# Oldham Borough Council

# Council Meeting
# Wednesday 13 December 2017

# OLDHAM BOROUGH COUNCIL

**To: ALL MEMBERS OF OLDHAM BOROUGH COUNCIL, CIVIC CENTRE, OLDHAM**

**Tuesday, 5 December 2017**

**You are hereby summoned to attend a meeting of the Council which will be held on Wednesday 13 December 2017 at 6.00 pm in the Council Chamber, Civic Centre, for the following purposes:**

20 Brexit Update (Pages 1 - 92)

Please note the appendices to this report are available at Access Oldham, Civic Centre, Civic Entrance, Civic Centre West Street and Group Rooms.

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**Report to COUNCIL**

# European Union Referendum – Impact on Oldham and Greater Manchester

**Portfolio Holder:**
Councillor Jean Stretton, Council Leader

**Officer Contact:** Tom Stannard, Director of Economy & Skills

**Report Author:** Tom Hewitt, Strategy Partnerships & Policy
Jon Bloor, Head of Service Economy & Skills

**Ext.** (0161) 770 5152
**13 December 2017**

## Reason for Report

Following the UK referendum on continuing membership of the EU held on 23 June 2016, the implications of the "leave" result are now starting to be better understood.

This report provides an update following a July 2016 report to Council on the potential implications of the vote for Oldham and Greater Manchester.

## Executive Summary

- This report looks at the anticipated impact of leaving the EU and what Greater Manchester and Oldham can do to mitigate against the likely economic shock of Brexit.

- It includes the potential short and longer term impacts on residents in terms of living standards and employment but also on business and the economy in terms of productivity and workforce. Regardless of the type of deal agreed with the EU, consumers are likely to be hit by an increase in prices, particularly for food and energy.

- In previous recessions Oldham's economy has been impacted harder, and recovery is more difficult and takes longer.

- When full analysis and understanding of the implications of leaving the EU is undertaken and impacts become clearer, it is essential that there is recognition, understanding, support and investment from the Government and GM to mitigate the impacts of any adverse economic shocks in Oldham enabling economic and social resilience for people and places.

- Whilst there had been relatively slow progress in respect of negotiations, on 7 December there was an announcement of some progress which would pave the way for further detailed negotiations relating to trade and immigration to take place. A summary of what was agreed:

  *There will be no hard border between Northern Ireland and the Republic and that the "constitutional and economic integrity of the United Kingdom" will be maintained.*

  *EU citizens living in the UK and vice versa will have their rights to live, work and study protected.*

  *The agreement includes reunification rights for relatives who do not live in the UK to join them in their host country in the future.*

  ***Financial settlement –** no specific figure is yet specified but the Government has stated that this will be between £35 and £39 billion including budget contributions during a two year transition period after March, 2019.*

- It is important the role of local government in the policy-making process is retained. The Greater Manchester Strategy identifies continued lobbying of Government to establish a Brexit Committee for the Northern Regions and Cities as a priority. The role of the Local Government Association will be important in supporting the Leaders of Greater Manchester's Local Authorities. **The asks and priorities of Government from GM and Oldham are clearly set out in section 17.**

- The 2017 GM Business Survey found that 85% of firms are experiencing rising costs and this has been seen most strongly in the cost of raw materials There is a great deal of concern among employers in certain sectors that they may not be able to fill vacancies following the country's withdrawal from the EU and a risk that the UK and Greater Manchester becomes less attractive to high-skilled workers.

- In Oldham there is a relatively small proportion of EU migrant workers across all sectors and skill levels of the economy when compared with both Greater Manchester and particularly when compared with the South East and London.

- The Government is developing a replacement Fund for the European Structural Investment Fund (ESIF), this is the Shared Prosperity Fund. GM would expect the Fund to be at least the same value as the current ESIF programme.

## Recommendations

Council is asked to discuss and note the content of this report.

**1.0 The purpose of this report**

1.1 Following the UK referendum on continuing membership of the EU which was held on the 23 June 2016, the implications of the “leave” result are now starting to be better understood. This report sets out a summary of the implications of leaving the EU to Oldham’s economy and to Greater Manchester.

1.2 15 months on from the referendum, scenario planning and impact modelling has been undertaken by leading organisations including The London School of Economics and Oxford Economics which will support Greater Manchester and Oldham to prepare for exiting the European Union.

1.3 This report looks at the anticipated impact of leaving the EU and what Greater Manchester and Oldham can do to mitigate against the likely economic shock of leaving.

**2.0 Background and ongoing UK Government Negotiations**

2.1 The UK is scheduled to depart the EU at 11pm UK time on Friday 29 March, 2019. Talks between the UK Government and the EU are currently taking place on three aspects of how Brexit will work, these are:

- Focusing on how much the UK owes the EU.
- What happens to the Northern Ireland border.
- What happens to UK citizens living elsewhere in the EU and EU citizens living in the UK.

2.2 Prime Minister Theresa May had said that "real and tangible progress" had been made, but that the country must be prepared for "every eventuality" – including a ‘no-deal’ scenario.

2.3 UK Government wants to talk about future trade relations and a plan for a two year "transition" period to smooth the way to post-Brexit relations. The EU position is that they will not talk about the future trading relations until enough progress has been made with the above three issues.

2.4 The Prime Minister has reiterated that trade models such as the European Economic Area or the Canadian Comprehensive Economic and Trade Agreement are not an option for any deal, calling instead for a creative solution that is unique to the UK.

2.5 EU law still stands in the UK until it ceases being a member, however, there is uncertainty about how final the break will be on that day - a number of UK and EU figures back the idea of having a "transition" period of up to three years to allow a smooth implementation.

2.6 **MPs will get a vote**

Theresa May has promised there will be a Commons and Lords vote to approve whatever deal the UK and the rest of the EU agree at the end of the two year process to leave the EU following the triggering of Article 50. Any deal also has to be agreed by the European Parliament - with British MEPs getting a chance to vote on it there.

2.7 **Progress of the Brexit Deal**

Whilst there has been relatively slow progress in respect of negotiations, on 7 December there was an announcement of some progress which would pave the way for further detailed negotiations relating to trade and immigration to take place. A summary of what was agreed -

*There will be no hard border between Northern Ireland and the Republic and that the "constitutional and economic integrity of the United Kingdom" will be maintained.*

*EU citizens living in the UK and vice versa will have their rights to live, work and study protected.*

*The agreement includes reunification rights for relatives who do not live in the UK to join them in their host country in the future.*

***Financial settlement –*** *no specific figure is yet specified but the Government has stated that this will be between £35 and £39 billion including budget contributions during a two year transition period after March, 2019.*

2.8 **What does a 'Soft Brexit' mean for the UK?**

Under the soft Brexit scenario it is assumed tariffs remain at zero and non-tariff barriers increase. This would happen if the UK joins a free trade area, such as the European Free Trade Area (EFTA), with the EU.

2.9 Non-tariff barriers are the costs arising from customs checks, border controls, differences in product market regulations, legal barriers and other transactions costs that make cross-border business more difficult. Even free trade areas cannot eliminate all the non-tariff barriers that businesses face when transacting across borders.

2.10 Given the way in which bilateral trade costs are modelled, this increase in non-tariff barriers (combined with the assumption of no changes in tariff barriers) translates to a 2.77% increase in bilateral trade costs between the UK and the EU.

2.11 This is likely to mean increased prices for consumers and an increase in cost for UK companies that rely on EU suppliers.

2.12 **What does a 'Hard Brexit' mean for the UK?**

Under the hard Brexit scenario, the UK and the EU are not part of a free trade agreement (at least immediately) and so they must charge each other the tariffs that they charge to other members of the World Trade Organization (WTO). **This means that goods crossing the UK-EU border are faced with WTO Most-Favoured-Nation tariffs.**

2.13 In line with national estimates, using London School of Economics (LSE) analysis models the **average Local Authority impact** as being negative under both a soft Brexit and a hard Brexit, and **more negative under hard Brexit**.

2.14 In the short term the average Local Authority decrease in GVA is predicted to be 1 percentage point larger under hard Brexit than under soft Brexit (-2.12% compared to -1.14%, respectively).

**3.0 The Impact of Brexit will be different across the UK**

3.1 LSE analysis also highlights that the **variation in Local Authority level shocks is considerably higher under hard Brexit.** This suggests that some Local Authority areas are particularly specialised in sectors that are likely to be badly hit by a hard Brexit, in particular financial services and manufacturing sectors that rely on ready access to EU markets and are highly sensitive to changes in cost.

3.2 Areas in the South of England and key urban centres such as London, Manchester, Bristol, and Birmingham are predicted to be harder hit by Brexit under both scenarios. This pattern is explained by the fact that those areas are specialised in sectors that are predicted to be badly hit by Brexit. For example, the City of London, which is predicted to see the largest decrease in GVA under a hard Brexit (-4.3%). **This compares with a decrease of 2.2% in GVA under a hard Brexit in Oldham.**

3.3 **Longer term impact**

Work undertaken by Oxford Economics which is used in the Greater Manchester Forecasting Model has provided a series of scenarios on the impact of Brexit for the UK. Their **analysis identifies a Free Trade Agreement as the most likely longer term scenario for the UK**- this is summarised in figure 1.

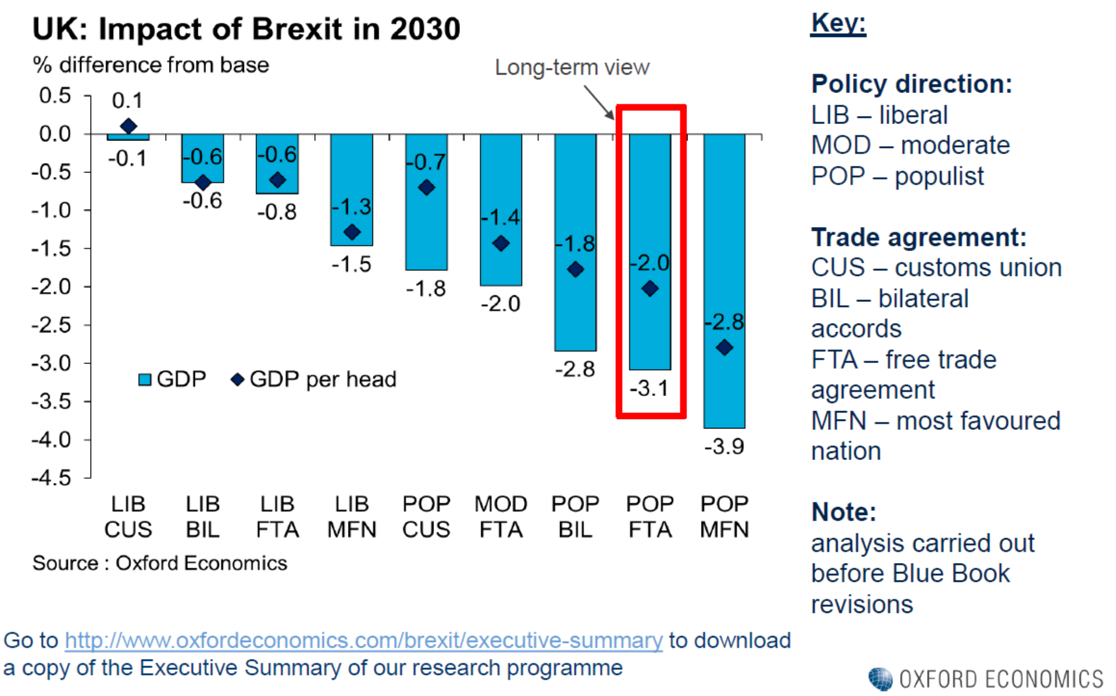


*Figure 1*

## 4.0 Role of Local Government in shaping policy

In addition to the devolution of powers, it is important to ensure that the role of local government in the policy-making process is retained. This is currently achieved through the EU Committee of the Regions and has ensured that laws are influenced by those at the frontline of delivery.

4.1 The Prime Minister has made a commitment that the same rules will apply on the day after exit as on the day before. Therefore, this formal advisory role needs to be replicated in order to retain a high-quality and effective policy-making process.

4.2 Engagement between Ministers and local leaders should be reinforced by working level engagement between national and local officials so that the knowledge and expertise of each can be drawn on.

4.3 The Greater Manchester Strategy identifies continued lobbying of Government to establish a Brexit Committee for the Northern Regions and Cities as a priority. The role of the Local Government Association will be important in supporting the Leaders of Greater Manchester's Local Authorities and the Mayor along with business groups such as the Greater Manchester Chamber for Commerce to actively pursue this with Government.

**5.0 What does Brexit mean for Oldham and Greater Manchester?**

5.1 The analysis indicates that the areas likely to lose (or lose out the most) are intrinsically linked to the levels of dependency of key employment sectors on both trade with and immigration from the EU.

This is most evident for the financial crisis and recession of 2007/8 (which saw London and the South East hit hardest before recovering much more strongly than other areas of the UK).

5.2 When predicting who will be affected most by the economic changes that will inevitably stem from the decision to leave the EU, it is existing disparities in income, skills and investment that are the biggest risk factors.

5.3 Evidence tells us that areas with high skills levels, strong social infrastructure and sectors of employment that are quick to adapt to technological change are likely to recover and adapt the quickest.

5.4 In short, for areas like Oldham and those places in Greater Manchester that are relatively worse off, households in these areas are likely to experience considerably more difficulty in adjusting to negative economic shocks resulting from Brexit in the longer term.

**6.0 Implications for increased prices for the residents of Oldham**

6.1 Regardless of the type of deal agreed with the EU, consumers are likely to be hit by an increase in prices, particularly for food and energy.

6.2 For people living on low incomes, food and energy are a disproportionately large part of household expenditure.

- Energy price rises and unavailability would negatively impact residents and businesses, and the public sector.
- Like energy, the UK imports a substantial proportion of its food – at least half, most of which comes from the European Union.
- Local community food growing initiatives here in Oldham would likely be unaffected, as they depend largely on volunteer time and have the production of high-quality organic food for healthy diets as their objective.
- Any increase in prices will have an impact on residents in Oldham, and it will be important that we continue work locally to tackle food and energy poverty.

**7.0 The view from business**

7.1 Longer term growth in Greater Manchester is likely to be a lower due to Brexit because of lower net migration, less trade and lower productivity. Growth will be slower, more so for GVA than employment or demography

7.2 The 2017 GM Business Survey found that 85% of firms are experiencing rising costs and this has been seen most strongly in the cost of raw materials. More than half indicated that they were suffering due to increases in raw materials.

7.3 The Greater Manchester Business Survey provides a current insight on the performance, outlook at expectation of businesses across the region.

7.4 The outlook for businesses in respect of Brexit continues to be one of uncertainty, however the Survey also acknowledges that Brexit brings substantial opportunities for the conurbation and the UK as a whole.

7.5 The last 12 months have been less certain than the preceding 12 months and more closely aligned with performance in 2012 and 2013. Fewer businesses reported that they had increased their turnover or employment than they did in 2016. Businesses were also less optimistic about employment and turnover growth over the next 12 months than they had been in 2016. Brexit is likely to be playing a part in this decline in optimism.

7.6 **The Survey also suggests that the EU referendum is increasingly impacting on firms' recruitment intentions**. In the three months to October 2017, 60% of firms said they envisaged they would continue to recruit at the same pace following the referendum result, the lowest level since the referendum.

- Based on the Survey results, Greater Manchester will continue to make a strong ask of Government, particularly through ongoing work to develop a Greater Manchester Industrial Strategy. This will include, but will not be limited to support for;

- The continued renaissance of manufacturing in Greater Manchester by ensuring there are no new tariffs or regulatory barriers to trade in goods or manufacturing-related services;
- Support growth in Greater Manchester's £15.5bn financial and professional services industry by ensuring that UK regulated firms can continue to sell to EU markets through a long-term regulatory standards equivalence agreement;
- Ensure that Greater Manchester's digital sector continues to thrive, by ensuring access equivalent to membership to the digital single market, agreeing equivalence on data protection legislation, and investing in broadband infrastructure where it is currently prohibited under EU frameworks.

## 8.0 Exports

8.1 The EU accounted for 58 per cent of goods exports from Greater Manchester firms in 2015, representing a greater reliance on the EU as an export market than the average for England as a whole (42%).

8.2 Brexit presents both an opportunity and a challenge in terms of exporting for firms in Greater Manchester and places greater emphasis on achieving the ambitions outlined in the GM Internationalisation Strategy which highlighted six key markets for GM over the next three years including EU, USA, China, India, Japan and UAE.

8.3 Research by the GMCA team had suggested that in a scenario of Brexit without a trade deal, the only scenario that could then be calculated, **Greater Manchester could be impacted by up to £150 million reduction in exports**, with an average decrease in exports of 4.9% across all goods with manufacturing likely to be most exposed.

8.4 Bolstering business confidence over the next two years will be critical and an important part of this is engaging with businesses to ensure that there is a clear understanding of their needs. The development of an Employer Engagement Framework in collaboration with the LEP, employers and business groups will be important in taking this forward.

8.5 In Oldham we are already taking action through the Economy & Skills Partnership and Business Investment Strategy with a view to supporting the following:

8.5.1 Improved business engagement and account management with our top 100 employers;

8.5.2 A whole Council and public sector approach to supporting businesses and employment sectors to grow, and to address challenges linked to workforce, skills, access to finance, land and premises and access to new markets.

8.5.3 It is acknowledged that Oldham cannot do this alone. This is why we will continue to work closely with Greater Manchester to ensure the region is a great place to do business.

## 9.0 Employment

9.1 Although the legal practicalities of a new migration policy are far from clear, in the aftermath of the referendum there has already been a drop in net migration from EU nations. This has immediate and long-term implications for certain sectors of the national economy.

9.2 As twin qualitative studies by the National Institute of Economic and Social Research before and after the Brexit vote revealed, there is a great deal of concern among employers in certain sectors that they may not be able to fill vacancies following the country's withdrawal from the EU.

### 9.3 GM Analysis

GM analysis anticipates manufacturing, distribution and public sector jobs will be affected by any loss of European workers (c. 50k jobs in GM are European citizens).

### 9.4 Estimated EU jobs by sector in GM

| Industry | UK | EU | Non-EU | Total Jobs | Estimated EU jobs |
|---|---|---|---|---|---|
| Agriculture, Forestry, and Fishing | 64% | 14% | 22% | 3,100 | 400 |
| Energy and Water | 84% | 8% | 7% | 17,300 | 1,400 |
| Manufacturing | 80% | 11% | 9% | 121,000 | 13,400 |
| Construction | 94% | 3% | 4% | 86,400 | 2,200 |
| Distribution, Hotels, and Restaurant | 77% | 10% | 13% | 260,700 | 25,700 |
| Transport and Communication | 87% | 5% | 8% | 124,600 | 6,800 |
| Banking and Finance | 85% | 7% | 9% | 205,800 | 13,700 |
| Public Admin, Education, and Health | 87% | 3% | 10% | 395,100 | 11,600 |
| Other Services | 87% | 3% | 10% | 69,900 | 2,300 |

*Source: GMCA applying Migration Observatory (2015) data for shares of EU workers by industry to ONS (June 2017) data on workforce by sector*

9.5 Those sectors with an over-representation of EU8 workers appear to be more vulnerable to potential changes in migration. This reinforces initial findings that Distribution, Hotels and

Restaurants and Manufacturing face the greatest risks regarding Brexit and its potential impacts on the labour market.

**9.6 High skilled employment**

There is a risk that the UK and Greater Manchester become less attractive to high- skilled workers. Any impact here could be significant even if the numbers involved are relatively small because of the importance of being able to remain globally competitive in areas such as higher education, leadership and management, and attracting innovative global firms.

**9.7 Low skilled employment**

Analysis cross-referencing national data with local intelligence suggests that in general, low-skilled jobs are likely to be most at risk to potential changes in migration as a result of the UK leaving the EU, as it is migration from EU8 countries (Czech Republic. Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia) which appears to be most affected by the Referendum result, and the majority of EU8 workers appear to be employed in low-skilled jobs.

9.8 Although uncertainty remains surrounding the government's post-Brexit immigration policy, based on current policy towards non-EU migrants, it would be reasonable to assume that low-skilled jobs would be most impacted should visa restrictions be introduced. This will affect employers' ability to recruit staff.

9.9 In Oldham there is a relatively small proportion of EU migrant workers across all sectors and skill levels of the economy when compared with both Greater Manchester and particularly when compared with the South East and London.

- Whilst this is not to say that the impact of migration is insignificant in Oldham, there is less risk to the local economy of large numbers of EU nationals leaving the UK, adversely affecting local employers.

- This demonstrates the impact of EU migration on employment and labour markets varies greatly across the UK and with a region.

**10.1 Health and social care sectors**

10.1 The impact on particular sectors will vary greatly across the UK. A case in point is the health and social care sector where it is well publicised that both EU and non EU nationals make up a large proportion of the current health and social care workforce.

10.2 NHS Digital reported in September 2017 that almost 10,000 EU nationals have left the health service since the EU referendum, over a third of which were working as nurses.

10.3 These numbers suggest there is an emerging labour market threat to the country's ability to continue to care for the vulnerable in our society. However, this carries a significant geographic divergence. It is expected that London and the South East will feel the effects far more than the North West.

10.4 Analysis undertaken by Skills for Care estimates that **94% of the health and social care workforce in Oldham is of British nationality, 1% were from within the EU and 5% from outside the EU.**

## 11.0 Productivity, skills, investment and wages

The Office for Budget Responsibility (OBR) reports that it is likely to revise down potential productivity growth in its November forecast. This is important, because in the long-run virtually no other measures come close to capturing how living standards change within the economy, and this feeds through into wages.

11.1 The decision to leave the EU has heightened the risk to future growth and prosperity of Oldham, Greater Manchester and many areas of the UK. However, it is the same issues of low skill levels, a decline in private sector investment and wage levels and our own population's inability to meet the skill demands of a modern labour market that remain the main barriers to sustainable growth in Oldham and more deprived areas across the UK.

11.2 Localised research found that twenty six of England's forty seven strategic authority areas have an above average level of risk to a low skills base. The Organisation Economic Cooperation and Development (OECD) notes that the UK is a global leader in a number of technologically advanced industries, such as complex business services, but that "the skills mix of the UK population is not well aligned with the skills requirements of these industries, making it difficult to maintain specialisation in these industries".

11.3 At a Greater Manchester level, it is recognised that there is a need to invest in and develop these assets and to remain at the forefront of scientific development. This is alongside continued collaboration between partners and to improve the record of science commercialisation – especially building the links between our universities and the local business base.

## 12.0 Reversing the stagnation in productivity and wages

It is crucial that we think differently about how we invest in our skills system. We must ensure that businesses are able to continue to access the workforce they need and residents are able to find jobs which are well paid and secure. In Greater Manchester this means better integration of post-16 skills through approaches to planning, accountability and delivery which are jointly developed between Greater Manchester and the Government so that they are more responsive to our businesses.

12.1 Oldham and Greater Manchester supports the Government's approach of developing a national Industrial Strategy, underpinned by ambitious Local Industrial Strategies developed in partnership between the Government and authorities, which can provide greater stability for national and local economies through the Brexit transition and ensure that prosperity is shared.

## 13.0 Oldham can influence its own destiny

- The risks to Greater Manchester and Oldham of leaving the EU are considerable. However, Oldham has consistently demonstrated that we can influence our own destiny through initiatives like Get Oldham Working which has supported more than 4000 residents into employment over the last 5 years.

- In Greater Manchester there is a strong track record of local leadership through devolution, and now through the development of a local Industrial Strategy to shape the region's economy and to ensure that the region is strong both nationally and internationally whatever the outcome of the Brexit negotiations.

- Through the sub-region we will continue to lobby Government on things like the devolution and funding of skills, housing and transport to ensure that Greater Manchester and Oldham can hold its own.

