

Executive

18 October 2018

Report of the Chief Executive
Portfolios of the Leader and Deputy Leader of the Council

Planning for the possibility of a “No-deal” Brexit

Summary

1. In a referendum on 23 June 2016, the majority of voters supported the UK leaving the European Union (EU). The Government committed to leave the EU on that basis and Article 50 was triggered on 29 March 2017. The UK will leave the EU on 29th March 2019.
2. The Government and the EU have stated their ongoing commitment to negotiating both a withdrawal agreement and an agreement on the future relationship between the UK and EU, but as it stands, no such agreements have been reached.
3. Given the possibility that the UK will exit without an agreement in place (a No-deal Brexit), this paper outlines some of the considerations and the discussions in relation to planning for such an eventuality.
4. It is not expected that all the eventualities described here will arise. However, it is important that they are considered to enable the city to confidently move forward and respond to changing arrangements positively.

Recommendations

5. The Executive is asked to:
 - 1) Note the discussions and activities underway and identify any other actions which the council should pursue at this time

Reason: to ensure York is as prepared as possible in the event of a No-deal Brexit

Background

6. The UK joined the European Communities (a forerunner of the current EU arrangements) in 1973. Since then, the integration of our statutory framework and our trading relationship with Europe has been comprehensive, impacting on almost all aspects of our lives in some way. The process by which this is unpicked and new arrangements put in place for the UK is one of the most significant administrative processes faced in recent times.
7. A deal will need to be finalised between the UK and EU by mid-November 2018 to be initiated for the UK's departure on 29th March 2019. It would then have to be agreed by Parliament. This would then be followed by a 2-year "implementation period" during which the measures would be put in place to implement the agreed future relationship.
8. The Government has said "*A scenario in which the UK leaves the EU without agreement (a 'no deal' scenario) remains unlikely given the mutual interests of the UK and the EU in securing a negotiated outcome.*" "*However, it is our duty as a responsible government to prepare for all eventualities, including 'no deal', until we can be certain of the outcome of those negotiations.*"
9. The council must take its lead from Government in this respect and consider how the city should respond in the event of a "no deal" scenario. The immediate importance of this is that if a deal cannot be agreed, there will be no implementation period – that is to say, EU law, regulations and trade agreements will cease to apply to the UK immediately upon exit. This gives less than 6-months to understand and respond to the changing framework, to address any potential issues or take advantage of opportunities.
10. In considering Brexit, we must recognise that there is a huge range of views on the likelihood of different outcomes, of their impacts and the effects upon UK residents, communities and businesses. Brexit represents a uniquely complex set of changes which will manifest themselves differently in different places. This paper does not seek to forecast the medium-term economic outlook as a result of Brexit (since the existence and type of post-Brexit agreement will be key in determining that) or the specific opportunities or risks for York outside of the EU in general. Instead, it considers specifically a No-Deal Brexit scenario and the immediately impacts which would need a response in the short term.

11. Whilst it is outside the scope of this paper, it should be recognised that the council is working alongside our regional partners to consider the wider impacts of Brexit. West Yorkshire Combined Authority is considering a paper on 11 October which provides an assessment of the resilience and opportunities for Leeds City Region. This very helpfully outlines considerations particularly around the post-EU funding environment and proposes a set of “asks” of Government to safeguarding investment in our region. This is linked to in the Background Papers section of this report.
<https://westyorkshire.moderngov.co.uk/documents/s9202/Item%207%20-%20Leeds%20City%20Region%20Brexit%20Resilience%20and%20Opportunities%20Assessment.pdf>

Planning for a No-Deal Brexit

12. The council’s primary objective in such a period of uncertainty has to be to ensure the wellbeing of our residents, and as such there is likely to be a natural focus on risks and potential disruption rather than possible longer term opportunities. Such analysis at this point cannot be considered to be complete or definitive and will continue to be refined as the position evolves.
13. Planning for No-Deal is complex for two reasons. Firstly, such is the scale of change that no organisation is well sighted on all aspects which will change or be impacted upon. The scope of the possible changes is yet to be determined through the negotiations. Secondly, even knowing some potential areas of change, it is impossible to predict the likelihood of particular scenarios arising as this is down to a combination of factors including EU-UK negotiations, the implementation approach of any agreements, and the responses of individuals, businesses, governments and representative organisations. Therefore, even a basic risk assessment approach to Brexit is close to impossible at this point.
14. These complexities mean it is not feasible to look at all scenarios at this stage. Instead, it is more logical to look at possible outcomes or consequences and attempt to ensure that we can respond to them effectively, no matter what their direct cause.

