

Kent and 'Brexit'

Realities and Risks in Regional Perspective



Dr Amelia Hadfield

Dr Benjamin Martill

Lora Nazarenko

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Executive Summary

The Kent and Medway region stands to be affected by the referendum more than any other region in the United Kingdom (UK), given the intensity of its commercial and political links to the continent and its physical proximity to the French border. The region's close ties with the European continent are reflected in the needs of important sectors of activity in the county, such as local government, commerce, policing, higher education, healthcare, tourism, and transport. Whilst the effects of the referendum have been widely debated nationally, there has been far less focus on the local implications of a 'Brexit', and few systematic studies of what this would mean for the region. In this report we consider the risk factors associated with a British withdrawal from the European Union (EU) – or 'Brexit' as it is popularly known – from the perspective of each of these areas of local activity. We analyse the effects of withdrawal, rather than of remaining, because *risk* factors are associated only with a move away from the status quo. It is our intention to highlight areas of risk, not to take a partisan stance in the debate, and it is up to the reader to decide whether they believe the risks of a 'Brexit' are outweighed by the benefits.

The report summarises the findings of a high-level workshop held at Canterbury Christ Church University on 20 May 2016. The workshop was convened by the Centre for European Studies (CEFEUS) and attended by representatives from each of the sectors discussed who were tasked with assessing the likely effects of the referendum on the Kent and Medway region. The general findings of the workshop were that no sector would be immune from the effects of the referendum, as each area of activity is exposed to British withdrawal in different ways. For **local government** the primary risk is the impact on local government's ability to raise finance should withdrawal produce an economic shock. For the local **economy** the major risks identified were the loss of protected status for local products, a shortage of available skills and labour, and the shrinking of the export market. The **policing** sector anticipated diminishing access to sources of cross-border intelligence and worsening diplomatic relations. For **higher education** the main risks were a decline in student numbers, decreased access to European funding, and a decline in cross-border collaborative research. In the **healthcare** sector risks extended to skills shortages and the increased costs of healthcare provision abroad. The **tourism** sector is most affected by the risk of declining visitor numbers and the knock on effects on jobs in the industry. Finally, as regards **transport**, the main risks were capacity problems at the Channel ports and the knock-on effects on transport flows within Kent.

About the Authors



Dr Amelia Hadfield

DIRECTOR, CENTRE FOR EUROPEAN STUDIES

Amelia is Director of the Centre for European Studies and Reader in European Foreign Affairs at Canterbury Christ Church University.



Dr Benjamin Martill

DEPUTY DIRECTOR, CENTRE FOR EUROPEAN STUDIES

Benjamin is Deputy Director of the Centre for European Studies and Lecturer in Politics and International Relations at Canterbury Christ Church University.



Ms Lora Nazarenko

RESEARCH ASSISTANT

Lora is a final-year Politics student at Canterbury Christ Church University. She has written her dissertation on Bulgaria and the European Union.

Local Government

Realities

Local government carries out statutory and discretionary services. European legislation affects the delivery of several local services though the number of services and intensity of this influence has never been accurately quantified. Examples of services influenced or affected include the environment where European legislation impacts locally on areas such as major planning schemes and waste. Other European legislation, such as procurement or state aid rules, affects how local authorities commission services or set up business support schemes. The EU is often thought of as a major source of finance. However, European funding spent by Kent's local authorities is only a very small proportion of their overall budgets. Nevertheless, it does appear over time to have had a certain impact in areas such as economic development (e.g. supporting trade and tourism) or the environment (environmental schemes and policy development). Between 2007 and 2013 the European Social Fund (ESF), which contributed approximately £10 million into regional projects while the European Regional Development Fund (ERDF), which contributed nearly £22 million in the same period.

Risks

The impact of Brexit on the regulatory environment in which local government operates will depend on the shape of the degree of access to the single market negotiated for the UK's future relationship with the EU and how the government decides how to replace those EU laws that affect local government. Most economic forecasts suggest that Brexit will have a negative impact on UK GDP. If there is such an impact, this could have a knock-on effect on local government revenue. This is because changes to how local government raises finance may make revenue coming in increasingly sensitive to the health of the local economy. The changes underway include a reduction in central government grants, councils raising more revenue from council tax and, in the long-term, retaining all business rate revenue locally. In terms of EU funding, it is not clear if the government could or would limit access to European structural funds during any negotiation period to leave the EU. Brexit would, however, almost certainly mean the end of EU structural funding as successive government policy has questioned the value of these funds in countries that are net contributors to the EU budget. Whether and to what extent such funding would be replaced will depend on factors such as the health of the economy as a whole and the spending priorities of the government of the day.

