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| **Title:**  **Implications for Cheshire and Warrington of the EU Referendum Decision** | **Agenda item 7** |
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| **Prepared by:**  **Francis Lee** | **Date of Meeting**  **13 July 2016** |
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| Executive Summary: This report provides an overview of the initial impact of the EU Referendum decision on the Cheshire and Warrington economy, based on the discussions and contact between the LEP and the business community, Local Authorities, Chambers of Commerce, Universities and wider stake holders. Recommendations / Action Requested: The Board is asked to note the contents of this report. |

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| Details:  1. **Current Situation**   It is currently apparent that the majority of companies are totally unprepared for BREXIT (Deloitte: Although 75% of CFOs believe their companies should remain in the EU only 26% of CFOs said that any preparations for BREXIT have been made or are planned).  It is also clear from meetings with the Department for Local Communities and Local Government (DCLG), the Department for Business Innovation and Skills (DBIS) and the Department for Environment, Food and Rural Affairs (DEFRA) that little or no preparations have been made for BREXIT. As a result there may be a delay in decision making on a number of important investments relating to EU Programmes and other matters.  Although the financial outlook remains challenging with continued pressure on sterling and a lower appetite for UK assets the Financial Policy Committee has decided to support the easing of capital requirements and large banks and building societies are in a strong position with regard to capital and liquidity. The Treasury and the BoE have therefore sought to make absolutely sure that credit will continue to remain available.  Nevertheless shares in supermarkets, housebuilders and banks have fallen sharply since the referendum and property-related stocks have been especially hard hit this week with fund managers stopping investors withdrawing money from their UK property funds.  The need therefore to maintain a watchful eye on the local economic situation and the local impact of the referendum has led the LEP to convene a number of meetings with key strategic partners to co-ordinate the gathering intelligence to inform local and 'LEP Network' messages to Government and local responses where appropriate and possible.   1. **Local Considerations**   Cheshire is home to a number of large companies many of which are foreign owned with many nationalities potentially subject to work permits or relocation. Many of these companies rely on imports and exports for their business, particularly those engaged in the manufacture of motor vehicles, chemicals and transport systems. Services such as banking and finance are also impacted by the need to export their services. Tariff free access to the Single Market for Goods as well as Services also remains to be negotiated.  It is also worth noting that the UK businesses could require the negotiation of 53 free trade deals which the EU has obtained and therefore will require alternative arrangements to be developed if these are to be used. Other areas which may require consideration include changes to tax, pensions, finance, recruitment, marketing, property values and disposal, procurement and intellectual property which are all incorporated into EU legislation or may be impacted if companies need to manage their investments differently as a result of BREXIT.  However it is unclear how these will specifically impact the Cheshire and Warrington economy or evolve into significant issues over the short to medium term. The first action of the LEP and key partners has therefore been to contact businesses and to invite them to highlight any concerns they may currently have or to feedback on any issues that have been possible to identify at this stage.   1. **Current Impact in Cheshire and Warrington**   Less than two weeks into the referendum decision the overall view of the Cheshire and Warrington economy appears to be one of much uncertainty and the adoption of a wait and see approach before entering into significant obligations rather than a clearly measurable economic impact at this stage. Much of this appears to be in response to the current political climate whilst awaiting further developments following the referendum rather than any fundamental shifts in the economy of Cheshire and Warrington which appears, for the moment, to remain largely unchanged.  The Institute of Directors stated that SME business have mirrored big business in so far as there appears to be a period of frozen investment decisions and recruitment cutbacks which may impact on professional service providers across Cheshire. The key concerns appeared to be access to the single market and the skills of EU workers although it was accepted that Companies would eventually adjust to whatever trading relationship eventually emerges.  The CBI also stated that there has been anecdotal evidence of investment decisions being put on hold at least for the short term but that most companies are still coming to terms with what it means for their plans over the longer term.  The view from some Chambers essentially reflected the CBI view that companies are still getting to grips with the situation and appear to be carrying on as normal for the most part although there had been a small number of examples of contracts being lost and increased import costs.  Local Authorities in Cheshire and Warrington have also been undertaking research with Cheshire West and Chester providing initial data from their key accounts highlighting that out of the top 50 companies in the borough 30 are foreign owned and 15 have significant exports.  As with previous analysis the underlying business mood in Cheshire West and Chester is essentially one of much uncertainty rather than deep concern at this stage with a cautious approach to investment decisions. However, a significant amount of positivity remains in terms of longer term prospects with a number of investment enquiries and no direct messages of concern from business. To address the current uncertainty the Chief Executive and Leader have therefore agreed to issue a letter to Businesses in the area to raise awareness that support is available and to enable businesses to contact the authority if they have concerns. This will in turn provide additional information for the LEP and partners to form a more detailed picture of any impact the EU referendum may have.  