

CITY COUNCIL 12 NOVEMBER 2018

REPORT OF THE CHAIR OF AUDIT COMMITTEE

BREXIT UPDATE

1 SUMMARY

- 1.1 Nottingham City Council passed a motion (9 November 2015) which stated that it *"...believes it is in the best interests of business, residents and the whole city of Nottingham for the UK to continue its membership of the European Union, while seeking reform on a number of key issues."* The City Council position remains the same and since that time a 'watching brief' has been maintained on developments as the EU Exit process unfolds. The Council is monitoring the changing picture for events or trends that may impact Nottingham's citizens, businesses or the Council.
- 1.2 This report updates Council on recent developments, some potential impacts and the actions that the Council has taken to date.

2 RECOMMENDATIONS

- 2.1 Council reaffirms the existing Council policy as passed at Full Council in November 2015 that the City Council believes it is in the best interests of business, residents and the whole city of Nottingham for the UK to continue its membership of the European Union, while seeking reform on a number of key issues.
- 2.2 Council notes the report from officers on the potential impact of leaving the European Union on Nottingham City.
- 2.3 Council asks that all service and project plans are reviewed with regard to Brexit and that assurances of progress are reported to the Audit Committee.
- 2.4 Council asks that a report of the status of our emergency planning with regard to Brexit is presented to the Audit Committee in the new year.

3 REASONS FOR RECOMMENDATIONS

- 3.1 The UK is leaving the EU under Article 50 of the Treaty on European Union (Treaty of Lisbon). This is a legal process that was triggered on 29 March 2017 by the UK government. Use of Article 50 means that absent any further agreements, the UK will automatically cease being a member of the EU and its various institutions on 29 March 2019.
- 3.2 As this deadline approaches, this juncture is an appropriate point for Full Council to:
- consider developments in the withdrawal negotiations between the UK government and the EU Commission;
 - review the range of impacts that leaving the EU may have; and
 - evaluate the actions that the Council has taken to date.

4 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

- 4.1 None

5 **BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)**

5.1 Nottingham City Council passed a motion (9 November 2015) which stated that it *“...believes it is in the best interests of business, residents and the whole city of Nottingham for the UK to continue its membership of the European Union, while seeking reform on a number of key issues.”* Since that time Nottingham City Council’s stance has been to maintain a ‘watching brief’ on developments as the EU Exit process unfolds, this position remains subject to ongoing review. The outcomes of the UK/EU negotiations, and the range of policy responses which will be open to the government following these negotiations, remains unknown to us. Therefore, no concrete plans have been made by the Council.

5.2 However, as the Article 50 deadline approaches more detail is becoming clearer in public at least. Over the next few months, our expectation is that the range of potential outcomes from the withdrawal negotiations will reduce and clearer risks and opportunities, around which the City Council may plan, will become apparent.

5.3 Update on the withdrawal negotiations

- The UK government is looking to establish a new model for the relationship between the UK and the EU post EU Exit that is not currently enjoyed by any other nation state.
- This model is based around a “common rulebook”. This looks to maintain selected access to various EU policies, programmes and bodies.
- On the EU side, the message that the EU will not agree to a deal which it sees as allowing the UK to “cherry pick” EU benefits while moving away from shared responsibilities has been consistent since the start of negotiations.
- In public, the EU has offered the UK a new relationship based on those that it has with third countries already.
- The two options most frequently brought up in the press are:
 - the Norway option which would mean continuing membership of the single market and customs union, much reduced influence on EU policies, continuing free movement of goods, capital, services and people, annual payments to the EU, and being subject to the rulings of bodies like the EU Commission and the European Court of Justice;
 - the Canada option (or “Canada plus”) which largely consists of a free trade deal which enables mostly tariff free trade in goods with the EU (though there are greater regulatory barriers such as standards checks at the border), but has limited movement in services (e.g. Canadian financial services do not have access to the EU). Canada is not subject to EU law or institutions and doesn’t pay the EU any money. The trade deal (CETA) took seven years to negotiate.
- It is worth noting that many of the issues raised publically actually refer to the future relations between the UK and EU, and at least in principle, current negotiations (said to be 90%-95% complete) are merely on the UK’s withdrawal.
- For some time, both sides stated publically that they hoped to have concluded talks on the withdrawal arrangements during October 2018. It now seems clear that this hope has been pushed back to November 2018.

