

Cabinet Committee on Performance Improvement
Meeting to be held on Tuesday, 12 September 2017

Report of the Director of Commissioning

Electoral Division affected:
(All Divisions);

Withdrawal from the European Union: Implications for Lancashire County Council

Contact for further information:

Kieran Curran, (01772) 536068, Policy, Information and Commissioning Manager (Live Well),
kieran.curran@lancashire.gov.uk

Executive Summary

At the meeting of the 27 June 2017 Members requested further information around Brexit.

This report details some of the more significant issues facing the County Council in the wake of the UK's exit from the EU.

Recommendation

The Committee is requested to note the contents of the report.

Background and Advice

1. Introduction

At the meeting of the 27 June 2017 Members requested further information around Brexit.

Following the result of the referendum on Britain's Membership of the European Union in June 2016, the UK government invoked Article 50 of the Treaty on the European Union on the 29 March 2017. This means that the UK would be set to leave the European Union on 29 March 2019.

While Article 50 has been triggered and negotiations between H.M. Government and the EU are underway, large questions remain over the future of the UK, including its position in relation to EU law and regulations, its future trade arrangements, and the prospects for a UK regional funding framework to replace existing EU programmes. Moreover, these unprecedented changes come at a time of continued constraint in local government budgets and growing uncertainty over the future of devolution in England.

Local government does not have a formal role in the negotiation process but the [Local Government Association](#), through its Brexit task and finish group, is attempting to influence the debate and has made a number of interventions in recent months over the [future of European-led funding programmes](#) and decisions over retaining, [amending or scrapping EU laws](#) once they are converted into domestic law.

The following sections detail some of the more significant issues facing councils in the wake of the UK's exit from the EU. This paper does not speculate as to the possible outcome(s) of the two-year negotiation process or make any judgments about the efficacy of any individual policy decision, nor take a view on the likely impact of any transition process introduced as a result of the negotiation.

2. Macro-economic impacts

Since the referendum there has been a good deal of speculation as to the likely impact of Brexit on economic growth rates, employment and the general business environment. While economic forecasts vary, some change to the terms of trade for Lancashire firms involved in European export markets are highly likely over the next two years (or more, if a transition period is agreed post-2019).

Trade: Export performance has come under increasing scrutiny in the wake of the referendum result and the impact on EU-UK trade will depend on the relationship brokered between the UK and the EU through the negotiation process. Whatever arrangements are agreed, most economic forecasters agree that the costs of trade between the UK and the EU are likely to increase. That said, the decision to leave the EU also provides an opportunity for the UK to negotiate new and potentially better and/or more ambitious deals with its trading partners.

Lancashire firms export £3,011 million worth of goods and services globally each year. Exports to the EU make up 62% of the total, or £1,876 million each year (see Figure 1, below).