Consultation

15. Given that the impacts of a No Deal Brexit will be felt across all sectors and parts of the city, discussions have been held with some key partners

to understand any concerns or issues, particularly those which would be best addressed at a city level. This has included the Police, CCG, Hospital, Fire and Rescue Service, Universities and colleges, Local Enterprise Partnership, Make it York and the CVS. At the first discussion in September, in general, individual organisations were still very much waiting for more information to allow them to narrow down the possible outcomes. Overall, there was a level of confidence that areas of risk could be addressed by organisations. It was not felt, broadly, that there were areas which could or needed to be immediately addressed at a city level, although this did not mean that none would emerge.

16. Some identified risk areas such as pharmaceutical supply, parts availability for emergency vehicles or food supply are being considered at a national level. Partners were, in these cases, awaiting further information nationally to allow the local response to be aligned.
17. In terms of concerns of individual organisations, the main issues related to skills availability through a potential loss of EU migrant workforce, post-EU funding and supply chain disruption for materials or goods.
18. It was agreed that partners would continue to discuss any emerging information and to act as a network to collectively monitor the evolving situation.
19. It was also recognised that it was important that there was a single point of information for individuals and organisations. This is discussed below in paragraph 32.

Options

20. As this paper relates specifically to a No Deal Brexit, it is recommended that the only option currently available is to continue to plan for this eventuality until it is clear that this will not happen.
21. It is planned to continue to assess information emerging from Government and to discuss with city partners any clear implications as they emerge.

Analysis

City Level

22. At a city level, there will be a broad range of impacts resulting from a No-Deal Brexit, upon individuals, businesses and other organisations. The Government has published over 80 technical notices which describe particular arrangements in the event of No-deal. They cover areas as diverse as satellites and space programmes and VAT.
23. These technical notices have been highlighted to partners and will be linked on the council's website.
24. The notices explain the arrangements from the point of view of transactions and regulation. For example, who is responsible for issuing a certain type of licence or permit and where/whether it would be valid. They do not, however, explain the implications for the different organisations or people involved. It is important, therefore, that people and organisations individually consider any relevance of these notices to their own activities.
25. In considering possible consequences of these changes, many commentators have flagged up potentially significant disruption across many aspects of life. It has been suggested that a range of knock-on impacts could result in disruption of supply for utilities. It is worth noting that York (like other places) has a set of contingency plans in place which would be brought into effect in the event of significant disruption to (for example) water, energy or fuel supply. These are designed to protect life and limb, protecting the most vulnerable and ensuring continuity of basis services but would not prevent disruption in totality.
26. At a city level, although the data is not particularly rich, York appears to have a relatively low proportion of EU migrants living within the city. This is based on Census data from 2011, showing 2.7% of York's population was born outside the UK in EU countries. The national figure was 4.1%. Whilst it doesn't directly correspond to workforce, at a macro level it suggests that the city is less impacted by the potential reduction in EU workers than in some other places. However, this does not mean that there are not businesses or organisations which may be impacted. Neither does it mean that changing patterns of EU workers coming to the UK wouldn't impact on the wider employment markets and affect the broader availability of skills.
27. The risks around workforce stability are partially mitigated by the Government's current stated position that they would unilaterally guarantee the rights of current EU migrant workers in the event of No-Deal. It could still be the case that Brexit will mean a change to

employment patterns as the factors influencing individuals' choices are broader than simply immigration status.

