

Council

15 December 2020

Warwickshire County Council Preparations for EU Transition

Recommendations

That Council:

- 1) Note the approach and progress made by the County Council in preparing for the end of the EU Transition Period on 31st December 2020; and
- 2) Note the areas of work which will require ongoing review beyond the end of the Transition Period.

1.0 Context

- 1.1 Since the UK left the EU in January 2020 it has been proceeding through a year-long transition which will end on the 31st December.
- 1.2 Although the transition period is coming to an end, the preparations by the Council for the UK to leave the EU have been undertaken over an extended period of time. This has meant that in areas related to business continuity, the Council has maintained a ready state to prepare for any adverse effects from leaving.
- 1.3 However, there are limits on the extent to which the Council can pre-empt and prepare for the impacts of EU transition on the national and local economy. Any adverse impacts on the country's capacity to trade will likely affect our local communities but will also impact the authority in relation to both its income and the demands upon its services.
- 1.4 Part of the uncertainty is the lack of clarity about the impact of a trade deal. The exact impact will depend on the nature of any deal struck, and even in the absence of a trade deal the exact impacts on key sectors will vary. A summary of official estimates is included in the **Appendix**.
- 1.5 The ongoing impact of the Coronavirus pandemic has seen a considerable drop in the economic growth and an expansion in the support by the government. It

is increasingly likely that, as a vaccine is rolled out, growth levels will return, although the OBR suggest that growth may not return to 'pre-pandemic' levels until 2022.

- 1.6 Beyond the potential impacts of the end of transition on the UK economy, the wider uncertainty is the shifting context for UK public finances. The level of support provided by the government in response to the pandemic cannot continue indefinitely, and there is likely to be debate in 2021 about when the government should address the impact of the pandemic on the public finances. These wider issues, although beyond the scope of this report, are material in the wider challenges which the council will have to consider in future.

2.0 Background

- 2.1 Following the Referendum result in 2016, the UK government has sought to negotiate the exit of the United Kingdom (UK) from the European Union (EU). The UK was originally scheduled to leave the EU on 31 March 2019 and a report was presented to Council in March 2019 setting out our preparations for our own business continuity, community and business in Warwickshire.
- 2.2 Following an act of parliament, the process of the UK's departure from the European Union started in January 2020 with a fixed transition period to 31st December 2020.
- 2.3 This report builds on the work of the report submitted to Council in 2019 and seeks to further assure Members that the County Council is responding and preparing for the end of the transition in line with national guidance and local need and is well placed to respond effectively to changes in circumstance.
- 2.4 Much of the previous analysis undertaken remains relevant today. Despite the areas of uncertainty which remain, specifically with reference to the UK's future trade relations with the EU, later sections look forward, providing an assessment of the medium to longer term factors which will extend beyond the end of the Transition Period.
- 2.5 There is also the clear need to ensure that the process of EU transition complements the needs of local communities and businesses in recovering from Covid-19 pandemic.
- 2.6 The report gives the latest position as at the w/c 7th December 2020 (when the report is published). A report on EU transition was presented to the Audit & Standards Committee and a Member Development Session was held on the 25th November.

2.7 However, as this remains a fast-moving agenda, there is the potential for further change after the report is published and any significant changes will be reported verbally to the meeting. Key areas of interest include the conclusion of UK-EU discussions around trade, the passage of key legislation (such as the recent Internal Market Bill) and updated guidance to reflect these developments.

3.0 Approach to date

3.1 The County Council's approach to preparations to leave the EU has been both proactive and pragmatic. Our primary responsibility is to ensure that we can continue to provide local services and where possible, manage disruptions to residents, businesses and the county in response to any impact from the process of exiting the EU.

3.2 A core element of this work has been the creation of a clear set of communications. The council has set up a dedicated, prominent link on its website to signpost residents, businesses and organisations to enable access to information and advice on EU Transition, particularly on the EU Settlement Scheme.

3.3 Reflecting the Council's role as both a provider of key services and as a leader of place, our work has been focused on three main strands:

- Understanding the potential risks for business continuity for WCC;
- Understanding the potential risks for businesses; and
- Understanding the potential risks for our communities.

3.4 Preparation activity is coordinated and provided through a cross-organisational officer working group, with key service leads and representatives from legal, HR, finance and communications meeting weekly.

3.5 The group has coordinated the development and management of a number of key elements to our preparation for EU Transition, notably:

3.5.1 WCC Risk Assessment

- Risk identification and mitigation - strategic and operational;
- Alignment to the work of the Warwickshire Local Resilience Forum and regional partners; and
- Informing Business continuity plans for WCC Critical Services.

