Getting Norfolk ready for Brexit

June 2018

Norfolk's Brexit

Business Impact, Challenges and Opportunities

Norfolk County Council

Metro —— Dynamics

Contents

Forword 2
Executive Summary 3
1 Introduction..5
2 Norfolk’s economic sectoral strengths...6
3 Brexit exposure in Norfolk’s key sectors...8
4 Brexit impacts on businesses..14
5 Getting Norfolk ‘Brexit ready’ 17

Forword

It is less than a year until the UK leaves the EU, at which point we begin the task of charting a whole new trading and regulatory relationship not only with the EU, but the rest of the world. There is clearly still a great deal of uncertainty as to what the environment will look like as negotiations continue, but at the very least Government intends that we will have a transition period, of sufficient duration to allow us all to adjust and prepare for the future.

Norfolk has had an extensive trading and cultural relationship with Europe for centuries, which has shaped our economy, our heritage, our geography, our landscape, our language, our technology, our architecture and many other aspects of our lives right up to the present day. We have and will continue to have extensive trading relationships with Europe. Many of our businesses, as well as we in the public sector, recruit a wide range of skilled people from across the continent into a large number of important roles, and with nearly 10% of our workforce being EU nationals it means many of our businesses will be reliant on overseas workers to some extent. Of course many of the rules and regulations that govern product and service standards, that determine our rights as employees and consumers, and which protect our environment are set by the EU. The impact of the changes we face are therefore going to be substantial and far reaching.

All businesses will be affected to some extent, whether it is through a trading relationship, employment and recruitment, accessing funding, taxation or adhering to standards and regulations. This document has been produced to provide some insight into what the impacts and opportunities might be, especially on the key businesses sectors we have focussed on. The County Council and its partners are in a good position to monitor developments. It is vital for businesses to look at possible scenarios and plan ahead. The current uncertainty makes it difficult for businesses to properly plan, and the temptation will be to leave it a little longer whilst negotiations and interpretations of their meaning continue.

This document is part of the County Council's aim to help and encourage businesses to plan ahead. We want to increase our dialogue with businesses too, so that we and our partners can respond with the resources we have. We have excellent communications with Government at many levels, as well as a number of influential lobby groups. We can ensure the business voice is heard, and our messages can be louder and clearer if more businesses tell us what the issues are that they face. There is still time to influence the approach the Government is taking.

I hope you find the document to provide useful information and that it helps you prepare for the future. If you have any questions or comments, please contact the County Council's economic development team at econdev@norfolk.gov.uk

Councillor Keith Kiddie

Chair of Business and Property Committee at Norfolk County Council

Executive Summary

This report has been produced to help Norfolk County Council and partners – in consultation with businesses – consider how best to respond to the opportunities and challenges of Brexit. This short report sets out:

- a high-level analysis of Norfolk's economic and sectoral strengths;
- how some of Norfolk's key sectors might be exposed to different challenges and opportunities arising from Brexit;
- a discussion of the main potential impacts facing businesses in Norfolk;
- a discussion of how the County Council and partners might respond to the opportunities and challenges of Brexit to support local businesses, including the key messages to Government.

Norfolk is home to 891,700 people[1], 372,500 jobs[2] and 32,230 businesses[3]. It contributes £18.0 billion to the UK economy[4]. Norfolk has economic strengths in a number of sectors. For this report we have looked at the following sectors, based their relatively high levels of employment and specialisation:

- Advanced manufacturing;
- Agriculture, food and drink;
- Construction and development;
- Financial services and insurance;
- Visitor economy.

We recognise that there are other sectors – such as energy and digital – that are also economically important, but are harder to analyse using existing publicly available data. These sectors will face a number of impacts similar to those described in this report. We recommend that further work looks at the opportunities and challenges in these sectors arising from Brexit.

Exposure to Brexit impacts in these sectors can be summarised as follows:

- Advanced manufacturing will most likely be impacted by the imposition of tariffs on traded goods across complex supply chains which cross the EU multiple times. A dependence on EU workers across the skills spectrum is also a vulnerability. Post-Brexit, the UK will no longer have access to EU funding, which is critical to fuelling innovation in the sector.
- Agriculture, food and drink is vulnerable to tariff and non-tariff barriers, particularly due to high exports to the EU. An EU workforce is critical to this sector, given that much of the work is seasonal in nature and thus, companies face difficulties recruiting domestically. UK farming is highly dependent upon Common Agricultural Policy (CAP) funding, the replacement of which is unclear.
- Construction and development is most exposed by the high number of EU workers in this sector, owing to existing skills shortages in the UK. Loss of access to the Single Market post-Brexit is likely to cause shortages in building materials, risking increased costs of construction and delivery. The EU has been critical in funding large infrastructure projects, which support the construction sector.

- Financial services and insurance is most likely to be impacted by the loss of access to the Single Market and the consequent removal of 'passporting' rights, which allow firms to provide services across borders without additional paperwork or costs. Firms are likely to continue to comply with EU regulation despite no longer having influence over such regulations.
- Visitor economy is most exposed to the restriction of labour post-Brexit. This sector employs a high number of EU migrants to plug domestic skills shortages in hard-to-fill vacancies.

