CABINET

Report of: **Director of Development**

Date: **9 October 2017**

Cabinet Portfolio: **External Affairs / Finance / Economy / Environment**

PLANNING FOR BREXIT

Purpose

This report outlines a proposal to allow the Authority to prepare for the changed circumstances likely to be brought about by the Government's decision to terminate the UK's membership of the European Union.

Background and Context

The UK Government formally notified the European Commission of its intention to terminate the UK's membership of the European Union on 29 March 2017, so starting a process widely known as 'Brexit'.

The process of secession from the European Union is governed by Article 50 of the Lisbon Treaty. This sets out a strict timetable for leaving the EU, in that after two years from the date of notification by a Member State that State is no longer a member of the European Union, unless an extension to this time limit is agreed by all the remaining Member States. In practice however, due to the need for ratification of any agreed terms by national parliaments and the EU Parliament, the timescale is shortened by six months. Termination of membership is automatic once the time limit finally expires irrespective of whether terms have been agreed between the departing Member State and the EU 27.

The Government is presently engaged in negotiating the terms for departure. These negotiations essentially have two component parts. The first covers the withdrawal agreement, comprising the status of EU27 citizens in the UK, the border between Northern Ireland and Ireland (an important issue for Pembrokeshire as it has implications for our ports), the settling of financial rights and obligations between the UK and EU27, and clarifying the position of EU law in the UK. The EU insists that adequate progress must be made on these issues before discussions can start on the second part of the negotiations covering the future relationship between the UK and the EU27. At the time of writing, the Prime Minister is due to make a major speech on Brexit in Florence on 22 September, the content of which is presently unknown.

The Government's intent is that the UK would also leave the Single Market and Customs Union, although to do so requires triggering of Article 127 of the European Economic Area Agreement giving at least twelve months' notice of leaving. This has not yet been accomplished.

The Government wishes to secure a comprehensive future trading agreement within the two years set by Article 50 but there is no certainty that such an agreement can be achieved in this timescale. There is also concern that the Article 50 period might end

without a deal being reached. Although it might be regarded as pessimistic, this is possibly the best basis on which to plan for any Brexit impacts if contingency plans are to be thorough.

Main Issues

Basically, there are two scenarios in which the UK leaves the EU. The first, commonly referred to as a 'Hard Brexit' involves a complete termination of all links with the EU including membership of the Single Market and Customs Union. The second, commonly referred to as a 'Soft Brexit' involves retaining partial access to one or both. Although Government policy is for the former it is still possible that the latter may happen, for instance by a failure to trigger Article 127.

The impact of Brexit in Pembrokeshire is difficult to assess. A study published in July by the London School of Economics found that the immediate economic effects of Brexit (the report does not try to assess longer term effects) were negative under both a hard and soft Brexit scenario in every local authority area, but more so under a hard Brexit scenario. The study contains an assessment of the immediate change in Gross Value Added as a result of the effect on trade alone of soft and hard Brexit scenarios across all local authority areas. For the Swansea Bay City Region and Ceredigion, the predictions are:

	% Change in GVA		**Change in GVA (£m) based on 2015 GVA**	
	Soft Brexit	**Hard Brexit**	**Soft Brexit**	**Hard Brexit**
Carmarthenshire	-1.0	-1.7	-28.06	-47.7
Ceredigion	-0.9	-1.8	-11.32	-22.64
Neath Port Talbot	-1.0	-1.4	-21.42	-29.99
Pembrokeshire	**-1.0**	**-1.8**	**-19.64**	**-35.35**
Swansea	-1.2	-2.3	-54.04	-103.57

By way of comparison, the Sea Empress oil spillage in 1996 had a net economic impact of -£14.3m from all causes, comparable to a loss of 957 FTE jobs.

Brexit will also mark the termination of all EU funding programmes in the UK. These have been especially useful in Pembrokeshire in providing infrastructure to support economic development and projects to assist unemployed people to return to work. It is not clear what, if anything, will replace these programmes. A fund proposed in the Conservative manifesto (the Shared Prosperity Fund) is to be consulted upon later this year but Welsh Government has had no input in developing the detail of this fund so it may be geared more towards England's needs. Welsh Government is also expected to consult on its proposals for a replacement regional policy during the autumn. No details of how these funds might be targeted are known, but we cannot assume that they will be targeted in the same way as EU Structural Funds and this could be very detrimental to the county.

Conclusions

The implementation of the Brexit policy will result in significant changes affecting Pembrokeshire to which the County Council will need to respond. Most obviously these include an end to the current regime of regeneration and economic development funding, but in fact the implications are far wider with this report merely highlighting a single finding from just one of many studies that are now becoming available. Some

aspects are identified in the attached appendix. It is suggested that the implications of Brexit for the Council and the county should be more closely examined, and contingency arrangements identified and put in place. This is of course good practice in keeping with the Council's approach to business continuity planning.

It is known that a similar group has been established in Conwy CBC. In addition this Council's European and External Funding Manager is assisting WLGA monitor Brexit-related developments, for instance by attending a briefing and consultation event on the Shared Prosperity Fund.

Comments by Director of Finance

The financial impact for the Council of Brexit is as yet unknown, but there is a real risk that it could have a negative impact. The situation will be monitored closely and Members will be advised when there is more clarity on the financial impact for the Council.

Comments by Head of Legal & Democratic Services

Any legal implications on Local Authorities as a consequence of Brexit is as yet unknown.

Comments by Head of Human Resources

There are no human resources issues arising from this report.

