

Cabinet Committee on Performance Improvement

Meeting to be held on Wednesday, 18 April 2018

Report of the Head of Service Policy, Information and Commissioning (Start Well)

Electoral Division affected:
(All Divisions);

Withdrawal from the European Union: Implications for Lancashire County Council

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Executive Summary

At the September 2017 meeting, the Cabinet Committee on Performance Improvement requested further information around the implications of the UK's withdrawal from the European Union on the County Council.

This report updates the Cabinet Committee on some of the more significant issues facing the County Council in the wake of the United Kingdom's exit from the European Union.

Recommendation

The Cabinet Committee is recommended to note the report.

Background and Advice

At its meeting on 12 September 2017, the Cabinet Committee received a report detailing some of the more significant issues facing the County Council in the wake of the United Kingdom's invocation of Article 50 of the Treaty on the European Union. This information had been requested by the Cabinet Committee at their meeting on 27 June 2017.

The Committee noted the contents of the September report and requested a further report to be presented to the Cabinet Committee in early 2018.

The following sections provide updates on a range of issues that could affect the County Council following the United Kingdom's withdrawal from the European Union in March 2019. This paper does not speculate as to the possible outcome(s) of the 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.

1. Impact on regional economic growth

Reports released by the Department for Exiting the European Union in February show how all areas of the United Kingdom would be affected under the three most likely future trading scenarios (if the United Kingdom left the European Union but stayed in the single market; if the United Kingdom reaches a trade deal with the European Union; or if the United Kingdom left the European Union without a deal and trade becomes subject to World Trade Organisation rules). Ministers agreed to allow Members of Parliament to see the reports, following a leak of some of the information to the media. In each scenario in the forecasts UK growth would be lower than if the United Kingdom had remained in the European Union, by 2%, 5% and 8% respectively, than currently forecast over a 15-year period.

However, Her Majesty's Government said the findings are merely a "provisional internal analysis, part of a broad ongoing programme of analysis, and further work is in progress" and said the figures do not measure the impact of the United Kingdom's preferred option of a bespoke and comprehensive trade agreement covering goods and financial services.

The latest figures from the Purchase Managers Index show that business activity in the North West is now growing faster than London. The most recent [Markit/CPI Purchasing Managers Index](#) show the North West with an Index of 56.9 (any figure above 50 is an indication of growth), outstripping London's figure of 54.

Government region	Single market	Free trade	No deal
East Midlands	-1.8%	-5%	-8.5%
Eastern	-1.8%	-5%	-8%
London	-1%	-2%	-3.5%
North-East	-3%	-11%	-16%
North-West	-2.5%	-8%	-12%
South-East	-1.5%	-4.5%	-7.5%
South-West	-1%	-2%	-5%
West Midlands	-2.5%	-8%	-13%
Yorkshire and Humber	-1.5%	-5%	-7%
Northern Ireland	-2.5%	-8%	-12%
Scotland	-2.5%	-6%	-9%

Wales	-1.5%	-5.5%	-9.5%
UK	-2%	-5%	-8%

Figure 1: Government assessment of withdrawal deals on economic growth over 15 years compared to current forecasts. Source: Department for Exiting the European Union.

2. Impact on inward migration

The number of European Union citizens leaving the UK in the year to September 2017 was the highest since 2008, [according to the Office for National Statistics](#). **However**, significant numbers of European Union citizens continue to move to the UK.

The number of European Union citizens coming into the United Kingdom fell by 47,000 to 220,000. Over the same period, 130,000 European Union citizens left the country, meaning net migration for European Union citizens has now returned to the level last seen in 2012. Migration of both non-European Union and European Union citizens is still adding to the United Kingdom population.

According to Nicola White, Head of International Migration Statistics at the Office for National Statistics: “Brexit could well be a factor in people's decision to move to or from the United Kingdom, but people’s decision to migrate is complicated and can be influenced by lots of different reasons.”

3. Impact on workforce

The Migration Advisory Committee has been commissioned by Government to consider the impacts of withdrawal on the United Kingdom labour market and aligning the United Kingdom’s immigration system with a modern Industrial Strategy. The panel will consider a range of options to address any skills shortages arising from withdrawal and will report back to Government by September 2018. In addition, the Government will be consulting on the Industrial Strategy later this year.