28. Other areas which have been highlighted elsewhere as impacted include the health and care, hospitality and HGV sectors. From what we currently know (based on conversations more than available data), York is less directly impacted in these areas than in some places, as there is a relatively lower proportion of EU migrant labour in these sectors in York. However, as above, this does not mean it is insignificant for some organisations nor does it mean there won't be a broader impact on the employment markets at a regional or national level. Should scarcity of supply of these skills lead to a more competitive employment market, there could be wage escalation which may impact on the profitability or viability of some businesses.
29. Across York, there are services provided by foreign or foreign-owned businesses. These include bus services and rail. At this stage, we are not aware of any issue in the continuity of these services after Brexit.
30. Construction is another sector which looks likely to be impacted in a number of ways. Deloitte estimate that 26 percent of the construction workforce in the UK is from the EU, and it is also suggested that this group is often not intending to stay in the UK for long. If Brexit deters these workers from coming to or staying in the UK, this could lead to capacity issues and/or an increase in labour costs.
31. Secondly, the cost of imported materials could increase as a result of changing tariffs or a weaker exchange rate. This could have a significant impact on the overall cost of construction.
32. Discussion is underway on any possible business support which could be identified to help business in their preparations. Leeds City Region LEP is arranging a series of events which may be of interest to businesses. Partners have also suggested that a single point of information is created to ensure everybody has access to the most up to date and definitive information. It was recognised, however, that the council may not be the best host of this, as businesses may not automatically think to look at the council's website, and the council will be in election purdah during the final weeks before and after Brexit. Discussions are therefore underway with partners to make other arrangements.

33. For all residents and business, there is a risk that there could be a short term increase in the cost of goods and materials. This could be driven by trade tariffs for imported goods, disruption of supply chains due to new customs arrangements, reduced availability of goods due to regulatory or standards misalignment, or increases in workforce or distribution costs. There are also the possibilities of direct increases in fuel and energy costs due to changes in the markets. It remains very difficult to predict either the probability or magnitude of this, however, and will be an area where there is full commitment of Government in trying to mitigate impacts.

Council Services

34. From a council perspective, consideration has focussed on the continuity of our services. To this end, Heads of Service are considering any of the Government's technical notices which may be relevant to their services.
35. Across the wider local government community, the key areas which have been identified as likely to be impacted are workforce availability, supply chain, procurement and regulatory services.
36. There are also some areas which need further examination, such as data sharing and availability (for example, if data required by the Council is held with the EU). This will be ongoing over the coming months.

Workforce

37. City of York Council has a relatively low proportion of EU migrant workers compared to other places. For this reason, it is not expected that there is a significant direct impact on continuity of council services in the short term. However, it is noted that any changes could have a very real impact on individual staff members and we will continue to assess the emerging situation and ensure the most up to date information is available.
38. We also recognise that there is a possibility of broader changes in the labour market which could have a knock-on impact in York. For example, across the care sector, construction or HGV roles, if there is a regional or national shortage of these skills, there could be future recruitment or retention challenges, and the potential for wage inflation across particular employment sectors.

39. As above in paragraph 27, the current position of Government is that in the case of No Deal, they will unilaterally guarantee the rights of EU workers in the UK. However, it remains unknown as to how these rights would apply to the specific individual circumstances of Council staff, or the degree to which other factors, such as the Euro-Sterling exchange rate, are significant in people's decisions on whether to stay in the UK, whether to come in the first place and for how long. This could result in changes to overall patterns of employment and skills availability.

Procurement and Supply Chain

40. It is anticipated that there will be some procedural changes in relation to procurement, to comply with a new set of regulations. The procurement team is considering these currently, but it is not thought to be likely to be a significant departure from existing arrangements.
41. Procurement colleagues are also considering existing contractual relationships to identify any potential supply or regulatory issues. This will help to mitigate any potential for the supply of necessary goods or materials to be disrupted.
42. There have, however, been predictions of widespread potential disruption to supply chains caused by additional customs requirements. As it stands, the council has no plans to stockpile goods or materials but will continue to monitor the situation. It is thought more likely that any disruption may manifest itself as an increase in cost rather than an absolute cessation of supply. This could have most impact across materials-intensive sectors such as construction.
43. In responding to potentially less stable markets and supply chains, it will be important to consider specifications and procurement routes flexibly to reduce potential risk of cost escalation. There is also the need to give increased consideration of the impact of wider economic changes such as exchange rates on the value and risk of contracts.

