

Audit Committee

28 March 2019



Title	Brexit		
Purpose of the report	To note		
Report Author	Sandy Muirhead		
Cabinet Member	Councillor John Boughtflower	Confidential	No
Corporate Priority	Financial Sustainability		
Recommendations	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 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. Key issues

- 1.1 Following the EU referendum in 2016, the UK is/was due to leave the EU on 29 March 2019. If there was no agreement with the EU then the default position was for the UK to leave in March 2019 unless the Government seeks to extend the Article 50 negotiating process or Parliament intervenes to prevent it happening.
- 1.2 Planning for the future outside the EU is difficult as we do not know the final outcome of negotiations. Despite recent Parliamentary votes there is still a possibility of a "No Deal" and as a result we are continuing to look at the possible impacts on the Council of a "No Deal" scenario. The lack of certainty over what is going to happen has made planning for post-Brexit very difficult.
- 1.3 Although it is still unknown how the UK will leave the EU, it is appropriate that we consider the potential risks and opportunities facing the Council, and the wider community, based on our exit from the EU with "No Deal". Brexit, as an issue, has been added to the Corporate Register.
- 1.4 The main areas to cover in terms of addressing risk are:-
 - Establishing the Council's exposure to the different corporate, project and financial risks of Brexit

- Engagement with local partners to understand how Brexit affects their risks and any shared risks
- Reviewing significant policies relevant to the management of these risks (e.g. investment policy) to ensure they are fit for purpose in the new environment
- Assessing any impact of the risk assessment on the assumptions used to generate the medium term financial plan
- Continuing to report on and update members on emerging issues/risks and likely impacts on the Council.
- Monitoring staffing issues in services which could be most affected.
- Monitoring the impact and implications of any future agreement between the UK and EU
- Identifying the opportunities.

1.5 However, the risks are complex and impact on regulatory services as well, so leaving the EU is not a straightforward process. The impacts could take some time to evolve. Additionally as we do not have a full picture of the impacts it is difficult to be definitive. However, it is generally considered that there will be legal, economic, social and political implications whatever form departure from the EU takes.

1.6 The Government has circulated to local authorities a checklist of issues to address in terms of risk. Together with the general risks identified above this forms the basis below of a summary of key issues for the Council.

1.7 **Statutory Services** including environmental, leisure and community (others such as social care are of importance to County but could have knock on effects to districts depending on outcomes).

- The impacts on these services relate primarily to staffing issues. Neighbourhood Services potentially could be most affected as the biggest key issue will be movement of people. Neighbourhood Services are already struggling with regards to recruitment of key operational staff. There is information available which is being given to relevant staff on the EU settlement scheme. This allows those EU residents that have been here longer than 5 years the right to apply for settlement and those under 5 years the right to apply for a temporary 5 year residency which they should be able to make permanent in 5 years.
- Staff potentially may need assistance/support to enter into the scheme but the settlement scheme will also continue in a “No Deal” scenario.
- Indirectly Council construction projects could be impacted by staff shortages within construction companies if there is a significant exodus of skilled EU workers.

1.8 **Regulatory Services** including environmental health. Without knowing the potential outcomes of leaving on 29 March it is very difficult to predict impacts. Concerns raised include:-

- Importation/exportation of food (Environmental Health are waiting to hear from Hillingdon on their intentions as they currently do this work on our behalf at Heathrow)
- Certification of food associated with approved food premises will change – there is a considerable amount of EU legislation which has to be translated into UK legislation.
- The availability and employment of EU citizens within food businesses could impact on food premises (both positive and negative)

1.9 **The impact (direct or indirect) of any Border areas:-**

- Through the Surrey Local Resilience Forum (SLRF) there are discussions on the impacts of a “No Deal” on ports and Heathrow. The latter consider they could be quite self-contained if there were any delays in freight consignments but the SLRF are considering any transport impacts in Surrey if there were issues at Dover or Folkestone causing traffic to “back up” to the M25 and on into Surrey.
- For the Council and communities concerns have been raised in relation to food shortages in the early months if ports are affected and lorry movements are stalled due to border checks. Such delays could then impact on the use of food products beyond their sell by dates, illegal slaughter of animals, and increase the vulnerability of people. This could affect our Community centres and Meals on Wheels services depending on supplier’s access to foodstuffs and medicines.
- Fuel shortages could cause difficulties for staff getting into work though this could be mitigated through enacting business continuity plans and staff working from home where feasible.
- Shortages could occur for other essential items such as prescription medication, which may impact on staff ability to work, or items such as toilet rolls.
- Shortages may lead to stock piling. This could have consequences if items such as chemicals are stockpiled in large quantities leading to possible storage safety issues.

1.10 **Impact on supply chains** and the possible risks to them and rising costs if tariffs are imposed.

