

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
27 March 2018

From: Director of Finance (s151 Officer)

Subject: **BREXIT UPDATE ON IMPLICATIONS FOR LOCAL AUTHORITIES**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to provide the Committee with the current position on local authorities of the UK's decision to leave the European Union.
- 1.2 Attach at Annex A is 'Brexit update for local authorities' where the information is based on the latest update from the Local Government Association Brexit articles.
- 1.3 The briefing is based on the recent speeches provided by cabinet Ministers and Theresa May – Prime Minister - during February and March 2018. It covers:
1. Introduction
 2. Regulation
 3. Brexit legislation
 4. Effect of Brexit on the economy
 5. Housing, Communities and Local Government Select Committee:
 - Replacement of EU funding streams
 - Changes in the EU workforce
 - Representation of local government in the Brexit negotiations and beyond
 6. Commentary on the select committee's inquiry, Key Challenges and Local Government's perspective:
 - Impact of Brexit on different parts of the country
 - Workforce
 - Devolution and powers
 - Brexit: Opportunity or threat
- 1.4 The process of exiting the European Union is ongoing and further implications will become apparent in due course over this financial year. The effect of Brexit on the UK is still unknown and the implications on local government finances will become clearer over time and this Committee will be update accordingly.

2.0 RISK MANAGEMENT:

- 2.1 There are no risks associated with approving the recommendation.

3.0 RECOMMENDATIONS:

- 3.1 It is recommended that Members note the report.

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Background papers: None
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BREXIT UPDATE FOR LOCAL AUTHORITIES

1.0 Introduction

- 1.1 At the end of February 2018 and beginning of March 2018 there have been a number of 'major' brexit speeches – from a succession of government ministers and then from Jeremy Corbyn and finally from Theresa May.
- 1.2 Theresa May's Mansion House speech focused on five tests the Prime Minister said must be met as part of any Brexit deal:
 1. Respecting the referendum
 2. Being an agreement that endures
 3. Protecting jobs and security
 4. Being consistent with being an open, outward-looking European democracy
 5. Strengthening the Union
- 1.3 It was more detailed than her previous brexit speeches, with some commentators saying it took a more realistic approach to several issues.
- 1.4 The information for this update is based on the latest update from the Local Government Association Brexit articles.

2.0 Regulation

- 2.1 On regulation, she said that "UK and EU regulatory standards will remain substantially similar in the future" for goods and that the UK will seek to remain part of some EU agencies, whilst recognising that this will involve some role for the European Court of Justice post-Brexit".
- 2.2 The regulatory alignment did not necessarily apply to services – "We have the opportunity to break new ground with a broader agreement than ever before" but also recognising "that certain aspects of trade in services are intrinsically linked to the single market and therefore our market access in these areas will need to be different.
- 2.3 She insisted the UK would be leaving the EU customs union, but called for a new agreement that would secure "as frictionless a border as possible. She argued for two potential alternatives: a "customs partnership" in which the UK would mirror EU requirements on imports at its borders; and a "highly streamlined customs arrangement" using technology to minimise friction on the border.
- 2.4 The customs union has become the key issue of the moment. A customs union removes tariffs between countries and cuts down on administrative burdens as goods move across borders. Members of a customs union impose a uniform system of tariffs on goods coming into the union as a whole. So, while there are no taxes on goods travelling between members of the union, there is uniformity of external taxation.

3.0 Brexit legislation

- 3.1 European Union (Withdrawal) Bill - The final day of the second reading in the Lords was on 31 January 2018. The committee stage – line by line examination of the Bill – began on 21 February 2018. The Lords on 5 March 2018 debated complex issues around the future relationship between EU law and UK law, the treatment and influence of EU law after exit day and the future role of the Charter of Fundamental Rights.
- 3.2 Currently some commentators believe that 'all the signs are that the Lords, where there is a clear majority for remain, will go as far as they can to amend the bill'. The first stages of the

Bill in the Lords are, of course, only the beginning of a much longer process. There is the possibility, commentators say, that the government will be defeated in the Lords on major issues, such as the membership of the customs union and on a second referendum. But these amendments may not be put down immediately and the report stage in the Lords could run for a long time yet.

- 3.3 There will be other EU brexit legislation going through at the same time – and not just bills but also a massive amount of statutory instruments (around 1000). These will be monitored for implications to local government

4.0 Effect of Brexit on the economy

- 4.1 Figures from the government's Brexit impact assessment are showing how all areas of the UK would suffer economically under three Brexit scenarios were made public, when John Bercow – speaker of the House of Commons - ordered its release to MPs after Labour won a Commons vote on the issue.

- 4.2 The report shows what officials think would happen to the economy if
1. the UK left the EU but stayed in the single market,
 2. it got a trade deal with the EU or
 3. there was no trade deal.

In all circumstances economic growth over the next 15 years would be less than if the UK had remained in the EU.