Broadly speaking, businesses will be exposed to the impacts of Brexit in three main ways depending on their business model and the sector they operate in:

- **Trade** – businesses with large existing trade links/supply chain links to the EU are more highly exposed. There are likely to be administrative costs for businesses relating to changes in customs procedures, taxation and contracts.
- **Labour market** – lower numbers of EU workers, particularly lower-skilled, challenges businesses which are dependent upon EU labour to fill vacancies.
- **Regulation and investment** – in many sectors, businesses will continue to comply with EU regulations to facilitate trade and remain competitive. There has been a short-term dampening in investment, but the long-term impacts are unclear. The extent to which Government will fully replace EU funding remains uncertain.

This suggests the following potential policy approaches that the County Council and partners might pursue to support businesses respond to the opportunities and challenges of Brexit, including:

- Ensuring local businesses have adequate support to address new administrative costs.
- Strengthening innovation in Norfolk's businesses, for instance through innovation, and supporting businesses to expand trade beyond the EU to new markets.
- Developing local skills to mitigate against the impact of Brexit on EU labour in key sectors.
- Collaborating with other regions to build sectoral strengths, particularly where there is a common interest in reaching out to new markets or designing new products.

It will also be important for Norfolk County Council to work with Government to develop a key set of messages agreed with local partners and business which emphasise the continued importance of the Norfolk economy and clearly articulate the needs of businesses in Norfolk in the post-Brexit economy. It will also be important to stress to Government the need to:

- Put in place a UK Shared Prosperity Fund (UKSPF) which replaces key EU funding, supports enhanced productivity, encourages greater export activity, and provides sufficient local revenue funding to Growth Hubs and other support services.
- Establish sector deals for agriculture, food and drink, advanced manufacturing, and financial services and insurance, as well as ensure Norfolk's interests are represented in the current proposed sector deals for construction and development and visitor economy.
- Agree town deals for key towns in Norfolk.
- Implement temporary work visa arrangements for sectors that benefit from migrant labour.
- Ensure investment in the infrastructure which Norfolk needs to grow.

1 Introduction

1.1 This report has been produced to help Norfolk County Council and partners – in consultation with businesses – consider how best to respond to the opportunities and challenges of Brexit. This short report sets out:

- a high-level analysis of Norfolk's economic and sectoral strengths;
- how some of Norfolk's key sectors might be exposed to different challenges and opportunities arising from Brexit;
- a discussion of the main potential impacts facing businesses in Norfolk;
- a discussion of how the County Council and partners might respond to the opportunities and challenges of Brexit to support local businesses, including the key messages to Government.

1.2 In considering these topics, it is important to remember the following points:

- The final nature of the Brexit deal remains highly uncertain. This uncertainty is creating challenges for businesses now, and helping businesses deal with this uncertainty is crucial to responding to Brexit.
- Despite the often polarised nature of the debate around Brexit, all commentators are very clear that a successful Brexit needs to:
  - address the challenges of trade, ensuring that businesses are able to take advantage of trading opportunities and are ready for export.
  - address the labour market challenges associated with current high dependence on EU labour in many sectors.
  - help address other forms of uncertainty, where there are other longstanding links with the EU such as research/innovation links, or funding links (e.g. the CAP).
- Whilst some of these decisions are national (e.g. replacing the CAP), much of this requires local actors such as local authorities, chambers and local enterprise partnerships to lead the response alongside local businesses.
- Whilst Brexit is an important economic event, it is not the only major factor affecting businesses. Other major trends – such as demographic change, the rise of emerging markets, changing technologies, and climate change – are equally or more important to the future fortunes of local business.
- That local places – local enterprise partnerships and combined authorities – are in the process of responding to the Government's Industrial Strategy. This includes considering how to raise productivity and exporting, and how to raise skill levels amongst local residents to achieve economic growth. Therefore, considering the specific impacts of Brexit can and should be one facet of a wider conversation about raising productivity.

1.3 There is a lot of uncertainty around the final Brexit deal with a range of potential scenarios – from a 'Soft Brexit' to a 'Hard Brexit'. We haven't sought in this report to analyse the different deal options and their respective implications for trade and regulations, workforce, funding and investment. Rather, given that the impacts on sectors and businesses will be more severe in the 'Hard Brexit' scenario and to ensure this analysis is relevant, this report analyses the impacts presuming there to be a significant break from the status quo (e.g. a 'no deal' scenario).

2 Norfolk's economic sectoral strengths

2.1 Norfolk is home to 891,700 people[5], 372,500 jobs[6] and 32,230 businesses[7]. It contributes £18.0 billion to the UK economy[8].

2.2 Table 1 shows a list of the top SIC-2 sub-sectors with over 1,000 jobs in Norfolk, ranked by Location Quotient (LQ). LQ is a measure of the specialisation of the sub-sector in Norfolk relative to the rest of the country. It measures the share of employment in a sector in the Norfolk economy as a ratio of the share of employment in the same sector in the UK. Higher LQs correspond to higher levels of specialisation, with an LQ above 1.0 indicating that the area is more specialised in that sector than the UK as a whole. Specialisation is an important indicator of economic strengths.

2.3 Norfolk has economic strengths in a number of sectors. For this report we have looked at the following sectors, based on the fact that they employ high numbers of people and are relatively specialised:

- Advanced manufacturing;
- Agriculture, food and drink;
- Construction and development;
- Financial services and insurance;
- Visitor economy.

2.4 We recognise that there are other sectors – such as energy and digital – that are also economically important, but are harder to analyse using existing publicly available data. These sectors will face a number of impacts similar to those described in this report. We recommend that further work looks at the opportunities and challenges in these sectors arising from Brexit.