## 14.0 European Funding - Supporting investment, innovation and business growth

- The challenge of increasing levels of business investment and productivity has been recognised by Greater Manchester for some time and was set out in the first Greater Manchester Strategy back in 2009 and **recently refreshed in November 2017.**

- The primary source of funding to enhance the business support infrastructure is through the EU ESIF programme. In the current period of funding (2014-2020), Greater Manchester has a notional allocation of £322.75m, split across European Regional Development Funding (ERDF) (£176.78m) and European Social Funding (ESF) (£145.97m), equivalent to an annual allocation of £53.8m.
- The focus of ERDF is broadly on job creation and ESF on skills and employability.
- To date around 42% of fund allocation has been committed to projects by the Managing Authority, but no Oldham only project has received funding directly. The Council is a partner in an ESF proposal that provides around £1.2m for the ESF Skills for Employment programme (due to finish in July 2019).
- The tendency is to allocate ESF funding to Greater Manchester wide projects and then seek local delivery partners.
- However, it can be assumed that without Government intervention, Greater Manchester will not be able to access the next round of European structural funds, (ESIF 2020-2026 Framework).

## 15.0 Replacing Existing EU Funding with a Shared Prosperity Fund

15.1 A year on from the EU referendum, the Department for Communities and Local Government (DCLG) has been tasked to work across departments to develop a consultation on successor funding for ESIF. The 'Shared Prosperity Fund' (SPF) is being designed to reduce inequalities between communities, delivering sustainable, inclusive growth.

The fundamental purpose of this Fund would be to drive productivity, recognising the achievement of such is multi-faceted Fund.

### 15.2 Funding Level

Greater Manchester would expect the level of SPF made available to be at least the same value as the current ESIF programme, plus public match funding. To replicate the value of the current 7 year ESIF programme would require £645.50m, plus any future Local Growth Funding.

### 15.3 Opportunities for greater flexibility

The funding should be flexible enough to be used holistically: for both capital and revenue purposes, and the innovations pioneered by Greater Manchester in terms of the creation of local revolving investment funds (Evergreen) as well as grants to meet the needs of the locality.

- Additionally, ESIF places particular constraints on the use of funding, for example it cannot be used to provide support to particular manufacturing companies.

- As part of the formal consultation on successor funding, Greater Manchester should seek to lift some of the restrictions on the eligible use of successor funding, in particular the ability to provide complementary and additional funding to that already available from Department for Education (DfE) to support our priorities of school and work readiness.

**16.0 Examples of UK innovation support**

16.1 Innovation is at the very heart of helping businesses to succeed and grow. It is key to building a sustainable and growing economy and can be recognised not just in products and services but also across management processes and business operations.

16.2 A prime example of the UK and Greater Manchester responding to this challenge is through Knowledge Transfer Partnership (KTPs). KTPs connect UK businesses with an academic or research organisation and qualified graduate to work on innovation projects. Innovate UK currently support 630 graduates and post-doctoral researchers employed in KTPs. These include industrial research and development and entrepreneurial roles.

16.3 Innovate UK has announced an extra £30 million of funding for Knowledge Transfer Partnerships (KTPs), which connect UK businesses with an academic or research organisation and qualified graduate to work on innovation projects.

16.4 This is a real opportunity for Oldham to take advantage of funding designed to boost links between Higher Education Institutions in Manchester and the North West with high growth businesses in Oldham.

16.5 Oldham Council's Investment Team is working closely with the Greater Manchester Growth Company to explore how businesses in the Borough can access this opportunity.

**17.0 The key priorities for Greater Manchester and Oldham in response to Brexit**

17.1 The UK's departure from the EU creates risks and potential opportunities for the delivery of Greater Manchester's priorities underpinned by raising productivity and improving services.

17.2 From evidence generated for the GMCA the following asks of Government are:

- **Greater Manchester supports the Government's approach of developing a national Industrial Strategy**, underpinned by ambitious Local Industrial Strategies developed in partnership between Government and authorities, which can provide greater stability for national and local economies through the Brexit transition and ensure that prosperity is shared. For example, the Strategies need to ensure that:

- **The skills system can respond to changes in the labour supply caused by leaving the EU**, ensuring that businesses are able to continue to access the workforce they need and residents are able to find jobs which are well paid and secure. In Greater Manchester this means better integration of post-16 skills through approaches to planning, accountability and delivery which are jointly developed between Greater Manchester and the Government so that they are more responsive to our businesses.

- **The infrastructure is in place – particularly transport, housing and digital** – which can support businesses to develop innovative services and products in order to be globally competitive, supporting prosperity across the Northern Powerhouse and beyond.

- **Global economic ties are broadened and deepened** and the Department for International Trade works with city regions (and a Northern Trade Board) on the co-commissioning of support to business and the attraction of inward investment.

17.3 A clearer idea about the shape of the UK's future relationship with the EU would help Local Government, as well as businesses, prepare for the transition and make it more likely that the opportunities can be grasped and the risks managed.

17.4 It is important for Oldham's vision and ambition for the Borough as set out in the Oldham Plan are recognised as being aligned with and supporting the Greater Manchester Strategy. Oldham will continue to provide strong leadership, collaboration and engagement on these priorities which are fundamental to realising Oldham's potential.

17.5 Already emerging and under debate are national concerns around business, productivity, living standards and equalities. As referenced in section 5 and 6 in previous recessions Oldham's economy has been impacted hardest and recovery is more difficult and takes longer than other areas of the UK.

17.6 When full analysis and understanding of the implications of leaving the EU is undertaken and impacts become clearer, it is essential that there is recognition, understanding, support and investment from the Government and Greater Manchester to mitigate the impacts of any adverse economic shocks in Oldham enabling economic and social resilience for people and place.

18.0 **Options/Alternatives**

18.1 The report is for information.

19.0 **Preferred Option**

19.1 N/A. The report is for information.

20.0 **Consultation**

20.1 N/A

21.0 **Financial Implications**

21.1 At this stage it is difficult to be definitive about the financial impact for the Council of the outcome of the UK referendum, however some key issues which are apparent at this time are:

- The initial fluctuations in the financial markets immediately after the Brexit referendum have calmed. However, the potential volatility of the financial markets is clearly a cause for concern. The Council's existing investments are being managed in accordance with the Treasury Management Strategy which places security of investment as the highest priority and creditworthiness of counterparties is being monitored.

- Should financial market volatility initiate an economic downturn and prompt Government to a further round of public spending reductions, there would be significant financial implications for the Council as it still has to address substantial budget reduction targets up to 2020/21 based on the current austerity programme.

- The potential requirement for the allocation of significant financial resources to secure an acceptable negotiated position with the EU has the potential to either draw funding away from Local Government or reduce the ability of the Government to provide additional resources to support priority initiatives.

- The inability of households to adjust to any negative economic shocks of Brexit may increase demand for Council services, which may add to the financial pressures already being experienced by the Council.

- Current EU project funding would appear secure, together with funding for projects which are contracted before the country finally leaves the EU. Every opportunity must therefore be taken to secure funding for Oldham whilst it is still available. However, the opportunity to extend programmes or to bid for EU funding in the future will be lost. This will deprive Oldham of a potential source of funds for activities that cannot be funded by alternative means. However, access to the developing Shared Prosperity Fund may alleviate some of the impact.

21.2 The implications will become clearer over time as negotiations move forward and agreement is reached on specific issues. The Council's Finance Team will monitor the position and provide updates and reports to the Council as required.

Anne Ryans, Director of Finance

22.0 **Legal Services Comments**

22.1 No Legal comments: Paul Entwistle, Director of Legal

23.0 **Co-operative Agenda**

23.1 The meaning behind voting patterns re-affirms our co-operative ambition for Oldham and the values that we need to adhere to.

Vicky Sugars, Strategy, Partnerships and Policy Manager

24.0 **Human Resources Comments**

24.1 N/A

25.0 **Risk Assessments**

25.1 N/A

26.0 **IT Implications**

26.1 N/A

27.0 **Property Implications**

27.1 N/A

28.0 **Procurement Implications**

28.1 Existing regulations will continue to be complied with. As and when these regulations change, the new Existing regulations will continue to be complied with. As and when these regulations change, the new regulations will be complied with. When the UK leaves the European Union (and if a transition period is implemented), there may be a procurement impact on those contracts with durations that cross the transition schedule and this will be taken into account during contract negotiations. For those contracts that are in place prior to the UK leaving the European Union, a review will be undertaken. For all contracts, the Council will, at all times, take into consideration contract lengths, implement clear change mechanisms and break clauses where appropriate against the backdrop of a changing regulatory environment.

28.2 There are also other areas of international regulation to which the UK is signatory such as World Trade Organisation agreements on procurement. These regulations will be complied with for all appropriate procurement activities.

28.3 Strategic Sourcing will monitor the changing regulatory environment and will advise and consult with Council stakeholders in order to provide accurate and timely information. regulations will be complied with. When the UK leaves the European Union (and if a transition period is implemented), there may be a procurement impact on those contracts with durations that cross the transition schedule and this will be taken into account during contract negotiations. For those contracts that are in place prior to the UK leaving the European Union, a review will be undertaken. For all contracts, the Council will, at all times, take into consideration contract lengths, implement clear change mechanisms and break clauses where appropriate against the backdrop of a changing regulatory environment.

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28.5 Strategic Sourcing will monitor the changing regulatory environment and will advise and consult with Council stakeholders in order to provide accurate and timely information.

Joe Davies, Interim Assistant Director, Corporate and Commercial Services

29.0 **Environmental and Health & Safety Implications**

29.1 N/A

30.0 **Equality, community cohesion and crime implications**

30.1 The Council are working closely with the police in monitoring any community tensions as a result of the EU Referendum, and has well established processes for responding together should the need arise. While it appears that there is a level of fear and anxiety within some sections of the community – particularly Eastern European people – there has been no evidence of a significant upsurge in hate incidents in Oldham linked to the Referendum or its outcome.

Bruce Penhale, Head of Multi-Agency Safeguarding Hub, Stronger Communities and Oldham District Team

31.0 **Equality Impact Assessment Completed?**

31.1 No

32.0 **Key Decision**

32.1 No

33.0 **Key Decision Reference**

33.1 N/A

34.0 **Background Papers**

33.1 N/A

35.0 **Appendices**

Reports referenced in this report are:

- EU Referendum Implications report to Council, July 2016
- The Local Economic Effect of Brexit, LSE report 2017
- Greater Manchester November 2017 Brexit Monitor

# Oldham Borough Council

# Council Meeting
# Wednesday 13 July 2016

# OLDHAM BOROUGH COUNCIL

**To: ALL MEMBERS OF OLDHAM BOROUGH COUNCIL,**
**CIVIC CENTRE, OLDHAM**

**Tuesday, 5 July 2016**

9 European Union Referendum - Impact on Oldham and Greater Manchester (Pages 1 - 30)

## PROCEDURE FOR NOTICE OF MOTIONS
### NO AMENDMENT

MOTION – Mover of the Motion to MOVE

↓

MOTION – Seconder of the Motion to SECOND – May reserve right to speak

↓

DEBATE ON THE MOTION: Include Timings

↓

MOVER of Motion – Right of Reply

↓

VOTE – For/Against/Abstain

↓

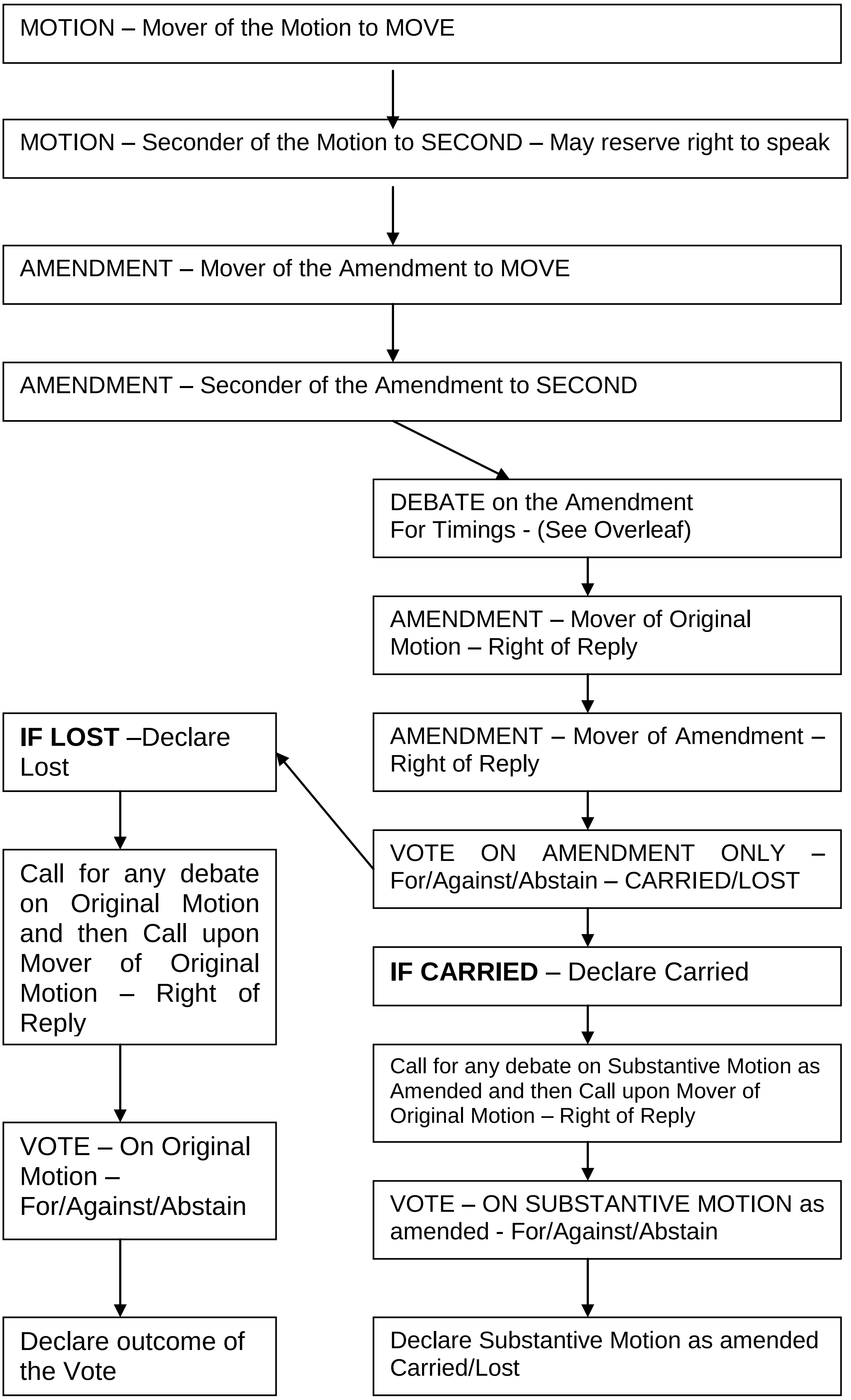
Declare outcome of the VOTE

**RULE ON TIMINGS**

(a) No Member shall speak longer than four minutes on any **Motion or Amendment**, or by way of question, observation or reply, unless by consent of the Members of the Council present, he/she is allowed an extension, in which case only one extension of 30 seconds shall be allowed.

(b) A Member replying to more than question will have up to six minutes to reply to each question with an extension of 30 seconds

## WITH AMENDMENT



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Oldham Council

**Report to COUNCIL**

# European Union Referendum – Impact on Oldham and Greater Manchester

**Portfolio Holder:** Councillor Jean Stretton, Leader of the Council

**Officer Contact:** Dr Carolyn Wilkins OBE, Chief Executive

**Report Author:** Tom Stannard, Director of Enterprise and Skills
**Ext.** 4846

**13 July 2016**

## Reason for Decision

Following the UK referendum on continuing membership of the EU held on 23rd June, the implications of the "leave" result are now starting to be better understood. This report sets out a summary of the implications of leaving the EU on Oldham's economy and Greater Manchester, in the context of the recent independent economic review of the Northern Powerhouse.

## Executive Summary

Following the UK referendum on continuing membership of the EU held on 23rd June, the implications of the "leave" result are starting to be better understood. This report sets out a summary of the implications of leaving the EU on Oldham's economy and Greater Manchester, in the context of the recent independent economic review of the Northern Powerhouse.

It is important to emphasise that the implications cannot and will not be precisely understood for some time due to the protracted period of political and economic uncertainty resulting from the UK "leave" vote. This report deals principally with some of the known and predicted economic and business implications. Alongside these are wider social cohesion implications and risks caused by the negative focus of the campaign on immigration issues. These will continue to be carefully monitored and managed in partnership with GMP and other local partners over the coming months.

A week after the referendum on 30th June, the Government received the report of the Northern Powerhouse Independent Economic Review (NPIER). This was commissioned by Transport for the North (TfN) on behalf of Leaders across the North, and found that:

- the North's economic performance gap is persistent and entrenched, averaging about 25% below the rest of England (10-15% when London is excluded);
- productivity differences account for the majority of the performance gap; and
- the poor productivity performance is explained mainly in terms of workforce skills – although issues relating to technology, investment and connectivity also have a bearing.

NPIER identified distinctive sector capabilities in the North, which is highly productive and can compete on national and international stages. The four 'prime' capabilities are in advanced manufacturing and materials, health innovation, energy and digital. These are supported by three 'enabling' capabilities of financial and professional services, logistics and education (with a focus on higher education). Each of these sectors aligns closely with the Council's new Strategic Investment Framework (SIF) and Work and Skills Strategy, agreed at Cabinet on 27 June 2016. NPIER concluded that a step change in economic performance is possible with substantial improvements in transport connectivity, skills, innovation, and inward investment across the North. By 2050, this could mean that:

- GVA is 15% (£97bn) higher than it would otherwise have been;
- productivity is 4% higher; and
- some 850,000 additional jobs are created.

The uncertainty surrounding the future economic performance of the UK as a consequence of the EU referendum now provides a considerably more challenging macroeconomic context for delivery of the NPIER's aspirations. Greater Manchester is working rapidly to seek to safeguard the national and international competitiveness of the city region against the backdrop of the referendum result, and to help to achieve the NPIER aspirations in Oldham and across GM.

## Recommendations

- Council is asked to discuss and note the contents of this report

**European Union Referendum – Impact on Oldham and Greater Manchester**

## 1 Background

1.1 Following the UK referendum on continuing membership of the EU held on 23rd June, the implications of the "leave" result are starting to be better understood. This report sets out a summary of the implications of leaving the EU on Oldham's economy and Greater Manchester, in the context of the recent independent economic review of the Northern Powerhouse.

1.2 It is important to emphasise that the implications cannot and will not be precisely understood for some time due to the protracted period of political and economic uncertainty resulting from the UK "leave" vote. This report deals principally with some of the known and predicted economic and business implications. Alongside these are wider social cohesion implications and risks caused by the negative focus of the campaign on immigration issues. These will continue to be carefully monitored and managed in partnership with GMP and other local partners over the coming months.

1.3 A week after the referendum on 30th June, the Government received the report of the Northern Powerhouse Independent Economic Review (NPIER). This was commissioned by Transport for the North (TfN) on behalf of Leaders across the North, and found that:

- the North's economic performance gap is persistent and entrenched, averaging about 25% below the rest of England (10-15% when London is excluded);
- productivity differences account for the majority of the performance gap; and
- the poor productivity performance is explained mainly in terms of workforce skills – although issues relating to technology, investment and connectivity also have a bearing.

1.4 NPIER identified distinctive sector capabilities in the North, which is highly productive and can compete on national and international stages. The four 'prime' capabilities are in advanced manufacturing and materials, health innovation, energy and digital. These are supported by three 'enabling' capabilities of financial and professional services, logistics and education (with a focus on higher education). Each of these sectors aligns closely with the Council's new Strategic Investment Framework (SIF) and Work and Skills Strategy. NPIER concluded that a step change in economic performance is possible with substantial improvements in transport connectivity, skills, innovation, and inward investment across the North. By 2050, this could mean that:

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## 2 Current Position

2.1 The Greater Manchester Combined Authority (GMCA) considered a report on 18 March which set out the potential implications of the UK leaving the EU. This report is attached as ***appendix one*** for information purposes.

2.2 The report describes the overall benefits of EU Membership focussing on access to the single market (and via this to wider international markets) for foreign direct investment, lower prices for consumers, the benefits of migration and free labour movement to UK businesses and skills shortages, and the substantial benefits from structural funding and other sources of EU income to the UK.

2.3 The GM analysis cites substantial evidence of investor confidence in the UK as a consequence of EU membership, provides an analysis of current inward investment flows to GM as a consequence of membership of the single market, and provides a sectorial analysis forecasting greater impact of EU departure on those sectors prioritised for growth in the GM strategy and Oldham Strategic Investment Framework (such as digital, financial and professional services). It also cites evidence of potential damage to GM performance in export markets with particular impacts on SMEs across the city region who often export within the EU in the first instance, which could have a particular impact on exporters within Oldham's predominantly SME business community.

2.4 In respect of EU structural funds, the report highlights that GM currently benefits from European Structural and Investment Funds (ESIF) representing some £350M of funding for the current 2014-20 programme, which with match funding included creates a GM programme of close to £650M. This covers two main programmes, ESF for skills and ERDF for business growth, both of which benefit Oldham. It is widely known that substantial delays in Government agreeing the Operational Programmes for ESIF prior to the referendum have resulted in very small amounts of this funding currently being contracted bringing into doubt significant amounts of EU-supported investment in skills and business growth activity in Oldham and across GM currently scheduled for later in this programme.

2.5 The GMCA report highlights additional known risks in respect of non-structural funding, R&D investment and universities, and other matters with similar levels of risk.

2.6 In respect of contributions to the EU budget, GMCA were advised that although at one level, UK Government would accrue savings as a consequence of leaving the EU based on a net budget contribution of £9.8BN p/a (2014 figures), "there is a risk that these savings will be absorbed by HM Treasury to contribute towards deficit reduction, and any financial gain would not be felt at all by cities such as Greater Manchester, which would also lose access to ESIF funding." (para 3.43)

2.7 The GM report summarises the implications of UK departure from the EU as follows:

- A reduced flow of EU nationals into the city region for work which will impact on the ability of Greater Manchester to provide the skilled workforce to support economic growth

- A potential reduction in the attractiveness of Greater Manchester as a place to invest, relative to cities within the EU, impacting on overall levels of FDI activity, given greater restrictions to access to European markets

- An impact on levels of exporting to Europe (a significant marketplace for Greater Manchester businesses) due to the re-introduction of tariffs and other barriers to trade

- Dependent on the success or otherwise of the UK negotiating new trade agreements with other major markets outside the EU, there could be an impact on the ability of businesses in the conurbation to trade with these growing economies

- Reduced access to new markets including the Single Digital Market, financial services market and the forthcoming trade agreement with the United States

- Reductions in the number of EU national university students due to the potential for increases in tuition fees and less flexibility to remain in the UK following their studies

- The loss of European research funding which plays an important role in university activities, including in internationally significant research areas such as graphene and advanced materials

- The loss of ESIF funding which has played a significant role in building workforce skills, moving people into work, supporting businesses and providing new innovation focused facilities.

2.8 It is important to emphasise that many of these issues will be subject to the precise renegotiation terms to be agreed by a new UK government from autumn 2016 onwards, and that the levels of uncertainty prior to the new government taking office, alongside the protracted uncertainty for the duration of a renegotiation period currently of unpredictable length, will also potentially exacerbate some of the economic uncertainty effects.

2.9 GM leaders are taking collective action to maintain business and investor confidence in EU and international markets as well as starting work immediately on the implications of the potential risks to EU funding in negotiations with government on forthcoming growth and investment deals for the city region.

