HOUSING, ENVIRONMENT & HEALTHIER COMMUNITIES OSC
April 2022

TITLE OF REPORT: **The Impact of Brexit on Businesses Large and Small**

Purpose of the Report

1. To seek the views of the Housing, Environment and Healthier Communities OSC on the ongoing impact of Brexit on businesses large and small in Gateshead and the North East.

Background

2. Although the UK formally left the European Union (EU) on 31st January 2020, the unwinding of such a long standing, intertwined relationship is complex; the exit process is expected to continue for some time, spanning trade, regulation, investment, competitiveness, access to finance, labour, and goods. Gateshead Council is working collaboratively with local and regional partners to:

    a. Gather intelligence, understand, and monitor the impact of these changes for businesses,
    b. support businesses to navigate the EU Exit transition period, build business resilience to adapt successfully to a post Brexit economy, and,
    c. continue investing in the local economy to ensure businesses, the workforce and residents thrive.

Implications, Issues and Impacts for Businesses Large and Small

<u>Changes to International Trade and Regulation</u>

3. Any Gateshead business buying or selling goods and services in EU markets will have been affected by changes to the UK's trading relationship with the EU because of Brexit.

4. At the end of the Brexit transition period (11pm on 31 December 2020) the UK left the Single Market, Customs Union and VAT area. A Trade and Cooperation Agreement (TCA) sets out the terms of UK trade with the EU from 1 January 2021. In effect, this means Great Britain and the EU no longer apply the same customs rules, regulatory standards, or enforcement mechanisms as before. Goods crossing the border between Great Britain and the EU are now subject to the payment of applicable trade tariffs and customs duties. Increased border checks are also necessary to ensure that imported goods meet relevant food and product safety standards, adhere to disease control measures, prevent smuggling and illicit activity, and comply with international obligations.

5. The Northern Ireland protocol removes the need for border controls on the island of Ireland but establishes new rules for goods moving from Great Britain into Northern Ireland. The protocol has not yet been fully implemented and there are still ongoing disagreements between the UK and the EU about how it should operate.

6. Ensuring the Great Britain–EU border works effectively is a huge cross-government operation, with over 37 government organisations involved in border operations or

policy. Consequently, some traders using border crossings in different parts of Britain interact with multiple agencies to comply with the same checks.

Customs and Border Checks on Goods Entering Great Britain

7. Trade requirements depend on the type of goods involved, where they cross the border and who is transporting them. Traders must now comply with new policies, procedures, and paperwork, which has rendered trading in EU markets more expensive and time consuming, at least in the short to medium term, leading to increased costs for business.[1]

8. To ease the introduction of customs and border checks, the UK government decided to phase in controls for most goods imported into Great Britain from the EU between January 2021 and July 2022. Since then, several delays to border checks have been announced:

    a. In March 2021, government postponed the introduction of full import checks for around six months, recognising that businesses needed more time to prepare after pandemic-related disruption.
    b. In September 2021, further delays to various border checks ensued, due to the ongoing impact of the pandemic and disruption to global supply chains. A new timetable for introducing import processes was published, with full customs controls effective from 1 January 2022. Some controls, including certificates and physical checks on agri-foods and plant imports, have been deferred until 1 July 2022.
    c. In December 2021, government confirmed an extension to current border arrangements for imports from the island of Ireland for as long as discussions on the Northern Ireland protocol are ongoing. Effectively, the stalemate delayed new checks; due to be introduced in January 2022. This is necessary to avoid added uncertainty surrounding the movement of goods from the island of Ireland.

Customs and Border Checks on Goods Entering the EU

9. Conversely, the EU introduced full customs requirements for British exports to the EU on 1 January 2021. Some of these customs procedures can be streamlined to reduce the time, cost, and complexity of complying with border checks. For instance, traders (or their agents) with a strong record of complying with customs rules may be eligible for ‘simplified declaration procedures’, which allows them to avoid making full customs declarations at the time of import. Alternatively, they can submit a simplified frontier declaration, which is later followed up by a supplementary declaration.

