

Report to Cabinet

Subject: Brexit and its Potential impact on Gedling Borough Council

Date: 31 January 2019

Author: Deputy Chief Executive

Wards Affected:

All wards

Purpose:

This report will explore the potential impacts of Brexit on the services provided by Gedling Borough Council following the UK's decision to withdraw from the EU on 29th March 2019.

Key Decision:

This is not a key decision.

Recommendation(s)

THAT Cabinet:

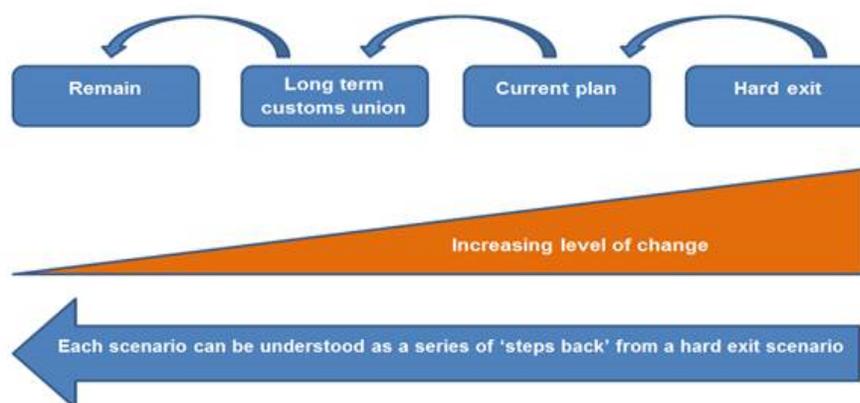
- 1) Notes the report.**
- 2) Supports the lobbying of central government as regards to potential changes in legislation, which may improve the council's aspirations in its community leadership role.**
- 3) Instructs officers as a matter of urgency, to review all of the Council's contractual relationships and supply chains to ensure that service operations will remain effective post Brexit.**

1 Background

- 1.1 Following the UK's vote to leave the EU, the UK Government triggered Article 50 in March 2017, starting a two year negotiation on a Withdrawal Agreement. On 29th March 2019 the UK will leave the EU and all EU law will transpose into UK

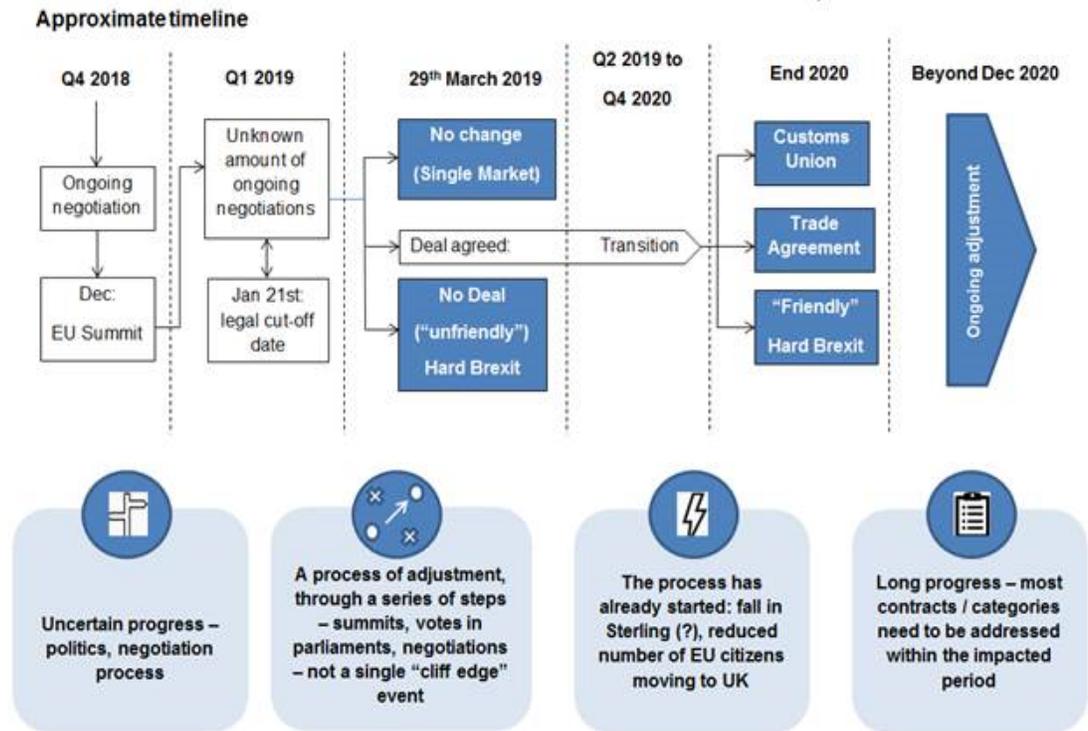
law, following which the UK Government will be able to keep, amend or discard each law. The UK can leave the EU in March 2019 without an agreement, but an 'orderly withdrawal' would be the desired outcome for all parties.

