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| **Implications of the EU Referendum on the Humber Economy**Report to the Humber Leadership Board - 7th Sept 2016Report to the Humber LEP Board – 9th Sept 2016Joint Report from Kishor Tailor on behalf of Humber LEP and Alan Menzies on behalf of East Riding of Yorkshire Council |

1. **Summary**

Following the EU referendum, the LEP and Local Authority partners have been working with business organisations and others to gather views on the immediate and long term impact of the referendum. Until the UK formally leaves the EU at the end of a negotiating period, it remains a full member of the EU.

Our reputation of collaborative working between the public and private sector and close links with business organisations places us in a good position to inform the Government on the issues of concern for the area. Some of these issues need immediate action and others will need to be considered as part of the negotiation process. Members will be keen to ensure that these views are reflected in the Government’s consideration and that the voices of businesses are heard.

A Significant element of the Humber Economy is centred around the Estuary, with key major commercial activities on both the north and south banks of the estuary. However, there is a significant rural economy centred on agriculture and tourism, which will be impacted by the Brexit decision. Our ambition is to maximise the potential offered by the Estuary, in particular, developing energy and associated sectors. Many of the targeted sectors will be impacted and there is a need to continue to build on intelligence so that we are fully aware of the potential impact on the local economy.

Immediately after the Brexit outcome, there was a need to send a clear message that, in the Humber, it was “business as usual” and investors should not to lose confidence. The core message issued by the LEP and our partners stated our commitment to improving economic success in the region and that it remains strategically important and open for business. We also confirmed that we will continue to invest and support local businesses in order to deliver growth in the community. The Humber’s economy has many close ties with EU countries so it is essential that our area’s needs are taken into account in the discussions shaping the future relationship with our EU neighbours.

The government have set up a process and will be assessing the impact based on a number of scenarios, in the Humber we need to be ready with the local intelligence that can assess the impact and provide that intelligence to the government.

1. **National Developments**

The Government has set up the Department for Exiting the European Union, which will be in charge of overseeing negotiations to leave the EU and establishing the future relationship between the UK and the EU. Under the new Secretary of State, David Davis (one of the areas local MPs), the department will have the following responsibilities:

* to lead on the policy work to support the UK’s negotiations to leave the European Union and to establish the future relationship between the EU and the UK
* to work very closely with the UK’s devolved administrations, Parliament, and a wide range of other interested parties on what the approach to those negotiations should be
* to conduct the negotiations in support of the Prime Minister, including supporting bilateral discussions on an EU exit with other European countries
* to lead and co-ordinate cross-government work to seize the opportunities and ensure a smooth process of exit on the best possible terms.
1. **Economic Impact**

Nationally there have been two developments that need to be noted. The pound sterling has fallen both against the dollar and euro. This is having both positive and negative impact on Humber businesses as set out later in the report.

The FTSE 100 and 250, initially fell 8%, and have recovered to pre referendum levels.

1. **Areas of concern identified at a national level:**

European Structural and Investment Funds

The LGA have concerns around the status of EU funds transferred to local areas, particularly the Structural funds, which are an important source of additional funding for economic development. The LGA are lobbying for local representation in the negotiations and are concerned that any repatriation of powers from Brussels is not simply a transfer of power to Westminster.

European Investment Bank

The European Investment Bank has lent more than £42bn at favourable rates to support UK projects such as wind farms, hospitals, railways and social housing in the past 10 years. There is uncertainty, over whether UK schemes worth billions, which have not yet been finalised or signed off, and future loans, will be approved.

European Aid to deprived regions

Some of the most deprived regions could lose up to £8.6bn in European aid, according to analysis of ESIF funding by the Joseph Rowntree Foundation. The funding which is allocated to each LEP area in the UK aims to help cut poverty, improve regional infrastructure and boost growth. Urgent assurance from the Government was sought on whether LEP areas will still receive the £5.3 bn in EU regeneration funding allocated up to 2020.

Research Funding Awarded to Universities

UK universities have received more than £800m in funding from the EU for research and there are serious concerns about funding shortfalls. European academic bodies are already pulling back from research collaboration, with UK academics in addition, UK-based academics are being asked to withdraw their applications for future funding by their European partners. As an example, Chris Husbands, the vice-chancellor at Sheffield Hallam University, has voiced concern that his researchers are already seeing significant impacts, with researchers in other European countries withdrawing interest in 4 out of 12 projects that they are currently working on that have a funding application deadline of the end of August.

