

AGENDA ITEM 14

Report of:	The Elected Mayor of Middlesbrough
-------------------	------------------------------------

Submitted to:	Council, 15 March 2019
----------------------	------------------------

Subject:	British Exit from the European Union
-----------------	--------------------------------------

Summary**Proposed decision(s)**

That Council notes the current position in respect of the UK's Exit from the European Union, potential implications for the Council's strategic objectives and service delivery, and planning undertaken locally for 'no deal' and beyond.

Report for:	Key decision:	Confidential:	Is the report urgent?
Information	No	No	No

Contribution to delivery of the 2019-22 Strategic Plan

Business Imperatives	Physical Regeneration	Social Regeneration
Brexit, and in particular, a 'no deal' Brexit, is likely to impact significantly on the national and regional economy and in turn impact upon funding available to the Council and so its ability to deliver its strategic objectives as set out within the Strategic Plan.		

Ward(s) affected

None.

What is the purpose of this report?

1. To update members on the UK's Exit from the European Union ('Brexit'), including implications for the local economy and the Council's strategic objectives, and the outline arrangements and next steps for planning for a 'no deal' Brexit locally.

Why does this report require a member decision?

2. There is no precedent of an advanced economy withdrawing from a trade agreement as deep and complex as the European Union, and Brexit poses significant long-term risks to the regional economy and so to the achievement of the Council's strategic objectives. It is critical that all members are aware of these issues and are assured of the Council's preparedness, particular in relation to a 'no deal' Brexit.

Report background

3. On 23 June 2016, the UK voted to leave the European Union (EU), and on 29 March 2017, the UK Government invoked Article 50 of the 2007 Treaty on European Union to notify the EU of its withdrawal and oblige the EU to attempt to negotiate a 'withdrawal agreement'.
4. Following 524 days of negotiations, on 25 November 2018 the UK Government and the EU member states agreed a draft 585-page withdrawal agreement to put before the UK and European parliaments for approval in advance of the UK's planned exit from the EU on 29 March 2019.
5. The main issues dealt with in the withdrawal agreement related to the rights of citizens, the 'divorce bill' and the need to avoid border controls between Northern Ireland and the Republic of Ireland after Brexit. In respect of these issues:
 - The rights of more than 3 million EU citizens currently residing in the UK and over 1 million UK nationals residing in EU countries are safeguarded, and those individuals will be able to live as now. This includes anyone relocating up to the end of the 'transition period' (see below).
 - In terms of the divorce bill, the UK has agreed to pay around £39bn, covering its planned contribution to the EU budget until 2020, and other commitments such as pensions for EU officials.
 - The Irish border is by far the most contentious issue of the agreement. At the centre of the proposed solution is the 'backstop' – an insurance plan that kicks in if future trade talks fail to avoid the need for a hard border by the end of the transition period. Under the backstop whole of the UK would remain in the EU customs union, while Northern Ireland would have to follow single market rules. The Government's legal advice, published subsequently at the request of Parliament, has suggested that the backstop could endure indefinitely if there is no agreement on trade. This has since proved to be unacceptable to Parliament.
6. The withdrawal agreement would form the basis of a legally-binding treaty and its approval would allow the two parties to move on to negotiations regarding their future relationship during a 'transition period' (to December 2020, but which could be extended to the end of 2022). A 26-page political declaration on this relationship, published alongside the withdrawal agreement, is not legally binding, but commits both

parties to negotiate within some basic parameters, with the main pillars being trade and security. The key points are:

- British access to EU markets will depend on it respecting EU standards on competition, tax, environment, as well as social and employment protection, though it is unclear whether this involves 'non-regression' or ongoing alignment of these standards.
 - The UK will be treated like any other non-EU country in respect of financial services, which would rely on 'equivalence' rather than 'passports'. This means that market access could be withdrawn at 30 days' notice.
 - The EU has offered cooperation, rather than membership, of Europol and Eurojust. The UK has negotiated clauses that will allow it to participate in EU joint defence projects.
7. The Prime Minister conceded that the withdrawal agreement would have been soundly defeated in the 'meaningful vote' originally scheduled to be held in Parliament on 11 December 2018. This vote was then moved to 15 January 2019, with the Government using the interim to seek from the EU legally-binding assurances on the temporary nature of the backstop. In view of the potential impasse, both the UK and EU stepped up planning for 'no deal' around this time.
 8. The EU's position to date has remained that the withdrawal agreement cannot be renegotiated, only clarified. As such, the assurances sought by the Government were not forthcoming and consequently on 15 January it sustained the heaviest parliamentary defeat in the democratic era, with Parliament rejecting the withdrawal agreement by a majority of 230.
 9. The Government survived a 'no confidence' vote the following day and was subsequently given more time by Parliament to seek changes to the agreement with the EU, specifically in respect of the backstop, that would be acceptable to a majority of MPs. The Government has now committed to hold a second 'meaningful vote' by 12 March. If Parliament passes the amended agreement, it would come into force on 29 March 2019. If no agreement can be reached, under existing UK and EU legislation, the UK would leave the EU without a deal on that date.
 10. While there are debates about the extent, it is clear that the impact of a 'no deal' Brexit would be extremely detrimental to the UK, and to the North East of England in particular, in both the short and long-term. As such it is also clear that Parliament has no appetite for this outcome, and a significant number of MPs will resist any apparent attempt by the Government to 'run down the clock' leaving only the current withdrawal agreement or 'no deal' as viable options within the time remaining.
 11. The other main option available by the end of March is for the UK to request an extension of Article 50 in order to renegotiate the withdrawal agreement on a more fundamental basis over a longer time frame, which would require the approval of the EU Council. Should Article 50 be extended, other options such as a General Election or second Referendum may become more likely, should the impasse persist. The UK is able to unilaterally revoke Article 50, as recently confirmed by the European Court of Justice, but it is highly unlikely that any government would do this prior to a general election or referendum that would provide a mandate for such an action.

Potential implications of Brexit

12. Brexit (whether 'no deal', or other) remains the biggest risk to the achievement of the Council's strategic objectives set out in the Strategic Plan for 2019-2022.
13. A report to Council following the referendum result (19 October 2016) highlighted a number of potential impacts from Brexit on economic development within the North East and the Tees Valley. These were:
 - national economic impact – on GDP through loss of access to the Single Market;
 - EU funding / investment support – lack of clarity over replacement funding;
 - regulatory environment – impact on environmental and competition policies;
 - exporting – impact on automotive and chemical sectors in particular;
 - Foreign Direct Investment – attractiveness of UK and the region to investors;
 - attraction and retention of talent – reduction in skilled migrants to the UK; and
 - international knowledge transfer – impact on universities and innovation.
14. The report also identified a number of potential implications for the Council's own objectives and day-to-day service delivery, including:
 - increased demand for services;
 - workforce shortages;
 - extended public sector austerity;
 - downturn in the housing market;
 - downturn in commercial property market;
 - reduced income from business rates;
 - increased cost of buying (from inflation and / or reduced value of the pound);
 - increased cost of borrowing;
 - new legislation affecting service delivery; and
 - no immediate successors to EU institutions (e.g. to OJEU).
15. The current uncertainty about the terms of UK's departure from the EU means that all of these issues remain unresolved, however since the last report to Council the extent of the potential economic impact of Brexit has become clearer.
16. The Bank of England's analysis of EU withdrawal scenarios (November 2018) shows that the UK's GDP would be negatively affected by any Brexit, most significantly by a disorderly 'no deal' Brexit, which could trigger a recession with worse consequences for the UK than the 2008 financial crisis.
17. The North East is the only region of England with a surplus in goods trade with the EU, and also has the highest per capita EU funding of any English region. As such it is widely accepted that the North East's economy will be most affected in any Brexit scenario, particularly 'no deal', exacerbating already very significant regional disparities.
18. The Government's own analysis (January 2018) suggests that Gross Value Added (GVA) within the North East could fall by 16% in the coming 15 years as a result of 'no deal' compare with the status quo. As expected, manufacturing, in particular the automotive and chemicals industries, would be particularly affected. This scenario would have significant consequences for the local economy, public services and local

communities across the region. The CBI (in a separate analysis) has equated this to an annual loss of output worth more than £7bn by 2034, equivalent to twice the amount of public spending on schools and education in the region each year.

