
To: Scrutiny Co-ordination Committee

Date: 17th November 2021

Subject: The Impact of “Brexit” on the Local Economy

1 Purpose of the Paper

- 1.1 A briefing paper to cover the impact that the UK’s withdrawal (“Brexit”) from the European Union (EU) has had on the local economy in Coventry. This includes the impact on local businesses and important sectors of the local economy and the labour market, and also the Council’s response in working with local business support partners to help businesses adapt to new trading regulations and conditions.

2 Recommendations

- 2.1 The Scrutiny Co-ordination Committee is recommended to:
- 1) Consider the content of the briefing paper
 - 2) Identify any recommendations for the Cabinet Member

3 Policy Context – the UK’s Withdrawal from the EU

- 3.1 Following the outcome of the UK’s European Union Membership Referendum on 23/6/2016, the UK invoked Article 50 in March 2017 and formally withdrew from the European Union on 31/1/2020. An 11 month “transition” period then followed when the terms of the withdrawal and future trading conditions were being negotiated with the EU, and the UK remained a member of the Single Market and Customs Union. The UK EU Trade & Co-operation Agreement was agreed on 24/12/2020 and formally signed on 30/12/2020.
- 3.2 The main implications of the Trade & Co-operation Agreement for businesses are that since 1/1/2021, the UK has not been a member of the Single Market and Customs Union, although there are zero tariffs or quotas on goods traded between the UK and EU that meet the “rules of origin” (material from the UK or EU or processing within the UK or EU). However, all goods exported or imported between the UK and EU now require customs declarations and an EORI (Economic Operator Registration Identification) number. Full border checks on customs declarations and controls for goods imported into the UK will be introduced on 1/1/2022 and product checks on food and animal products imported into the UK are due to be introduced on 1/7/2022.

3.3 The position for services remains more complex, and although the Trade & Co-operation Agreement has pledged to continue quota free market access, there is no longer automatic mutual recognition of professional qualifications and service sector firms therefore need to comply with the regulations in each individual EU Member State.

4 Impacts on Local Businesses and the Economy

4.1 One of the key challenges in attributing the impacts of the UK's exit from the EU on the performance of local businesses and the economy is that the COVID-19 pandemic brought significant restrictions and closures to many parts of the UK economy from March 2020, soon after the UK's withdrawal from the EU. *Many of the market trends, performance trends and challenges that have affected businesses and the economy since this date have been due to both the impacts of COVID-19 pandemic and the UK's withdrawal from the EU.*

4.2 There is also limited sub-national economic data that is published in the UK, and local and regional data around economic output (measured by Gross Domestic Product – GDP or Gross Value Added – GVA) normally has a significant time lag. However, Coventry & Warwickshire was the fastest growing local economy in economic output (measured in GVA) growing by 33.4% between 2008/09 and 2016/2017. This trend reversed in 2018/19 when the area recorded just 1.24% growth (the lowest of all local economies). More recently in 2020, the UK economy experienced a 9.9% contraction in GDP, with the West Midlands estimated to have experienced the highest economic contraction of all regions. The Office for Budget Responsibility (OBR) now forecasts the UK economy to return to Q4 2019 levels by Q1 2022, although they do not provide regional breakdowns of the recovery trajectory.

4.3 The OBR report for the 2021 Autumn Budget forecasts that UK GDP will be 4% lower in the longer-term as a result of the UK's withdrawal from the EU, driven significantly by 15% falls in both export and import activity. The report also forecasts that the COVID-19 pandemic would lead to a 2% longer-term drop in GDP. However, it should be noted that these forecasts do not specify time periods nor variations by regions or sectors.

4.4 Recent data from WM REDI (West Midlands - Region Economic and Development Institute) has emphasised the impact of the drop in trading activity in the West Midlands. In the year Q3 2020 to Q2 2021, the region's total value of exports decreased by £1.3bn (-4.9%) to £26.2bn (more rapidly than the 3.5% decrease in the UK), although the value of imports, however, grew by nearly £1.4bn (+4.4%) to £32.9bn worth of goods. Moreover, the most recent Business Insights & Conditions Surveys have shown that 1 in 4 West Midlands businesses are still exporting less than normal and 1 in 5 importing less than normal (less than 5% internationally trading more than normal). The result is that 1 in 4 businesses are recording turnover levels at least 20% lower than normally expected, whilst just 16.2% of firms are recording turnover levels at least 20% higher than normally expected.

