

CABINET

20 NOVEMBER 2018

REFERRAL FROM BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE: THE POTENTIAL IMPACT OF BREXIT

Portfolio Holder: Councillor Alan Jarrett, Leader
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Summary

This report sets out a referral from the Business Support Overview and Scrutiny Committee held on 25 October 2018, following consideration of a report concerning the potential impact of Brexit.

The Committee has requested the Cabinet to:

- a) ask officers to compile a brief, public document which assesses the potential impacts of Brexit on those sectors relevant to Medway's economic, social and educational priorities, recognising that much of this information will already exist in current Council policies and strategies, and also;
- b) seek the views of the Council's suppliers on what they consider to be the potential impacts of Brexit on them.

1. Budget and Policy Framework

- 1.1 Overview and Scrutiny Committees may make recommendations to the Cabinet arising from the outcome of the scrutiny process (Constitution – Articles of the Constitution - Chapter 2, Article 6, Paragraph 6.4).
- 1.2 At its meeting held on 25 October 2018, the Business Support Overview and Scrutiny Committee agreed to make a recommendation to Cabinet, as detailed in section 5 of this report

2. Background

- 2.1 At its meeting on 25 October 2018, the Business Support Overview and Scrutiny Committee considered a report on the potential impact of Brexit, the details of which are set out below through to section 7 of this report.
- 2.2 The United Kingdom European Union membership referendum took place on 23 June 2016 to gauge support for the country either remaining a member of, or leaving, the European Union (EU) under the provisions of the European Union Referendum Act 2015 and the Political Parties, Elections and Referendums Act 2000. The referendum resulted in a simple majority of 51.9% being in favour of leaving the EU. Although legally the referendum was non-binding, the government had promised to implement the result and it initiated the official EU withdrawal process on 29 March 2017, by invoking 'Article 50'. This put the UK on course to leave the EU by 30 March 2019, after a period of Brexit negotiations.
- 2.3 At the meeting of the Business Support Overview and Scrutiny Committee on 23 August 2018: *"a Member suggested that the Committee should look at the rationale behind the Council's decision to not commission a Brexit Impact Assessment and to also consider what work undertaken by other organisations in assessing the potential consequences of exiting the EU that the Council has considered and what gaps exist."*
- 2.4 The Committee agreed to consider at the next agenda planning meeting the timing of a report on Brexit. It was subsequently concluded that, in light of the March 2019 deadline, time was of the essence and officers were asked to prepare a report for this meeting of the Committee, 25 October 2018. It was agreed that this initial piece of work would consider the issues which may affect the country and identify those which could potentially have implications for the Council and the people of Medway.

3. Local Government Association (LGA) 'call for information'

- 3.1 In November 2016 the LGA released a 'call for information' covering three broad areas; local growth, local public services and regional funding. The responses ranged from potential impacts on public services and local workforces, to opportunities to reform both the legislative and regional funding environment. Since then the LGA has been working on a range of issues with colleagues in the Ministry of Housing, Communities and Local Government (MHCLG) and the Department for Exiting the European Union (DExEU). It identified further key areas for local government input and renewed its 'call for information'. Local authorities were urged to consider the following areas:
 - *Economy: what are the risks and opportunities of Brexit on your local economy and what impacts do you expect in the future?*
 - *Workforce: what risks and opportunities does Brexit represent for your local workforce and the skills of your residents?*
 - *Funding: what are your priorities for local growth funding, particularly for the UK Shared Prosperity Fund (UKSPF) domestic successor regime, and which other sources of funding are particularly important to your local economy?*

- *EU legislation: what are your priorities for local government when EU legislation is reviewed in the UK?*

3.2 Officers of the Council have not been asked to carry out any specific pieces of work in relation to Brexit, but have a 'watching brief' and the issues are discussed at various forums, including Unitary networks, SE7, SELEP, the Key Cities group and through various Kent-wide networks. The general consensus amongst many senior local authority colleagues is that there are too many variables to consider, for any meaningful planning to be undertaken at this stage, although some Councils have attempted an assessment of potential impacts. In Kent this has focused on border access and the transport implications for the Port of Dover.

