

CLT Date: 22 February 2017

Item name: BREXIT - Update and CLT Steer

Lead officer and Corporate Director: Colin Monckton / Ian Curryer

Time estimate for CLT: 20mins

Purpose

- To recommend an approach to further action around Brexit.
- To update CLT on the latest corporate understanding of Brexit developments.
- To feedback on DLT discussions.

Recommendations

1. Outwardly, Nottingham City Council should:
 - a. Be an active observer of developments nationally and internationally.
 - b. Respond to consultations from Government and other key stakeholders such as the LGA.
 - c. Not take further action.
2. Within Nottingham City, the Council should:
 - a. Be clear that the Neighbourhood Regeneration Strategy/Area Capital Pot is the right response to issues raised in our communities.
 - b. Act on any further steer received from Councillors.
3. That CLT notes the updates below.

Rationale for Recommendations

- Active observer - The Brexit process is, and will continue to be, distinguished by uncertainty. At the international and national level, efforts that look to predict where the Council should best apply increasingly limited resources run a high risk of misdirected and unproductive activity. At the present time, a wide range of post-Brexit scenarios seem possible for the UK and the Nottingham economy. Notwithstanding the Prime Minister's January speech, recent events have demonstrated that much can happen during the two-year negotiation period that use of Article 50 will trigger. It remains possible that the model negotiated for Brexit will lie anywhere on the 'soft' to 'hard' Brexit spectrum, with a subsequently differing impact on the UK and Nottingham. Until the picture becomes more certain, we recommend actively observing national and international developments but not looking to predict and forecast them.
- Respond to consultations – Nottingham City Council has already responded to Brexit consultations from the LGA and the Core Cities. Consultations from key stakeholder organisations such as these, the Government's current consultation on its Brexit White Paper,¹ and any future relevant Government consultations, offer the Council the opportunity to leverage limited resource and ensure that our voice and the needs of Nottingham City are fully heard by decision makers in Westminster and Whitehall. The Council should continue to respond to consultations and argue in favour of the best outcomes for our residents. We should actively seek further opportunities to make our case where the trade-off between resources invested and the likely impact is beneficial.
- Neighbourhood Regeneration Strategy/Area Capital Pot – Locally, Nottingham's neighbourhoods, our communities and each of our residents will experience the vote for Brexit and the impacts of the UK leaving the EU itself differently. To some extent, the results of the

¹ "The UK's exit from and new partnership with the EU"

referendum may reveal underlying issues and highlight broader on-going local dynamics that run counter to the Council's aims as set out in the Nottingham Plan. Our Neighbourhood Regeneration efforts, supported by the Area Capital Pot approach, are the appropriate apparatus for identifying and responding to developments within our Neighbourhoods and these efforts should continue.

- Further steer from councillors – As Brexit progresses and the surrounding issues move from uncertainty and towards further clarity, Councillors will develop a keener view of how to best position Nottingham and the Council strategically for the new future that unfolds. Key developments should be proactively communicated to Councillors and where these lead to a consensus for further effort, appropriate plans should be developed and actions delivered.

Background

- In July, CLT discussed a SWOT analysis of the issues for Nottingham and the City Council stemming from the Brexit vote. See *Appendix A* for an updated SWOT analysis.

Latest Developments

- The Supreme Court ruled 8:3 that Government must seek Parliament's approval before triggering Article 50. The Government's short "European Union (Notification of Withdrawal) Bill" was backed by MPs on 1 February.
- The Prime Minister's speech of 17 January (see *Appendix B*) made clear that her Government:
 - will seek 'control' of immigration levels.
 - will not seek to remain a member of the single market and will seek only some form of associate status with the EU's customs union.
 - regards securing the status of EU and UK nationals living in the UK and EU respectively as a matter of priority.
 - will seek the "phased implementation" of negotiated agreements post-Brexit.
 - believes that "*no deal is better than a bad deal*".
- The Government has published a white paper on the Government's plans for Brexit.
- The City Council has responded to recent calls for information regarding Brexit from the Core Cities and the LGA.
- The Trump administration appears to be looking to implement its election manifesto in full. Globally, an "America First" approach may lead to increasing protectionism over time.

