

The Potential Implications of a “No Deal” Brexit for Cardiff Council

Operational Briefing Note

October 2018

1. Background

After invoking Article 50, the UK started a two-year process which will see the UK leaving the European Union on 29 March 2019 or at the end of any agreed transition period. If the UK fails to negotiate the terms of its departure from the EU- a “no deal” scenario- the UK would cease to have any formal relationship with the EU with, potentially, no resolution on issues such as trading relationships and customs arrangements.

This report provides an overview of the potential impact of a “no deal” scenario on Cardiff Council services. It does not provide a commentary on wider national trends or consider the broader impact on the city. These issues were addressed in a Cardiff Public Services Board’s Report of March 2017 ‘**Brexit – Implications for Cardiff**’, which identified some of the opportunities and risks for Cardiff, and how the UK and Welsh Governments could support the city to prepare for and respond to the impact of leaving the EU. This PSB work will continue over the coming months. The Leader of the Council has met with the EU’s chief Brexit negotiator, Michel Barnier, in Brussels on 19 February 2018 and given evidence to the Public Administration and Constitutional Affairs Committee to outline the impact on Cardiff and other British Cities.

2. Impact of a ‘no deal’ Brexit on the UK economy and on Public Finances

Whilst this report does not seek to consider national economic trends, it draws on the work of the Officer of Budget Responsibility (OBR) and work commissioned by the UK Core Cities to provide a national and local economic context.

In November 2016, the OBR’s Economic and Fiscal Outlook¹ made a number of judgements about how the vote to leave the EU would affect the economy in the near-term. In March 2018 these judgements were compared against the latest outturn data, finding that most of their original judgements were broadly on track. Provided below is an overview of the OBR’s forecast and a summary of their analysis of the latest position. The OBR forecast suggested:

- **The UK would experience lower net inward migration**, partly due to weaker ‘pull factors’. The latest data show that net migration slowed from 336,000 in the year to June 2016 to 244,000 in the year to September 2017.
- **The fall in the pound would raise inflation, placing pressure on real incomes and real consumer spending**. The March 2018 report suggests that this judgement is broadly on track, with CPI inflation above the March 2016 forecast.
- **Some investment projects will be postponed or cancelled**. By the end of 2017, business investment was almost 6% lower than the OBR’s March 2016 forecast and the Bank of England has estimated that Brexit uncertainty has directly lowered business investment by 3 to 4%. That said, business investment has also held up better than expected in the November 2016 forecast.

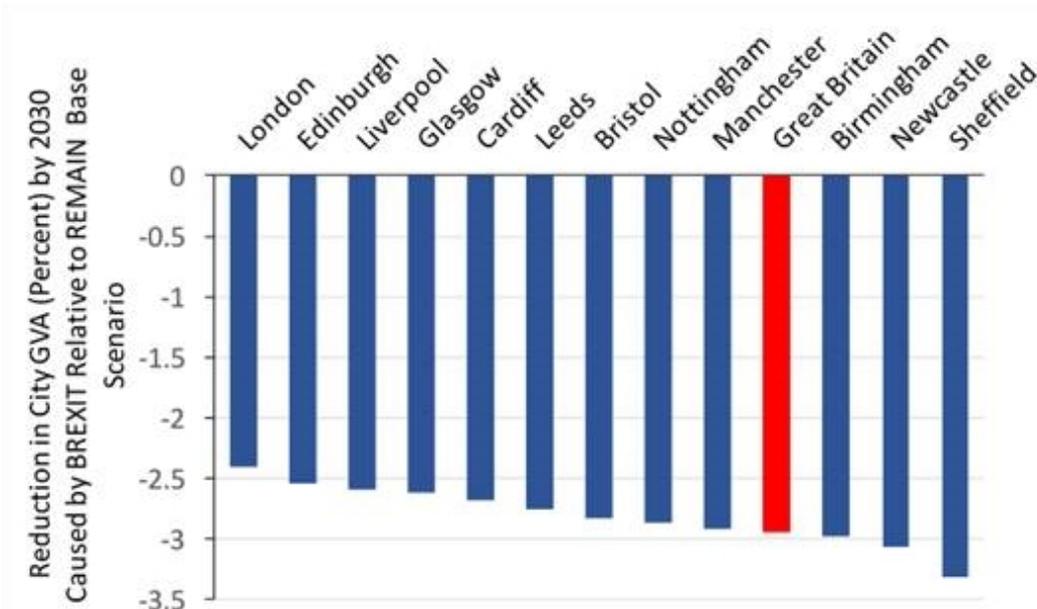
¹ http://obr.uk/cross_cutting/brexit-and-the-eu/

- **The fall in sterling would boost net trade.** Overall, the small positive contribution from net trade since the referendum has been insufficient to offset the slowdown in domestic demand, **so real GDP growth from second quarter of 2016 to the final quarter of 2017 has been 0.6 percentage points weaker than the final pre-referendum forecast of March 2016.**

Source: OBR Post Referendum Forecast Judgements

Work commissioned by the UK Core Cities Group on the impact of Brexit on city GVA suggests that every major UK city will be affected. The work – undertaken by Cambridge Econometrics using an empirical macro-trade model to ‘scale down’ national sectoral impacts to city level using output structures of the cities – suggests that Cardiff’s GVA will fall by over 2.5% relative to the previously projected growth forecast (based on a “Remain” 2030 baseline).

