

**Report of Chief Executive**

**Report to Executive Board**

**Date: 27<sup>th</sup> July, 2016**

**Subject: Leeds City Council's initial response to the referendum on the UK's membership of European Union**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. This report sets out the Council's proposed initial response to the referendum on the UK's membership of the European Union held on 23<sup>rd</sup> June, 2016. Brexit will have national and local implications and Leeds will not be immune from its impact. Whilst it is important we consider the implications carefully, not all of which are yet apparent, there is a need to respond quickly to the initial implications. Our city has proved its resilience repeatedly in the past; we have a diverse economy, and are a strong community of businesses, institutions and people.
2. The ambition for a strong economy, compassionate city is set out in the Best Council Plan, now more than ever it is important to continue with our approach of promoting economic growth and tackling poverty. By enhancing the ability of all our people to contribute to their full potential we can boost the economic productivity and competitiveness of Leeds. We are an inclusive, tolerant and united city committed to helping every person in Leeds fulfil their potential.
3. We need to ensure major development and infrastructure schemes do not stall, working with developers and investors to bring forward significant development, leading to billions of pounds of investment and delivery of thousands of jobs. We will continue to seek to secure European funding, work towards our cultural ambitions and continue to present Leeds as an outward looking, international city.

4. The referendum highlighted divisions between north and south, cities and rural areas, old and young. In this context the case for devolution has become even stronger and our focus will be on the success and well-being of Leeds and its city region. We will continue to take a lead as a city to work with our partners, central and local government, and local communities to ensure that we address local issues and opportunities in Leeds.

## **Recommendations**

Executive Board is recommended to approve the following:

1. Request that the Chief Officer Economy and Regeneration identifies the impact of the economic uncertainty on major development projects, and measures that could be undertaken by the Council working with the LEP and Combined Authority to de-risk existing schemes, and to bring forward new projects to take advantage of the positive exchange rate.
2. Make the case to Government to secure the European Structural Investment Funding (ESIF) committed to Leeds City Region over the remainder of the period the UK is a member of the EU, and once the UK leaves the EU, for funding to replace the European Funds earmarked for the city region.
3. Request that the Chief Officer Economy and Regeneration puts in place strengthened Key Account Management mechanisms for supporting businesses, particularly those where there is a potential risk of disinvestment, and key institutions in the city that could be affected by changes in EU funding, and their ability to recruit staff from across the EU.
4. Request that the Chief Officer Economy and Regeneration sets up a standing task force to respond to any major disinvestment and redundancies, by providing support for people to find alternative jobs, and seeking to attract investment to sites that become available.
5. Continue to promote a tolerant, open and inclusive city. Provide information and advice to people on the implications of Brexit and reassuring them they are welcome to live and work in Leeds, and monitor and seek to tackle any community tensions.
6. Continue to make the case for increased devolution to ensure Leeds and the City Region have the powers and resources to respond to changing economic circumstances, and to do so in a way that connects local people better with the making of decisions that affect their lives.
7. Enhance the image of Leeds on the global stage as an outward-looking, diverse and international city by continuing to promote inward investment in Leeds, attract international visitors, strengthen existing international partnerships and reaffirm our support to the bid for Leeds to become European Capital of Culture in 2023. If the UK is not eligible for a Capital of Culture (which is only one of a number of possibilities), consider the potential for a major international cultural festival to bring people together and to promote Leeds internationally.

## **1 Purpose of this report**

- 1.1 This report sets out the steps Leeds City Council, working closely with partners, will take to support people, growth, businesses, and key institutions in the city following the EU Referendum. It is likely that there will be a period of economic uncertainty which may have an impact on investment and key institutions in the city, including the Council. Many of our people will be concerned about the impact on them, particularly EU nationals who have chosen Leeds as a place to live and work.
- 1.2 We need to manage these risks and remain calm and focused on the interests of the city. The report sets out objectives and actions to help with this. Leeds has proven repeatedly in the past that it is a resilient city, where people, businesses and key institutions pull together when necessary, and we can do so again in the days, weeks and months ahead.