Facts

- Timings are subject to the Brexit Bill passing through Parliament. Following the passage of the Bill through the House of Commons on 1 February, the Government wants the House of Lords to approve the Bill by 7 March. Theresa May has set a deadline of 31 March to trigger Article 50. This will lead to two years of negotiations before the UK leaves the EU in 2019.
- Exports to the EU from UK Cities are considerable. Nottingham's² export sector is the 8th most reliant on EU exports, with 59% going to the EU. Exiting the EU's customs union without some form of a deal would see UK exports subject to the EU's common external tariff, plus custom checks at EU borders – including with the Republic of Ireland. To make up for a 10% decrease in exports to the EU, British cities would have to nearly double exports to China, or increase exports to the US by nearly a third. The UK will only be able to negotiate new trade deals if it is outside of the customs union. A summary of potential future trade models is presented at *Appendix C*.

² Nottingham, Gedling, Broxtowe, Erewash – source: Centre for Cities "Cities Outlook 2017".

- The pound has reduced in value by around 10-15%. This is starting to feed through as increased inflation with January's figures showing CPI increasing to 1.8%.
- The economy has not experienced the sort of slowdown that many predicted would occur following a vote for leave (GDP growth was 2.0% in 2016) – notwithstanding the fact that Article 50 has yet to be triggered.
- Economic forecasts by most leading economists continue to foresee a reduced rate of economic growth with increasingly negative impacts anticipated as the model for Brexit becomes 'harder'. The Bank of England has upgraded its prediction for growth in 2018 to 2.0%.
- The deficit is now less of a focus for the Government. 2016's Autumn Statement reduced the speed at which the Government was targeting deficit reduction so that a surplus is not now targeted for 2020.
- Financial service firms in the City have made clear that they are starting to develop plans to redeploy functions and staff to other EU financial hubs. The City of London says that the sector represented 11% of all Government tax receipts in the year to March 2015.
- Legislative changes will be limited initially. The proposed "Great Repeal Bill" will look to largely enshrine existing EU law into UK law directly, on the basis that any desirable changes can be made post-Brexit by Government at a later stage.
- Community cohesion statistics from Nottinghamshire Police indicate that over the period following the EU referendum, and in line with the National picture, there was an increase in reported hate crime in the City. The 63 crimes recorded in August represented a 34% increase on the same month in 2015. This declined with time and reports fell by around September. The Hate Crime Delivery group suggested that the rise in reported incidents probably represented an increase in offending levels but also an increased awareness and willingness to report it.³

DLT Discussions – Summary

Since July, Corporate Policy has sought feedback on the implications of Brexit for Nottingham and the Council via DLTs. In summary DLTs' views were:

Migration

- Reduced immigration is likely to lead to increased recruitment costs across many sectors.
- Fewer migrants may increase the need for re-skilling of the existing workforce.
- Changes to migration levels will impact on housing number assumptions.
- Significant numbers of construction companies are increasingly reliant upon immigration as the sector gears up for HS2.
- To the extent that Brexit negotiations may result in lower net migration, certain pressures on some services may reduce. This possibility should be balanced with the likelihood that a reduction in net migration will lead to less money to pay for the same key services.

Business & Investment

³ Reported hate crime covers a range of offences such as graffiti verbal abuse and assault.

- The Government has guaranteed EU ESIF funding to 2020. Successor regional investment arrangements have yet to be developed. NCC and partner organisations may be impacted by loss of EU funds e.g. PATRA.
- The London property market is cooling – largely following reduced foreign investment. This may benefit Nottingham via reduced costs for skills and materials as the construction sector sees reduced demand.
- Public sector may need to invest to grow / maintain delivery e.g. international offices? Free Trade Zone?
- There is an opportunity for NCC to invest in commercial property over the long term.
- Local priority development schemes do not appear to have been negatively impacted by the vote for Brexit.
- Brexit will have diverse impacts on a business-by-business basis. It is hard to generalise over entire sectors.

Public Sector

- NCC saw rapid increases in the cost of e.g. software due to the fall in the value of the Pound.
- Brexit may lead to more opportunities for alternative service delivery e.g. Robin Hood Energy.
- Other policy challenges continue to have significant impacts e.g. welfare reductions.
- There may be opportunities post-Brexit around e.g. state aid reform and a further push towards local procurement and hiring depending on changes to legislation.
- Legislative changes could be both a risk and an opportunity for Nottingham, e.g. around the EU Waste Directive.
- More people with 'no recourse to public funds' may present.

Community cohesion

- Community cohesion is a growing issue for schools.
- Multi-agency approaches to reducing extremism amongst various communities including the hard right are developing.
- Seeing the vote for Brexit solely through the prism of racism or xenophobia may enhance community division and not reduce it.
- Health inequalities are a growing issue.
- Numbers of homeless may rise.