Chart 1: Estimates of Hard Brexit on City GVA on Assumption of World Trade Organisation Rules, Relative to Remain 2030 Baseline



Source: Based on National Sectoral estimates of impact derived from Cambridge Econometrics Macro Trade Model

If this forecast proves broadly accurate then it is reasonable to assume that Brexit – whatever form it takes – **could result in a reduction in public finances in the short to medium term and a continuation of public service austerity.**

As Cardiff Council’s Budget Strategy Report 2019/20 and Medium Term Plan states: “A key uncertainty in the economic analysis is how Britain’s exit from the European Union (BREXIT) may ultimately affect forecasts. Throughout their analysis, the OBR note that because negotiations around the terms of exit are still ongoing, there is no firm basis upon which to reflect the end-point of BREXIT within their forecasts. It is also of note that... compared to two years ago, projections of growth are lower and the forecast national deficit is higher.”

3. Citizens and Residency

The Home Office published the **EU Settlement Scheme Statement of Intent in June 2018**, having reached an agreement with the EU which guarantees the rights of EU citizens living in the UK and those of UK nationals living in the EU. Even in the event of a No Deal Brexit, the UK Government has stated that there will not be a scenario where EU citizens will be asked to leave the UK. EU citizens living in the UK, along with their family members, will be able to stay with the same access to work, study, benefits and public services that they currently receive. Existing close family members living overseas will be able to join them in the future.

The EU Settlement Scheme states that:

- To **obtain settled status EU citizens will generally need to have lived continuously in the UK for five years.**
- Those with **less than five years' continuous residence will be granted pre-settled status** and will be able to apply for settled status once they reach the five-year point.
- EU citizens and their family members with settled status or pre-settled status will have the **same access as they currently do to healthcare, pensions and other benefits in the UK.**

The new application system will draw on existing government data, to minimise the burden on applicants to provide evidence of their residence. This process will take applicants through three stages:

- Establish proof of identity,
- Check for serious criminal activity, and
- Provide evidence of UK residence.

An application fee of £65 for adults and £32.50 for children will apply, with the fee for children in local authority care to be refunded by the Home Office. A soft launch has been scheduled for late 2018 via a dedicated website and app, which are expected to go live in March 2019. A dedicated advertising campaign to promote and explain the scheme is also set to be launched.

For those who are refused settled or pre-settled status and seek to contest the decision, there will be a statutory right of appeal. The Home Office has also indicated that an 'exceptions' route will be available for a limited number of cases, such as trafficking victims who would be unable to provide the required evidence for settlement.

The Home Office anticipates that 80-90% of applications will be 'simple' cases, meaning that they are not anticipated to need any additional support or advice beyond what is available on the website or through the contact centre, which is set to be launched in autumn 2018. The Home Office are looking to extend the Assisted Digital service, meaning, if someone

needs extra support, they can apply and the Home Office will cover the cost of an appointment at a local library or through a telephone service. In some exceptional cases, one-to-one support will be offered.

EU citizens and their family members do not need to do anything immediately: there will be no change to their current rights until the end of the implementation period on 31 December 2020, and the deadline for applications to the scheme for those resident in the UK will be 30 June 2021.

It is estimated that there are currently **c.18,000 EU nationals resident in Cardiff.**² Drawing on Home Office assumptions (above), it can be estimated that circa 3-4,000 cases will not be considered 'simple cases,' and will therefore require more intensive support. More broadly, it is anticipated that many EU citizens will seek advice from Council Hubs and libraries. It is also likely that some of the most vulnerable groups will require dedicated outreach work to support the settlement process, particularly those with no internet access or poor language skills.

Welsh Government have successfully applied for a £1.3 million fund, anticipating an increase in demand for advice services for EU nationals:

- **£600,000 will be available to advice services.**
- **£600,000 will be available to fund specialist legal advice focusing on labour market exploitation and low-paid, insecure work for EU nationals.** This will be linked to the work of the Gangmasters and Labour Abuse Authority and the Counter-Trafficking agenda.
- **An element of the fund will provide training for local authorities on duties towards homeless residents with complex immigration status** under the Social Services and Well-being Act and other relevant legislation.

4. Community Cohesion

There is growing concern among local authorities, public services providers and third sector organisations about the impact of Brexit on local communities. A survey undertaken by the Local Government Chronicle (LGC) of 251 senior officers found that half of the respondents said that community cohesion in their area had worsened since the EU referendum was held. Within Cardiff, figures on hate crime have remained relatively stable though local organisations such as Race Equality First have suggested that workplace based complaints concerning nationality and race have increased. A particular concern is the rise in far right activity that has been visible recently through graffiti and posters.

The wider Welsh Extremism and Counter-Terrorism Unit (WECTU), Prevent and Community Safety (Council and South Wales Police) teams are currently undertaking work on a shared

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<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/datasets/populationoftheunitedkingdombycountryofbirthandnationality>

communication strategy. This will also form part of broader initiatives such as Inclusive City and Rumourless Cities projects established to address misconceptions and stereotypes concerning migrant and minority groups, improve labour market access for newcomers, promote social contact between groups and improve the co-ordination of integration-related services such as ESOL³ in the city.

