Agenda Item: 7
Appendix 2
One Nottingham Board

Appendix 2. EU Exit Update
Date: 8 September 2017

1.	**Purpose**
1.1	To update ON Board on the latest position around the UK's exit from the EU, including the implications for Nottingham.

2.	**Emerging Implications for Nottingham and the UK**
2.1	A recent Centre for Cities / LSE Centre for Economic Performance (CEP) report looked to model the impact of both a 'hard' and 'soft' EU Exit on economic growth in individual Cities in the UK, over ten years, compared to what continuing membership would have delivered. Though heavily caveated, it suggested: • Nottm is the 22nd (of 62 Cities) most impacted by a 'hard' Brexit at -2.4% GVA (-1.2% for soft). • That the model used underestimates the negative impact in industries where foreign investment is more important than trade barriers. • That those areas that voted 'remain' are <u>more</u> (unlike other studies) likely to be negatively impacted by Brexit than those that voted leave (but the report acknowledges that many of those knowledge rich economies will have the greater ability to adapt).
2.2	Once the UK has left the EU, it will no longer have access to European Funds such as ESIF. D2N2's ESIF allocation for 2014-2020 is £214.3m which consists of both ERDF and ESF. Nottingham has benefitted from significant European Funds in the past, including funding for BioCity, Old Market Square, Nottingham Contemporary and the New Art Exchange. The City has seen at least £190 million of EU funded projects since 2000 via the ERDF, ESF, Horizon 2020 and FP7 funding programmes. Over recent years, around £20 million of our two leading Universities' total annual income has been derived from research grants from EU sources. (The Government has said that it will use money that "comes back to the UK" to create a UK Shared Prosperity Fund (SPF) to replace ESIF and it that will consult widely on this).
2.3	At a National level: • The UK inflation rate fell unexpectedly to 2.6% in May, down from 2.9% the previous month keeping inflation above the Bank of England's 2% target. Many economists attribute much of the recent rise in inflation to the fall in the value of the Pound triggered by the Brexit vote. • The amount of money workers are taking home continues to fall as inflation takes its toll. Earnings growth in the three months to June was 2.1%. Real earnings fell by 0.5%. UK interest rates have been kept on hold at 0.25%. • Unemployment in the UK fell by 57,000 in the three months to June, official figures show, bringing the jobless rate down to 4.4% - its lowest since 1975.

	• The ONS has confirmed that the UK's trade deficit widened between May and June to £4.6bn, the worst performance for nine months. Exports shrank and imports surged as output among British factories stagnated, mainly due to weak car production figures. • The Bank of England has lowered its growth forecast for the UK economy in 2017, and now expects GDP to expand by 1.7%, down from a May estimate of 1.9%. The Governor of the Bank of England has warned that uncertainty over Brexit is already weighing on the economy.

3.	**The UK Government's position**
3.1	In summary: • EU citizens will still be free to live in the UK after Brexit. • Brexit will not mean "a return to the border posts of the past" between the Republic of Ireland and Northern Ireland. Theresa May is to propose the creation of a new "Schengen area" between Britain and Ireland providing free movement to Irish citizens in and out of Britain after the UK leaves the EU. Irish Prime Minister Leo Varadkar has said he does not want an economic border between Britain and Ireland. • The UK will try to strike a "temporary" customs union with the European Union immediately after Brexit. • Chancellor Philip Hammond and International Trade Secretary Liam Fox have jointly declared that Britain will not stay in the EU "by the back door" and will completely leave the single market and customs union after Brexit in 2019. • Theresa May is willing to hand over £36bn in a Brexit divorce deal provided the EU kick-starts talks about a future trade relationship, press reports have claimed.

4.	**Further Background**
4.1	Negotiations between the EU (led by Michel Barnier) and the UK (led by David Davies) began on Monday 19 June. David Davis said that he was entering negotiations on the UK's exit from the EU in a "positive and constructive" frame of mind. This opening session focused on basic issues of procedure such as how often the teams will meet and in what order items will be discussed. It resulted in the publication of a terms of reference document.
4.2	Following this, talks have been scheduled so that there are three weeks for officials to study and produce papers, and then a further week of negotiations. More recent negotiations have focussed on issues such as: • how to resolve any border between Ireland and Northern Ireland, • the methodology for calculating the payment that the UK will owe the EU once the UK has left the EU, and • the rights of EU citizens in the UK, and UK citizens in the EU.
4.3	The EU is holding to its position that the above three issues must be satisfactorily resolved before negotiations move on to discussing the UK's future relationship with the EU. Only once the EU is satisfied with the first phase, it says, will it move to discuss

	this second phase of negotiations. This second phase would include issues such as future customs arrangements and tariff and trade barriers.
4.4	Although the UK can't enter into trade agreements with third parties until it leave the EU, the Government has been talking to a number of other governments about the possibility of bilateral agreements later on. They include the United States, Australia, New Zealand, India and Turkey.
4.5	A further sticking point is whether the UK will continue to accept the jurisdiction of the European Court of Justice (ECJ) over UK law.

5. Contact Details

Name: James Schrodel – Policy Officer - Corporate Policy
☎ 0115 876 1040
✉ james.schrodel@nottinghamcity.gov.uk