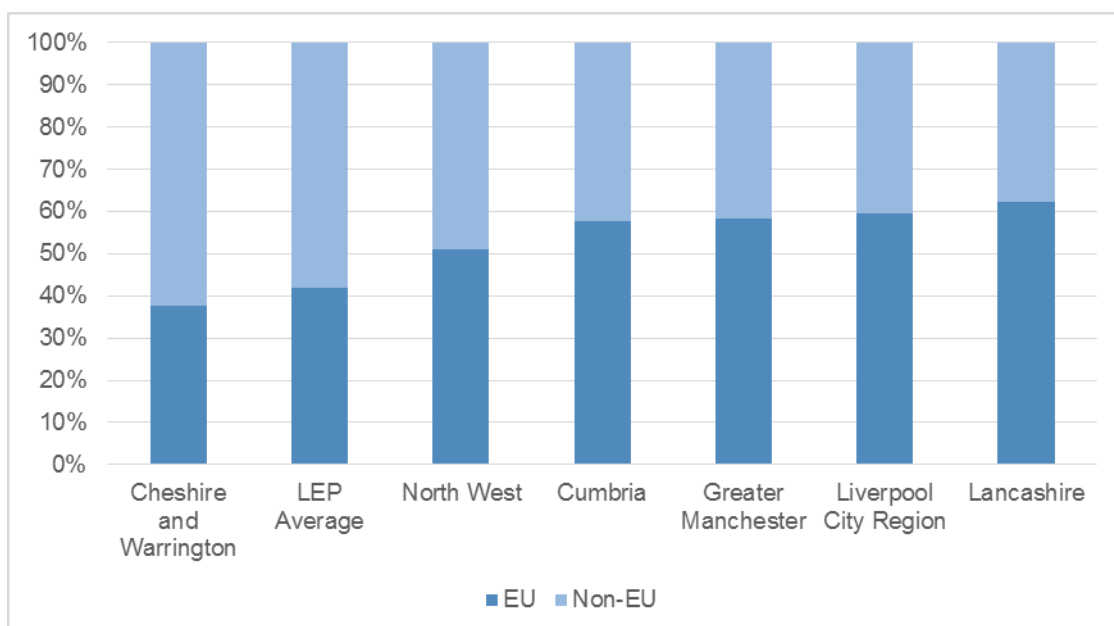


Figure 1: Share of EU and Non-EU Exports by LEP area, 2015. *Source: HMRC*

France is the top destination for Lancashire exports, followed by Spain and Germany. A breakdown of Lancashire exports by sector is provided by Figure 2, below.

Overall, the North West export market is worth an annual £19,138 million. Of the top ten destinations for North West exports, seven were located within the EU, with China (£1,299 million, 7%) and Turkey (£512 million, 3%) the only other Top 10 partners besides the USA outside of the EU. This underscores the importance of the EU as a trading bloc for the North West.

LEP	Food and Live Animals	Beverages and Tobacco	Crude Materials	Mineral Fuels	Animal and Vegetable Oils	Chemicals	Manufactured Goods	Machinery and Transport	Miscellaneous Manufactures	Other commodities	Not Classified
Cheshire and Warrington	4%	0%	0%	0%	0%	44%	7%	24%	3%	0%	19%
Cumbria	0%	0%	0%	0%	0%	34%	28%	20%	4%	0%	15%
Greater Manchester	5%	0%	4%	1%	0%	25%	14%	24%	23%	0%	3%
Lancashire	7%	0%	1%	0%	0%	40%	14%	26%	10%	0%	0%
Liverpool City Region	19%	0%	7%	2%	0%	30%	11%	22%	8%	0%	2%
North West	6%	0%	2%	0%	0%	36%	11%	24%	10%	0%	9%
LEP Average	3%	1%	1%	2%	0%	16%	8%	31%	14%	10%	17%

Figure 2: Exports by Sector, 2015 *Source: HMRC*

Foreign Direct Investment (FDI): The UK is by far the biggest recipient of foreign investment in the EU with almost half of the FDI stock in the UK originating from the EU (PwC, 2017). Councils have benefitted from FDI from the EU, with many European firms that have operations in the UK paying substantial sums to local authorities via business rates. FDI also brings other benefits, including increased productivity, increased wages, employment opportunities and new technologies.

Depending on the outcome of negotiations, there is a possibility that European firms will be deterred from investing in the UK. The UK could be perceived as more isolated or less open to foreign investment. Depending on the final arrangements governing the UK's relation to the Single European Market, UK and European businesses could be susceptible to new trade tariffs and, importantly *non-trade* tariffs (e.g. regulations, rules-of-origin, quotas etc.) which could raise barriers to market entry even higher. In the face of this future uncertainty, local councils (in conjunction with LEPs) will have to re-double efforts to attract and support businesses from the EU. This may require re-evaluating policies and tools to attract international (i.e. non-EU) businesses with a greater focus on Asia and North America.

This point is especially important given the proposed (but still uncertain) changes to business rates. Under current plans, local government is to become more economically 'self-sufficient', with the government planning to terminate local

authorities' Revenue Support Grant by 2020 and implementing 100 per cent business rates retention. This will mean that local councils will directly rely on the business rates from local businesses.

Workforce issues: Restrictions on migration from the EU may impact on recruitment and the skills base available to Lancashire businesses and the public sector (for example, 80,000 of the 1.3 million workers in the UK's adult social care sector are from the rest of the EU). There is already some evidence that EU citizens working in the UK are leaving for another country or returning home.

EU Nationals living and working in Lancashire: The fate of EU nationals currently living, working and studying in the UK (and vice versa) has been a much-discussed feature of negotiating process.

The Office for National Statistics estimates that there were approximately 45,000 EU nationals resident in Lancashire-12 in 2015-16 (excluding some residents in communal establishments). However, these estimates are based on the Annual Population Survey and rely on small samples of voluntary responses, especially at a county or district level. The estimate therefore comes with a wide statistical margin of +/- 14,000. A further 13,000 EU nationals are estimated to reside in Blackpool and Blackburn with Darwen (+/- 4,000).

The 2011 Census estimates the workday population in England and Wales by country of birth. The workday population is an estimate of the population during the working day and includes everybody who works in an area (wherever they usually live) and all respondents who live in the area but do not work. The figure for the county council area is 23,407.