4.5 Beyond this headline information on business performance, local business support and economic development partners are reporting a range of common challenges that Coventry & Warwickshire businesses are facing. The additional administration requirements associated with customs documentation is placing additional costs and human resource requirements on businesses trading internationally, particularly on small businesses. Businesses across multiple sectors are also being impacted by increasing costs of materials and shipping and storage, and supply chains are

experiencing further challenges presented by delays to the shipping of products and components.

- 4.6 Labour shortages are also impacting on multiple businesses in key sectors of the local economy, including tourism and hospitality, haulage and logistics, security, construction, manufacturing and health and social care. Many of these sectors have historically employed a high number of EU nationals, although there have been longstanding concerns over the supply of labour, with terms and conditions for workers in these sectors a contributing factor. Overall, there are over 1 million unfilled vacancies across the UK, with shortages of over 100,000 HGV drivers, 102,000 hospitality workers (around 11,000 chefs) and over 120,000 social care workers. CCC's Employment & Skills Service has recently identified over 3,000 vacancies in Coventry itself, and 32,000 vacancies within a 25 mile radius of Coventry, with the most common types of vacancies in logistics (288 in Coventry), food & beverage (219) and construction (144). The latest Business Insights and Conditions Survey reported that 46.2% of West Midlands businesses reported that vacancies were more difficult to fill than usual, with just 1% reported vacancies were easier to fill, which suggests that addressing these issues is unlikely to be achieved through short-term solutions.
- 4.7 These labour shortages are despite a significant rise in unemployment in Coventry since early 2020. The Claimant Count (number of unemployment related benefits) stood at 14,250 (5.6%) in September 2021 (latest available data), which was a significant increase on the 7,525 (3.0%) recorded in January 2020. 7,300 posts (5%) were also furloughed in Coventry on 31/8/2021 (latest available data), although the Bank of England expects that many of these posts will not be lost beyond September.
- 4.8 There is currently limited data on the impacts of the UK's withdrawal from the EU on individual sectors of the economy, and we expect evidence and trends to materialise only in the longer-term. However, some analysis from WM REDI forecasts losses in the longer-term competitiveness of the region's automotive (4.1%) and other transport equipment (4.6%) sectors, as well as computers and electronics (2.4%). When exploring the impacts on universities, national data demonstrates that admissions of non-EU international students increased by 17% to 85,610 in the past year, which compensated for the 40% drop in admissions of EU students to 26,010. In respect of delivering innovation and Research & Development schemes involving international co-operation, universities are still waiting for the UK's association to Horizon Europe to be ratified (West Midlands universities secured over £200m from the previous Horizon 2020 programme – the two Coventry universities secured c£80m).
- 4.9 Finally, the UK's exit from the EU will impact on how many of the Council's business, skills and employment support activities will be funded in the future. In recent years, the European Regional Development Fund (ERDF) and European Social Fund (ESF) have funded large amounts of Coventry & Warwickshire's business, employment and skills support ecosystem. During the 2014-2020 programming period (which ends on 30/6/2023) Coventry City Council has secured £28.4m of ERDF and ESF funds to act as Accountable Body and work with Delivery Partners to administer the CW Business Support, Innovation, Green Business, Skills 4 Growth and Technical Assistance programmes. The Council has secured a further £24.8m of ESF funds to work with local partners to deliver programmes supporting Coventry residents to access employment and training opportunities, which include activities delivered through Coventry Job Shop and Ambition Coventry Youth Employment Initiative. Prior to 2014, it is also notable that ERDF had funded major infrastructure schemes

that have helped create the conditions for business growth, such as Far Gosford Street Regeneration & Fargo Village, Coventry Transport Museum, NUCKLE and City Centre and Friargate Public Realm schemes. With the UK's ERDF and ESF funding ending on 30/6/2023, it is vital that UK Shared Prosperity Fund's (the UK Government's successor to ERDF and ESF) size, scope and commissioning and governance processes enable the Authority to continue building on the successes of these programmes beyond June 2023, and make improvements in response to changing economic needs and opportunities.

