

CABINET REPORT

04 October 2016

Cabinet Member: Councillor Mandy Williams-Davies
Economy and Community Cabinet Member

Subject: IMPLICATIONS OF THE EUROPE REFERENDUM RESULT
FOR GWYNEDD

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Decision sought

That the Council consider the implications to Gwynedd residents and organisations following the United Kingdom's decision to leave the European Union; agreeing to monitor the effects of the decision on the county during the period to come.

Local Member's opinion

Not a local matter.

Introduction

1. On 20 February the UK Government announced their intention to hold a referendum to decide whether or not the UK should remain or leave the European Union.
2. At its meeting on 12 May Gwynedd Council stated that it was of the opinion that Gwynedd residents would benefit more by remaining a member of the European Union (see <http://bit.ly/2d8UCXh>).
3. On 23 June 2016, 51.9% of UK electors voted in favour to leave the European Union. 52.5% of Welsh voters voted to leave but a substantial number of Gwynedd voters (58.1%), voted to remain within the European Union.

Reasons for recommending the decision

4. The decision noted above is recommended in light of the range and substance of the possible implications of the UK electorate's decision.

5. As the UK has been a member of the European Union for over forty years, European policies, rules and legislation have been widely integrated into Gwynedd inhabitants and organisations daily activities, from conserving the environment to human rights and from the economy to trading standards. (A useful research paper on the process and possible implication for policy areas devolved to Wales has been prepared by the National Assembly following the outcome of the referendum - see <http://bit.ly/28RsdGA>).
6. The true effects and implications of the UK's decision will not be known for some time. To date the UK Government have not formally informed the European Council of their intention to withdraw from the Union; once this has happened there will be a period of 2 years to negotiate an agreement on the terms for leaving the Union.
7. To lead the work the UK Government has established a Secretary of State and Department for Exiting the European Union (<http://bit.ly/2aKoyuA>).
8. In Wales, the First Minister has established a team of officers within the Welsh Government and announced an Expert Advisory Group to ensure the best interests of Wales in the discussions (see <http://bit.ly/2coVhXK>). The First Minister has outlined 6 priorities:
 - Protecting jobs;
 - Full involvement for the Welsh Government in discussions on UK withdrawal;
 - Continuing access to the single market for goods and services;
 - Security of funding budgeted under EU programmes until 2020;
 - Long term revision of the Block Grant from the UK Government;
 - A new post-Brexit relationship between Devolved Governments and the UK Government.
9. The Welsh Local Government Association has also been active in the period since the referendum. A representative of the Association (Councillor Phil Bale, Leader of Cardiff Council and WLGA Spokesman on European Matters) is a member of the First Minister's Expert Advisory Group and most recently a delegation from the Association visited Brussels to help to ensure local government maintains its strong voice in future negotiations to shape the relationship between Wales and Europe.

Relevant Considerations

10. As highlighted, there are a range of areas which could be impacted by the process of withdrawing the UK from the European Union; but it's very

uncertain what the scope of the changes will be and when they will become apparent.

11. In light of this, it is impossible at present to provide a clear picture of the implications for Gwynedd; however, some of the main areas which may be affected are highlighted below:

Financial uncertainty

12. There will be a great uncertainty and nervousness in the International financial markets just before and after the UK's decision. The uncertainty leads to a significant slump in the value of the pound immediately after the decision, but the situation has stabilised since and the likelihood of a recession has receded for the time being.
13. However, uncertainty and volatility in the markets is likely to persist, which in turn will affect the context for the activities of the Council's activities and those of Gwynedd residents and businesses in coming years. This could impact upon the cost of borrowing money, the value of investments, the exchange rate and in turn public sector budgets and the willingness of the public sector and businesses to invest.
14. The Council will be required to monitor and plan its financial forecasts whilst keeping a close eye on the external context over the period to come.

Legalisation

15. The referendum result in itself does not have a direct impact on legalisation. However, historically the European Union has set the policy framework for a very wide range of areas including many devolved to Wales.
16. A large proportion of UK legislation (including legislation by the National Assembly for Wales) is prepared under the powers within Section 2(2) the European Communities Act 1972 and it's likely that the legalisation will be repealed when the UK leaves the European Union; this will result in secondary legalisation which is based on these powers being lost if no alternative arrangements are in place.
17. A major part of European legalisation is in the form of directives which are enshrined in UK legalisation. These regulations may remain as they are for time being, but should there be variation over in areas such as the quality of goods or procurement this could impact upon businesses' ability to trade in Europe.
18. As the process of disengaging the UK from Europe proceeds, there will clearly be a discussion on whether powers are devolved to the National Assembly or to Westminster.