Regulatory Services

44. Another area highlighted by other commentators as directly impacted by a No-Deal Brexit is trading standards, environmental health and other regulatory services. This is because businesses may require different kinds of certification or approval of various products in order to trade or do business in the EU (and those importing into the UK may have to comply with new UK requirements).

45. For the council's services, this could mean a changing set of rules and regulations as well as underlying standards or processes for staff to become familiar with and an increase in demand (currently products from the EU are not checked at borders and this increase in demand is likely to see more products passed through unchecked to be dealt with at their destination). The internet has enabled many 'micro businesses' to set up importing goods and services from the EU and the rest of the world. The team is currently considering the Government's Technical Notices in detail to identify the impacts and any action required. In other areas, new targets relating to air quality and other environmental standards which are EU based may also be introduced in due course.

Overall impact and next steps

46. York has a buoyant economy and is, in many ways, better placed to weather any potential negative impacts than many other cities.

47. Whilst there is some possible impact across a wide range of areas, a recurring theme is the potential for increased cost within supply chains. The probability of this is extremely difficult to accurately predict, but it is likely that there would be some increase in some costs in the event of a No-Deal Brexit.

48. It is also worth noting that the Chancellor of the Exchequer forecast an £80bn gap in public finances by 2033 in this scenario. The figures are hotly contested, but this highlights the possibility of reduced public spending in the short term.

49. If a No-Deal impacted towards the more severely negative end of the spectrum of possible outcomes, it is also likely that residents would face higher levels of economic stress in the short term. This could lead to increasing demand on services.

50. The combination of all three of the above could have a significant financial impact on the council.

51. By mid-November, it will be clear as to whether the UK will secure a deal with EU. If it does, this will then be subject to a vote in Parliament. In the event that it is agreed, the council will review the nature of the deal and determine the impact on services. It will also continue to work with partners to understand the wider implications for the city as a whole. If, instead, either no deal is agreed with the EU, or a deal is not agreed by

Parliament, the council will continue to refine the activities described above and prepare for a no-deal Brexit.

52. The council's Corporate Policy team will keep a watching brief on developments and work with partners to ensure organisations are well sighted on the latest information.

Council Plan

53. The scenario of a No-Deal Brexit would impact across all areas of the council plan.

Implications

- **Financial** – Financial impacts are noted throughout this paper, but overall there is a possibility of increased costs to the council through supply chains, increased service demand and potentially reduced public spending. This will be considered within the budget preparation for 2019/20, whilst it is recognised that the situation will be clearer by the time the budget is set.
- **Human Resources (HR)** – Whilst the council does not consider that its workforce is significantly impacted as a whole, services will continue to consider the impact on individual members of staff and provide any assistance as the situation becomes clearer.
- **One Planet Council / Equalities** – No direct implications
- **Legal** – the UK's legislative framework will change significantly as EU law is brought into UK statute as part of the EU (Withdrawal) Act 2018. There are no direct legal implications currently identified through a No-Deal Brexit.
- **Crime and Disorder** – No direct implications
- **Information Technology (IT)** – A significant change in the £/\$ exchange rate could impact on the cost of hardware and software purchases, given the US dominance in this market.
- **Property** – No direct implications

Risk Management

54. The risks associated with the current approach are explained above in this report.

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Approved

Wards Affected: List wards or tick box to indicate all

All

For further information please contact the author of the report

Background Papers:

Leeds City Region Brexit resilience and opportunities
Assessment – Paper to West Yorkshire Combined Authority
<https://westyorkshire.moderngov.co.uk/documents/s9202/Item%207%20-%20Leeds%20City%20Region%20Brexit%20Reslience%20and%20Opportunities%20Assessment.pdf>

List of Abbreviations Used in this Report

Brexit – Britain's (the UK's) exit from the European Union
EU – European Union
UK – United Kingdom of Great Britain and Northern Ireland