10. Firms may also apply to be treated as an Authorised Economic Operator (AEO) - an internationally recognised status - demonstrating that a firm meets high customs control standards. Approved operators benefit from faster and cheaper applications to some customs processes and are less likely to have their consignments checked at the border. The Trade and Cooperation Agreement between the UK and EU includes provisions on the mutual recognition of Authorised Economic Operator (Trusted Trader schemes). While this provision may help to streamline border processes for eligible firms, many are not registered, and some are ineligible to apply meaning they cannot benefit from the scheme.

[1] NELEP analysis of North East trade and export data. Nb these statistics are only available at regional level.

Business Readiness for Customs and Border Checks

11. Business readiness for ongoing changes and the increased burden of obeying two separate customs regimes have aroused concern. Firms trading between Great Britain and the EU are adjusting to the introduction of EU border controls, with many facing disruption and delays, at least initially. Many businesses welcomed government's decision in March 2021 to further delay the introduction of full controls on the British side of the border, allowing them more time to prepare. Others were disappointed, having invested time and energy in meeting the original deadlines.

12. Delays announced in September 2021 evoked a mixed reaction. Some welcomed the additional lead in time given persistent supply chain disruption, while others felt let down after investing in preparation.

13. The full impact of the latest changes introduced in January 2022 has yet to be felt. Government has acknowledged an element of trade disruption as businesses adapt to new rules. Trade and export data suggests that some firms are trading differently due to a range of factors, however the costs and complexity associated with new post Brexit trade rules and Covid have precipitated movement and affected levels of international trade.

14. Regional analysis of the latest available trade and export data[2] shows that North East exports fell for the third quarter in a row in 2021 and all UK regions saw a decline in Q3 of 2021. North East exports to the EU rose marginally in the most recent quarter but exports to non-EU markets fell and this decline was marked. The North East is only one of three regions to see a rise in EU exports in the most recent quarter, however goods exports are 11% lower (£875M) than two years ago, while exports to non-EU markets have remained at similar levels (£7m increase). The decline in goods exports to the EU is primarily due to falling exports of road vehicles, which were severely affected by Covid and component shortages over the last two years (-36%).

15. The EU accounts for a larger share of North East service exports, 47% compared to 39% for England excluding London. North East service exports to the EU declined 18% in 2019, falling only 3% to non-EU markets. Similarly, the Northern Powerhouse and England (excluding London) saw falls in service exports to the EU between 2018 and 2019. Finance and insurance exports decreased by £224m and admin support by £108m.

How will border controls Change over time?

16. In December 2020, the government published its UK border strategy for 2025, which sets out a route map towards reducing border delays by improving cross-government cooperation, facilitating data sharing, and increasing automation. Last summer, it was confirmed that the much-delayed transition to a new customs system will take place by 30 September 2022 with all export declarations to follow by 31 March 2023.

How are local businesses coping with these changes?

17. Importers and exporters from large multi-nationals to SMEs and self-employed individuals are modifying business models and operating procedures to comply with customs and regulatory changes arising from Brexit.

[2] NELEP analysis of North East trade and export data. Nb these statistics are only available at regional level.

18. In addition to Business Gateshead, regional organisations such as the North East Local Enterprise Partnership (NELEP) Business Growth Hub, North East Chamber of Commerce (NECC), Make UK, Federation of Small Business (FSB), National Farmers Union (NFU) and industry sector bodies continue providing information, advice and guidance to local businesses trading in EU markets.

19. Feedback from local business organisations is consistent with national trends; companies are frustrated yet determined to navigate trade disruption, but smaller businesses with fewer resources are finding amended import and export procedures challenging to implement. Some are exploring opportunities to trade outside EU markets because compliance costs disproportionately impact SMEs.

20. Business groups are reporting confusion regarding full declarations on imports and Rules of Origin changes necessary to access zero tariffs, although queries have tailed off in recent weeks as businesses have adapted to the new regime. Many have remarked on the seemingly interminable process of change and investment required to simply maintain their existing market position.

