GLASGOW PARTNERSHIP *for* ECONOMIC GROWTH

GPEG Board. 21 August 2019

'No Deal' Brexit economic implications and proposed interventions

1. Background

1.1 As the GPEG Board will be aware the UK are scheduled to exit the European Union Thursday 31 October 2019. In late July 2019 the UK Government indicated their intension to significantly increase planning and preparation for a 'No Deal' Brexit. This planning included the Chancellor committing a further £2.1Bn funding on top of the budget previously announced of £4.2Bn. As yet, there is no clarity on how this additional funding will be allocated.

1.2 As of August 2019, Glasgow City Council have re-instated their internal Brexit Planning process and it is understood the Scottish Government's wider resilience planning process will recommence around the same time.

2. Potential Economic Impact

2.1 In advance of the original planned Brexit date 31 March 2019, in November 2018 the Bank of England (BofE) released a forecast suggesting a 'No Deal' Brexit could result in a contraction of the UK economy by up to 8%; https://www.bankofengland.co.uk/report/2018/eu-withdrawal-scenarios-and-monetary-and-financial-stability

2.2 Given then increasing risk of this potential economic impact, Glasgow City Council together with the national enterprise agencies; Scottish Enterprise and Skills Development Scotland are reviewing their activity to consider how both Glasgow business and citizens could be impacted and supported during this period. The Department of Work and Pensions (DWP) have also been asked to contribute to this activity.

3. Comparison with the impact of the financial crisis (2008-2012)

3.1 The BofE projected that a 'No Deal' Brexit would have a detrimental impact on the economy, similar to that of the most recent economic recession covering the period 2008 to 2012. Using this assumption, a high level analysis has been undertaken to estimate the projected impact a 'No Deal' Brexit on the Glasgow economy in terms of total production, enterprises, labour market and jobs.

3.2 Using Gross Value Added (GVA) data from the Office for National Statistics (ONS), it is estimated that Glasgow's economy would be approximately £2.35bn worse off over the 4 year period to 2021 with a 'No Deal' Brexit, compared to the current GVA growth projections.

3.3 If the impact of the 2008-2012 recession was applied to Glasgow's latest statistics for enterprises and job numbers, it is estimated that the city would lose approximately 24,000 jobs in two years and miss out on a potential 14,000 new jobs being created. The enterprise base will only increase by 900 in two years and miss out on potentially another 300 enterprises being created.

Appendix 1 contains a summary of the statistical information used to compile this analysis.

4. Business support interventions

4.1 Over the past nine months, the *'Prepare for Brexit'* campaign has provided coordinated business readiness support, delivered by the enterprise and skills agencies together with Business Gateway. This offers up to date information and access to specialist Brexit advice and guidance for businesses.

4.2 A range of Brexit-specific support is available to businesses across Scotland including:

- Prepare for Brexit online self-assessment tool, which helps businesses quickly identify the key risks and opportunities resulting from a 'No-Deal' Brexit
- Brexit Support Grant, designed to incentivise businesses to take action (for example, external specialist support to map supply chain or model cash flow impacts). Any VAT-registered business in Scotland is eligible to apply for the grant of £2 to 4k (100%, payable in arrears)
- free supply chain mapping service can help businesses identify alternative suppliers
- pan-Scotland Brexit events programme, to be delivered from early September onwards.

4.3 Running in tandem with this campaign, Scottish Enterprise at a national level, and the Council at a local level, continue to provide access to a wide range of products and services for businesses to help set-up, accelerate and grow in a resilient and sustainable way. It is important for both organisations to have the foundations in place that will allow swift reaction and timely interventions to help prevent significant business failure.

4.4 It is important to highlight that the wide range of existing business support is entirely relevant and appropriate in the context of Brexit. In many ways, a 'No-Deal' Brexit will bring immediate shifts within the business landscape, accentuating the operational issues businesses need to address on an ongoing basis, whether they be related to recruitment, trade or access to finance. In particular, the existing business support structures will be used to support companies experiencing particular trading difficulties post-Brexit.

4.5 From 1 November 2019 Scottish Enterprise will continue to deliver a broad range of support to companies but focused on helping them manage the impacts of Brexit. In addition to teams of specialists who deliver on areas such as international trade, innovation, and financial readiness SE have also procured external specialists specifically on Brexit issues including customs, Intellectual Property and legal advice. This approach will support businesses as part of the Brexit events/webinars programme. All of SE's existing products can and will be used in a Brexit context.