4. Department for Exiting the EU Sectoral Analysis

4.1 The Department for Exiting the EU was set up prior to Article 50 being triggered. This department commissioned an inquiry to undertake a sectoral analysis of the potential impact of exiting the EU. This inquiry resulted in the publication of 39 separate reports. These were published on 21 December 2017 and are listed below:

Aerospace	Environmental services	Post
Agriculture, animal health and food / drink	Fintech	Professional and Business services
Asset Management	Fisheries	Rail, incl. manufacturing
Automotive	Gambling	Real Estate
Aviation	Gas Market	Retail
Broadcasting	Higher Education	Retail and corporate banking
Chemicals	Insurance and pensions	Road Haulage and Passenger Transport
Construction and related engineering	Life Sciences	Space
Consumer goods incl. textiles and clothing	Maritime / ports incl. marine equipment	Steel and other commodities
Creative industries	Medical services and social care	Technology (ICT) (Digital)
Defence	Nuclear	Telecommunications
Electricity market, incl. renewables	Oil and fossil fuels production, incl. gas	Tourism
Electronics and machinery	Payment services and systems	Wholesale markets and market infrastructure

Source: <https://www.parliament.uk/business/committees/committees-a-z/commons-select/exiting-the-european-union-committee/inquiries/parliament-2017/department-sectoral-analyses-17-19/publications/>

4.2 The prevailing uncertainty relating to the content of the Brexit deal means that it is difficult to assess the impact on Medway. Furthermore, many of these sectors do not currently have a strong presence here but there are some, for example tourism

and agriculture, that may be affected by more rigid border controls and a system of tariffs.

5. Brexit White Paper

5.1 The White Paper published on 12 July 2018 confirms the UK's Brexit negotiating position with the EU. It outlines the Government's proposal for a 'principled and practical Brexit' underpinned by the vision set out by the Prime Minister over recent months at Lancaster House, Florence, Mansion House and Munich. It proposes a 'package that strikes a new and fair balance of rights and obligations' as the basis for the UK and the EU to 'work together to develop and agree the framework for the future relationship'.

5.2 The paper is divided into four main sections: Economic partnership, Security partnership, Cross-cutting and other cooperation, and Institutional arrangements. The paper also details five key areas of focus:

- The economy, exploring the economic relationship with the EU, the aim to minimise disruption to trade and protect jobs. This includes delivering 'for the economy, preserving frictionless trade at the border for goods' and striking trade deals with 'old friends and new allies'.
- Communities, covering a new immigration system, support for farming and fisheries, and the regeneration of the Shared Prosperity Fund. This includes the commitment to end free movement of people, removing the UK from the Common Agricultural Policy and the Common Fisheries Policy and ensuring cooperation to tackle crime and terrorism.
- The union, and the Government's aim to protect the Northern Ireland peace process and the constitutional integrity of the UK. Including the commitment to avoid the need for a hard border between Northern Ireland and the Republic of Ireland and to devolution in 'meeting the needs of the wider UK family, including the Crown Dependencies and the Overseas Territories'.
- Democracy, including leaving EU institutions and reclaiming UK sovereignty, ensuring laws are made in UK by returning accountability to 'elected representatives who make the UK's laws in London, Edinburgh, Cardiff and Belfast', and ending the jurisdiction of the European Court in the UK.
- The UK's place in the world, including promoting openness and liberty including establishing an 'independent foreign policy' whilst working with the EU to promote and protect 'shared European values'.

6. Preparations for a 'no deal' Scenario

6.1 On the 18 July 2018, the Prime Minister and Secretary of State for Exiting the EU announced the Government's intention to publish a series of technical notices. During August and September, 78 such notices were published, setting out information to allow businesses and citizens to understand what they would need to do in the event of a 'no deal' scenario, so that they can make informed plans and preparations. These notices can be found on the www.gov.uk website:

<https://www.gov.uk/government/collections/how-to-prepare-if-the-uk-leaves-the-eu-with-no-deal>

7. Preparations being made by other organisations

- 7.1 The extent of work being undertaken by local authorities in relation to Brexit is incredibly varied and some are being more proactive than others, but the consensus does appear to be that the landscape is still not sufficiently clear for the sector to be making detailed plans and preparations for the eventual outcome.
- 7.2 Kent County Council and the Kent districts have established a Brexit Co-ordinating Group, on which Medway has observer status. However, other than concerns over the Port of Dover, even the activity of this group appears to be constrained to maintaining a 'watching brief' and sharing information as it emerges from Government.
- 7.3 As referenced earlier in this report, the LGA is attempting to gather views from across the sector, to facilitate a co-ordinated response by local government and to represent local authority interests in its work with the Government to refine the UK's negotiating position. In November, the Key Cities group, which includes Medway, is convening a Brexit conference, largely to reiterate key messages and to identify areas of work to be undertaken once the Brexit negotiation becomes a little clearer.
- 7.4 DExEu and MHCLG have stated they will be engaging with councils through a programme of teleconferences and round tables with recognised local government stakeholder groups in England – these are: The LGA, Key Cities, Core Cities, County Councils Network, District Councils Network and Metropolitan Authorities (SIGOMA). Devolved administrations will have separate arrangements for local area engagement.