Table 1 – Employment, employment change and specialisation in Norfolk – sectors with over 1,000 jobs (source: ONS BRES)

SIC 2 sub-sector	Number of jobs (2016)	Change in number of jobs (2011-16)	LQ (2016)	Sector group
Libraries, archives, museums and other cultural activities	3,000	1,625	2.30	**Visitor economy**
Manufacture of beverages	1,000	200	2.23	**Agriculture, food and drink**
Veterinary activities	1,250	600	1.78	Other services
Activities auxiliary to financial services and insurance activities	9,500	0	1.71	**Financial services and insurance**
Accommodation	9,500	2,500	1.62	**Visitor economy**
Rental and leasing activities	3,000	625	1.57	Other commercial
Manufacture of food products	7,000	-500	1.54	**Agriculture, food and drink**
Wholesale and retail trade and repair of motor vehicles and motorcycles	10,500	3,500	1.53	Other commercial
Repair and installation of machinery and equipment	2,375	625	1.52	**Advanced manufacturing**
Manufacture of electrical equipment	1,375	0	1.50	**Advanced manufacturing**
Manufacture of machinery and equipment n.e.c.	3,000	0	1.49	**Advanced manufacturing**
Residential care activities	12,500	3,000	1.45	Health and social care
Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	1,375	0	1.43	**Advanced manufacturing**
Manufacture of fabricated metal products, except machinery and equipment	5,000	1,000	1.34	**Advanced manufacturing**
Waste collection, treatment and disposal activities; materials recovery	2,125	125	1.32	Other services
Manufacture of rubber and plastic products	2,375	125	1.30	**Advanced manufacturing**
Specialised construction activities	12,000	1,000	1.27	**Construction and development**

3 Brexit exposure in Norfolk's key sectors

3.1 In writing this report, to understand the impact of Brexit on key sectors in Norfolk, we have drawn on a variety of sources including official documents and statements by Government departments and official institutions; reports by thinktanks, foundations, NGOs, law firms, trade and sector associations, and academic institutions; and economic data from official datasets. Most of these sources have been written on a national basis and therefore many of the statistics cited in the sections below are national figures. Nonetheless, we think these are useful in illustrating the opportunities and challenges of Brexit in these sectors in a Norfolk context.

Advanced manufacturing

Trade and regulations

3.2 The manufacturing sector relies heavily on international trade, particularly with the EU. In 2017, 48.3% of exports and 56.5% of imports nationally in manufacturing (excluding food) were to and from other EU countries[9]. The imposition of tariffs and other barriers to trade after the UK leaves the Single Market and Customs Union would increase costs for manufacturers[10] and reduce their competitiveness. The additional costs of non-tariff barriers have been estimated to be equivalent to 4% with an FTA and 6% with WTO rules.

3.3 The complexity of manufacturing supply chains, which operate across the EU[11] with products crossing borders multiple times, also exposes the sector to Brexit trade impacts. Barriers to trade would affect not only the export of final products but will significantly affect manufacturing costs (and times), making British businesses less competitive.

3.4 The main issue is related to the rules of origin, whereby products sold in the EU market with preferential or non-tariff arrangements will have to prove that they are from the UK, preventing countries without a trade deal from accessing the EU market through the UK and vice versa. Since a product is made of several parts produced in different places, proving a threshold for 'local content requirements' will add significant levels of bureaucracy and border checks[12].

3.5 A short-term impact of Brexit has been the depreciation of sterling which has positively increased output prices (in sterling) for exported goods, making UK exports more competitive[13]. Increased input costs resulting from the higher costs of importing raw materials and fuels[14], as well as manufactured products[15] has boosted the UK domestic market, as companies are forced to source nationally[16]. These trends may reverse if the pound recovers to its pre-Brexit level.

3.6 Many manufacturing regulations and laws, encompassing product safety, employment, health and safety, and environmental and consumer protection, are standardised across EU member states. In order to continue trading in the EU, UK manufacturers would have to conform to EU product standards and safety[17].

Workforce

3.7 Manufacturing is reliant on EU workers. Nationally, between April 2016 and March 2017 EU nationals accounted for 10.9% of the workforce in manufacturing[18]. Workers are essential to filling existing labour shortages in the UK across different skills levels. Restrictions to migration from the EU are likely to negatively affect UK businesses by making it harder to recruit lower-skilled workers who might not fulfil future entry criteria in terms of skills and salary thresholds. It may also make it difficult to fill shortages of highly-skilled workers if EU skilled workers are less willing to move to the UK or if multinational companies are no longer able to move highly-skilled engineers at short notice across the EU[19].

3.8 Underlying the need for EU workers in manufacturing in the UK is a long-standing skills gap, rooted in disparities between the skills provided by education and training and those required by employers[20] . A report presented at the National Manufacturing Debate, an annual conference for the manufacturing industry, listed shortages in technical skills, such as robotics, artificial intelligence, software, data analysis, and electrical/electronic engineering[21].

Funding and investment

3.9 EU funding has been integral to maintaining a dynamic and innovative manufacturing sector in the UK. In 2015, the majority (68%) of Research and Development expenditure in the UK was channelled to manufacturing[22]. Between 2007 and 2013, €7 billion was granted to the UK as part of the EU Framework Programme 7 (FP7), €1.2 billion of which was used to support around 10,000 companies (with the majority used for education/training)[23]. Under Horizon 2020, the UK was the second largest recipient of funding of all EU countries, totalling €1.8 billion, with 22% directed to businesses (ibid.). It is still not clear the extent to which the government will be able to replace EU funding, or whether the UK will retain access to some EU Programmes.