Work is also ongoing to ensure key outputs from these projects are in place by May 2019, supported by a strong messaging campaign focused on inclusion, cohesion and integration. Welsh Government have been given initial approval from Ministers for a 2 year cohesion fund. This will provide an additional £760,000 a year across Wales for cohesion-related work (£1.5 million total value). It is anticipated that the funding will be used to build small teams around each existing regional co-ordinator, providing approximately 3-4 additional posts per region.

5. Labour Market

Overall, 3.3% (6,676) of the people working in Cardiff are from EU (non-UK) countries. Wholesale and retail trade (15.2%), human health and social work activities (13.1%) and education (11.1%) are the Cardiff-based sectors which are most reliant on EU workers.

Table 1: Estimated Number of EU Workers (based on Country of Birth) Aged 16-74 Working in Cardiff by Industry, 2011

Industry	Total Employment Numbers	% of Total Employment	Estimated No. EU Workers
Agriculture, forestry and fishing	131	0.1	4
Mining and quarrying	71	0.0	2
Manufacturing	9,527	4.8	318
Electricity, gas, steam and air conditioning supply	3,161	1.6	106
Water supply, sewerage, waste management and remediation activities	1,499	0.8	50
Construction	12,076	6.0	404
Wholesale and retail trade; repair of motor vehicles and motor cycles	30,359	15.2	1,015
Transport and storage	7,162	3.6	239
Accommodation and food service activities	12,293	6.2	411
Information and communication	7,510	3.8	251
Financial and insurance activities	13,007	6.5	435
Real estate activities	2,842	1.4	95
Professional, scientific and technical activities	13,993	7.0	468
Administrative and support service activities	8,561	4.3	286
Public administration and defence; compulsory social security	18,407	9.2	615

³ English for Speakers of Other Languages

Education	22,087	11.1	738
Human health and social work activities	26,182	13.1	875
Arts, entertainment and recreation; other service activities	10,742	5.4	359
Activities of households as employers; undifferentiated goods - and services - producing activities of households for own use	63	0.0	2
Activities of extraterritorial organisations and bodies	29	0.0	1
All categories: Industry	199,702	100.0	6,676

Source: Census - Workplace Population

Two sectors have been identified in Cardiff where potential restrictions on the free movement of labour could exacerbate known recruitment issues; health & social care and construction.

Health & Social Care Sector

The challenge of delivering Social Care is already widely recognised at the national level, with a broad agreement that it is underfunded relative to the scale of demand with long-standing recruitment and retention challenges.

It is also considered one of the sectors most vulnerable to changes in migration patterns. It is estimated that **non-UK EU nationals make up 7% of the social care workforce** at the UK level so any reforms as a consequence of leaving the EU will have significant impact. Importantly there are variations according to place for the social care sector ranging from 13% of the workforce in London to 2% of the workforce in the North East, emphasising the potentially different impact of Brexit in different places. In the absence of detailed organisational data the Council can assume, based on city wide figures (Table 1), that around 13% of the Adult Social Care workforce's participation in the labour market may be influenced by Brexit.

If Brexit was to create a less favourable environment for EU workers, there is potential for shortfalls in the Adult Social Care workforce. A tightening labour market could result in wages being competed upwards, meaning further cost pressures in the sector.

Construction Sector

Labour shortages are increasingly apparent in the construction sector with the impact on sub-contractors and their respective supply chains already evident. The current **skills shortage in construction can be attributed to major national projects such as HS2, Hinckley point and Transport for Wales (TfW) projects creating acute demand in the sector**. Demand is increasing across the entire sector, from manual workers to professional services. Any restriction on the free movement of labour across the EU can be expected to further impact trade skills availability.

The anticipated capital spend following the announcements on Band B funding, the award of the Metro contract and other major capital programmes are already likely to create

inflationary pressure within Wales. **Greater levels of joint planning and co-ordination of the pipeline of Capital projects at the regional and national level** could help to mitigate the impact.

Council Staff and Implications for Service Areas

There is no data immediately available on the number of non-UK EU workers within the Council, or working in areas directly commissioned by the Council. Extrapolating Cardiff-wide data into Council directorates would, however, suggest that Social Care and aspects of Facilities Management would have a relatively higher proportion of non-UK EU workers. It is not anticipated that Brexit will have a major impact on staff directly employed by the Council, based on the assessment of operational managers.

The Council does verify the country of origin of new appointments to ensure they have the right to work in the UK; however this is a relatively recent development meaning that there is no historic data available.

Employment Law

Employment law in the UK is derived from a number of sources including Acts of Parliament; however EU legislation currently provides the leading source of UK employee protection legislation.

