

Meeting	Gloucestershire Economic Growth Joint Committee
Report author	Nigel Riglar – Commissioning Director: Communities & Infrastructure, Gloucestershire County Council
Background documents	<p>Reports including:</p> <p>Dhingra et al. 2017. The impact of Brexit on foreign invest in the UK. Paper Brexit T03. http://cep.lse.ac.uk/pubs/download/brexit03.pdf</p> <p>ONS, UK foreign direct investment, trends and analysis, January 2018. https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/article/s/ukforeigndirectinvestmenttrendsandanalysis/january2018#uk-foreign-direct-investment-with-the-european-union</p> <p>Department for International Trade Update papers</p> <p>Gloucestershire SME Export Potential. A report by Shared Intelligence</p> <p>LGA response, Migration Advisory Committee call for evidence</p> <p>https://www.local.gov.uk/parliament/briefings-and-responses/response-migration-advisory-committee-call-evidence-contribution</p>
Location/Contact for inspection of background documents	As listed above or on request from the report authors.
Main consultees	There have been no formal consultees yet for this subject.
Planned dates	N/A
Purpose of report	To update and enable the GEGJC to understand the position relating to Brexit and to receive a position paper to advise on potential 'lines of enquiry' and particular issues of relevance to Gloucestershire.
Recommendations	<p>The Joint Committee resolves to:</p> <ol style="list-style-type: none"> 1. Note the content of the report and consider the 'lines of enquiry'.
Reasons for recommendations	To consider the action which needs to be taken to prepare for a post-Brexit scenario.
Resource Implications	There are no direct resource implications associated with this decision.

Background

Joint Committee expressed an interest in understanding the latest position relating to Brexit and the possible implications for Gloucestershire. This paper outlines the current position and some 'lines of enquiry' to consider for the future, once the Brexit position is more formally understood nationally.

At present, there remain three main considerations that create divergences in policy and a challenge in delivering a final Brexit position. These are summarised as:

- the length of the transition period and the extent to which the UK is tied to EU rules during that period;
- the extent of alignment with EU regulation post-Brexit;
- the customs agreement/customs arrangement deal and the implications of that for trading agreements with other countries.

This could lead to two scenarios commonly known as hard and soft Brexit. In these cases, there are considerations that must be made including:

- Hard Brexit: the UK and the EU will not be part of a free trade agreement, which means they will charge each other the tariffs that each charge to countries in the World Trade Organisation (WTO). Goods passing the EU-UK border will be subject to this cost. We might also assume that there will be other barriers to international trade (non-tariff barriers) such as custom checks or border controls.
- Soft Brexit: tariffs could remain at zero if the UK joins a free trade area with the EU, while other non-tariff barriers are likely to increase.

Aside from this and since the announcement of the UK's decision to leave the EU, there has been non-trade related uncertainty over many key policies and positions such as citizenship, appetite for inward investment, non-domestic workforce as well as key EUSIF funding programmes. The Local Government Association has an on-going consultation on implications of Brexit and the emerging UK Shared Prosperity Fund (UKSPF) which is understood to be the successor on a domestic level to the European Union Structural and Infrastructure Funds (EUSIF).

Detail

The government's ability to make concrete decisions and position statements about national policy is hindered until negotiations are further advanced. It is therefore not possible to be clear about what the actual impact will be in terms of either new opportunities or challenges and what action the council and its partners can take to enable businesses in Gloucestershire to increase their productivity and profitability.

There are a number of areas that should be explored once more detailed policy direction has been set. This could form the basis of a review, understanding the position from local employers and their employees as well as the County and Districts own position relating to finances and workforce. These areas include:

- Considering the current **EU funding** position and any opportunity to review the County's joint investments;

- Understanding the **business base** of Gloucestershire and how sectors may be impacted;
- Reviewing the **inward investment offer** in the light of potential changes in trading arrangements;
- Opportunities for exploiting new **export markets** as a result of new trade agreements;
- The need to review **skills provision** to address the workforce and skills requirements of local businesses;
- Concerns expressed by businesses relating to their **workforce** which rely on staff from other European Countries in a variety of sectors;
- Concerns expressed by businesses e.g. in the manufacturing sector that are part of complex **supply chains** that involve the frequent movement of components between different European countries.

