

Name of meeting: Corporate Scrutiny Panel

Date: 20 September 2019

Title of report: Brexit Preparations

Purpose of report

This paper provides an update for the Scrutiny Panel on ongoing Kirklees' preparations, as the UK gets ready to leave the EU with a particular focus on a "No Deal" scenario, following the election of a new Prime Minister who has placed a much a greater focus and urgency on preparations for a no deal Brexit.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	N/A
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	N/A
The Decision - Is it eligible for call in by Scrutiny?	N/A
Date signed off by <u>Strategic Director</u> & name	Rachel Spencer-Henshall
Is it also signed off by the Service Director (Finance)?	N/A
Is it also signed off by the Service Director for Legal Governance and Commissioning?	N/A
Cabinet member portfolio	Councillor Graham Turner

Electoral wards affected: All

Ward councillors consulted: N/A

Public or private: Public

No personal information contained in report.

1. Summary

- 1.1 The new Prime Minister has stated that the UK will leave the EU on 31 October 2019 whether or not an agreement has been reached. There will be risks and opportunities for Kirklees whatever the final outcome of ongoing negotiations; however, at present the full local, regional and national impacts of the UK leaving the EU are unknown.
- 1.2 The national picture is a rapidly evolving one, with, for example, the government being defeated on a number of key votes in the past week. Nonetheless the Council continues to plan for a no deal scenario with an emphasis on supporting vulnerable people.

2. Information required to take a decision

2.1 National Developments

Preparations for no deal by the new government have been given a renewed focus however, for local government the picture remains that of uncertainty with challenges in planning for a multitude of different possible outcomes.

2.1.1 The New Brexit Team

The national team is led by Stephen Barclay Brexit Secretary, with Michael Gove chairing the new cabinet no deal committee. They are joined by Priti Patel as Home Secretary and Dominic Raab the Foreign Secretary.

2.1.2 Brexit Lead Officer

The new Communities and Local Government Secretary has asked each council to designate a Brexit lead to work with central government and oversee “teams who will work with stakeholders in their area to plan intensively for Brexit” – our nominated lead is Naz Parkar, Service Director for Housing Economy & Infrastructure. The government wants to formalise relationships and communications.

The key aspects of the role are:

- Ensuring the council has taken all reasonable steps, in line with relevant guidance and messaging coming from Government and its agencies, to prepare for our exit from the EU on 31 October. This should include clear communication to local residents and businesses to support their own preparations for Brexit and a plan for how the council would communicate important messages to stakeholders;
- Ensuring the council has a team in place which is equipped to support the delivery of Brexit, ready for the period around 31 October;
- Overseeing the expenditure of the specific Brexit funding allocated to their council and ensuring it is effectively contributing to local preparations;
- Playing a full part in the Local Resilience Forum to ensure that its plans for no deal take account of relevant local circumstances and potential impacts on local communities.
- Bringing together local public service providers, the voluntary and community sector, community groups and businesses to effectively prepare for the potential local impacts of leaving the EU without a deal;
- Acting as the principal contact point for the regional lead chief executive and central Government;
- Proactively raising with central Government or the regional chief executive representative any emerging trends, issues and other local intelligence that might assist in no deal preparations.

2.1.3 No Deal New Funds

The government announced an extra £2.1bn of funding to prepare for Brexit, doubling the amount of money it has already set aside this year.

The Communities Secretary, Robert Jenrick, also announced a £20 million fund to help councils prepare for a no deal – £10 million is new cash from the Treasury, while £10 million is money held over from Brexit funding announced earlier this year. The allocation to Kirklees will be £104,984.

The main additional cash, announced by the Chancellor, Sajid Javid, provides a new immediate cash boost of £1.1 billion and makes a further £1 billion available if necessary, taking the total allocation of spending this year up to £6.3 billion. Around £344 million will go to border operations; another 500 officers will be added to the 500 already promised this year. The aim is to improve processing of passport applications, increase training for customs staff to help businesses with declarations, and improve readiness for transport disruption around Kent ports.

Another £434 million will go towards ensuring continuity of vital medicines and medical products, covering freight capacity, warehousing and stockpiling, while £108 million will be spent on helping businesses understand the challenges they face.

Around £138 million is allocated to a new public awareness campaign (which has now been launched as 'Get Ready') involving advertising, consular help for British citizens living abroad and support for local areas, including Northern Ireland.

The new money allocated to local government for no deal preparations should be used to support a "range of activity" including communications, training and recruitment of staff. The Secretary of State reassured councils that they had a 'vital role' in making Brexit successful and it was 'absolutely right that together we intensify preparations in every community'.