- 1.2 A phased approach has been taken to the UK/EU negotiations. In December 2017 the first phase concluded, with satisfactory progress on citizens' rights, the UK's contribution to the EU budget and participation in EU programmes, and Northern Ireland/Republic border arrangements.
- 1.3 The second phase concluded in March 2018, with agreement on a 21-month transition period until 31st December 2020, during which time the UK will need to abide by all EU rules, but will lose membership of the EU institutions.
- 1.4 The third phase concluded in November 2018, when the EU officially endorsed the terms of the UK's withdrawal during a short meeting, bringing to an end the negotiations which began in March 2017. The UK Parliament was expected to vote on the deal on 12th December, but this was called off by the Prime Minister beforehand.
- 1.5 The House of Commons voted on the Brexit withdrawal deal on 15th January, and it resulted in an overwhelming defeat by a majority of 230 votes. As at the time of writing this report, the so-called "Plan B" will be debated in parliament on 29th January.
- 1.6 Until such an agreement is reached by the UK Parliament, there are many possible scenarios that can result from negotiations, but each one can be understood as a series of 'steps back' from the 'Hard Brexit' scenario. This report therefore focusses on the 'Hard Brexit' scenario which represents the option with the most potential changes.



- 1.7 Moving forwards, Brexit will not be a single event, but a series of events with periods of adjustment, and full adjustment will be a long and protracted process.

This can be diagrammatically presented as follows:



1.8 What is not clear at present is what will happen now. The government will outline its strategy for Plan B which go through a second vote on 29th January. However MPs could still propose alternative plans through a series of amendments. These could include a further attempt to renegotiate the draft Withdrawal Agreement; a so-called 'People's Vote' second referendum; a general election could be called; another vote of no confidence; parliament could take control and seek an extension of Article 50; or even revoke Article 50 to effectively cancel Brexit.

1.9 A 'no deal' Brexit means the UK and the EU would be unable to reach a withdrawal agreement, meaning there would be no 21-month transition period. If that was the case, consumers, businesses and public bodies would have to respond immediately to changes as a result of leaving the EU on the 29th March. A 'no deal' does not stop the UK leaving, but it means there is no clarity about what happens next.

National Impact

1.10 A 'no deal' Brexit would have some significant consequences as follows:

- **Trade** – the UK would revert to the World Trade Organisation rules on trade. While the UK would no longer be bound by EU rules, it would have to face the EU's external tariffs. The price of goods in UK shops could go up as businesses would have to place tariffs on goods imported from the EU. Some British-made products may be rejected by the EU as new

authorisation and certification might be required. Manufacturers could move their operations to the EU to avoid delays in components coming across the border.

- People – the UK would be free to set its own controls on immigration by EU nationals and vice versa. There could be long delays at borders if passport and custom checks are heightened. The fate of ‘expats’ in terms of their rights to live and work would be unclear. Professionals working in the EU might find their qualifications are no longer recognised, meaning they are no longer able to practice, resulting in a large influx of vulnerable UK nationals returning from Europe. Flights to the EU could be grounded as the necessary safety confirmations to cover both ends of the journey might not be in place. UK nationals would lose the right to access healthcare abroad under the European Health Insurance Cards.
- Laws – relevant EU laws would be transferred over so there would be no black holes in the UK’s law book. UK would no longer have to adhere to the rulings of the European Court of Justice but it would be bound to the European Court of Human Rights, a non-EU body.
- Crime – responses to cross-border crime, including cyber-crime and Child Sexual Exploitation (CSE) are currently delivered under EU Directives. There are also considerations for the future of cross-border family law and border protections, which could have impacts for human trafficking and modern day slavery.
- Money – the Government would not have to pay the annual £13 billion contribution to the EU budget. However the UK would lose out on some EU subsidies e.g. the Common Agricultural Policy currently provides £3 billion to farmers.
- Food – the UK is a net importer of food (circa 60% self-sufficiency) so controls around the safety and security of food imports is important. The UK’s food system is fragile and vulnerable to disruption, and is heavily reliant on food produced by its EU neighbours. A ‘no deal’ withdrawal could affect public health, consumer protection, animal welfare and environmental sustainability, as other countries begin to produce food for the UK to replace those imports previously coming from the EU.
- The Irish Border – the issue of the border between Northern Ireland and the Republic would remain unresolved. While physical infrastructure has been vetoed, the border would become an external frontier for the EU in the event of a ‘no deal’ Brexit. There would be pressure to enforce customs and immigration controls.