## **2 Background information**

- 2.1 This report is in response to the referendum held on 23<sup>rd</sup> June where the UK voted to leave the European Union.
- 2.2 The long term effects of the result are unknown, which creates uncertainty, both in terms of our new relationship with the EU and the rest of the world. Our region has just had one of its most successful periods of inward investment, as result of the UK's primary position in the EU league table for Foreign Direct Investment, and Leeds has being able to take advantage of this as the second most popular core city for Foreign Direct Investment.
- 2.3 The Leeds City Region receives support from the European Union in the form of grants, the total value of European Structural and Investment Funds (ESIF) over the lifetime of the programme, to the Leeds City Region is £303m. The projects which are currently in the pipeline for Leeds are valued at £29m, with additional funding possible if the ESIF programme continues.
- 2.4 Projects that are in the pipeline will fund:
  - Employment and skills support for local people to ensure that they can access local and more highly skilled jobs;
  - Support for our local businesses, including those in key sectors, to ensure that they can grow and create a vibrant economy;
  - Measures to create district heating networks and innovative energy efficiency measures for those living in social housing; and
  - Support to link local businesses with innovation, research and development capacity in Universities.
- 2.5 There is also the potential for ESIF and the European Union Solidarity Fund to fund future flood alleviation works. The Solidarity Fund is to support EU member states in the immediate aftermath of natural disasters. Applications must be made

by national governments and one is currently being considered by the EU. Within the Leeds City Region ESIF Programme, around £12m is allocated to flood alleviation and green infrastructure projects.

- 2.6 The EU also provides research funding to our Universities as well as important opportunities for student exchange, which benefit both domestic and EU students and contribute to our international community. Leeds University has 1,300 students who are from the EU and 690 staff, whilst Leeds Beckett University has an additional 545 students and 184 staff from the EU.

### **3 Main issues**

#### **Overview**

- 3.1 This report identifies five main areas where the council and its partners can focus on in this period of uncertainty. Leeds is a resilient city with a strong economy, and an attractive place to live, work, visit and invest. It is proposed that we will prioritise:
- Maintaining momentum on major development and infrastructure schemes, and economic growth projects;
  - Supporting business and key institutions;
  - Creating a more tolerant and united city;
  - Securing devolution; and
  - Providing confident, outward-looking leadership and image of Leeds as an international city.
- 3.2 The referendum result has demonstrated that there are many people who feel alienated by globalisation, people who do not feel the effects of our financial recovery in an economy that has become increasingly unbalanced, and people who experience public services under huge strain. Local communities who have voted for more of a say in their affairs. This needs addressing and one way is more devolved powers to regions, something the council will continue to lobby the government for.
- 3.3 We are working with business to assess confidence at a time when the details of Brexit and the future economic landscape are not yet known. Investment and development is thriving in Leeds and any loss would have an impact. A slowdown in the housing market would harm our construction sector and those looking to get on the housing ladder. Many schemes in Leeds rely on foreign investment and there are foreign owned companies in Leeds who employ local workers. Any difficulties in raising finance will need to be closely monitored.
- 3.4 Many of our companies import and export goods and the decline of sterling will have an impact on price, raising costs for imports but making our exports more competitive. The fall in the pound will also add to inflationary pressures.

- 3.5 There is a potential for a downward trend in interest rates, which will help with mortgage payments. It will also reduce the cost of public sector borrowing which presents opportunities for the council.
- 3.6 Free movement of workers has been a significant factor in the growth of the UK economy, particularly as it has recovered from last economic downturn. Limiting easy access to skills and labour may well limit future economic growth. However, migration can have localised impacts in terms of demand for services, housing and employment patterns. Whilst any changes to migration will not be immediate - it is likely that we will see a change in the patterns of economic migration.
- 3.7 Our universities rely on a large amount of EU funding and students from overseas who come to Leeds to study. Continuing to attract and welcome talent from across Europe and around the world is vital to both the academic and financial success of our Universities and, consequently, their positive impact on the city region. It is essential that the Government plans to make up any shortfall in research funding resulting from Brexit.
- 3.8 There is the potential that Government may bring forward economic stimulus measures. There is also a change in the government's position on austerity following the result with an acknowledgement that the budget surplus may not be reached by 2020.

**Maintaining momentum on major development and infrastructure schemes, and economic growth projects**

- 3.10 Leeds is a growing city with billions of pounds of investment in the development pipeline. The issues relating to European Structural Investment Funds are set out in section 2 of the report.
- 3.11 Nationally, the Government must do what it can to create economic stability and to reassure international investors in the UK. This should include a strengthening commitment to major infrastructure projects such as flood alleviation, HS2 and improved rail links to other cities in the north.
- 3.12 Locally, we need to build on the connections we have made with developers and investors. Following the recession the council has been able to work collaboratively with the private sector, working to get development started and share the risk on big job creating projects, such as Kirkstall Forge, Victoria Gate, the Arena, and the Enterprise Zone in the Aire Valley. When the Trinity Leeds development stalled in 2009 following the economic downturn the project was in doubt, but Leeds proved its resilience and once it restarted in 2010, the shopping centre was completed and became a great success story for the city. We will continue this work, alongside partners including the LEP to put in place the emergency funding mechanisms to try and shore up investor confidence in Leeds.
- 3.13 Housing is an area which is showing signs of a slowdown following Brexit. This may be a temporary blip, and Leeds has a strong construction sector which is better placed than many to weather any storm, but it is still necessary to monitor housing delivery against our ambitious targets for housing growth.

