Briefing Note

CITY OF WOLVERHAMPTON COUNCIL

Title: Brexit Overview

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Intended audience: Internal ☒ Partner organisation ☒ Public ☐ Confidential ☐

Purpose or recommendation
The purpose of this paper is to examine potential impact of Brexit on Wolverhampton.

Overview
It provides an overview of the potential impact following the result of the June 23 referendum on the UK membership of the European Union in terms of impact on EU funding, short term business confidence as well as one scenario of longer term risk to foreign investment

Background and context
The United Kingdom European Union membership referendum, also known as the EU referendum took place on 23 June 2016 in the UK and Gibraltar to gauge support for the country's continued membership in the European Union. 51.9% nationally voted to leave the EU.

Brexit and EU funding
The Department for Communities and Local Government (DCLG), the Managing Authority for the European Regional Development Fund (ERDF), are assessing EU funded bids and have agreed to fund those bids approved up to the Autumn statement. However more recently, DCLG are encouraging the local European Structural and Investment Fund (ESIF) Partnership to develop the pipeline of projects for submission right up until the day we leave the EU. Most projects run two-three years, so delivery may now run up to 2022. To benefit from this opportunity, the Council and partners are currently:

1. Developing a strong pipeline of “off the shelf” projects ready for funding, assuming quick start
2. Highlighting potential bids to maximise a last chance of EU funding, including continuation funds for existing projects
3. Exploring other funds (national, government, international) to fund priority projects.

The Government have also indicated that they will continue to fund successful projects that are currently funded by Europe, therefore strong project management is being built into EU funded projects.

Business attitudes following the Brexit vote
Hays research indicates that 93% of businesses expected higher or stable activity in the next 12 months, down only slightly from 94% before June's referendum.

In a sign that confidence remains robust after the Brexit vote, two thirds of respondents – 65% - said they planned to take on more staff over the coming year. While this is down from 73% before the EU vote, it is far from the collapse in the labour market forecast by the Treasury. The Bank of England forecast price rises next year will overshoot its 2% target, with inflation remaining above this level well into 2019 because of the drop in the value of the pound (Chan, 2016).

Inward investment
There are individual examples of confidence in the national UK economy.

- One of Germany's largest construction companies is setting up in London and is looking at the possibility of Birmingham next year (Dransfield, 2016). The Stuttgart-based project manager has a turnover of £285 million.
- Announcement of Nissans investment plan to build the next-generation Qashqai and X-Trail will be produced at Sunderland. The decision apparently was bought forward from 2017 (Tim Wallace, 2016).

At this point in time, it is too soon to tell the longer term economic impact as this will be affected by the negotiations following the triggering of the article 50 process. However research by the Centre for Economic Performance (LSE), based upon statistical modelling suggests that foreign investment in the UK could fall by 22% over the next decade which could according to their modelling lead to a 3.4% decline in real income (about £2,200 of GDP per household (Dhingra, Ottaviano, Sampson, & Reenen, 2016).

Conclusion
Although there has not been the poor economic news that was predicted prior to the referendum, there are risks for the economy.

The rise of inflation coupled with the devaluation of the value of the pound suggests that households could face an income squeeze next year if pay rises fail to keep up with increases in the cost of living, and the potential loss of foreign investment, although not immediate is predicted by the LSE to represent a loss to the UK economy.

The longer term effect of the vote for withdrawal from the EU largely depends on the outcome of national negotiations of the future trading relationship both with the EU and countries outside of the EU trading block and whether any expansion of non EU trade can make up for any loss due changes to tariff arrangements with the EU trading zone.