Funding

Gloucestershire needs to consider what might replace the European Structural Investment Fund (ESIF). This means looking at the current round of European Regional Development Funds and the ESIF funding to understand any gaps that might appear if EU Funding is not replaced. This could involve reviewing remaining funding allocations with the LEP, understanding the balance and its potential, and considering where there is any scope to re-invest. This should also be part of a wider conversation relating to devolution, business rates reform and pooling finance, as with the current business rates pool, to broaden the tax base.

Economy

Much of the evidence base created so far by policy think tanks considers a number of different measures setting out relative impact of localities. To understand the impact of Brexit on the Gloucestershire economy requires consideration of the following questions: what sectors are growing or are the largest, what is the dependency for these sectors on EU-workers, what sectors could potentially shrink (e.g. through automation), and how does this compare to the rest of the UK?

In considering these questions, a snapshot of research highlights that:

- Analysis from Localis¹ considers three structural labour market risks: migrant labour supply, automation of manual jobs and skills base. This measure ranks Gloucestershire 12th reflecting low exposure across the three measures.
- Analysis from the Centre for Cities² report on the impact of Brexit on GVA (output), put Gloucester 30th out of 70 in a list of UK cities with occupations most likely to shrink; and ranks Gloucester as 20th out of 62 UK cities based (with 1 being the hardest hit by hard Brexit and 62 being the least hit).
- In Gloucester the public sector is a very large employer, there is a very low proportion of private to public sector jobs which may reduce the overall impact.
- The biggest contributors to Gloucestershire's GVA in 2016 were public services (including defence, education and health) followed by wholesale, transport and accommodation, and then manufacturing.

¹ http://www.localis.org.uk/wp-content/uploads/2017/11/012_Localis_InPlaceofWork_AWK_REV3.pdf

² <http://www.centreforcities.org/publication/cities-outlook-2018/>

- GCHQ, as a major employer already in the area, is expected to grow in the next few years as investment takes place.

The current review of Gloucestershire's data intelligence is taking place and will align with any future activity relating to Brexit.

Investment and Trade

Foreign Direct Invest (FDI) raises productivity and wages – through multinational firms bringing technical knowledge to the UK and improving the output of domestic firms e.g. through tougher competition. Evidence shows³ that being part of the EU is associated with positive FDI flows, which is in part due to the easy access the EU single market. At this point in time, it is not known how Brexit will affect FDI but the overall considerations should consider that:

- The EU is the region that the UK has the greatest inward and outward foreign direct investment (FDI) relationships⁴.
- In 2016-17 there were 101 new projects from FDI and 3,402 new jobs created in the South-West of England⁵.
- By sector the largest number of jobs from FDI in the UK were in advanced engineering, automotive, business and consumer services, financial services, and software and computer services.
- In 2016 5,810 businesses actively exported in the South West region, and an estimated 709 active exporters within the GFirst LEP region. Shared Intelligence estimated that 678 exported to non-EU countries (United States, Australia and Switzerland the top three destinations) and 177 to EU countries.⁶

Understanding the overall impact as negotiations proceed will be helpful to ensure what action needs to be taken in the long-term to support trade and investment.

Skills and workforce

All the evidence (although speculative) points to a post-Brexit poorer performing national economy. High numbers of non-UK EU nationals work in key services such as social care, construction, and local industries such as tourism⁷. Even without Brexit and the skills drain that is likely to occur there are too few high skilled workers and too many low and medium-skilled workers⁸.

The public sector as a major employer in the County and should therefore consider its own workforce and ability to retain its staff, while ensuring replacement demand is matched by any immigration challenges. A review of its current workforce and the implications of any changes could be considered in the future.

³ Dhingra et al. 2017. The impact of Brexit on foreign invest in the UK. Paper Brexit T03. <http://cep.lse.ac.uk/pubs/download/brexit03.pdf>

⁴ONS, UK foreign direct investment, trends and analysis, January 2018.

<https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/ukforeigndirectinvestmenttrendsandanalysis/january2018#uk-foreign-direct-investment-with-the-european-union>

⁵ Department for International Trade.

⁶ Gloucestershire SME Export Potential. A report by Shared Intelligence 2017.

⁷ LGA response, Migration Advisory Committee call for evidence <https://www.local.gov.uk/parliament/briefings-and-responses/response-migration-advisory-committee-call-evidence-contribution>

⁸ Ibid.

Gloucestershire also needs to be prepared to work with the government to create a skills system that works for local people and businesses. If Brexit does lead to major job losses in the future, Gloucestershire needs to look at ways to mitigate losses and improve job prospects for unemployed residents as it is already through its skills strategy.

