

LGA Brexit Response

Cabinet Member(s): Cllr Richard Chesterton
Responsible Officer: John Bodley Scott
Economic Development & Regeneration Manager

Reason for Report: To inform members of the Council's response to the LGA on the possible effects of Brexit

RECOMMENDATION: That the report be noted

Relationship to Corporate Plan: It supports the corporate objectives for the economy.

Financial Implications: None

Legal Implications: None

Risk Assessment: None

1.0 In early November the Local Government Association put out a call for information on the potential effects of leaving the EU on local businesses. The Council submitted a response and then was asked for more specific examples. These have been incorporated into the following report. In many ways it is too early to know what the long-term effect on local businesses will be as this will depend on the details of the negotiations still to be undertaken. However, the report outlines some potential opportunities and threats to the local economy.

1.1 LGA Response

Following the referendum result, the Economic Development team has been considering the potential impact on our local economy. This includes the potential impact on:

- Local Economic Growth
- Local Public Services
- Regional Funding

We met with a number of key strategic businesses following the vote to leave the EU, and have incorporated their feedback into our comments. We have tried to take an objective view, and identified not just risks to the economy, but also opportunities.

1.2 Local Economic Growth: Overall considerations

There may be local opportunities related to strengthening infrastructure. The government is now looking to improve national infrastructure to ensure that

our economy is able to thrive outside the EU. This gives our businesses an opportunity to deliver those infrastructure improvements, and to make use of the improved services once they are completed. These improvements include transport infrastructure, energy infrastructure and broadband, all of which are essential to making Mid Devon a competitive location to do business.

Home grown manufacturing could see a strong return in the UK as local production of goods could become more cost effective than importing them. However, if the necessity to import raw materials continues to play a significant role in manufacturing, the growth will be forced to be biased towards higher value manufacturing. This is already the type of industry that Mid Devon aims to support, so it could benefit our ability to grow this part of our economy.

There could be opportunities to enhance Mid Devon's UK position. With some of the key projects we have been developing, we are already ahead of the curve in identifying ways to address the future needs of our economy. This means that when opportunities such as funding programmes are announced, we will be in a strong position to align ourselves with national ambitions and to take advantage of our ability to deliver what the country needs.

We have a resilient business portfolio, so it is unlikely that many local businesses would close as a result of Brexit. Many Mid Devon businesses are importers and exporters and there is currently uncertainty around the impact of Brexit on our ability to buy and sell goods internationally. Businesses are more likely to delay growth until greater certainty about how they will import and export goods is known. It is unlikely that local growth can replace the need of our business community to import goods, but until more is known on the manner in which our international trade agreements will form, the longer term impact of changes to import and export processes is unknown.

Some businesses may find it more difficult to recruit staff, as access to migrant workers diminishes, something that will be most noticeable locally in the food and drink production and processing industry. Despite national concerns that a skills shortage could impact the economy, in Mid Devon it is more likely to be access to manual / elementary labour that will create the biggest problems. This will be exacerbated by our low levels of unemployment.

1.3 Impact on Sectors

The most impacted sectors will be those dependent on lower skilled labour, including food and drink production and processing, health and social care and low value manufacturing. Depending on fuel prices, distribution could also be adversely affected. With possible risks to subsidies in agriculture, there are questions about whether or not these would be offset by a greater opportunity to provide a greater share of the domestic supply. The risk is that businesses within these sectors could find it more difficult to trade, or find that their profit margins decrease, reducing their ability to grow.

Again, the key opportunities come within sectors like advanced manufacturing through opportunities to support infrastructure improvements, but also the

tourism sector could do well as a result of Brexit, by taking advantage of likely increases in domestic holidays. Increasing numbers of visitors to Mid Devon could have a knock on benefit to our retail sector.

1.4 Impact on Specific Companies

In our list of local key strategic employers, the vast majority operate their businesses globally, involving imports and exports to and from the UK. At present, the weak pound has been benefitting the majority of these businesses, but they have real concerns about what will happen if the situation changes. The relationship between the pound and the dollar is crucial for many of these businesses, and there is a need to keep the ratio between import and export costs as high as possible to maximise profitability. Some of them operate on quite fine margins, and therefore have vulnerabilities to quite small changes in prices.