## 3 Current ESIF funding in Oldham

3.1 The following are examples of close to £1.5M of existing or potential ESIF funded/supported activity managed by Oldham Council. Whilst there is a degree of certainty around these contracts due to their status in the current 2014-20 programme, contracts beyond these programmes are presently in doubt. There is not yet a complete picture of activity across the council, or across GM programmes such as the forthcoming Work and Health Programme which may also be affected. Alongside this will be a significant number of non-public sector providers (eg in further education/skills and the voluntary sector) who also benefit from commissioned programmes with EU funding supporting Oldham residents that are equally facing an uncertain future.

- European Social Fund Skills for Employment contract - c. £640K until December 2017. Intention to extend via GM devolved Growth Fund (August 2017 – July 2019). Both would be co-financed via ESF. This contract supports Oldham residents into employment and skills training

- Skills for Workforce – currently in procurement across GM with anticipated value £250k for Oldham

- European Regional Development Fund - £550K programme (£275k OMBC funding matched to £275k of ERDF monies). Delayed start date awaiting BIS sign off. This contact supports expanded business support advice in Oldham.

3.2 **Business opinion and market reaction**

3.2.1 The UK Institute of Directors polled immediately following the referendum result and showed a significant negative opinion amongst UK business leaders on the outcome of the referendum. The IOD remained neutral during the referendum, and its survey received results from 1,092 members between 24– 26 June, revealing:

- Nearly two-thirds (64%) of IoD members think the result is negative for their business, against 23% who think it is positive (only 9% say it makes no difference)

- A third (32%) say hiring will continue at the same pace, but a quarter (24%) will put a freeze on recruitment, and 5% will make redundancies

- 1 in 5 (22%) are considering moving some of their operations outside of the UK; only 1% say they will bring operations back

3.2.2 Results from the Greater Manchester Chamber of Commerce (GMCC) Quarterly Economic Survey were also released on 30th June. This is a wide-ranging and statistically reliable quarterly survey including contributions from the Oldham membership of the GMCC. Although the Q2 fieldwork was undertaken largely ahead of the referendum taking place, the headline findings included:

- GM growth slowed in Q2 to closer match the UK average

- Exports, manufacturing and business-facing services slowed in Q2 2016

- British Chamber of Commerce growth forecasts of 2.2% in 2016, 2.3% in 2017, 2.4% in 2018 are now seen as being too high

- Some forecasters are suggesting just 0.4% growth for 2017

3.2.3 Although impossible to predict with certainty, some of these obvious signals of slowing growth across the UK will potentially be exacerbated by the continuing period of uncertainty facing business and investment during the period of renegotiation. It will also be important for Oldham to continue to provide a message of confidence to the business and investor community both in relation to indigenous businesses, new operators coming into the borough imminently through our regeneration programme, and potential inward investors looking specifically to Oldham and/or to GM as an investment destination.

3.2.4 Overall, the message from the GM Chamber of Commerce is that business reaction is higher degrees of uncertainty and postponement of investment decisions, as opposed to panic and/or investment flight. This opinion will continue to be tested at two forthcoming business events in Oldham during July – the Insider Manufacturing Champions event on 5th July, and the Chamber's Action for Business Oldham on 12th July. Both will also give opportunities for the Council to provide business and investor reassurance in Oldham and to aim to stabilise confidence levels in the business community.

3.2.5 National Stock market reaction to the referendum result continues to fluctuate. As of 30th June, the FTSE 100 had recovered to above the level it closed at a week previously, recovering the ground it lost in the wake of the referendum result, closing up 3.6% at

6,360.1. At the close of trade on the day of the referendum vote, the FTSE 100 had ended the day at 6,338.10. Clearly FTSE values give only a partial picture of economic and business confidence, given that the FTSE100 is priced in £ pounds sterling but 75% of its revenue is from outside the UK, meaning the index can register an artificial boost from devaluation of the pound. The picture can be expected to continue to fluctuate over time.

3.2.6 Regarding currency markets the pound strengthened against the dollar and euro, albeit not yet recovering all of the value lost since the referendum. Also as of 30th June, the pound rose 1.2% against the dollar to about $1.35, although it also remained well below levels reached before the referendum. It had risen as high as $1.50 on the day of the referendum as the market anticipated a 'Remain' vote, but by Monday it had reached a 31-year low against the dollar. Sterling rose 0.8% against the euro on 29th June to €1.2159. Before last week's referendum it had been trading around €1.30. By the time of the Council meeting these figures will be out of date, and will continue to be monitored over the coming months as regards both FTSE and currency markets.

3.3 **Central Bank and UK Government reaction**

3.3.1 The Government and the Bank of England sought immediately to calm market nerves and to reassure investors following the referendum. The BoE announced the availability of £250BN of additional funding to support the UK economy and also sent clear market signals in respect of potential additional reductions in UK interest rates. Each of these is designed to provide strong stability and confidence boosting measures to support the economy and investment environment.

3.3.2 On 1st July the Chancellor announced the UK Government was abandoning its objective to reach a budget surplus by 2020. On 4th July, an announcement was also made regarding the Chancellor's aspiration to further reduce UK corporation tax from 20% to 15% but with an as yet unknown timescale for achieving this ambition. Both represent potentially significant moves as far as UK economic confidence and the future direction of public spending is concerned.

3.3.3 Analysts suggest that the abandonment of the fiscal target may see the government increase borrowing for investment in infrastructure and to mitigate the need for tax rises, spending cuts and/or any "emergency budget" processes, if the economy does head more obviously towards recession as some predict. KPMG analysis also demonstrates that the UK corporation tax rate is already amongst the lowest of advanced economies internationally, and with a greater reliance on business rate income for local government finance planned for future years, any further reduction in corporation tax levels could increase risk to public service income and the Council's budget in future years. However, these are potential risks as the precise implications of these announcements for the Council's budget are not yet known.

3.4 **Local government finance**

3.4.1 Across local government, commentators have also suggested that leaving the EU would have significant damaging ramifications for public sector funding, and that the financial environment would become too unstable to rely solely on business rate revenues, a major part of the Government's reform agenda for Council finances. They warn that future income for councils, including the devolution of business rates, needs to be reconsidered in a more volatile economic climate, and that Councils could be more prone to the effects of recession should the referendum see business rates and growth slump, raising the prospect of further reform to the local government funding settlement rules. This is of concern for the Council as it works towards bridging the already significant budget savings requirement for 2017/18 and future financial years. Any further reduction in Central

Government funding and even greater instability to the already volatile business rates retention arrangements would increase the financial pressure on the Council.

3.4.2 It is essential for the Council that its investments are secure and the Treasury Management Strategy approved at Council on 24 February 2016 is framed to have security of investment as the highest priority. The Council currently has around £77m placed with various counterparties in the form of fixed term deposits and Money Market Funds. The credit quality of these counterparties remains strong and their ratings/limits for size and duration of investment complied with the criteria set out in the Council's Treasury Management Strategy at the time they were taken out. Counterparty ratings are being monitored to see whether the referendum result has any long term impact on perceived creditworthiness. Clearly, the result has ushered in a period of uncertainty which has prompted volatility in financial markets. However, commentators have differing views as to whether the result will have lasting consequences for the UK economy.

3.5 **Legislative context for renegotiation of EU membership**

3.5.1 Again, considerable uncertainty is anticipated during the period of renegotiation both on the terms on which withdrawal from the EU will be effected, and the plethora of legislation requiring amendment and/or repeal. There is legal opinion which parliamentary consent is likely to be required for triggering Article 50 in order for the period of renegotiation itself to commence, and additionally for repeal of the Single European Act. It is understood that a claim to the High Court is being prepared on this issue. Neither faces a simple or rapid parliamentary passage in a period of political uncertainty.

3.5.2 Initial analysis across the Council suggests three key areas affected in significant measure by EU legislation, directives and guidance, all of which will be affected by any process of EU departure and/or the terms of renegotiation. These are:

- Environmental regulation including on air quality, trading standards and consumer protection
- Employment law including on equal pay, fair treatment, and trade union matters
- Procurement and contracting including EU contract law, public procurement and state aid.

3.5.3 Significant changes and/or disruption across each of these areas is likely to result in significant disruption to the normal conduct of council business and significant consumption of Member and officer time in navigating any changes resulting from the terms of renegotiation of treaties and ultimately UK withdrawal from the EU. At the recent LGA conference the Association has lobbied for strong local government involvement in any forthcoming negotiations over UK membership of the EU in recognition of this issue.

3.6 **Conclusion and recommendations**

3.6.1 Greater Manchester is working rapidly to seek to safeguard the national and international competitiveness of the city region against the backdrop of the referendum result, and to help to achieve the NPIER aspirations in Oldham and across GM.

3.6.2 It will be important for Oldham to continue to provide a message of confidence to the business and investor community both in relation to indigenous businesses, new operators coming into the borough imminently through our regeneration programme, and potential inward investors looking specifically to Oldham and/or to GM as an investment destination.

3.6.3 The wider social cohesion implications and risks caused by the negative focus of the campaign on immigration issues should not be underestimated, and their consequences have already been seen in Greater Manchester and elsewhere in the country. These will continue to be carefully monitored and managed in partnership with GMP and other local partners over the coming months.

3.6.4 Additional business community engagement and detailed analysis of the impacts on Oldham will continue to be undertaken and reported to Members over the coming months.

3.6.5 The prospect of an early general election in autumn 2016 is also being widely discussed and would need to be managed locally in the event of this being called.

3.6.6 Council is invited to discuss and comment on the issues raised in this report and in the appended GM analysis.

## 4 Options/Alternatives

4.1 The report is for information.

## 5 Preferred Option

5.1 N/A. The report is for information.

## 6 Consultation

6.1 N/A

## 7 Financial Implications

7.1 At this stage it is difficult to be definitive about the financial impact for the Council of the outcome of the UK referendum, however some key issues which are apparent at this time are:

- The volatility of the financial markets is clearly a cause for concern. Should this initiate an economic downturn and prompt Government to a further round of public spending reductions, there would be significant financial implications for the Council as it still has to address substantial budget reduction targets up to 2020/21 based on the current austerity programme.
- The Councils existing investments are being managed in accordance with the Treasury Management Strategy which places security of investment as the highest priority and creditworthiness of counterparties is being monitored
- Whilst current EU project funding would appear secure, the opportunity to extend further programmes or to bid for future funding and this will deprive Oldham of funding for activities that cannot be funded from alternative sources.

7.2 The implications will become clearer over time as negotiations begin and specific issues are dealt with by the Government. The Council's Finance Team will monitor the position and provide updates and reports to the Council as required.

Anne Ryans, Director of Finance

## 8 Legal Services Comments

8.1 The strategic legal issues are highlighted in paragraph 3.5 of the report.

Paul Entwistle, Director of Legal

9 **Co-operative Agenda**

9.1 The impact of the EU referendum will have implications across the Borough, highlighting the key role of the Oldham Leadership Board in understanding potential impacts/opportunities and the importance of partners (including businesses and communities) working together to address what this means locally and taking action to ensure the best outcome for residents.

Jackie Wilson, Head of Strategy, Partnerships and Policy

10 **Human Resources Comments**

10.1 The impacts for the Council as an employer are principally twofold:

- As per paragraph 3.5 of the report, the ‘leave’ decision and/or terms of renegotiation following the triggering of Article 50 will impact employment legislation and regulation vested in, or emanating from, European authority in that there will be opportunity and potentially government interest in revisions to employment law and re-regulation. In turn, this suggests a consequential impact on the Council’s employment policy. This will be monitored in conjunction with Legal Services and via the LGA and North West Employer’s Organisation to assess impact and inform the prioritisation of work. Any and all requirements subsequently to amend Council employment policy will be consulted both strategically and through working jointly with the recognised trade unions in the normal way.
- The concerns expressed at paragraph 1.2 for social cohesion caused by the negative focus of the Referendum campaign on immigration issues apply equally within the Council’s’ workforce and future workforce. Accordingly, inclusivity and the equalities monitoring of the candidate and employment experience of ethnic minority (as well as other) groups will continue using a developing set of metrics which are designed to highlight issues and risks and prompt their timely resolution and mitigation where needed.

Other issues which may impact the economic prosperity of the Borough may also directly impact the Council’s workforce and their families since over 70% of our employees live in Oldham. It is critical that senior leaders remain cognisant of this and monitor impacts on staff at the local, as well as policy or corporate, levels.

Cathy Butterworth, Assistant Director of People

11 **Risk Assessments**

11.1 N/A

12 **IT Implications**

12.1 N/A

13 **Property Implications**

13.1 N/A

## 14 Procurement Implications (including local authority trading companies)

14.1 There are 3 sets of procurement Regulations including Public Procurement, Utilities and Concessions which will continue to apply across the UK.  These will still apply and in the longer term it will be a matter for UK Governments to decide whether or not they would wish to continue with regulations over public procurement matters.  It would be reasonable to assume that these matters will form part of the negotiations with the EU.

14.2 There are also other areas of international regulation to which the UK is signatory such as World Trade Organisation agreements on procurement.

14.3 During this period true value of procurement can be demonstrated in business as usual (reassuring suppliers that the referendum will take at least two years).  The Council will need to consider more fully contract lengths, enable clear change mechanisms and break clauses.

14.3 Prioritisation and Contract Review to impact and risk of those contracts likely to be affected and possible impact of future contracts.

14.4 Strategic Sourcing will continue to monitor issues as more information arises by consulting with stakeholders in the council for transparency and to provide accurate and timely information.

14.5 Not withstanding 14.1 to 14.4 inclusive due consideration needs to be given to the wider commercial considerations of the council and its strategic partners.

Nicola Wadley, Head of Strategic Sourcing (Interim)

## 15 Environmental and Health & Safety Implications

15.1 N/A

## 16 Equality, community cohesion and crime implications

16.1 The Council are working closely with the police in monitoring any community tensions as a result of the EU Referendum, and has well established processes for responding together should the need arise. While it appears that there is a level of fear and anxiety within some sections of the community – particularly Eastern European people – there has been no evidence of a significant upsurge in hate incidents in Oldham linked to the Referendum or its outcome.

Bruce Penhale, Head of Multi-Agency Safeguarding Hub, Stronger Communities and Oldham District Team

## 17 Equality Impact Assessment Completed?

17.1 No

## 18 Key Decision

18.1 No

## 19 Key Decision Reference

19.1 N/A

20 **Background Papers**

20.1 N/A

21 **Appendices**

21.1 The report referenced in the above, which was discussed at the GMCA meeting in March which set out the potential implications of the UK leaving the EU, is attached as appendix one to this report.

GMCA GREATER MANCHESTER COMBINED AUTHORITY

Date: 18th March 2016

Subject: European Union (EU) Referendum – Potential implications for Greater Manchester of the UK leaving the EU

Report of: Sir Richard Leese, Portfolio Lead for Economic Strategy and Sir Howard Bernstein, Head of Paid Service

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**PURPOSE OF REPORT**

The Government has announced an "in out referendum" on the UK's membership of the European Union (EU) on 23rd June 2016. This report identifies a number of issues associated with the planned referendum, and the possibility of a vote to leave the EU, that are of particular relevance to Greater Manchester. The report aims to inform debate on this issue in advance of the planned referendum, the outcome of which will have significant implications both nationally and locally.

**RECOMMENDATIONS:**

Leaders are recommended to:

- Note the analysis contained in this report
- Consider what other action the Greater Manchester Combined Authority should take in the period prior to the planned referendum.

**CONTACT OFFICERS:**

Jessica Bowles (j.bowles@manchester.gov.uk)
John Holden (john.holden@neweconomymanchester.com)

| | | |
|---|---|---|
| **TRACKING/PROCESS** | | |
| Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board | | No |
| **EXEMPTION FROM CALL IN** | | |
| Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency? | No | |
| AGMA Commission | TfGMC | Scrutiny Pool |
| n/a | n/a | n/a |

## 1. INTRODUCTION

1.1. The Government has announced an "in out referendum" on the UK's membership of the European Union (EU) on 23rd June 2016.

1.2. In September 2015, Manchester City Council commissioned an economic impact study to understand the effects of EU membership on Manchester and Greater Manchester and the risks of the UK leaving the EU ('Brexit'). Ekosgen undertook the study working closely with New Economy. Based on this study, this paper:

- sets out the long-term benefits of European Union (EU) membership to the UK, as outlined in research to date;
- considers Greater Manchester's current relationship with the EU across a range of subject areas, taking account of both direct transactions and the wider role that membership plays in international relations (e.g. the attraction of foreign investment due to providing a gateway to the EU); and
- identifies the risks and likely economic implications of leaving the EU for Greater Manchester.

## 2. EU MEMBERSHIP: OVERALL ECONOMIC IMPACTS

2.1. Assessing the overall impacts of EU membership is a complex task. The difficulty is summarised in the extract below from a document produced for the House of Commons Library in 2013 which states:

*"There is no definitive study of the economic impact of the UK's EU membership, or equivalently, the costs and benefits of withdrawal. Framing the aggregate impact in terms of a single number, or even irrefutably demonstrating that the net effects are positive or negative, is a formidably difficult exercise. This is partly because many of the costs and benefits are, in certain respects, subjective, diffuse or intangible; and partly because a host of assumptions must be made about the terms on which the UK would depart the EU, and how Government would fill the policy vacuum left in areas where the EU currently has competence."* (House of Commons Library, 2013)

2.2. Some recent studies and press commentary surrounding EU membership have focused on the costs and perceived negative consequences arising from some aspects of European legislation. Such analysis often points to the net direct budgetary cost to the UK of membership which the Office for Budget Responsibility estimates as amounting to £9.8 billion in 2014 and the perceived negative impacts on the UK economy arising from certain EU regulations. There is also recognition of important economic benefits associated with the UK's membership. Research suggests that such long-term benefits of the UK's membership of the EU include:

- being part of the world's largest Single Market of over 500 million people, presenting an economic force on a global scale and providing a substantial marketplace for UK businesses and workers;
- securing access to wider international markets through EU negotiated trade agreements that make it easier for UK businesses to trade overseas;

- businesses having clarity and a single set of rules to comply with when selling goods and services across a substantial marketplace which helps to support business growth;
- roughly doubling investment flows inside the EU as a consequence of the Single Market, including attracting investment from non-EU countries seeking access to the Single Market: in terms of individual countries, the USA remains the single largest source of FDI projects in the UK. During 2014/15 a total of 564 FDI projects were recorded from the USA, up more than 12% on the previous year;
- consumers benefitting from lower prices as a consequence of economies of scale enjoyed by businesses;
- helping businesses to address skills gaps by allowing for the free movement of labour between Member States and giving UK nationals greater flexibility in where they can work;
- the benefits of professional qualifications gained in one member state being recognised in another, thereby promoting labour market flexibility and assisting in filling skills gaps;
- Greater Manchester is designated as the European City of Science in 2016 bringing a European focus to the city region's scientific achievements and attracting many additional visitors; and
- net migration from the EU is helping to underpin economic growth by providing a growing work age population at a time when the number of dependents is increasing in the UK.

2.3. The presence of international companies in the city region and an increasing international workforce has led to Greater Manchester's economy becoming increasingly connected to the wider European economy.

2.4. However, it is difficult to assess which of these benefits could continue to flow if the UK was outside the EU but had trade and cooperation agreements with the EU. Looking beyond successful negotiation of new trade agreements, proponents of 'Brexit' focus on the economic benefits that could arise from a reclamation of UK sovereignty – particularly in relation to migration, greater economic independence in an increasingly volatile/dynamic global economy, and a direct reallocation of EU-bound money to priority domestic infrastructure. It is also argued that – though not formally bound to the Eurozone – the Pound and UK economic policy levers are vulnerable to an increasing conflation of Eurozone monetary decisions and broader EU policy.

2.5. A further important factor to consider is the major changes that are taking place in patterns of world trade. It is likely that the coming decades will witness an increasing proportion of global economic growth being concentrated in North America and in emerging economies such as China and India. In this increasingly competitive situation if European nations are to earn their way in the world, they will need to respond by increasing their productivity and competing effectively in key sectors. A key question is how the EU, as an institution, can respond to these challenges and support its member states in competing during the coming years. A question for the UK is whether its competitive position is likely to be supported or hindered by being a member of the EU.

2.6. The remainder of this report focuses on identifying some of the potential implications or risks of leaving the EU from the perspectives of:

- business investment;
- access to markets;
- sector by sector analysis;
- labour impacts; and
- access to funding.

2.7. The paper also reviews current EU Policy and legislation as it affects Greater Manchester and sets out some of the advantages and disadvantages to the city region arising from this framework.

2.8. It should be noted that the Core Cities Cabinet has recently considered a paper on this subject. The Cabinet agreed to adopt a common position and to argue for the UK to remain a member of the EU during the period prior to the referendum.

**3. EXPLORING THE POTENTIAL IMPLICATIONS AND RISKS OF LEAVING THE EU**

3.1. Greater Manchester has established itself as an important UK and European location for business investment, effectively competing for business in a competitive marketplace. The achievement of continued growth plans will in part be reliant on the attraction of investment in both the expansion of existing operations and the development of new business bases in the city region by both domestic and international businesses.

**Economic Uncertainty and Company Investment**

3.2. The EY Attractiveness Survey, 2015, shows that 72% of investors cited access to the European single market as important to the UK's attractiveness. Nationally, more than half of all European headquarters of non-EU firms are in the UK, with the UK hosting more headquarters than Germany, France, Switzerland and the Netherlands put together. Greater Manchester itself has a considerable number of foreign owned companies in a wide range of sectors. In some situations, where office and plants are in competition with other company locations elsewhere in Europe, there is a risk that uncertainties related to the referendum (and an exit in the longer term) could result in Greater Manchester losing out to other countries.

3.3. Manchester Airport and strong connectivity to other major cities gives Greater Manchester a significant advantage as a gateway to the EU, for both HQ and regionally significant employment centres. Although a benefit at present, this suggests that the implications of a withdrawal could be greater for Greater Manchester than for much of the remainder of the country. A number of major airlines that operate from Manchester Airport have indicated that they are strongly in favour of the UK remaining a member of the EU and have spoken about the importance of EU wide agreements that have led to a big increase in routes between EU destinations.

Capturing Inward Investment

3.4. UKTI figures for 2014/15 highlight the importance of EU Member States as a source of Foreign Direct Investment in the UK. The UK is Europe's leading destination for FDI stock, flows and projects, benefiting from significant investment from Europe, the United States and increasingly from Asia. In 2014/15 there were 1,988 FDI projects (including re-investment), supporting 84,603 new jobs. This included 1,058 new investments and 740 related to expansions.

3.5. A wide range of projects are being supported with the primary sectors for FDI in the UK being:

| FDI in Key Industries and Sectors, 2014/15 – Number of Projects | | | |
|---|---|---|---|
| Software & Computer Services | 253 | Food and Drink | 104 |
| Financial Services | 222 | Biotechnology and pharmaceuticals | 85 |
| Business and Customer Services | 143 | Mechanical, Electrical & Process Engineering | 80 |
| Creative and Media | 124 | Clothing, Footwear and Fashion | 77 |
| Automotive | 117 | Electronics and IT Hardware | 75 |
| Source: Inward Investment Report 2014/15, UKTI | | | |

3.6. A number of these sectors reflect strengths in Greater Manchester's business base, including in financial/business services and creative/digital. UKTI data for 2013/14 shows that 55 FDI projects were set up in Greater Manchester by foreign businesses, creating and safeguarding more than 3,500 jobs. In this context, the EY Attractiveness Survey 2015 found that Manchester was the third most successful city in the UK in attracting FDI projects in 2014, behind London and Belfast.

3.7. In total, FDI projects in the UK were recorded from over 70 countries and territories. FDI investment from EU Members States included 124 projects from France, 97 from Germany, 91 from Italy, 59 from Spain and 51 from Ireland. Links to other EU Member States are therefore strong. In 2013 over 50% of inward investment to the UK came from EU countries[1] and UKTI figures show that the UK remains a popular destination for headquarters functions (370 projects in 2014/15).