Economy

Realities

Kent and Medway is a highly productive region economically, with employment and business survival rates above the UK average.ⁱ The dominant industries are located in the ‘professional, scientific and technical’ sector, which accounts for 17.4% of businesses and constitutes the largest grouping of its kind in the South East of the UK, and in the construction sector, representing 15.1% of local businesses. A significant majority of local firms (75.5%) are small businesses employing between one and four individuals.ⁱⁱ In terms of employment patterns, a majority of citizens are employed in administration, education and the public sector (30%), followed by service industries (19%), financial services (17%),ⁱⁱⁱ and the ‘knowledge economy’ (15%).^{iv} Connections with the European economy and the single market may, at the local level, be observed in three respects: First, a significant proportion of workers in the region are citizens of other EU member-states, many of them from the accession states in Central and Eastern Europe.^v Second, a large number of firms in the region either export products to EU member-states, import from them, or are involved in facilitating these transactions. Third, the land-based industries in the region depend upon EU subsidies of approximately £54 million per year.

Risks

Each of these areas of mutual economic activity between Kent and the European continent risks being disrupted in the event of a Brexit. Withdrawal from the EU would entail the loss of protected status for regional products, resulting in a loss of brand identity and increased external competition in these areas. If restrictions are imposed on migration then there is also a risk that labour and skills shortages will emerge. It is likely that some sectors will be affected more than others by restricted access to the European market and labour force; while the scientific and technical sector will likely be adversely affected, the construction sector – which is more domestically oriented – is likely to be affected far less. Within higher education and the public sector, in which a significant number of citizens are employed, the primary risk is the loss of access to European funding streams, while for the financial services industry – another strong area of regional employment – it is the uncertainty over the new regulatory framework that poses the greatest risks. The impact on Kent’s land-based industries including farming, forestry and growers will depend on the level of subsidies from the EU’s Common Agricultural Policy will be compensated by central government.

Policing

Realities

Kent Police has a special relationship with Europe and is in a unique position when compared with other territorial forces when it comes to questions of trans-border policing. Many of the most pressing policing issues in the region concern trans-border crimes and the movement of suspects across borders and, resulting in a formal 'Joint Initiative relative to Local Cooperation' between the *Prefet du Pas de Calais* and the Chief Constable of Kent, agreed in 2004. The decentralised nature of British policing has afforded Kent Police leeway in pursuing international cooperation and the institution has contributed significantly to the architecture of cross-channel policing. More broadly the relationship between Kent Police and the forces of other EU states is governed by a variety of international conventions and memberships, although these continue to be managed and implemented at the regional level. These include the European Arrest Warrant, the EU's law enforcement agency (Europol), the European Convention on Mutual Legal Assistance in Criminal Matters, and the Schengen Information System. These agreements and organisations facilitate coordination, information-sharing and standardisation across borders.

Risks

Three areas of risks have been identified in the area of policing. The first concerns the potential effects of the abrogation of existing institutional arrangements for cross-border cooperation. Three of these are EU arrangements – the European Arrest Warrant, Schengen Information System, and Europol – and would either be abrogated immediately or would become subject to the future status of the UK's relationship with the EU. Whether the Convention on Mutual Legal Assistance would be abolished is less clear, as this is the product of the Council of Europe, not the EU. The second risk relates to the provision of adequate financing for cross-border policing operations. European cooperation reduces the cost of information gathering and creates avenues for additional funding for Kent Police. Withdrawal from these arrangements risks depleting the resources available for cross-border policing whilst increasing the costs of these activities. The third risk concerns the UK's diplomatic and political relations with EU states in the event of a withdrawal, and the potential for poor relations to undermine cooperation. Successful cross-border policing depends heavily on state-level coordination, and thus on a conducive diplomatic environment, which may be threatened by diplomatic squabbling in the event of British withdrawal.

