

BREXIT: potential impacts on the Devon economy

Report from the Head of Economy, Enterprise and Skills

1. Summary/Background

This report summarises some of the key themes that will potentially be impacted by Brexit. However, key aspects of the UK's exit from, and future relationship with, the European Union (EU) remain subject to considerable uncertainty at this point in time. This makes it difficult to assess the potential impact of Brexit, positive and negative, on the Devon economy.

Given the degree of uncertainty and no agreed position on trading agreements or alternative models to the single market / customs union which may be agreed upon, it is not possible to assess the implications on the economic and social well-being for Devon residents. The government is currently seeking to achieve an outcome that delivers many of the benefits of the single market without some of the costs and restrictions involved. This position may be successfully negotiated or an alternative agreed over the coming months and is the subject of intense debate both within the UK and within the EU. It is likely to be one of the key themes that dominates the negotiations between the UK and the EU over the coming months.

On 29 March 2017, the government triggered Article 50, which began the formal process for the UK to leave the EU on 29 March 2019. On 15 December 2017, the European Council agreed that sufficient progress had been made in Phase 1 of the negotiations, which concerned the terms of the UK's withdrawal from the EU, to begin Phase 2 which would focus more on the terms of the UK' and the EU's future relationship.

Under Phase 1 of the negotiations, both Parties have reached agreement in principle across the following three areas: protecting the rights of Union citizens in the UK and UK citizens in the Union; the framework for addressing the unique circumstances in Northern Ireland; and the financial settlement. The detail of what was agreed has been published by the government.¹

The EU has published its guidelines for phase two of the negotiations, with discussions on future economic co-operation not likely to begin until March, though the UK government is arguing for those discussions to begin as soon as possible.

¹ <https://www.gov.uk/government/publications/joint-report-on-progress-during-phase-1-of-negotiations-under-article-50-teu-on-the-uks-orderly-withdrawal-from-the-eu>

2. Potential opportunities and impacts of Brexit

2.1 Labour market

It is currently unclear what migration arrangements will prevail after the UK leaves the EU, beyond the fact that the government will have more control over migration policy and that EU nationals residing in the UK at the date of exit will have some of their rights protected.

In Devon, 5.4% of the population are non-UK citizens and 2% are EU citizens which is lower than the UK average of 13.3% and 5% respectively. Of EU citizens, 80% are working age. 46% are here to work, 10% are here to study and 35% are accompanying a family member. EU workers are more likely to work in excess of 40 hours per week; on average, 26% of UK workers exceed 40 hours per week, but this figure rises to 49% when examining EU citizens. Within the South West region, Polish citizens are the most populous nationality, followed by Indians; Germans, South Africans and Irish.²

Devon has sectors that draw on EU and non-EU migrant workers. 50% of all EU workers in the South West region are employed in the manufacturing and retail / hospitality industries. The social care sector also employs significant numbers of migrant labour. The agricultural sector also relies on casual and seasonal labour and increases in labour costs that may emerge as a result of changes to migration may impact those businesses in particular.³ At the other end, the high-value manufacturing and construction sectors use EU nationals to fill higher-level skills gaps while our Universities recruit researchers and teaching staff from around the world. A reduction in this labour could result in wage increases for domestic workers, but could also exacerbate recruitment difficulties for some firms and lead to higher prices for consumers.

Until the future arrangements are clear it is difficult to predict what the overall impact might be. But what is clear is that it will be more important than ever to ensure that the UK is training a skilled and flexible workforce.

2.2 Trade

Again, future trading arrangements with the EU and the rest of the world remain very unclear. Companies in Devon are less reliant on exports than other parts of the country, with only approximately 20% of businesses in Devon exporting to markets overseas. However, the majority of those exports are to the EU. In fact, 70% of Exeter's exports are to the EU, which is the highest share of any city in the UK⁴.

The possibility of new trading arrangements with the rest of the world may open up new opportunities for firms in Devon. It will be critical that Devon is positioned to

² Report to the HotSW Brexit Resilience and Opportunities Group, October 2017

³ Brexit Scenarios: An impact assessment, Agriculture and Horticulture Development Board, October 2017

⁴ Cities Outlook 2017: Centre for Cities

capitalise on these while being aware of adjustment risks for any sectors that do face new tariffs or other barriers.