2.1.4 No Deal Consequences

There are many commentators on the impact of a no deal exit, and a leaked confidential document compiled under the code name Operation Yellowhammer and obtained by the *Sunday Times* sets out the following:

- Trucks could face 2.5 day delays at ports, with significant disruption lasting up to three months, which would affect fuel supplies in London and the southeast of England, it is estimated that it may take 40% longer at crossing points according to the document.
- Medical supplies will also be vulnerable to "severe extended delays," since about three-quarters of the UK's medicine comes across the English Channel.
- Fresh food will become less available, and prices will rise, according to the document. That outcome is expected to especially hit vulnerable groups.
- The government anticipates the return of a hard border with Ireland, which could spark protests and roadblocks.
- It also forecasts the closure of two oil refineries after import tariffs are eliminated, causing an expected loss of 2,000 jobs, worker unrest and disruptions to fuel supplies.

Local government has now to plan for a possible no deal as the working assumption and as the most likely scenario. It is, though, hard to plan for something unknown in both its impact and the uncertainty of it occurring.

Home Secretary, Priti Patel, has recently announced plans to end freedom of movement for EU citizens immediately after a no deal Brexit.

Downing Street confirmed rules allowing EU nationals to live and work freely in the UK would end if the UK leaves the bloc without an agreement on 31 October. The rights of EU citizens who have permanent residence in the UK should not be affected and they will continue to be allowed to apply for settled status – granted if they can prove they have lived in the UK for five years – until the end of December 2020.

We are continuing with our promotion of support to communities and employees on the EU Resettlement Scheme but we now need to give more active consideration to the impact this will have on workforce planning for both us, our providers and our partners.

Our position in Kirklees regarding supply chain issues on food, focusing on vulnerable people, is that we have undertaken resilience stress tests on supplies for schools and adult social care. The main outcome was that supplies for a basic meal could be maintained. We are also working with the voluntary and community sector to map the provision and support around food banks which more and more people are becoming reliant on.

With supplies of medication, this is primarily within the remit of the NHS who have a distinct work stream in place to address medical supplies. Nonetheless, we are collaborating with Health colleagues to help plan provisions to people who are in the greatest need. We have been assured supplies would not be an issue.

2.2 The Regional Position

Our link into MHCLG from a regional basis remains the chief executive of Leeds City Council, Tom Riordan. At present we are reporting regionally on an exception basis.

In addition, WYCA have also introduced a monthly Leaders of Business Support meeting which reports into the regional group. This group has met twice and is looking at the business communication and support measures which need to be in place pre and post Brexit to ensure business resilience.

2.3 The Kirklees Position

2.3.1 Current Economic Data/Analysis

The LCR Economic Update for May 2019, presents some more up to date intelligence from the MYCC survey Q1 and other sources on Brexit. The key points in relation to Brexit are:

- Some Brexit-related issues appear to have given a short-term boost to national and local economies of late, with stockpiling helping to drive business activity, particularly in the manufacturing sector.

- There are signs that the stockpiling-driven momentum may have been tailing off, however, recent government announcements are beginning to reverse this.
- HMRC data suggests that our region remains more reliant than the country as a whole on the EU as an export market, and while the value of exports has increased the number of businesses exporting has not increased significantly.
- While the recent trend towards growth in full-time permanent employment is undoubtedly positive, it is also clear that there has been a persistent lull in capital investment. Given the critical role that investment plays in productivity growth, this could have longer term implications for economic competitiveness.

The MYCC Quarterly Economic Survey for Q1 done in Feb/March asked businesses about their preparedness and confidence in handling no deal. 51% said they were confident in handling the impacts. 71% said they had considered impacts at management level and 55% had mapped their customer/supplier base and tried to consider impacts – so most businesses had taken action.

Some of the specific headlines are:

- Overall, 11% of businesses in LCR expect Brexit to have a beneficial impact; 33% a detrimental impact. While there is some difference in Kirklees (14% vs. 29%).
- The proportion expecting a positive impact is about the same as in 2017, but the detrimental impact number is up from 28% (this increase has come as a result in fewer “don’t knows”)
- 16% of businesses in Kirklees export, the same as in LCR as a whole

2.3.2 Opportunities and risks

The majority of commentators and economists predict a downturn in the event of a no deal. However, recent figures from the Bank of England suggest this might not be as severe as previously thought. Reporting to the Treasury Select Committee last week, Governor Mark Carney said he now believed GDP would fall by 5.5%, as opposed to the 8% contraction the Bank had previously forecast. His revised assessment also saw an increase in unemployment of 7%, with inflation peaking at 5.25%.

At a local level, the Council is planning and actively engaging with business in respect of the economic impact of a no deal Brexit. The forthcoming Medium Term Financial Plan (MTFP) update report to Cabinet/Council in October will take account of potential Brexit scenarios in setting out the financial planning framework for subsequent member consideration; both short and medium term.

There are potential opportunities for business in a no deal scenario:

- Increased scope for inward investment – the decline in the pound could be a catalyst for encouraging inward investment.
- Expanding international markets – as a result of fluctuations in the pound the cost of British goods and services are more affordable for international buyers.

There is an opportunity to encourage increases in the use of online sales by smaller businesses, not just those who currently export. It is a good time for small businesses to adapt their online presence to allow international customers to browse in their own language and pay in their own currency.