Impact Assessment

The question of planning for Brexit has been considered against the five ways of working (long term, prevention, integration, collaboration, involvement) in the Well-being of Future Generations sustainable development principle. Important issues to note are that the lack of information regarding future arrangements and the consequences of what is undeniably a very significant change make the five ways of working both very pertinent and very difficult to apply. In order for the Council to act in a way that allows for long term planning, the taking of preventative actions, and which permits the integration of operations, collaboration and involvement, the establishment of a means to anticipate, assess, plan for and respond to the impact of Brexit is essential.

There is concern that Brexit may impact on specific groups as defined within the Equality Act 2010. For example, people requiring medicines to manage long-term health conditions may experience shortages or non-availability of medicines imported into the UK. Such impacts need to be investigated further.

Finally, Brexit is unlikely to impact on the Council's use of Welsh Language policy (2016). There are however two points that should be noted. Firstly, that the Welsh language is currently able to benefit from the EU Erasmus+ programme, a potential source of funds for initiatives to protect and promote the teaching and learning of minority languages. This is unlikely to be the case after Brexit. Secondly, all EU regional funding programmes in Wales are expected to promote the Welsh language. We cannot be certain that this will be so in the future.

RECOMMENDATION:

1. That a working group comprising appropriate Cabinet member(s) be formed, together with key officers to enable the Council to anticipate, assess, plan for and respond to the impact of Brexit on the Council's services and Pembrokeshire more widely.

2. That this working group co-operate with similar groups in Wales to add value to their work.

REASON FOR RECOMMENDATION:
To prepare the Council and the county for any consequences of the UK's termination of membership of the European Union.

Background Documents:

European Council (Art. 50) guidelines for Brexit negotiations Available: http://www.consilium.europa.eu/en/press/press-releases/2017/04/29-euco-brexit-guidelines/ (Accessed 21 September 2017)

Dhingra et al (2017) "The Local Economic Effects of Brexit" London School of Economics Centre for Economic Performance Available: http://cep.lse.ac.uk/pubs/download/brexit10.pdf (Accessed 21 September 2017)

Bryan et al (1996) "The Economic Consequences of the Sea Empress Spillage" University of Wales

"HDA UK highlights impact of Brexit on medicines supply chain" Available: http://www.p3pharmacy.co.uk/hda-uk-highlights-potential-impact-of-brexit-on-medicines-supply-chain (Accessed 21 September 2017)

APPENDIX

POSSIBLE BREXIT IMPLICATIONS REQUIRING CONTINGENCY PLANNING AT A LOCAL AUTHORITY LEVEL

PART 1: SOME POTENTIAL IMPACTS ON THE LOCAL AUTHORITY

Impact	**Reason to think this may be an issue**
Reduction in external funding	EU programmes will not operate after 2021. Although replacement funding has been promised, this may feed through the Barnett formula and so be much less than the EU programmes. This promised replacement funding may not be forthcoming or suited to our needs.
Extension of austerity/fiscal restraint	A transfer of jobs and business (especially in financial services) to the EU27 is starting and can be expected to accelerate. This will weaken the UK's tax base, and so reduce tax receipts. The implication is that public spending must be reduced and/or tax rates increased.
Increase in demand for some services	An increase in unemployment (see Part 2) will also make economic inactivity and the NEET problem harder to tackle. These three issues contribute to others such as substance misuse, child and animal abuse, vandalism and crime, all of which have an impact on the services the Council provides, including but not restricted to Social Care, Housing, Public Protection and Regeneration. In addition, the imposition of customs checks may increase the workload for Port Health staff and there may be a need for border controls at Withybush airport.
Reduction in demand for some services	Mobile workers who are unable to find employment in the county may move elsewhere (the Murco experience supports this hypothesis). If families follow them there may be a reduction in demand for school places.
Increase in bad debts	An increase in unemployment, more stubborn economic inactivity and more businesses in difficulty might be expected to make the collection of debts from these parties more difficult. In the wider economy, credit card debt is already increasing significantly.
Reduction in income	A reduction in commercial confidence may be reflected in reduced income from planning fees. Business rates may also decline, although the effect on the Council is indirect.
Increases in costs	All imports to the UK will in future be subject to tariffs and VAT. The depreciation of Sterling which has taken place has increased the cost of imports, and this may be the new norm. This will affect energy and food as well as other costs incurred by the local authority.
Loss of EU staff	Whether this is an issue for the Council needs further investigation. It is expected to be an issue for industry, including agriculture.

PART 2: SOME POTENTIAL IMPACTS ON THE COUNTY

Impact	**Reason to think this may be an issue**
Reduction in spending power	The loss of farm subsidies to Pembrokeshire will cost the economy around £7m a year in direct spending but more than this after the multiplier effect is considered. There is no certainty what if anything will replace them.
Increase in business failures	There are various contributory factors, which include (1) reduction in domestic spending, including loss of farm subsidies (2) increased costs of imports squeezing margins (3) general inflation (4) new trade barriers (5) loss of export markets (over 90% of Welsh agricultural produce and fish are exported) due to the UK losing access to the Single Market as well as EU FTAs with much of the rest of the world (6) loss of essential EU staff.
Increased unemployment	As a result of increased business failures but also due to businesses shedding staff in order to cut costs.
Border controls	Ports at Pembroke Dock and Fishguard may need to accommodate new customs checks. This would require both land and traffic management. If there is to be an open border between Northern Ireland and the Republic, but border controls in Welsh ports, our ports may see a reduction in freight using the routes to Fishguard and Pembroke, potentially affecting their viability.
Shortages	Since the UK only keeps three days food in the country the imposition of border checks and the potential for delays could result in temporary food shortages, or the fear of food shortages. There are also concerns regarding shortages of imported medicines.
Brexit benefits	These are yet to become clear.