21. For some businesses, the additional cost of change to access zero tariffs negates the benefits of doing so. This assertion is supported by analysis undertaken by the University of Sussex UK Trade Policy Observatory[3]. Estimates suggest that the UK-EU Trade Cooperation Agreement has reduced UK exports to the EU by 15% and imports by 32%. On average, over the first quarter of 2021, the UK paid between €2.5-3.5 billion in tariffs on exports to the EU.

<u>What is local business research and intelligence telling us?</u>

22. Chiefly, businesses are concerned about the rising price of energy, raw materials, goods, and labour. An element of inflationary pressure is attributable to the increased cost of trade with the EU following Brexit, however there are other significant global factors at play.

23. Intelligence gathered by Business Gateshead's Strategic Account Management (SAM) function corroborates business disquiet about rising prices. Last summer, a Gateshead based packaging manufacture reported a 70% increase in the cost of polymer and other raw materials. Wider supply chain issues included increased delivery lead-in times due to EU labour shortages in the logistics sector.

24. In March 2022, a Team Valley manufacturer reported a 10% increase in the price of steel imported from Europe. Similarly, an international manufacturer of filtration, gas and bio-sciences components commented that the cost of raw materials and commodities had increased significantly with one European supplier adding a 12% surcharge following three cumulative price hikes in 2021. Furthermore, a paint manufacturer hired specialist consultants to advise on paperwork and regulatory compliance associated with the export of aerosol products to EU markets.

25. In some instances, initial disruption following the introduction of customs and border checks has been transitory. A manufacturing exporter confirmed that operations have now largely returned to normal except for a 20% increase in transport costs. The business is forecasting increases in line with inflation, which is expected to continue climbing in the short to medium term.

---

[3] Post-Brexit UK Trade in Goods briefing paper: https://blogs.sussex.ac.uk/uktpo/publications/post-brexit-uk-trade-in-goods/

26. A ceiling tile manufacturer cited a noticeable decline in available labour because of EU Exit. The company is bolstering its local supply chain in the UK to avoid importing commodities, but it is understood competitors are experiencing delays importing materials.

27. Food producers are also reporting recruitment and workforce capacity issues and problems with logistics due to a lack of European labour.

28. NewcastleGateshead Initiative (NGI) carried out two local business surveys for the council in February and June 2021.[4] Shortly after the TCA introduced new customs and border checks, over half of Gateshead businesses surveyed said they expected importing to stay the same or get much harder, resulting in tougher trading conditions for some. Both Covid and Brexit were impacting on exporters with half of the respondents expecting export conditions to stay the same or get worse.

29. For those planning to access EU markets, most businesses felt they were fully or somewhat prepared for the UK leaving the Single Market and Customs Union and planned to use more UK or non-EU suppliers to mitigate potential supply chain disruption.

30. Businesses highlighted fluctuating or increased prices for goods bought, with this trend predicted to continue. In February 2021, only a small number had raised the price of products sold in response to this trend, indicating cost increases had been absorbed in the short-term.

31. By June 2021 however, the position had changed, signifying inflationary pressures transmitting to customers. More than 200 businesses completed the latest survey, and of these, 75% were local SMEs, the majority of whom (80%) considered Gateshead their main HQ. For 65% of respondents, the price of materials, goods and services purchased had increased more than normal. A growing proportion (32%) planned to raise the price of goods and services sold in the following quarter to counteract increased costs.

<u>Business Reaction to New Free Trade Agreements (FTAs)</u>

32. Government continues to negotiate Free Trade Agreements (FTAs) globally to replace former deals secured through the UK's membership of the EU. Business feedback is varied.

33. Earth moving equipment manufacturer Komatsu UK announced plans to create over 80 new jobs including 10 new apprenticeship roles to service a range of new orders received from domestic and European markets.