The Department for Works and Pensions collects data on National Insurance (NI) number registrations to non-UK nationals. Data used in this report is by year of registration for a national insurance number. This may differ from a person's year of arrival in the country as some people may engage in activities for which a NI number is not needed such as studying or homemaking. In addition, this data measures new registrations for a NI number (or inflow). It does not measure outflow (people returning home) or the stock of people in the country. The original data is published at local authority district, adjusted for reasons of disclosure control. Data was not published for counties.

Poland remained the major source of registrations for the Lancashire-14 area in 2015/16 with 2,130 or 23.8% of the total.

1. Poland: 2,130 registrations
2. Romania: 1,530 registrations
3. Bulgaria 570 registrations
4. Italy: 500 registrations
5. Spain: 340 registrations
6. Portugal: 330 registrations
7. Hungary: 320 registrations
8. Lithuania: 210 registrations
9. Latvia: 190 registrations

10. Czech Republic: 170 registrations

11. Slovakia: 150 registrations

For more information, please see:

<http://www.lancashire.gov.uk/media/899550/national-insurance-registrations-2015-16.pdf>

3. Impact on council services

Transfer of powers/Regulations: EU laws impact on many of the council services that affect people's day-to-day lives, from protecting people from unsafe food to regulating how councils buy goods and services. Local government in the UK currently complies with a plethora of EU legislation in key areas like local economic development, waste collection and employment.

Following Brexit, the supremacy of EU law will no longer apply. With no obligation to follow EU legislation, H.M. Government will have the jurisdiction to amend or repeal EU laws. For example, a key piece of EU legislation for local government is the EU Waste Collection and Disposal Directive. The legislation, which has been incorporated into domestic law, sets out a specific framework regarding the management of waste and imposes recycling targets to be achieved by 2020. The government has published a White Paper on legislating for the United Kingdom's withdrawal from the European Union, dubbed the "[Great Repeal Bill](#)". The White Paper outlines how the government intends to carry EU law into UK law and ensure maximum certainty on the day the UK leaves the EU.

Until the terms of Brexit are fully understood, key sectors of the Lancashire economy will not be able to fully assess the impact on their businesses in terms of their levels of competitiveness, interaction with key markets and the regulatory frameworks which surround their industries.

Brexit may present new opportunities and simplified regulatory frameworks which offer a competitive advantage. However issues such as the withdrawal from regulatory agencies such as EURATOM (Nuclear) and EASA (certification of aircraft parts) are a concern to local businesses in those sectors.

There are several areas that are likely to impact on county council services (or our providers), including:

- Working Time Directive and Agency Worker Regulations (2010)
- Procurement and competition law
- Social work regulation and accreditation
- Human rights protection
- Rights of people with disabilities (housing, education and independent living)
- Equalities
- Health & Safety regulations
- Crime and security (e.g. European Arrest Warrant)

In its [response to the publication of the government's White Paper on the Great Repeal Bill](#), the LGA called for local government to play a central role in deciding whether to adopt EU laws once they are converted into domestic law:

"Brexit should not simply mean a transfer of powers from Brussels to Westminster, Holyrood, Stormont and Cardiff Bay. It must lead to new legislative freedoms and flexibilities for councils so that residents and businesses benefit. Taking decisions over how to run local services closer to where people live is key to improving them and saving money."

Lord Porter, Chairman of the Local Government Association

Procurement: The chair of the LGA's Brexit task and finish group Councillor Kevin Bentley (Deputy Leader and Cabinet Member for Economic Growth, Skills, Infrastructure and Digital Economy, Essex CC) has called on ministers to use the opportunity to Brexit to ["free" councils by reducing bureaucracy and red tape](#), introducing a simpler system that could speed up contracting and cut administration bills. The LGA said that current procurement rules "sometimes sits uneasily" with efforts to promote local economies and pointed out that almost no public contracts end up being awarded to companies in other EU member states.

A "lighter touch" system should be introduced after Brexit that also gives councils the freedom to use local suppliers, specify a minimum local living wage for contracts and demand training for employees, the LGA said. Regulation of public procurement will clearly continue to be necessary post-Brexit so allow councils can demonstrate best value for money and ensure effective and fair competition. But introducing more local flexibility and easier procurement rules after Brexit would "provide more community benefits and more growth opportunities for small and medium-sized enterprises" and "allow councils to promote local suppliers and local labour and ensure workers earn a decent wage."

State Aid: EU State Aid rules prevent the use of taxpayer-funded resources to provide assistance to one or more organisations in a way that gives an advantage over others and is regarded as a distortion of competition. If the UK no longer had to comply with State Aid rules, aid could be given in the form of tax relief as well as the provision of grants and other government funding.