A recent poll of members by the North and Western Lancashire Chamber of Commerce revealed that, while a majority of respondents said they had never employed EU migrant workers, there are some concerns that employment restrictions would harm productivity and significantly increase labour costs.

- The majority of respondents (64%) either do not or never have employed European Union migrant workers.
- Of those that have employed European Union migrants, 30% have employed low skilled workers; 20% semi-skilled; 25% highly skilled; and 35% a mix of all three.
- 78% had not noticed any change in the number of European Union workers applying for jobs or leaving current jobs. The 22% who reported change said they had seen a mix of fewer job applications, workers leaving current jobs or expressing an intention to return home in the near future. A few isolated cases actually reported an increase in job applications from European Union nationals.

- 26% indicated that their business would be impacted if access to migrant labour was restricted post-withdrawal.

Source: North and Western Lancashire Chamber of Commerce.

Nationally, business leaders in some sectors (including the National Farmers' Union and Freight Transport Association) have called on the Government to release its assessment (due in September) of the United Kingdom's reliance on European Union workers amid growing fears of labour shortages in agriculture and logistics.

Similar concerns prompted the Environment, Food and Rural Affairs Committee in February to re-open an inquiry into whether the labour situation in agriculture, horticulture and food production has improved or deteriorated over the past year, and to "inquire into whether the Government's statements at the time have proven accurate".

While there may be some significant concerns across local government around workforce, migration and skills, the impact of any restrictions on European Union migration would vary greatly in different areas and sectors. Social care is a good example – only two per cent of the workforce in the North East come from a European Union background, whereas it is well over 10 per cent in London. For councils, Local Enterprise Partnerships and businesses, this will continue to be a crucial issue until the final terms of our withdrawal are known.

Though it is likely that existing European Union citizens will be able to remain in the United Kingdom (even if they arrived following the triggering of Article 50 last year), the impact on the future workforce and of European Union workers moving home are not yet clear. Speculation about how these issues may ultimately be resolved also touch on other opportunities for local government, such as the potential for a more devolved skills and employment policy post-withdrawal. For councils, Local Enterprise Partnerships and businesses, this will be a crucial question until the final terms of our withdrawal are known.

4. Impact on manufacturing

A little more than half (52%) of the North West's manufactured goods exports currently go to the European Union and Lancashire features some of the largest concentrations of advanced manufacturing and chemicals production in the United Kingdom. [According to analysis from the UK Trade Policy Observatory](#), areas most at risk to substantial employment losses in these high-tech sectors include Fylde and Ribble Valley, where "for every 100,000 economically active residents more than 1,500 high tech jobs may be lost". Fylde and Ribble Valley, "are specialised (as well as highly reliant) on the manufacture of air and spacecraft" for jobs. The Observatory's simulation result for a 'no deal' withdrawal suggests that the air and spacecraft industry may shrink by 8.1%.

5. Impact on the National Health Service

Analysis carried out by the BBC's Data Unit shows a national trend of increasing numbers of European Union workers leaving NHS Trusts over the last three years. However, this trend is not replicated in Lancashire.

In four of the six trusts in Lancashire the proportion of European Union staff leaving in the first six months of 2017 was less than the proportion of European Union leavers in 2014-15. NHS Trusts in Lancashire are also retaining a steady level of European Union nationals in their workforces with significant numbers of European Union workers continuing to join Lancashire Trusts, even in the two Trusts experiencing a slightly higher rate of European Union departures in 2017 compared with previous years.

Only one Trust (Blackpool Teaching Hospitals NHS Foundation Trust) is seeing a "diverging" trend of increasing numbers of European Union nationals leaving and decreasing numbers of European Union nationals joining year-on-year.

A spokesman for the Blackpool Foundation Trust told reporters: "We are not particularly seeing a 'Brexit effect' in terms of recruitment at our Trust... Over the last two years we have recruited nurses from the European Union and further afield to support our nursing workforce and continue to do so. The majority of those recruited remain, though some have gone back home or to work elsewhere for a variety of reasons."

6. Impact on European Union structural funding streams

The future of European Union structural funds and what kind of arrangements will be made for regional funds once we leave the European Union are among the most important issues for local authorities. The uncertainties over European Union funding are exacerbated by the growing pressures on mainstream local government funding. This is particularly the case within the context of changes to business rates and greater local authority reliance on them.

