

Brexit and local government: the implications and the opportunities

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***Danielle Cudby** considers some of the challenges that Brexit poses on local government and how they could be successfully handled. She argues that despite the risks and the uncertainty, Brexit can provide a platform for local councils to advocate for greater powers and better funding deals.*



The UK's decision to leave the EU has had a momentous impact on the political and economic landscape of the country. With Article 50 set to be triggered in March, a number of large questions loom over the future of the United Kingdom such as its position in relation to EU law, its future trade agreements, and the prospect of diminishing EU funding. Such large policy decisions will shake up the governance framework and will have a significant impact on local government, including funding, the legal framework and the progress of devolution deals.

Funding

The most pressing matter for local government is funding. Under current arrangements, local councils enjoy EU funding packages from a multitude of sources – including the European Structure and Investment Fund and the European Regional Development Fund, allocated towards investment and development projects. Another key fund is the European Social Fund, which provides funding for employment initiatives and economic prosperity.

Local authorities have made good use of these funding pots. Cornwall Council has secured a £132m grant of EU funding towards a superfast broadband project, whilst Transport for London has secured £7.5m for the Emirates Cable Line over the River Thames. The £7.2m of European Social funding within the South East has led to the creation of the 'Job Deal' project in Hampshire – a 4-year employment project, focused on getting ex-offenders back into work.

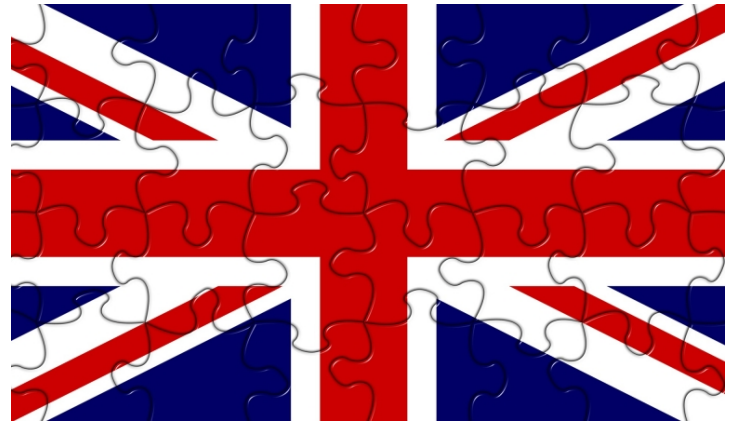
But this funding is in jeopardy; there is no guarantee that local government can continue to tap into such EU sources once the UK's departure from the EU has been initiated. The government has signalled that whilst they are planning to supplement funding to projects signed off by the time the UK exits the EU, there is no assurance that projects will continued to be funded. In terms of opportunity cost, there is also no guarantee that the UK government will make funding available for future projects.

The prospect of diminishing EU funding, coupled with the continuation of local government cuts confirmed within the 2016 Autumn Statement, will further stretch local government budgets. This will be particularly hard-hitting for councils located within the poorer areas that heavily rely on EU funding – this includes West and East Wales, the Scottish Highlands, Tees Valley, and Cornwall.

Funding: Foreign Direct Investment

Local authorities have also greatly benefitted from Foreign Direct Investment (FDI) from the EU, which concerns the establishment of businesses or acquisition of business assets by foreign investors. Under current estimates, nearly half of the FDI stock in the UK originates from the EU, while many European firms that have operations within the UK pay substantial sums to local authorities via business rates. FDI also brings other benefits to regions within the UK, including increased productivity, increased wages, employment opportunities and new technologies.

After Brexit, there is a good possibility that European firms will be deterred from investing in the UK. The UK could be perceived as more isolated and less open to foreign investment. This development will be worsened when the UK leaves Single European Market – European businesses will be susceptible to trade tariffs. In the face of this future uncertainty, local councils in conjunction with Local Enterprise Partnerships will have to double their efforts to attract and support businesses from the EU. This may require re-evaluating policies and tools to attract international businesses.



This point is especially important considering the proposed changes to business rates. Under current plans, local government is to become more economically 'self-sufficient', with the government planning to terminate local authorities' Revenue Support Grant by 2020 and implementing 100 per cent business rates retention. This will mean that local councils will directly rely on the business rates from local businesses.

Devolution Deals

One of the most significant and current changes within the local government landscape is devolution. UK central government is currently processing the devolution agenda, delegating power from central government to local authorities. So far, devolution has been dealt with on a case by case basis; local authorities have been encouraged to work together to formulate devolution deals, which are in turn reviewed by central government for approval. This process has overseen the creation of combined authorities such as the Sheffield City Region and Greater Manchester.

The devolution agenda is, however, now threatened by the prospect of leaving the EU. The UK government is currently inundated with shifting through Brexit-related legislation and policy implications. As a result, the negotiation process with the EU has become a priority of the UK government whilst policies such as local government devolution have been placed on the back burner. Faced with the current circumstances, it is highly probable that local authorities will find it more difficult to have their devolution packages reviewed and accepted by central government. In addition, with the high degree of uncertainty surrounding the future of the UK, central government could be less willing to devolve more powers to local authorities. This could stifle emerging devolution deals such as the East Anglia devolution deal between Cambridgeshire and Peterborough.

Whilst the prospect of Brexit creates ominous complications for the devolution process, there are some potential benefits for local government. The Brexit process is creating a platform for local government bodies to advocate for their own opt-out deals. The Local Government Associations of England, Wales, Scotland and Ireland have urged central government to make further constitutional arrangements for local authorities – suggesting that more power should be transferred to local authorities

Possible legal impacts

Local government currently complies with a plethora of EU legislation. This encompasses procurement, local economic development, waste collection and employment legislation. But following Brexit, the supremacy of EU law will no longer apply. With no obligation to follow EU legislation, the government will have the jurisdiction to amend or repeal EU laws. For example, a key piece of EU legislation for local government is the EU Waste Collection and Disposal Directive. The legislation, which has been incorporated into domestic law, sets out a specific framework regarding the management of waste and imposes recycling targets to be achieved by 2020. After Brexit has been initiated, there is a possibility that the government could amend or repeal the UK law which gives effect to this directive. This could potentially remove or alter recycling targets and waste management duties arising from the

legislation.

Local government now has the task of steering through all these challenges, whilst facing a future of uncertainty. But Brexit can be used as a platform to advocate greater powers for local government and advocate fairer funding deals. So, as well as considering how Brexit can work for Britain, we also need to ensure that Brexit can work for local government.

About the Author

Danielle Cudby has worked as a Graduate Management Trainee with the Local Government Association. She holds an MSc in International Relations from the LSE.