3.8. A large proportion of GM's international inward investment originates from the single market. 44% of international projects landed by MIDAS from 2011-2015 were from EU-headquartered companies. These projects have created and safeguarded more than 3000 jobs, contributing approximately £121m per year to the GM economy. Additionally, GM is home to over 2,000 foreign-owned companies, with European headquarters of Kelloggs, Heinz, Brother and Etihad all major employers and critical assets for GM's future economic growth. GM's current strong performance in attracting inward investment in part reflects the strength of the GM and UK economies in their own right but also the UK's role as a gateway to the Single Market.

**Potential Implications for Access to Markets**

[1] http://www.alliotts.com/site/blog/international-blog/economic-impact-of-brexit-fromthe-eu

3.9. The Single Market is a market of 500 million customers. As a member of the EU it is effectively our 'home' market with products and services being subject to the same base regulatory standards and employment legislation without tariff barriers. Free trade within an open market sits at the core of EU's remit and principles. Departure from the EU would result in the loss of the existing common trade terms with other Member States and access to negotiated trade agreements for the UK. A UK independent of the EU would negotiate trade agreements with the EU and other countries, although the terms of these cannot be not known at this point. This carries a series of potential risks and implications, as outlined below.

Exports

3.10. The CBI reports[2] that the UK exports £227 billion of goods and services to the European Union each year – equivalent to 45% of all UK exports[3]. Seven of the UK's top 10 export markets are in the European Union and it is often the place smaller businesses look to export to in the first instance[4]. A survey of CBI members[5] found that 76% rate the ability to freely buy and sell products in the EU as a positive impact on their business, including 74% of SMEs.

3.11. The EU is GM's main market for goods exports. GM exported £3.1bn worth of goods to the EU in 2014, more than the combined total of GM's exports to all non-EU countries. The EU is a growth market for GM's exporters, with a 5% increase in goods exports to the EU between 2013 and 2014. This is particularly important for Greater Manchester's strong and growing manufacturing base, which employs 100,000 people. Moreover, as a result of its strong financial and professional services sector, GM exports an estimated £3bn of services to the EU each year.

3.12. Annual Business Survey provisional figures for 2014 suggest that across the North West almost 8% of businesses directly export goods and/or services and almost 9% import goods and/or services. A higher proportion are part of business chains that feed into key export sectors such as aerospace or vehicle manufacture. Within Greater Manchester, the GM Business Survey 2014 found that one in five (19%) businesses had dealings with international markets and of these over half (58%) export and just over two fifths (42%) import. Europe is the primary market place, reported by 78% of businesses that export and 81% that import.

3.13. Research undertaken by BIS in 2011[6] further emphasises the scale of connections saying at that time around 3.5 million jobs were linked to the export of goods and services to the EU. The same report estimated that EU countries trade twice as much with each other as they would do in the absence of the Single Market, generating income gains for the UK of between 2% and 6%. These findings would be expected to broadly apply to Greater Manchester and other locations across the UK.

[2] http://news.cbi.org.uk/news/cbi-makes-case-for-being-in-a-reformed-eu/choosingour-future/
[3] ONS Statistical Bulletin, Balance of Payments, 2015
[4] ONS Statistical Bulletin, UK Trade, April 2015
[5] http://news.cbi.org.uk/campaigns/our-global-future/factsheets/factsheet-2-benefitsof-eu-membership-outweigh-costs/
[6] The UK and the Single Market: Trade and Investment Analytical Papers Topic 4 of 18, Department for Business, Innovation and Skills

3.14. Whilst a departure from the EU would not affect the ability of Greater Manchester businesses to export to the EU per se, there is a risk that a series of tariffs and barriers to trade could return which would serve to reduce levels of trade relative to the current position. As considered in the sectoral impacts section below, there would be particular implications for heavily regulated sectors and those with high export tariffs.

3.15. The position of Norway is often cited as an example of a country that is outside the EU but which continues to trade successfully with it. Norway has however, in order to retain access to European markets, agreed to retain the EU's product standards, financial regulations and employment regulations. It also continues to make a substantial contribution to the EU budget while having no direct influence over key EU decisions.

Trans-Atlantic Trade and Investment Partnership

3.16. The EU and the USA are currently in the middle of lengthy negotiations on a free trade agreement (the Trans-Atlantic Trade and Investment Partnership). This aims to open up access for nearly all services and goods markets between the two continents – reducing customs duties on goods, reducing restrictions on services, and further opening up public procurement markets. It is also designed to improve regulatory coherence between EU and US standards and ensure greater EU-US cooperation in setting international standards. Similar arrangements are also proposed with Japan and will build on approximately 30 trade deals already negotiated by the EU which give UK firms access to a $24 trillion market[7]. The US is a key market for GM for both exports (£1.4bn of goods exported in 2014) and inward investment (around 600 jobs created in 2014/15).

3.17. Some aspects of these proposals, particularly those concerning their application to healthcare and other public services, have provoked concern and public protests have taken place across Europe. EU officials claim that there are safeguards in the proposed Agreement that would protect local health services and enable any member state *'the right to adopt or maintain any measure with regard to the provision of all health services which receive public funding or State support in any form, and are therefore not considered to be privately funded.'* Critics of TTIP argue however that this provision is inadequate. Discussions are continuing on this and other aspects of the TTIP between the EU and the US.

3.18. Assuming agreement is eventually reached the UK, with historic close ties to the United States, is expected to be a major beneficiary of the increased trade from the Trade and Investment Partnership. Leaving the EU would mean the UK would sit outside the agreement. There would be challenges to the UK negotiating comparable terms in its own right. Both the US and Chinese Governments have indicated that their preference would be for the UK to remain a member of the EU. This could make other European cities more attractive trade and investment propositions for US businesses relative to Greater Manchester.

Single Digital Market

[7] Quoted in http://news.cbi.org.uk/campaigns/our-global-future/factsheets/factsheet- 2-benefits-of-eu-membership-outweigh-costs/

3.19. The European Commission is in the process of taking policy and legislative action to open up the digital single market. The UK has Europe's biggest ecommerce market and the world's second biggest market for audio-visual content. In addition, the UK Government estimates that there are in excess of 120,000 UK businesses in the digital economy[8].

3.20. Almost 55,000 people are working in the sector in Greater Manchester with job numbers having grown by 4.1% per annum between 2010 and 2013. Furthermore there are over 9,000 Digital and Creative businesses in GM, the vast majority (over 90%) of which employ fewer than 10 people. The digital single market could therefore generate significant opportunities for Greater Manchester business.

<u>Tourism and Conference Market</u>

3.21. Greater Manchester has seen significant growth in the hospitality, tourism and sport sector over the past 10 years. The sector now provides 8% of all Greater Manchester jobs. The sector is concentrated in Manchester, Salford and Trafford, but also has a presence in town centres and areas of countryside on the outskirts of the conurbation.

3.22. In 2005 the Greater Manchester visitor economy generated £4.6 billion of economic impact for the sub-region and by 2013 this had risen to £7.0 billion[9]. This growth is driven by business coming from both domestic and overseas markets. Manchester is the third most visited city in the UK by international visitors, behind London and Edinburgh and the City has seen a 21% rise in the number of international visits since 2005.

3.23. Greater Manchester's hospitality, tourism and sport sector has a particular strength in hosting conference and business events. Valued at £573 million in 2009, this activity grew to be worth £823 million by 2013. Investments such as the £30 million refurbishment of Manchester Central, and other venues such as Manchester Conference Centre, and academic and sporting conference facilities, have supported the city to grow its conference business and in being a leading choice for hosting national and international conferences. Recent years have shown a considerable growth in the association business[10] conferences hosted with 31% of delegates to Greater Manchester coming from association business in 2013[11]. There is a risk that EU exit would marginalise the UK as a key venue for European wide conferences and if this were to occur there is the potential for this to disproportionately impact on Greater Manchester.

<u>Sectoral Implications</u>

3.24. Disruption in the event of an exit is expected to be most significant for financial services (due to high levels of regulation which could serve as a barrier to trade and would be outside the UK's control) and those sectors with high export tariffs (above 4%) such as cars, chemicals and food which account for approximately 35% of the UK's exports to the EU.

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[8] http://euromove.org.uk/britaingainsDSM
[9] The Scarborough Tourism Economic Activity Monitor (STEAM), 2005 & 2013
[10] Refers to a group of people organised for a joint purpose
[11] Conference Value and Volume Study, Marketing Manchester, 2014

3.25. The sectors most likely to be affected are:

- **Financial Services** there were 47,600 employed within the Financial Services subsector in GM in 2013.[12] This represents almost half (47.7%) of the sector's total employment in the North West, and 5% of the national total. The sector's location quotient suggests that GM has 1.2 times the national average number of employees in the local economy.
- **Professional Services** includes specialised professional, scientific and technical activities, with 100,300 employed within the conurbation. Global competition and technology has allowed the UK to establish itself as a premium destination for Financial and Professional services. It is already a world-leading provider of Professional services, and London is already one of the main Financial Services Centres of the global economy. There is potential for Greater Manchester to exploit the UK's position to become a global Professional Services hub in its own right, continuing to build on GM businesses' areas of specialism, within existing markets in Europe and the US, and opening up new markets in the Middle East and Asia.
- **Food and Drink Manufacturing:** There were just under 20,000 employed within the Food and Drink Manufacturing industries in GM in 2013, representing 39.6% of the sector's employment in the North West, and 5.2% nationally. The main concentrations are found within Manchester, Tameside, Bolton, Trafford Park, and Wigan. Well-known international brands such as Kellogg's (Trafford), Warburton's (Bolton) and the Heinz baked bean canning plant (Wigan) are headquartered in Greater Manchester.
- **Capital goods and machinery, chemicals and pharmaceuticals.** There were just under 50,000 employed within Advanced Manufacturing in GM in 2013, representing 31.7% of the sector's employment in the North West, and 3.9% nationally. Within the Advanced Manufacturing subsector, there is over twice the national average percentage of employment within the Manufacture of Chemicals and Chemical Products (excluding pharmaceuticals) within Greater Manchester.

3.26. If the UK were to leave the EU there may be opportunities to negotiate bespoke preferential trade deals for selected sectors with the EU but the terms of such an approach cannot be determined at this time.

**Potential Implications for Labour Movement and Availability**

3.27. The free movement of people is a further central tenet of the European Single Market. All residents of Member States have the flexibility to live and work where they choose in the EU with minimal formalities to complete or challenge. Withdrawal from the EU could have the following implications for Greater Manchester and the UK overall.

<u>Labour Force Movement</u>

[12] New Economy, November 2013, The Financial & Professional Services Sector in Greater Manchester: Sector Profile, P13 http://neweconomymanchester.com/downloads/2640-Sector-profile-FPS-FINALdocx

3.28. Between April 2014 and March 2015 there were over 824,000 National Insurance number registrations in the UK (allowing people to work or claim benefits/tax credits) by overseas nationals[13] . This marked an increase of over a third in a year and was the highest annual level since reporting started in 2002. Approximately half (47%) of registrations were by overseas nationals from the EU's 28 Member States (excluding the UK). While the top two countries were Romania and Poland, strong flows were also recorded from Italy and Spain, accounting for over 110,000 registrations.

3.29. In 2015, over 28,400 registrations were recorded in Greater Manchester. EU nationals recorded the highest numbers of registration. In total, two thirds of registrations in the city region were to EU nationals.

3.30. Many EU migrants tend to be young and highly skilled such as university graduates and young professionals who are seeking overseas career enhancing experiences, in the same vein as many British young people. Most EU migrants come to the UK for work purposes as opposed to family resettlement reasons. Many EU migrants offer job-specific or language skills which are highly sought after by employers. At a time of recognised skills shortages in the city region and nationally, having access to a substantial mobile labour force is a distinct advantage.

3.31. A report by University College London[14], revealed that European migrants made a net contribution of £20bn to UK public finances between 2000 and 2011. Those from the 15 countries which made up the EU before 2004, including France, Germany, Italy and Spain, contributed 64% – £15bn more in taxes than they received in welfare – while east European migrants contributed 12%, equivalent to £5bn more.

3.32. Changes to migration rules would be expected to have an impact on the flow of overseas nationals into Greater Manchester. In the context of strong economic growth forecasts and an ageing population, restrictions on labour movement could impact on the ability to deliver growth ambitions both in respect of the total workforce required and demand for skilled labour. Research by Di Giovanni et al[15] found that restricting mobility could restrict trade and reduce UK welfare equating to a loss of 1.5% of income.

Supply of Students

3.33. The reputation of Greater Manchester's universities acts as a strong draw for both domestic and overseas students. HESA statistics for 2013/14 show that the four Greater Manchester universities had 4,430 EU students. Research conducted for the NUS[16] suggests annual per capita spending by students, including tuition fees, of £20,175, suggesting EU students in Greater Manchester spend in the region of £90 million per annum with elements of the expenditure re-circulated through the local economy. Due to free movement of

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[13] DWP StatXplore data reported in National Insurance Number registrations to overseas nationals, 2014/15, August 2015

[14] http://www.cream-migration.org/files/FiscalEJ.pdf

[15] Quoted in http://blogs.lse.ac.uk/europpblog/2015/03/24/should-the-uk-stay-or-gothe-economic-consequences-of-britain-leaving-the-eu/ (LSE) Student Contributions to the UK Economy, nef consulting, 2013.

[16] Student Contributions to the UK Economy, nef consulting, 2013.

labour regulations, EU national graduates are able to stay in the UK after graduating providing a valuable supply of skilled labour.

3.34. Any changes to the entitlement of EU nationals to study at UK institutions would impact on the number of students attracted and levels of associated expenditure. The tuition fees that EU nationals could be charged could however increase in the event of an exit to equal those for other international students.

**Potential Implications for Access to Funding**

European Structural and Investment Funds (ESIF)

3.35. The European Structural and Investment Funds (ESIF) are the main funding instrument used to implement EU regional and cohesion policy. The programme provides funds to support the economic development of local areas and to help rebalance the European economy. The funds support investment in innovation, businesses development, skills and employment.

3.36. Historically Greater Manchester has been a significant beneficiary of these funds. Between 2007 and 2013 over £150 million was received and during the current ESIF for 2014 – 2010 Greater Manchester has an allocation of £356m and will also attract significant match funding. The funds will play an important role in delivering economic development objectives, including skills development, business growth and the development of new innovation facilities. It is important to note that currently ERDF represents the only long term funding stream that is available to Greater Manchester to support its economic growth objectives.

3.37. Each year ESF typically supports tens of thousands of young people and older workers in Greater Manchester and is now a major contributor to all of the workforce related skills plans. As such ESF contributes to the city's growth and reform agenda.

3.38. The 2014-20 ESF programme has only recently opened for bids. There is scope for awards from this programme to be made until the end of 2020, with funds to be spent before the end of 2022. A decision on the UK's future membership will therefore come at an important time in the programme's delivery. The implications of a departure during the mid-point of the programme are unclear but would likely result in significant confusion and disruption for supported parties and the potential for funds not to be available for draw down in full.

Non - Structural Funding

3.39. In addition to the above structural funds, Greater Manchester has had considerable success in accessing non – structural funds through the EU's Horizon 2020 programme and other similar initiatives. Recent successes in these terms have included the Triangulum project focused on Smart City solutions in Corridor Manchester.

Research and Technological Development

3.40. The EU has a considerable impact on UK research and technological development in the form of the Framework Programme (FP), which is the European Union's primary funding instrument for supporting collaborative, transnational research and development, with a primary focus on science and technology. The 2007–2013 programme distributed over €53.2 billion (£45.5 billion) to as many as 10,000 research projects. The UK has consistently secured a disproportionately large share of available funding and maintained a leading position in terms of the share of all FP projects in which it is involved. The UK received €5,205 million in funding through the first six years of FP7 (2007-2012) which is greater than the spending power of five of the seven UK Research Councils.

3.41. Examples of European research funding successes in Greater Manchester include contributions to the Cancer Research UK Manchester Institute and participation in both the Graphene Flagship and the Human Brain Flagship. With budgets of €1bn each these Flagships are the largest R&D and Innovation investment ever made in the EU and the University of Manchester is a key partner in both projects. For the 2014-20 programme period, support will be available to science researchers through the Horizon 2020 programme. An exit from the EU would result in the loss of an important R&D funding stream with implications for Greater Manchester's HE sector and business base. This could lead to longer term competitiveness challenges for the universities and the loss of both academic and collaborative research activity to institutes outside the UK.

3.42. Set against the financial benefits of membership are of course the current costs both in terms of financial contribution and some of the administrative burdens that membership imposes. The UK's net contribution to the EU Budget in 2014 was estimated at £9.8 billion. The benefits of cities being able to attract EU funding need to be seen against the context of this. However, it is worth noting that being outside of the EU would not necessarily mean the UK would no longer be required to contribute to the EU, as this would depend on the terms of any alternative relationship the UK was to negotiate with the EU. For example, Norway is the tenth highest contributor to the EU, despite not being a member, with per capita contributions of €100, over half of the UK's contributions (€180).

3.43. The UK would, though, make savings in no longer having to pay into the EU to the same level (although this does not take into account the wider benefits of having full access to the Single Market, and the EU's international trade deals). There is a risk that these savings would be absorbed by HM Treasury to contribute towards deficit reduction, and any financial 'gain' would not be felt at all by cities such as Greater Manchester which would also lose access to ESIF funding.

3.44. Finally, one of the main issues cities face in implementing ESIF is having to navigate and abide by EU state aid rules which are outlined below in the section on EU Policy and legislation.

## 4. EU POLICY AND LEGISLATION

4.1. The balance of policy and legislative competencies between the UK and the EU is complex, with different policy areas being subject to different degrees of EU competency. For instance competition policy is an area of EU exclusive competence; areas such as environment and consumer protection policy are areas of shared competency between the EU and the member state and member states can act only if the EU has chosen not to; in areas such as health and culture the EU has competence to support, coordinate or supplement the actions of the member states but the EU cannot adopt legally binding acts; and on employment, economic and social policy the EU has powers to provide arrangements, within which EU member states must coordinate policy.[17]

4.2. In addition, it should be noted, that Britain already has derogations in relation to monetary union, the banking union, the Schengen agreement (EU internal border control), and justice and home affairs.

4.3. Policy development at EU level is arguably more consultative and open to the input of diverse stakeholders than policy development at national level. Indeed, there are various instances of the EU level being more receptive to the views of cities than the national level is. Cities often find themselves in the position of making arguments to the European Parliament or European Commission and influencing their national governments via the EU level.

4.4. There are also examples of cities using their EU level influence to call for EU legislation to go further than national governments would like it to. For instance, through the EUROCITIES network[18], cities are currently calling for the EU to ensure there is a strong National Emissions Ceiling Directive with binding targets that are actually more strict than national governments would like to see in place. This is a direct response to air quality and associated health issues in cities, and the fact that cities have limited means to effectively deal with the full problem as it also strongly relates to vehicle emission industry standards. EUROCITIES have also taken a similar stance on EU climate change policy where cities' own targets often exceed the ambitions and actions of national government.

<u>The EU Urban Agenda</u>

4.5. Over the past 18 months, the European Commission has re-launched discussions on the EU Urban Agenda which seeks to strengthen its capacity in relation to urban issues and improve the direct involvement of cities in EU policy development.

4.6. The EU Urban Agenda aims to:

- foster the role of the European Union as a facilitator of urban development;
- further integrate sector policies and make them better adapted to urban realities;
- act as leverage to strengthen national urban agendas;
- be a framework to guide action, to bring coherence to a diversity of initiatives and policies;
- be an instrument to involve cities and their political leaders in EU policymaking and policy implementation; and

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[17] A full list of EU competencies by policy area is available here: http://ec.europa.eu/citizens-initiative/public/competences/faq
[18] All the Core Cities with the exception of Leeds and Nottingham are members of EUROCITIES

- be a tool to develop methodology to integrate the goals of the EU2020 strategy with cities' own strategies.

4.7. The EUROCITIES network is using this process to also call for national governments to play their role in facilitating the joining up of policies both at EU level and at home and to better involve their main cities in strategic policy development and programming. More needs to be done on the EU Urban Agenda though and, as yet there are no firm proposals put forward from the European Commission about how it will be implemented. A stronger EU Urban Agenda would reinforce the principle of subsidiarity, and would provide the EU and national Governments with a mechanism through which they could systematically work in true partnership with cities to ensure that as EU policy and legislation is being developed its practicality in on-the-ground situations in cities is properly assessed to ensure that there is early identification of any unintended consequences.

4.8. The EU's response to the increasing trend for city clusters to emerge, both within and between states, has so far been disappointing. The work of Transport for the North to bring about a step change in levels of connectivity across the North of England is an example of an initiative that has been developed independently from EU structures and which has the potential to transform the economy of the North. Similar initiatives are being developed in the Netherlands and Denmark. So far there has been little evidence of the EU developing mechanisms to support such collaborations which are likely to become ever more important as European city regions attempt to increase their trade with emerging economies, particularly in Asia.

<u>Better regulation</u>

4.9. Burdensome and costly red tape, particularly for businesses and in areas of employment and procurement, is one of biggest criticisms of EU policy and legislation.

4.10. In October 2013 the Government's EU Business Taskforce published a report which contained 30 recommendations addressing barriers to overall competitiveness. In November 2014, the Department for Business, Innovation and Skills published an update on progress. This reported that 10 of the 30 recommendations had been implemented, "saving UK businesses around £100 million a year, preventing additional costs of at least £100 million a year and banking one-off savings to firms of another £40 million.[19]

4.11. The European Commission has also started to take more positive steps in this area. The European Commission has now appointed a Vice-President, Frans Timmermans, with specific responsibility for better regulation. Timmermans launched the European Commission's Better Regulation Package in May 2015 which aims to provide greater transparency in EU law making and to more closely scrutinise the consequences and cost of EU regulations throughout the policy making process. Timmermans has already proposed scrapping 80 of 450 pending EU legislative proposals. But reform in this area arguably needs to go further and at a quicker pace.

[19] http://www.parliament.uk/briefing-papers/SN06091.pdf

4.12. Open Europe[20] estimates that the cost of the 100 most burdensome EU derived regulations to the UK economy stands at £33.3bn a year in 2014 prices and that the UK government estimates of £58.6bn a year benefits are either over-estimated or fail to materialise and conclude that there is “plenty of scope to cut regulatory cost to business and the public sector.”

4.13. However, Open Europe also points out that leaving the EU and joining the European Economic Area (EEA) like Norway would not resolve this as 93 out of these 100 costliest EU-derived regulations would remain in place at a cost of £31.4bn (94.3% of the total cost). Moreover, the UK would lose any influence in shaping new laws and regulations.

‘Gold plating’ of EU legislation

4.14. While EU membership has undoubtedly brought regulatory burdens, successive UK Governments have also chosen to go beyond the minimum requirements when implementing certain pieces of legislation, a process known as ‘gold plating’. This has been particularly common in the UK’s transposition of EU employment legislation. The Institute of Directors provides examples of how UK government has gold plated EU employment directives such as the Temporary Workers Directive and the Working Time Directive[21].

State aid

4.15. EU state aid rules set out whether and on what basis aid (grants, loans, tax breaks etc) can be given through or with state resources on a selective basis to any organisation that could potentially distort competition and trade in the EU. This can include private organisations, and also public or third sector bodies engaged in commercial activities. Public authorities are responsible for ensuring their policies and projects comply with state aid rules.

4.16. The rules can be complex and getting it wrong can mean recovery of state aid and suspension or withdrawal of aid schemes. This can have serious consequences for the recipients of aid and the delivery of policy objectives. There are mechanisms such as assisted area maps, block exemptions and notifications which determine how state aid can be granted and to what level. A number of state aid block exemptions could be reformed to make them more flexible so that cities can more effectively support economic growth.

4.17. One of the main ways in which state aid is given is by using the ‘de minimis’ block exemption where aid can be granted as long as the beneficiary does not receive more than €200,000 in state aid over 3 years. The exchange rate has a significant impact on de minimis levels as these are calculated in Euros. For example, two years ago the de minimis threshold of €200,000 was worth £180,000 and is now worth only £140,000.

