Brexit's Impact on Staffordshire and Stoke-on-Trent

As the dust settles after the UK voted to leave the European Union, it is still too early to detail the opportunities and challenges which Brexit will bring. However, with a new government formed and the relative quiet of the summer period, we have begun to analyse our position as a county and city.

We have some signals surrounding the new government's intentions concerning Brexit and other policy directions; undoubtedly, these will become much clearer in the autumn through party conferences and Philip Hammond's first Autumn Statement. We know that the government is committed to triggering Article 50; we know that the budget surplus ambition may be on the table; we know that the government is committed to matching EU infrastructure, agriculture and university research funding until 2020; we have seen some commitments to a social justice and equalities focus; and we have heard various things about continuing devolution. As yet, however, we don't understand the full consequences, and when changes will happen.

Many other briefings have been produced around Brexit, which give a sense of the overall issues. Our intention here is to provide a personal take on the view from Staffordshire for the purposes of discussion, starting from our uniquely connected position in the heart of the country – a peri-urban county with the core city of Stoke-on-Trent. There are 2 aspects to this note: an analysis of Brexit's impact on Staffordshire as a place, and a consideration of its impact on public services here. We have pulled these thoughts together having spoken to a broad range of people across the county and nationally. The only sure thing in this paper is that it will contain deductions which turn out to be wrong, but the aspiration is that it is more right than doing nothing; it is offered for your thoughts and comments on that basis.

Economy

Short Term

In Staffordshire, we are largely seeing business as usual so far; in the short term our economic outlook is good, and the recent prediction that the UK would avoid recession feels right. The LEP area has very low unemployment, quick land sales and companies continuing to move into the area. While we now see some businesses and developers hesitating, and some are hoping they see an opportunity to renegotiate previously-agreed deals, a third group of companies are continuing to invest and expand in Staffordshire; we have recently seen the first major foreign company commit to further investment in Staffordshire post the Referendum.

In the short term, we also have government's confirmation by letter from David Higgins on 22 July that HS2 will continue as planned including the Handsacre Junction (though we can also assume the new government will look hard at value for money from all planned major investments and may explore other changes to HS2 as well as perhaps the M6/M54 North Link). We also know in the short term that EU funding programmes are formally paused, despite the commitment to continue until 2020, and SSLEP has already produced a paper exploring this, as explored later in this note.

In short, we know for now that our economy as it stands has not been significantly affected by Brexit, and we have had some certainties from business and government. Business continues as usual and we continue to support it.

Medium Term Economic Impacts

Assuming that the UK can negotiate a good trade deal with Europe relatively quickly, which may or may not include joining the Single Market, there should not be a significant impact on our economy in the medium term. The vast majority of our businesses are small, and do not rely heavily on exports, while some of our businesses are world players; the key is how much value is added in the UK. These exporters will benefit from a weaker pound in the short term, potentially offset by any reliance on imported supply – though several of our major local exporters, such as JCB and JLR, rely on largely British supply chains.

This is an opportunity for our local economy. The EU is no longer our main destination for exports[1]. Our relationships and work such as the NGDZ and Midlands Engine to link local businesses with new markets will play a major role in our local economy seizing on growth elsewhere in the world. Developing markets will return as a national skill set, every bit as much as negotiating trade deals – UKTI has a bright future.

Our local focus on advanced manufacturing will remain the right direction post Brexit. Major local employers such as JCB and JLR will still need engineers, and the country will benefit from advanced manufacturing capability more than ever. Nationally, the government will need to consider to what extent it supports sectors which have great significance to us, such as agriculture (though we can assume State Aid rules will remain a string attached to any international trade deals we strike). Our voice needs to be heard throughout the debate.