34. A couple of larger Gateshead employers have carried out a worldwide review of sites, capabilities, and ease of trade with Europe following EU Exit. While the borough has not necessarily lost manufacturers because of EU Exit, the attractiveness of the UK as a business location is weighing on investment decisions where the primary market is Europe. For example, one manufacturer in the bioscience sector has established a European distribution centre in Germany with 80% of goods being shipped there for onward distribution throughout Europe, North America, and Asia Pacific. Consequently, levering additional foreign direct investment from manufacturers operating in EU markets is likely to be more

[4] Surveys commissioned by Gateshead Council. Results available on request.

challenging, particularly if government prioritises trade incentives in non-EU markets, which currently account for a smaller share of North East exports.

North East Trade and Export Strategy

35. In response to EU Exit, NELEP, in partnership with the Department for International Trade (DIT) and NECC have developed a trade and export strategy to support businesses across the region to:

    a. Counteract the impact of EU exit on established trading relationships
    b. Build on existing export strengths
    c. Develop new export capabilities
    d. Diversify into new global markets in sectors and countries with long-term growth potential

36. Approximately 4,500 businesses in the North East region (North East LEP and Tees Valley Combined Authority areas) currently export goods and services. In 2018, the North East exported £13 billion in goods and a further £7 billion in services. More than 168,000 jobs in the region depend on this activity.[5]

37. A report published by NELEP shows that businesses engaged in exporting tend to pay their employees 7% more than the national median wage, which is higher than regional and local rates. They are also 21% more productive compared to the UK average. Growing the number, spread and value of goods exported in international markets post Brexit is crucial to sustaining good jobs, growing businesses, and promoting a resilient, thriving local economy.

Migration and Labour Availability

38. Although numbers are relatively small compared to other UK places, in recent years, international migration has played an important role in reversing the effects of local population ageing and decline by increasing the proportion of younger working age people available for employment in Gateshead, which is crucial for the borough to thrive. EU free movement facilitated this trend, enabling EU residents and families to live and work in Gateshead, helping to grow the local economy and sustain public services while employers benefited from recruiting a skilled labour force. The UK's departure from the EU triggered an end to the free movement of people between EU Member States, raising two concerns for the borough:

    a. Would existing EU residents and families carry on living and working in Gateshead?
    b. Post Brexit, how would the area continue to replenish and grow the labour supply, particularly in sectors of the economy with skills shortages and hard to fill vacancies?

39. At the time of EU Exit, the effects of an end to free movement were unknown. Several stakeholders feared a reversal of recent population gains and increased difficulty attracting and retaining workforce talent, thereby eroding the area's competitiveness longer-term. Gradually, more data has become available, giving a better insight to these issues.

[5] https://www.northeastlep.co.uk/updates/north-east-lep-publishes-new-regional-trade-and-export-report/ Accessed: 05/04/21

EU Settlement Scheme

40. Statistical analysis by NELEP illustrates the contribution of EU nationals to recent population and economic growth in Gateshead.[6] By December 2021, the Home Office had received 7,160 applications to the UK's EU Settlement Scheme. This accounted for 14% of applications within the North East LEP area. Gateshead saw the third highest number of applications after Newcastle upon Tyne 22,680 and County Durham 8,090. The two most common nationalities amongst applicants in the borough were Polish (25%) and Romanian (15%). A fifth (20%) of applicants were aged under 18 and 78% aged 18 to 64. Only 2% were aged 65+ (6,840). The data shows that 96% of applications had been resolved by December 2021; 56% had been granted settled status and a further 39% pre-settled status, suggesting that EU nationals of working age wish to continue residing in the borough.

Post Brexit Points-based Immigration System

41. Following EU Exit, the government replaced free movement with a points-based immigration system. There are signs this is changing patterns of migrant employment to meet skills shortages. However, lower paid sectors are still reliant on an international workforce to recruit into hard to fill vacancies.