3.5.2 EU Transition Communication Plan

- Schedule of activity including regular Member and Officer updates from the EU Transition Lead Officer;
- Updated website and intranet pages offering a signposting service to local and national resources - www.warwickshire.gov.uk/Brexit;
- Coordination of communications; and
- Information and intelligence sharing.

3.5.3 Reporting alignment

- Coordinating responses to Freedom of Information requests; and
- Undertaking all necessary reporting to Ministry of Housing & Local Government (MHCLG) and disseminating feedback within WCC and with partners.

3.5.4 Brexit Funding plan

- Identifying and assessing additional resource requirements; and
- Allocating EU Transition related funding.

3.6 The Council is working closely with partners across Warwickshire, the West Midlands and nationally, to improve our assessment of the potential risks at the sub-regional and regional levels and to coordinate effort and mitigating actions where appropriate. As previously communicated, Partnerships include:

- District and Borough Councils;
- The Warwickshire Local Resilience Forum;
- The Local Enterprise Partnership;
- The West Midlands Combined Authority; and
- Local Government Association and County Council Network.

3.7 Across the council various levels of activity have been undertaken in order to ensure that services, as well as our staff, are prepared for the end of the transition period. This has included assessing our staff in relation to the EU settlement scheme and reminding staff about the scheme.

3.8 It should be noted that the Coronavirus pandemic, through its impact on Warwickshire and the need to allocate the Council's resources in response, has affected EU Transition work. For example, the regular meetings of officers working on EU transition were paused during the lockdown and restarted in September 2020.

3.9 Officers remain confident that both the risk register and developed approach remain relevant and effective in ensuring that Warwickshire can respond to the end of the EU transition period.

3.10 In November, MHCLG wrote to Local Authority Chief Executives to outline key areas relating to the end of the transition:

- Export Health Certificates and Border ports;
- Data Adequacy;
- EU Settlement Scheme;
- The new immigration regime;
- Children's Services; and the
- UK Shared Prosperity Fund.

3.11 These areas within the letter reflect areas already covered within the Risk Register.

4.0 Short-term Issues to be addressed

4.1 When the transition period ends, the immediate challenge will be to sustain the continuity of services which will be needed by local businesses and communities.

4.2 The work undertaken so far through the Risk Assessment, including preparations made during 2018-2019 for previous moments when the exit from the EU appeared to be imminent, means that the Council has a series of preparations already in place and others are being brought on stream in relation to:

- Regulatory Services: ensuring the movement of goods (including agricultural) is maintained and reflects the needs of Warwickshire businesses involved in import and export;
- EU Settlement Scheme ensuring that staff and residents from within the EU are aware of and, can engage with, the scheme ahead of its closure in June 2021;
- Ensuring a clear set of communications and information are available; and
- Maintaining a clear link to our Recovery process from the Pandemic to the end of the Transition Period.

4.3 The Risk Assessment covers all major areas of council operations as well as identifying areas of short, medium and longer-term pressure which the cross-council Trade & EU Matters group co-ordinating as required.

4.4 An example of this is Regulatory Services. Regulatory services have developed their own extensive risk assessment and have taken the decision to increase their advisory function in response to the needs of local

businesses for information and guidance around an area which has limited certainty due to the lack of a trade deal at present.

- 4.5 There remain areas which require further communication and sharing of information. Specifically, informing our residents from the EU about their access to services such as the NHS, as well as the importance of making use of the EU settlement Scheme. These form the basis of our communications and we will endeavour to ensure that the information is up to date and reflects developments and decisions made by the Government.
- 4.6 In terms of an assessment of the potential impact of the end of the transition period on Warwickshire as a place, as an economy and as a set of communities, this is complicated and uncertain.
- 4.7 Overall, any assessment must take account of the impact of the pandemic and will reflect to an extent an assessment of the economic impact of the pandemic and a suggestion of a further impact from the end of the transition period.
- 4.8 The Office for Budgetary Responsibility has created three scenarios to reflect the level of uncertainty about the impact of the Coronavirus. In their first scenario they assume that the vaccine leads to reduction in lockdowns and a return to growth, in the second scenario in which despite a vaccine some form of lockdown is required and in the third, they assume the vaccine is ineffective and lockdowns similar to Summer 2020 are maintained over the longer term.
- 4.9 These three scenarios have different impacts on the growth of the economy. The first sees growth return reasonably quickly by 2022. The other scenarios suggest the economy is permanently affected and growth remains slow, although growth does return.
- 4.10 Within these scenarios, the OBR have assumed that a Free Trade Agreement is made with the EU. If one is not, then they estimate that the effect is another 2% drop in GDP on top of the impact of the Coronavirus.
- 4.11 Therefore, there is still a level of uncertainty about the local impacts. For example, unemployment in Warwickshire has grown from 7,190 (Sept 2019) to 17,835 (Sept 2020). In addition, there were 30,100 individuals on 'furlough' in August. It is not clear at this stage how quickly those numbers will decrease as the economy grows, or whether the transition adds to local unemployment.
- 4.12 The transition will represent yet another period of readjustment for local businesses and firms and will be an additional pressure for local firms already adjusting to the impact of the Coronavirus pandemic to adjust to the impact of

transition. WCC's Recovery plan and approach will continue to provide support to local business to assist with this adjustment.