1. **Issue identified in the Humber**

Immediate issues

* 1. Uncertainty - The current level of uncertainty is having a negative impact on businesses in the Humber. Our banking, accounting, and legal profession have reported instances where businesses have put their investment decisions on hold and in some cases have withdrawn investment plans.
	2. Exports *-* The EU referendum/Brexit continues to be a major talking point with Humber exporters but no clear picture has emerged as yet with a variety of different viewpoints from businesses. Some state that it’s made no difference to their business, some that it’s increased sales temporarily because of the lower exchange rate, whilst others that it has made exports drop off completely. As Ireland, Germany and France are still significant export markets for Humber companies; there is obvious cause for concern. At least one potential first time exporter has decided that they are no longer interested in exporting as a direct result of the referendum result. There does not currently appear to be an opinion either way on whether the new Department for International Trade (replacing UKTI) is a “good” or “bad” development.
	3. Value of Sterling - Whilst exporters may be making some short term sales gains as a result of the lower value of sterling, this is wiped out for those importing raw materials, usually priced in dollars. A local confectionary distributor, for example, has been forced to increase prices to their UK clients as a significant proportion of the chocolate they sell is imported, whilst another food manufacturer that sells to the continent, reports that major European supermarkets are asking for price reductions in line with the foreign exchange rate. The local caravan industry is flat out at the moment for home and export markets.
	4. Inward Investment – there are signs that potential investors are either pulling away from the deals or pausing their final decision. There is a significant risk that it will slow down our efforts to deliver on key employment and Enterprise Zones sites. The devaluation of sterling may provide UK as attractive proposition for international investors; however at this stage it is early to assess the impact on Foreign Direct Investors(FDI).
	5. Investment in Infrastructure – it is clear that infrastructure investment can stimulate growth; the government is expected to provide some stimulus at the autumn statement. Humber has identified a number of infrastructure barriers that are preventing growth, including need to provide floods mitigation, and transport barriers to Enterprise Zone development sites. The government has also committed to a fairer approach on new housing development one that does not just favour the South East and Scotland and that should benefit the Humber.
	6. Energy Policy – The establishment of the region as a centre of excellence for energy, particularly renewable energy, is the key driver of the Humber Economy. The Humber needs to press the government for development of a clear long term energy policy, that is built on supporting renewable energy.
	7. Workforce – A number of local businesses, particularly in food processing and agriculture industries, rely heavily on EU labour and have indicated that they would struggle to replace their workforce if there were a major shift in policy.
	8. Impact on Humber Ports *-* At present the impact on Humber Ports remains unclear. ABP’s customers including generators, oil importers, automotive and container shipping lines are uncertain of the impact. Businesses using the ports have not reported any major negative impact as a result of the referendum, however they are urging clarity from government on the implications of Brexit.
	9. EU funding – the future of EU funding is a major concern for organisations who manage projects that support economic growth. On 13th August, the Rt Hon Sajid Javid MP, Secretary of State for Communities and Local Government, wrote to LEPs to confirm that the multi-year EU projects, administered by the Government with signed contracts or funding agreements in place before the Autumn Statement, will be fully funded. Medium and long term strategies are being developed and further consultation is expected. There are further EU funding implications in relation to specific areas which are outlined below:
* Business Support – businesses in the Humber have been able to access support through a range of ‘umbrella’ programmes which have provided both finance and business support across a range of programmes funded by the EU. A number of future business support initiatives planned in the Humber circa £3m are currently at contracting stage and should be honoured. Not taking into account overlapping LEP activities, a further £10.4m are in appraisal. It is likely that these will proceed in the same way as those at contracting stage, as long as they are signed off in advance of the Autumn Statement
* Broadband – the Humber ESIF Strategy has prioritised EAFRD funding to support rural broadband development. Should programme delivery timescales be reduced, broadband would no longer be feasible through EAFRD but it remains the number one priority for development in rural areas. Decisions on medium to long term commitments and any alternative sources of funding / successor schemes must take into account the need to progress this as a key priority.
* Skills & Employment – Whilst ESF funded Opt-in proposals are progressing since the Opt-in organisations have contracts in place, there is a large allocation of ESF which has not been contracted / allocated. Future skills and employment initiatives will need to be considered in any successor schemes / future funding plans