1.11 Other potential impacts of a ‘Hard Brexit’ at a national level are outlined below:

- Reduction in GDP growth nationally with implications for local economy and local employment levels;
- Lower levels of household formation as a result of reductions in inward-migration from EU;
- Without an agreement the status of any EU citizens in the UK will be unclear. This will be the case in particular for those who have no documentation certifying their permanent residency, and those who cannot qualify for permanent residency as they have not been living in the UK for more than five years;
- Potential fall in property prices due to a disorganised exit and consequent downturn in construction;
- Uncertainty regarding procurement processes during transition;
- Loss of access to European Structural and Investment Funding (ESIF) if not replaced by central Government funding (the Treasury has previously confirmed that it would underwrite ESIF until the end of 2020 and has proposed a 'Shared Prosperity Fund' to be in place by 2021 but details are awaited);
- Loss of/reduced ability to attract skilled migrant workers impacting on the construction and health sectors in particular;
- If regulatory trading environments remain uncertain, there are risks of major businesses relocating out of the UK, and that the UK experiences difficulty in attracting new inward investors;
- Inflationary pressures increasing business and householder costs stemming from weaker currency;
- or increased tariffs on imports;
- No impact on State Aid rules which are to be transposed into UK law and will continue to apply as normal;
- The UK could face a Sovereign downgrade in its credit rating, which will impact on national loan debt and the performance of UK banks. The reaction could be an 'emergency' cut to bank base rates by the MPC, followed by a series of rate hikes over the medium term in reaction to falling sterling prices and inflationary pressures.

Regional Impact

1.12 The potential impacts of a 'Hard Brexit' at a regional level are outlined below:

- It has been suggested that if there is a sudden chaotic Brexit, then there could be urgent requirements for storage and distribution sites, storage areas and premises (this is in relation to recent government announcements on the need to stockpile food, medicines and medical devices, and other materials). This is more likely to impact on the M1 corridor locations to the west of Nottingham and around East Midlands Airport;
- Businesses employing 'just in time' techniques may face particular difficulties and may also require, or be encouraged to increase, storage capability locally at extra cost to themselves and ultimately consumers;
- Potential impact on national infrastructure spending, for example HS2;
- Opportunities or threats to the East Midlands economy from potential reprioritisation of north-south and east-west transport corridor movements in relation to new markets and the accessibility of ports to this new trade;
- Delays caused by queuing for customs checks at ports would have knock-on effects across the national/regional transport network, and additional costs for local exporting businesses;
- At the LEP level, challenges in planning, commissioning and providing continuity of delivery in part EU-funded programmes that currently support economic development, job creation and training. In turn this could create potential negative impacts by engendering a lower skilled workforce and stalled regeneration projects;
- Scope to develop new or expanded ports and airports.
- Local Resilience Forums have been asked to prepare for 'reasonable, worst case scenarios', which could include runs on banks, petrol and food. This also includes concerns about civil unrest and regional protests.

Local Impact

1.13 The potential impacts and key risks of a 'Hard Brexit' for Gedling as a local authority and in its community leadership role are outlined below:

a) Development & the Built Environment

- Downturn in development and construction locally with implications for affordable housing delivery due to increases in the price of building resources e.g. bricks and shortage of construction workers;
- Potentially lower Local Housing Need Assessment leading to downward review of housing targets, but potentially greater demand for social/affordable housing if the economy slumps;

- Possible adoption of new approaches to Environmental Impact Assessment (EIA) both in terms of scope and procedures, meaning that EIA's may only be required for major developments;
- Much greater flexibility to change legislation on the protection of wildlife and habitats albeit limited by government commitments to international treaties. This could relax the current constraints around permitted developments.

b) Economy & Place

- Possible implications for the future recruitment of professional staff due to restrictions on the movement of people from the EU;
- Additional tariffs for local exporting businesses would increase costs and may be forced to shed labour as a result;
- Local businesses in sectors such as construction may face increased difficulties in recruiting skilled labour;
- Reduced access to skills and regeneration funding if not supported by Government;
- Uncertainties over trade agreements and import/export arrangements will cause larger businesses to be risk averse and commission work in smaller contracts, which will in turn affect local sub-contractors who need guaranteed income to survive.

c) Council Resources

- Potentially fewer planning applications and pre-application requests for advice and less income from planning fees and EIA's meaning reduced work load and decreased income levels;
- Likely increase in demand for support and advice from economic development team from local businesses especially in relation to "no deal" planning;
- The lack of clarity over the status of EU citizens may have implications in relation to the right to work for some of our employees; the right to vote for some of our residents; the right to access benefits and housing for some of our residents;
- A risk to the Council's business rates collections as local businesses go into liquidation or EU citizens (as local business owners) leave the UK, which may have an impact on local high streets;
- Council resources required to lobby government post Brexit, for example

in relation to environmental protection and other secondary legislation affecting local government services;

