BREXIT and Shropshire

Appendix 1

Strengths

Trade Related (EU and World Markets)

- Leaving the EU could give the UK Government an opportunity to consider how it can support businesses outside of the EU state aid regime.
- More expensive imports could lead to increased demand for nationally produced goods and services (import substitution)

Regulatory

Direct Support (Funding & Subsidies)

- **Farm subsidies** are guaranteed until 2020 which amount to over £2billion in payments annually and which will benefit from a preferable exchange rate going forward. Shropshire could benefit disproportionately as agriculture contributes 3.3% of Shropshire's GVA (Oxford Economics) compared with 0.7% of GVA nationally.
- UK Regional policy and funding will not be restricted by EU funding regulations when the repatriated funds are used to support the planned UK Shared Prosperity Fund or similar, allowing such funds to be targeted on specific UK needs.

Migrant Labour (including skills shortages)

- Shropshire is less reliant on migrant workers than many other locations (7.2 National Insurance Number (NINo) allocations per 1,000 of the working age population in 2016 compared with 21.5 nationally). This is significantly lower than Herefordshire or Telford and Wrekin (23.8 and 14.1 respectively).

Other Strengths

- The negative impacts of Brexit are expected to be bigger for areas with higher average wages. This could lead to a more muted impact for Shropshire BUT other research suggests that the penetration of sectors likely to be hardest hit is under-estimated in rural areas.

Weaknesses

Trade Related (EU and World Markets)

- The weaker pound means that imports, for example of raw materials, are more expensive.
- Higher fuel costs due to the weaker pound, leading to higher transportation costs. As the second largest inland county in England and given the sparseness of the population this will particularly impact Shropshire.

Regulatory

- Nationally - firms have been drawing up contingency plans for how they will continue to access the European single market when the UK leaves the trading bloc which may lead to them setting up subsidiaries elsewhere (eg Easyjet, Bank of America, Citigroup). There is a significant cost associated not only with relocating but also with planning to do so. Evidence gathered from the media, Shropshire Council key business account management activity and via a bespoke Brexit questionnaire designed to gather intelligence from our businesses, we know there are several businesses that may leave Shropshire following Brexit.

Migrant Labour (including skills shortages)

- NINo allocations in Shropshire have mainly been from states which have joined the EU since 2004, including the EU8 - Estonia, Latvia, Lithuania, Czech Republic, Hungary, Poland, Slovakia, Slovenia – as well as Bulgaria and Romania. The latter two countries accounted for 616 NINo's in 2015 (46% of the total).
- The weak pound is making it less attractive for migrants to live/work here if they send money home to relatives. Also the perception that they are not welcome is prompting some migrants to leave
- Many sectors are reliant on migrant workers:
  - Health and social care. For example, care home employees include significant numbers from Eastern European countries who may decide to return to countries of origin. This has implications for the authority and health care partner organisations, notwithstanding efforts to help people to remain in their own homes for as long as possible. Also skilled professionals – doctors, nurses, dentists
  - Horticultural and farming employees
  - Construction
  - Food and drink processing. Muller and ABP – two of Shropshire's largest businesses, employ large numbers of EU nationals

These sectors are important to the Shropshire economy: Health & care = 14.6% of employment, 9.6% of GVA
Agriculture = 4.0% of employment, 3.3% of GVA
Construction = 8.3% of employment, 8.1% of GVA
Food & Drink = 3.1% of employment, 3.4% of GVA

- Shropshire's demographic is older than average and ageing quickly – this means that succession planning is a serious issue in some sectors, especially farming.

Other Weaknesses

- According to the Bank of England, the level of business investment is expected to be around 25 per cent lower by 2019 relative to its pre-referendum forecasts. Some Shropshire businesses are already delaying investment until the future is more certain, although initial results from our Brexit survey with Shropshire businesses suggest that the majority have not changed their investment plans (but probably weren't going to invest anyway)

Opportunities	Threats

Trade Related (EU and World Markets)
• The weaker pound means that exports are cheaper, but it's not easy to exploit export potential unless an export market already exists.
 	
• Potentially less expensive to manufacture component parts locally than to import
 	
• Possibility of forging alternative trade deals with non-EU markets – potential to negotiate these more quickly as a single state rather than co-operatively as part of the EU (Berenberg report)
 	
• Northern Ireland and Republic of Ireland present what may be seen as opportunities, given our geographical proximity and potential for eg supply chain linkages.
 	