5.4 The “backstop”

- As withdrawal negotiations have progressed, one of the issues that has seemed to resist all attempts at agreement to date, is that of how to avoid the creation of a “hard

border” between the Republic of Ireland and Northern Ireland. Both sides have agreed that this is a policy aim for them.

- The EU side has called for the insertion of a “back stop” in the withdrawal negotiations that would effectively mean that Northern Ireland would remain a part of the customs union indefinitely (and as a side effect would necessitate an effective new customs border in the Irish Sea between Northern Ireland and the rest of the UK) in the event that the UK and EU are unable to agree a later deal on future relations that would ensure that no border is needed.
- The Democratic Unionist Party (DUP) (which has a “confidence and supply” arrangement with the current government, and thereby influence over policy) and elements of the Conservative and Unionist Party, believe that the inclusion, or activation of such a backstop could put at risk the UK’s cohesion.
- The UK government has tried to argue that the backstop position should be that the whole of UK would remain a part of the customs union. In this it has met resistance from the both the EU side and from various voices that supported ‘leave’ in the 2016 referendum.

5.5 “No deal”

- Some speculation has centred on the risk of “no deal” occurring effectively by accident. With Article 50 operating automatically in law, and absent a UK request, and EU agreement (which might require ratification by all 27 member states) to an extension there would be no deal and the EU treaties would no longer apply.
- Some commentators have suggested that if this were the case then trade between the UK and the EU would default to World Trade Organisation (WTO) terms. This would mean that there would be tariffs on goods exported to the EU from the UK and vice versa. The UK could choose to unilaterally lower or even remove all tariffs on EU goods exported to the UK, though under WTO rules it would have to apply the same regime to goods from across the rest of the world.
- Non-tariff barriers such as additional paperwork, customs checks and regulatory standards could slow trade significantly, with existing ‘just in time’ logistics chains being at particular risk.
- The UK only produces half the food it consumes. 30% of the rest comes from the EU. There will also be a likely impact on the production of food that is produced domestically if the flow of labour from Europe was to stop.
- Other key impacts might include further falls in the value of the Pound, less integration in the energy market, and question marks over the legality of planes flying to and from UK airports as the UK leaves the European Common Aviation Area.
- The Government has published a series of technical notes covering advice for various sectors in the event of a no deal. As yet, none has been published which specifically covers the local government sector, however some are of relevance to local government such as state aid arrangements and the “government’s guarantee for EU-funded programmes if there’s no Brexit deal”.
- More analysis of risks and possible mitigations for Council service areas (e.g. procurement) and projects are required. For example, anecdotally there could be significant impact on the care market if the flow of labour from the EU is restricted.

5.6 Transition

- The UK and EU have agreed in principle to a transition or implementation period of 21 months following March 2019. Subject to the withdrawal treaty being agreed, this in effect would mean that the UK would remain a member of the EU for those further 21 months.

- A “no deal” outcome could also result at the end of the transition period if - during those 21 months - no detailed agreement is signed off on the future relations between the UK and EU.

5.7 Settled Status

- The UK government wants to implement a “settled status” regime for EU nationals in the UK, whether there is a withdrawal agreement or not.
- Those with settled status should have full access to UK social security benefits. The position of those who on exit day have not yet been resident in the UK for five years – those with ‘pre-settled status’ – is less clear.
- Thus those EU nationals with ‘settled status’ already resident in Nottingham would be largely unaffected but there is a financial implication for those applying for ‘settled’ or ‘pre settled status’
- For UK nationals in the EU it is unclear whether they could continue to access UK social security benefits in the EU27 Member States they reside in at the time. The existing reciprocal healthcare arrangements for UK citizens in the EU and EU citizens in the UK would be at risk.