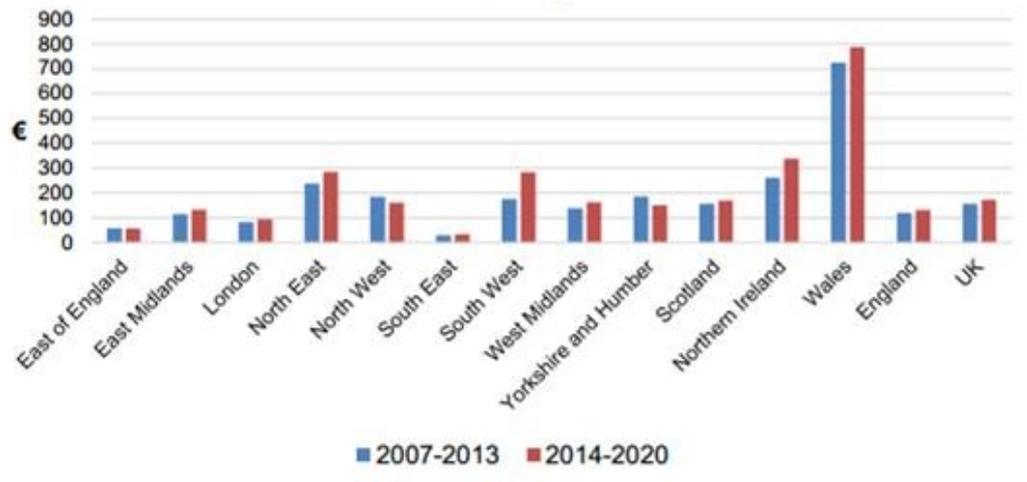
The Government's White Paper 'The Future Relationship between the United Kingdom and the European Union' **proposes that there be no regression in employment laws** (paragraph 123). No EU-based laws will be repealed, meaning that TUPE, the Working Time Regulations, collective consultation requirements and much of the discrimination legislation will not be amended when the UK leaves the EU. Though the White Paper suggests no immediate changes, there are areas of employment law which will be returning to the jurisdiction of UK parliament, it should be noted that there have been representations made for deregulation in these areas.

6. Structural Funds and UK Shared Prosperity Fund

In recent years the EU has been the biggest single financial contributor to regional and local economic development across the UK. In the present EU spending round (2014-20), the UK receives £9bn from the EU Structural Funds, or around £1.3bn a year.

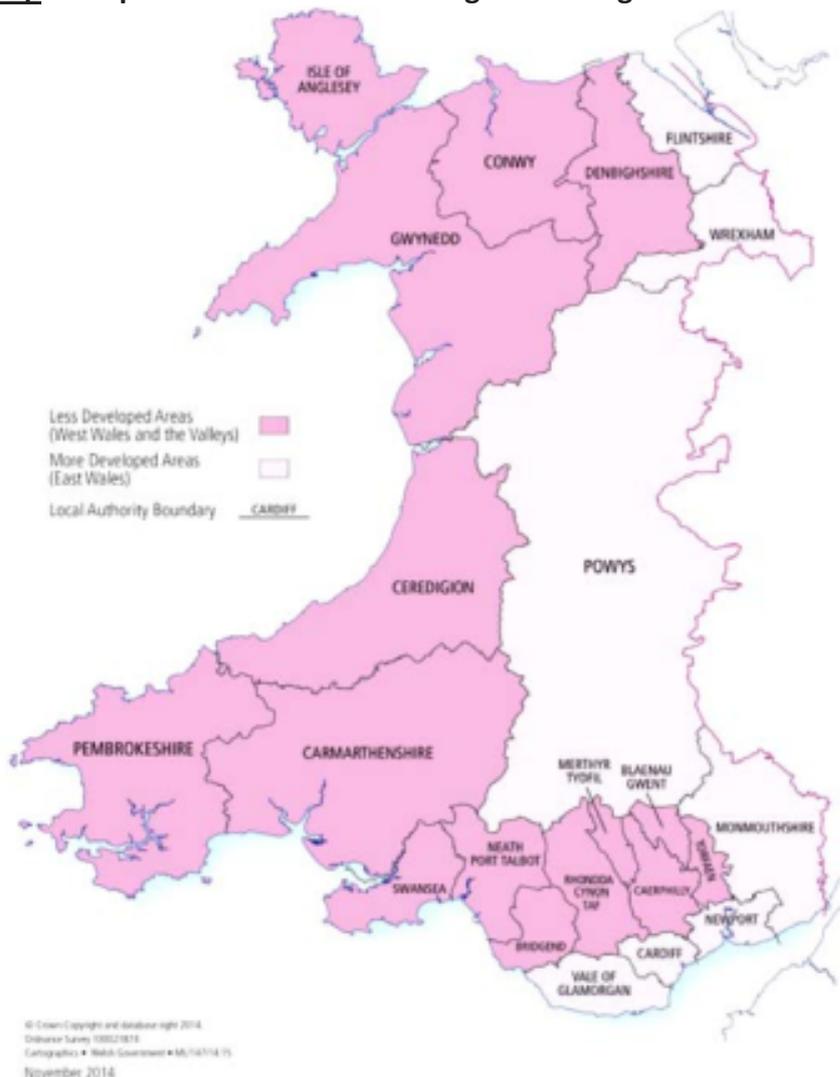
Between 2007 and 2013 Wales benefitted from £1.8bn through the structural funds programme. In the 2014-2020 period, Wales is expected to receive €2.43bn in structural funds. Wales receives substantially more structural funding per head than Scotland, Northern Ireland or England (see Chart 1). For example, had this funding been allocated using the Barnett formula, Wales' 2014-2020 structural fund allocation would reduce from €2.2 billion to €562 million.