19. The same analysis also suggests an 11% fall in GVA would result from a withdrawal agreement not involving a customs union, and 3% from an agreement including a customs union.
20. The report to Council in October 2016 highlighted the extent to which the Tees Valley has benefitted from the European Structural and Investment Funds, particularly the European Regional Development Fund. Across 2014-2020 the Tees Valley will receive £170m of support from ESIF, representing the second highest amount of funding (£245) per capita in England, after Cornwall, reflecting its status as a 'Transition Area' (i.e. where GDP per capita is between 75 per cent and 90 per cent of the EU average).
21. This funding assists tens of thousands of unemployed people in the Tees Valley, and provides training and employment opportunities for thousands more. Within Middlesbrough specifically, Boho 1 and 5 and TWI have received funding, and Teesside University has been a major beneficiary.
22. Withdrawal from the European Union will see the loss of this funding in future, and while the Government has committed to creating a UK Shared Prosperity Fund (UKSPF) to tackle inequalities between communities by raising productivity in line with its Industrial Strategy, consultation on the UKSPF has not yet begun and there is no commitment to replace this funding like-for-like going forward.
23. From the above, it is clear that should a 'no deal' Brexit finally be avoided following the meaningful vote scheduled for 12 March, this in itself would by no means resolve the risks to the national and the North-East economies. The evidence currently available suggests that only a free-trade deal or customs union with the EU, together with a guarantee of productivity funding at least equal to that currently received, would result in a similar economic position to now.

Planning for Brexit

24. The 2016 report to members highlighted how the Council planned to mitigate the potential impacts of Brexit, including:
 - ensure that strategic planning accounts for potential social impacts within Middlesbrough;
 - ensure financial planning is resilient to the impact of any potential downturn;
 - seek clarity from the Government on future funding;
 - develop contingency plans to mitigate the impact of any downturn in local property markets and ensure that housebuilding targets are achieved;
 - continue to explore all potential capital (and revenue) funding options to ensure that the Council delivers and can enhance its current plans for Middlesbrough; and
 - engage as appropriate with the Local Government Association's efforts to ensure that local government is involved in Brexit negotiations.
25. As is clear from the Mayor's Vision update and the revised Strategic Plan for 2019-2022 presented to this meeting, the Council, both unilaterally and as part of the Tees

Valley Combined Authority, has made strong progress in delivering this mitigating activity.

26. It is, however, worthy of note that in 2016 'no deal' was not considered a serious prospect, and it is imperative that the Government addresses the potential implications of this scenario during the current negotiations, in agreeing the future trading relationship with the EU and in setting future national policy, in particular having due regard to the likely differential economic impacts across the regions.
27. A transition period, such as that provided for in a potential withdrawal agreement would facilitate an orderly exit and provide time for national and local government to mitigate or address the potential implications set out above. A 'no deal' Brexit would provide no time for such mitigation, and would significantly increase the risk of all issues manifesting at the same time.
28. The Local Government Association has stressed to the Government that in the event of 'no deal', councils would require:
 - clarity on the employment and residency situation in the short to long-term for non-UK EU citizens running vital public services;
 - compensation for the additional costs to councils from any new tariffs on imports from the EU;
 - a guarantee for local regeneration currently funded from the EU;
 - additional capacity and resources to fulfil regulatory responsibilities at ports of entry or inland if there are no checks at ports and / or EU third country controls require it;
 - immediate UK replacements where there is current reliance on EU processes (e.g. procurement); and
 - the opportunity to immediately reform some EU laws which constrain local economies (such as procurement and state aid).
29. The Government has to date issued over 100 technical papers to support planning across sectors in the event of no deal, and in late December 2018 committed to investing a further £2 billion pounds in supporting the preparedness of the public sector (together with up to 3,500 troops on the ground).
30. Local authorities have also undertaken appropriate risk assessments and planning, as recently evidenced by the media coverage of Kent County Council's planning in respect of the port of Dover. The Secretary of State for Housing, Communities and Local Government wrote to all local authorities on 31 January 2019, outlining the Government's expectations in terms of local authority preparedness between now and the end of March, and confirming that every local authority has been allocated £210,000 across 2018-20 for 'no deal' planning, which this Council is holding as a reserve to be called down as necessary.
31. The Secretary of State has asked local authorities to assure themselves that they have undertaken the necessary impact assessments, relevant planning and prepared appropriate mitigation plans in respect of the following areas:
 - statutory services, including social care, child protection, education, environmental, leisure and community services, in particular with reference to EU nationals in the wider workforce (including commissioned services);