Economic Development

19. The uncertainty and volatility is in turn likely to increase the challenge in developing Gwynedd's economy, with companies being more careful when considering investment. The Council will need to work hard with its local and regional partners – via the North Wales Economic Ambitions Board – to maintain and develop business confidence and to encourage and support inward investments.
20. Leaving the European Union could also impair the economy's ability to attract and maintain a sufficient labour supply, especially within sectors which recruit from overseas such as health, care, construction and tourism; possibly leading to a shortage of employees within sectors which are important to the county's prosperity
21. Historically Gwynedd has benefited very significantly from European programmes to support the economy. Since the turn of the millennium more than £302 million has been invested in Gwynedd, including £158 million of European funds which have supported hundreds of local businesses and created some thousands of jobs.
22. In the current funding period (2014 – 2020) the Council is involved in implementing a number of projects in the county including: TRAC (£2.1m including £1.4m from a European programme) which supports young people at risk of withdrawing from education system and the labour market; Arloesi Gwynedd Wledig (£5.1m, including £4.3m from a European programme) which encourages innovating by businesses and rural communities and OPUS (£1.5m which including £1.2m from a European programme) which will support vulnerable individuals to prepare to return to work. A summary of the projects that have received European funding from the 2007 - 2013 and 2014 and 2020 programmes to date is at Appendix 1.
23. The county is also in the process of targeting substantial funding to implement a number of projects including completing the redevelopment of the centre of Caernarfon, attracting young people to high value sectors and developing infrastructure to ensure the success of Snowdonia Aerospace Centre in Llanbedr. Of course, the county also benefits from a number of regional and national projects that have received European funding.
24. The decision that the UK will leave the European Union has created uncertainty about the future of European programmes in the period to 2020. On August 13, the UK Government Treasury confirmed that they will guarantee any commitments to projects approved before The Chancellor's Autumn Statement and agree arrangement for commitments made after the Statement. (see <http://bit.ly/2b3rqlu> and the First Minister's response <http://bit.ly/2d9hA0d>). Although the

statement does not fully address the need the commitments do meet the short term concerns. It is anticipated that further details on the future of European funding programmes will be included in The Chancellor's Statement on 23 November.

25. In the medium / long term, leaving the European Union does create uncertainty about what funds will be available for projects to develop the economy and we will need to continue to monitor the situation. We will also need to Influence the Welsh Government and the UK Government to ensure the same level of Investment in developing the rural economy and the economy of West and the Valleys, including working together with our partners to implement the North Wales Economic Ambition Board's Vision for Growth.

Agriculture

26. Agriculture continues to be a hugely significant sector for Gwynedd in social, cultural and economic terms. There are 1,620 farms in the county which constitute 188,000 hectares (74% of Gwynedd's total area) and the industry represents 1.1% of the county's Gross Value Added (2014).
27. Agriculture receives substantial support from European funds, through the Common Agriculture Policy (CAP). It is estimated that Gwynedd Farmers receive €30 million a year of direct payments via Pillar 1 of the CAP; in addition agriculture benefits from programmes such as Farming Connect to support the development of farm businesses and Glastir, which provides additional payments in return for environmental conservation.
28. With regards to direct payments, in the short term the Treasury has guaranteed a continuation of the present arrangements until 2020 and, by the same token, Farming Connect has been underwritten by Whitehall as a result of their 13 August statement. However, schemes such as Glastir have already been impacted, with the Welsh Government unwilling to sign any new contracts with Farmers which will run past 2020; this change is bound to have a disproportionate impact on the industry in areas such Gwynedd which make substantial use of the Glastir scheme.
29. Many in the food and agriculture field will hope to see a decrease in their administrative and regulatory burden following the result to leave the European Union, together with increased digression for institutions to buy local food and drink.
30. In the medium to long term, there is uncertainty regarding the continuation and the form of support payments to the industry as well as access to the single market across Europe.