Chart 2: Per Capita Structural Funds Allocations by Region for UK Regions



For its structural funding entitlement, Wales is divided into two regions – West Wales and the Valleys and East Wales. **More than four fifths of structural funds in Wales is for West Wales and the Valleys.** Cardiff is in the East Wales region.

Map: European Structural Funds Programme Regions in Wales for 2014-2020



EU funding 2014-2020

In principle the UK will continue to benefit from all EU programmes until the end of the current budget plan (2014-2020). This is backed up by the European Commission and UK Government's 'Joint Report' published in December 2017 which states that ***“Following withdrawal from the Union, the UK will continue to participate in the Union programmes financed by the MFF [Multiannual Financial Framework] 2014-2020 until their closure...”***

The Council currently has two live projects supported by approximately £1.2 million in funding through the European Social Fund (ESF):

- Inspire2Achieve – this relates to tackling NEETs and the Council has been recruiting staff to this project to support delivery. The European Social Fund money earmarked for the Inspire2Achieve project would appear secure; however, everything is currently subject to negotiations with the European Commission. The Council has £600,000 of match funds at stake in this project.
- Communities4Work – this a Welsh Government-led project involving Communities First clusters.

Cardiff Council's exposure to ESF programmes for 2014-2020 is therefore relatively limited in comparison to other local authorities in the West Wales and the Valleys region.

There is, however, significant EU funding in pipeline projects that will impact on Cardiff, including approved funding for compound semi-conductor investment and business support. EU funding has also been allocated for business support and other investment to improve business activity and productivity across East Wales. On transport, Phase 2 of the Metro includes some £103 million EU Funding, which would need to be spent within the next five years.

It should be noted that as the UK Government Guarantee is not legally binding, there is growing concern regarding what exactly it would cover and whether the UK Treasury will meet all the financial commitments previously made to Wales. The Welsh European Funding Office (WEFO) are seeking clarifications from the Treasury regarding the nature of the guarantee and are raising concerns that it does not cover funding programmes, only individual projects. This would affect WEFO's ability to reallocate funds within programmes, and they are also questioning the Treasury's view that the guarantee will not cover Technical Assistance or funding for Intermediate Bodies.

The Future of Regional Funding

Even if a deal is reached, EU structural funds will come to an end after withdrawal. The replacement for the EU funds is entirely a domestic UK matter.

As a replacement to Structural Funds, the UK Government has proposed the creation of an alternative funding system, the **“United Kingdom Shared Prosperity Fund”**. Development of the UK Shared Prosperity Fund (UKSPF) is being led by the Department for Communities and Local Government (DCLG).

A written statement by Parliament in July 2018 stated that the UKSPF would:

- **Provide a “simplified, integrated fund... align[ed] with the challenges faced by places across the country and supported by strong evidence about what works at the local level.”**
- **Operate across the UK.** *“The Government will of course respect the devolution settlements in Scotland, Wales and Northern Ireland and will engage the devolved administrations to ensure the fund works for places across the UK.”*
- **Establish a national framework in England that works for local priorities.** *“Local areas in England are being asked to prepare Local Industrial Strategies to prioritise long-term opportunities and challenges to increasing local productivity. This prioritisation will help local areas decide on their approach to maximising the long-term impact of the UKSPF once details of its operation and priorities are announced following the Spending Review.”*

A public consultation setting out the details of the UKSPF is expected this Autumn.

There is currently no detailed information publicly available, leaving substantial unresolved issues, including:

- How much funding will be available?
- How will it be divided up across the country?
- What activities will be eligible for support?
- Who will take the decisions about how the money is spent?

During the referendum campaign, commitments were made that Wales would continue to receive the equivalent amount of regional development funding post-Brexit. There has been no subsequent guarantee that this will be the case, presenting the risk of a significant loss of regional funding to Wales post-Brexit.

There is also no clarity as yet whether the funding will be devolved to Wales to administer, or whether the fund will be administered by the UK Government. Furthermore, it is not yet clear whether the fund will be one into which competitive bids must be placed.

It is anticipated that the majority of funding will be allocated in England at a city-regional level to Combined Authorities and Local Enterprise Partnerships (LEPs). City-regions in England are currently preparing **Local Industrial Strategies** which will be used to inform the allocation of this funding at a local level. It is possible that there will be a similar expectation for the devolved administrations even in view of the devolution settlements. There will therefore be a need to establish local and regional priorities for investment, covering both capital and revenue projects.

The UK Industrial Strategy also identifies a number of national ‘growth corridors’ at which infrastructure funding will be considered and through which some international trade and investment activity will take place, including the Northern Powerhouse, the Midlands Engine, the ‘Western Powerhouse’ of the West of England and the Cardiff Capital Region.

The reform of regional funding and the creation of the UKSPF therefore present significant risks to Wales in terms of the overall funding for regional development. However, it also offers some important opportunities for reform that could support Cardiff and the Capital Region’s economic growth agenda.

In particular, removing the artificial funding boundaries associated with European Structural Funds represents an opportunity to align available funding in support of the Cardiff Capital Region’s priorities.