Procurement

4.18. All public bodies are required to comply with EU procurement rules, an important aspect of the Single Market. Historically EU procurement processes have been time-consuming and have often been off-putting to potential bidders.

[20] http://openeurope.org.uk/intelligence/britain-and-the-eu/top-100-eu-rules-costbritain-33-3bn/
[21] http://www.iod.com/~/media/Documents/PDFs/Influencing/Regulation%20employment/2013/

4.19. The EU has recently undertaken a review of public procurement legislation and has introduced Directives aiming to simplify procurement. These were transposed into UK law earlier in 2015, and it remains to be seen whether these changes have provided the practical level of simplification and flexibility required.

4.20. EU public procurement rules enable contract opportunities to be promoted to local providers as long as the opportunity is openly advertised according to procurement rules, and as long as the contract is fairly awarded.

## 5. CONCLUSIONS

5.1. Although the detailed implications of an exit from the European Union will be dependent on a wide range of factors, and will depend on what reforms are delivered as part of the current renegotiation process, this paper shows that Greater Manchester has strong connections and in places dependence on its membership of the EU.

5.2. The Single Market is a market of over 500 million customers and whilst a departure from the EU would not prevent Greater Manchester businesses from exporting to the EU per se, a series of tariffs and barriers to trade could return which might serve to reduce levels of trade relative to the current position, and the UK could become a less attractive place to work and invest. In summary, implications for the city could include:

- A reduced flow of EU nationals into the city region for work which will impact on the ability of Greater Manchester to provide the skilled workforce to support economic growth;
- A potential reduction in the attractiveness of Greater Manchester as a place to invest, relative to cities within the EU, impacting on overall levels of FDI activity, given greater restrictions to access to European markets;
- An impact on levels of exporting to Europe (a significant marketplace for Greater Manchester businesses) due to the re-introduction of tariffs and other barriers to trade;
- Dependent on the success or otherwise of the UK negotiating new trade agreements with other major markets outside the EU, there could be an impact on the ability of businesses in the conurbation to trade with these growing economies;
- Reduced access to new markets including the Single Digital Market, financial services market and the forthcoming trade agreement with the United States.
- Reductions in the number of EU national university students due to the potential for increases in tuition fees and less flexibility to remain in the UK following their studies;
- The loss of European research funding which plays an important role in university activities, including in internationally significant research areas such as graphene and advanced materials

- The loss of ESIF funding which has played a significant role in building workforce skills, moving people into work, supporting businesses and providing new innovation focused facilities.

5.3. While some of the negative effects of a UK exit from the EU could be reduced by a series of new agreements with the EU bloc, it is unclear how long these would take to conclude.

5.4. While there are reasons to believe that withdrawal from the EU could be damaging to Greater Manchester's economy, certainly in the short to medium term, this does not mean that there are not important improvements that could be made to key areas of policy and process that would reflect Greater Manchester priorities. These are discussed in the body of the report and include the following:

- Development of a clearer medium to long term strategy to support the global competitiveness of Europe and its member states in the context of the burgeoning economies of Asia in particular;
- Clearer support at the EU level for initiatives developed by clusters of cities, such as those in the North of England, to develop critical economic mass and strengthen regional economies through enhancements to connectivity and investment in key growth sectors ;
- Further work to reduce unnecessary red tape at the EU level and to simplify procurement and State Aid rules in ways which speed up internal processes and better support business and growth.

## 6. RECOMMENDATIONS

6.1. Recommendations appear at the front of this report.

PAPERBREXIT10

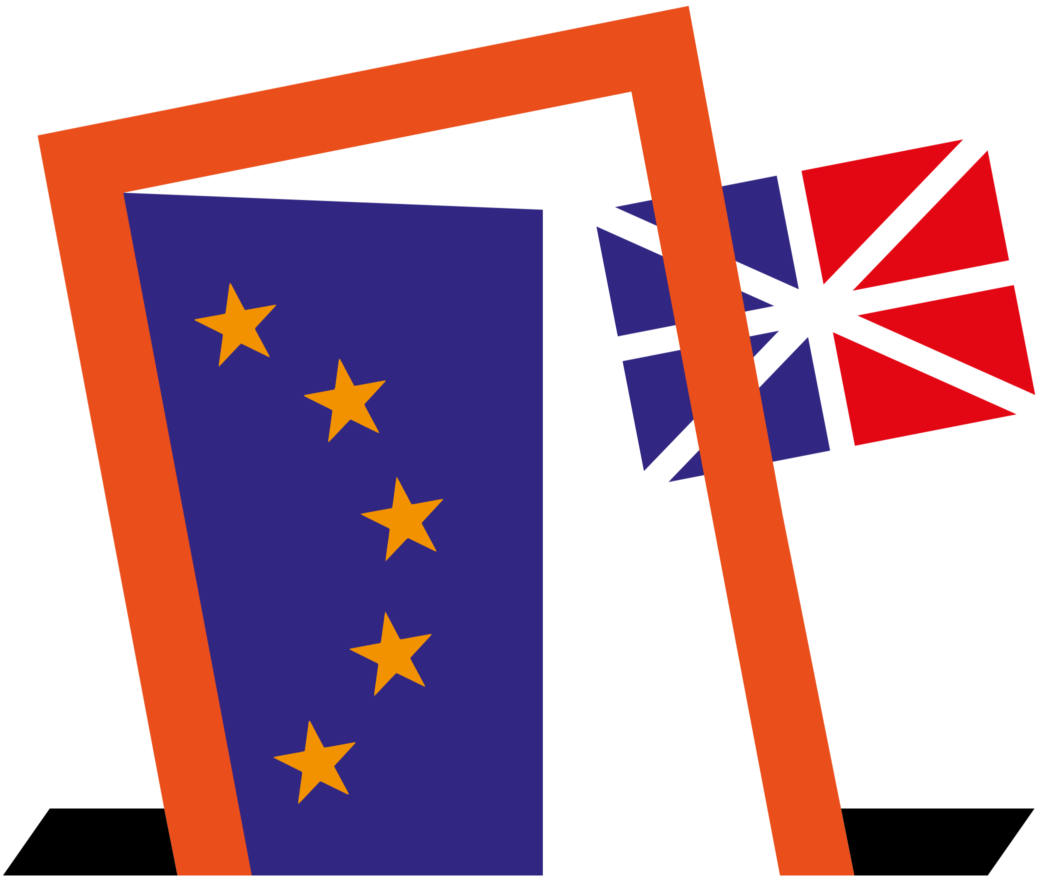
CENTRE for ECONOMIC PERFORMANCE

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

# The Local Economic Effects of Brexit

Swati Dhingra, Stephen Machin
and Henry G. Overman

#CEPBREXIT



CENTRE for ECONOMIC PERFORMANCE

# CEP BREXIT ANALYSIS No.10

## The Local Economic Effects of Brexit

- This paper studies the local impacts of the increases in trade barriers associated with Brexit. Predictions of the local impact of Brexit are presented under two different scenarios, soft and hard Brexit.

- Average effects are predicted to be negative under both scenarios, and more negative under hard Brexit. The spatial variation in shocks across areas is somewhat higher under hard Brexit because some local areas are particularly specialised in sectors that are predicted to be badly hit by hard Brexit.

- Areas in the South of England, and urban areas, are predicted to be harder hit by Brexit under both scenarios. Again, this pattern is explained by the fact that those areas are specialised in sectors that are predicted to be badly hit by Brexit.

- Finally, the areas that were most likely to vote remain are those that are predicted to be most negatively impacted by Brexit.

Centre for Economic Performance
London School of Economics and Political Science
Houghton Street, London WC2A 2AE, UK
Tel: +44 (0)20 7955 7673
Email: cep.info@lse.ac.uk Web: http://cep.lse.ac.uk

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# 1. Introduction

In the run up to the UK-EU membership referendum in 2016 a number of studies examined the potential consequences of Brexit for the UK economy. Most mainstream studies, for example Dhingra et al. (2016a), HM Treasury (2016) and Kierzenkowski et al., (2016), predicted that Brexit would have a negative impact on UK GDP. Analysis by the Centre for Economic Performance, reported in Dhingra et al. (2016a) predicted annual costs of £850 per household with a 'soft-Brexit' and £1,700 per household with a 'hard Brexit'. Unsurprisingly these predicted effects are magnified in the long-run (to £4,200 and £6,400 respectively). In the soft Brexit scenario these results are driven by increases in non-tariff barriers and the exclusion of the UK from further EU market integration, while allowing for savings in the UK fiscal contribution to the EU. In the hard Brexit scenario, greater losses occur because of additional increases in non-tariff barriers, as well as the introduction of bilateral trade tariffs.[1]

The existing studies examine a number of additional impacts, including foreign investment (Dhingra et al., 2016b; HM Treasury, 2016; Kierzenkowski et al., 2016), immigration (Dhingra et al., 2016c; Ebell et al., 2016) and the distributional impacts across income groups (Breinlich et al. 2016). However, to the best of our knowledge, there exists no regional analysis of the welfare impacts of Brexit. This short paper provides such an analysis looking at the difference in predicted effects across all Local Authority Areas and, in an appendix, across Primary Urban Areas. It also provides some initial analysis on whether these predicted impacts are likely to exacerbate or alleviate existing disparities.

Predictions on the economic consequences of Brexit are of substantive interest for both central and local government in understanding how different areas might be affected by Brexit and in designing the appropriate policy response. There has also been considerable interest in how the predicted economic impacts of Brexit correlate with voting patterns from the referendum.[2] We provide some analysis that considers this correlation at the area level.

The analysis is based on predictions coming from the methodology applied in Dhingra et al. (2016a). Their multi sector computable general equilibrium trade model generates sectoral impacts under different scenarios (i.e. hard and soft Brexit). This state-of-the-art model of the world economy explains trade patterns well and accounts for the interdependence across sectors through complex supply chains. Using the most comprehensive data on trade flows and trade barriers available, their model provides estimates for the impact of different Brexit scenarios on trade volumes, sectoral production and real economic activity.[3] Sectoral impacts can be weighted using area employment shares to estimate the overall area effect.

These comments notwithstanding, a number of important caveats apply to these results. It is important to note that the predicted sectoral impacts are model dependent and so we would urge considerable caution in placing strong weight on the estimated impact for any particular sector. To give just one example, the model focuses on international trade and will therefore underestimate losses in sectors, such as air transport, where foreign investment requirements are more important than trade barriers in determining market access.

[1] Precise definitions of these two scenarios are given in Appendix A1.
[2] See, for example, some of the contributions in Baldwin (2016) and Becker, Fetzer and Novy (2017).
[3] Dhingra et al. allow for multiple sectors and tradeable intermediate inputs and focus on the case of perfect competition which has been shown to provide a lower bound to the effects of changes in trade costs.

It is possible to have more confidence in the area level results, where the employment share weighting will help 'wash-out' some of the sector-specific errors and hopefully give a more accurate prediction of the area level impacts of increased trade barriers. Even so, it must be emphasised that these area level results only predict the 'immediate impact' based on current employment shares. Just as with the financial crisis, there are good reasons to think that adjustment of the spatial economy, will have significant implications for understanding long run differences in the impact across areas. Future work will need to tackle these issues, but we believe that there is sufficient interest in understanding the immediate impact to warrant publication of these predictions.

The results show, as with the previous research, that the average area level effect is negative under both scenarios and more negative under hard Brexit. This is not surprising given that the same sectoral effects that underpinned predictions of the national impact are also used to predict the area level results. Of more interest is the fact that the variability of shocks at the Local Authority level is considerably higher under hard Brexit (the estimated standard deviation of spatial shocks being 0.19% for soft Brexit, 0.40% for hard Brexit). This suggests that some Local Authorities are particularly specialised in sectors that are predicted to be badly hit by hard Brexit. When looking at Primary Urban Areas average effects are more negative, consistent with the fact that urban areas have their employment concentrated in the sectors that are predicted to be most negatively affected. However, the variation under the two different scenarios is lower (with standard deviations of 0.17% for soft Brexit and 0.35% for hard Brexit) showing that sectoral diversification can help reduce negative impacts.

The interaction of area level sectoral employment shares with exposure of the relevant sectors determines the predicted losses for a particular area. Contrary to a small number of existing studies (see, e.g., Los et al. 2017), areas in London and the South East tend to see bigger negative impacts. We argue that this difference arises for two reasons. First, because studies based on measures of current trade exposure to the EU underestimate the importance of increases in non-tariff barriers (particularly in the hard Brexit scenario). Second, because simply looking at trade exposure ignores the willingness of individuals and firms to substitute away from foreign to domestic supply as trade-costs rise. The model in Dhingra et al. (2016a) accounts for both these factors.

Given these broad geographical patterns, we find that areas that were more likely to vote remain are those that are predicted to be most negatively impacted by Brexit. Finally, we also find that the negative impacts of Brexit tend to be bigger for areas with higher average wages. In our discussion, we highlight the parallel with the financial crisis, and specifically the contrast between the immediate and long run impacts (which saw London and the South East hit hardest before recovering much more strongly than other areas of the UK). This suggests that even though the immediate negative impacts are smaller in poorer regions, households in those areas start off poorer and may experience considerably more difficulty in adjusting to those negative shocks.

## 2. Methodology and Data

*Methodology*

The underlying methodology for predicting the sectoral impact of Brexit is described in Dhingra et al. (2016a). They estimate the effect of Brexit on the UK's trade and living standards using a modern quantitative trade model of the global economy. Quantitative trade models incorporate the channels through which trade affects consumers, firms and workers, and provide a mapping from trade data to welfare. The model provides predictions for how much real incomes change under different trade policies, using readily available data on trade volumes and potential trade barriers. Readers are referred to Dhingra et al. (2016a) for details.

The approach incorporates a broad class of models which make different assumptions about how goods are produced and how firms compete. It builds on Costinot and Rodríguez-Clare (2013) who show that some of the most popular trade models predict the same welfare changes in response to changing trade barriers and that these welfare changes can be computed using data on trade volumes and trade elasticities.[4] Specifically, three pieces of information are used to predict the impact of the change in trade-costs associated with Brexit: the initial expenditure shares in each country on each sector, the income levels of different countries and the trade elasticity (which measures the percentage change in imports relative to domestic demand resulting from a one percent change in bilateral trade costs, holding incomes constant).[5] The first two of these can be taken from existing data sets, while estimates of the trade elasticity are available from existing research.

Under the soft Brexit scenario Dhingra et al. (2016a) assume tariffs remain at zero and non-tariff barriers increase. Tariffs remaining at zero would happen if the UK joins a free trade area, such as EFTA, with the EU. Non-tariff barriers are the costs arising from customs checks, border controls, differences in product market regulations, legal barriers and other transactions costs that make cross-border business more difficult. Even free trade areas cannot eliminate all the non-tariff barriers that businesses face when transacting across borders. Many non-tariff barriers arise because countries have different preferences over the regulations that they want to impose. As a result, trade deals can only reduce that fraction of the non-tariff barriers which can in principle be eliminated by policy action (so called 'reducible' non-tariff barriers). Berden et al. (2009, 2013) provide detailed calculations of the tariff equivalents of non-tariff barriers. Under the soft Brexit scenario, Dhingra et al. (2016a) assume that non-tariff barriers increase: they go up to one quarter of the reducible barriers faced by US exporters to the EU (a 2.77% increase). Given the way in which bilateral trade costs are modelled this increase in non-tariff barriers (combined with the assumption of no changes in tariff barriers) translates in to a 2.77% increase in bilateral trade costs between the UK and the EU.[6]

Under the hard Brexit scenario, the UK and the EU are not part of a free trade agreement (at least immediately) and so they must charge each other the tariffs that they charge to other members of the World Trade Organization. This means that goods crossing the UK-EU border are faced with WTO Most-Favoured-Nation tariffs. Dhingra et al. (2016a) also assume that non-tariff barriers will be larger in the absence of a free trade agreement. Specifically, they are assumed to increase to three quarters of the reducible barriers faced by US exporters to the EU (an 8.31% increase).[7]

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[4] The paper is available at https://economics.mit.edu/files/9960.

[5] For example, the Chemicals and Chemical Products sector has a trade elasticity of 4.75. This means a 10% increase in tariff in this sector between two countries would translate into a 0.475% reduction in the value of bilateral trade, holding fixed all economy-wide outcomes across countries.

[6] The model assumes frictional barriers of the iceberg type – i.e. Country i has to ship $\tau_{ij} \geq 1$ units of its good for one unit to reach country j. Denoting (MFN) tariffs by $t_{ij}$ the effect of increasing tariffs and frictional barriers is to increase import prices at destination, which are given by $P_{ij}=(1+ t_{ij})\, \tau_{ij} P_{ii}$.

[7] See footnote 6 for an explanation of how trade costs are modelled.

With the change in bilateral trade costs specified, the model provides a way of simultaneously estimating the impact on bilateral trade volumes for each sector, taking into account all inter-sectoral linkages through supply chains and all inter-country linkages through diversion of trade to other countries. As there are multiple sectors, the model accounts for how changes in trade costs in intermediate input sectors affect the bilateral trade volumes of the final goods sector. As there are more than two countries, the model also accounts for how a rise in bilateral trade costs with one trade partner (in this case the EU) could also lead to a rise in bilateral trade for countries for whom the trade costs have not changed (i.e. among countries outside the EU). The trade model provides a logical aggregation of these different interlinkages across sectors and countries, which gives a set of predictions about what will happen to specific industries in the two different Brexit scenarios. To get the area level predictions, we simply multiple these predicted industry specific changes by the employment share of the industry in an area and sum across industries.[8]

*Data*

The national level trade flows and tariff data for each sector-country pair are taken from UN Comtrade[9] and the inter-industry linkages are taken from the World Input-Output Database.[10] The latter data set can be used to calculate the initial expenditure shares in each country on each sector and the income levels of different countries. The trade elasticities that are used to translate the changes in trade-costs into effects on economic activity are taken from Caliendo and Parro (2015). As their estimated trade elasticity for the coke, refined petroleum and nuclear fuel sector is the highest, we re-estimate the sectoral effects in Dhingra et al. (2016a) setting the changes in this sector to zero. Our results therefore focus on the non-oil sector of the UK economy.[11]

The hard Brexit scenario uses Most Favoured Nation (MFN) tariffs at the WIOD sector level for both UK and EU imports and exports. These are calculated as weighted averages of the MFN tariffs reported in the World Trade Organisation (WTO) Statistics database,[12] with weights taken from the WIOD and UN Comtrade databases.

Employment shares are calculated based on data from the Business Register and Employment Survey (BRES) mapped from 2007 SIC 5-digit level to SIC 2003 and then aggregated to the 31 WIOD industries. Employment shares are calculated based on reported data in 2015 so as to avoid possible employment decisions undertaken by firms as adjustment to the EU Referendum result of June 2016.

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[8] Formally, the area level shock is calculated as: $\text{Shock}_r = \sum_i^N \text{Employment Share}_{ir} \times \text{National Shock}_i$, where i stands for industry (i = 1, 2, ……N) and r stands for Local Authority r.

[9] See https://comtrade.un.org/.

[10] See Timmer et al. (2015) for details.

[11] The trade elasticities are sectoral specific for goods sectors, but the same for all service sectors (set equal to 5).

[12] http://stat.wto.org/Home/WSDBHome.aspx.

## 3. Results

*Sector Predictions*

As per Dhingra et al. (2016a) under both hard and soft Brexit the estimated shocks to imports, exports and Gross Value Added (GVA) by WIOD sector are predominantly negative. The GVA impacts under the two different scenarios are reported in Table 1. The Table also shows that industry specific GVA shocks are on average lower under soft Brexit than under hard Brexit (the same is true for imports and exports). There is some heterogeneity in the responses of different sectors across the two different scenarios, however for each sector the sign of the impact – positive or negative – is generally consistent.

As discussed in the introduction, we would urge considerable caution in placing strong weight on the estimated impact for any particular sector. We have more confidence in the area level results where the employment share weighting will help ‘wash-out’ some of the sector-specific prediction errors and it is to these that we now turn.

**Table 1: Sector Specific Impacts (% change in GVA)**

| ID | WIOD Industry | *Soft Brexit (%)* | *Hard Brexit (%)* |
|---|---|---|---|
| 1 | Agriculture, Hunting, Forestry and Fishing | 3.3 | 4.2 |
| 2 | Mining and Quarrying | -7.3 | -12.5 |
| 3 | Food, Beverages and Tobacco | 1.4 | 2.8 |
| 4 | Textiles and Textile Products; Leather, Leather and Footwear | -6.8 | -5.2 |
| 5 | Wood and Products of Wood and Cork | 9.9 | 15.9 |
| 6 | Pulp, Paper, Paper , Printing and Publishing | 3.5 | 6.3 |
| 7 | Coke, Refined Petroleum and Nuclear Fuel | -0.5 | -0.8 |
| 8 | Chemicals and Chemical Products | -8.9 | -15.1 |
| 9 | Rubber and Plastics | -0.4 | -0.7 |
| 10 | Other Non-Metallic Mineral | 0.2 | 0.2 |
| 11 | Basic Metals and Fabricated Metal | 0.5 | 5.1 |
| 12 | Machinery, nec | -0.1 | -0.2 |
| 13 | Electrical and Optical Equipment | -9.5 | -6.3 |
| 14 | Transport Equipment | -0.5 | -0.9 |
| 15 | Manufacturing, nec; Recycling | 0.9 | 2.5 |
| 16 | Electricity, Gas and Water Supply | -1.1 | -2.1 |
| 17 | Construction | -1.4 | -2.6 |
| 18 | Retail Sale of Fuel; Wholesale Trade, Commission Trade, including Motor Vehicles & Motorcycles | -0.8 | -1.6 |
| 19 | Retail Trade, Except of Motor Vehicles & Motorcycles; Repair of Household Goods | -1.2 | -2.3 |
| 20 | Hotels and Restaurants | 0.0 | -0.2 |
| 21 | Inland Transport | -0.6 | -1.2 |
| 22 | Water Transport | 4.7 | 9.1 |
| 23 | Air Transport | 5.2 | 10.4 |
| 24 | Other Supporting and Auxiliary Transport Activities; Activities of Travel Agencies | -1.3 | -2.5 |
| 25 | Post and Telecommunications | -1.8 | -3.9 |
| 26 | Financial Intermediation | -2.8 | -6.2 |
| 27 | Real Estate Activities | -1.4 | -2.6 |
| 28 | Renting of M&Eq and Other Business Activities | -1.7 | -4.0 |
| 29 | Education | -1.2 | -2.2 |
| 30 | Health and Social Work | -1.3 | -2.4 |
| 31 | Public Admin, Defence, Soc. Security & other Public Svc | -1.1 | -2.3 |

*Impact across Local Authority Areas*

Basic summary statistics for the impacts across Local Authorities are reported in Table 2. In line with the national estimates, the average Local Authority level effect is negative under both scenarios, and more negative under hard Brexit. As discussed above, this is not particularly surprising given that the same sectoral effects that underpinned predictions of the national impact are also used to predict the Local Authority level results. The average Local Authority decrease in GVA is predicted to be 1 percentage point larger under hard Brexit than under soft Brexit (-2.12% compared to -1.14%, respectively). These figures are essentially unchanged if we use the median instead of the mean, suggesting that there are no particularly extreme predictions that drive the average effect. The figures for the $10^{th}$ and $90^{th}$ percentile are also consistent with this interpretation.