Imports are also an important consideration. Around 44% of imports to the South West of England come from the EU, which allows consumers and businesses to access the widest pool of goods they require at the lowest prices.

It is difficult to assess whether continued membership of the single market and customs union or a future free trade agreement with the EU would be more advantageous, as the terms of such an agreement are very unclear at present. The government is seeking to achieve an outcome that delivers many of the benefits of the single market without some of the costs and restrictions involved. Whether that aspiration is achievable is subject to intense debate.

2.3 EU funding

The UK is expected to lose access to most EU funding streams after it leaves the EU in 2019. Devon has been a major beneficiary of EU funding in recent years, including “structural funds” which are the main source of EU economic development funding estimated to be worth around £10m per annum to Devon. Devon benefits from EU “structural funds” at a beneficial intervention rate because of its designation as a “transition area” in recognition of its low productivity and workplace based earnings in some places. This funding has been important at a time when government funding for regional development has been falling and it has supported numerous high-profile projects. But these funds are often costly to administer and poorly targeted. Brexit represents a significant opportunity for the government to replace them with something better tailored to local priorities.

The government has said that it will introduce a “Shared Prosperity Fund” to replace EU structural funds, and will be consulting on the design of that fund in 2018. It has not said how large that fund will be or how it will be distributed. We understand that the Government is also considering rolling a range of domestic economic development funding (e.g. the Local Growth Fund) into the Shared Prosperity Fund, meaning that it will likely become the government’s key regional development policy. Elements of this fund are likely to be controlled nationally by individual government departments, while others may be devolved to local areas. This is a significant opportunity, but there is also a risk – particularly for predominately rural areas like Devon – that the new fund does not fully replace the current arrangements.

Officers will be lobbying stakeholders, including local MPs, to argue that:

1. Government should not use this as an opportunity to reduce the total amount of funding available for economic development in areas like Devon. There is a risk that funding could be skewed to other parts of the UK (e.g. the government’s Industrial Strategy places a heavy focus on cities)

2. Funding should continue to be allocated on the basis of need rather than competition. The current distribution of EU funding leads to local discrepancies (e.g. more generous for Cornwall than for Torridge, despite the economic similarities) but it is at least based on a broad assessment of need and deprivation. Competitive pots would likely favour urban areas who could demonstrate the highest economic returns.
3. Local areas should be empowered to decide how that funding is spent in line with local priorities, through the control of a “single pot”. In the Heart of the South West the Joint Committee or a future Combined Authority would be a credible alternative to the LEP in performing that function;
4. As proposed by the LGA, the government should take the opportunity to devolve further powers over economic development to local area e.g. skills;
5. The fund should be “rural proofed” and account for any changes in agricultural subsidies; and
6. The new fund should be designed in a way that minimises bureaucracy and waste.

Separately, Universities and businesses draw extensively on EU funding for R&D (Horizon 2020), which is worth over £1bn p.a. to the UK in total. The government has not yet indicated whether the UK will continue to participate in Horizon 2020 or whether the funding would be replaced if it no longer participated.

2.4 Agriculture and fisheries

Agriculture, Forestry and Fishing accounts for around 2% of the Devon economy compared with 0.55% nationally.⁵ This sector also accounts for around 5.5% of Devon’s employees.⁶ While relatively small sectors, they are the cornerstone of the rural economy.

Agriculture and fisheries are likely to be the sectors most affected by Brexit, as for the first time since the 1970s policy on those matters will be set domestically. Currently farmers in Devon receive around £150m p.a. of EU subsidies and much of the regulations they comply with are determined in Brussels. The future subsidy and regulatory regime is of critical importance to farmers and fishermen.

Migration and trade are almost equally important to these sectors. The National Farmers Union, for example, is campaigning for “continued access to the EU single market with minimal tariff and non-tariff barriers” and migration arrangements that “recognise the crucial importance of migration for certain sectors of the UK economy, both low and high skilled, and be based on a realistic expectation of the ability and

⁵ ONS, 2015

⁶ Defra, 2016

availability of UK workers to fill the jobs currently carried out by EU migrant workers.”