Cardiff Council is currently working with local partners and the Centre for Cities to prepare a Local Industrial Strategy to identify local priorities for investment, alongside working with the Capital Region to identify regionally significant infrastructure projects. Cardiff is working too with Bristol and Newport through the Great Western Cities initiative to develop joint priorities for infrastructure investment and to agree a joint approach to international investment and trade support in complementary economic sectors (e.g. TV and film; aerospace; micro-electronics).

7. International Inward Investment and Trade

Cardiff is positioned in the top five British cities most reliant on EU markets, with 61% of Cardiff exports going to EU countries.

Top 10 UK cities most reliant on EU markets (2014)*					
City	Share of exports to EU	Share of exports to US	Share of exports to China	Value of total exports per job (£)	
1 Exeter	70%	7%	2%	5,940	
2 Plymouth	68%	8%	2%	17,320	
3 Bristol	66%	8%	2%	11,390	
4 Mansfield	63%	8%	4%	7,910	
5 Cardiff	61%	17%	1%	9,420	
6 Aberdeen	61%	8%	4%	18,100	
7 Swansea	60%	15%	2%	11,960	
8 Nottingham	59%	10%	5%	5,770	
9 Sunderland	59%	7%	1%	40,650	
10 Warrington	59%	12%	3%	9,530	
Britain national average	48%	15%	5%	15,690	

*Out of 62 cities across the UK – data for Belfast is unavailable

In 2016, Welsh goods exports were £14.6 billion and, in 2015, service exports were £1.7 billion. For Wales, 61% of goods exports went to the EU and 35% of services exports went to the EU. A Welsh Government report, “Trade Policy: the issues for Wales”, notes that:

“The economy of Wales is deeply embedded within that of the wider UK. Trade gravity helps explain why Wales trades more with Europe than the rest of the world. It is very unlikely that, in the short term, free trade deals with other countries — even the USA — could compensate for the loss of full and unfettered access to the Single Market. Any such suggestion would need to be supported by convincing evidence. Evidence we have yet to see.”

It is therefore important that businesses in Cardiff are supported to develop greater international trade and investment opportunities, particularly from emerging markets. In preparation for competitively positioning Cardiff in the post-Brexit trade landscape, representatives of the Council have met with the UK Government Trade Commission to discuss new opportunities and the support that will be available to cities and regions to develop new trade and investment opportunities. As part of this approach, a Council delegation visited China, Qatar and Romania in September 2018 in a bid to secure trade and investment deals for the city and to present a significant range of major investment opportunities in Cardiff to leading sovereign wealth funds and potential investors.

In global terms, there is a recognition that Cardiff and its region lacks the requisite scale to compete for larger inward investment propositions. As noted above, in view of this, there is an opportunity for the Council to work with the Great Western Cities of Newport and Bristol, and others, to develop an international investment and promotion strategy for the Western Corridor.

On 1 May 2018, a roundtable event was held in Cardiff for businesses to consider the impact of Brexit. The event was hosted by the Leader of Cardiff Council and chaired by Professor Kevin Morgan, Dean of Engagement at Cardiff University. Business representatives were drawn from a range of sectors and the key conclusion was the need for clarity from the UK Government on the nature of the deal being negotiated so that businesses could prepare effectively.

8. Tariffs

The nature of the UK’s future trading relationship with the EU is currently unknown. The Prime Minister has indicated, following the agreement of her Cabinet, the intention to negotiate a “free trade area for goods” with the EU, allowing for frictionless trade and avoiding the need for a hard border between the Republic of Ireland and Northern Ireland.

The Prime Minister’s proposed arrangement is subject to not only the EU’s agreement, but the agreement of the House of Parliament. If the UK does not reach an agreement with the EU on a future trading relationship after Brexit, then the default position is that World Trade Organisation rules would apply on trade between the UK and the EU, and between the UK and other countries outside the EU (including countries with which the EU has trade deals).

World Trade Organisation Rules

The World Trade Organisation (WTO) is the global body governing international trade. Countries that do not have a free trade agreement with each other trade under “WTO rules”. In the event of a No Deal Brexit, that would mean full declarations on all imports and exports into the UK from the EU and vice versa, with all products needing to be classified, countries

of origin determined and duties secured. Without a free trade agreement with the EU, the full rate of duty for each particular product would also apply. Both the UK government and EU representatives have made statements implying that this outcome is a significant possibility. In particular, the UK would have to agree on “schedules” for tariffs on goods. The government has stated that in the short term it would simply replicate the schedules of the EU to smooth the transition. The imposition of tariffs on trade with the EU would increase costs for both UK importers (and hence consumers) and exporters.

Exposure to Tariffs

Tariffs vary greatly in nature, equivalent to over 100% on some products and as little as 0% on others. In terms of tariff hikes, food and drink are subject to the highest tariffs, followed by clothes and footwear, chemicals, some industrial goods, automotive, fast-moving consumer goods (FMCG), toys, aerospace, oil and gas goods. Pharmaceutical products and IT equipment tend to attract zero duty. It is also a varied picture for regulatory requirements – increased administration, licensing and delays at the ports – where the most vulnerable items would probably be pharmaceutical products, food and drink, and chemicals. Data is provided in **Appendix 1** on EU and non-EU imports and exports for East Wales, the geographical area for which data is available.