- 3.14 We will ensure major development and infrastructure schemes do not stall by:
- enhancing key account management with the developers and funders of major schemes;
  - identifying alternative investment mechanisms, working with the LEP, other Northern Powerhouse cities, and Government;
  - Seeking assurances from Government on major infrastructure projects planned for Leeds; and
  - Making the case to Government to secure the European Structural Investment Funding (ESIF) committed to Leeds City Region over the remainder of the period the UK is a member of the EU, and once the UK leaves the EU, for funding to replace the European Funds earmarked for the city region.

### **Supporting business and key institutions**

- 3.15 The impact of Brexit on businesses will be far reaching and we need to support business and key institutions. We will need to assess the impact on our Universities and colleges given the importance of their international students, collaborations with other Universities across the world, and the significant research funding they receive from the EU.
- 3.16 We will support businesses and key institutions in Leeds by:
- providing advice to businesses about potential implications and timescales of Brexit, including channelling interested businesses to financial and professional services advice;
  - enhancing our key account management of priority businesses;
  - setting up a standing task force to deal with major potential relocations or redundancies;
  - reviewing council financial decisions and exposure in the context of Brexit (and making the case to counter the risk of further austerity);
  - assessing the impact on Universities and FE colleges, who have large numbers of overseas students, and many international collaborations;
  - considering the impact on the NHS, especially Leeds Teaching Hospital Trust, given the importance of workers from the EU to keeping health services running; and
  - quantification of the potential knock-on impact on the city economy, and the identification and implementation of mitigating actions.

## **Creating a more tolerant and united city**

- 3.17 The referendum has demonstrated clear differences between groups in our society. These are geographical, with northern England and Wales favouring Brexit as opposed to Scotland, London and Northern Ireland who all voted to remain. But there are also splits between rich and poor, between young and old, between city and suburbs / rural areas, between people enthusiastic about globalisation and those concerned by it.
- 3.18 We need to reinforce our values in Leeds as an international, diverse, welcoming and outward looking city, whilst recognising and responding to the concerns of those who feel insecure, who feel they are not benefiting from globalisation, and who are experiencing the consequences of public services under pressure as a result of austerity. We must do so by ensuring the absolute right of all our people to live their lives without intimidation and fear.
- 3.19 Leeds has a proud heritage and is a historically diverse city, currently it is home to over 140 ethnic groups and many EU nationals. The vast majority of people live and work together harmoniously, but where differences are not fully understood or valued then tensions can occur. It is important that we support communities to work together, strengthen community cohesion and help break down barriers to ensure that there is understanding and respect on all sides. We will monitor any racial incidents closely, and act decisively if these do occur. A paper will be presented to Executive Board in September which sets out the council's plans for community cohesion in more detail.
- 3.20 We are committed to promoting our city, and are currently bidding to become European Capital of Culture 2023, something which will hopefully still be possible once we leave the EU. Another great example is the Leeds West Indian Carnival which celebrates its 50<sup>th</sup> year in 2017.
- 3.21 Now is the perfect time to emphasise our values as a compassionate and tolerant city by:
- providing advice to reassure individual citizens and communities; including non-UK EU citizens of potential implications;
  - supporting people to access jobs and housing;
  - tackling quickly and robustly any cases of racist abuse and / or intimidation; and
  - building a greater understanding across local communities of the value and benefits that international staff, students and visitors bring to the local economy.