We have received some useful information from Health sector partners – summarised at *Appendix D*.

BREXIT – SWOT Analysis

STRENGTHS

- As the value of sterling falls (against the € and the \$) UK exports become more competitive (cost less) which HAS provided a stimulus to some export-orientated sectors, at least in the short/medium term.
- In real terms, asset prices have fallen from the perspective of overseas investors which can stimulate investment/asset purchases. Longer-term uncertainties and risks associated with Brexit will mitigate against this trend/opportunity however.
- Interest rates have fallen and so the cost of borrowing has fallen and this should provide a spur to investment. However, the problem facing investors and businesses (new and existing) is likely to be the (limited) availability of finance due to an increased in perceived risk by lenders.
- The numbers of UK students studying in EU countries is likely to fall which will boost domestic demand for university places and may improve UK graduate retention rates.
- Nottingham has strong international links with China (via the City of Ningbo) and with India that are likely to endure.

WEAKNESSES

- Brexit may shrink the UK market for goods and services – as an EU member, the UK is part of the single market in which no tariffs are applied to imports and exports between the member states. Since 50% of the UK's exports go to EU countries, this has given UK a say over the trading rules and regulations. Leaving the EU will contribute to shrinking the UK market (economy) and reduce its negotiating power as it will leave its powerful seat at the EU councillors' table.
- Foreign inward investment into the region / UK is likely to be reduced or at least decisions deferred, but we have no local intelligence to suggest this has been the case in a local context. In addition, we should expect to see some existing overseas companies with a Nottingham / UK base scaling down or even relocating their UK operations to elsewhere within the EU – the financial and business services sector is a likely candidate. That will also draw out some professional services companies who serve these sectors (eg consultants, IT specialists etc). Again, we have not had any announcements by local companies to this effect, as yet.
- Uncertainty about employment and (especially) falling house prices will lead to reduced consumer spending, we know this from previous downturns. Which of course compounds problems associated with reduced investment.
- Reduced innovation due to less freedom of movement and loss of EU grants to universities in particular. Under the EU umbrella, both academic and industry talent were able to move freely between EU countries, which has had a positive impact on the R&D and therefore innovation in UK. This will lower productivity growth and competitiveness.
- Fall in (Council) tax revenues – since 50% of UK trade is exported to EU countries, Brexit will have a significant impact on the tax revenues as they will shrink unless other markets are opened or the UK keeps its position as a member in the open trade agreement, the European Economic Area.
- Finding talented (highly skilled and motivated) workers – the UK is one of the countries who benefit significantly from the free movement of labour in the EU. Leaving the EU will shrink the number of candidates which companies can choose from. The lower skill labour market will also be impacted. Some Nottingham companies employ a workforce that is e.g. 40% Polish.

OPPORTUNITIES

- Brexit may reduce (or at least ease) trade and other restrictions on SMEs – many did not (directly) receive many benefits from councillorship of the EU, yet they faced restrictions related to the trade regulations between EU member countries. By exiting the EU, SMEs will be able to release some of these regulations which can lead to positive impact on this important part of the economy.
- Cost-savings may be considerable – as a member in the EU, the UK contributed with £13bn for the EU and received £4.5bn worth spending. This means that the net contribution is £8.5bn, which is 7% of the government spending on the NHS each year according to the Full Fact. These figures are of course very contentious and open to different interpretation.
- The UK economy doesn't tank / nose-dive because of our deep and long-standing economic and trade ties with countries within and outside the EU.
- UK exporters identify and access other (non-EU) overseas markets which enables them to offset lost / lower sales to the EU.
- The UK keeps its position as a member in the open trade agreement, the European Economic Area.
- A renewed emphasis on local government reorganisation. More radical and quicker transformation. Possibly even renewed impetus may be given to devolution (this will present threats as well as opportunities of course).
- Our negotiations with the EU over a new trade deal go well and (some sectors) at least see a net benefit given that they may face fewer regulations perhaps.
- Non-EU immigration continues to rise which offsets falls in EU migration and may therefore reduce skills gaps / shortages as one set of workers replace another.
- There are more job opportunities available to UK citizens, including those out of work, which may help to reduce unemployment (albeit may rise due to negative factors associated with Brexit – we suspect the net effect will be negative – unemployment will rise). A smaller potential workforce may lead to an increased demand for labour that may in turn lead to higher wages in e.g. the food industry.
- UK trade negotiations with the USA, Japan and others go well so we do get a compensating uplift in trade from non-EU markets.
- Core Cities Group work more closely and effectively together. Likewise, Nottingham forms stronger partnerships with neighbouring cities, especially Derby. Possibly Leicester, perhaps Sheffield.
- The Midlands Engine initiative gathers momentum.
- New regional development funds designed for UK objectives with possibly less bureaucracy.