Impact on Cardiff Council Capital Projects

An increase in the cost of imported goods due to a change to the tariff regime has the potential to impose inflationary pressure on Council capital projects. Of course, this could be offset by the removal of tariffs on other goods from outside the EU. Equally, any restrictions on the free movement of labour could potentially create inflationary wage pressures because of a tightening labour market. Whilst Council contracts with agreed “at price” clauses will provide some certainty on cost over the contract period, other contracts will have variance clauses. This will expose them to **potential inflationary pressure, particularly if materials becomes more expensive due to a less favourable tariff regime and wages are competed up due to restrictions on the movement of labour.**

Equally, the viability of certain projects may be impacted because of a deteriorating economic outlook. For instance, alongside rising costs, a fall in land value, diminishing investor confidence and a higher cost of borrowing could affect the business case for the delivery of capital schemes. The Cardiff Living Scheme for example, will be dependent on generating a certain level of return from land sale to make schemes commercially viable. Provided below is a breakdown of the Council’s overall Capital Programme. **If any of the projects are reliant on inward investment, a short term reduction in investor confidence or market conditions may impact on viability and deliverability.**

- **21st Century Schools**: £284m for school build programme from April 2018 to 2024
- **New Build Housing**: £176m house building programme
- **Highways Infrastructure**: c£29m over next five years (note: Welsh Government grants are received in year, with little long-term planning)

- **Active Travel Infrastructure:** £10m to support cycle super-highways and other travel infrastructure
- **Economic Development Initiatives cited in Capital Ambition:** New County Hall, Indoor Arena, City Deal
- **Capital Receipts Target £40m net of fees**
 - If uncertainty has an impact on site values, then this may require a re-appraisal of our approved commitments.

Impact on Material and Labour

There is a potential **impact on raw material and other input costs for capital schemes, as well as the known labour market pressures within some sectors.**

A high volume of Council spend is conducted through the Council's two collaborative frameworks, Schools and Public Buildings (SEWSCAP) and Civil Construction (SEWH) both of which cover the Cardiff Capital region.

- **Schools and Public Buildings (SEWSCAP)** Framework currently being advertised and will be awarded in April 2019. This four-year framework – accounting for approximately £1bn of spend – will offer some certainties in relation to cost.
- **Civil Construction (SEWH)** Framework currently being advertised and will be awarded in November 2018. This four-year framework – accounting for approximately £85m of spend – will offer some certainties in relation to cost.

It should be noted that:

- In relation to **construction contracts, overheads and profits will be fixed.** There will **be variability in relation to costs of raw materials, however secondary competitions will drive cost efficiency.**
- Civil Construction contracts are subject to a schedule of rates agreed annually.
- Contractors don't tend to split out the cost between materials and labour as everything is measured on an Activity Basis, but **broadly speaking typical materials/labour split is 65% material / 35% labour.**

The provisions afforded through four-year procurement frameworks therefore provides a certain degree of certainty in the procuring of goods and services until around 2022

However, given the scale of the construction agenda, across the UK and within Wales, there are already indications that the public purse will be subject to inflationary and capacity pressure, independent of the impact of Brexit. There is a case that, within Wales, **greater**

regional and national co-ordination of mini-competitions is needed to ensure the potential for unfavourable tendering behaviour is avoided and that local authorities do not compete with each other to drive up price.

Procurement Regulations

Public Contract Regulations (2015) are embedded in UK law. If the UK was to leave the European Union, it is anticipated that the principles of openness, transparency would still feature when advertising opportunities. As a consequence, the current controls and procedures in the way public contracts are let (i.e. open, restricted, competitive dialogue) would probably be maintained. In respect of the Public Contract Directives, there has been no indication that there will be any immediate changes to the Regulations which are UK legislation.

9. Regulatory Environment

The City of London, which provides port health services at a number of ports, estimates that **were imports from the EU subject to the same checks as imports from elsewhere, there could an increase of up to 25% in the checks that they are required to undertake.** This would require substantial new resources to manage.

As the checking of imports is risk-based, UK duties at ports – and beyond – are reliant upon UK access to European-wide databases which provide much of the intelligence for assessing risks. Without such access, due to no longer being an EU member, more checking is inevitable – and protections are weakened.

Without substantial extra resources, more checks are likely to lead to delays at ports, particularly where there is limited space to process them. A national decision could be taken to keep ports of entry moving quickly to avoid queues, on the assumption that regulatory services inland could assess the risk of goods when they are sold locally. **However, local regulatory capacity has reduced by around 50% following cuts to local government funding, and without additional resources will be unable to absorb any additional work arising as a result of Brexit.**

Local trading standards and environmental health teams operating inland from ports would also be similarly impacted by the loss of intelligence gathered from UK access to key EU databases, reducing their ability to target their work and enforcement activity appropriately. Overall, this would weaken the ability of local regulatory services to protect public health and the interests of the UK's food sector.

Beyond the ports of entry, there are existing constraints on the ability of inland regulatory services and the potential for regulatory requirements to increase if the UK no longer has access to European-wide capability and intelligence about risks to food and other supply chains. But it should also recognise the opportunity for local regulatory services to play a greater role in providing the export certification required to export certain types of goods (products of animal origin) and the benefits this could deliver for the economy, by reducing costs and bureaucracy for local businesses.