Related to this is the extent of workforce reliance on EU labour – for us, the sectors of agriculture, adult social care & health, and tourism & hospitality could be particular vulnerabilities if our EU workforce is reduced or lost. This will be a national issue; we can probably assume some kind of national points-based migration policy akin to Australia's. With almost full employment in the LEP area, potential loss of lower-paid

[1] About 44% of UK exports in goods and services went to other countries in the EU in 2015, around £220 billion out of £510 billion total exports. The proportion is declining further due to major growth in countries elsewhere compared to a relatively static market within the EU. https://fullfact.org/europe/uk-eu-trade/

workforce has implications for the local economy – two possible responses, automation or more enticing higher wages, both mean higher costs for local employers. Business support programmes such as our local Growth Hub are likely to continue; BIS (as was) is a partner in our Growth Hub contract, and government are interested stakeholders here. The same may be true of employment sites supported by Regional Development Fund; the government will probably want to continue with this, so will have to come up with their own frameworks for how this functions. For now, an option could be to leave the framework as it currently stands, making this a 2020 issue. Finally, we have received a reply to our letter on the subject of Growth Deal 3, suggesting that it continues as before. The UK pot is currently £1.8bn; we will be watching the Autumn Statement closely for any signs of change.

Wider Economic Impacts

Overall nationally, we have a strong economy which is well set up to attract and support business; our corporate tax rate is enticing, our employment laws are flexible, infrastructure investment is appropriate and companies find the UK a good place to do business. Any slowing of investment is unlikely to mirror that of the financial crisis, but it remains likely this will be an impact nationally, with businesses watching the outcome of trade negotiations and procurement slowing while decisions are made about regulation. Brexit's impact on retail and sales, meanwhile, appears to have been limited so far – new car registrations for example, a bellwether of the economy, dipped through June and July. However, the ONS in September found "little impact of the Brexit vote on the UK economy so far", HMRC data shows a stable house buying market, and IHS Markit's August survey showed manufacturing bouncing back on the month before. It is still fair, however, to consider the impact of even a slower growth rate on government finances and policy in the interim, and what that means for us.

If we subscribe to the explanation that the referendum result was a response by those left behind by economic policy's shift from manufacturing to financial services, then a new Industrial Strategy will be a hugely significant feature of the post Brexit economic landscape and geographical balance. The BIS Select Committee have already launched an enquiry to press government on what form this will take, which sits alongside a range of other Select Committee enquiries to gauge Brexit's impact across the board. This is a debate that we will need to follow closely. The Bank of England has made what was for some a pre-emptive strike on monetary policy, with reduced interest rates and the return of quantitative easing. But it is government growth policy and action which will ensure the economy remains sound in the longer term, and we are a key part – this is the right time to fundamentally redraw the relationship between national and local economic growth support, and we need to seize the opportunity.

Access to European Funding

A short study of the sectors and relative volumes of European and UK Government funding is instructive in understanding which sectors will be most affected by Brexit. The EU spends around £5.5Bn in the UK, compared with central government funding of £611Bn and local government funding of £172Bn; the EU spend is concentrated in agriculture, including fisheries (63%), growth and jobs, including university research (23%) and regional policy (10%); the remaining 4 % is spent on citizenship and support activities. The Staffordshire “slice” of the UK public sector spend is £7.2Bn – our job is to ensure that it is spent wisely to achieve beneficial outcomes for our residents, whose money it, after all, is.

We now know that structural and investment funds projects signed with funding agreements before the Autumn Statement, and Horizon research funding granted before we leave the EU, will be guaranteed by the Treasury after we leave. SSLEP’s insight offers additional detail on how many projects are at different stages and potential impacts on them from Brexit. At this stage we understand that:

- All structural and investment fund projects, including agri-environment schemes, signed “in the normal course of business” before the Autumn Statement will be fully funded, even when these projects continue beyond the UK’s departure from the EU. We read ‘normal course’ to mean ‘reflective of our ESIF and SEP strategies, and subject to usual due diligence’. Beyond 2020, the only indication is that the Chief Secretary to the Treasury has spoken of a “national interest” test for future funding.
- The Treasury will also put in place arrangements for assessing whether to guarantee funding for specific structural and investment fund projects that might be signed after the Autumn Statement, but while we remain a member of the EU. Further details will be provided ahead of the Autumn Statement;
- Where UK organisations bid directly to the European Commission on a competitive basis for EU funding projects while we are still a member of the EU, for example universities participating in Horizon 2020, the Treasury will underwrite the payments of such awards, even when specific projects continue beyond the UK’s departure from the EU;
- The current level of agricultural funding under CAP Pillar 1 will be upheld until 2020, as part of the transition to new domestic arrangements.

Indicative EU funding allocations for 2014-2020 for the SSLEP area were confirmed in 2014, totalling over £132m from the 3 principal ESIF funds (£71m from the European Regional Development Fund, £55m from the European Social Fund and £6m from the European Agricultural Fund for Rural Development).