THREATS

- This has never happened before. That is the reason there is so much uncertainty. There is no road map, no precedent, no lessons learnt from previous Brexit experience. We're in completely new territory.
- Uncertainty may (already is) lead to the postponement or deferment, or outright cancellation, of domestic and overseas investment plans/projects – the property sector is already taking a hit with obvious implications for construction. Banks and financial institutions likewise.
- The trade negotiations become acrimonious, protracted and eventually the UK becomes significantly worse off because we are unable to secure a 'good deal'.
- Given that aggregate demand in the economy will fall (due to falling consumption and investment) and that the scope to offset this through increased Government spending is limited (given significant budget deficit and limited scope to raise taxes), and that further cuts in public spending seem likely – all of this points in the direction of a (possibly rapid) slowdown in economic growth which may well turn into a recession (a prolonged downturn in output e.g. months) and possibly even a depression (negative growth over a year or more).

- Loss of jobs associated with trade between the UK / Nottingham and the EU. Knock-on (multiplier) effects through supply chains to exporters / importers resulting in further job losses elsewhere in the economy.
- Reduced inward investment – financial investment and foreign companies relocating here. Outward investment.
- The deferment, scaling down or outright cancellation of major and very expensive infrastructure projects such as HS2 (Eastern route).
- UK trade negotiations with the USA, Japan and others drag on so we don't get a compensating uplift in trade from non-EU markets.
- A renewed emphasis on local government reorganisation. More radical and quicker transformation. Possibly even renewed impetus may be given to devolution (this will present opportunities as well as threats of course).
- Loss of EU funding used to support local economic and social regeneration. Knock on effects for the local authority and partner organisations.
- Reduced income and networking/collaboration at an EU level by universities will affect research, investment and spin-outs. Sectors such as life/bio-sciences might be affected (eg fewer start-ups and joint ventures).
- A significant loss of economic momentum (demand) across the EU, outside of the UK i.e. less demand for UK exports.

Theresa May's Speech – 12 Point Plan for Brexit

17 Jan 2017

1. Providing certainty and clarity – We will provide certainty wherever we can as we approach the negotiations.

2. Taking control of our own laws – We will take control of our own statute book and bring an end to the jurisdiction of the Court of Justice of the European Union in the UK.

3. Strengthening the Union – We will secure a deal that works for the entire UK – for Scotland, Wales, Northern Ireland and all parts of England. We remain fully committed to the Belfast Agreement and its successors.

4. Protecting our strong and historic ties with Ireland and maintaining the Common Travel Area – We will work to deliver a practical solution that allows for the maintenance of the Common Travel Area, whilst protecting the integrity of our immigration system and which protects our strong ties with Ireland.

5. Controlling immigration – We will have control over the number of EU nationals coming to the UK.

6. Securing rights for EU nationals in the UK, and UK nationals in the EU – We want to secure the status of EU citizens who are already living in the UK, and that of UK nationals in other Member States, as early as we can.

7. Protecting workers' rights – We will protect and enhance existing workers' rights.

8. Ensuring free trade with European markets – We will forge a new strategic partnership with the EU, including a wide reaching, bold and ambitious free trade agreement, and will seek a mutually beneficial new customs agreement with the EU.

9. Securing new trade agreements with other countries – We will forge ambitious free trade relationships across the world.

10. Ensuring the UK remains the best place for science and innovation – We will remain at the vanguard of science and innovation and will seek continued close collaboration with our European partners.

11. Cooperating in the fight against crime and terrorism – We will continue to work with the EU to preserve European security, to fight terrorism, and to uphold justice across Europe.

12. Delivering a smooth, orderly exit from the EU – We will seek a phased process of implementation, in which both the UK and the EU institutions and the remaining EU Member States prepare for the new arrangements that will exist between us.