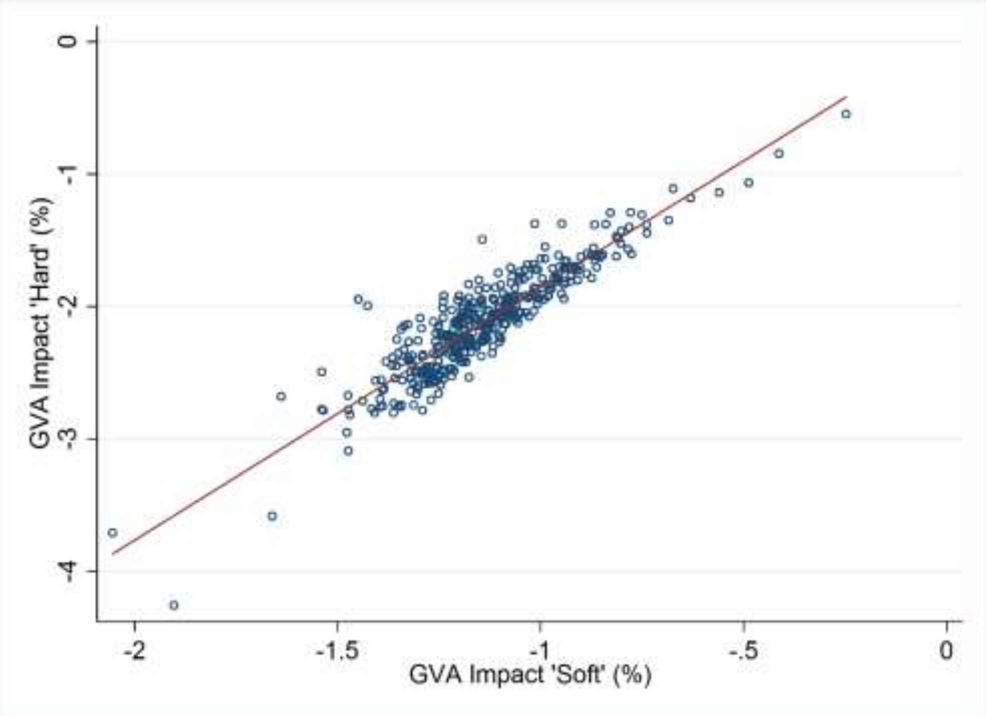
Table 2 also reports the variance and $90^{th}$ to $10^{th}$ percentile difference to summarise the extent to which the negative effect of Brexit varies across Local Authorities under the two different scenarios. This highlights a more interesting finding: the variation in Local Authority level shocks is considerably higher under hard Brexit. This suggests that some Local Authority areas are particularly specialised in sectors that are badly hit by hard Brexit.

**Table 2: Basic Summary Statistics for GVA Impacts of Brexit on Local Authorities**

| | *Soft Brexit (%)* | *Hard Brexit (%)* |
|---|---|---|
| Mean | -1.14 | -2.12 |
| $50^{th}$ Percentile (Median) | -1.16 | -2.11 |
| $10^{th}$ Percentile | -1.34 | -2.57 |
| $90^{th}$ Percentile | -0.91 | -1.65 |
| Standard Deviation | 0.19 | 0.40 |
| $90^{th}$-$10^{th}$ Percentile Differential | 0.43 | 0.92 |

Although the variation in impact across Local Authorities is higher in the hard Brexit scenario, the correlation between the two scenarios is strong and positive (the correlation coefficient is 0.91). Figure 1, which plots Local Authority impacts under both hard and soft Brexit illustrates this clearly.

**Figure 1: Impact of Brexit under Two Different Scenarios**




*Impact on Specific Local Authorities*

We now turn to the impact on specific Local Authorities. Table 3 provides a list of the top ten most and least affected Local Authorities under the hard Brexit scenario. The results for all Local Authorities are provided in Table A1 in Appendix A2. Three of the most negatively affected Local Authorities are within the Greater London area (City of London, Tower Hamlets and Islington). With the exception of Aberdeen, all the most negatively affected Local Authorities are in the South of England. Most of these areas have high employment shares in Business Activities or Financial Intermediation (or both) and so are particularly badly hit by the large negative effects predicted for those sectors under hard Brexit. For example, the City of London, which is predicted to see the largest decrease in GVA under a hard Brexit (-4.3%) had close to 80% of its employed population working in these two sectors as of 2015.

**Table 3: Most and Least Affected Local Authorities (% Change in Gross Value Added)**

| *Top 10* | *Soft Brexit (%)* | *Hard Brexit (%)* | *Bottom 10* | *Soft Brexit (%)* | *Hard Brexit (%)* |
|---|---|---|---|---|---|
| City of London | -1.9 | -4.3 | Eden | -0.7 | -1.3 |
| Aberdeen City | -2.1 | -3.7 | Moray | -0.7 | -1.3 |
| Tower Hamlets | -1.7 | -3.6 | North Lincolnshire | -0.8 | -1.3 |
| Watford | -1.5 | -3.1 | Corby | -0.8 | -1.3 |
| Mole Valley | -1.5 | -3.0 | Anglesey | -0.6 | -1.2 |
| East Hertfordshire | -1.5 | -2.8 | South Holland | -0.6 | -1.1 |
| Reading | -1.4 | -2.8 | Crawley | -0.7 | -1.1 |
| Reigate and Banstead | -1.4 | -2.8 | Isles of Scilly | -0.5 | -1.1 |
| Worthing | -1.5 | -2.8 | Melton | -0.4 | -0.8 |
| Islington | -1.3 | -2.8 | Hounslow | -0.2 | -0.5 |

The ten least negatively affected regions show somewhat more geographical variation, although it is striking that the South of England is now somewhat under-represented. Hounslow and Crawley do relatively well because their proximity to Heathrow and Gatwick means a high share of employment in the Air Transport Industry, which sees only small loses even under hard Brexit.[13]

[13] Remember however that the model focuses on international trade and, as noted in the introduction, will therefore underestimate losses in sectors, such as air transport, where foreign investment requirements are more important than trade barriers in determining market access.

**Figure 2: Maps of Percentage Decreases in Local Authority GVA**

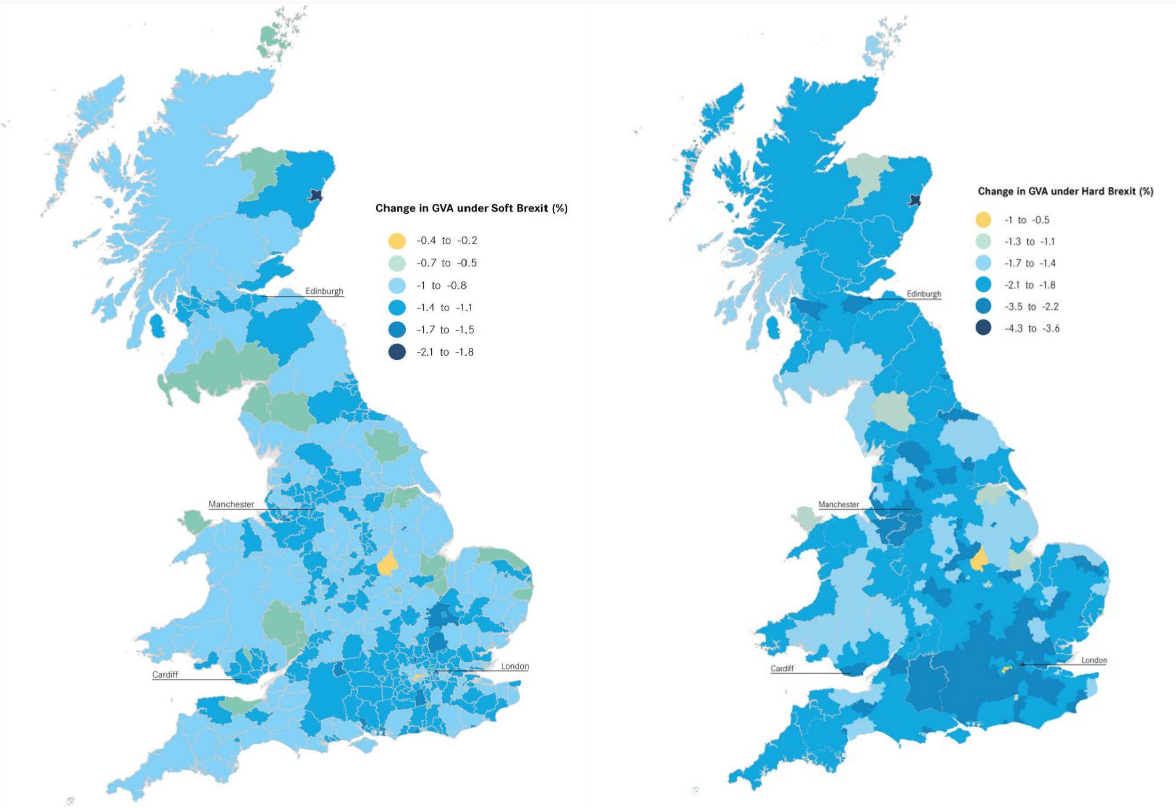



Figure 2 shows that these findings generalise when we look at the effect across all Local Authorities. The figure maps the percentage change in GVA by Local Authority under both soft and hard Brexit. The general geographical patterns are highly similar across both scenarios. A broad north south pattern is visible, especially in terms of the concentration of areas most negatively affected. The pattern for those less badly effected is more dispersed. The map also suggests that urban Local Authorities tend to be more negatively affected (consistent with their employment concentration in the most negatively affected sectors). Results for Primary Urban Areas, reported in Appendix A2, confirm that this is the case.

These overall patterns deviate markedly from a small number of existing studies (see, e.g., Los et al. 2017) which suggest that impacts are likely to be biggest outside of the South of England. Two factors would appear to explain these differences. First, existing studies are based on measures of trade exposure to the EU, which is larger for areas outside of the South of England. However, these measures of *current* exposure underestimate the importance of increases in non-tariff barriers (particularly in the hard Brexit scenario). Second, simply looking at trade exposure ignores the willingness of individuals and firms to substitute away from foreign to domestic supply as trade-costs rise. These substitution effects are largest in service industries that are concentrated in the South of England (and Primary Urban Areas). The model accounts for both these factors and thus predicts a strikingly different pattern in terms of those areas predicted to be most negatively affected by Brexit.

# 4. Correlations with Brexit Vote and Area Initial Conditions

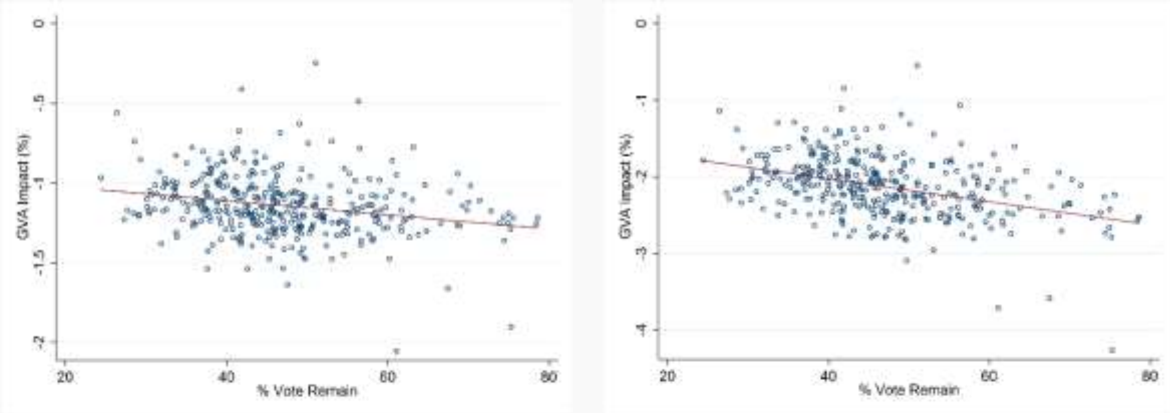
*Brexit Vote Correlations*

One obvious question arising from the overall patterns discussed above is how predicted impacts relate to vote shares in the referendum. Figure 3 provides an answer: areas that are predicted to be most negatively affected by Brexit were more likely to vote remain. The correlation is particularly striking for the predicted impacts under hard Brexit (correlation of -0.39 for hard Brexit as opposed to -0.24 for soft Brexit). Again, this finding differs from some existing studies because of the different geographical pattern for the places that are predicted to experience the most negative impacts from hard Brexit.

**Figure 3: Brexit GVA Impact and Referendum Vote Share**

(a): Soft Brexit

(b) Hard Brexit

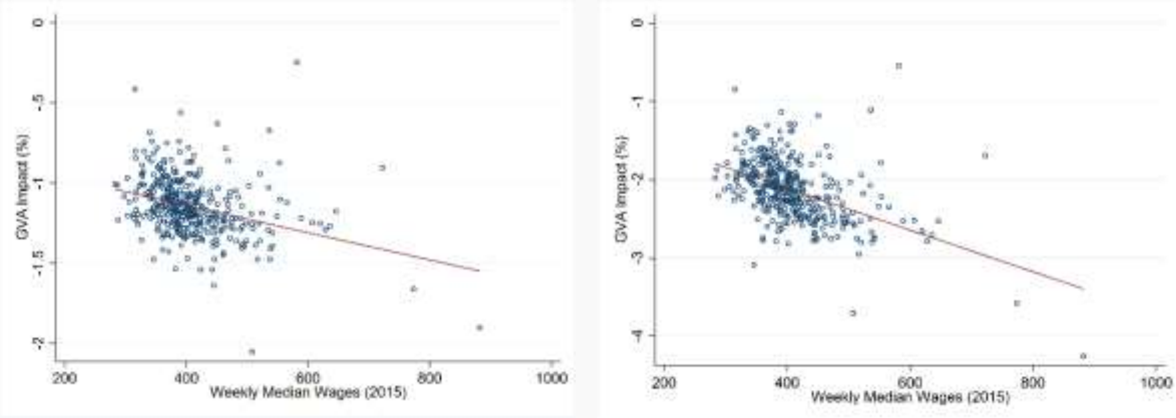



*Area Initial Conditions*

While the results so far imply a somewhat different narrative in terms of who is likely to lose most from Brexit, and how this relates to voting behaviour in the referendum, it is important to remember that the differences in expected impacts are swamped by existing disparities. Even though the immediate negative impacts are predicted to be smaller in poorer regions, households in those areas start off poorer and may experience considerably more difficulty in adjusting to those negative shocks. This is shown for the example of one initial condition, median wage levels, in Figure 4 (the correlation is -0.23 for soft Brexit, -0.37 for hard Brexit).

**Figure 4: Correlation of Brexit GVA Impact with Pre-Referendum Median Wage**

(a): Soft Brexit (b) Hard Brexit




Finally, it is also important to note that the places experiencing the biggest initial shock are not necessarily those that will experience the most negative effects once the economy has adjusted. As discussed in the introduction, we would highlight the parallel with the financial crisis and specifically the contrast between the immediate and long run impacts (which saw London and the South East hit hardest before recovering much more strongly than other areas of the UK).

## 5. Conclusions

This paper has provided predictions of the impact of Brexit across Local Authorities under two different scenarios. Average effects are predicted to be negative under both scenarios and more negative under hard Brexit. The variation in shocks across Local Authorities is somewhat higher under hard Brexit because some Local Authorities are particularly specialised in sectors that are predicted to be badly hit by hard Brexit.

Local Authorities in the South of England, and those in urban areas, are predicted to be harder hit by Brexit under both scenarios. Again, this pattern is explained by the fact that those areas are specialised by sectors that are predicted to be badly hit by Brexit. We find that areas that were most likely to vote remain are those that are predicted to be most negatively impacted by Brexit. We also find that the negative impacts of Brexit tend to be bigger for areas with higher average wages.

The figures in this paper represent a first attempt to look at the Local Authority impacts of the increases in trade barriers associated with Brexit. Further work will be needed to better understand these impacts, to understand the impacts working through other channels, such as migration and investment, and to understand the longer run impacts as the economy adjusts. In short, these figures are far from the last word, but they do provide an initial indication of the way in which the impact of Brexit may be felt differently across the areas of Great Britain.

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***For further information, contact:***

Dr Swati Dhingra, Email: S.Dhingra@lse.ac.uk; Professor Stephen Machin, Email: s.j.machin@lse.ac.uk'; Professor Henry G. Overman, Email: h.g.overman@lse.ac.uk or Romesh Vaitilingam, Email: romesh@vaitilingam.com.

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# Appendices

## Appendix A1: Hard and Soft Brexit and Timescales

The soft Brexit scenario is defined by assuming that the UK remains in the Single Market and negotiates a deal like Norway with tariffs remaining at zero. However, non-tariff barriers are assumed to increase to one quarter of the reducible barriers faced by US exporters to the EU (a 2.77% increase). In addition, the UK will not fully benefit from further market integration of the EU. It is assumed that this further market integration reduces within EU non-tariff barriers 20% faster than for the rest of the world, which now includes the UK (this means within EU non-tariff barriers are 5.63% lower in 10 years).[14] For the fiscal effect, we assume that UK could save 17% from its fiscal contribution to the EU (the same proportionate saving as Norway) – that is, approximately 0.09% of UK GDP.

Hard Brexit is defined by assuming that the UK and EU trade under World Trade Organization (WTO) conditions after Brexit. Non-tariff barriers increase to three quarters of the reducible barriers faced by US exporters to the EU (an 8.31% increase). Furthermore as before, the UK will not fully benefit from further integration of EU. It is assumed that these effects are larger outside of a free trade agreement and that this further integration reduces within EU non-tariff barriers 40% faster than in the rest of the world which now includes the UK (this means within EU barriers are 12.65% lower in 10 years). For the fiscal effect, we assume that the UK saves more on fiscal contributions to the EU than under Soft Brexit - specifically, 0.31% of UK GDP. For more details, see Dhingra et al. (2016a).

The assumption that it takes 10 years for the non-tariff barriers (NTB) within EU to converge to their new levels after Brexit means that the long run predictions reported in the paper correspond to the new equilibrium after 10 years of further EU integration.

[14] Mejean and Schwellnus (2009) provide evidence of faster market integration within the EU (based on faster observed price convergence).

## Appendix A2: Full Results Table for Local Authorities

Table A1 presents results for all Local Authorities under the two different scenarios.

**Table A1: Impact of Brexit for Local Authorities (% change Gross Value Added)**

| *Local Authority* | *Soft Brexit (%)* | *Hard Brexit (%)* |
|---|---|---|
| City of London | -1.9 | -4.3 |
| Aberdeen City | -2.1 | -3.7 |
| Tower Hamlets | -1.7 | -3.6 |
| Watford | -1.5 | -3.1 |
| Mole Valley | -1.5 | -3.0 |
| East Hertfordshire | -1.5 | -2.8 |
| Reading | -1.4 | -2.8 |
| Reigate and Banstead | -1.4 | -2.8 |
| Worthing | -1.5 | -2.8 |
| Islington | -1.3 | -2.8 |
| Swindon | -1.5 | -2.8 |
| Halton | -1.5 | -2.8 |
| Craven | -1.4 | -2.8 |
| Three Rivers | -1.4 | -2.8 |
| Slough | -1.4 | -2.8 |
| Brentwood | -1.3 | -2.8 |
| Wokingham | -1.4 | -2.8 |
| St Albans | -1.3 | -2.7 |
| Bracknell Forest | -1.3 | -2.7 |
| Edinburgh, City of | -1.4 | -2.7 |
| Hertsmere | -1.4 | -2.7 |
| Westminster | -1.3 | -2.7 |
| Salford | -1.4 | -2.7 |
| Eastleigh | -1.6 | -2.7 |
| South Cambridgeshire | -1.5 | -2.7 |
| Bournemouth | -1.3 | -2.7 |
| Camden | -1.3 | -2.7 |
| Trafford | -1.3 | -2.6 |
| Stockton-on-Tees | -1.4 | -2.6 |
| Bristol, City of | -1.3 | -2.6 |
| Rushmoor | -1.4 | -2.6 |
| Harrow | -1.3 | -2.6 |
| Tunbridge Wells | -1.2 | -2.6 |
| Elmbridge | -1.3 | -2.6 |
| Surrey Heath | -1.3 | -2.6 |
| Leeds | -1.3 | -2.6 |
| Ipswich | -1.3 | -2.6 |
| Kingston upon Thames | -1.3 | -2.6 |
| Hackney | -1.3 | -2.6 |
| Nottingham | -1.3 | -2.6 |

| | | |
|---|---|---|
| Basingstoke and Deane | -1.4 | -2.6 |
| Northampton | -1.3 | -2.6 |
| Bromley | -1.3 | -2.6 |
| Hart | -1.4 | -2.6 |
| Epsom and Ewell | -1.2 | -2.6 |
| Chiltern | -1.3 | -2.5 |
| Vale of White Horse | -1.4 | -2.5 |
| Milton Keynes | -1.3 | -2.5 |
| Southwark | -1.2 | -2.5 |
| Windsor and Maidenhead | -1.3 | -2.5 |
| Cheshire West and Chester | -1.3 | -2.5 |
| Lambeth | -1.2 | -2.5 |
| Runnymede | -1.2 | -2.5 |
| Brighton and Hove | -1.3 | -2.5 |
| Glasgow City | -1.3 | -2.5 |
| South Oxfordshire | -1.3 | -2.5 |
| Woking | -1.3 | -2.5 |
| Broxbourne | -1.3 | -2.5 |
| Cardiff | -1.3 | -2.5 |
| Welwyn Hatfield | -1.3 | -2.5 |
| Guildford | -1.3 | -2.5 |
| Havant | -1.5 | -2.5 |
| Dacorum | -1.3 | -2.5 |
| Croydon | -1.2 | -2.5 |
| Merton | -1.2 | -2.5 |
| Cheshire East | -1.3 | -2.5 |
| Warrington | -1.3 | -2.5 |
| Redbridge | -1.2 | -2.5 |
| Manchester | -1.2 | -2.5 |
| Barnet | -1.2 | -2.5 |
| Peterborough | -1.2 | -2.5 |
| Cambridge | -1.3 | -2.5 |
| South Gloucestershire | -1.3 | -2.5 |
| North Tyneside | -1.3 | -2.5 |
| Blaby | -1.3 | -2.5 |
| Dartford | -1.3 | -2.5 |
| Gloucester | -1.4 | -2.5 |
| Poole | -1.4 | -2.4 |
| Chelmsford | -1.3 | -2.4 |
| Wandsworth | -1.2 | -2.4 |
| Waverley | -1.2 | -2.4 |
| Broxtowe | -1.3 | -2.4 |
| Exeter | -1.2 | -2.4 |
| Harlow | -1.4 | -2.4 |
| Winchester | -1.3 | -2.4 |
| Stockport | -1.3 | -2.4 |
| Inverclyde | -1.3 | -2.4 |
| Cheltenham | -1.2 | -2.4 |
| Southend-on-Sea | -1.3 | -2.4 |

| | | |
|---|---|---|
| Darlington | -1.2 | -2.4 |
| Fareham | -1.4 | -2.4 |
| Preston | -1.2 | -2.4 |
| Liverpool | -1.2 | -2.4 |
| East Hampshire | -1.3 | -2.4 |
| Richmond upon Thames | -1.1 | -2.4 |
| Bury | -1.3 | -2.4 |
| St Edmundsbury | -1.3 | -2.4 |
| Stevenage | -1.3 | -2.4 |
| Calderdale | -1.3 | -2.4 |
| Hammersmith and Fulham | -1.1 | -2.4 |
| Middlesbrough | -1.2 | -2.4 |
| West Lothian | -1.3 | -2.4 |
| Mid Sussex | -1.2 | -2.3 |
| Lewisham | -1.2 | -2.3 |
| West Berkshire | -1.2 | -2.3 |
| Maidstone | -1.2 | -2.3 |
| Warwick | -1.2 | -2.3 |
| Bolsover | -1.2 | -2.3 |
| Sefton | -1.2 | -2.3 |
| Taunton Deane | -1.2 | -2.3 |
| Birmingham | -1.2 | -2.3 |
| Redcar and Cleveland | -1.3 | -2.3 |
| Coventry | -1.2 | -2.3 |
| Sevenoaks | -1.2 | -2.3 |
| Wycombe | -1.2 | -2.3 |
| Broadland | -1.2 | -2.3 |
| North West Leicestershire | -1.3 | -2.3 |
| Test Valley | -1.2 | -2.3 |
| Sutton | -1.1 | -2.3 |
| Havering | -1.2 | -2.3 |
| Waltham Forest | -1.2 | -2.3 |
| Epping Forest | -1.2 | -2.3 |
| Norwich | -1.2 | -2.3 |
| Thurrock | -1.2 | -2.3 |
| Shepway | -1.2 | -2.3 |
| Lincoln | -1.2 | -2.3 |
| Knowsley | -1.2 | -2.3 |
| Solihull | -1.1 | -2.3 |
| Tonbridge and Malling | -1.1 | -2.3 |
| North Hertfordshire | -1.3 | -2.3 |
| The Vale of Glamorgan | -1.3 | -2.3 |
| East Renfrewshire | -1.2 | -2.3 |
| Wiltshire | -1.2 | -2.3 |
| York | -1.1 | -2.3 |
| Renfrewshire | -1.3 | -2.3 |
| Rushcliffe | -1.1 | -2.3 |
| Harrogate | -1.1 | -2.3 |
| Aylesbury Vale | -1.2 | -2.3 |