Agriculture, food and drink

Trade and regulations

3.10 Agriculture, food and drink is highly reliant on trade with the EU. In 2017, the EU share of exports of agricultural products and food/drink products nationally was 71.0% and 55.6%, respectively[24]. In the same year in the UK, 49.5% of agricultural product imports and 76.9% of food/drink product imports were from the EU. Food processing is at the most risk of a significant fall in exports[25], which may be exacerbated by a slowdown in agricultural trade[26]. The dependence of this sector on EU trade makes it vulnerable to trade barriers.

3.11 Agriculture, hunting, forestry and fishing, as well as food processing have been listed as two of the sectors expected to be most highly impacted by potential future tariffs[27]. If tariffs are introduced after the UK leaves the Customs Union, Food, Beverages and Tobacco is these are expected to be 12.7%, considering both current FTA and WTO rules. High tariffs on imports may offer the opportunity for import substitution, as the price of British products becomes more attractive to UK consumers[28], benefiting British producers and food supply chains.

3.12 The enforcement of non-tariff barriers, such as costs, other border costs and regulatory costs, following the UK's departure from the Single Market will most likely introduce the need for border checks on most food products. According to the latest official estimates, non-tariff barriers for food and drink could impose an additional cost of 14% (FTA-type deal) to 18% (WTO rules), which is never less than 8% (EEA-type deal)[29]. Despite the potential implementation of barriers to trade, Brexit is thought to offer agriculture, food and drink the opportunity to grow food and drinks exports more quickly that previously[30] and expand exports globally[31].

3.13 There is limited scope for relaxing current standards and regulations. At present, standardised EU rules regarding marketing standards and product safety apply for products produced in the UK and sold in the EU[32]. Regulatory stability will be necessary to ease trade[33].

Workforce

3.14 Both agriculture and food and drink manufacture have a high EU workforce. Agriculture is a labour-intensive sector with 10% of the national workforce (36,000 people) from the EU between April 2016 and March 2017[34]. This figure is unlikely to completely account for temporary and seasonal workers, as the Annual Population Survey methodology uses a sample of UK residents. It is estimated that 98% of temporary workers are recruited from the EU[35]. In 2016, 33% of food processing workers were non-UK EU nationals[36].

3.15 The reliance on EU labour stems from the difficulty in employing workers domestically[37], particularly because the work is seasonal in nature. According to survey data from the National Farmers Union, more than 4,300 vacancies were unfilled in 2017, causing losses to farmers[38]. A restriction on free movement may result in labour shortages, which could reduce production, and necessitate increased imports and price rises[39].

Funding and investment

3.16 Farmers in the UK are highly reliant on subsidies from the Common Agricultural Policy (CAP). In 2015, farmers in the UK received €3.084 billion in direct payments[40] which, on average, contributed 55% of the total income from farming[41]. If CAP payments were removed from farms without a replacement scheme designed and implemented by the UK government, this could result in farm closures or lower levels of output. In turn this could impact the supply of agricultural products to process in food and drink manufacturing. Alongside CAP subsidies, the UK was allocated €5.2 billion of funds for rural development projects between 2014 and 2020[42]. With regards to the funding of agriculture following Brexit, Michael Gove has hinted at the Government making money available for environmental protection[43].

3.17 It is difficult to assess the direct impacts on investment. Nonetheless, impacts on trade and labour supply are likely to affect businesses' investment decisions.[44] Investment is vital to improve productivity and develop new products. Therefore, the lack of investment could diminish potential future productivity gains[45] and reduce the capacity of businesses to adjust to workforce (e.g. developing automation) and trade (e.g. targeting new markets) impacts.

Construction and development

Trade and regulations

3.18 According to Sarah McMonagle, director of external affairs at the Federation of Master Builders, only 25% of construction materials are imported[46]. However, data from the Department of Business Skills and Innovation 2010 Study for the UK shows that the EU is the destination of 63%

of exports and the origin of 64% of imports in building materials[47]. Loss of access to the Single Market and the introduction of duties or complex restrictions on materials (e.g. limits to quantities imported) may cause shortages[48] or delays in importing and exporting essential resources[49], increasing the cost of materials and hence increasing construction costs for British companies and consumers[50].

3.19 EU law has minimal presence in the construction sector[51]; however, continued compliance with legislation relating to construction materials will be necessary to maintain ease of trade[52]. Regulation relating to the environment, working conditions, and health and safety are determined by the EU[53]. There is a concern that a movement away from these practices or a reduction in standards may result in exploitative practices[54].

Workforce

3.20 The UK construction workforce relies heavily on a foreign labour force, as almost 13% of construction workers across the UK were born abroad[55]. Specifically, non-UK EU nationals accounted for 8.8% of the workforce in this sector in the UK between April 2016 and March 2017[56]. The main reason for the reliance on skilled EU workers, who are typically from Eastern European countries[57], is the failure to recruit from the domestic market due to the skills shortage within the sector[58]. Skills shortages are likely to worsen once the UK leaves the Single Market and stops the free movement of people.

3.21 A reduced supply of labour may cause delays and drive up wages, resulting in higher project costs[59], as well as reduce the capacity of house builders, further contributing to an increase in costs[60]. Conversely, UK workers may benefit from reduced competition for jobs and access to larger selection of roles within the industry, and potentially higher wages.