4.6 SE have indicated they don't have funding to deliver new programmes they are currently discussing with Scottish Government about how resources could be made available in a 'crisis' 'No Deal' situation.

4.7 The Council is in the final stages of procurement to lay the foundations to provide a single, comprehensive businesses offer in the city that will see a framework of 50 to 60 suppliers who can be drawn upon to deliver expertise on a range of subject areas from finance and business structuring through to acceleration, design thinking together with business resilience.

4.8 This model will enable Council support to react to changes in economic conditions, regardless of funding mechanism. Therefore, should additional funding become available, private sector knowledge and expertise can be brought in, to augment the core Council offer, SE support, and help overcome resource challenges and put in place measures to assist business to cope in the most sustainable and resilient way.

5. Employment & Skills

5.1 It is anticipated that a 'No Deal' Brexit will have negative labour market implications. Ongoing work by Skills Development Scotland (SDS), in partnership with key public sector stakeholders, has identified a series of potential actions to help alleviate these, including;

- responding to potential increase in redundancies;
- supporting transition training and upskilling to meet skills shortages in Brexit affected sectors; and
- increased support for people to return to and find work.

5.2 These actions were not implemented following the 'extension of Brexit' to October 31st but SDS anticipate working closely with SG and other partners over the next 8 weeks on the deployment of an appropriate labour market response to Brexit.

5.3 In addition, SDS is a key partner of the Brexit Response Steering Group (BRSG). The BRSG brings together Scotland's enterprise and skills agencies (SDS, SE, HIE, SFC), Scottish Government, Business Gateway to coordinate their responses to Brexit. The Group meets monthly to deliver its joint Action Plan. SDS is responsible for the Skills and Labour Market theme which has focused on supporting the existing workforce, growing the future workforce, and attracting talent. In recent months, actions have been focused on 'No Deal' preparations. The Skills and Labour Market actions align with SDS and Scottish Government EU Exit preparations.

5.4 In many instances the DWP will be the first interaction unemployed individuals have with the public sector. It can be assumed that any significant increase in the unemployment level, noted in section 3, will impact first on DWP services.

5.5 The DWP have indicated they will look to support all parties, i.e. customers, providers and employers through the various offers they already have in place. In practice this would be;

- supporting Partnership Action for Continued Employment (PACE) actions for any companies threatening redundancy,
- the use of our “Dynamic Purchasing System” and Low Value Provision process to source and fund appropriate training identified for our customers
- using the Flexible Support Fund to address other barriers or issues that individuals may have in commencing employment.

5.6 Glasgow City Council, through their partners providers, deliver a range of employability interventions designed to support individuals furthest from the labour market enter and sustain in employment. This activity ranges from the flagship Glasgow Guarantee to the European Social Fund ‘pipeline’, the Assisted Garden Maintenance programme and wider support through Jobs and Business Glasgow.

5.7 The issue facing GCC is with a major contraction in the economy, unemployment will rise significantly, as demonstrated with the information in section 3.3, with less opportunities for residents to return to work. This will result in the individuals supported through GCC existing interventions being ‘pushed’ further from the labour market, due to the increase in recently unemployed residents, contractions in the business base and fewer opportunities.

6. Recommendations

6.1 The GPEG Board is asked to consider the content of the report, in relation to both business resilience and unemployment.

6.2 Remit colleagues from Economic Development, SDS and SE to further develop proposals to proactively engage with the Scottish / UK Government.

6.3 Given the similarity in planning across Scottish Local Authorities should a regional approach to be taken to address these issues, possibly by consideration through the Regional Partnership?

Appendix 1; Economic Analysis

Glasgow Economic Indicator	Latest Data	Recent Trend	Recession Trend	Recent Trend Extrapolation	Recession Trend Extrapolation	Difference
Total GVA (£m)	19,300 (2017)	+15.8% (13-17)	+3.6% (08-12)	22,353	20,002	-2,351
Employment Rate (%)	64.3 (2018)	+0.1% points (14-18)	-6.2% points (08-12)	64.4	58.1	-6.3% points
Unemployment Rate (%)	6.3 (2018)	-3.5% points (14-18)	+5.7% points (08-12)	2.8	12.0	+9.2% points
Economic Inactivity Rate (%)	31.4 (2018)	+2.6% points (14-18)	+2.6% points (08-12)	34.0	34.0	+0.0% points
Number of jobs	415,000 (2017)	+3.5% (15-17)	-5.9% (09-11)	429,489	390,707	-38,781
Number of enterprises	18,420 (2018)	+6.5% (16-18)	+4.7% (10-12)	19,618	19,287	-331