7

On 4 January 2017 the Secretary of State for Environment, Food and Rural Affairs, Michael Gove, gave a speech which provided an outline of the government’s post-Brexit vision for agriculture⁸. The key points included:

- In future there will be a shift away from the Common Agriculture Policy’s system of Basic Payments, where subsidies relate to the amount of land a farmer owns, to a system of “public money for public goods”.
- Examples of public goods highlighted by the Secretary of State include protecting and enhancing Natural Capital (e.g. rewarding farmers for planting woodland, boosting wildlife, improving water quality and recreating wildflower meadows), investment in training and innovation.
- After the UK leaves the EU in 2019, the government will ensure transitional arrangements for agricultural subsidies of a “number of years” beyond the 2 year implementation period agreed by the Prime Minister for the UK as a whole
- The government will guarantee subsidies at the current EU level until the 2022 election.
- Inspections will be streamlined, reduced and conducted in a risk-based fashion.
- Support for farmers who may choose to leave the industry.
- These plans will be outlined in a Command Paper in the Spring, which will be subject to consultation
- The government aspires to “tariff-free access for agri-food goods” with the EU.
- The Secretary of State would like a “flexible migration policy overall” and to ensure “access to seasonal agricultural labour”
- The government will support the development of the Food and Drinks sector, with a focus on quality. He added that it would be “foolish to lower animal welfare or environmental standards as part of any trade deal”
- Support for rural enterprises.

At this stage no further details have been provided, so it is difficult to say what this might mean for the UK agriculture sector more generally or what it might mean for farming in Devon given its particular characteristics (e.g. fewer, smaller farms; predominance of dairy and beef; uplands farming on the moors; a large proportion of protected landscapes, etc).

⁷ National Farmers Union: “Access to a competent and flexible workforce” and “A new outlook on International Trade”

⁸ <https://www.gov.uk/government/speeches/farming-for-the-next-generation>

At this stage, even less detail has been provided on future fisheries policy.

2.5 Confidence and investment

Business confidence affects their willingness to recruit staff, take risks and invest in their business and this is important for long-term economic growth. Uncertainty can be bad for business investment, particularly foreign investment and R&D.

Policymakers should seek to reduce uncertainty where possible, and seek to support business investment in other ways (e.g. through additional government investment).

2.6 Intra-UK migration

Changes in the supply and demand for labour may change intra-UK migration flows that local authorities will need to be responsive too. It has been speculated that Brexit might lead to more people choosing to retire in the UK, rather than in EU countries (Spain has been a popular destination up until now). Devon is already one of the most popular destinations in the UK for retirees. Further flows from within the UK could represent a boost to the economy, as those people spend their money in the local economy. It could also create pressures, particularly on housing and the costs of health and social care.

Similarly, there could be an increase in demand for second homes in Devon if British buyers of holiday homes in the EU decide to purchase such properties within the UK instead (e.g. because of uncertainty over freedom of movement, etc). This could exacerbate housing affordability issues in parts of the County.

Keri Denton
Head of Economy, Enterprise and Skills

Electoral Divisions: All

Cabinet Member for Economy and Skills: Councillor Stuart Barker

Chief Officer for Communities, Public Health, Environment and Prosperity: Virginia Pearson

Local Government Act 1972: List of Background Papers

Contact for enquiries: Tom Dodd

Room No: Lucombe House, County Hall, Exeter. EX2 4QD

Tel No: 01392 383000

Background Paper	Date	File Ref.
------------------	------	-----------

Nil

t160118cirssc BREXIT potential impacts on the Devon economy
hk 03 190118

Current government policy on key issues (Source: www.gov.uk)

“Immigration and freedom of movement

DExEU is working closely with the Home Office and other government departments to identify and develop options to shape our future immigration system, including considering the best way to control the number of people coming to the UK following our exit from the EU.

At every step of these negotiations we will work to ensure the best possible outcome for the British people.

Rights and status of EU nationals and UK nationals

The rights and status of EU nationals in the UK and UK nationals in the EU is unchanged as we approach our exit.