- Opportunities for micro and small business owners - entrepreneurs and small business owners have thrived during previous periods of financial instability, largely due to being leaner and more flexible than more established organisations so they can quickly and effectively adapt to changes in the market, picking up new opportunities to help them to grow.
- Plugging the talent gap with skilled domestic workers - there could be a shortfall in our imported workforce, which means that UK business owners are more likely to focus on up-skilling and cross-skilling their current staff, filling any talent gaps with skilled workers from the UK.

There are significant risks at a local level, particularly as SMEs make up over 90% of Kirklees' businesses.

Manufacturing relies on long-term investment and planning to ensure it remains competitive and the underpinning confidence needed to unlock investment has taken a knock from the uncertainty around Brexit. Anecdotal evidence suggests manufacturing firms are increasing labour costs in order to compensate for delayed capital investment in the short-term. Although this has created jobs in the short-term, it will not address the long-term productivity challenge facing the sector, and this is particularly the case for SMEs, who have had to invest heavily in building up and maintaining stockpiles of parts and materials.

Given the delay to Brexit, many of these firms are now having to pay for warehousing and storage for many months to come, hindering their potential to invest elsewhere in boosting their productivity. Losing access to the EU single market and investment that might otherwise have been bound for the UK, is expected to have a long-term impact on the sector locally. However, reshoring practices could increase investment by firms into the UK (instead of producing goods overseas).

2.3.3 Business continuity

To ensure our services and work with partners is assessed for a no deal Brexit, Business Continuity Champions have been asked partly to identify critical Council processes that are currently dependent on EU partners. To do this, they were asked a series of questions designed to identify responses to the potential business disruptions that may arise as a result of Brexit; these being:

- People Issues
- Premises Issues
- Process Issues
- Provider Issues (including fuel, suppliers, contractors and commissioned services)
- Equipment Issues

No significant issues were identified outside business continuity plans as a result of this exercise.

Local partnership working continues to be a critical part of our Brexit preparedness:

- Kirklees Council continues to work on a multi-agency basis as part of the West Yorkshire Resilience Forum (WYRF). This includes working to understand the consequences of a no deal Brexit for the area and to prepare proportionate contingency plans.
- The WYRF has moved to weekly teleconference calls as of 5th September. This might escalate to daily conference calls, depending on events, at the start of October.
- WYRF are in the process of completing a submission to MHCLG on preparedness for a no deal Brexit. This aims to allow Ministers and others to easily see and compare preparations in different locations to identify gaps and highlight areas where additional support may be required.
- WYRF are also developing a C3 plan (command, control and coordination) for the planning and response to a no deal Brexit.
- A Communications plan is being developed (led by West Yorkshire Fire and Rescue Service) to coordinate messages to the public and businesses (Government expectation is that this will be done locally).

3. Implications for the Council

3.1 Working with People

We have established channels through which we conduct a weekly temperature check of community issues and potential tensions. This route will be used to check whether there are any Brexit related issues arising in our communities.

We will be signposting residents and businesses to government information, such as the Get Ready for Brexit [site](#), to ensure they have the most up to date information.

3.2 Working with Partners

As above in the local partnership working section, there are some key partner arenas into which our preparations connect, in order to ensure a joined-up response in both Kirklees and the wider region.

3.3 Place Based Working

The recommendation around communication to ward members are based on an understanding of their critical role as place leaders, able to provide appropriate assurance messages within our diverse communities.

3.4 Improving outcomes for children

As corporate parent we are working to ensure the residency status of EU national looked after children. We actively track care leavers after the age of 18 up to the age of 25. We will be ensuring they are supported in terms of the EU settlement scheme and appropriate documentation.

3.5 **Other (e.g. Legal/Financial or Human Resources)**

Kirklees received £210,000 in the spring, split across 2018/19 and 2019/20 which has been put into reserves, to be accessed when a need arises that cannot be met from within existing service resources. As stated in section “2.1.3 No Deal New Funds” Kirklees will receive £104,984.

4. **Consultees and their opinions**

We have actively engaged with local businesses, partners and colleagues in the region to ensure we understand the potential impact on all sectors.

5. **Next steps and timelines**

Weekly updates to Executive Team, including themed discussions.

Continue to work on a multi-agency basis as part of the WYRF.

Continue to attend the Regional Business Support Leads Brexit Meeting and influence design of support programmes to be introduced pre/post Brexit.

6. **Officer recommendations and reasons**

For the panel to note and comment on the preparedness of the Council in planning for Brexit.

7. **Cabinet portfolio holder’s recommendations**

Portfolio Holder has been briefed and agrees with the report to be submitted to Scrutiny in this format.

8. **Contact officer**

David Bundy - Corporate Policy Officer, Strategy and Policy

9. **Background Papers and History of Decisions**

Leaving the EU Preparedness Update, Corporate Scrutiny Panel, 12 July 2019

Leaving the EU Preparedness Update, Economy and Neighbourhoods Scrutiny Panel, 17 July 2019

Discussion at Full Council on the implications of Brexit, 12 December 2018.

10. **Service Director responsible**

Naz Parkar - Service Director for Housing Economy & Infrastructure