Higher Education

31. Higher Education establishments are substantial beneficiaries of the UK's membership of the European Union and as a result of the presence of Bangor University in the county, any implications for the sector from leaving the Union is important to Gwynedd.
32. Historically the University has benefitted from support from the European Structural Funds for developing and renovating their facilities, such as the successful development of the Management Centre (£12m); the Marine Science School's new centre in Menai Bridge (£24m) and most recently the construction of the Pontio centre (£47m).
33. The University also leads or is a partner with other Welsh universities in many projects which have received funding from the European Structural Funds including the KESS programme which places graduates to local businesses, HPC Cymru which supports access to high performance computer technology and the Wales Centre for Behavioural Change.
34. The University's academics and students also benefit from access to the European Union's research and development programmes – under the Horizon 2020 agenda – which provides opportunities to collaborate with higher education establishments across the continent.
35. In 2016 alone, Bangor University will £11.6m in income from various EU funds. The University is currently involved in over 30 projects which receive European support including 21 research projects under the Horizon 2020 agenda, equating to approximately half the University's research income.
36. As noted previously, the Treasury has provided some certainty in the short for projects benefitting from European funds (including the Horizon 2020 programme), but there is still uncertainty in the medium/long term. There is also a risk that leaving the European Union will impact on the UK Universities appeal to students from abroad.

Timetable and next steps

It is clear that there are substantial and wide-ranging implications for Gwynedd from the result of the referendum to leave the European Union; but until the formal discussions between Europe and the UK Government start, the scale and breadth of those implications will remain unclear.

Once the UK Government notifies the European Council formally of its intention to leave the European Union, there will be a period of 2 years to negotiate an agreement on the terms for leaving the Union.

During the negotiation period it will be very important that officer's throughout the Council monitor the situation and be aware of the obligations

of any changes that may arise. In the meantime, It is crucial that the Council continues to play a full part, via the WLGA, in ensuring the best for Gwynedd's inhabitants and businesses by influencing to the best of our ability to ensure that the Welsh Assembly and the UK Government, maintain the same level of investment in the development of the rural economy and the economy of West Wales and the Valleys, including collaborating with our partners to realise the North Wales Economic Ambition Board's Vision for Growth.

Statutory Officers' opinion

Chief Executive:

"Clearly, the full Council expressed their opinion on the merits of remaining part of the European Union. However, now the decision has been made it is important that the Council identifies any possible negative effects to safeguard our inhabitants from them, as far as possible, and also that the Council is awake to any opportunities that may arise as a result of the changes."

Monitoring Officer:

"No comments regarding propriety"

Finance Officer:

"Section 21 of the report notes that Gwynedd has benefited from £158m of European funds since the turn of the millennium. In light of the United Kingdom's referendum on membership of the European Union and the result of the vote to leave, there is considerable uncertainty regarding the continuation of such support.

Whilst the impact of a lack of funding on communities and jobs in Gwynedd is the primary concern, I will also be supporting the Pensions Committee to monitor the impact on the Pension Fund's various investments.

Although the stock market has rallied since the immediate slump following the referendum, it is difficult to anticipate the long term impact. In addition a direct impact on the value of the pound and UK interest rates has been seen and a slump in the value of property."

Appendices

Appendix 1 Projects that have received European Funding: 2007 – 2013
and 2014 – 2020 programmes

Information sources / background information

'The Referendum on Membership of the European Union'; Gwynedd Council report and minutes, 12 May 2016 ' <http://bit.ly/2d8UCXh>

'Research Briefing: Wales and the EU: What does the vote to leave the EU mean for Wales?', National Assembly for Wales Research Service, 24 June 2016 <http://bit.ly/28RsdGA>

UK Government, Department for Exiting the European Union website <http://bit.ly/2aKoyuA>

Welsh Government Statement 'Work underway to shape Wales' future relationship with Europe 09 August, 2016 <http://bit.ly/2coVhXK>

Letter from UK Government Chief Secretary to the Treasury to Secretary of State for Exiting the European Union, regarding European Funding, 12 August 2016 <http://bit.ly/2b3rqlu>

First Minister of Wales' response to UK Government Chief Secretary to the Treasury's letter to Secretary of State for Exiting the European Union, regarding European Funding, 13 August 2016 <http://bit.ly/2d2RxrX>