Overview and Scrutiny Committee Report

Report of Managing Director

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Date: 15 January 2019

Potential Impact of Brexit

Officer Recommendation

The Committee is invited to comment on the potential risks set out in this report and the arrangements for monitoring and managing the potential impact of the UK leaving the EU on 29 March 2019.

Reason(s) for Recommendation:
To enable the Committee to consider the potential risks arising from Brexit and the scope of the project plan to mitigate or address the risks

1. Executive Summary.

Following the EU referendum in 2016, the UK is due to leave the EU on 29 March 2019. If there is no agreement the default position is for the UK to leave in March unless the government seeks to extend the Article 50 negotiating process or Parliament intervenes to stop it happening.

Planning for the future outside the EU is difficult as we do not know the outcome of negotiations. As a result, we are looking at the possible impact on the Council of a no agreement scenario. We have set up an officer led project team, which includes senior staff from Finance, Planning, Economic Development, Housing, ICT, Legal Services, Environmental Health and HR. The team is working to:

- establish the council's exposure to the different corporate, project and financial risks identified in the report;
- engage with local partners to understand how Brexit affects their risks and any shared risks;
- update members regarding the major categories of risk;
- review significant policies relevant to the management of these risks (e.g. investment policy) to ensure they are fit for purpose in the new environment;
- assess any impact of the risk assessment on the assumptions used to generate the medium term financial plan;
- report the emerging picture from this work on a regular basis; and update strategic and operational plans as decisions are made
- monitor staffing issues following a review of services which could be most affected
- monitor the impact and implications of any future agreement between the UK and EU
- identify opportunities

2. Background

2.1 The lack of certainty over what is going to happen has made planning for post-Brexit very difficult. Parliament was due to vote before Christmas on the Government's proposed deal negotiated with the EU. That vote was postponed and at the time of writing was due to take place in the week commencing 14 January 2019. Because of this delay, it is still unknown how the UK will leave the EU. However, it is prudent that we look at the potential risks and opportunities facing the Council and the wider community based on our exit from the EU with no agreement.

- The risks are complex and do not just involve Council services. They include: changes to regulations and regulatory services
- the potential impact of access to future funding streams
- potential impact on delivery of our corporate plan
- potential impact on our local plan
- impact on the local economy and partnerships
- impact on residents due to potential financial downturn
- impact on our services due to financial downturn and potential issues with supply chains and rising costs
- the possible loss of staff should EU citizens currently working for the Council decide to leave or be forced to leave
- possible difficulties in recruiting staff from the EU where it is not possible to recruit UK citizens
- impact on our services of UK nationals returning to the UK from the European Union
- the impact of the period of uncertainty and adjustment after Brexit

2.2 Leaving the EU is not a straightforward process and the impact will take some time to be completely understood due to the levels of integration. As we still do not know the form Brexit will take it is difficult to make a definitive assessment of the potential impact on the Council.

2.3 What is generally considered is that the UK departure will have legal, economic, social and political implications whatever form that departure takes. Some of the potential impacts may be mitigated by any agreement that the Government reaches with the EU and it is recognised that the potential risks are disputed by some who believe that the UK is well able to survive a no deal Brexit and even thrive under those circumstances. However, it is prudent for the Council to identify and plan for the potential risks of the Brexit to our services and communities

2.4 Given the current situation we need to identify the impact of the Brexit decision on:

- our financial resilience,
- our funding streams, especially if there any EU funding through the LEP
- the risks to our corporate plan priorities and major project aspirations,
- the risks on day to day service delivery
- changes to UK employment law (e.g. Working Time Regulations 1998, Agency Worker Regulations 2010) or to government procurement, which is currently subject to EU legislation
- the impact on the wider community, the economy and business both existing and our ability to attract new inward investment
- the impact on services due to any changes in migration policies particularly important for services with EU nationals on their staff and while there may be

protection for existing employees they may decide to leave due to future uncertainty
- the possible risks of supply chain problems and rising costs if tariffs are imposed
- fluctuation in demand for some statutory services because of potential economic recession impacting the local economy and housing market e.g. planning and building control
- impact on environmental services which are covered by EU legislation after March 2019 e.g. food safety, air quality, climate change

2.5 We do know that we will be facing a period of uncertainty with potential implications and varying degrees of risk for our service delivery, finances and plans. The major risks include:

2.6 **Direct EU funding** – one of the most obvious financial risks of Brexit is the loss of future EU funding. The government has guaranteed all funding from the EU until the end of 2020 regardless of whether it concludes a deal with the EU. The Council does not receive any EU funding and all of the local growth funding that we receive from the LEP is from the UK government. The government is proposing to set up a Shared Prosperity Fund to replace the EU funding stream but there is no definitive information on how this will work. However, there will be increased pressure on any future government funding due to the loss of EU grants and we need to identify our sources of funding and assess the impact of any funding changes on our longer-term projects.