Employment of Migrants by Nationality and Industry

42. New data released by government has allowed for regional analysis of migrant employees for the first time.[7] The period covered includes the UK's exit from the EU and the COVID-19 pandemic. Although the region employs a much smaller proportion of non-UK nationals compared to the national average, some sectors depend heavily on migrant workers to overcome labour shortages and meet skills needs. Data shows that a large proportion of EU nationals are still employed in manufacturing across the region. Non-EU nationals are disproportionately concentrated in accommodation, food, health, and social care. A fall in UK nationals working in retail has coincided with an increase in the employment of non-UK nationals.

Latest Picture

43. In June 2021**,** a total of 27,500 North East employments were for EU nationals and 37,600 non-EU nationals. These figures were 3,500 and 12,300 higher than five years earlier, representing 2.4% and 3.3% of all payrolled employments respectively.

44. Comparatively, the proportion of payrolled employments for non-UK nationals in England was almost three times that of the North East. Even with the exclusion of London, the national percentage was more than twice as large.

45. Across England, there were more employments for EU nationals than non-EU nationals, but this was not the case in the North East. In England, the proportion of payrolled employments for EU nationals had decreased in the two years to June 2021 while remaining unchanged regionally.

Industries Employing Non-UK nationals in the North East

46. Non-UK national employments in the North East are most likely to be in health and social work, accommodation and food services or administrative and support services. However, EU nationals are more likely to be employed in manufacturing.

[6] Analysis of EU Settlement Scheme data produced by NELEP on behalf of Gateshead Council

[7] On 1st March 2022, HMRC released experimental data that provides information about the number of migrants on employer payrolls, broken down by nationality and industry group in UK regions. The number of payrolled employments is larger than the number of payrolled employees because some migrants have multiple jobs

47. The industry groups in the North East most reliant on non-UK national employments are accommodation and food services and administrative and support services. Respectively, 12.1% and 9.7% of employments were of non-UK nationals. Other activities include personal services such as hairdressing and membership services.

<u>Post Referendum Changes in North East Payrolled Employments</u>

48. In the five years to June 2021, the largest paid employment growth regionally occurred in health and social work, as well as administrative and support services. This is also the case for the employment of non-UK nationals.

49. Retail and wholesale, and transportation and storage also saw large net growth in the employment of non-UK nationals, particularly EU nationals. During these five years, no industry experienced a noticeable decrease in employments for either of the non-UK national groups, but this was a result of growth during the first three years of the period.

50. Between June 2019 and June 2021, employments for EU nationals decreased in the North East in six of the industry groups, most notably in accommodation and food services and in manufacturing. In these two years, employments for non-EU nationals increased markedly in health and social work and in administrative and support services, the two sectors with the largest total increases.

<u>Local Businesses Impacted by Labour and Skills Shortages</u>

51. Last year, more than half of Gateshead businesses surveyed by NGI across multiple industry sectors had sufficient access to labour, however a third struggled, with the majority believing the situation would remain unchanged.

52. Recently, the North East EU Exit Implementation Group and Association of Adult Directors of Social Care (ADASS) successfully lobbied the Migration Advisory Committee (MAC) to include social care roles on the Shortage Occupation List (SOL). This means that social care providers in Gateshead can now recruit non-UK nationals to fill staff vacancies, which should help to alleviate short-term workforce pressures in the care sector.

<u>Investment and Access to Finance</u>

53. UK membership of the EU enabled Gateshead and the North East to benefit significantly from EU funding – known as European Structural Investment Funds (ESIF) – European Regional Development Funds (ERDF), European Social Fund (ESF), and Rural Development Programme (RDP) monies.

54. Under existing programmes, money is allocated to UK nations and regions according to relative need, which reflects levels of deprivation and economic disparities within and between different countries. The North East has traditionally attracted a large share - £430m over a seven-year period (2014-20) - and local authorities in the North East have a common approach regarding how this investment is spent. Funding is used to match fund strategic projects considered vital to improving the area's economic prospects, business growth and quality of life for local communities.

55. EU Structural Funds (ESIF) remain the largest single source of local economic development funding in the UK, including business support, enterprise promotion, and green economy schemes and incentives. Due to expire in June 2023, the current programme will only fund existing rather than new activity.