Environmental Policy: EU laws and regulation govern a wide range of environmental policies of interest to the county council and Lancashire businesses. EU Directives on renewable energy, recycling and waste management, and air quality/emissions have largely been incorporated into UK legislation in one form or another. For example, Britain's own unilateral Climate Change Act actually imposes even tougher requirements for cutting carbon emissions than the EU Renewable Energy Directive. Similarly, both Environmental Impact Assessments and Strategic Environmental Assessments have become an integral part of the planning system.

However, there has still been speculation that withdrawing from the EU might allow the UK to set more lenient targets, extend timescales, or remove the threat of fines for non-compliance. Of particular importance to the county council are the Waste Framework Directive (2008) (under which the UK must recycle 50 per cent of its household waste by 2020) and the Landfill Directive (1999).

Since 2014, the European Commission has also been developing the “Circular Economy” package of additional proposals concerning waste. The overall idea of the plan is to create a more “circular” economy in which resources are recirculated within the economy. The draft Circular Economy Action Plan included ambitious targets to increase municipal recycling to 65% by 2030, and limit landfilling to 10% of municipal waste. The UK had previously signalled its concerns with these proposals and the likely additional impacts they would place on UK households and businesses.

Many commentators have concluded that, post-2020, Brexit appears unlikely to make a huge difference to UK energy and environmental policy, although some risks remain. According to the House of Commons library: "The benefits of effective waste management to both the environment and the economy may mean that UK withdrawal would not lead to a substantial change in approach, but it would reduce the impetus to meet legislative targets within clear timeframes and remove the threat of legal challenge for any failure."

In July, the government's white paper on the Great Repeal Bill [confirmed that it will seek to convert "the existing body of EU environmental law into UK law](#), making sure the same protections are in place in the UK and laws still function effectively after the UK leaves the EU. Any future changes to our legislation will be subject to the usual parliamentary scrutiny. We will work closely with communities, environmental organisations and other stakeholders to help build our future plans for environmental protection.” Further, the government promised to produce a "comprehensive" 25 Year Environment Plan which will set out how it plans to “improve our environment as we leave the European Union and take control of our environmental legislation again.”

The repeal Bill is expected to include regulations on waste, packaging, waste electrical and electronic equipment and landfill – although the government has said that it could consult on changes to regulatory frameworks in the future. This will mean that existing targets and commitments established in EU legislation such as the Waste Framework, Floods, Packaging and Packaging Waste or Landfill Directives will continue to apply at least until the government has put in place alternative legislation to pursue a different course.

Critics of these proposals have focused on the lack of provision for ensuring new laws are properly enforced by institutions in the UK and claim that simple transfer of regulations is insufficient without specific legislation on environmental protections and enforcement.

Funding: The government has faced repeated calls from many quarters to ensure it has plans in place to support regional economies after the UK leaves the EU. Councils have said they will need billions of pounds in extra funding from the Treasury after Brexit to replace the money "lost" from EU regeneration funds. Under current arrangements, councils receive funding packages from a multitude of sources – including the European Structure and Investment Fund (ESIF) and the European Regional Development Fund (ERDF) – allocated towards investment and development projects. Another key fund is the European Social Fund, which provides funding for employment initiatives and economic prosperity. SMEs in

Lancashire have also received support from the the Northern Powerhouse Investment Fund project, which is is part funded by the ERDF.

In the past, the county council has secured support for projects such as superfast broadband project. Currently, Regional Development Funds and Social Funds totaling some £213 million (or £144 per head) are currently ring fenced for use in the Lancashire Local Enterprise Partnership area up to 2020 to fund business support initiatives, innovation investment, environmental and flood mitigation measures as well as skills development and employability. Following the referendum, projects which have been through the full approval process are not able to sign a contract with DCLG and project spending is being restricted to spend prior to the end of 2018.

The county's main EDRF project '[Boost](#)' has secured a grant funding agreement and is funded until the end of 2018. As far a possible the council is seeking to frontload activity and spending in case funding is prematurely curtailed.

There are no guarantees that local government can continue to tap into EU funding sources once the UK's departure from the EU has been initiated. While the government announced last summer that they plan to supplement funding to projects signed off by the time the UK exits the EU, there is no assurance that projects will continue to be funded. In terms of opportunity cost, there is also no guarantee that the UK government will make funding available for future projects.

The county council's Economic Development Team is working with colleagues across the North West to maintain a Brexit Monitor of these issues and to understand the opportunities and concerns of the local business community.

