in the region at 4.2 million annually. Recent research from Visit England into domestic tourism and the impact of Brexit suggests that more people in the UK are now choosing to take breaks in the UK rather than go abroad. Plymouth has ambitious plans to grow visitor numbers by 20% by 2020 and raise the profile of Plymouth and its positioning as a place to visit and invest, focusing on its outstanding marine credentials. Also, Plymouth will be the UK centre for the Mayflower 400 celebrations in 2020 which is an incredible opportunity to put Plymouth on the cultural map and foster relationships with colleagues on the other side of the Atlantic. Leaving the EU provides an

opportunity to grow the sector and attract high value tourism although as mentioned below, labour market shortages are an associated risk.

## **Risks**

### ***Labour market shortages***

It is too early to accurately assess the impact of leaving the EU on the local labour market and the scale of the risk will depend on the form that Brexit takes and negotiations going forward. Currently, only 2.7% of Plymouth's workforce is made up of EU citizens. However, EU citizens represent key skill sets in certain sectors that are important for Plymouth such as manufacturing, construction, tourism and care. The impact on the local labour market will depend on the terms negotiated. Only 4.3% of staff from Plymouth Hospitals NHS Trust are from the EU however they are concentrated in specific areas such as nursing and midwifery. Approximately 25% of Plymouth University staff are EU nationals therefore there could be a significant impact on workforce. A limit on EU nationals working and studying in the UK could reduce the ability of Higher Education organisations to attract highly-skilled staff and result in less collaboration with leading researchers across the world and reduced access to research networks.

The potential impact on the care market is currently being explored with service providers. Initial feedback indicates that whilst some domiciliary care providers employ small numbers of EU and non EU nationals, care homes employ a slightly larger number. Providers have identified this as a risk in terms of increased costs due to market demands on a smaller group of eligible workers, which could result in reduced capacity to deliver care, whilst demand is increasing. This will also present a risk to the Local Authority, particularly in light of the aging population and already stretched resources. Care providers have reported that they are finding it harder to recruit suitable applicants, with the majority of current applications being from outside of the UK. There are therefore concerns in the care industry that without access to EU (and non EU) workers it will be even more difficult to recruit.

There is an opportunity to fill some of the gaps in the labour market by training and upskilling the existing local workforce. However, if local growth continues as forecast, even without the impact of Brexit, the demand for skilled labour in the construction and marine / advanced manufacturing sectors cannot be met by the local area workforce without substantial reskilling. Therefore, any additional shortages caused by leaving the EU could exacerbate this situation further. Retraining and upskilling the local population is a long-term activity and would therefore not help to mitigate more short-term workforce shortages.

### ***Access to market and impact on key economic sectors***

Plymouth, and the wider South West region, is particularly reliant on access to EU markets. Within the South West region, dependency on trade with EU countries is higher than the national average. 60% of all South West exports are to the EU compared to 48% nationally (in value terms). 40% of South West imports are from the EU. The impact of leaving the EU will depend on the terms negotiated post-Brexit. Also, only 21% of businesses in the South West region actually export. The South West region exported £15.3bn of goods in 2015, the second lowest of any English region. Therefore, whilst a significant proportion of what we do export goes to the EU, exporting is not a large proportion of overall production so the risk is arguably not as great as it first appears. There is a risk however in that, as Plymouth does not export a significant amount of goods and services, trying to build new trading relationships following exit from the EU could be harder than for other cities.

Plymouth has a strong advanced manufacturing sector and has the highest concentration of manufacturing and engineering employment of any city in the South of England. Locally, manufacturing accounts for 13% of the total economy and a similar proportion of the labour market. A recent Plymouth Manufacturing Group 'Health of the Sector' Survey shows that respondents believe that growth will be as strong as ever next year. However, 55% of respondents feel that a 'hard Brexit' would 'impair the performance' of their business, whilst 39% felt that 'we would do just fine'. Two-thirds of our larger manufacturing firms (employing 100+ people) are foreign direct investors. Some service the globe from Plymouth and some only trade within the UK. Some of them chose to locate here in the UK originally to serve the European market and would therefore have wanted the Government to maintain single market access. Plymouth has some exposure to risk due to a disproportionate reliance on the manufacturing sector (16% of the economy, compared with 10% nationally).

Plymouth has three Higher Education Institutes (HEIs) that collectively employ 3,886 full time equivalent staff. The success and vibrancy of these organisations contribute hugely to the city's economy with student spend estimated to be over £120m to our local GVA (Gross Value Added) and supporting almost 5,000 jobs. There is a risk that a reduction in EU students will lead to loss of income, research and a reduction in the number of skilled graduates available to the economy. The loss of this contribution to the city's economy would be a severe blow to the city and would affect businesses that support the student population. However, there is an opportunity to charge higher fees to EU students post-Brexit should they be able to study in the UK and if they still choose the UK as a study destination.

### **Funding**

In respect of regional funding, the Heart of the South West (HotSW) LEP has been allocated €117.8 million European Structural and Investment funding (ESIF) for 2014-2020. The Brexit White Paper confirmed that all European Structural and Investment Funds (ESIFs) projects signed, or with funding agreements that were in place before the Autumn Statement 2016, will be fully funded, even when these projects continue beyond the UK's departure from the EU. For projects signed after the Autumn Statement 2016 and which continue after we have left the EU, HM Treasury will honour funding for projects if they provide strong value for money and are in line with domestic strategic priorities.

It is essential that this level of funding is made available to the area following exit from the EU. EU funding is secure for a six year period so any successor scheme must have a similar guarantee to allow for strategic planning and investment.

Whilst the loss of EU funding is considered a risk, there are also potential opportunities in terms of successor funding programmes and the form they will take. EU funding programmes have been criticised in the past for being too fragmented, centrally driven and unnecessarily challenging to access. There is an opportunity for a successor regional aid scheme to be managed, commissioned and delivered at a local level. There is also an opportunity to move away from the traditional EU focus on specific geographical areas and funding could be aligned with areas based on other criteria, in line with the Industrial Strategy.

Agricultural funding has been guaranteed until 2020 however, after this time, any reduction in agricultural funding due to leaving the EU will have an impact on the HotSW region and the regional economy. The HotSW agricultural industry represents a higher proportion of the local economy than nationally. In 2015, the Agriculture, Forestry and Fishing industry accounted for 1.45% of the HotSW's GVA, whereas the same industry accounted for just 0.65% of UK GVA<sup>1</sup>.

Any loss of funding from the European Maritime and Fisheries Fund (EMFF) will impact on Plymouth Fisheries. It is now the second largest fresh fish market in England and recent research has identified that approximately 4,000 people are employed in the sector. The fishing industry brings over £12m in GVA to Plymouth each year, and accounts for around 15% of the entire English fishing fleet.

### **Next steps**

Work is ongoing to gather evidence and establish a range of accurate statistics around the areas outlined above and will continue as more detail is released from the Government. The Council is working with the Local Government Association (LGA) on issues surrounding leaving the EU and is providing evidence to Government on the local risks and opportunities through the LGA and through other routes such as the Industrial Strategy Green Paper consultation. The Leaving the EU Working Group is also contributing to the work of the regional Brexit Resilience and Opportunities group.

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<sup>1</sup> *Regional Gross Value Added (Income Approach) by Industry* - ONS, December 2016.