Following the government announcement, our task is to run a new funding call and allocate funds to successful bidders as quickly as possible.   Although this is a significant undertaking, fortunately, many of the projects in our pipeline have already passed the project appraisal stage and could potentially fully deliver within the window to December 2018; it is likely we will need to focus on projects and activities that are well developed and 'delivery ready', and also are capable of being contracted by, or shortly after, the date of the Autumn Statement (23 November 2016). Those projects not agreed by the Autumn Statement will then be subject to the 'national interest' test as set out in the Autumn Statement – but examples we have, like the Keele Energy Demonstrator, should pass the test. Beyond this work by SSLEP, we have seen a position from GBSLEP[2] which echoes the argument above about the need to explore the opportunities of Brexit, but we are unaware of a more detailed official position or analysis from GBSLEP.

The deduction is that, although EU funding is relatively small, it is concentrated in key areas where the UK government is currently relatively inactive. The government has taken short to medium term action to ensure stability to 2020; the challenge for Staffordshire and Stoke-on-Trent will be to ensure that the post 2020 landscape continues to benefit our economy.

Devolution

Devolution remains a priority for the new government, but we are already seeing a change of focus – more evenly balanced between urban and rural areas. This will have implications for Staffordshire, as will continued, and possible increased, focus on Birmingham; the WMCA will maintain its momentum along with the Midlands Engine and Midlands Connect. With Sajid Javid as the Secretary of State for Communities and Greg Clark now in Business, Energy and Industrial Strategy, this should help to underline the alignment of economic growth with subsidiarity, and the role of local government in the agenda. The consultation on *Self-sufficient local government: 100% Business Rates Retention*[3] remains open until 26 September, and it will be vital for us to collate and feed in our views on how the government forms its baseline funding level for 2020, the responsibilities which will accompany the devolved moneys, and the right systems for balancing risk across the country. More broadly, we need to be discussing how this will look and function in Stoke-on-Trent and Staffordshire in future.

There remains a question of how much we can achieve without a formal devolution deal. We have, for example, got the attention of NHS England and the Department of Health with our engagement in the Sustainability and Transformation Plans (STPs), a recognition that local democratic accountability is key to delivering change in Health.

[2] http://centreofenterprise.com/2016/07/26/disruption-is-a-time-of-opportunity/
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535022/Business_Rates_Retention_Consultation_5_July_2016.pdf

Community Cohesion

Staffordshire police have recorded an increase in hate crime since the Referendum[4]. There are currently discussions underway on how best to tackle this issue in accordance with the new Home Office Hate Crime Action Plan. In addition, there are discussions to align the PREVENT and Hate Crime agendas together to build community cohesion. Above and beyond these programmes, we have a role as local leaders, and as facilitators of Hate Crime Partnerships, to identify those localities where the Referendum has highlighted a fracture, and work together to build cohesion.

There are several other Brexit issues to be considered nationally, which could impact on our people and services locally. Responses to cross-border crime, including cyber-crime and child sexual exploitation, are currently delivered under EU Directives, and will need a robust international approach for the future. We can also consider whether the future for cross-border family law and border protections could have impacts for human trafficking and modern day slavery. The police are currently carrying out a mapping exercise to understand what we can about the severity of this issue here. There is a role for us, firstly in the Modern Day Slavery Strategic Task and Finish group on which our officers have a place. It considers how this can link in with existing and related areas of work such as Child Sexual Exploitation, Serious & Organised Crime and Children's & Adults' safeguarding arrangements. Beyond this, there is work we can do with the private sector to ensure their supply chains are clean.

Skills and Education

The Chancellor announced that university research funding would be guaranteed until 2020. It appears that this will have little impact in either Keele or Staffordshire Universities, neither of which have a reliance on this source of funding. Equally, from student numbers, neither university will be adversely affected by any drop in EU students; Keele's overseas students tend to be drawn from outside the EU, while Staffordshire has mainly UK students.