4.13 To a certain extent, the level of adjustment for local businesses will reflect how much of their business model relies upon imports, exports or supply chains which are impacted by the nature of the trade deal.

4.14 Appendix A provides a summary of the various official and other assessments which have been made in relation to the anticipated impact of the end of the transition period on growth. It also provides an overview of the main issues in relation to assessing the impact of the exit from the single market.

5.0 Medium- & Longer-term challenges and the County Council response

5.1 The end of the transition period represents a major shift for the UK. Across our economy, our places and our communities there will be a period of adjustment and change.

5.2 Initially this will mean businesses having to adjust to a new set of trading relationships but overtime they will also need to reflect the ongoing adjustments and changes in the global economy and its impact on trading relationships with the UK.

5.3 To give an example, the recent pandemic has had a profound effect on the global economy through its impact on trade and travel. The long-term effect of nations reappraising their trading relationships, such as the use of Global Value Chains, mean that current trading 'routes' could easily shift in response to both domestic and international factors of which the UK's exit from the single market is one.

5.4 After an initial period of short-term changes, as outlined in the previous section, there will be a longer term set of adjustments as Warwickshire responds to opportunities and challenges in response to both national legislative developments as well as any evidence of impact locally.

5.5 The main driver of this will be the start of a new period where UK and EU legislation could, and is likely to, diverge over time. Although the UK has largely adopted EU legislation into UK statute, beyond the initial transition period the UK will be able to adjust and adapt legislation.

5.6 It is possible that a trade agreement with the EU may limit some of the areas which could be affected, however in principle UK legislation is likely to change over time and divert from EU law.

- 5.7 An example of the direct effect of this for the county council will be within areas such as data and procurement. These are areas where current legislation and regulations are heavily orientated towards EU law. Adapting to these changes will remain an area of constant review.
- 5.8 For Warwickshire, the direct effects of a divergence in legislation will also be underlined by changes in economic conditions, trading conditions and adjustments in trading relationships. Whilst the single market within the EU has not remained static, the consistency of that market cannot be replicated through multiple trade deals, or WTO standards.
- 5.9 Accordingly, Warwickshire based firms may require ongoing support which reflects this situation. Over time, policy and strategy may need to reflect these needs in respect of economic development, climate change and place-based policies.
- 5.10 Beyond this direct support, the nature of trade deals and operating outside of the single market will present an ongoing strategic consideration for Warwickshire and its potential effects on our residents, local places and economy will need to be monitored within the operation of the Council's normal business.

6.0 Next Steps

- 6.1 In the short term, the main priority is ensuring that communications and information are up to date for residents and communities within Warwickshire. This information will be focused on areas such as the EU Settlement Scheme, and information for businesses who export or import goods.
- 6.2 Beyond the immediate end of the EU Transition Period, the main approach will be to ensure that the council's 'Business as Usual' has the appropriate insight around developments post-transition which may affect our strategic and operational approaches to recovery from Coronavirus.
- 6.3 Finally, post-transition the on-going monitoring of changes in regulation and legislation will be undertaken to ensure that future strategic and operational planning can adapt to reflect the potential divergence over time.

7.0 Financial Implications

- 7.1 WCC has previously received £262,500 of Government funding to support EU Transition preparations and the use of these funds is directed by our Brexit Lead Officer, based on the full Risk Assessment and input from officers on the Trade and EU Matters Group.
- 7.2 Funds have been used to deal with preparations to mitigate potential short-term disruptions to services, business support and support for vulnerable individuals and communities as well as addressing the medium-long term risks as outlined in the report.
- 7.3 Any wider, medium term financial implications for WCC will be picked up as part of the Council's organisational planning and Medium Term Financial Strategy.
- 7.4 However, as the ongoing Coronavirus pandemic has shown, the impact of major events on local authority income as well as demands for its services can be extensive.

8.0 Environmental Implications

- 8.1 There are limited direct implications from EU transition on the Environment. As stated earlier in the report, there is the potential for divergence between EU and British Law over time which may have implications for legislation, regulation and guidance related to the environment and climate change.

9.0 Background papers

- 9.1 None.

Supporting papers

Appendix: Summary of Assessments of Economic Impact from EU Transition

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