Higher Education

Realities

The Kent and Medway has a thriving higher education sector. There are three major, internationally oriented universities located in the region, with a combined total of around 40,000 undergraduate and postgraduate students. The principal research university in the region is the University of Kent, with 19,000 students across four campuses, located in Canterbury, Medway, Brussels and Paris. In total, 11 percent of Kent students come from the EU, and the institution labels itself 'Britain's European University'.^{vi} Canterbury Christ Church University is the second largest institution in the region with 16,000 students, 10.6 percent of whom are from the EU.^{vii} The University has campuses in Canterbury, Medway and Tunbridge Wells. The University for the Creative Arts, a federal institution with around 7,000 students, has two of its four campuses in the region, in Canterbury and Rochester. Together the region's universities provide a major source of employment in the local area and it is estimated that their combined economic impact across the South East amounts to over £1bn a year.^{viii} Funding for a number of regional projects is also channelled through the universities, and their activities contribute directly to public understanding and the dissemination of knowledge in a wide range of fields.

Risks

Three main categories of risks have been identified in relation to the post-referendum scenario of a 'Brexit'. The first concerns the availability of research funding. British universities receive the greatest amount of funding from the various European research budgets and are highly competitive at attracting this money. Should the UK opt to leave the EU, it cannot be guaranteed that British universities will be able to continue to bid for EU-wide grants. Whilst the British government may step in to fund any shortfall, this cannot be guaranteed. The second concerns staff and student recruitment. The university sector is highly mobile, with students travelling from a number of countries to study and work in the sector, the vast majority of these being from EU countries. The ability to recruit staff and students from the EU will likely be undermined by the re-introduction of visa requirements for EU students. Given the international orientation of the universities in the area, this risk is particularly acute for the region. The third risk identified is the potential damage to pan-European scholarly networks. The majority of academic research is collaborative and trans-border. Should transacting with researchers in the UK become costlier, or logistically difficult, these networks may cease to operate efficiently.

Healthcare

Realities

Healthcare in the Kent and Medway region is provided – since 2012 – through eight Clinical Commissioning Groups, bodies of General Practitioners responsible for purchasing healthcare services on behalf of the citizens in their area. Cross-border healthcare issues fall under the remit of the European Health Insurance Scheme (EHIS), an EU programme which commits member-states to treat EU citizens falling ill within their jurisdiction, and commits their host state to reimburse the cost of this provision. The cost of treating EU citizens in the UK is estimated to be around £340 million per year, with most of the costs being recovered through EHIS.^{ix} The healthcare of EU citizens living and working in the UK is funded directly by the government, not by EHIS, as is the case for Britons living abroad in EU member-states. In addition to these national-level arrangements, there are also several local trans-border healthcare schemes operating in the region, including the Health and Europe Centre in Maidstone, which coordinates Europe-wide collaborative projects,^x and arrangements for treating Kent NHS patients at the *Centre Hospitalier de Calais*.^{xi} Many migrant workers from the EU are also employed locally in the NHS and private providers, where they make up approximately five percent of the workforce.^{xii}

Risks

Four specific risks from British withdrawal from the EU arise in relation to healthcare provision. The first concerns staffing levels and the risk of skills shortages arising from the re-imposition of visa restrictions on migrant workers from EU member-states. Whilst these individuals represent only around five percent of the workforce in the region, they help fill a number of crucial skills-shortages and bring significant expertise to the area. A second risk-factor is the loss of access to EU funding streams, which contribute significant investment to healthcare programmes and health research in the region. Indeed, the Health and Europe Centre alone has received €6.7 million since 2005 from different EU funding streams.^{xiii} A third risk is the effects of abrogating existing reciprocal arrangements, including the local schemes outlined above, which may increase the strain on existing NHS resources in the area, since hospitals will no-longer be able to refer patients for treatment in France. Moreover, without the EHIS agreement in place, UK citizens will no-longer receive free emergency treatment when travelling in the EU, and will need to purchase private insurance. Finally, a fourth and more general risk is that funding for healthcare services in the region may be threatened by the national economic fallout from a 'Brexit', which will likely result in decreased government revenue in the short- to medium-term.