As mentioned above, a few of our major businesses operate in the food processing and production industry, and could be vulnerable if access to labour is reduced. One of the largest employers in Mid Devon has a significant proportion of employees from Eastern European countries, and would struggle to fill their roles from the local labour market. There is a general perception in the UK that low skilled elementary jobs are demeaning, and with low unemployment rates in Mid Devon, this becomes even more of an issue for our key employers.

1.5 Opportunities and Risks of Potential State Aid Changes

Changes to state aid rules could create opportunities for Mid Devon District Council to work more in partnership with the local business community when we identify opportunities without the risk of our input being restricted. In this sense, changes to state aid can enable local councils to become more entrepreneurial, by exploring joint ventures for example, reducing their dependence on government grant. There could be opportunities for us to better support larger business projects that will work towards the wider aims of Mid Devon, such as strategic site development, that could accelerate growth in the local area.

There are issues faced at present that could be alleviated through Brexit:

- Joint ventures may be limited in scale because of the amount of money that can be invested into a company with a private sector partner
- Some opportunities may not be viable without investment far beyond the level of what state aid would allow
- De-minimis and state aid can be difficult for organisations to monitor when funding comes in from a number of sources

1.6 Local public services: Changes to The Workforce, Service Demand and Procurement Processes

Public services are likely to be widely unaffected by Brexit. Health and social care is most likely to be negatively affected due to potential changes in the

workforce.

Demand is unlikely to increase as a result of Brexit. Statistics may give the appearance of an increase in demand however, because if migrant workers leave Mid Devon, it will reduce the proportion of working age people without actually increasing the number of people of retirement age.

In terms of procurement, Brexit could make it easier for local businesses to win contracts, and make it easier for local authorities to build positive working relationships with business communities. There could be the opportunity to hold more regular procurement events in local areas to encourage local businesses to tender for contracts that they may previously have had far greater competition to win.

With regards to procurement, there are issues faced by procuring under EU rules at present:

- Timescales – it can be a lengthy process at present, which can be off-putting for smaller local firms
- The inability to take into consideration things that could benefit procuring from local firms (e.g. local job creation and business growth) because at present the EU is deemed “local”
- With regards to EU funding streams, there is a difficulty with working with smaller organisations or supporting smaller funding bids, because often these groups don’t have the structures in place that are required to be EU compliant. However, this would only be relevant in the case of Brexit if an equivalent funding stream to ERDF for example was introduced in the UK

At present we are developing a hydro project in Mid Devon, with a number of partner organisations supporting the project, including a hydro specialist company that can manufacture and install bespoke systems, all locally. However, we are looking to bid for a significant sum of ERDF funding to support the project, and this means that in order to procure the company to design and fit the systems, we will likely have to advertise across the EU and risk the local business being brushed away by a non-local company.

Whilst we would accept that in a fair tendering process, the local business would have to be the strongest bidder in order to be selected, the knock on benefits of using a local business (enabling it to grow and create highly skilled local jobs), would potentially be lost by having another company come into the area to deliver the project and then leave again. Also a lot of the good will that has been built up between the business and ourselves would be lost.

1.7 Regional funding: Local Effects of Shifting Away From EU Funding Streams

There is a risk of reduced funding being available to support business development and growth, and locally strategic projects. However, there could also be greater freedom as to how funding is used and which sectors can be supported. For example, EU funds are currently unable to be used to support retail and sectors where it could be deemed (however tenuously) to be skewing competition. It may be possible to develop policies to meet local

needs without arbitrary caps placed on funding programmes.

There may be some risk as to the stability of funding programmes, and they may be subject to shifting areas of focus depending on pressures on the government. EU funding programmes were relatively immune to these changes, and enabled organisations to plan for several years as to how they were going to bid for funds to support their local economies.

1.8 Opportunities and Risks of Possible Successor Regional Aid Schemes

There is a risk locally that adequate attention will not be given to rural areas in the future, as these are less densely populated areas with fewer voters, but with high dependence on support. However, there are significant opportunities to develop the agricultural sector if the right level of support is provided, with the likely increased domestic demand for UK produce.

There could also be opportunities to have a greater impact on our high streets, through greater freedom to support our leisure and retail offer. The flexibility for new funding programmes could enable a much wider range of sectors to take advantage of support, and local government influence over how funding is delivered could enable much more effective economic development that is strategically driven.

If funding to support the economy is reduced, then this will have a knock on effect on the ability of local authorities to influence the development of our local economies, and there is a risk that some of the issues being faced in our area could be compounded if we are unable to provide targeted support.

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List of Background Papers: None