5 Coventry City Council's Economic & Social Development Response

- 5.1 Given that we expected the UK's withdrawal from the EU to result in changing market conditions and market opportunities and new international trading regulations, the Authority has adopted a pro-active approach to understand the main threats and opportunities facing local businesses and the economy, and to put in place responsible business, employment and skills support services.
- 5.2 In January 2019, the Economic Development Service became a member of Coventry & Warwickshire Chamber of Commerce's Brexit Club. We also became a member of CWLEP's Smart Region, which is fronted by CWLEP Growth Hub and involves the co-ordinated gathering of local business and economic intelligence to inform lobbying of Government on responsive actions. This has helped the Council to obtain more detailed and updated insights on trends, threats and opportunities affecting local businesses, including those relating to the UK's withdrawal from the EU, and has enabled the Service to design new responsible business support activities and cross-refer businesses to specialist international trade support providers more effectively.
- 5.3 We also became a member of the West Midlands Combined Authority Brexit Commission, leading on co-ordination of the EU Funds and Business & Economy Working Groups. This ensured that the Council made leading contributions on co-ordinating the region's response and remedial actions to key issues pertinent to business and the economy.
- 5.4 Through our strong partnership working, business support schemes led by the Economic Development Service has been active in referring Coventry & Warwickshire businesses to specialist international trade support providers. For example, we have been active in signposting local businesses to Department for International Trade's specialist support through Coventry & Warwickshire Chamber of Commerce's International Hub, with CW Business Support programme alone referring 34 local SMEs since September 2019. We have also strongly promoted the Brexit preparation workshops and 1:1 clinics that have been hosted by WM Chambers Export Academy and CWLEP Growth Hub through our Business Newsletter (over 1,000 circulation) and due to high levels of take up, these have been extended beyond the originally intended end date of March 2021.
- 5.5 Reflecting the need and demand for international trade support, we have also allocated some of Coventry's Additional Restrictions Grant Fund (ARG) to Coventry & Warwickshire Chamber for the provision of free, one-to-one support for SMEs to help them overcome some of the challenges to overseas trade, including in customs processes for both the EU and beyond, export and import documentation, and procedures and documents for shipping, air freight and trucking. We expect at least 60 Coventry business to be supported by March 2022 (40 businesses have already been supported through this activity to date).

- 5.6 Our EU-funded SME support programmes have also continued to support Coventry & Warwickshire firms to increase their international competitiveness in a range of respects, including upgrading their skills (CW Skills 4 Growth), changing business processes to improve their potential to access overseas markets (CW Business Support), making capital investments to ensure they can fulfil new contracts secured from overseas (CW Business Support), and develop new products and services with export potential (CW Innovation Programme and CW Green Business). In total, between 2019 and 2023, we expect these programmes to have supported over 1,500 SMEs to grow, create over 1,200 new jobs, and deliver £10.3m of business grants that would lead to a further £29m in business investment.
- 5.7 Our Employment support programmes have also been active in tackling labour shortages and skills gaps. Since March 2020, the Coventry Job Shop alone has registered over 3,900 new customers and supported 1,980 people into work and has held events including “Coventry Moves Into Work” on 8/9/2021, which have linked jobseekers with employers from sectors facing labour shortages. The Employment & Skills Service has also set up Sector Work Academy Provision (SWAPs) in areas such as hospitality, leisure and security – short courses co-designed with employers that provide jobseekers with relevant skills with the ‘host’ employer providing work experience and guaranteed interviews. They have also provided Coventry Job Shop customers with access to fully-funded skills provision in the construction sector through CSES qualifications, security sector through SIA for, and logistics through gaining HGV licences.
- 5.8 We have also continued to deliver major projects to create the conditions to grow the local economy and ensure businesses can thrive in evolving global markets. These include securing over £130m of public funding and overseeing the successful development of UK Battery Industrialisation Centre, and developing a strong regional partnership to pursue the development of a potential new £2bn Gigafactory in Coventry to safeguard and enhance the future international competitiveness of the West Midlands automotive and smart mobility sector and associated supply chains.
- 5.9 We will continue to work with local business support and economic development partners, to continue collating information regarding the key challenges and opportunities facing Coventry & Warwickshire businesses. We will also continue to monitor how the UK’s withdrawal from the EU, and evolving international trading conditions and new regulations are affecting them. We will also continue to design and implement appropriate business support measures in response as changes emerge.

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