Funding and investment

3.22 The construction sector is one of the largest beneficiaries of EU funding[61] with access to the European Investment Bank (EIB), European Investment Fund (EIF), European Structural Investment Fund (ESIF), European Regional Development Fund (ERDF) and Joint European Support for Sustainable Investment in City Areas (Jessica). In 2015, the EIB and EIF together invested €7.8 billion in UK infrastructure projects and lent €666 million to SMEs[62]. The future sustainability of funding is of vital importance to the sector’s continued success, particularly for large infrastructure[63] and regeneration projects[64].

3.23 There is likely to be a reduction in foreign investment in commercial and residential development[65], as investors delay making decisions on future of projects due to uncertainty over the UK economy following Brexit[66].

Financial services and insurance

Trade and regulations

3.24 The EU is a major trading partner for the UK financial services sector, making a significant contribution to the national economy. According to the FCA, almost 5,500 UK firms provide financial services to clients in the EU and EEA[67]. In 2014, UK exports to the EU generated a £18.5 billion trade surplus[68]. At present, UK insurers have direct access to a single insurance market across Europe and can conduct cross-border business without requiring further authorisation[69] or additional local costs[70].

3.25 Specifically, the right of UK firms to 'passport' in other countries is at risk. 'Passporting' allows UK-authorised firms to trade across the EU on a 'cross-border services' basis or via a network of local branch officers[71]. No longer having 'passporting' rights may result in restructuring with firms establishing new authorised branches in the EU. An alternative may be requesting permission to carry out business in every EEA state[72]. Firms are likely to incur significant costs as a result[73].

3.26 A concern is that firms may choose to relocate their operations from the UK[74]. For instance, Aviva have converted some Irish branches into subsidiaries, whilst Legal and General have moved some of their investment management operations to Ireland[75].

3.27 Leaving the EU may also undermine the UK's status as a platform for trade with the US and China[76]. Alternatively, Brexit is seen as an opportunity to expand into new markets[77]. There is also the perception that the UK may appear to be a more attractive destination if it was removed from the uncertainty in the Eurozone market[78].

3.28 Regulation in the insurance sector is likely to be highly impacted by Brexit. Solvency II is the EU directive responsible for harmonising insurance regulation across the EU[79]. It is likely that the UK insurance sector will need to continue to comply with EU regulation to stay competitive[80] and conduct business across the EU[81]. However, the UK will no longer be able to influence the direction of regulation across the EU, despite conforming to it[82]. Regulatory compliance and third-party access to the EU market is considered to be insufficient to maintain the smooth trade in financial services[83].

Workforce

3.29 Access to global talent, including workers from the EU, is essential to the financial services and insurance sector[84]. A recent survey showed that an estimated 5,000 finance jobs will be moved out of the UK or created overseas by March 2019 because of Brexit[85]. In the insurance sector, skilled workers often fill traditional roles in underwriting and claims, as well as newer positions in social media marketing and data analytics[86]. Restrictions may force companies to revise employment strategies and access smart tools such as workforce analytics and long-term strategic workforce planning[87].

Visitor economy

Trade and regulations

3.30 One short-term benefit the sector has experienced since the referendum has been the effects of the depreciation of sterling. There has been a rise in domestic holidays or 'staycations', due to the lower cost of a holiday in the UK relative to abroad[88]. Simultaneously, there has been an 8% rise in overseas visitors to Britain in 2017, perhaps due to reduced travelling costs[89].

3.31 Following Brexit, trends in rising visitor numbers could reverse if the pound recovers to pre-Brexit levels, making the holidays abroad more affordable for Brits, whilst disincentivising foreign tourists. The UK may become a less attractive tourist destination, due to increasing travel costs, more difficult border controls and checks, and the perception of the UK as less welcoming[90]. This would be a quite significant problem as, according to the ONS International Passenger Survey, 66% of the UK's visitors in 2017 came from the EU[91].

3.32 Brexit is unlikely to offer the sector the opportunity to design its own regulation. The majority of consumer protection issues are subject to EU regulation, including the package travel directive, European health insurance, consumer rights directive and passenger rights[92]. It is critical that consumer protection remains high to continue to attract foreign visitors[93], so it is likely the sector will continue to comply with EU regulations. Further, it is likely that the UK will continue to co-operate with current legislation in place around transport; however, it may renegotiate whether to continue with or form new agreements on some aspects of aviation regulation (e.g. Open Skies agreements)[94].

Workforce

3.33 There are a large number of EU migrants working in the sector with non-UK EU nationals making up 9.5% (554,000 people) of the distribution, hotels and restaurants workforce in the UK between April 2016 and March 2017[95]. These national figures could be an underestimate, as a KPMG report for the British Hospitality Association reported that 75% of waiting staff, 37% of housekeeping staff and 25% of all chefs are from the EU[96].

3.34 The reliance on EU workers is related to a domestic skills and labour shortage[97], reflected in the high number of vacancies nationally which are considered hard-to-fill: 42% in hotels, 38% in restaurants and 28% in tourist services[98].

3.35 The sector is very exposed should there be restrictions to labour. For instance, Brexit may increase the expense of recruiting and retaining EU staff[99], and increase employment costs for businesses as they compete for fewer skilled workers and need to spend more resources on training[100]. This in turn may increase consumer costs and undermine the competitiveness of the UK visitor economy[101].