Cheshire East have also undertaken an impact study of the EU referendum on Cheshire East in the form of a desk-top analysis of the top 100 companies in Cheshire East. From the analysis 4 UK owned and 10 foreign owned companies have been highlighted as high risk due to the high proportion of GVA they contribute to the local economy and significant investment projects associated with the companies.  A select group of companies have also been contacted to capture their thoughts and concerns. Again the picture is one of short term uncertainty and monitoring developments closely however, Cheshire East remains an attractive area to invest and as the larger companies tend to work on a longer term timescale any impact on investment will only become clear over the longer term. The key concerns of the companies are also consistent with previous analysis and focus on access to the single market and the continuation of free movement of labour.  Warrington Borough Council have maintained close contact with their top 50 companies through Warrington & Co and the local Chambers to remain abreast of any significant developments. As elsewhere the business mood again is one of uncertainty. Warrington Chamber reported that they keep in regular touch with their Members and at the moment they appear to be carrying on as normal. Warrington & Co have also contacted a select group of companies and stated that although some business highlighted a potential negative impact on trade and investment and the ability to recruit specialist staff  the majority of companies have stated that it is too early to determine what the real effects will be on investment plans in their business.  In general therefore although there have been some examples of a negative impact and uncertainty, generally businesses appear to be continuing business as usual across Cheshire and Warrington although this will need to be closely monitored on a monthly basis.   1. **Impact on EU Programmes**   The Cheshire and Warrington LEP area has an allocation of €143m with designated amounts ring fenced for ERDF and ESF and EAFRD.  Of this €143m (Approximately £122m) over £60m worth of projects are under consideration. This includes approximately £5m contracted towards projects that are already underway, £20m of projects at outline stage, £10m of projects at full appraisal stage and a further £30m committed towards ESF Co-financed through the Skills Funding Agency, Big Lottery or Department for Work and Pensions for skills, training and employment initiatives.  The European Agriculture Funding for Rural Development (EAFRD) at £2.5M has already allocated about £1m towards initiatives supporting rural growth with many rural businesses having invested significant time and energy to submit applications for funding and are awaiting approval for their projects.  Although this is not the case in all LEP areas the Cheshire and Warrington programme is on course to meet all its targets and would normally conclude in 2020 with projects continuing to deliver into 2023. The LEP was already planning to issue further calls in August for additional projects that were not ready to submit their bids earlier this year with a view to bringing forward projects to support jobs and growth more swiftly.  However, the EU referendum timetable makes it almost impossible to conclude the programme within the time available to negotiate an exit from the European Union and therefore Government Departments have delayed the agreement of new contract agreements for any further projects until they have agreed a way forward with Ministers. LEPs have collectively pressed very hard for this to be resolved as swiftly as possible to avoid future difficulties in delivery and to be able to support applicants. It is hoped that there will be further news by the time the Board meeting takes place or shortly thereafter.  Should the DCLG or DWP seek to delay or terminate the programme early or at its mid point in December 2018 there is a significant concern that a substantial amount of EU funding will be lost to Cheshire and Warrington. There is also the significant danger that opportunities for the development of Cheshire and Warrington science and business parks, ICT and low carbon and employment initiatives would be lost.  It will be important therefore for Cheshire and Warrington to continue to lobby through the LEP and other channels for Cheshire and Warrington to retain its current allocation for investment in some form without any delays or new processes to enable projects which have been agreed as strategically important for Cheshire and Warrington to continue.  In addition it is vital that key products for the Growth Hub to provide support to local SMEs in the form of grants and specialist advice and support for international trade and sector support are not delayed during this period of economic uncertainty.  The LEP network and LGA is therefore currently seeking written confirmation from Government to clarify when the programmes can continue to deliver in Cheshire and Warrington and how the remainder of the funds will be deployed.  **Conclusions**   * Further consultation with business and analysis of the economic impact of the referendum is required on a monthly basis to inform any necessary intervention that may be possible and to keep Government Departments informed of any trends or specific situation that may require a national response. * Ongoing lobbying of Government departments may be necessary and a concerted effort may be needed to retain the current EU funding allocation for Cheshire and Warrington and the projects that it is intended to support. This will need to include assurances that the money from the EU will be replaced by the UK government so that Cheshire and Warrington continues to receive the same level of investment and is not short-changed due the EU referendum. * The LEP and partners need to continue to work together to deliver the above priorities to provide a comprehensive overview of the situation across Cheshire and Warrington and to secure the same level of investment into Cheshire and Warrington from Government and the continuation of projects which are delivering growth and jobs across the LEP area. |
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