

Swindon Borough Council Response to the EU Referendum

Growing the Economy Overview and Scrutiny Committee

Date: 21 September 2016

Author: Interim Director of Economy, Regeneration & Skills

Wards: All

Locality Affected: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 This report is in response to a request from Full Council for Overview and Scrutiny committee to consider the impact of the recent EU referendum and subsequent exit of the UK from the European Union (EU), and how this will affect the Swindon economy.

2. Recommendations

The Committee is recommended to:

- 2.1 Consider the impact of the recent EU referendum and subsequent exit of the UK from the European Union, and how this will affect the Swindon economy.
- 2.2 Create a Task and finish group and agree terms of reference for a task and finish group as at appendix 1.

3. Detail

- 3.1 Whilst the decision to leave the European Union trading bloc was made at the EU referendum on the 23rd June 2016, it is expected to take almost 3 years to bring this into effect. The so-called "Brexit" negotiations are expected to complete in Spring 2019, assuming article 50 (the clause to initiate the exit from Europe) completes in the Spring of 2017.
- 3.2 It is not anticipated that businesses will understand the full effects of the European exit until the withdrawal process begins and trade negotiations are agreed. On paper, Brexit is likely to increase the costs of trading with EU countries for businesses based in the UK, as the EU is the UK's most significant trading partner. If as part of the withdrawal negotiations, Britain leaves the common trade market, then tariffs or extra costs would most likely be levied on imported and exported goods with the European Union and this would raise the costs of trading for businesses based in the UK. However, at this stage it is still possible that the UK might remain in the common trade market, and, even if it cannot stay, it is possible that trade deals might be struck with individual countries. Favourable deals could reduce, and possibly even mitigate entirely, the negative impacts of Brexit. However in the short term, until the specific terms of trade with the EU are agreed, there remains uncertainty.
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The economic implications

- 3.3 Since the Referendum, there have been a number of reports trying to predict the future of the UK. Many economists are delaying production of their medium-term forecasts for the UK because of the economic uncertainty and difficulty in producing accurate forecasts. The International Monetary Fund still predicts the UK will grow in 2016, by 1.7 % (down 0.2% from pre referendum).
- 3.4 In the short term, there will be uncertainty about the future trade and investment framework within the UK. This lack of clarity about future trading and investment relations will mean companies are more likely to postpone, reduce or avoid decisions around investment, recruitment and expansion, particularly if they have strong connections to the European market. The key question is how long postponement can go on for before it creates permanent damage to the economy. Across the UK, the sector that has been hardest hit has been development and house-building.
- 3.5 In the medium term, leaving the EU will pose the following threats:-
- Deteriorated access to the EU single market could reduce the level of foreign investment in Swindon. Swindon has the highest concentration of foreign owned companies in the UK. Some companies will be heavily dependent on foreign investment and their continued growth requires maintaining the confidence of these investors.
 - Deteriorated access to the EU single market could make it harder for Swindon based companies to export into Europe, facing greater paperwork, tariff and non-tariff barriers and ability to interact with 'just in time' supply chains.
 - Deteriorated access to the EU single market could pose particular challenges to specific sectors who are part of a pan European supply chain or are reliant on EU regulatory frameworks to access global markets.
 - Restrictions of free movement of European labour could reduce the flexibility of the UK labour market and lead to skills shortages; particularly in manufacturing, health and care, retail, food, construction, transport and logistics sectors.
 - A loss of access to EU funding streams could lead to loss of support for certain businesses including:
 - European Structural Investment Funds (ESIF) for small business, social enterprise and employment support and skills training.
 - Reduction or loss of science and technology co-operation projects with EU cities and regions
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- 3.6 Following the EU referendum result, UK Government announced the intention to reduce corporation taxes to 15% (from 20%). This should increase the attractiveness of the UK as a place to set up and run businesses, and may go some way towards mitigating some of the negative impacts associated with Brexit.