Funding and investment

3.36 The Brexit impact on funding and investment is harder to ascertain. Funding under the Common Agricultural Policy (CAP) has also been beneficial to visitor economy. In the period of 2014 to 2020, €2.6 billion of funds were allocated nationally to supporting rural services, SMEs, tourism, cultural and heritage activities, with the aim of making the UK attractive to visitors[102]. However, the value of tourism to the rural economy remains largely misunderstood, so only a small proportion of CAP is used for tourist development[103].

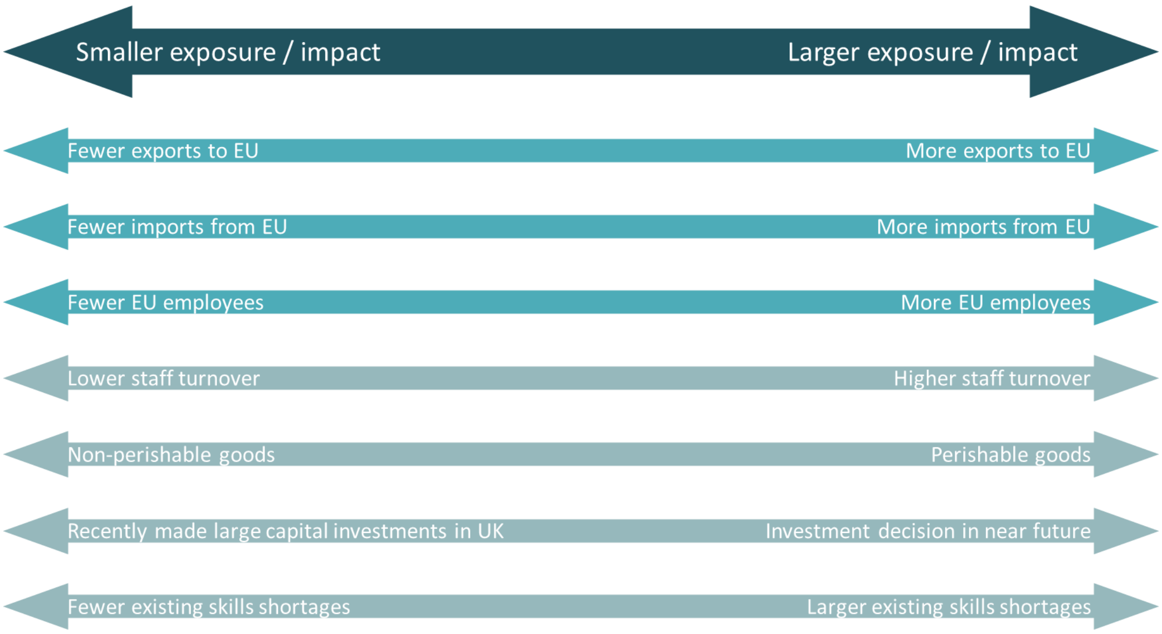
3.37 It is difficult to quantify the extent of FDI in the UK tourism industry; however, Brexit may directly impact FDI from the EU and indirectly impact FDI from outside the EU due to uncertainty over trade and regulations[104]

4 Brexit impacts on businesses

4.1 Brexit offers opportunities and challenges for Norfolk businesses. Most immediately, the fact that the final shape of the deal between the UK Government and the EU is undecided creates uncertainty for businesses. Different sectors and different businesses will be affected in different ways. This may be due to factors such as their size and composition, the extent of trade with the EU, and their dependency upon EU employees. It may also be influenced by staff turnover, whether the companies deal with perishable goods, whether they have made recent capital investments or intend to in the near future, or whether there are existing skills shortages in their sector.

4.2 The diagram below illustrates some of the issues and how they affect individual firm's exposure to Brexit.

Figure 1. Brexit exposure by different (not exhaustive list)



4.3 Broadly speaking, businesses will be exposed to Brexit in three main ways depending on their business model and the sector they operate in:

- Impacts on trade
- Impacts on labour market
- Impacts due to regulation/existing EU investment/innovation links, etc.

Trade exposure to Brexit

4.4 Businesses with large existing trade links/supply chain links to the EU are more highly exposed. For instance, given the likelihood of leaving the EU Single Market and Customs Union, increases in customs bureaucracy are anticipated, as British companies will be required to fill in customs declarations for all goods crossing the border. HMRC estimate the number of customs declarations will rise from 55 million to 255 million annually[105]. In addition, products exported to

EU countries would need to be checked for compliance with EU/EEA standards and regulations, and rules of origin.

4.5 Consequently, more companies will opt to or will be obliged to obtain authorised economic operator status[106]. This allows companies with procedures which are compliant with both countries faster clearance at the border; however, this status is costly and time-consuming to obtain.

4.6 Another issue related to cross-border trade with the EU is VAT starting to be charged at the border when importing goods and services, as opposed to current trade which is exempt from VAT. Switching to charging VAT may potentially create cash flow issues for UK firms, as firms will need to pay VAT before they have sold the goods that they are importing.

4.7 A related issue is that there is a lack of incoterms in many existing contracts with EU firms. Incoterms are internationally recognised terms which prevent confusion in foreign trade by clarifying the obligations of buyers and sellers, including who is responsible for shipping and who is responsible for paying VAT.

4.8 Uncertainties with trade post-Brexit has led to 1 in 5 small businesses with EU supply chains considering moving more or all of their supply chain to the EU, according to survey results from the Federation of Small Businesses[107].

4.9 Further, there may be potential lapses in IP protections (particularly trademarks and design protection) as a result of Brexit[108]. Companies may also need to respond to changes in the rights of existing EU staff and changing recruitment procedures. Survey results show that 40% of small businesses with EU workers are prepared to continue hiring EU workers and deal with any additional costs[109].