European Union structural funds support economic development through measures like job creation, skills for young people and infrastructure. Between 2014-2020 the UK is set to receive €10.9 billion (approx. £9.5 billion) in European Regional Development and European Social Funds. Further information on how these funds have functioned in Lancashire was provided in the report to the Committee in September 2017.

The Conservative manifesto at the 2017 General Election pledged to establish a United Kingdom *Shared Prosperity Fund* to replace various European structural and investment funds. While no further details have been announced, Secretary of State Sajid Javid told the Housing, Communities and Local Government Select Committee (which is carrying out an inquiry into European Union withdrawal and local government – oral and written evidence can be found on the committee's [webpage](#)) in January that "we will create a simpler fund, which is easier to access for local areas. As announced in the Industrial Strategy, government committed to consult publicly on the detailed design of the fund this year."

However, while the government promises that this funding will be replaced, there is currently no clarity over how it will be allocated. This provides further uncertainty to councils and potential changes to existing funding risks damaging local economic growth potential. Councils and partners in the voluntary sector will want reassurance

that the shared prosperity fund continues to support the groups and individuals that have been supported through the European Social Fund – those furthest from the labour market for example.

Local government expert Professor Tony Travers *of the London School of Economics* [told the Select Committee last December](#):

“The complex question is knowing how whatever follows will operate – it is all hypothetical – in the real world of United Kingdom public finance. A new fund may be set up, and will be set up according to the Government, but the question is, how would it operate? Would it replicate what was done before?”

Witnesses also highlighted the need for greater understanding of the impact of withdrawal on different parts of the country, which may require an analysis of the strengths and assets of different places. This is, of course, extremely challenging at a stage where the negotiations over future trading relationships have barely begun. However, it will become increasingly important for local government, individual councils or groups of councils to have access to the negotiations.

7. Representation of local government in the withdrawal negotiations and beyond

Local government has continually requested a voice at the negotiating table. Giving evidence to the Select Committee last December, Jessie Hamshar, Service Director at Cornwall County Council said:

"Local government was promised a seat at the table. It is not clear even where the table is, never mind what the seat is. If you look at the five committees that have been set up, even at a ministerial level the Secretary of State [for local government] is represented at only one of them, and it is the committee that is looking at the day-to-day issues that arise. It is not one of the negotiating table committees."

Specific concerns have also been raised that the Secretary of State has no seat at the European Union Exit and Trade (Domestic Preparedness, Legislation and Devolution) sub-Committee which oversees domestic policy preparations and implementation of the terms of the UK's withdrawal.

The Secretary of State told the Select Committee in January:

"My department has undertaken direct engagement with local authorities and stakeholders across the country. I would welcome the views of the Committee on how Government can engage with local government and other stakeholders to best effect, to ensure the voice of every region is heard in the negotiations".

Mr Javid also mentioned the Committee of the Regions:

"Government is committed to conducting further detailed conversations with the four local government associations about how the consultative role of the Committee of the Regions may be replicated, in a non-statutory way, domestically. We believe this will complement the wide ranging domestic processes and procedures the Government already has for consulting local government when developing new policies or legislation which will impact them'.

8. Survey: A view from Leaders and Chief Executives

A survey of all council Leaders and Chief Executives in Britain uncovered some dissatisfaction with the level of support and engagement that councils are receiving from central government over European Union withdrawal. Only four per cent said they were receiving adequate support, while 68 per cent thought it was insufficient.

The survey, conducted by the New Local Government Network, found that 61% of Leaders and Chief Executives believed withdrawal would have a negative or very negative impact on their local economy. Only 12% believed it would have a positive impact or very positive impact while 26% felt withdrawal's impact would be neutral.

The survey, with responses from 185 council chiefs, also found widespread dissatisfaction with the help provided to councils by central government in preparing for the UK's withdrawal. 68% disagreed or strongly disagreed that their councils were receiving adequate engagement and support from Whitehall. Only 4% felt they were receiving adequate support and 27% neither agreed nor disagreed.