Table 3.6. Overview of potential economic and trade policy scenarios

Scenario	Features	Obligations and issues
EU	<ul style="list-style-type: none"> - No tariffs on goods - No customs costs - Full access to single market including financial services - Shape EU rules - 35 FTAs and more planned 	<ul style="list-style-type: none"> - Meet EU regulation - Budget contribution - Common tariff on imports - Free movement of people
European Economic Area (EEA)	<ul style="list-style-type: none"> - Limited tariffs on goods - Near-full access to single market including financial services 	<ul style="list-style-type: none"> - Agriculture and fisheries face tariffs - Customs costs - EU rules with no influence
Norway	<ul style="list-style-type: none"> - Agree trade deals as part of EFTA - 26 EFTA FTAs and more planned 	<ul style="list-style-type: none"> - Free movement of people - Budget contribution - No access to 35 EU FTAs
Trade Agreement I	<ul style="list-style-type: none"> - Limited tariffs on goods - Some sectoral access to single market - Limited budget contribution 	<ul style="list-style-type: none"> - Agriculture and fisheries face tariffs - Customs costs - EU rules in sectors with access
Switzerland (bilateral deal)	<ul style="list-style-type: none"> - Agree trade deals as part of EFTA - 26 EFTA FTAs and more planned 	<ul style="list-style-type: none"> - Free movement of people - Reduced access to single market - No access to 35 EU FTAs
Trade Agreement II	<ul style="list-style-type: none"> - Limited tariffs on goods - No customs costs (see obligations) - No budget contribution 	<ul style="list-style-type: none"> - No access to 35 EU/EFTA FTAs - Cannot make trade agreements - EU common tariff on imports
Turkey (customs union)		<ul style="list-style-type: none"> - Adopt many EU rules - No special access to single market
Trade Agreement III	<ul style="list-style-type: none"> - Limited tariffs on goods - Potential to agree sector-by-sector access to EU single market 	<ul style="list-style-type: none"> - No access to 35 EU/EFTA FTAs - Customs costs on EU trade - No special access to single market
Canada (FTA)	<ul style="list-style-type: none"> - Can agree other trade deals - Can set own import tariffs 	
WTO	<ul style="list-style-type: none"> - Free from rules, including free movement - Can agree other trade deals - Can set import tariffs - Could cut import tariffs and customs checks (unilateral free trade) 	<ul style="list-style-type: none"> - Face EU external tariffs - Face non-EU external tariffs - No special access to single market - No influence over rules

Note: This table necessarily simplifies the issues and bullet-points are not representative of benefits

The Association of UK University Hospitals (AUKUH) submission to the Brexit inquiry Summary

- The Association of UK University Hospitals (AUKUH) represents the 47 leading research and teaching hospitals across the UK.
- Prioritising the NHS workforce and UK health research capacity in the forthcoming Brexit negotiations is essential
- AUKUH calls on the UK Government to grant the NHS a period of amnesty from any policies implemented, to ease the burden of the changes in the short-term and to give the sector time to develop contingency plans.
- There are roughly 144,000 EU health and social care workers in the UK.
- Around 10% of our NHS doctors and 5% of nurses are EU nationals. In some AUKUH member trusts, as many as 20% of staff are EU nationals.
- AUKUH urges the UK Government to offer the right to remain to all workers (and their families) in professions listed on the MAC's shortage occupation list, which includes nurses, medical radiographers, and medical practitioners in certain specialties.
- We also recommend that the shortage occupation list is revisited to ensure that all health and social care professions that are reliant on their EU staff to function properly are included in the list.
- There is a great deal of anecdotal evidence indicating that these staff are uncertain about their welcome in this country. Assertions about making the UK "self-sufficient" lead to these highly-valued staff feeling like second-rate alternatives; and terms such as "Hard-Brexit" suggests that the UK is becoming a closed and unwelcoming country. We urge the UK Government to question the language being used and move to a more welcoming rhetoric.
- On 27 October UCAS announced a 16% reduction in the number of applications from EU nationals for places at UK medical schools.
- The UK is the largest beneficiary of EU health research funding in Europe, with €760m in EU funding having supported UK health research between 2007 and 2013.
- Any loss of EU funds must be offset by other means of funding and new mechanisms must be put in place to facilitate collaboration between the UK and EU/EEA countries.
- There is anecdotal evidence of UK researchers being excluded from EU funding applications because of uncertainty around Brexit.
- It is imperative that sufficient regulatory convergence is maintained so that the UK can continue to participate in multi-national clinical trials.