| | | |
|---|---|---|
| Swansea | -1.2 | -2.3 |
| Horsham | -1.2 | -2.2 |
| Rossendale | -1.4 | -2.2 |
| Wirral | -1.2 | -2.2 |
| South Bucks | -1.1 | -2.2 |
| Newham | -1.1 | -2.2 |
| Enfield | -1.2 | -2.2 |
| Bedford | -1.2 | -2.2 |
| Portsmouth | -1.2 | -2.2 |
| Haringey | -1.2 | -2.2 |
| Greenwich | -1.1 | -2.2 |
| West Dunbartonshire | -1.2 | -2.2 |
| Bolton | -1.2 | -2.2 |
| Newcastle upon Tyne | -1.1 | -2.2 |
| Chorley | -1.2 | -2.2 |
| Ashford | -1.2 | -2.2 |
| Tandridge | -1.1 | -2.2 |
| Spelthorne | -1.1 | -2.2 |
| Rugby | -1.2 | -2.2 |
| Aberdeenshire | -1.2 | -2.2 |
| Bath and North East Somerset | -1.1 | -2.2 |
| Castle Point | -1.2 | -2.2 |
| Medway | -1.2 | -2.2 |
| Thanet | -1.3 | -2.2 |
| Doncaster | -1.2 | -2.2 |
| Derby | -1.2 | -2.2 |
| Bromsgrove | -1.1 | -2.2 |
| Stafford | -1.3 | -2.2 |
| Lancaster | -1.1 | -2.2 |
| Gateshead | -1.2 | -2.2 |
| Great Yarmouth | -1.2 | -2.2 |
| Bexley | -1.1 | -2.2 |
| Rochdale | -1.3 | -2.2 |
| Canterbury | -1.1 | -2.2 |
| East Cambridgeshire | -1.3 | -2.2 |
| North Lanarkshire | -1.2 | -2.2 |
| Mansfield | -1.2 | -2.2 |
| Charnwood | -1.3 | -2.1 |
| Eastbourne | -1.1 | -2.1 |
| Newport | -1.2 | -2.1 |
| Dundee City | -1.2 | -2.1 |
| Bradford | -1.2 | -2.1 |
| Lewes | -1.2 | -2.1 |
| Sheffield | -1.2 | -2.1 |
| West Oxfordshire | -1.3 | -2.1 |
| Staffordshire Moorlands | -1.1 | -2.1 |
| Rother | -1.1 | -2.1 |
| Brent | -1.1 | -2.1 |
| Stirling | -1.1 | -2.1 |

| | | |
|---|---|---|
| Harborough | -1.1 | -2.1 |
| South Tyneside | -1.2 | -2.1 |
| Plymouth | -1.1 | -2.1 |
| Blackburn with Darwen | -1.3 | -2.1 |
| Daventry | -1.1 | -2.1 |
| Leicester | -1.2 | -2.1 |
| East Dunbartonshire | -1.1 | -2.1 |
| Fife | -1.2 | -2.1 |
| Sunderland | -1.2 | -2.1 |
| Gravesham | -1.1 | -2.1 |
| Colchester | -1.1 | -2.1 |
| North Ayrshire | -1.2 | -2.1 |
| Tewkesbury | -1.2 | -2.1 |
| Torbay | -1.1 | -2.1 |
| Denbighshire | -1.3 | -2.1 |
| Barking and Dagenham | -1.1 | -2.1 |
| Hastings | -1.2 | -2.1 |
| Tamworth | -1.2 | -2.1 |
| North Devon | -1.2 | -2.1 |
| North East Lincolnshire | -1.1 | -2.1 |
| Fylde | -1.0 | -2.1 |
| St. Helens | -1.1 | -2.1 |
| Mendip | -1.1 | -2.1 |
| Midlothian | -1.1 | -2.1 |
| Cotswold | -1.1 | -2.1 |
| Stratford-on-Avon | -1.1 | -2.1 |
| Central Bedfordshire | -1.1 | -2.1 |
| Chesterfield | -1.2 | -2.1 |
| Bridgend | -1.2 | -2.1 |
| South Norfolk | -1.1 | -2.1 |
| Newcastle-under-Lyme | -1.2 | -2.1 |
| Rhondda, Cynon, Taff | -1.2 | -2.1 |
| East Ayrshire | -1.1 | -2.1 |
| Adur | -1.1 | -2.1 |
| South Lanarkshire | -1.1 | -2.1 |
| Ealing | -1.0 | -2.0 |
| Suffolk Coastal | -1.1 | -2.0 |
| Falkirk | -1.1 | -2.0 |
| Southampton | -1.0 | -2.0 |
| North Somerset | -1.1 | -2.0 |
| South Staffordshire | -1.2 | -2.0 |
| Lichfield | -1.1 | -2.0 |
| Oxford | -1.0 | -2.0 |
| Worcester | -1.1 | -2.0 |
| Basildon | -1.1 | -2.0 |
| Kirklees | -1.2 | -2.0 |
| Wigan | -1.1 | -2.0 |
| Nuneaton and Bedworth | -1.1 | -2.0 |
| Hartlepool | -1.2 | -2.0 |

| | | |
|---|---|---|
| Oldham | -1.2 | -2.0 |
| Scottish Borders | -1.2 | -2.0 |
| Arun | -1.2 | -2.0 |
| North Warwickshire | -1.1 | -2.0 |
| Wyre | -1.1 | -2.0 |
| New Forest | -1.1 | -2.0 |
| Stoke-on-Trent | -1.1 | -2.0 |
| Cherwell | -1.1 | -2.0 |
| County Durham | -1.2 | -2.0 |
| South Ribble | -1.1 | -2.0 |
| Redditch | -1.4 | -2.0 |
| Torfaen | -1.2 | -2.0 |
| Teignbridge | -1.1 | -2.0 |
| Gwynedd | -1.1 | -2.0 |
| Weymouth and Portland | -1.0 | -2.0 |
| Telford and Wrekin | -1.1 | -2.0 |
| Luton | -1.1 | -2.0 |
| Babergh | -1.2 | -2.0 |
| Christchurch | -1.2 | -2.0 |
| Wyre Forest | -1.2 | -2.0 |
| East Dorset | -1.1 | -2.0 |
| Northumberland | -1.1 | -2.0 |
| Mid Suffolk | -1.1 | -2.0 |
| South Northamptonshire | -1.1 | -2.0 |
| Huntingdonshire | -1.1 | -2.0 |
| Maldon | -1.2 | -2.0 |
| Malvern Hills | -1.1 | -1.9 |
| Conwy | -1.0 | -1.9 |
| Stroud | -1.4 | -1.9 |
| Wellingborough | -1.1 | -1.9 |
| Kensington and Chelsea | -0.9 | -1.9 |
| Blackpool | -1.0 | -1.9 |
| Burnley | -1.1 | -1.9 |
| King`s Lynn and West Norfolk | -1.0 | -1.9 |
| Rochford | -1.0 | -1.9 |
| Braintree | -1.1 | -1.9 |
| Walsall | -1.2 | -1.9 |
| Wakefield | -1.1 | -1.9 |
| Tendring | -1.1 | -1.9 |
| Isle of Wight | -1.1 | -1.9 |
| West Dorset | -1.1 | -1.9 |
| Highland | -1.0 | -1.9 |
| East Lothian | -1.0 | -1.9 |
| Caerphilly | -1.2 | -1.9 |
| Blaenau Gwent | -1.2 | -1.9 |
| Purbeck | -1.0 | -1.9 |
| East Riding of Yorkshire | -1.0 | -1.9 |
| Chichester | -1.0 | -1.9 |
| Breckland | -1.0 | -1.9 |

| | | |
|---|---|---|
| Perth and Kinross | -0.9 | -1.9 |
| Swale | -1.0 | -1.9 |
| Rotherham | -1.1 | -1.9 |
| Wealden | -1.0 | -1.9 |
| East Staffordshire | -1.0 | -1.9 |
| Gedling | -1.2 | -1.9 |
| Torridge | -1.0 | -1.9 |
| Clackmannanshire | -1.0 | -1.9 |
| Wolverhampton | -1.1 | -1.9 |
| Tameside | -1.1 | -1.9 |
| Gosport | -1.0 | -1.9 |
| Rutland | -1.1 | -1.9 |
| South Hams | -1.0 | -1.9 |
| South Lakeland | -1.1 | -1.8 |
| South Ayrshire | -1.0 | -1.8 |
| Cornwall | -0.9 | -1.8 |
| Kingston upon Hull, City of | -1.0 | -1.8 |
| North Dorset | -1.2 | -1.8 |
| High Peak | -1.1 | -1.8 |
| Richmondshire | -0.9 | -1.8 |
| Eilean Siar | -0.9 | -1.8 |
| Carlisle | -1.0 | -1.8 |
| Selby | -1.1 | -1.8 |
| Ceredigion | -0.9 | -1.8 |
| Ashfield | -1.2 | -1.8 |
| South Somerset | -1.0 | -1.8 |
| Kettering | -1.0 | -1.8 |
| Monmouthshire | -1.0 | -1.8 |
| Pembrokeshire | -1.0 | -1.8 |
| Hillingdon | -0.9 | -1.8 |
| Boston | -1.0 | -1.8 |
| Angus | -1.1 | -1.8 |
| East Northamptonshire | -1.0 | -1.8 |
| Mid Devon | -1.1 | -1.8 |
| Shropshire | -0.9 | -1.8 |
| Bassetlaw | -1.0 | -1.8 |
| West Devon | -0.9 | -1.8 |
| Hinckley and Bosworth | -1.1 | -1.7 |
| Derbyshire Dales | -1.1 | -1.7 |
| East Devon | -0.9 | -1.7 |
| Dudley | -1.0 | -1.7 |
| Oadby and Wigston | -1.0 | -1.7 |
| Cannock Chase | -1.0 | -1.7 |
| Barrow-in-Furness | -1.0 | -1.7 |
| South Derbyshire | -0.9 | -1.7 |
| Barnsley | -0.9 | -1.7 |
| Wrexham | -1.1 | -1.7 |
| West Lindsey | -0.9 | -1.7 |
| Dover | -0.9 | -1.7 |

| | | |
|---|---|---|
| Argyll and Bute | -0.9 | -1.7 |
| Carmarthenshire | -1.0 | -1.7 |
| Uttlesford | -0.9 | -1.7 |
| Copeland | -0.9 | -1.7 |
| South Kesteven | -1.0 | -1.7 |
| Flintshire | -1.0 | -1.7 |
| West Lancashire | -0.9 | -1.7 |
| Scarborough | -0.9 | -1.7 |
| Ribble Valley | -0.9 | -1.7 |
| Hyndburn | -1.0 | -1.6 |
| Sandwell | -1.0 | -1.6 |
| East Lindsey | -0.9 | -1.6 |
| Hambleton | -0.9 | -1.6 |
| Newark and Sherwood | -0.9 | -1.6 |
| West Somerset | -0.8 | -1.6 |
| North Kesteven | -0.9 | -1.6 |
| Powys | -1.0 | -1.6 |
| North Norfolk | -0.8 | -1.6 |
| Forest Heath | -0.9 | -1.6 |
| Orkney Islands | -0.8 | -1.6 |
| Sedgemoor | -0.9 | -1.6 |
| Shetland Islands | -0.8 | -1.6 |
| Wychavon | -0.9 | -1.6 |
| Erewash | -1.0 | -1.6 |
| Waveney | -0.8 | -1.5 |
| Pendle | -1.1 | -1.5 |
| Merthyr Tydfil | -0.8 | -1.5 |
| Herefordshire, County of | -0.8 | -1.5 |
| Dumfries and Galloway | -0.7 | -1.4 |
| Forest of Dean | -0.8 | -1.4 |
| Allerdale | -0.8 | -1.4 |
| Amber Valley | -0.9 | -1.4 |
| Fenland | -0.7 | -1.4 |
| Ryedale | -0.8 | -1.4 |
| Neath Port Talbot | -1.0 | -1.4 |
| North East Derbyshire | -0.9 | -1.4 |
| Eden | -0.7 | -1.3 |
| Moray | -0.7 | -1.3 |
| North Lincolnshire | -0.8 | -1.3 |
| Corby | -0.8 | -1.3 |
| Anglesey | -0.6 | -1.2 |
| South Holland | -0.6 | -1.1 |
| Crawley | -0.7 | -1.1 |
| Isles of Scilly | -0.5 | -1.1 |
| Melton | -0.4 | -0.8 |
| Hounslow | -0.2 | -0.5 |

## Appendix A3: Impact of Brexit Across Primary Urban Areas

The results presented in the main body of the text, and in Appendix A2 are for Local Authorities. These have the advantage that they cover the whole of Great Britain and thus give an estimate of the impact of Brexit for all areas. However, when large number of households commute across a Local Authority boundary for work we can get better predictions of the impact of Brexit on households if we look at the impact on functional economic areas – defined, somewhat circularly, as the spatial scale at which the relevant economic markets operate. To take a more concrete example, for a household living in one of our big cities, predictions at the urban area level are more likely to capture the impact on the income of that household. In this appendix we present such results for Primary Urban Areas (PUAs), a convenient aggregation of Local Authorities that better match urban economies than stand-alone Local Authorities.

Basic summary statistics for the impact across PUAs are reported in Table A2. In line with the national and Local Authority estimates, the average PUA level effect is negative under both scenarios and more negative under hard Brexit. Comparing to Table 2, we see that the mean impact for PUAs is somewhat higher than that for Local Authorities, consistent with the suggestion in the main text that the employment concentration of urban areas mean that they are predicted to be somewhat harder hit than non-urban areas.

As with Local Authorities, these figures are essentially unchanged if we use the median instead of the mean, suggesting that there are no particularly extreme predictions that drive the average effect. The figures for the $10^{th}$ and $90^{th}$ percentile are also consistent with this interpretation.

Table A2 also reports the variance and $90^{th}$ to $10^{th}$ percentile different to summarise how much the negative effect of Brexit varies across PUAs under the two different scenarios. As with Local Authorities, the variation in PUA shocks is considerably higher under hard Brexit. This suggests that some PUAs are particularly specialised in sectors that are badly hit by hard Brexit. Having said this, the variation under the two different scenarios is lower for Primary Urban Areas (0.17% for soft Brexit, 0.35% for hard Brexit) showing the importance of urban diversification in helping mitigate negative impacts.

**Table A2: PUA Distribution Statistics of GVA Impacts of Brexit**

| | *Soft Brexit* (%) | *Hard Brexit* (%) |
|---|---|---|
| Mean | -1.22 | -2.28 |
| $50^{th}$ Percentile (Median) | -1.21 | -2.26 |
| $10^{th}$ Percentile | -1.35 | -2.60 |
| $90^{th}$ Percentile | -1.07 | -1.98 |
| Standard Deviation | 0.17 | 0.35 |
| $90^{th}$-$10^{th}$ Percentile Differential | 0.28 | 0.62 |

Table A3 lists the top ten most and least affected PUAs under the hard Brexit scenario. The results for all PUAs are provided in Table A4. The most affected PUAs show slightly more geographical diversity in comparison to the most affected Local Authorities (which, with the exception of Aberdeen were all in the South of England). For the least affected, the under-representation of the South of England is somewhat more apparent than it was for Local Authorities. PUAs across Great Britain are hit harder than Local Authorities, but PUAs outside the South of England tend to be less hard hit than other PUAs. Figure A1 which maps the percentage change in GVA by PUA under both soft and hard Brexit confirms this broad geographical pattern.

**Table A3**: **Most and Least Affected Primary Urban Areas**
**(% Change in Gross Value Added)**

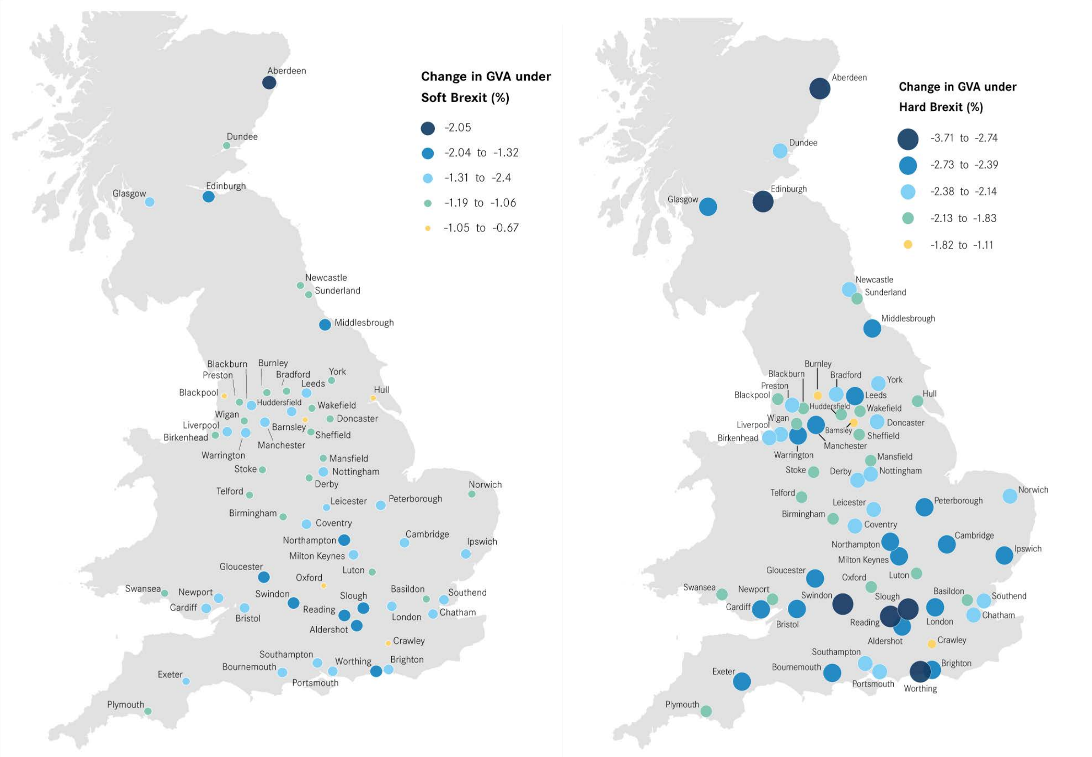
| *Top 10* | *Soft Brexit* (%) | *Hard Brexit* (%) | *Bottom 10* | *Soft Brexit* (%) | *Hard Brexit* (%) |
|---|---|---|---|---|---|
| Aberdeen | -2.1 | -3.7 | Blackpool | -1.0 | -2.0 |
| Worthing | -1.5 | -2.8 | Swansea | -1.1 | -2.0 |
| Reading | -1.4 | -2.8 | Telford | -1.1 | -2.0 |
| Swindon | -1.5 | -2.8 | Luton | -1.1 | -2.0 |
| Slough | -1.4 | -2.8 | Mansfield | -1.2 | -2.0 |
| Edinburgh | -1.4 | -2.7 | Wakefield | -1.1 | -1.9 |
| London | -1.3 | -2.6 | Hull | -1.0 | -1.8 |
| Aldershot | -1.3 | -2.6 | Burnley | -1.1 | -1.7 |
| Leeds | -1.3 | -2.6 | Barnsley | -0.9 | -1.7 |
| Ipswich | -1.3 | -2.6 | Crawley | -0.7 | -1.1 |

**Table A4: Impact of Brexit for Primary Urban Areas**
**(% Change in Gross Value Added)**

| *Primary Urban Area* | *Soft Brexit* (%) | *Hard Brexit* (%) |
|---|---|---|
| Aberdeen | -2.1 | -3.7 |
| Worthing | -1.5 | -2.8 |
| Reading | -1.4 | -2.8 |
| Swindon | -1.5 | -2.8 |
| Slough | -1.4 | -2.8 |
| Edinburgh | -1.4 | -2.7 |
| London | -1.3 | -2.6 |
| Aldershot | -1.3 | -2.6 |
| Leeds | -1.3 | -2.6 |
| Ipswich | -1.3 | -2.6 |
| Bristol | -1.3 | -2.6 |
| Northampton | -1.3 | -2.6 |
| Milton Keynes | -1.3 | -2.5 |
| Cardiff | -1.3 | -2.5 |
| Warrington | -1.3 | -2.5 |
| Middlesbrough | -1.3 | -2.5 |
| Peterborough | -1.2 | -2.5 |
| Cambridge | -1.3 | -2.5 |
| Brighton | -1.2 | -2.5 |
| Gloucester | -1.4 | -2.5 |
| Glasgow | -1.3 | -2.4 |
| Exeter | -1.2 | -2.4 |
| Bournemouth | -1.3 | -2.4 |
| Manchester | -1.3 | -2.4 |
| Nottingham | -1.2 | -2.4 |
| Liverpool | -1.2 | -2.4 |
| Coventry | -1.2 | -2.3 |
| Norwich | -1.2 | -2.3 |
| Portsmouth | -1.3 | -2.3 |
| Southampton | -1.2 | -2.3 |
| Southend | -1.2 | -2.3 |
| York | -1.1 | -2.3 |
| Newcastle | -1.2 | -2.2 |
| Birkenhead | -1.2 | -2.2 |
| Preston | -1.2 | -2.2 |
| Chatham | -1.2 | -2.2 |
| Doncaster | -1.2 | -2.2 |
| Derby | -1.2 | -2.2 |
| Leicester | -1.2 | -2.2 |
| Dundee | -1.2 | -2.1 |
| Bradford | -1.2 | -2.1 |
| Plymouth | -1.1 | -2.1 |
| Blackburn | -1.3 | -2.1 |

| | | |
|---|---|---|
| Sunderland | -1.2 | -2.1 |
| Newport | -1.2 | -2.1 |
| Birmingham | -1.1 | -2.1 |
| Sheffield | -1.2 | -2.1 |
| Oxford | -1.0 | -2.0 |
| Basildon | -1.1 | -2.0 |
| Huddersfield | -1.2 | -2.0 |
| Wigan | -1.1 | -2.0 |
| Stoke | -1.1 | -2.0 |
| Blackpool | -1.0 | -2.0 |
| Swansea | -1.1 | -2.0 |
| Telford | -1.1 | -2.0 |
| Luton | -1.1 | -2.0 |
| Mansfield | -1.2 | -2.0 |
| Wakefield | -1.1 | -1.9 |
| Hull | -1.0 | -1.8 |
| Burnley | -1.1 | -1.7 |
| Barnsley | -0.9 | -1.7 |
| Crawley | -0.7 | -1.1 |

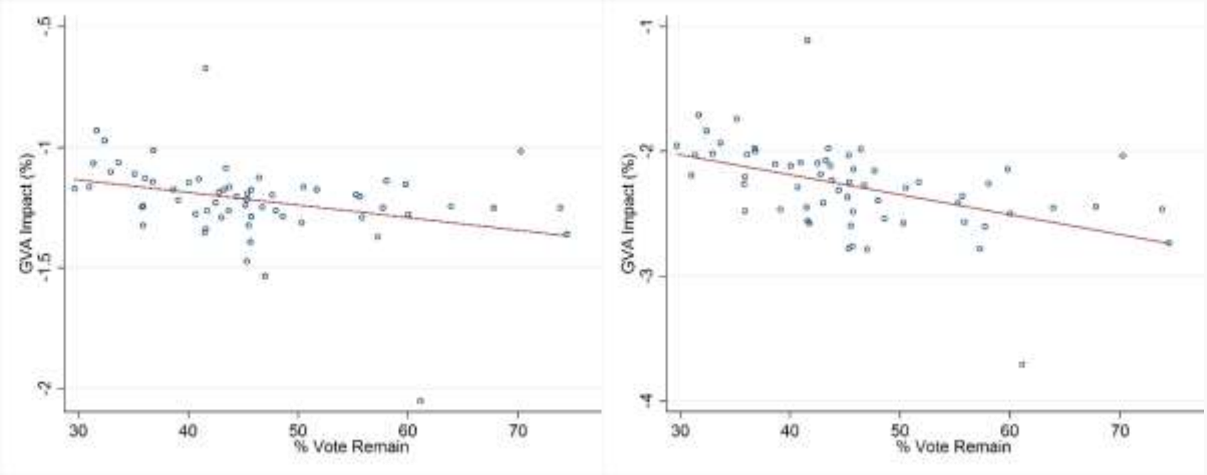
**Figure A1: Map showing Percentage Decrease in Primary Urban Area GVA**




As for Local Authorities, Figure 2 shows that PUAs that are predicted to be most negatively affected by Brexit were more likely to vote remain. As with Local Authorities, the correlation is particularly striking for the predicted impacts under hard Brexit (the correlation coefficient is -0.33 for soft Brexit, -0.48 for hard Brexit).