We want to seek the earliest agreement to protect the status of EU nationals who are already living in the UK, and the status of UK nationals already living in other Member States, following our exit. The Prime Minister has made clear that we stand ready to reach a deal on this right now. It remains an important priority for the UK and many other Member States to provide certainty to these groups as soon as possible.

Our future immigration system for EU nationals

We will remain an open and tolerant country, and one that recognises the valuable contribution migrants make to our society. However, the message from the public before and during the referendum campaign has been clear: leaving the EU must mean control of the number of people who come to the UK from Europe. We want to see net migration to the UK fall to sustainable levels.

DExEU is working closely with the Home Office and other Government departments to identify and develop options to shape our future immigration system.

Intolerance in the UK

We will not tolerate hate crime or any kind of attacks against people in our country because of their ethnic origin. We are a proud multi-faith, multi-ethnic society and we will stay that way.

The Government is committed to tackling hate crime, which is why we have published a Hate Crime Action Plan which focuses on reducing hate crime,

increasing reporting and improving support for victims. We have also launched a new funding scheme to help protect places of worship.

Exiting the EU and trade

Leaving the EU offers us an opportunity to forge a new role for ourselves in the world: to negotiate our own trade agreements and to be a positive and powerful force for free trade. The UK has always been a leading voice for free trade in the EU and globally. Outside the EU, we will have the complete freedom to pursue this approach and to push for more open, global trade, supported by strong global institutions like the WTO.

The single market

The single market works by treating EU member states as a single economic area. It means businesses can trade goods across the EU without paying tariffs. The single market for services seeks to remove barriers to businesses wanting to trade across borders, or to establish a company in another country.

We have ruled out being a member of the single market, as the PM said in the Lancaster House speech. EU leaders have made clear their view that members of the single market must sign up to the 'four freedoms' that underpin it - including the free movement of people - and be subject to the jurisdiction of the European Court of Justice. We respect that position.

Instead, we want a bold and ambitious Free Trade Agreement with the EU. This will enable free-flowing trade in both goods and services, and ensure the freedom for UK companies to trade with and operate within European markets.

We also intend to leave the Common Commercial Policy and for the UK not to be bound by the EU's Common External Tariff so that we can pursue our own independent trade policy, securing trade deals with new partners.

The Prime Minister created the Department for International Trade for this purpose. We will agree a new customs arrangement with the EU to ensure that trade with the EU is as seamless and frictionless as possible, including between Northern Ireland and the Republic of Ireland.

The customs union

Negotiating new comprehensive UK trade agreements is a priority for the Government as we leave the EU. We want to have a new, mutually beneficial customs agreement with the EU that supports these objectives, but we have an open mind about the form of that agreement.

EU funding

We will guarantee EU structural and investment projects that are signed before the UK leaves the EU, even if they continue beyond our EU departure. This is provided they represent good value for money and are in line with the UK's strategic objectives.

UK organisations making bids directly to the European Commission (institutions, universities and businesses) should keep applying for funding.

Over the next few months, the Government will engage closely to review EU funding schemes, so any ongoing funding commitments best serve our national interest.

Legislation

Our EU membership means that EU law currently applies in the UK. To ensure a smooth transition and provide certainty, wherever practical and appropriate, we are going to turn existing EU law into UK law. After this, our Parliament can change, repeal, and improve any law it chooses. All Government departments are currently reviewing the EU laws that apply in their areas and how our withdrawal from the EU will affect how these laws work.

What is needed to leave the EU

In March 2017, we introduced the European Union (Notification of Withdrawal) Bill, which was necessary to implement the referendum result and respect the judgment of the Supreme Court. It was passed by Parliament and given Royal Assent in March.

The European Communities Act will be repealed on the day we leave the EU – meaning that the authority of EU law in the UK will end. We will convert the body of existing EU law into domestic law and then Parliament will be free to amend, repeal and improve any law it chooses.

Without the Repeal Bill, there would be large gaps in the UK statute book after we left the EU. This process will give businesses and workers maximum possible certainty as we leave the EU. Existing workers' legal rights will remain guaranteed in law."