• Nationally 1% to 1.2% of GDP every year from 2020 is to be invested in economic infrastructure. There is no indication yet as to whether this is likely to be affected by Brexit, but Shropshire could benefit from
  ○ HS2 to Crewe and Manchester.
  ○ A5 dualling
  ○ North West Relief Road
 	
• The national tourism industry will benefit from the weaker pound, with Great Britain representing a more affordable destination for overseas visitors and with more British holiday makers resorting to the "staycation" as foreign destinations are more expensive. Tourism is already an important employment sector in Shropshire, accounting for 8.5% of employment and 4% of GVA. We should benefit from a buoyant national market, especially from increased domestic tourism (given that overseas visitors account for only a small proportion of overall tourism in the county).
 	
Regulatory
• National strengths in animal welfare, food safety, and food traceability could offer local opportunities - simplification for farmers of applications, and increase in meat exports.
 	
• Britain could relax trade regulations. Although it is already one of the least regulated of the developed markets (especially compared to India and China)
 	
• The regulatory requirements for financial firms and air operators to have a base in an EU country in order to operate across Europe is seen as an economic growth opportunity for Dublin in particular. It is also a possible point of influence for Shropshire and Wales i.e. any firms looking to expand/establish bases in Ireland needing to transport goods, supplies, and physical employee and business customer travel through our region.
 	
Direct Support (Funding & Subsidies)
• Under the EU's current Common Agricultural Policy (CAP), farmers are paid based on the amount of land they own. In the view of the Environment Secretary, scrapping this could be "an once-in-a-lifetime opportunity to reform how we care for our land, our rivers and our seas, how we recast our ambition for our country's environment, and the planet".
 	
• A move from EU to UK regional funding regimes provide the opportunity for better integration of skills and economic development funding.
 	
• Allow the UK to reform the rules on financial support to companies to enable the delivery of more effective
	Trade Related (EU and World Markets)
	• The general election last year represents an amplification of the threat posed to local businesses of uncertain hands on the national tiller.
	
	• Tariffs remaining at zero would happen if the UK joins a free trade area, such as EFTA, with the EU. However, there are also non-tariff barriers: these are the costs arising from customs checks, border controls, differences in product market regulations, legal barriers and other transactions costs that make cross-border business more difficult. Even free trade areas cannot eliminate all the non-tariff barriers that businesses face when transacting across borders
	
	Regulatory
	• Pressure from international trade may bring even more US-style practices to Britain. British farm standards have been higher than EU-wide welfare practices in the past, and now are in line with the EU, but in future there could be pressure to lower standards in order to compete with imports.
	
	• As EU animal welfare regulations are higher than those of the World Trade Organisation (WTO), there is also a risk of being unable to take advantage of the EU market itself, (eg reintroduction of British beef to EU markets following BSE)
	
	• Proposed developments in the UK's prime wildlife sites and landscapes. At the moment they are protected by the EU as part of Europe's common heritage. That protection may disappear after Brexit.
	
	• Issues and concerns around environmental legislation including air quality, and protection for waterways and biodiversity. This also links to threats to water quality and water supply.
	
	• 56% of small businesses are concerned about enforcing new immigration rules post-Brexit (FSB report) – this mat discourage them from recruiting from outside the UK.
	
	Direct Support (Funding & Subsidies)
	• Research and development in UK universities and research institutions could be impacted by the UK's inability to be involved in the European Transnational Programmes, which encourage international collaboration, such as Horizon 2020.
	
	• That the regional funds replacing the EU Structural Funds are targeted in different ways at different geographies that means the Marches loses out in relative terms.
	
	• Any potential gap in funds during the transition between EU programmes and UK ones.
	
	Migrant Labour (including skills shortages)
	• 59% of small businesses are concerned about accessing the skilled workers they need post-Brexit (FSB report) – increased skills gaps could seriously impact the country's – and Shropshire's - productivity
	
	• **Skills** remain a serious issue for local business owners, according to a Shropshire Star survey in autumn 2016. This indicated that 43 per cent of business struggle to fill vacancies when they arise, and 40 per cent said Shropshire lacks the necessary skills to facilitate growth.
	