## **Securing devolution**

- 3.22 There is now a need for bold and decisive action. The focus and attention of Whitehall is now going to be on negotiating Brexit. Our focus will be on the success and well-being of Leeds and its city region. We have proven in recent months and years we can deliver.
- 3.23 If the UK is going to grow to its full potential we need places like Leeds to contribute more. We are huge in scale with a city region of three million people including one and a half million jobs. Our annual economic output is larger than Wales - five percent of the UK economy.
- 3.24 When programmes are devolved we have had successes. The Leeds City Region Business Growth Programme is one example where we have channelled three million pounds into Leeds firms, creating over one thousand jobs.
- 3.25 The referendum showed how disconnected and disaffected people feel from a London based elite of politicians, civil servants, and media that do not understand the issues and challenges people face outside the capital. At a time when Scotland is looking toward independence, and Londoners are talking about their relationship with the UK, we should remember that the population of Yorkshire is larger than that of Scotland, and the economies of the eight largest English cities outside London is 27% of UK plc (London is 22%).
- 3.26 We will do what we can in Leeds to engage people in the big debates about our city – as we are beginning to do already in areas such as transport and culture. But we have to find new ways of engaging young people, many of whom feel their voice is not heard. We have a strong track record as a child friendly city, and we can build on this, and this must include engaging with the people who feel angry and insecure about globalisation and the lack of opportunity they feel in the modern economy.
- 3.27 We will seek to secure greater devolution and to reconnect people to politics by:
- putting pressure on Government to agree to a devolution deal;
  - assessing how further powers can be transferred from Whitehall to local areas; and
  - seeking to broaden the engagement of all our people in the big debates about the future of our city.

## **Providing confident, outward-looking leadership and image of Leeds as an international city and Capital of Culture**

- 3.28 We will continue to promote Leeds on the global stage setting out a clear plan for securing international investment, promoting trade and exports, attracting visitors, and hosting major events to enhance our image in the world.
- 3.29 The economic success of Leeds depends on its links to the global economy. Now is not the time to retrench and become inward-looking, Brexit was not an anti-

European vote, rather an issue of sovereignty and major cities such as Leeds will need to work hard to project this message positively on the global stage.

- 3.30 Tens of thousands of jobs in Leeds depend on overseas firms and Leeds is recognised as one of the most attractive cities in the north for inward investment. We are seeing huge investment from places such as China, France, Germany, Spain and Estonia. Our Universities attract students and collaborate with other Universities across the globe. Leeds manufacturers export goods and our finance, legal and digital firms sell their products and services to Europe and the world.
- 3.31 The city attracts increasing numbers of international visitors supporting thousands of jobs, and our airport is one of the fastest growing in the UK. Our public services depend on the skills and hard work of people from overseas. We have hosted major events such as the Grand Depart of the Tour De France, the World Triathlon Series, and the Leeds International Piano competition which have done so much to advance our image on the world stage.
- 3.32 The European Capital of Culture competition is designed to celebrate European citizenship by promoting ideas, sharing knowledge and best practice across a range of global issues from climate change to demographic change and digitisation, using culture to unite nations across Europe. Although it is an EU action, the EU is only a relatively minor funder of the competition.
- 3.33 The title is hosted by two EU member states each year, every third year an additional associate member state also hosts the title. Previously both Norway and Iceland have hosted the title as associate members as part of agreements negotiated with the EU.
- 3.34 We are advised that a country which is not a member of the EU, a candidate to join the EU, or a 'potential candidate' to join the EU is ineligible. The legislation is silent on the eligibility of a country which has left the EU. There is no definition of a 'potential candidate'.
- 3.35 The UK last hosted the title in 2008 in Liverpool and prior to that in 1990 in Glasgow, both of which saw extensive regeneration creating a lasting economic legacy for those cities. It remains an important contribution to UK tourism positioning within European markets.
- 3.36 The next opportunity for a UK city to host the title will be 2023 alongside a city in Hungary. It is understood that it would require EU legislation to change the calendar allocating specific years to specific countries.
- 3.37 The bidding process is lengthy. Under normal circumstances the Department of Culture, Media and Sport would launch the competition for the UK in autumn 2016. The first stage selection process and shortlisting would take place in autumn 2017, with a second stage early in 2018, and a decision expected by summer 2018. This timescale is designed to allow an appropriate lead-in time to deliver an event of this scale incorporating programming and fundraising considerations. Lottery distributors and local authorities have already started long term budgetary planning which could be compromised should the bidding process experience significant delay.

- 3.38 At the moment Leeds, Milton Keynes, Dundee, and Bristol have formally declared their intention to bid. Other cities are still considering their position, although any potential additional candidates are considered to be limited in number.
- 3.39 The competition in Hungary for 2023 is already underway and Germany 2025 is already well advanced. UK cities are at various stages in the development of their bids with significant work stretching back two years or more.
- 3.40 It is proposed that we promote Leeds as an international, modern, outward-looking city by:
- being open to opportunities for global investment and trade given from the devaluation of sterling;
  - proceeding with work on the European Capital of Culture 2023 bid unless a non-EU bid is ruled out, and if it is consider how we can use culture to present a modern global image of Leeds;
  - continuing to promote tourism to Leeds; and
  - work with the Northern Powerhouse, Core Cities and UKTI on the international agenda.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 Discussions have been held with the relevant Executive Members. There has not been sufficient time following the referendum to have a more wide reaching consultation, however officers have been taking soundings from businesses and partners. The situation with Brexit is evolving and further discussion with business and stakeholders will be ongoing.
- 4.1.2 A draft of this paper has been shared with the Leeds Chamber of Commerce and the Universities.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 Themes running through this report have an impact on equality and diversity. The Council aims to improve the lives of all its citizens and foster good relations between different groups in the community and it is considered that the recommendations in this report are positive, particularly the continuing commitment to promote a tolerant and inclusive city.
- 4..2 An Equality Diversity, Cohesion and Integration screening has been undertaken to assess the impact of this report on equality and diversity and is attached as an appendix.