Next steps

As outlined in the body of this report, there is limited action that can be taken in the short-term and until the outcome of the Brexit negotiations are fully understood.

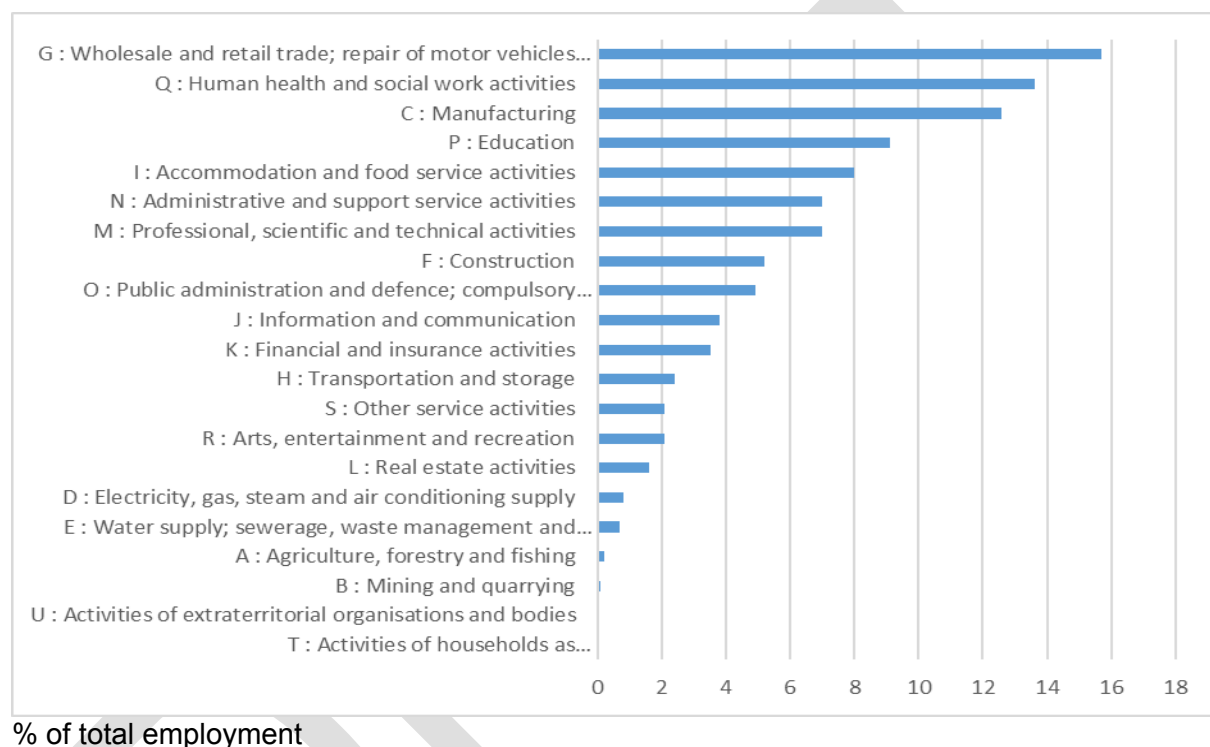
Notwithstanding this, the locality will continue to:

- review the evidence base of the County – getting to know the business base, its specialisms and challenges with regard to investment, workforce and skills;
- ensure GFirst LEP engages with its sector groups to understand impact;
- position itself with any legacy EU funding opportunities;
- align future business and skills surveys with latest employer feedback.

Appendix 1

Wholesale and retail trade is the largest sector in the Gloucestershire economy with 45,000 jobs in 2016. However, this figure has remained stable since 2009. The second largest industry in 2016 – manufacturing – has grown by 6% (+2,000 jobs) between 2015 and 2016.