4.10 Even before a deal with the EU is signed, the uncertainty around Brexit has created problems for British companies. For instance, work by the Chartered Institute of Procurement and Supply (CIPS) found that 20% of UK firms surveyed were struggling to get contracts that run past March 2020. Brexit uncertainty has resulted in 15% having contracts cancelled or postponed, whilst 63% of EU businesses plan to move at least some of their supply chain out of the UK[110].

4.11 Businesses should also capitalise on the renewed importance of being outwardly focused and internationally competitive, using Brexit as an opportunity to look beyond trade with the EU and form new relationships in new markets. Given the existing challenges of trading with non-EU countries, it is important for the Council, the LEP and other local partners to support businesses to make this leap into new markets.

Skills exposure to Brexit

4.12 The Government has stated that their intention is to significantly reduce EU in-migration whilst keeping the UK attractive to overseas students and highly qualified workers. It is unclear how this will be achieved as it partly depends on factors beyond Government's control (e.g. the willingness of foreign workers to move to the UK, or the number of current qualified workers that will leave). This would be expected to have the most impact on lower skilled EU workers that are present in many industries across Norfolk, though it is unclear how existing lower skilled workers will be affected by the Brexit deal and how many might be able to stay on following Brexit.

4.13 Nonetheless, it is possible to envisage a smaller number of EU workers, particularly lower-skilled workers. This creates a challenge for businesses which are dependent upon EU labour to fill vacancies, but also presents an opportunity for local residents to enter the labour market. Businesses have a pivotal role to play in helping build the local skills base post-Brexit. The County Council and partners need to support businesses to ‘think locally’ by offering training and apprenticeships, and by developing clear paths for career progression.

Regulatory and investment exposure to Brexit

4.14 Certain sectors are particularly exposed to Brexit due to either existing regulatory arrangements or innovation linkages that may lapse if the UK leaves the EU. Certain sectors are also significant net recipients of EU funding and are therefore exposed to Brexit in this way if alternative UK funding is not put in place.

4.15 Many sectors are heavily influenced by EU regulation either through directives implemented into national law or regulatory compliance. In some instances, Brexit offers the opportunity for the UK to design better targeted domestic regulation, such as in the ports and logistics sector. However, for the most part, it is likely that British companies will continue to comply with EU regulations in order to facilitate trade and remain competitive.

4.16 Private and foreign investment is vital to boosting productivity in key sectors through efficiency improvements and the development of new products. There is evidence that UK companies have been postponing investment decisions due to uncertainty over Brexit. The long-term effects on investment are still uncertain and will highly depend on the overall economic performance of the UK post-Brexit.

4.17 Moreover, investment is vital for businesses to innovate and remain competitive after Brexit, adjusting to the changing economic environment and mitigating potential negative impacts of Brexit on trade and workforce. For example, investment is key for businesses to develop new products and target new markets; or to develop automation and reduce reliance on low-skilled workforce.

4.18 EU funding is particularly relevant to the sectors of strength in Norfolk, such as agriculture, food and drink, advanced manufacturing and construction. It performs a variety of roles, such as addressing market failures in farming, fuelling innovation in manufacturing (including food and drink processing), and funding major infrastructure projects. The extent to which Government will fully replace those sources of funding remains uncertain.

5 Getting Norfolk 'Brexit ready'

5.1 The above analysis suggests the following potential policy approaches that the County Council and partners might make to support businesses in the period ahead. These need to be considered as part of wider discussions on the emerging Local Industrial Strategy (LIS) across the New Anglia LEP area.

5.2 It is also important to be mindful of the Government's stated focus on the four Grand Challenges set out in the Industrial Strategy White Paper: artificial intelligence and big data, clean growth, the future of mobility (public and private transport systems), and meeting the needs of an ageing society. Each of these four has relevance – directly or indirectly – to Norfolk's response to the challenges and opportunities of Brexit.

5.3 This list of policy priorities is not exhaustive, nor does it aim to provide detailed policy guidance. It should be interpreted as a starting point for the development of Norfolk's overall strategy for economic success particularly in the post-Brexit context.

Local support

5.4 It will be important for Norfolk County Council to work with partners to support businesses respond to the challenges and opportunities of Brexit, and to support local residents to develop the skills to access jobs. A range of policies can be considered, including:

Support local businesses in adjusting to a new economic environment

5.5 It will be important to ensure local businesses in Norfolk have adequate support to address any costs that may arise from Brexit, particularly for companies reliant on EU exports or imports, or on drawing workers from the EU. This could be developed in collaboration with local sector groups, the Chamber of Commerce, the New Anglia Growth Hub, business representative organisations, and other local experts on the technical details of exporting.

5.6 It would include both providing advice and helping securing financing for companies to deal, among other, with the following issues:

- The administrative costs of overcoming trade barriers, such as complying with new standards and regulations and other potential new legal requirements.
- The administrative costs and required cash-flow to deal with a potential EU VAT payment in advance.
- Providing legal advice and helping with administrative costs of recruiting new overseas workers, both from within and outside the EU.
- Support businesses in developing training programmes for current and new employees, and in creating new apprenticeships and developing links to education institutions.

