

## Report to COUNCIL

# European Union Referendum Update

### Portfolio Holder:

Councillor Sean Fielding, Council Leader

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People and Place

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### Reason for Decision

Following the UK referendum on continuing membership of the EU held on 23<sup>rd</sup> June 2016, the implications of the “leave” result are now better understood.

This report provides an update following the publication of the latest GMCA Brexit Monitor report (see Appendix).

### Executive Summary

The report references the latest analysis from the GMCA Brexit Monitor. It reviews the timeline as the Brexit negotiations move into the final 6 months.

The Brexit Monitor reports that Gross Domestic Product has grown to 0.7% (although this is below the pre-Brexit predicted 2.1%).

The Prime Minister continues to iterate 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. However, the issue of the Irish border has become a key focal point, which if not resolved, is likely to lead to a “no-deal” exit.

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 per cent).

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Analysis cross-referencing national data with local intelligence suggests that in general, low-skilled jobs are likely to be most vulnerable to potential changes in migration as a result of the UK leaving the EU.

The GM Industrial Strategy and devolution will be key to unlocking the lack of productivity and increasing wages benefits. The Council 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.

### **Recommendations**

Council is asked to note the contents of the report.

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## 1.0 Background

- 1.1 Following the UK referendum on continuing membership of the EU held on 23rd June 2016, the implications of the “leave” result have been widely discussed and negotiations are now ongoing as to the type of deal the UK and EU will support.
- 1.2 Since the result, the Greater Manchester Combined Authority has been producing a monthly Brexit Monitor report, which is a monthly publication which examines the key political elements of the Brexit process, and reviews key economic indicators to understand if the process is having an impact on current economic conditions.
- 1.3 This report sets out a summary of the implications of leaving the EU on Oldham’s economy and Greater Manchester based on this report (see Appendix 1)

## 2. Brexit Monitor Key Headlines

- 2.1 The October report highlights the key issue of developing an agreed solution to the Irish Border/backstop and the time that the UK would remain in the customs unions as being time limited.
- 2.2 Following the October Summit, there is an expectation that there might be a further summit in November, with a final EU summit scheduled for the 13th December. The Prime Minister will present the final deal to MPs after this summit, with a legal requirement to declare if no deal is agreed by the 21st January 2019. The MPs will be required to vote on what should happen next. This could include requested and extension or even a second referendum. The EU27 will be required to vote through any deal and the last date for this is the 11-14<sup>th</sup> March 2019.
- 2.3 The primary issue/barrier remains the management of trade across the Irish border, with current negotiations focusing on how to implement a customs agreement which didn’t create a hard border between Ireland and Northern Ireland.
- 2.4 The Brexit Monitor reviews a series of key economic indicators with the aim to judge economic function and confidence. The latest data suggests that the economic function remains relatively unchallenged. For example service, construction and manufacturing sectors have demonstrated growth which contributed to the UK Gross Domestic Product growing by 0.7% in the 2nd Quarter, which is in line with the 2016 growth predictions by HM Treasury, but is below the 2.1% pre-Brexit prediction.

## 3.0 Implications/Next steps for Greater Manchester.

- 3.1 It is looking increasingly likely that a “no deal” Brexit is the most likely outcome. Although there is nearly a daily critique of this position. For example the latest report from the National Audit Office states that “If the government reaches a withdrawal agreement with the EU, industry and government will have until December 2020 to design and implement any new arrangements. This could involve significant work, such as the implementation of new customs arrangements, and the time available to meet these challenges is not long compared to many complex government programmes. However, the scale of this change will be nowhere near that required if the UK and the EU cannot reach an agreement.” The NAO state that could have a negative impact on national security, trade, tourism, migration, healthy communities and the environment.
- 3.2 The GMCA Brexit Monitor authors have set out to provide a more detailed Brexit report in November which will aim to understand the impact of the proposed deal(s) and GM’s readiness.

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## 4.0 What does Brexit mean for Oldham and Greater Manchester?

- 4.1 As stated in the December 2017 report, “Whilst the narrative on which areas are likely to lose (or lose out the most) depending on the level of dependency of key employment sectors on both trade with and immigration from the EU, history 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. 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).
- 4.2 It is important to remember that the differences in expected impacts are swamped by existing disparities. Households in those areas start off poorer and may experience considerably more difficulty in adjusting negative shocks. Whilst LSE analysis predicted the biggest impact in the short term in areas dependent on EU trade, they also identified median wage levels as the most significant risk factor on the impact of Brexit.”
- 4.3 This is the biggest risk to areas in Greater Manchester, Oldham and across the UK. That existing inequalities are exacerbated by shocks to trade, industry and employment as a result of exiting the EU.

## 5.0 The view from business

- 5.1 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
- 5.2 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 increases in raw materials.
- 5.3 The Greater Manchester Business Survey provides a current insight on the performance, outlook at expectation of businesses across the region. 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.
- 5.4 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 per cent). However, for some local companies (e.g. Diodes, Crane Payments), they trade extensively within and outside of the EU boundaries, which means they already operate across alternative trading strategies with confidence.

## 6.0 Greater Manchester priorities for Government

- 6.1 The UK’s departure from the EU creates risks and opportunities for delivering the priorities of authorities such as GMCA, as they look to raise productivity and improve services. Meeting these will depend on close partnership working between central Government and local authorities. Key points from this evidence are:
- **Greater Manchester supports the Government’s approach of developing a Local Industrial Strategy**, which will set out clear objectives to increase productivity and will aim to 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:

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- **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. This is linked to the devolution of the Adult Education Budget.
  - **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. This will include the roll out of 5G and Gigabit Broadband over the next 3 years.
  - **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.

## 7.0 **Options/Alternatives**

7.1 The report is for information.

## 8.0 **Preferred Option**

8.1 N/A. The report is for information.

## 9. **Consultation**

9.1 N/A

## 10 **Financial Implications**

10.1 N/a

## 11.0 **Legal Services Comments**

11.1 No Legal comments: Paul Entwistle, Director of Legal

## 12.0 **Co-operative Agenda**

12.1

## 13.0 **Human Resources Comments**

13.1 N/A

## 14.0 **Risk Assessments**

14.1 N/A

## 15.0 **IT Implications**

15.1 N/A

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16.0	<b>Property Implications</b>
16.1	N/A
17.0	<b>Procurement Implications</b>
17.1	N/A
18.0	<b>Environmental and Health &amp; Safety Implications</b>
18.1	N/A
19.0	<b>Equality, community cohesion and crime implications</b>
19.1	N/A
20.0	<b>Equality Impact Assessment Completed?</b>
20.1	No
21.0	<b>Key Decision</b>
21.1	No
22.0	<b>Key Decision Reference</b>
22.1	N/A
23.0	<b>Background Papers</b>
23.1	N/A
24.0	<b>Appendices</b>
	<ul style="list-style-type: none"><li>- GM Brexit Monitor October</li><li>- GM Brexit Monitor October appendix</li></ul>