- 4.3 The government claims the figures are misleading because officials have not modelled the bespoke trade deal it hopes to achieve, – a government spokesperson said: “This document does not represent government policy and does not consider the outcome we are seeking in the negotiations. As ministers clearly set out in the House, this is provisional internal analysis, part of a broad ongoing programme of analysis, and further work is in progress”.

- 4.4 According to the findings the North East of England and West Midlands will sustain the biggest hit to economic growth from brexit whilst London will take the least damage.

- 4.5 Regional economic growth in Northern Ireland is projected to fall by 12 per cent in a “no deal” scenario if the UK ends up trading on World Trade Organisation terms, the document says. A free trade agreement would see growth in Northern Ireland fall by eight per cent and by two per cent if the UK stayed in the single market and customs union.

- 4.6 Chartered Institute of Public Finance and Accountancy (CIPFA) reported on a one-off brexit discussion convened by CIPFA in Bristol that the South West could be hit harder than other parts of England when the UK leaves the EU.

- 4.7 A nationwide survey of all council leaders and local authority chief executives in county, district, unitary, metropolitan and London borough councils found 61 per cent believed brexit would have a negative or very negative impact on their regions. The survey by the New Local Government Network found only 12 per cent of 185 respondents believed it would have a positive effect on their economies, while 26 per cent felt the impact of leaving the EU would be neutral.

5.0 Housing, Communities and Local Government Select Committee

5.1 Housing, Communities and Local Government Select Committee is carrying out an inquiry into brexit and local government. The Chair, Clive Betts, wrote to Sajid Javid - Secretary of State for Housing, Communities and Local Government - setting out the main concerns of the committee listed below and the Secretary of State responded to Clive Betts late in January:

1. replacement of EU funding streams
2. changes in the EU workforce
3. representation of local government in the Brexit negotiations and beyond

5.2 **Replacement of EU funding streams** - 'We will create a simpler fund, which is easier to access for local areas. As announced in the Industrial Strategy, Government committed to consult publicly on the detailed design of the fund this year.'

5.3 **Changes in the EU workforce** - 'The Migration Advisory Committee (MAC) has been commissioned by Government to consider the impacts of EU Exit on the UK labour market, and how to align the UK's immigration system with a modern Industrial Strategy. The Committee will consider a range of options to address any skills shortages arising from EU Exit and will report back to Government by September 2018. In addition, the Government will be consulting on the Industrial Strategy later this year.'

5.4 **Representation of local government in the Brexit negotiations and beyond** - 'On the subject of leaving the EU, my department has undertaken direct engagement with local authorities and stakeholders across the country. I would welcome the views of the Committee on how Government can engage with local government and other stakeholders to best effect, to ensure the voice of every region is heard in the negotiations'. He also mentioned the Committee of the Regions: 'Government is committed to conducting further detailed conversations with the four local government associations about how the consultative role of the Committee of the Regions may be replicated, in a non-statutory way, domestically. It is believed this will complement the wide ranging domestic processes and procedures the Government already has for consulting local government when developing new policies or legislation which will impact them'.

5.5 Local Government Association will be publishing a briefing on the final report from the select committee and members of Audit, Governance & Standards Committee will be updated on this in due course.

6.0 Commentary on the select committee's inquiry, Key Challenges and Local Government's perspective

6.1 **Introduction** - Commentary on the select committee's inquiry has already underlined the key challenges for local government of brexit. The sector has continually demanded a voice at the table – has it got one? Jessie Hamshar's, Service Director, Cornwall County Council answer when giving oral evidence at the inquiry seems to be the view of the sector as a whole:

'Local government was promised a seat at the table. It is not clear even where the table is, never mind what the seat is. If you look at the five committees that have been set up, even at a ministerial level the DCLG Secretary of State is represented at only one of them, and it is the committee that is looking at the day-to-day issues that arise. It is not one of the negotiating table committees'.

6.2 The brexit survey by the New Local Government Network (NLGN) also uncovered dissatisfaction with the level of support and engagement that councils are receiving from central government over Brexit. Only four per cent said they were receiving adequate support, while 68 per cent thought it was insufficient.