Strengthen Norfolk businesses' innovation and competitiveness

5.7 There is an opportunity for Norfolk County Council and New Anglia LEP to work with Growth Hubs, Innovation Hubs, and to use the UK Shared Prosperity Fund (when this becomes available) to proactively reach out to those businesses (particularly micro and small companies) which could have opportunities for growth and/or be more challenged by Brexit. These would include, among others:

- Encouraging innovation and developing automation in food processing, manufacturing, ports and logistics and visitor economy in order to decrease reliance on low-skilled EU workers and develop high-productivity, high-skill businesses.
- Developing new products for different markets, including the necessary market research, investment, and export finance.
- Establishing new connections and business relationships with overseas markets, starting with existing local institutional and business ties.

Develop local skills

5.8 According to the latest review, Norfolk has both a high and growing demand for higher skills, but also needs to improve levels of technical skills. This trend is only expected to increase following Brexit and its potential impacts on the local workforce, particularly for sectors which are highly reliant on an EU workforce, such as: agriculture, food and drink, manufacturing, construction, and the visitor economy.

5.9 It will therefore be vital to develop the local area's skills base to ensure young people are ready for work, the current workforce has access to continuous learning opportunities, and local businesses are able to recruit the high-skilled workforce they need to be productive and competitive. This will involve building on New Anglia Sector Skills Plans in agri-food tech, construction, life sciences and bio-economy. Actions might include:

- Increasing Norfolk's technical education offer (building on existing successful examples and best practice in the New Anglia College Group) and apprenticeships. This should also include provision of an adequate offer of adult education.
- Promoting the future skills required by emerging sectors of the local economy so that young people understand the opportunities available (particularly in STEM subjects).
- Ensuring that young people receive adequate careers education, information, advice and guidance (CEIAG) and experience of working environments as part of their education (for example, in line with the benchmarks developed by the Gatsby Foundation) through schemes such as the New Anglia Enterprise Advisor Network.
- Working with Norfolk's main employers to support stronger career progression and opportunities for training and upskilling through life to their current staff, and plan for their future skills need.
- Retaining and attracting skilled workers, by creating the right conditions for young residents to stay in Norfolk and develop higher skilled careers, and by promoting (internally and externally) the County as an attractive place for high skilled people to live and work (related to the place marketing strategy).
- Use Skills Deal activity, such as the New Anglia Skills Deal Programme, to proactively reach out to businesses (particularly micro and small companies) which may face skills shortages

post-Brexit, and support businesses and training providers seek funding for improving training provision.

Collaborate with other regions to promote and strengthen key sectors

5.10 This will be particularly relevant in places where there is a common interest in reaching out to new markets or designing new products. For example, New Anglia LEP shares a border with Greater Lincolnshire LEP and has a reasonably similar economic base. Norfolk County Council and the LEP would benefit from collaborating with other areas of the country facing similar challenges to build a stronger case for private and Government investment, and potentially working on sector deals.

Working with Government to get 'Brexit ready'

5.11 In addition to actions by the County Council, it is important that all local partners and businesses are using a common set of messages with Government.

5.12 Clearly, these messages should be tested and agreed with businesses and partners, but we suggest that they might include:

- Emphasising the continued importance of the Norfolk economy:
  - We are a £18.0bn GVA economy home to 372,500 jobs.
  - We are home to several nationally significant sectors (including those referenced in this report and other sectors which have not been analysed in this report, such as energy and digital). This includes several growth opportunities in key sub-sectors, such as insurance services, life sciences biotech and agritech (mainly Norwich Research Park and proximity to the internationally significant Cambridge cluster), offshore energy, and digital.
- Continued emphasis on a single set of messages that have near, if not total, consensus across the business community:
  - The need for a clear and well-signposted transition period with no trade or regulatory 'cliff edges' to ease exporting and importing.
  - The need to secure the most frictionless trade access possible for both export and import to and from EU markets.
  - Continued regulatory consistency with the EU where this supports business aims (e.g. in the food & drink industry), though exploring sensible regulatory reform where this is consistent with increased local business competitiveness.
  - Continued access to EU programmes that support innovation (e.g. Horizon 2020).
- Putting in place a UK Shared Prosperity Fund (UKSPF) which:
  - Replaces key EU funding in areas such as agriculture, skills training, innovation, etc.
  - Supports enhanced productivity – including supporting investment in automation.
  - Puts a strong focus on supporting greater export activity amongst UK businesses.

    - Provides sufficient local revenue funding to Growth Hubs and other support services to enable them to provide the support services needed by businesses.
- Establishing sector deals for agriculture, food and drink, advanced manufacturing, and financial services and insurance.
- Ensuring Norfolk's interests are represented in the current proposed sector deals for construction and development and visitor economy.
- Putting forward the case for town deals for key towns in Norfolk.
- Implementing temporary work visa arrangements for particular sectors that benefit from migrant labour.
- Investing in the infrastructure your economy needs to growth:
    - Achieving the 'Norwich in 90' ambition through substantial upgrade of the Great Eastern Main Line.
    - Upgrading and dualling key A-roads.
    - Investment in ultra-fast broadband in key towns and business locations.
    - Additional investment in Norfolk's three ports of entry: Norwich airport, King's Lynn and Great Yarmouth, to support any increased logistics lead times and relieve congestion in other major ports as a result of Brexit.

5.13 It is important to note that the final outcomes of Brexit are still highly uncertain and the extent of the impact on different economic sectors will vary depending on the result of the current UK-EU negotiation process. It is vital that Norfolk County Council remains up-to-date as this process continues and is responsive to emerging agreements and potential different scenarios.

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