**Figure A2: Correlation Brexit GVA Impact with Referendum Vote Share**

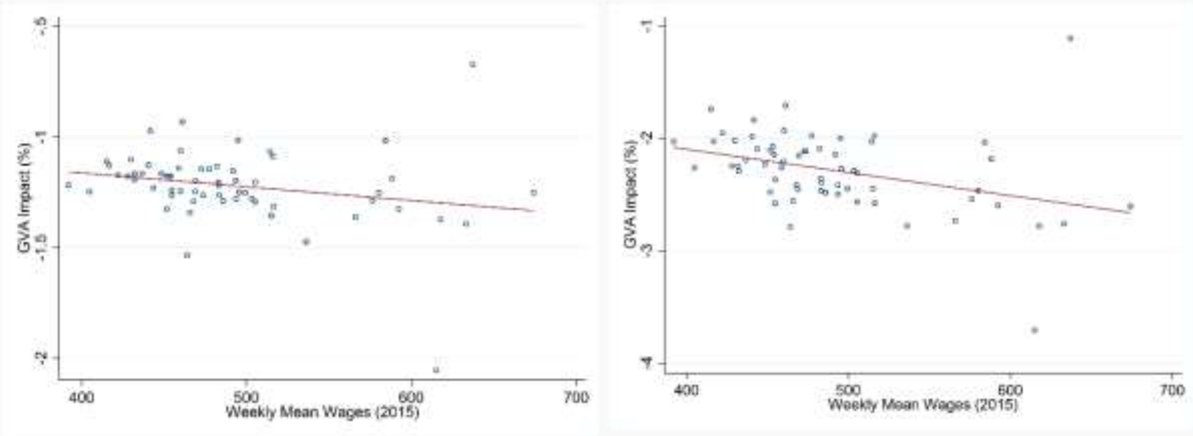
(a) Soft Brexit (b) Hard Brexit




Finally, as with Local Authorities, initial differences across PUAs swamp differences in the predicted impact of Brexit as shown in Figure A3 (the correlation coefficient is -0.23 for soft Brexit, -0.37 for hard Brexit).

**Figure A3: Correlation Brexit GVA Impact with Pre-Referendum Median Wage**

(a) Soft Brexit (b) Hard Brexit



# Greater Manchester Brexit Monitor

## Key economic and policy developments

November 2017

GMCA

BOLTON | MANCHESTER | ROCHDALE | STOCKPORT | TRAFFORD
BURY | OLDHAM | SALFORD | TAMESIDE | WIGAN

# Executive Summary



### Headlines

- **The November Monitor provides mixed messages about the health of the UK's economy.** Both the UK Manufacturing and Services Purchasing Managers' Index (PMI) surveys show growth in the economy, in particular manufacturing, which reported rising production and new order volumes, as companies benefit from strong domestic market conditions. However, whilst **UK GDP is estimated to have increased by 0.4% in Q3 (July to Sept) 2017**, a slight improvement on the 0.3% growth posted in Q2, growth is slower than across the Eurozone (0.6 per cent) in the same period. These findings are reflected in the **Chamber of Commerce Quarterly Economic Survey which shows resilience in both the national and Greater Manchester economy.** However, the position is increasingly dependent on the largest firms' export performance (linked to Sterling's depreciation), an effect which the Chamber does not expect to last beyond the medium-term.
- Despite the positive message from PMI survey returns this month, economic commentators are still cautious about the future. **The Bank of England's (BoE) Monetary Policy Committee (MPC) took steps to address rising inflation,** voting 7-2 to raise the interest rate earlier in the month. This was the first increase in over a decade, raising its benchmark interest rate by a quarter of a percentage point to 0.5 per cent, signalling the start of a gradual increase in borrowing costs. The BoE's Quarterly Inflation Report also signalled that two more rate hikes are likely over the next three years in order to return inflation back to its 2 per cent target, which could see rates hit 1 per cent by the end of 2020.
- **In terms of Brexit discussions, Prime Minister Theresa May has said that "real and tangible progress" had been made**, but that the country must be prepared for "every eventuality" – including a 'no-deal' scenario. The Prime Minister also reiterated that trade models such as the European Economic Area or the Canadian Comprehensive Economic and Trade Agreement are not an option for any deal, calling instead for a "creative" solution that is "unique" to the UK.

### Key sectors & business investment

- **Research with Growth Company Business Growth Hub clients in the 3 months to the end of October 2017** shows that 61% of firms expected their plans to remain the same following the EU referendum result, a figure similar to recent previous 3-month periods (Jun-Aug: 63%; Jul-Sep: 58%). Of the remaining firms, 15% said they were unsure what impact Brexit would have on investment plans, (Jun-Aug: 27%, and 18% in Jul-Sep), 15% said they were likely to increase investment (16% in the last monitor), 8% said investment plans were on hold, and 1% envisaged decreasing investment.
- **However, the Growth Company survey also suggested that the EU referendum is increasingly impacting on firms' recruitment intentions**. In the three months to October 2017, 60% of firms said they envisaged they would continue to recruit at the same pace following the referendum result, the lowest level since the referendum. Of the remaining firms, 10% reported that they would continue hiring, but at a decreased pace (9% in the last Monitor), 2% would freeze hiring, 1% would be making redundancies, 17% indicated that they were unsure or declined to answer, and 10% said that they would increase hiring (8% in the last Monitor).

# Executive summary

- **The IHS Markit/CIPS UK Manufacturing PMI rose from 56.0 (revised from 55.9) in September to 56.3 in October** (above 50 = growth). Production and new order volumes rose as companies benefited from strong domestic market conditions and rising inflows of new export business. Price pressures remained elevated, however, with rates of inflation in input costs and output charges both well above historical series averages.
- **The IHS Markit/CIPS UK Services PMI increased from 53.6 in September to 55.6 in October.** This month's rise was mainly due to a rebound in new order growth from September's 13-month low amid improved domestic demand and new product launches. Whilst output rose, input costs continued to rise due to higher food prices, energy bills, transport costs, and salaries. There is further caution in the Services survey's new job creation figures - the weakest since March 2017.

## Terms of trade, regulation & access to funding

- **The Government has published two white papers on future trade and customs arrangements.** These papers set out three strategic objectives: ensuring UK-EU trade is as frictionless as possible, avoiding a hard border between Ireland and Northern Ireland, and establishing the UK's own independent international trade policy, but also provide some contingency planning in case the UK leaves the EU without a negotiated settlement.
- **The government has created a new EU Exit and Trade (Domestic Preparedness, Legislation and Devolution) Sub-Committee**, which will oversee domestic policy preparations and implementation of the UK's withdrawal from the European Union. The new Sub-Committee will be chaired by the First Secretary of State.
- **The Chancellor of the Exchequer will present his Autumn Budget to Parliament on 22 November 2017.**

## Property investment, housing and planning

- **Housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices,** with average house prices in GM rising by 8.6% on the level recorded in July 2016.
- **Commercial property:** This month's Monitor looks at demand in the office space market for Manchester. Latest figures from the Manchester Office Agents Forum (MOAF) have shown that the Manchester office market showed a substantial increase in Q317, with just over 447,809 sq ft transacted in the city centre alone.

## Economic inclusion

- **Unemployment in GM is slightly higher than that seen prior to the referendum result – increasing from 46,290 in June 2016 to 46,700 in September 2017 (latest).**
- Despite rising consumer prices (CPI index) the latest seasonally adjusted **IHS Markit Household Finance Index (HFI) showed a slight perceived easing of household financial pressures during October,** registering 43.8 in October, up from 42.8 in September.

**For more information contact: Matthew Mirecki - Lead Analyst** t: 07973 876 027; e: matthew.mirecki@greatermanchester-ca.gov.uk

# Macro-economic trends and developments



### Macro-economy

- **UK GDP was estimated to have increased by 0.4% in Q3 (July to Sept) 2017, marking a slight improvement on the 0.3% growth posted in Q2**. Services was the largest contributor to GDP growth, expanding by 0.4% with a strong performance in computer programming, motor trades and retail trade. Meanwhile, manufacturing returned to growth after a weak Q2, increasing by 1.0% in Q3. However, construction activity contracted for the second quarter in a row, although the industry still remains above its pre-downturn peak.(1)
- **The Bank of England's (BoE) Monetary Policy Committee (MPC) took steps to address rising inflation, voting 7-2 to raise the interest rate earlier in the month**. This was the first increase in over a decade, raising its benchmark by a quarter of a percentage point to 0.5 per cent, signalling the start of a gradual increase in borrowing costs. The BoE's Quarterly Inflation Report also signalled that two more rate hikes are likely over the next three years in order to return inflation back to its 2 per cent target, which could see rates hit 1 per cent by the end of 2020.
- **The UK's deficit on trade in goods and services widened by £6.2 billion in the three months to August 2017 to £13.2 billion,** due to the impact of trade in aircraft, ships and precious metals. Termed 'erratic commodities', these can make a large contribution to trade in goods, but can mask underlying trends in export and import values due to their volatility. Excluding these, the deficit on trade **in goods and services widened by £2.9 billion in the three months to August 2017 to £10.8 billion**.(2)
- **EU trade: The UK was a net importer from the EU in August 2017, with imports exceeding exports by £8.1 billion.** EU Exports for August 2017 were £12.8 billion, a decrease of £0.6 billion (-4%) compared with July 2017, but an increase of £1.5 billion (+14%) compared with 12 months ago. EU Imports for August 2017 were £20.9 billion, unchanged from July 2017, but an increase of £2.0 billion (+10%) compared with a year ago.
- **Non-EU trade: The UK was a net importer in August 2017, with imports exceeding exports by £7.4 billion**. Non-EU Exports for August 2017 were £13.2 billion, a decrease of £3.5 billion (-21%) compared with July 2017, but an increase of £0.9 billion (+8%) compared with a year ago. Non-EU Imports for August 2017 were £20.6 billion, an increase of £2.3 billion (+12%) compared with July 2017, but a decrease of £1.9 billion (-9%) compared with a year ago.(3)

### Consumer sentiment

- **The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rose to 2.8% in September 2017, up from 2.7% in August 2017, marking its highest level since March 2012**. The main contributors to the increase in the rate were rising prices for food and recreational goods. These upward effects were, however, partially offset by downward contributions across a range of goods and services, in particular clothing prices.(4)
- **September 2017 saw the quantity bought in the retail industry decrease by 0.8% compared with August 2017**. However, the underlying pattern in the retail industry in 2017 is one of growth. Store prices continue to rise across all store types and recorded their highest year-on-year price growth since March 2012 at 3.3% (non-seasonally adjusted) in September 2017. Online sales values also increased year-on-year by 14% (17% of all retail spending).(5)

# Key sectors & business investment

## Business Investment

- **Research with Growth Company Business Growth Hub clients in the 3 months to the end of October 2017 shows that** 61% of firms expected their plans to remain the same following the EU referendum result, a figure similar to recent previous 3-month periods (Jun-Aug: 63%; Jul-Sep: 58%). Of the remaining firms, 15% said they were unsure what impact Brexit would have on investment plans, (Jun-Aug: 27%, and 18% in Jul-Sep), 15% said they were likely to increase investment (16% in the last monitor), 8% said investment plans were on hold, and 1% envisaged decreasing investment.
- **However, the Growth Company survey also suggested that the EU referendum is increasingly impacting on firms' recruitment intentions**. In the three months to October 2017, 60% of firms said they envisaged they would continue to recruit at the same pace following the referendum result, the lowest level since the referendum. Of the remaining firms, 10% reported that they would continue hiring, but at a decreased pace (9% in the last Monitor), 2% would freeze hiring, 1% would be making redundancies, 17% indicated that they were unsure or declined to answer, and 10% said that they would increase hiring (8% in the last Monitor).[6]
- The **Chamber of Commerce Quarterly Economic Survey shows resilience in both the national and Greater Manchester economy.** However, the position is increasingly dependent on the largest firms' export performance (linked to Sterling's depreciation), an effect which the Chamber does not expect to last beyond the medium-term..[7]

## CIPS Manufacturing PMI to end September 2017


## Manufacturing

- **The IHS Markit/CIPS UK Manufacturing PMI rose from 56.0 (revised from 55.9) in September to 56.3 in October** (above 50 = growth). Production and new order volumes continued to rise as companies benefited from strong domestic market conditions and rising inflows of new export business. Price pressures remained elevated, however, with rates of inflation in input costs and output charges well above historical series averages.[8]

## CIPS Services PMI to end September 2017


## Services

- **The IHS Markit/CIPS UK Services PMI rose from 53.6 in September to 55.6 in October**, mainly due to a rebound in new order growth from September's 13-month low amid improved domestic demand and new product launches. Whilst output rose, input costs continued to rise due to higher food prices, energy bills, transport costs and salaries. Job creation is the weakest since March, suggesting firms are more cautious about the future.[9]

# Trade, regulation and access to funding

### Trade, rules and regulatory developments

- The Government has published two white papers on future trade (Preparing for our future UK trade policy[10]) and customs arrangements (Customs Bill: legislating for the UK's future customs, VAT and excise regimes[11]). The papers set out three strategic objectives: ensuring UK-EU trade is as frictionless as possible, avoiding a hard border between Ireland and Northern Ireland; and establishing the UK's own independent international trade policy, as well as contingency planning in case the UK leaves the EU without a negotiated settlement. The Intellectual Property Office also published an updated report on the future of intellectual property laws following the decision that the UK will leave the European Union (EU).[(12)]
- In terms of Brexit talks, Prime Minister Theresa May has said that "real and tangible progress" had been made, but that the country must be prepared for "every eventuality" – including a 'no-deal' scenario. The Prime Minister confirmed that the UK would remain subject to the rulings of the European Court of Justice during a planned two-year transition period after Britain leaves the EU in March 2019, and reiterated that trade models such as the European Economic Area or the Canadian Comprehensive Economic and Trade Agreement are not an option for any deal, calling instead for a "creative" solution that is "unique" to the UK. [(13)]
- The Government has created a new EU Exit and Trade (Domestic Preparedness, Legislation and Devolution) Sub-Committee, which will oversee domestic policy preparations and implementation of the UK's withdrawal from the European Union. The new Sub-Committee will be chaired by the First Secretary of State.[(14)]
- The Chancellor of the Exchequer will present his Autumn Budget to Parliament on 22 November 2017.[(15)]

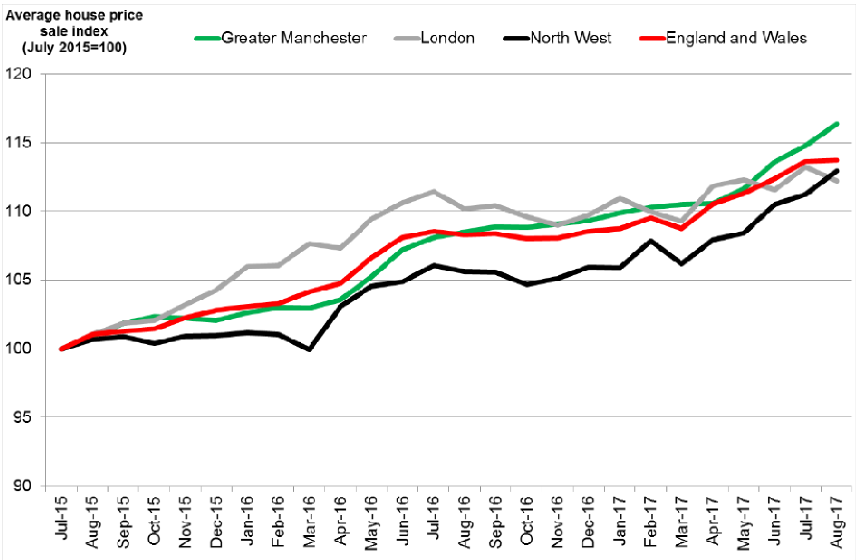
### European Funding

- In a speech on 16 October in Edinburgh, EU Research Commissioner Carlos Moedas reiterated that the Horizon 2020 programme is still fully open to UK researchers. He added that UK opinions are welcome on what the next EU research programme should look like.[(16)] In other EU funding news, Erasmus+, the Lifelong learning programme, released its 2018 calls. The amount of funding available to UK applicants has increased from €148 million (in 2017) to almost €170 million. Erasmus+ supports transnational projects covering all levels of education from school, VET, HE, and adult education.[(17)]

# Property and investment, housing, and planning

- **Housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices,** with average house prices in GM rising by 8.6% on the level recorded in July 2016.
- **Commercial property:** This month's Monitor looks at demand in the office space market for Manchester. Latest figures from the Manchester Office Agents Forum (MOAF) have shown that the Manchester office market showed a substantial increase in Q317, with just over 447,809 sq ft transacted in the city centre alone.

## Average House Prices Sales (Index July 2015=100)




- **Housing Index** data from the Land Registry suggest the vote to leave the EU continues to have little impact on house prices, with moderate growth in average residential prices this period.
- **The latest house price data (latest, August 2017) for GM reveals an average price of £162,247**, an increase of 1.4% from the previous month, and growth of 7.3% from August 2016.(18)

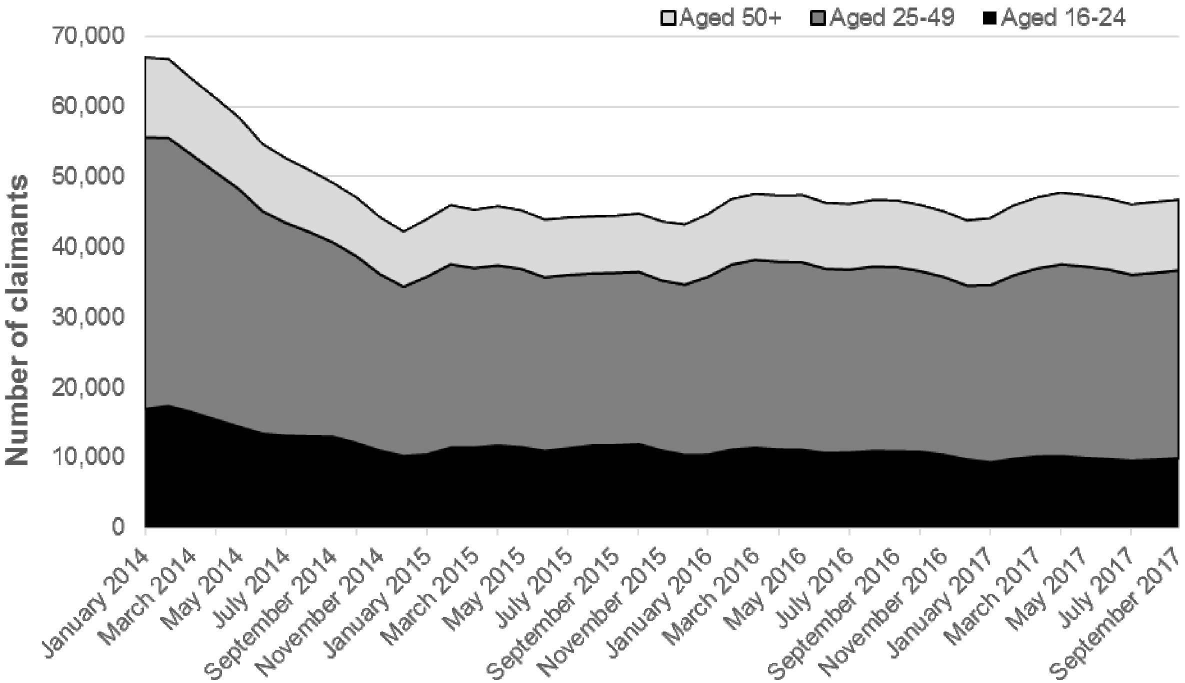
## Commercial Property: Office space

- According to latest figures from the **Manchester Office Agents Forum** (MOAF), the Manchester office market showed a substantial increase in Q317, with just over 447,809 sq ft transacted in the city centre alone. The Q3 figures represent a 68% increase on the same period last year.
- There were 78 deals in the city centre from July to September, with eight transactions of more than 10,000 sq ft, including existing city centre occupiers relocating due to expansion.
- Outside of the city centre, South Manchester also experienced a successful Q3, with 140,531 sq ft let, a 29% increase on the same period last year.
- Year-to-date this has provided a running total of 472,263 sq ft of deals during 2017, a 45% increase on last year's statistics.
- MOAF notes that although stock is quickly diminishing, there are a number of deals still to fall in by year end, and anticipates that South Manchester's 2017 take-up will be the highest since 2012.
- The combined Salford Quays and Old Trafford take-up figure for Q3 was 112,410 sq ft, a 25% increase on 2016. According to MOAF, the supply of Grade A office space in Salford Quays has become limited.(19)

# Economic Inclusion

- **Unemployment in GM is now slightly higher than that seen prior to the referendum result – increasing from 46,290 in June 2016 to 46,700 in September 2017 (latest).** However, unemployment as a proportion of the working age population remains unchanged compared to the same period last year in GM (2.6%) and in the United Kingdom (1.9%), though it has increased in the North West to 2.5% in September, from 2.3% in August.[20]
- Despite rising consumer prices (CPI index) the latest seasonally adjusted **IHS Markit Household Finance Index (HFI) showed a slight perceived easing of household financial pressures during October,** registering 43.8 in October, up from 42.8 in September.[21]

**Claimant count (JSA and out-of-work UC) in GM by age group**




**Monthly Unemployment by age of resident**

- As a proportion of working age residents, the **GM claimant rate for September 2017 (2.6%) remains above that of the North West (2.5%) and the UK (1.9%)**.
- **In September 2017, the total claimant count for the 16 to 24 age group increased by 0.7% (70).** However, for the 25 to 49 age group it decreased by 0.2% (65) and for the 50+ age group it decreased by 0.6% (65).
- **Since the referendum result in June 2016, the number of claimants aged 50+ has increased by 6.9%** (645), although the number of claimants aged 16 to 24 has decreased by 6.9% (730).

# Sources (1)

| Section | Sources |
|---|---|
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