Difficult to assess at this stage but an issue the Council needs to be aware of. As we have relatively few outsourced services key areas to address are around supplies for services such as Meals on Wheels and the Community Centres. Many food based companies are already stockpiling supplies of non-perishable goods.

1.11 **Data Handling and ICT**

The Government has confirmed that GDPR will be absorbed into UK law at the point of Brexit, meaning (given the nature of SBC’s processing) it is unlikely that there will be significant impacts, with the potential exception of personal data being received into the UK from (current) EEA countries. Officers are assessing the volume and sensitivities of personal data that SBC will receive, post Brexit, from (current) EEA countries and appropriate action will be taken if required. Spelthorne has little data held in EEA countries as

most is held on our own servers and our major suppliers state they host the information in the UK. There may be some contractors with whom we need to update contracts with an appropriate clause if they hold data in EEA countries so as to ensure a smooth transfer of that data back into Spelthorne in the event of a “No Deal”. Guidance has been provided by the Information Commissioner’s office on this topic.

1.12 Local Partnership Working

Spelthorne BC will ensure it works with relevant bodies to effectively plan and consider issues for the EU exit. Spelthorne will work with community safety bodies to address potential tensions in relation to hate crime and management of community tensions, and with other community bodies to ensure the most vulnerable are protected.

1.13 Communications

The UK exit from the EU could result in significant tensions as well as misinformation and/or expectations on communities. It is difficult to predict the likely impact in Spelthorne and we have not yet seen heightened community tensions. We have been, and are, communicating information to promote the UK Settled status scheme. We are also providing information to local businesses as well as obtaining feedback from them on impacts to their businesses.

Through Applied Resilience, our emergency planners, we have weekly attendance at the Tactical Local Resilience Forum’s (SLRF) teleconferences on Brexit and fortnightly attendance at the strategic teleconferences. We file weekly reports on current issues in relation to Brexit to the SLRF which are then absorbed into a Surrey wide report which goes back to central Government.

1.14 Inward Investment and economic downturn

Given the current status of Brexit it is difficult to assess how Brexit may impact on inward investment in the Borough. The lack of uncertainty over the future may prevent multi-nationals/local companies investing further in the Borough. We are aware of one company who are moving their European operations to Europe although keeping a presence in the UK to continue to do business here.

The Bank of England has published the potential economic scenarios over the next five 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.

From mid-March it was hoped we may be in a better position to look at the potential impact of the most likely scenarios but with the current situation this is unlikely.

Any economic downturn and uncertainty will cause budgetary pressures, which we will have to manage. There could be a knock-on effect on investment and growth and increased pressure on public finances resulting in possible 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.

1.15 Council financial implications

SBC always discuss Brexit risks with Arlingclose our investment managers at the quarterly meeting officers and Cllr Williams have with them. SBC has sought to minimise the correlation of our different pooled investment to increase resilience in the face of any economic impacts including Brexit. Our investment property strategy is to hold properties on a long term basis, so we can withstand short term down turns in property value, the majority of our tenants are on relatively long leases (BP which account still for 40% of the rental income of our portfolio still have 18 years with no breaks to run). We recently commissioned Deloitte to review our overall investment portfolio and they seem reasonably comfortable with it. One of the purposes of the sinking funds we are setting aside each year is to enable us to withstand short term tenant voids and other potential risks such as Brexit. These aspects are also built into our medium term financial planning.

We are currently not expecting any significant changes in relation to our borrowing via the Public Works Board. More significant impacts on investment income are likely to result if the country enters a recession.

- 1.16 **Business rate income** – with the future and current local retention of business rates, the Council will increasingly depend on its ability to retain and grow rate-paying businesses. If there is a recession or reduced inward investment this could impact on the Council's future finances.

- 1.17 **Housing/Homelessness** - an economic downturn as a result of Brexit would have a significant impact on housing, employment and incomes. This may result in a need to provide more support for households 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. 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. Conclusion

- 2.1 This reports sets out the potential risks and challenges of Brexit for the Council if we do not reach an agreement with the EU. The current situation is in a state of flux although there may be more clarity if there is an agreement by 29th March 2019. Once we know the outcome of the negotiations and associated Parliamentary decisions we will be in better position to fully identify the key risks and new opportunities as and when they arise. We will continue to monitor the situation and take appropriate actions.

3. Financial implications

- 3.1 There are no financial implications arising directly from this report. However, any resource implications will be evaluated and a project plan implemented to deal with any issues. The Government has allocated to district and boroughs

£35k in total to deal with the consequences of Brexit. This money will be provided over the financial years 18/19 and 19/20.

4. Other considerations

- 4.1 There may be legal issues to address particularly around regulation but an economic downturn or civil unrest could have implications for sustainability and equality and diversity issues.

5. Timetable for implementation

- 5.1 Depends on outcomes achieved on Brexit by 29 March 2019.

Background papers: There are none

Appendices: