
NORTH AYRSHIRE COUNCIL

26 March 2019

Audit and Scrutiny Committee

Title: Brexit Risks Update

Purpose: To update the Committee on risks from Brexit and work of the Council to mitigate such risks.

Recommendation: To note the report and receive a further quarterly report.

1. Executive Summary

1.1 This report provides an update to Committee on the planning and steps in place to mitigate the risks from Brexit.

2. Background

2.1 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. In the absence of agreement by the UK and EU to extend the negotiation period, on 29 March 2019 the UK will leave the EU and all EU law will transfer into UK law. Whilst negotiations are ongoing there remains the potential risk for the UK to leave the EU in March 2019 with no deal, moving to World Trade Organisation (WTO) rules. The UK Parliament on 14 March voted to reject the Prime Minister's deal for a second time, backed plans to rule out leaving the EU without a deal and voted in favour of an extension to the process - either until 30 June, if the deal is supported before 20 March; or a longer one that could include taking part in European elections if MPs reject her plan again. All 27 EU member states would have to agree to an extension.

2.2 The risks to North Ayrshire depend on what form Brexit takes. In broad terms there are three scenarios which have been considered from a risk perspective:-

- A negotiated deal which retains free trade between the UK and the EU. As free trade is based on principles which involve open procurement, free movement of labour etc. many existing EU rules, such as those on procurement, state aid, employment protection and data protection will continue to apply.
- A 'no deal' - As a member of the EU, the UK currently participates in around 40 free trade agreements with over 70 countries. These would no longer have effect in a no-deal and the UK would move to World Trade Organisation (WTO) rules, and then try

to negotiate bespoke trading deals. In terms of risk, this has the greatest impact and is considered in more depth later in this report.

- An extension to the Brexit timetable is agreed. This extends the period of uncertainty, and could result in a further slowdown in business investment and a reduction in productivity and economic growth. Unless a short extension which results in the UK leaving the EU before 1 July 2019, this will trigger an election to the European Parliament on 23 May 2019.

2.3 There are other constitutional scenarios. At this time, as a no-deal is the scenario with the greatest risk, no further planning has been done around a further referendum or General Election.

Negotiated Deal Risks

2.4 At the time of the report to the Audit and Scrutiny Committee in September 2018, the risks considered largely related to those of a negotiated deal which retained free trade. The risks and actions identified in Appendix 1 to that report still remain valid for that scenario, Should a deal be agreed these will be updated to reflect the actual agreement.

2.5 EU Settlement Scheme- The settlement scheme will go live from 30 March 2019. Libraries have registered with We Are Digital (the Government approved supplier) to provide assisted on-line support for Settled Status applications.

2.6 A full assessment of the workforce has been undertaken. North Ayrshire Council employs 38 Non-UK EU workers, with 14 working within Educational roles. There are approximately 2000 EU nationals in North Ayrshire.

2.7 Impact on contractual arrangements- In terms of impact on existing procurement and contractual processes within the Council, it is unlikely that significant issues will emerge in the short term, if a deal which maintains free trade can be agreed. However this will require to continue to be assessed on an ongoing basis. In the longer term, future trade arrangements agreed could have an impact on contract renewals and negotiations.

2.8 UK Shared Prosperity Fund -The UK Government has indicated that it intends to establish a UK Shared Prosperity Fund to replace the EU Structural Funds. The key objective of the new fund will be to tackle inequalities between communities, by “strengthening the foundations of productivity”. A number of issues still remain unresolved in relation to this Fund, regardless of the exit scenario. Specific issues include how much funding will be available through this route, how it will be allocated and what it will be used to fund.

2.9 Investment and Growth- Fraser of Allander Institute estimate that the long-term impact of Brexit will be a reduction in Scottish economic output of between 2 to 10%, depending on the form of Brexit. Other commentators estimate that Brexit has wiped £40bn off Britain’s annual economic growth since the 2016 referendum, equating to £800m per week of income locating outside the UK every week. Even a negotiated deal in the form proposed by the Prime Minister prolongs the uncertainty until final trade arrangements are agreed. Regardless of the outcome implemented, the current uncertainty is a disincentive to investment.

2.10 Both the Chancellor and the Scottish Cabinet Secretary for Finance have noted that an emergency budget may be required should the UK leave the EU without a deal. The Fraser of Allander Institute in its “Scotland’s Budget 2018” report reiterated a view that a “no-deal” withdrawal outcome would represent a significant shock to the UK economy with slower growth anticipated and the requirement potentially for intervention by the Bank of England to take measures to stabilise the economy. Alternatively if a ‘positive’ deal is reached whereby a favourable trade agreement and an appropriate transition period is agreed, the report notes the view of the Chancellor that resulting higher growth levels and the unlocking of the reserves held for Brexit would be a significant boost to the economy, with forecasters having mixed views as to the speed at which this will feed into the economy.

No Deal Risks

2.11 Resilience Planning arrangements, at a UK, Scottish, West of Scotland and Local Resilience Partnership (LRP) level are being activated. The UK Government’s approach has been entitled Operation Yellowhammer. It has produced a set of planning assumptions based on a Reasonable Worst Case Scenario (RWCS) ‘No Deal’ Brexit. The emergency impacts of a ‘No Deal’ Brexit are expected to last for a period of 12 weeks, known as the Yellowhammer period, albeit other impacts will last far longer. Those UK Government Planning Assumptions have been given a Scottish context as detailed in Scottish Planning Assumptions prepared by the Scottish Government. The Scottish Resilience Partnership (SRP) has established an EU Exit Sub Group chaired by Police Scotland. From 25th March a facility located at Police Scotland, Bilston Glen will be established for the purpose of co-ordinating the consequence management response to Brexit in Scotland.

2.12 At an Ayrshire LRP level, representatives from Police, Fire, NHS and Councils have met to identify the local context, risk and mitigation of Brexit. The Council and its partners already have a range of well-developed and regularly tested contingency plans for incidents that address the ‘consequences not causes’ of disruptive events. The impact of a no deal Brexit could however be that a number of these consequences might happen together or in quick succession– requiring the Council and national partners to respond effectively. From 25th March it will be expected that all responders, including the Council will submit a daily on-line update to the National Multi - Agency Co-ordination Centre (MACC) at Bilston Glen.

2.13 The Head of Democratic Services has been identified as the Council’s Strategic Lead on Brexit and the Head of Economic Growth has been identified as the Tactical Lead. Brexit is considered as a standard item on the agenda of the Executive Leadership Team and an officers group has been formed to ensure that services are fully sighted on the risks and steps required.

2.14 Currently the priorities are as follows:-

2.14.1 Environmental Health Certificates- environmental health officers will be responsible for issuing of export certificates for foodstuffs or products of animal origin leaving the UK. To date, 6 North Ayrshire food exporters have been identified as requiring certificates..

2.14.2 Business Support and Advice.

2.14.3 Election/referendum.

2.14.4 Support for EU Workers within North Ayrshire- through Libraries providing assisted application support and through communication around this.

2.14.5 Supply Chains – Corporate Procurement have identified key contacts and Procurement Board representatives are ensuring that services approach key suppliers to complete a questionnaire around EU-Exit risks. Further information on over 400 separate sub-category headings is available from Scotland Excel and IBISWorld to inform current and future procurement strategies.

2.14.6 Knock-on impact on NHS staff- HSCP are liaising with NHS Ayrshire and Arran.

2.14.7 Hardship - Scottish Government have given £0.5m to Fairshare for foodbanks and contact is being made with Fairshare.

2.14.8 One foreign school trip has been identified as using ports over the Easter period. Insurance have confirmed that cover includes unlimited medical expenses, even if no longer able to rely on the European Health Insurance Card (EHIC) or other reciprocal medical agreements.

2.14.9 Funding- English local authority organisations have received funding to assist with the extra costs of Brexit, albeit they have expressed concern that monies provided by the UK Government are insufficient to meet the costs arising from Brexit. In Scotland, no consequential from the UK Government have yet been passed to Scottish local authorities. COSLA continue to press the Scottish Government regarding this matter. However currently there are no extra monies to deal with the costs of Brexit.

2.14.10 Identification of vulnerable individuals who require food as a medicine.

2.15 As regards the remaining risks, the position detailed in the report to the Committee on 29 January still remains the case. Long term the biggest risk is to the economy, whether in terms of lack of investment, reduced productivity, higher costs for business, supply chain and export difficulties, business failure, greater unemployment, and rising prices. Recession or lower growth is likely to result in less funding for the public sector at a time of increased demand and greater cost'.

2.16 Council officers will continue to be involved in planning for Brexit through joint working with the Scottish Government, COSLA, and the West of Scotland Regional Resilience Partnership.

3. Proposals

.3.1 It is recommended that the Committee notes the contents of this report and agrees to receive a further quarterly report.

4. Implications

Financial:	A no-deal Brexit has potential implications for the Council, in terms of increasing demand for services, while reducing finance, and increasing borrowing and other costs.
Human Resources:	There are limited human resources implications.
Legal:	There are no current legal implications for the Council.
Equality: Children and Young People:	A key issue is whether the UK remain signatories to the European Convention on Human Rights, and if not, what will replace it. The financial impact of a no-deal Brexit in reducing Council funding is likely to result in less services to support children and young persons.
Environmental & Sustainability:	Much of our environmental legislation comes from Europe. In the short term this will continue, but the longer term impact is more uncertain.
Key Priorities:	A no-deal Brexit is likely to result in increased demand, e.g. support for businesses, in the care sector and through higher unemployment. It is also likely to result in less funding and higher borrowing costs, all of which will have a detrimental impact on the Council's key priorities.
Community Benefits:	There are no community benefit implications.

5. Consultation

5.1 The Executive Leadership Team were consulted.

A handwritten signature in black ink, appearing to be 'CH', written over a horizontal line.

Craig Hatton
Chief Executive

For further information please contact Andrew Fraser, Head of Democratic Services on **01294 324125**.

Background Papers

None.