56. Normally at the end of an EU funding cycle, new money comes on stream to begin making plans and setting future financial commitments, but this is not yet available under UK successor funds. A slow start could see local funding gaps emerging for business support in 2022-23 including advice, grants, low-carbon solutions, trade, and investment promotion. English regions are heavily reliant on ERDF to fund this type of provision, which will halt without replacement funding. Effective prioritisation will be vital as the future UK Shared Prosperity Fund (UKSPF) is much smaller than the funds it replaces, and expectations are broader.

The UK Shared Prosperity Fund (UKSPF) and Levelling Up Fund (LUF)

57. The UKSPF and Levelling Up Fund (LUF) will supersede EU funding. Essentially, Government has replicated elements of EU investment in regional and local economies, but with some notable key differences. What we know so far:

   a. The aim of the Fund is to help create opportunity for people and places across the UK and deliver commitments set out in the Levelling Up White Paper.
   b. A portion of the Fund will target places most in need. Ex-industrial areas, deprived towns and rural and coastal communities are specifically mentioned.
   c. In these places the government will prioritise investment in communities and place, local business, and people.
   d. The physical infrastructure element of EU funding is replaced by a separate 'Levelling Up' Fund to split capital and revenue spending.
   e. Places receiving funding will be asked to agree specific outcomes and investment proposals to be approved by government.
   f. Further guidance is awaited from government explaining how the new fund will operate.

What are the key issues?

58. ***Overall value of the fund*:** Government has stated that the overall value of the national pot will rise to £1.5 billion a year by 2024-25 and annually match the size of EU Funds in each nation[8], but how they are distributed is key. Government retains discretion to allocate regional funding differently, paving the way for investment in affluent areas alongside less well-off places. The initial tranche is much smaller than the funds it replaces. There is also uncertainty concerning the future of existing business support initiatives not funded through ESIF.

59. ***Shorter funding cycle:*** Gateshead and the North East have called for a multi-year funding allocation. A long-term funding settlement that transcends national government spending cycles is necessary for strategic economic development. Physical regeneration schemes, business and employment support need to be delivered at scale over several years to deliver a transformational impact and positive outcomes for local communities.

60. EU funding to the regions operated on a seven-year cycle. This was widely valued because it allowed for the proper planning and implementation of major regeneration projects and programmes that require consistent, stable, long-term investment over several years. Regardless of national policy measures, budgets or Spending Reviews, local authorities and partners could plan with a degree of certainty, knowing that EU funding would be available to finance local business support schemes.

[8] https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents/autumn-budget-and-spending-review-2021-html#annex-a-the-governments-fiscal-framework Accessed: 08/04/21

However, Government has currently only agreed to a three-year allocation in line with the Spending Review.

61. ***Unclear funding allocations: need vs competition:*** regions advocate needs-based funding allocations to local areas predicated on a transparent funding formula. A shift to the UKSPF should not unduly disadvantage parts of the country that would have received substantial EU funding, like Gateshead and the North East.

62. ***Funding priorities:*** broad objectives for the Fund set out in the Levelling Up White Paper, Spending Review, and preliminary funding guidance – investment in business, people, and places - reflect the necessary categories of intervention, although spending priorities and the balance of investment in local areas is still unknown at the time of writing.

63. ***Funding decisions*****:** decision-making about the balance of priorities will involve local authorities and stakeholders, although consultation and governance arrangements are still to be determined. The interventions developed to meet the needs of one part of the country may not be the same as in another.

64. ***Flexibility:*** local authorities recognise there should be flexibility to reallocate spending to take account of changing demands. For example, Gateshead repurposed existing business grants to help local businesses adapt to online trading during the pandemic.

65. ***Administration and accountability:*** following publication of the Levelling Up White Paper, local authorities are working to understand how the funds will be administered regionally and locally.