5.8 Nottingham and the EU

- Nottingham has benefitted from significant European Funds in the past including funding for BioCity, Old Market Square, Nottingham Contemporary and the New Art Exchange.
- The City has seen at least £190 million of EU funded projects since 2000 via the ERDF, ESF, Horizon 2020 and FP7 funding programmes.
- Over recent years, around £20 million of our two leading Universities’ total annual income has been derived from research grants from EU sources.
- The associated impacts on key areas of development like science, the environment and health, through the loss of the EU’s collective capacity for research and expertise, is likely to be significant for the UK without requisite agreements and clear working relationships. This implication could see Nottingham falling behind in sectors where we are currently strong.
- From a local business perspective, 45% of our exports go to the EU and the relationship post-Brexit will have significant impact on the success of those businesses going forward. Similarly business confidence, especially around decisions relating to inward investment, will likely be significantly weakened.
- The UK, with the creation of the single digital market, stood to be one of the countries that would have gained the most economically and this poses a missed opportunity, especially for Nottingham and the sectors we are looking to grow.
- Nottingham City accesses European Structural and Investment Funds (ESIF) money for this round of EU funding round (2014-2020) via Derby, Derbyshire, Nottingham and Nottinghamshire (D2N2)’s Local Enterprise Partnership (LEP).
- D2N2’s ESIF allocation for 2014-2020 is £214.3m. This consists of both the European Regional Development Fund (ERDF) and European Social Fund (ESF).
- It is unclear where other similar sources of funding will be available post-Brexit.
- A Centre for Cities / LSE Centre for Economic Performance (CEP) report published in July 2017, looked to model the impact of both a ‘hard’ and ‘soft’ EU Exit on economic growth in individual Cities in the UK, over ten years, compared to what continuing membership would have delivered. Though heavily caveated, it suggested:
 - Nottingham is the 22nd (of 62 UK cities included) most impacted by a ‘hard’ Brexit at -2.4% GVA (-1.2% for soft) over ten years.

- That the model used underestimates the negative impact in industries where foreign investment is more important than trade barriers.
- The rise in the rate of inflation over the last year or so, often attributed to the fall in the value of the pound following the referendum result, now appears to be moving back. The CPI measure was 2.4% in September 2018, down from 2.7% in August.

5.9 It is important to note that whilst we have assessed the anticipated high level risk/impact of Brexit, we have not comprehensively reviewed the opportunities that remaining a member state would bring. The aforementioned creation of the single digital market, for example, highlights a clear missed opportunity that could have been of great benefit to Nottingham. Other similar opportunities have not comprehensively being scoped.

5.10 Nottingham City Council's response so far

- Nottingham City Council has worked to leverage its membership of the local government sector's leading networks to ensure that its views are heard at the highest levels. The Council has responded in some detail to calls for evidence from the Local Government Association and helped shape the Core Cities group thinking.
- At the political level the Core Cities cabinet have also discussed EU Exit with Michel Barnier.
- More recently, through our membership of the Local Resilience Forum, officers have been engaged in discussions with local and regional partners and Cabinet Office and MHCLG civil servants on the potential consequences of a No deal Brexit and the methods of coordinating any subsequent necessary responses.
- With recent press reports at the time of writing suggesting that the government may trigger "no deal" contingency plans during November, it is possible that government will shortly be proposing more avenues to local government around potential preparations.
- In addition, we know that government is in the process of organising regional workshops with local councils on the subject of EU Exit, and Nottingham City Council would want to attend these.
- Current policy remains that officers at the Council will prioritise the escalation of any developments that may warrant action by the Council to the appropriate decision making forum.

6 **FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY)**

6.1 Not applicable at this stage.

7 **LEGAL AND PROCUREMENT COLLEAGUE COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)**

7.1 Not applicable at this stage.

8 **EQUALITY IMPACT ASSESSMENT (EIA)**

8.1 Has the equality impact of the proposals in this report been assessed?

No



An EIA is not required because exact outcome and implications are not yet known.

**9 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE
DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION**

9.1 None.

10 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

10.1 Centre for Cities/ London School of Economics Centre for Economic Performance 'The
Local Economic Effects of Brexit' published July 2017

**COUNCILLOR EDWARDS
CHAIR OF AUDIT COMMITTEE**