Other "anchor institutions" in Lancashire (such as the county's universities) may also face negative impacts due to the withdrawal of funding absent any replacement scheme introduced post-Brexit by the UK government.

[Some of the leading Lancashire projects](#) funded [via these streams](#) include:

- £11.4 million to deliver superfast broadband
- £10 million for business support
- £1.6 million for a scheme aimed at reducing the number of young people not in education, employment and training.

The LGA has called on the government to work with councils to develop a fully-funded and locally-driven successor scheme which gives local areas full control over spending, and to secure continuing access to loans from the European Investment Bank.

A full impact analysis of EU-funded projects in Lancashire is currently underway to determine the level of risk to each project.

4. Issues raised at 10 July regional Brexit regional session

A meeting of local government leaders held last month (hosted by West Lancashire BC) reported the following key issues relating to their areas:

- Effects upon different sectors of the economy. Advanced manufacturing is a concern and digital that supports it. Some uncertainty also regarding food and drink, hospitality, and health and care sector. Concern about relocation of industries that export to Europe.
- Uncertainty for businesses is leading to delayed decisions.
- Citizens' rights are important.
- Regional funding – funding will be needed to rebalance the economy. Funding needs to be devolved with maximum flexibility for local areas making decisions on how monies are spent. Issue around where monies are devolved to.
- Concerns on international students and effects on higher education.
- Effects upon tourism funding.
- Loss of skills e.g. nursing, social care, agriculture due to migration and need to build up local labour and skills.
- Issue of investment for farming to be targeted to ensure sustainable practices.
- Need to provide for inclusive growth.
- Impacts upon housing sector need to be considered.
- Issue of loss of knowledge and skills from the local government sector due to the austerity agenda. Plea that Government recognises that we have a key role to play.
- Concern that support for other sectors will mean reduced funding for other areas.
- Blockage on ESIF due to delays in Government.
- Opportunities around flexibility on local procurement and State Aid.
- Opportunities to provide greater flexibility around other matters e.g. tuition fees payback reduced if work in the 'north'.
- Need to train local people to take job opportunities if migrant labour from EU reduced.
- Funding for enhanced transport links will be needed.
- Role of voluntary sector and any impacts upon it.
- Need to consistent voice from the NW as a whole – Lancashire and neighbouring City Regions could speak with one voice. Many issues cut across boundaries.

Attendees agreed that this matter will be discussed further at Lancashire Chief Executives and Leaders meetings.

5. Summary of Key Risks/Changes and areas for further analysis:

Funding

- Uncertainty surrounding EU rural/structural funds and possible replacements.
- Councils could have a role in managing possible replacement programmes.
- Fiscal approach from UK government regarding local authority funding
- Full assessment of project and programmes contingent on EU funding, assessment of alternative funding streams and gap analysis for future funding requirements.
- Viability analysis of individual projects and options.
- Potential economic impact analysis of reduced Business Rate income.

Regulatory

- Future procurement requirements on major projects and services subject to change.
- Future approach to state aid and economic development interventions may change.
- Move away from EU regulation and directives in terms of environment – landfill, waste water, and energy efficiency: removal or reduction of targets may undermine market for renewables.
- The UK can define its own approach to waste and resource policy which better suits the UK context, reframed around a much clearer set of objectives, underpinned by a coherent set of targets and policies.

- Assessment and timing of current and future procurements.
- Consideration of appropriateness and efficiency of EU procedures for future high value projects, and alternative approaches.
- Assessment of new procurement approaches to stimulate the Lancashire economy.

Economy

- Continued UK economic uncertainty, with possible of slow or non-existent growth.
- Potential property market issues impacting on development projects.
- Potential of foreign-owned businesses to relocate outside UK.
- Reductions in FDI due to uncertainty around Single Market access.

- Assessment of economic vulnerabilities, scale of exports into EU single market, individual employers at risk.
- Scale of FDI and relative share of jobs provided by foreign-owned businesses.

Society

- Levels of migration subject to change
- Impact on availability of skills

- Demographic analysis of local workforce, scale of immigration and impact analysis on housing, school places, etc.
- Impact on workforce of potential reductions in EU migrants around core county council services or key industries.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

This report is a review of the known risks and opportunities potentially faced by the UK, and the local government sector in particular, as a result of the UK's withdrawal from the European Union. It makes no recommendations regarding any specific risk and the report has not analysed or assessed the precise impact of such.

List of Background Papers

Paper	Date	Contact/Tel
-------	------	-------------

N/A

Reason for inclusion in Part II, if appropriate

N/A