**Long term issues**

* 1. Farming – the European Agricultural Fund provides direct payments to farmers under the Common Agricultural Policy subsidy system. The level of subsidy has been substantial with circa £135.8m direct payments in the East Riding during the last financial cycle. The potential impact on the farming community should not be underestimated, with potential loss of up to £20m per year in East Riding alone. Recent statements from government indicate that the subsidy will be maintained although it is not clear at what level this will be provided in the future. There are suggestions that farm subsidies to large farms will be reduced and directed to smaller farms.
	2. Fisheries – the European Fisheries Fund supports a sustainable fishing industry. Previous investment has supported projects along the coast and there are future plans for a Fisheries Local Action Group (FLAG) utilising EFF investment. Future Fisheries Policy development will also impact on businesses in our area
	3. University – the impact on the university sector, as evidenced by our University, mainly relates to the recruitment of EU students (around 5% of total) and access to research funding, with some concerns also on staff, some of whom are EU citizens. The Government has made positive noises around providing research funding to replace EU funding, there may be some early indication in the Autumn Statement.
	4. Transnational projects - a number of projects have been delivered in the Humber, in partnership with other organisations across the EU, which have benefitted from EU funding. Similar partnership working opportunities may be limited and alternative funding required to enable us to still participate and benefit from these relationships.
1. **Post referendum options**

6.1 As a member of the EU, the UK has been included in trade deals the EU has negotiated. There are 22 trade agreements between the EU and individual countries, and five multi-lateral agreements covering multiple countries. This means that if the UK wants to retain preferential access to the markets of the 52 countries covered by these agreements, it would have to renegotiate trade deals with all of them.

6.2 There are a number of potential models available, four models are set out below:

* **Full access to Single market** – will have to comply with EU laws, free movement of labour and will have to make contribution.
* **The Norway model** - Member of European Economic Area, full access to single market, obliged to make a financial contribution and accept majority of EU laws, free movement applies as it does in the EU. UK will not be able curtail free movement of labour from the EU.
* **The Switzerland model** - Member of the European Free Trade Association but not the EEA, access to EU market governed by series of bilateral agreements, covers some but not all areas of trade, also makes a financial contribution but smaller than Norway's, doesn't have a general duty to apply EU laws but does have to implement some EU regulations to enable trade, free movement applies
* **World Trade Organisation** - WTO sets rules for international trade that apply to all members, no free movement or financial contribution, no obligation to apply EU laws although traded goods would still have to meet EU standards, some tariffs would be in place on trade with the EU, trade in services would be restricted.
1. **Conclusion:**

7.1 The paper sets out a number of issues that have been identified by local partners and businesses in the Humber as a consequence of the EU referendum. The government will be keen to secure local intelligence as it develops its options. LEPs have already been asked to provide local intelligence on the concerns of businesses in their localities. Local authority partners and University are also likely to be consulted on issues that are specific to them and their service delivery.

7.2. The LEP need to continue to gather intelligence and begin to structure consultation to secure impact and implications of the four models set out in the report. The areas where the LEP should provide leadership on consultation include:

* Businesses - working with key business organisations in the Humber
* Key sectors - working with sector groups and businesses in key sectors of the Humber economy
* Exporters and Importers - working with UKTI, Chamber of Commerce and key companies involved in import and exports
* Potential FDIs’- working with UKTI and Local authorities inward investment teams
* Regional Funds - working with LAs and other partners to assess the impact on regional funds.
* Agriculture – working with LAs and farming community to assess the impact on the farm subsidy and regulations.

The issues that are likely to be of concern to the Humber are:

* Movement of Labour
* Food and farming
* Impact on the Ports and logistics
* Environmental regulation that may have an impact on the Estuary
* Regional funds

**Recommendations**

1. **That the report is noted.**
2. **To play a full and active part in the post referendum negotiations and to contribute to the developments of future economic development programmes that support the economy of the Humber.**
3. **To begin the consultation process to secure intelligence that can feed into government process.**

**Kishor Tailor/ Alan Menzies**

**25th August 2016**