### **4.3 Council Policies and Best Council Plan**

- 4.3.1 The vision from the Best Council Plan is for Leeds to be a compassionate, caring city that helps all its residents benefit from the effects of the city's economic growth. This includes a commitment to reduce inequality.
- 4.3.2 Leaving the European Union has the potential to impact on city priorities particularly on business. This report is the first step of a longer process setting out ways the council, with help from our partners and the city's businesses can continue to promote the city in order to grow the economy and achieve the aims of the Best Council Plan.

### **4.4 Resources and value for money**

- 4.4.1 It is too early to tell what impact leaving the European Union will have on resources. As discussed above, the city region receives European Funding which is now in doubt and this could affect our work programme. More widely any potential economic impacts that materialise over the coming months / years will need to be monitored carefully.
- 4.4.2 The separate financial monitoring report presented to Executive Board provides an initial analysis of the financial risks and implications of Brexit.

### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 There are no significant legal issues relating to the recommendations in this report. The mechanics of Brexit are a matter for government. This report is eligible for Call-In.

### **4.6 Risk Management**

- 4.6.1 Leaving the European Union presents risks as outlined in the report. These include development, European funding, jobs, disinvestment, community tensions and growth is something that the council and its partners will seek to monitor and address. Where there are limitations to local powers further lobbying to government will be undertaken to present the case for Leeds, the city region and the north.

## **5 Conclusions**

- 5.1 Following the referendum where the UK voted to leave the European Union, Leeds City Council, working closely with partners, will take action to support people, growth, businesses, and key institutions in the city against any future challenges.
- 5.2 It is likely that there will be a period of economic uncertainty which may have an impact on investment and key institutions in the city, including the Council. Many of our people will be concerned about the impact on them, particularly EU nationals who have chosen Leeds as a place to live and work.
- 5.3 The report sets out practical, positive objectives and actions to help minimise any negative effects of Brexit. Leeds has proven repeatedly in the past that it is a

resilient city, where people, businesses and key institutions pull together when necessary, and we can do so again in the days, weeks and months ahead.

## **6. Recommendations**

6.1 Executive Board is recommended to approve the following:

1. Request that the Chief Officer Economy and Regeneration identifies the impact of the economic uncertainty on major development projects, and measures that could be undertaken by the Council working with the LEP and Combined Authority to de-risk existing schemes, and to bring forward new projects to take advantage of the positive exchange rate.
2. Make the case to Government to secure the European Structural Investment Funding (ESIF) committed to Leeds City Region over the remainder of the period the UK is a member of the EU, and once the UK leaves the EU, for funding to replace the European Funds earmarked for the city region.
3. Request that the Chief Officer Economy and Regeneration puts in place strengthened Key Account Management mechanisms for supporting businesses, particularly those where there is a potential risk of disinvestment, and key institutions in the city that could be affected by changes in EU funding, and their ability to recruit staff from across the EU.
4. Request that the Chief Officer Economy and Regeneration sets up a standing task force to respond to any major disinvestment and redundancies, by providing support for people to find alternative jobs, and seeking to attract investment to sites that become available.
5. Continue to promote a tolerant, open and inclusive city. Provide information and advice to people on the implications of Brexit and reassuring them they are welcome to live and work in Leeds, and monitor and seek to tackle any community tensions.
6. Continue to make the case for increased devolution to ensure Leeds and the City Region have the powers and resources to respond to changing economic circumstances, and to do so in a way that connects local people better with the making of decisions that affect their lives.
7. Enhance the image of Leeds on the global stage as an outward-looking, diverse and international city by continuing to promote inward investment in Leeds, attract international visitors, strengthen existing international partnerships and reaffirm our support to the bid for Leeds to become European Capital of Culture in 2023. If the UK is not eligible for a Capital of Culture (which is only one of a number of possibilities), consider the potential for a major international cultural festival to bring people together and to promote Leeds internationally.

## **7 Background documents<sup>1</sup>**

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include

7.1 None.