9. Devolution and regulatory powers

Councils are understandably concerned about the immediate and practical effects of budget constraints and service challenges, particularly in the context of European Union withdrawal. However, Brexit also poses other questions regarding powers and regulations and how many (or indeed, if) laws returned to the United Kingdom will be devolved to local government.

Helen Dickinson, Assistant Chief Executive, Newcastle City Council, told the Select Committee:

"The general question of transferring European Union legislation into United Kingdom law raises three issues for us in local government: the impact that the risk of ambiguity in the transitional phase could have on us; the flexibility in how the legislation is transferred; and the capacity and resources to prepare."

A number of submissions to the Select Committee's Inquiry have suggested that demands to "take back control" must be reflected in greater devolution of powers, particularly over finance, to local government. Similarly, there have been calls for the formal devolution of any future regional funding mechanisms. Even if they should be devolved the question is how: What role would there be for the new combined authorities and mayors and for those areas without such arrangements and how would a new system fit with reforms to local government finance?

10. Impact on regulatory frameworks

The report submitted to the Committee last September identified a number of areas where withdrawal from the European Union could alter the regulatory context governing a number of county council services and business operating in the county (and the nuclear industry in particular). These include environmental policy, waste,

human resources, procurement and competition law, social work regulation and accreditation, the rights of people with disabilities, and Health & Safety regulations, among others.

Government has provided some additional clarity on these issues since publication of the Committee report but we still await word on the detailed forms of regulatory standards, which remain wrapped up in wider trade negotiations and the future state of the United Kingdom's border with the Republic of Ireland. Both regulatory alignment and regulatory divergence have been mooted for different sectors with further detail likely before by the autumn, depending on the progress of the negotiations. A further update will be provided in the next report to the Committee.

With that said, Cabinet ministers have provided broad statements on the likely course of Britain's regulatory approach following withdrawal from the Union:

“Brexit will inevitably mean a change in the way companies do business. It has to, if we are to make good on the referendum result, and carve a path for Britain to strike its own trade deals, have its own immigration policy and make our courts sovereign once more. But my message to you is that these goals will not change the kind of country Britain is. A dynamic and open country ... One leading a race to the top in global standards.”

David Davis, speech to business leaders in Vienna, February 2018.

“We are taking two completely interconnected and aligned economies with high levels of trade between them, and selectively moving them, hopefully very modestly, apart.”

Phillip Hammond, Davos, January 2018.

The Prime Minister had also promoted a "three baskets" approach in which the United Kingdom would choose one of the following options: adhering to European Union regulations; managed "mutual recognition" whereby the United Kingdom agreed with the European Union to achieve the same outcome with different tools (as a way to avoid a "hard" border in Northern Ireland and minimise trade disruption); or making up its own rules altogether. European Union negotiators have expressed scepticism regarding "mutual recognition" and, historically, the Union has operated a strong form of mutual recognition *within* the single market. However, the European Union may not extend anything like the same courtesy to trading partners outside the bloc.

Despite continued uncertainty about the precise forms of post-withdrawal trade regulations, recent pronouncement from members of the government suggest that a "bonfire of red tape" is less likely than previously thought. Ministers have even praised existing systems of regulation:

“While we have been a member of the European Union, the United Kingdom has been instrumental in the design of its rules. Why? Because we are a leading proponent of the rules-based international system.”

David Davies, February 2018

Similarly, the United Kingdom is set to aim to meet the European Union's tough new recycling [targets](#) which expect member states to recycle 65 per cent of household

waste by 2030 – significantly higher than the United Kingdom's current recycling rate. It was initially unclear whether the United Kingdom would be forced to adhere to these targets given its imminent withdrawal, but it now appears that the Government is planning to support the package. Environment Secretary Michael Gove has also urged Britain to resist pressure from the United States for lower food and animal welfare standards (and acknowledged the post-withdrawal pressures on recruitment in a February speech to the National Farmers' Union).

There has been even less clarity about whether European state aid rules should be maintained. David Davis has said that “fair competition means that it cannot be right that a company situated in the European Union would be able to be heavily subsidised by the state but still have unfettered access to the United Kingdom market, and vice versa.” However, Mr Gove has [condemned European Union rules on state aid](#), which he said had prevented vital infrastructure investments such as high-speed broadband.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

List of Background Papers

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A