- The increased costs of construction may lead to fewer developments, meaning less Community Infrastructure Levies and Section 106 monies;
- Reduced housing delivery will affect any potential New Homes Bonus payments from the government;
- Changing eligibility criteria for assessing individuals' immigration status will impact on the housing and safeguarding teams;
- Poverty could become a major issue, with increasing demand for council services to vulnerable people and families, including food banks, homeless provision and benefit support;
- Further changes to government grants to pay for the estimated £80 billion hole that a "no deal" will create in the finances of the UK;
- As outlined above, investment rates of return and borrowing costs could be affected depending on the decision;
- The council needs to ensure that adequate reserves of fuel and appropriate emergency supply chains are in place to mitigate any shortages that may arise.

Opportunities

- 1.14 Brexit represents a range of opportunities for new levels of devolution, whilst at the same time it allows the chance to review areas of regulation that inhibit growth, and local authorities are therefore a key voice as the local experts.
- 1.15 From the council's perspective, the following opportunities have been identified:
- a) Development & the Built Environment
- Gedling shares the government's aim of increasing house building, and a review of "disrupters" in the building process would be welcomed. This can include issues around un-actioned planning permissions due to developers awaiting favourable market conditions, but also can include a review of environmental planning constraints with regards to British wildlife and habitat, rather than them being assessed on a Europe-wide basis.
- b) Economy & Place
- There will be increased opportunities and a necessity to open up new markets outside of the EU for local firms;

- Gedling is predominantly a small and medium enterprise (SME) area, and by simplifying regulations e.g. VAT registration for small businesses and allowing them to have a turnover of more than £83k without penalty, would allow businesses to grow unencumbered by red tape;
- The public sector currently spends billions of pounds, particularly the NHS, and it is currently very difficult for local SME's to bid for public contracts under EU public contracting regulations. By simplifying public sector contracting arrangements then local SME's would not only benefit economically, but would also benefit from greater efficiency;
- Unlike now, infrastructure investment should be outcome-based with objective measures set to judge the return on capital expended, thereby reducing restrictions such as State Aid;
- The European Working Time Directive and other EU employment law e.g. that which inhibits companies from employing people on a permanent basis rather than on temporary contracts, should be examined for change.

c) Council Resources

- An opportunity exists for all policymakers of all sectors to work together and rethink the UK's approach to improving the health of the local population. There is the opportunity to put health at the heart of new policy frameworks for employment, and make health a central consideration in international, national and local trade agreements;
- Depending on final agreements, there is potentially scope for some powers from Brussels to be repatriated to the local level. Brexit will give local authorities the opportunity to lobby central government for the devolution of power to local authorities, for greater flexibility in grants, and the ability to bid directly for funding;
- With increased costs of construction, housing developers will be less likely to build affordable housing and this could give an opportunity for Gedling to step into this area by becoming more commercial. This could possibly be achieved by using innovative new construction techniques, such as modular housing, to build affordable housing that results in quality homes for residents and potentially creates a revenue for the Council;
- With the likely disruption to holidaymakers going abroad, Brexit would give an opportunity to revisit tourism in the area and promote the borough's unique Heritage trail.

Summary

1.16 In summary, Brexit can be broken down into a series of familiar challenges:

- Changes in regulation (import/export, possible tariffs or non-tariff barriers);
- Changes in the rights of movement for people (and the knock-on effects on labour market changes);
- Foreign Exchange and finance uncertainties;
- Legal changes.

1.17 The UK has seen all of these before, however it hasn't faced them all at the same time. Businesses/ organisations can therefore take some definable actions now to ensure they are ready i.e. they need to understand contracts, understand supply chains, and understand suppliers and markets in which they operate.

2 Proposal

2.1 The final form of Brexit is not yet known and it is proposed that Cabinet members note the report.

2.2 A number of opportunities exist for lobbying of central government as regards to potential changes in legislation, which may improve the council's aspirations in its community leadership role.

2.3 As a matter of urgency, council officers should review all of its contractual relationships and supply chains to ensure that service operations will remain effective post Brexit.

3 Alternative Options

3.1 Members are asked to note the report and therefore there are no alternative options to consider.

4 Financial Implications

4.1 There are no financial implications arising directly from this report.

5 Appendices

5.1 None.

6 Background Papers

6.1 Information for this report has been gathered from a collection of magazine articles, industry briefings, BBC news reports and other media.

7 Reasons for Recommendations

7.1 The Council has no influence over Brexit discussions and can only react to

changes enforced upon it at a national government level.

- 7.2 If the opportunity arises then the Council will engage in lobbying central government where, and in whichever circumstances, it is deemed fit to do so.
- 7.3 The Council should be reassured that services will continue to be effective and uninterrupted after 29th March 2019.