Tourism

Realities

The Kent and Medway region attracts a significant number of visitors from overseas each year, largely as a result of its famous attractions, historic towns, and natural beauty. Kent is widely referred to as the ‘Garden of England’, with 85% of land area classed as greenspace and less than 2% of land covered by buildings.^{xiv} The region also hosts the ancient cities of Canterbury and Rochester, as well as important centres of Victorian heritage. A greater proportion of visitors arrive from EU member-states (77%) than the national average (67%) owing to the region’s proximity to the European continent and its usefulness as a waystation for travellers heading to London. The number of EU visitors to Kent, moreover, is increasing, and the region saw 827,000 visitors from the EU in 2015, up from 514,524 in 2006.^{xv} Visitors, whether from the EU or elsewhere, bring significant benefits to the local region. They contribute to the cosmopolitan feel of the towns in the region and increase the international awareness of the region and its culture and products. They also contribute economically: It is estimated that the tourist industry contributes £3.4 billion to the local economy and that this helps support over 65,000 jobs.^{xvi} The same factors that draw visitors to Kent from the EU – proximity and ease of access – also facilitate significant tourist flows in the other direction, and a significant number of journeys are made by citizens in the region to France and Belgium (among other EU member-states) for tourism or to purchase local goods.^{xvii}

Risks

There are several risks identifiable to the tourism sector of a British exit from the EU, which may adversely affect the number of visitors to the region from EU member-states. The most important concerns the effects of the re-imposition of customs controls that may accompany a British withdrawal. Visitors from Europe may be less inclined to holiday in the UK if the time, costs and restrictions on entering the country are increased, especially if they are able to travel within neighbouring countries easier. Moreover, visitors may also be dissuaded from coming to the UK by the perceived rise of anti-foreigner sentiment in the country that has accompanied the referendum campaign. A significant decline in the number of visitors from EU countries will hit the tourist industry hard, given that individuals from these states make up a significant majority of visitors to Kent. The likely outcome will be a reduction in income and jobs in the tourism sector and allied industries. There will also be direct effects on Kent citizens: If customs restrictions are re-imposed and cross-border travel made slower, the marginal benefits of short breaks to the continent will decrease.

Transport

Realities

The vast majority of land-based journeys to and from Europe pass through Kent one way or another. The Port of Dover handles the vast majority of vehicle traffic to the continent, and it is estimated that approximately one-sixth of the UK's total economic output derives from movements facilitated by the Port itself. The passenger vehicle and freight shuttle operator, Eurotunnel, operates out of Cheriton in Folkestone and conveys a significant proportion of road-traffic to its Cocquelles terminal in Calais. Transport to both the Port of Dover and Eurotunnel is- for the vast majority of journeys – via the M2 and the M20 motorways which connect London and the M25 to Folkestone and Dover, respectively, and which traverse the entirety of Kent. In addition to the road links, the single rail-link from the UK to the continent, High Speed One (HS1), travels through Kent from Dartford to the Channel Tunnel entrance at Folkestone, with international stations at Ebbsfleet and Ashford. Kent is the only county outside of Greater London with direct rail links to the continent, with *Eurostar* services operating to Lille, Brussels, Paris and Marseille.

Risks

The workshop identified general risks to transport provision as a result of the anticipated increase in time associated with the re-imposition of customs procedures. The re-introduction of any additional paperwork, such as customs formalities, could reduce the fluidity of operations at Dover and at Eurotunnel. There is also a corresponding risk that delays here can lead to delays throughout Kent, as has been the case during deployment of 'Operation Stack'. Juxtaposed immigration controls were set up in the early 2000s with the UK Border Force carrying out controls at the port of Calais, the Coquelles Eurotunnel terminal and at Eurostar's continental stations. However, the *Le Touquet* Treaty governing these arrangements is a bi-lateral treaty and is therefore not directly affected by the referendum on EU membership. With regards rail services it is not anticipated that a 'Brexit' would lead to a substantial alteration in services – since the existing borders already constitute the greatest impediment to the development of new routes – although the need for additional border checks may harm the viability of some projected services (such as the proposed *Deutsche Bahn* services to Frankfurt and Cologne).

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Centre for European Studies
Canterbury Christ Church University
North Holmes Road
Canterbury
Kent, CT1 1QU

www.canterbury.ac.uk/cefeus