It is assessed that colleges and schools will be affected by Brexit in line with the remainder of the economy, rather than having any specific factors attached to them.
If the country decides on a new national industrial strategy more focussed on manufacturing and STEM skills, Staffordshire and Stoke-on-Trent are well placed to benefit. We already have 13% of the population engaged in manufacturing, compared with 8% nationally; our economy is centred around a large number of SMEs in technical areas; and our skills sector is FE-centred rather than HE-centred. In other words, our human capital is already in the right place with the right skills, and the right

[4] 115 in June 16 compared with 62 in June 15, and 118 reported in July 16 compared with 82 in July 15.

establishments to develop it even further. We must keep up with the debate, and ensure that we are prepared for whatever eventuality transpires.

Health and Social Care

Health and care is not a specific area of EU competency, but elements like the Working Time Directive, and the supply of EU nationals to work in the sector will have an impact here. We also cannot avoid the impact of an ageing population and Staffordshire's unenviable place in the British psyche with regard to health. We can also speculate about where the government might want to reinvest post Brexit – in addition, of course, to how it wants to balance this with investment in the economy. While government may want to invest in the health and social care agenda, experience tells us this is likely to be in the acute health side rather than in social care, and there is work for us to do making the strong case that we need to invest in prevention and keeping people well and independent.

In terms of the new government's wider policy and funding direction for health and social care, it is too early to tell – though it does appear that the government remains fully committed to STPs and the current direction. A recent analysis of UHNM's workforce suggested that the majority of their non-British workers came from non-EU nations. Nationally, adult social care appears similar: 79% are UK born, 5% of the workforce is from the EEA – though this compares to 15% from non-EEA countries[5]. However, 5% still equates to a significant pressure on our already fragile social care providers, where anecdotal evidence suggests a large proportion of Eastern European carers among the workforce. The deduction is that we need to plan for a situation whereby fewer of EU nationals come to work in Staffordshire.

Agriculture

Staffordshire has a strong reliance on farming, with 70% of the county's land mass, some 191,000 hectares, being farmed by around 2,800 full-time farmers; total direct employment in the sector sits at 9,600. We have an unusually mixed agricultural economy: dairy and general grazing account for 110,000 hectares, with the remainder being spread across cereals, fruit and vegetables. The EU Single Farm Payment is typically worth £210 per hectare which suggests that the income from Brussels for Staffordshire's farms is £40.1M per annum[6]. The Chancellor has guaranteed this until 2020, and any agri-environment schemes agreed before the Autumn Statement will be fully funded – even when these projects continue beyond the UK's departure from the EU. However, there has been little substantive discussion about what will replace the much-criticised Common Agricultural Policy (CAP) beyond some political positioning on both sides of the merits of subsidising the industry.

[5] The state of the adult social care sector and workforce in England, 2014, p44.
[6] Rising with a falling pound, as it is calculated in Euros.

Few in the industry remember life before EEC and EU regulation, which even its supporters will admit was designed for a different, continental model of farming, but it is clear that food security will remain an issue, as it has been in an island nation throughout our history, and that every developed country, with the exception of New Zealand[7], subsidises its food industry either directly or indirectly. Whatever system is chosen or developed, Staffordshire has a large stake in the outcome – we must remain engaged.

Conclusion

“Nothing is ever as bad, or as good, as it first appears” would seem to be a fair description of Brexit. The economy won’t collapse overnight, but equally there won’t be £350 Million extra per week for the NHS. The importance of leadership in a place and public services is clearer now than it has been for many decades; our role is to maximise the opportunities and take avoiding action against the threats. While government’s priorities around devolution and public service reform may change, the overall strategic intent remains the same. The Autumn Statement will be a key date for us to watch, but there will be others; we will need to stay abreast of all new announcements.

While we await further news, we can begin to assess our economy, looking at projects and funding in the new light (including regulatory), analysing our economy’s vulnerabilities (including reliance on FDI and EU FDI) and understanding potential workforce impacts, particularly on adult social care and the NHS.

The key for us in the coming months is to make sure that Staffordshire’s voice is heard clearly around the negotiating table. We must continue to campaign on those issues that are important to our residents, and think collectively about our Strategic Communications. In the meantime, we will continue to understand the emerging agenda, and lead in our localities.

We look forward to your comments.

Philip Atkins OBE Leader	John Henderson CB Chief Executive
Staffordshire County Council	26 August 2016 [Updated 23 September]

[7] The New Zealand government continues to pay for agricultural research and development, equating to about a 1% subsidy for the sector.