2.7 **Inward investment** – it is difficult to judge how Brexit will affect inward investment and how this will affect the town as we try to attract companies to move into the borough. The lack of certainty over the future particularly with the larger multi-national companies could affect growth and investment decisions in the short term and there is the risk that they may transfer jobs elsewhere or relocate. There is also the risk that companies will relocate out of the borough, which would potentially have a negative impact on income from investment property rents. For example, one of Britain's leading satellite companies based in Guildford is to move sensitive work on the Galileo navigation project to Germany to ensure it can deliver on a contract after Brexit and there is uncertainty over any future joint working on the project.

2.8 **Economic Future** - the Bank of England has published the potential economic scenarios for Brexit covering the next 5 years. These include the possibility of recession, rising unemployment, a rise in inflation, currency fluctuation and a fall in commercial property and house prices. The figures are speculative due to the level of uncertainty over the final terms of the Brexit negotiations but we need to look at the potential impact of the worst case scenarios. Any economic downturn and uncertainty can cause budget pressures, which we will have to manage.

There could be a knock-on effect on investment and growth and increased pressure on public finances and, therefore, there may be further squeezing of public sector budgets. We also need to be aware of the implications on currency and interest rates, which could affect the financial markets and our investments strategies. This might not only have a potential impact on our financial status but could also affect pension funds.

2.9 Our Treasury Management consultants have advised us that the market already priced in a no deal Brexit into the currency and stock exchange markets following the outcome of the referendum vote in 2016 and a significant downturn is not expected in the short term. Our interest projections are very conservative so we do not anticipate a significant change and believe that there is no sign at present that the cost of UK government borrowing will rise post-Brexit unless the government has to increase borrowing to balance its budget.

We are not anticipating a significant impact on our borrowing costs from PWLB (Public Works Loan Board), which would have more of an impact on our medium-term budget position than the loss of investment income. However, although we have these assurances there is a continued risk of volatility in the market and inflationary pressures but the main economic risk will be the impact on our investment property rental income and our parking income if the country goes into recession.

2.10 **Business rate income** – with the local retention of business rates, the Council will increasingly depend on its ability to retain and grow rate-paying businesses. In addition to the inward investment risk already mentioned, the Council could be more financially vulnerable than before.

2.11 **Service pressures** – the unpredictable impact of Brexit on demand for council services will be challenging for the Council when it is coupled with central government spending reductions in the coming years. We will need to scope out where we feel that demand will increase and where there might be a downturn. We will also need to review all our regulatory services, which are currently governed by EU legislation and identify how we move forward after March 2019. The longer-term impact on demand will depend on a number of factors some of which are outside of our immediate control and depend on the resilience and growth of our local economy.

2.12 **Housing/Homelessness -** an economic downturn will have a significant impact on housing, employment and incomes. This could result in a need to provide more support for tenants struggling with sudden changes in circumstances as well as the risk of potential increases in voids, arrears and bad debt. Homelessness may also increase because of the pressure on housing and the reduction in new developments. In the event of a recession there will be a rise in the number of housing and council tax benefit applications due to the downturn in the economy.

2.13 **Housing Development** - ongoing uncertainty could lead to an increase in inflation in materials, skills shortages and labour costs. In addition, according to the Bank of England scenarios, there could be a significant fall in house prices. This combination could put pressure on development projects and result in a possible slow down in new house building as developers will only build if they have confidence they can sell their product. We will need to monitor movements in the market such as delays in development completions that might be early warning signs of problems and what the Implications are for the delivery rate of the Local Plan.

2.14 **ICT and digital -**Over the last few years organisations have increasingly been taking advantage of the relatively cheap and accessible data storage and hosting that cloud technology affords. The Council does store data in the cloud but we need to understand where this data is held which laws govern its use and access.

3. Suggested issues for overview and scrutiny

The Committee is invited to comment on the risks and potential issues identified in this report and note the recommendation to address or mitigate those risks.

4. Financial Implications

4.1 There are no financial implications arising directly from this report. However, any resource implications associated with the implementation of the project plan will be subject to necessary reporting and approval processes.

5. Legal Implications

5.1 There are no legal implications arising directly from this report. The report identifies areas of risk and puts forward a project plan to wherever possible mitigate the risks.

6. Human Resource Implications

6.1 There are no human resources implications arising directly from this report but the project plan does include work streams across all major services. Any resource implications arising from the project plan would be subject to all required approvals.

7. Conclusion

7.1 This report sets out the potential risks and challenges for the Council if we do not reach an agreement with the EU. The current situation is in a state of flux and issues will change depending on whether there is an agreement over the next few weeks. Whatever the outcome of the negotiations we need to be in a position to limit the risks to the Council and to identify new opportunities as and when they arise. The working group will action the plan and work with our services and Plainsong Consulting to identify and mitigate the risks to the

Council. The action plan will be monitored by CMT and the Overview and Scrutiny will receive update reports.

8. Background Papers

None

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