- 6.3 EU funding - The select committee inquiry has already underlined the key concerns of the sector. While the Conservatives' 2017 election manifesto included a pledge to create a UK "shared prosperity fund" to replace EU regional aid, little detailed information has been given about how this funding would be allocated. The future of the structural and regional funds is one of the most important to local authorities and what kind of arrangements will be made for regional funds once we leave the EU. EU structural funds support economic development across EU countries and their constituent regions. Between 2014-2020 the UK is set to receive €10.9 billion in European Regional Development and European Social Funds (hereafter 'structural funds').
- 6.4 Witnesses highlighted the uncertainty faced by many councils, such as this comment from Professor Tony Travers - Director of the Institute of Public Affairs at the London School of Economics & Political Science:
"The complex question is knowing how whatever follows will operate—it is all hypothetical—in the real world of UK public finance. A new fund may be set up, and will be set up according to the Government, but the question is, how would it operate? Would it replicate what was done before?"
- 6.5 **Impact of Brexit on different parts of the country** - Witnesses also highlighted the need for greater understanding of the impact of Brexit on different parts of the country – which according to Core Cities requires an analysis that provides a sector make-up, strengths and assets of different places. This is, of course, extremely challenging at this stage where the negotiations over the future trading relationships with the EU have barely begun. But it will become increasingly important for the local government sector and individual councils and groups of councils to have access to the 'table'.
- 6.6 Councils and partners in the voluntary sector will want reassurance that the shared prosperity fund continues to support the groups and individuals that have been supported through the European Social Fund – those furthest from the labour market for example.
- 6.7 The uncertainties over EU funding are exacerbated by the growing pressures on mainstream local government funding. This is particularly the case within the context of the changes to business rates and local authorities relying more on them from 2020/21.
- 6.8 **Workforce** - The issues around the workforce, migration and skills are also of significant importance to local authorities. Core Cities has called for "continued investment in local workforce skills (as) essential to minimise the risks of skills shortages, in particular within sectors more at risk of losing migrant labour, for example hospitality and food, through a more devolved skills and employment policy".
- 6.9 Core Cities point out that if EU migration was to be restricted, the impact would vary greatly in different areas and sectors. Social care is of particular concern – only two per cent of the workforce in the north-east come from an EU background, whereas it is well over ten per cent in London: 'We are not certain yet what will happen to existing EU citizens working here, though it is likely they will be able to remain, but the impact on the future workforce and of EU workers moving home are not clear. How sectors like social care and construction will deal with this is increasingly a crucial question for local authorities, Local Enterprise Partnerships (LEP's) and businesses'.
- 6.10 **Devolution and powers** - What might seem more esoteric questions are those focused on devolution and powers, such as how many laws returned to the UK will be devolved to local government. These issues, however, are critical ones for local authorities and sub national groups. Who decides and what is the process for decisions to be made?
- 6.11 Helen Dickinson, Assistant Chief Executive, Newcastle City Council, said this in the inquiry session – 'the general question of transferring EU legislation into UK law raises three issues for us in local government:

1. the impact that the risk of ambiguity in the transitional phase could have on us; 2. the flexibility in how the legislation is transferred; and
3. the capacity and resources to prepare.'

- 6.12 The Centre for Cities in their written evidence suggested that there is 'a unique and powerful opportunity for the UK Government to reinvigorate our democracy, particularly through increased devolution. Devolution is a process, not an outcome but it is an important factor in improving the performance of cities. For example, cities with greater local freedom also tend to be more competitive. European cities often tend to have greater freedoms and powers, so this leaves the UK's cities in a vulnerable position as we approach Brexit.
- 6.13 Ultimately, this means cities must have far greater local financial autonomy, including retaining more of the taxation raised within them, as happens to varying degrees across the EU, the USA and throughout the developed world. It's time to think big about our global future, but that means also thinking big about our local future: the 'local UK' on which our international success depends. Greater devolution of power and resource to places and people across the UK is urgently required, and it is up to local and national governments to work out how to deliver it. At a time when people are demanding more control, this is too important an issue to be overlooked'.
- 6.14 **Brexit: Opportunity or threat** - depending on your perspective, Brexit can be seen as a huge threat to local government and communities or as a potential major opportunity; or both.
- 6.15 For example, the way structural funds are distributed now is hardly ideal. Why shouldn't the decisions about any future regional funding be devolved? But even if the answer is they should be devolved the question is how. What role would there be for the new combined authorities and mayors and for those areas which haven't got these new arrangements? How would a new system fit with reforms to local government finance?
- 6.16 And how can devolution and decentralisation be strengthened when there will be a need for answers in a tight timescale and when the picture is fragmented and uncertain even without Brexit?
- 6.17 The speeches from Theresa May and Jeremy Corbyn have to some extent clarified where the parties stand on critical issues such as the customs union, but local government and the devolved administrations are still faced with huge uncertainties. Local government is starting to be more pro active – for example a group of UK city leaders, along with EuroCities, recently met with Michel Barnier – the European Chief Negotiator and Guy Verhofstadt - the European Parliament's Brexit co-ordinator - at the European Commission's Headquarters.
- 6.18 The sector has close relationships with the EU – Brexit doesn't have to mean those relationships need to be broken. As Core Cities underlined in their submission to the select committee inquiry those relationships transcend national boundaries:
- "Global economies are interlinked flows of trade, commerce and people between cities, which in turn drive their national economies. Urban policy in the UK has so far failed to grasp this reality, with the result that, despite some good progress on devolution, we are totally out of step with the rest of the world, where increasingly power is held locally and not by central government"
- 6.19 Further update reports on Brexit will be provided to the Audit, Government & Standards Committee as more information is available and the implications on local government develop.