66. ***Simplification***: there is consensus that the UKSPF affords an opportunity to deliver a simpler, less bureaucratic fund that is better tailored to the needs of local and regional economies.

67. ***Opportunities for reform:*** places are keen to eliminate silos that can present barriers to *joining up* a range of interventions locally – business, skills, employment support and infrastructure, which is crucial to maximise the benefits of investment for local businesses and residents.

68. The council is working with partners to maximise the benefits of UKSPF and ensure continued investment in the ecosystem that supports business start-up and growth in Gateshead.

<u>Business Competitiveness – State Aid and Subsidy Control</u>

69. Reform of UK spending on economic development coincides with major changes to the rules that govern how public money can be invested to support business and industry. This form of financial support is crucial in less prosperous parts of the country to encourage private investment, business growth and job creation. The money given by the public to the private sector helps to deliver Thrive objectives such as R&D investment, training, jobs, and environmental improvement that would otherwise not take place. Formerly known as State Aid, these rules are now called 'Subsidy Controls.'

<u>Where do we stand now that the Brexit transition period has ended?</u>

70. Now that the UK has left the EU, State Aid rules are being redesigned and replaced with successor arrangements, however they have yet to be fully implemented.

Government has issued guidance for public bodies because many, including local authorities, provide subsidies of one kind or another and are caught up in the proposed reforms. The operation of 'dual controls' has caused a lot of uncertainty for both the public and private sector, fearful of financial penalty or clawback, if funding decisions are subject to legal challenge.

71. Most public bodies and companies are wary of deploying subsidies until the new regime is clarified, effectively slowing business investment in research, innovation, business infrastructure, skills, and training.

72. The opinion of lawyers who deal regularly with State Aid is for public bodies to act as if the EU State Aid rules were still in place to avoid a potential legal challenge, however this duality increases risk and cost in the short term. If this issue persists without further clarity from Government, both public and private investment in the economy may slow at a critical time for the local economy.

Why State Aid and Subsidy Control matters

73. Effectively, the rules cap the amount of financial support that can be given, for what purpose and where. The object is to avoid giving one industry or firm an advantage that would be detrimental to another or provoke a 'free for all' with countries, regions and even local authority areas competing vigorously against each other for investment.

74. Irrespective of whether the UK is a member of the EU or World Trade Organisation (WTO), all countries are required to comply with protocols that regulate business investment and trade. The view that EU exit would allow the UK to provide much more financial support to businesses is generally thought to be overstated. The consensus amongst experts appears to be that the opportunity to provide more generous public investment in industries and trade is limited. All regimes – EU or WTO – limit state financial support to companies in some shape or form.

75. The uncertainty can only really be resolved once the UK fully adopts its own system of rules, within the framework of EU-UK and WTO agreements, defining what constitutes a legitimate subsidy.

Why geography matters

76. Under EU State Aid rules, the ability to offer government grants helped places such as Gateshead and the North East to attract private business investment, particularly if required to compete against more prosperous areas with inbuilt advantages. Although the Levelling Up agenda is intended to bring economic opportunities to all parts of the UK, government has retained discretion to invest the same financial support in Surrey or Berkshire as the North East, which erodes the principle of allocating investment according to need.

Conclusions

77. Businesses large and small across Gateshead have experienced unprecedented change and uncertainty following EU exit, compounded by the pandemic, global forces and fierce competition for materials and skilled labour. Many have adjusted to prevailing economic conditions, bearing additional costs, introducing innovation, adapting operations, and pivoting towards new opportunities in response to major policy reforms impacting the wider business environment. These activities have been imperative to their survival. However, prolonged uncertainty and disruption can dampen business confidence, slowing investment and growth at a critical period for economic recovery. In the medium-term businesses will require ongoing support to

mitigate inflationary cost pressures, but also to invest in long-term growth, skills development, and job creation. The Council will continue engaging with the local business community and ensure companies can access the support they need to thrive in the borough.

Recommendations

78. The views of Housing, Environment and Healthier Communities OSC are sought on the impact Brexit on businesses.