Opportunities

- 3.7 Leaving the EU will mean the UK can negotiate new trade deals with other markets. This gives it greater negotiating flexibility and could help UK companies trade more with new markets. New bilateral trade deals can only formally be agreed after the UK leaves the EU, which will be in several years' time. A declining pound has made UK exports more competitive, however it also makes imported raw materials more expensive which can offset the gains made in export pricing.

Impact on Swindon's economy

- 3.8 As detailed in the [Swindon Economic Strategy and EU Referendum](#) paper presented to the Economy and Regeneration Overview & Scrutiny Committee in January 2016, the structure of the Swindon economy makes it particularly sensitive to changes to the UK's membership to the EU.
- 3.9 This paper highlighted that the short term uncertainty around the UK's trading position with EU countries will make the high growth scenario identified in the Swindon Economic Strategy (2012-2026) "to create 20,000 jobs by 2026" more difficult to achieve. The paper goes on to suggest that around 20% of all employment (or around 20,000 jobs) in Swindon are dependent upon trade; and just around half of these (10,000 jobs) are dependent upon trade with EU countries. Costs of exporting goods to Europe could now rise which is likely to affect the volume of sales to Europe. Manufacturing businesses would be most affected, but also wholesale and retail, transport and storage, accommodation and food, banking and finance sectors.
- 3.10 A recent report from [Nathaniel Lichfield & Partners](#) highlights that the Swindon and Wiltshire Local Enterprise Partnership (SWLEP) will be exposed to the risk of job losses because of the large number of companies exporting to the EU.
- 3.11 Business West (a business representative organisation for Swindon and Wiltshire) undertake a quarterly business survey which links with the British Chambers survey, to identify changes in their trading conditions. The next version of the survey, which will be released in October, will ask questions about the implications of Brexit. We will be able to analyse the results of the survey at the Swindon level. This report will not identify specific companies that are most affected, or individual actions that could be taken to help businesses facing difficulties.
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4. Opportunities to minimise Brexit associated risks

4.1 The Task and Finish group could consider the following actions:-

- Strengthen our direct relationships with our largest businesses, particularly those that are exposed to Brexit risks. This would include foreign owned companies, those that import / export to the EU or those that have EU-based supply-chains. DIT officers would like to partner us in these meetings. In addition to the confidential tabling of businesses provided by officers at the meeting, which local business and other appropriate Agencies would members recommend we speak to?
- Identify specific “Swindon issues” including:-
 - Specific Swindon “place-based” risks, such as our high representation of foreign owned businesses, strength of business clusters and businesses that are dependent on trade with Europe which are highlighted in the report that was taken to Cabinet in [January 2016](#).
 - Funding risks – the likely withdrawal of European bidding opportunities for innovation and new energy projects² will leave a gap in new energy infrastructure and R&D grants, potentially impacting upon SBC’s objective to promote Swindon as a centre of excellence in hydrogen technologies and as a centre for high-tech, innovative industries.
 - Investment opportunities that would be of specific help to businesses, particularly those affected by Brexit.

4.2 LGA advised it would be helpful to have the direct engagement of our members in lobbying Westminster. The Task & Finish Group may consider how we best achieve this, and identify the actions we can take to strengthen Swindon as a business location post Brexit.

4.3 Particular challenges for the construction sector, including stimulating demand and maintaining buyer confidence also necessitate a specific look at the Swindon housebuilding sector and how it is currently performing.

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5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

5.1 The report does not include any direct implications.

Legal and Human Rights Implications

5.2 The report does not include any direct implications.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.3 The report does not include any direct implications.

Diversity Impact Assessment

5.4 The report does not propose any change in policy or a new policy and so a diversity impact assessment has not been carried out.

Risk Management

5.5 The report is an analysis of the possible impact of the UK leaving the EU. It does not propose action requiring immediate risk assessment. The risk assessment will be part of the review of Swindon's Economic Strategy taking place during 2016/17.

6. Consultees

6.1 The Board Director, Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

7.1 Swindon's Economic Strategy 2012-2026 – available from the author

7.2 Economy and Scrutiny Report on the EU – available from the author

8. Appendices

8.1 none.