	• Shropshire businesses twice as likely as their national counterparts to fill hard-to-fill vacancies by recruiting non-UK nationals (6% compared with 3%, UKCES Employer Skills Survey, 2015), which suggests that skills shortages might increase faster in Shropshire than in other parts of the country if it proves more difficult to recruit overseas nationals.

support in the places that need it most. Potentially, businesses operating in a business to consumer environment – who are usually excluded from EU funding eligibility criteria – could be supported under a new system.

- Add more to the 'single pot' idea to provide local areas with more control on how public funding is spent locally.

Migrant Labour (including skills shortages)

- Free movement of people between the EU and UK could end in March 2019 – opportunity to create an immigration system that allows us to control numbers and encourages the 'brightest and best' to come to this country
- Opportunity to reduce skills gap through training and education
- Opportunity to increase productivity through improved skills

Other Opportunities

- Demand by Government for intelligence about what businesses are saying about EU Exit, and what sentiments are being expressed gives us the opportunity to feed in, especially in relation to:
- Potential opportunities or shocks: ie areas where we may gain or lose investment as a nation because companies are considering investment; reducing their footprint here; or withdrawing altogether.
  - EU/trade negotiation priorities: what do businesses see these are being?
  - Domestic issues, including the Industrial Strategy and the work of 18 sector teams
- To this we may usefully add local approaches to joint work around the Shared Prosperity Fund, to enable us all to achieve a key principle also outlined by the DIT:
  - A positive outcome for those who trade in goods and service;
- Potential to take advantage of sector deals by aligning with national Industrial Strategy where appropriate and by exploiting sectors with most potential for growth
- Maximise partnership working, especially with universities, and
- There is an ongoing Inquiry by BEIS Select Committee into Brexit implications for UK business, which is being conducted on a sector by sector basis. This includes the automotive sector. There will be opportunity to see approaches elsewhere as well as a national response by Government to whatever recommendations the Committee may subsequently choose to make, which may then assist Shropshire and the Marches and the WMCA. Also DEFRA consultation on the future of farming.

- **Food security:** some of the country's biggest food producers have warned that British fruit and vegetables would all but vanish from shops if Brexit means the foreign workers who pick virtually all the home-grown produce are no longer able to come to the UK. Produce in UK shops would become more expensive if the freedom of movement for EU workers came to an end. One opportunity identified to remedy this is for Ministers to set up a new permit scheme for seasonal workers.
- Another threat in terms of migrant labour is a likely skills shortage of people to enforce animal welfare standards and food hygiene standards in abattoirs. The Lords EU Environment Committee has reported that 90% of slaughterhouse vets are EU nationals. These skilled vets are also reported by the NFU as undertaking many farm inspections and enforcement roles.
- Government concedes that the labour market stats do not include seasonal agricultural workers from other EU countries. It is on record as stating that the option of a new permit scheme for seasonal workers, replacing the SAWS which ended in 2013, is being kept under review through the SAWS Transition Working Group, which met in September.
- There is disparity between what the industry is saying and what Government is asserting about recruitment and retention of agricultural and horticultural employees. Opportunities to remedy this may airse through ongoing Migration Advisory Committee research

Other threats

- For **construction**, challenges are around not only shortages of skilled labour but also shortages of raw materials, and cost of raw materials. The Royal Institution of Chartered Surveyors in a report published in March argued that almost 200,000 construction jobs could be slashed if Britain loses access to the European single market, jeopardising billions of pounds worth of infrastructure projects
- In February, a study from consultancy firm KPMG showed that one in three manufacturing firms plan to shift some operations out of the UK as a result of Brexit.
- On the **housing** front, house prices continued to rise at national and local level following the Brexit vote. This has continued implications for affordability of housing. (process rose by about 6% between June 2016 and August 2017 in Shropshire and nationally)
- 54% of small businesses are concerned about their ability to grow their business post-Brexit (FSB report)
- Generally, because of the car industry's global exposure and its dependence on workers from abroad, it is considered one of the sectors most vulnerable to a hard Brexit. This will also impact on the automotive supply chain – there are several important tier three suppliers in the Marches.
- Businesses potentially leaving the UK post Brexit and especially moving R&D elsewhere – reduction in "quality investment"