- regulatory services, including environmental health, trading standards and port health authority responsibilities, particularly in respect of increased demand;
- the impact (direct or indirect) of any border areas (air or sea ports) either in the local area, which may have an impact on infrastructure, statutory services, availability of essential supplies, or vulnerable groups;
- the impact on supply chains, either managed by the Council or via commissioned services;
- data handling both in terms of the corporate ICT and data housing that the Council uses for its own services, as well as the data handling for any outsourced services, particularly in respect of the General Data Protection Regulation;
- local partnership working with key statutory and strategic partners, including the Health and Wellbeing Board, Crime Reduction or Community Safety Partnership, Local Economic Partnership and Local Resilience Forums; and
- communications to provide community assurance and provision of timely information, e.g. in relation to the EU Settled Status Scheme or advice to local businesses.

32. The Council is now undertaking this work, both through the Cleveland Local Resilience Forum (LRF), and through its own business continuity planning arrangements, and weekly dialogue with Government is ongoing at a regional level.

Next steps

33. Brexit is a fast-changing agenda, determined at national government level. At the time of writing, 'no deal' remains a significant risk, and the immediate next steps for the Council are as follows:

- appropriate risk assessment and associated planning will continue at the LRF and Council level, with ongoing dialogue with the Government, to prepare for a 'no deal' scenario'; and
- member briefings and appropriate employee and community communications will be delivered up to and beyond the end of March relating to key issues, including the EU Settled Status Scheme and addressing any concerns, such as travel disruption and shortages of fuel, food or medicines.

34. This activity will be de-escalated as appropriate if Parliament approves an amended version of the withdrawal agreement on 12 March 2019, or if Article 50 is extended.

35. Once the future relationship with the EU is clear, a further report will be presented to Council on known implications for the Council's strategic objectives, finances and service delivery.

What decision(s) are being asked for?

36. That Council notes the current position in respect of the UK's Exit from the European Union, potential implications for the Council's strategic objectives and service delivery, and planning undertaken locally for 'no deal' and beyond.

Why is this being recommended?

37. To ensure that members are assured of the Council's arrangements to identify and plan for the risks, and to maximise opportunities arising from, British exit from the European Union.

Other potential decisions and why these have not been recommended

38. Not applicable.

Impact(s) of recommended decision(s)

Legal

39. The activity set out within this report will ensure that the Council continues to meet its statutory duties, including the Duty of Best Value, and its responsibilities under the Civil Contingencies Act 2004.

Financial

40. There are no direct financial implications arising from the recommendations of this report. Financial implications arising from Brexit (either directly, or indirectly) will be reflected in future iterations of the Council's Medium-Term Financial Plan and reported to Council in due course.

Policy Framework

41. Not applicable.

Equality and Diversity

42. Not applicable.

Risk

43. The most recent quarterly update to Executive on the Strategic Plan 2018-2022 (22 February 2019) identifies the potential impacts of a 'no deal' Brexit (i) on business continuity and (ii) on economic development in Middlesbrough, as by some way the greatest risks to the Council's strategic objectives at the present time.

Actions to be taken to implement the decision(s)

44. Appropriate member briefings and internal and external communications will be delivered by the end of March 2019. A further report to Council on Brexit implications will be presented to Council as soon as practicable following confirmation of the future relationship with the EU.

Appendices

Not applicable.

Background papers

19/10/16 Council Implications of British Exit from the European Union

Contact: Paul Stephens, Head of Strategy, Information and Governance

Email: paul_stephens@middlesbrough.gov.uk