8. Business Support Overview and Scrutiny Committee – 25 October 2018

- 8.1 Members considered a report which drew on the sectoral analysis undertaken by the Government to assist Members to understand the potential impact of Brexit on the Council and the people of Medway.
- 8.2 With regard to whether the Council should assess the possible impacts of Brexit on Medway, there were differing views amongst Members. Some Members made the point that, in view of the uncertainty about Brexit at a national level, it would be better to wait and see what emerged before attempting to assess the potential impacts on Medway. A Member commented that officer time on assessing risks would be wasted unless the risks were specific to Medway but NHS organisations and businesses in Medway should be asked for their views on the possible impacts.
- 8.3 Other Members argued that, as the United Kingdom would be leaving the EU on 29 March 2019, there were many practical issues the Council could and should prepare for. The decision to leave the EU was hugely significant for the country and, accepting the uncertainty surrounding it, the Council should be preparing for it. The possible impacts on Council employees, suppliers reliant on the EU, trade, agriculture and infrastructure providers could be significant and the affected sectors would be looking for some assurance from the Council. The risks to Medway were known and the Council should be showing some leadership. The point was made

that there was no organisational memory of a world where the UK functioned outside of the EU.

- 8.4 A Member commented it would be a concern if officers had not started to look at the possible impact on Medway. Members were advised that officers were keeping a watching brief on the possible impacts of Brexit, which included reviewing other organisations' assessments and their scenario planning as well as discussing specific issues in professional networks. Some Members commented that this offered a degree of reassurance but it would be preferable if all of this internal work was brought together in order to give some confidence to the public. A Member made the point that anything published should not be scaremongering in nature. A Member argued that the watching brief position taken by officers was as much as could be undertaken in the circumstances and it was impossible to cover all eventualities.
- 8.5 Referring to the "call for information" from the Local Government Association, officers clarified, in response to a question, that the Council had not made a submission.
- 8.6 In response to whether anyone from the Council would be attending the meeting of the Key Cities Group in November to discuss Brexit, officers undertook to establish if anyone was attending.
- 8.7 The Committee agreed to note the advice and guidance issued by the Government in preparation for the conclusion of the Brexit negotiations, and noting that officers are keeping a watching brief on issues in relation to Brexit, recommend that Cabinet:
- a) ask officers to compile a brief, public document which assesses the potential impacts of Brexit on those sectors relevant to Medway's economic, social and educational priorities, recognising that much of this information will already exist in current Council policies and strategies, and also;
 - b) seek the views of the Council's suppliers on what they consider to be the potential impacts of Brexit on them.

9. Chief Finance Officer's comments

- 9.1 The recommendation from Business Support Overview & Scrutiny Committee is for a "brief, public document." Cabinet should not under-estimate the work that would be required, officers would need to identify the main employment sectors represented in Medway and then, borrowing heavily from the 39 papers comprising the sectoral analysis produced by the DExEu, summarise the potential impacts on businesses and jobs. There is also a risk that we will be confronted with a 'no deal' Brexit scenario. The Government has released a further 78 technical notices offering advice and guidance and any assessment of the potential implications for employers in Medway, would need to consider this eventuality also.
- 9.2 As for the second of these recommendations, there are approximately 15,000 suppliers in the Council's purchase ledger, however these would include foster carers, other public bodies, charities, benefits claimants, direct payment recipients

and businesses based outside Medway. Perhaps it would be more appropriate to garner the views of all businesses in Medway and it would be fairly easy to identify all business rate payers. It might also be advisable to seek views through a questionnaire, rather than simply a general request for views. I would advocate undertaking this exercise online, as the cost of printing and posting a letter to thousands of businesses would be significant. The responses would then need to be analysed and reported back to Members and the Council would need to be very clear as to how it intended to use the information collected.

10. Risk Management, Financial and Legal implications

10.1 There are no direct risk management and financial implications arising from this report.

10.2 Section 9F of the Local Government Act 2000 requires the Council to ensure that its Overview and Scrutiny Committees have power to make recommendations to the Leader and Cabinet in respect of the discharge of Council functions (executive and non-executive) and also on matters which affect the authority's area or the inhabitants of the area.

11. Recommendation

11.1 The Cabinet is asked to consider the following recommendations from the Business Support Overview and Scrutiny Committee:

- a) To ask officers to compile a brief, public document which assesses the potential impacts of Brexit on those sectors relevant to Medway's economic, social and educational priorities, recognising that much of this information will already exist in current Council policies and strategies, and also
- b) To seek the views of the Council's suppliers on what they consider to be the potential impacts of Brexit on them.

12. Suggested reasons for decision

12.1 The Business Support Overview and Scrutiny Committee has made this recommendation to Cabinet in accordance with its entitlement, under the Council's Constitution, to make recommendations to Cabinet arising from the outcome of the scrutiny process (Constitution – Articles of the Constitution - Chapter 2, Article 6, Paragraph 6.4). Cabinet is, therefore, required to consider its response.

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Appendices:

None

Background papers:

None