Figure 1: Industrial sections in Gloucestershire, 2016

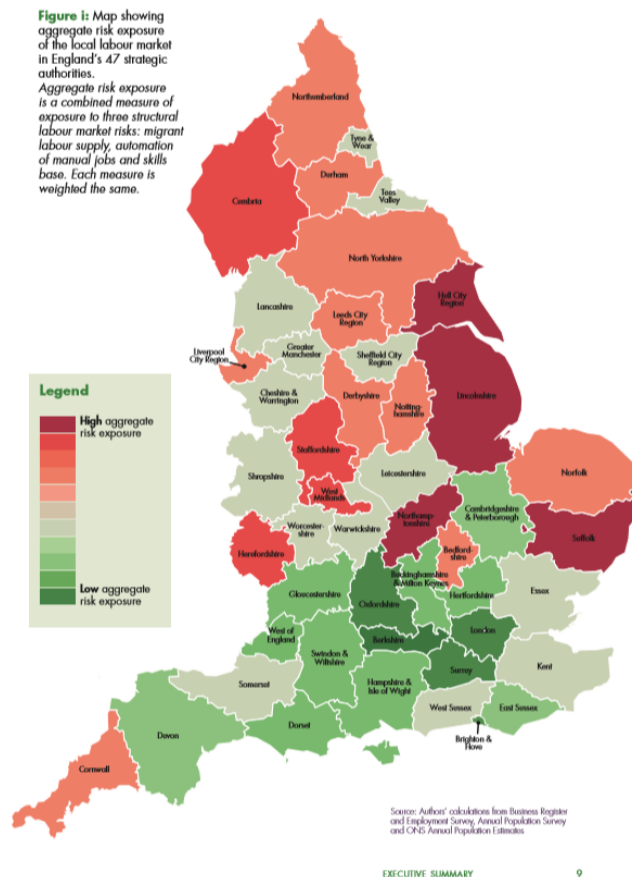


Over the 2015-2016 period Accommodation and Food Services has grown by 10% (+2,000 jobs). Experimental statistics from the ONS for the 2015-2016 period shows that this sector was the second largest employer of EU nationals. Continued growth in this sector might be important to mitigate any potential shortage of workers in this sector. Further analysis is required to see how the size of these sectors compare to the rest of the UK and to see who the major trading partners are for Gloucestershire and the South-West for each individual industry.

Evidence base

There are a number of reports published in the recent past which consider different measurements of impact. Localis considers the Impact of Brexit on the labour market, considering migrant labour supply, automation of manual jobs and skills base as its key measures while Centre for Cities and Nesta consider impact of Brexit on output (GVA, Brexit and trade barriers). These particular reports also consider different geographies – urban densities vs. strategic authorities. It is key at this juncture to look at a broad base to consider the areas which may require focus at a later date.

Localis map of aggregate risk exposure of the country's 47 Strategic Authorities. This places Gloucestershire at a low risk level.



EXECUTIVE SUMMARY

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Recent evidence from NESTA (built on by the Centre for Cities) looks at the jobs which are most at risk of shrinking be that through automation, globalisation or Brexit. The results for the UK below show that over half (53.1%) of the minor occupation groups are linked strongly to administrative and customer service work.

Jobs at risk of shrinking

Minor occupation group at risk (%)

Share of all jobs

Sales assistants and retail cashiers	19.5
Other administrative occupations	11.0
Customer service occupations	9.0
Administrative occupations: finance	7.0
Elementary storage occupations	6.6

Source: Bakhshi et al. 2017, Future of Skills: Employment in 2030, London: Nesta and Pearson; ONS 2017, Business Register of Employment Survey; Census 2011.

Impact of Brexit on Local Authorities (% change Gross Valued Added)

Local authority	Soft Brexit	Hard Brexit
Hardest hit: City of London	-1.9	-4.3
Gloucester	-1.4	-2.5
Cheltenham	-1.2	-2.4
Tewkesbury	-1.2	-2.1
Cotswold	-1.1	-2.1
Forest of Dean	-0.8	-1.4
Least hit: Hounslow	-0.2	-0.5

Source: Dhingra et al. 2017, The Local Economic Effects of Brexit, Paper No' CEPBREXIT10, LSE.

Finally, research by the Centre for Economic Performance at the London School of Economics looks at the local impacts of the increases in trade barriers associated with Brexit, focusing on soft and hard Brexit. The primary urban area of Gloucester features as the 20th out of 62 'hardest hit' location by the impact of Brexit on economic output (measured by Gross Value Added and ranked by hard Brexit).

The variation in LA level shocks is considerably higher under hard Brexit. Gloucester and Cheltenham are in the top quartile of hardest hit locations from a hard Brexit, while Tewkesbury and Cotswold are in the second to bottom quartile, and Forest of Dean is in the least hit quartile based on projected change in GVA. The research suggests this is because some local authorities are particularly specialised in sectors that are expected to be badly hit by hard Brexit.