10. Business Continuity Planning & Supporting Vulnerable Citizens

On 23 August 2018, the UK Government released a series of technical notices providing advice and guidance to organisations for responding to a no-deal Brexit. Further notices are due to be published. The Council's Business Continuity Plan Owners will review the published notices and oversee the process of ensuring Council Directorates and Services areas revisit their Business Continuity Planning arrangements in view of any new intelligence. As Brexit is a national issue, any further national guidance will be responded to, and a Corporate Brexit Response could be convened to address the specific guidance. It should be noted that the Council has robust risk management and business continuity arrangements in place, meaning that any issues can be identified and escalated as necessary. This may include a corporate exercise including all silver command and gold command officers, as was previously undertaken in preparation for major events such as UEFA Champions League Final, if considered necessary. This work will also identify any specific preparatory arrangements that may need to be taken with partner organisations.

The Council understands that if, by November 2018, a "no deal" scenario looks likely, then the UK Government will release a series of 12 detailed risk assessments to all public bodies so they can start to plan in detail for the consequences of a no deal Brexit, particularly in terms of civil contingencies for food and fuel shortages for example. This would be the point where detailed business continuity planning arrangements should be undertaken by local authorities, which would potentially involve the Council's Gold and Silver emergency management command structures.

The Council is therefore cognisant of a number of scenarios that, under No Deal Brexit, would represent severe disruptions to the city and the ability of the Council to deliver services. Whilst it is difficult to quantify the impact of a "No Deal" Brexit on Cardiff immediately after 29 March, 2019, a number of commentators have outlined the potential impact on the country which would require emergency management by the Council. These include:

- **Food Shortages:** Dominic Raab, Secretary of State for Exiting the European Union has stated that the UK Government "... will look at this issue in the round and make sure that there's adequate food supplies. It would be wrong to describe it as the government doing the stockpiling." Though there is little detail available, the statement suggests UK Government are undertaking preparatory work, and it is likely that Local Authorities might be called upon to coordinate a local response if, or when, any National Risk Assessments of a "No Deal" Brexit are released.

Further to this, there are potential implications for the price of food. A House of Lords European Union Committee Report, "Brexit: food prices and availability" states: "If no agreement is reached, and food imports from the EU are subject to the same customs and border checks as non-EU imports, the UK does not have the staff, IT systems or physical infrastructure to meet that increased demand. Any resulting delays could choke the UK's ports and threaten the availability of some food products for UK consumers."

- **Medicine Shortages:** Matt Hancock, Secretary of State for Health and Social Care has stated that work is being undertaken "... right across government to ensure that the

health sector and the industry are prepared and that people's health will be safeguarded in the event of a no-deal Brexit. This includes the chain of medical supplies, vaccines, medical devices, clinical consumables, blood products. And I have asked the department to work up options for stockpiling by industry. We are working with industry for the potential need for stockpiling in the event of a no-deal Brexit." No detailed analysis has been released but again, the need for local authorities to coordinate a local/regional response can be anticipated. The Secretary of State for Health and Social Care also stated "I hope that even under a no-deal scenario that there will still be smooth movement in through ports."

The Welsh NHS and care organisations also rely on products, innovations, staff and industries whose position in Wales could be undermined as we leave the EU. The "Trade Policy: the issues for Wales" produced by the Welsh Government states that they are "particularly concerned where this could affect the availability of goods, medicines and medical devices."

"Leaving without a deal, with the possibility of tariff and non-tariff barriers, would cause problems for the Welsh NHS. There would be a real risk of disruption to supplies of medical products and a potential rise in drug prices which would compound existing financial challenges. It could seriously undermine the ability of health and social care organisations in Wales to keep delivering the best care to patients."

- **Disruption to fuel supply.** The UK Government Guidance Note on Oil and Gas makes clear that the UK has two international obligations to hold emergency oil stocks that can be released in response to disruptions to the oil market, as required by the International Energy Agency (IEA) and by the EU Oil Stocking Directive 2009/119/EC ('the Directive'). To meet its obligations, the UK requires suppliers to the UK market to hold oil stocks. Under the Directive, the stocks can be held anywhere within the EU on the UK's behalf (and the UK can also hold oil stocks on behalf of other EU countries). The system is underpinned by reporting requirements to the Department for Business, Energy and Industrial Strategy. In a 'no deal' scenario, the UK will continue to be a member country of the International Energy Agency and will remain bound by International Energy Agency oil stocking obligations for 90 days of net imports of oil (as defined under the International Energy Agency's International Energy Programme). The requirements of the Directive will no longer apply. The volume of oil stocks held by those countries is considerable, but it is the collective action capability of all countries along with functioning markets that is most effective in ensuring our oil security and, while UK oil stocks held towards our obligations will reduce by moving from the EU's higher (consumption-based) level, the UK will still be able to take part in collective actions if necessary. Such collective actions are very rare and have only taken place three times since the 1970s.

The UK will continue to meet its International Energy Agency obligations in a 'no deal' scenario. Therefore, the government will reduce overall obligations on companies as soon as practicable, while maintaining a level of stocks still widely considered to be appropriate to protect against oil disruption. The UK Government Guidance Note on Oil and Gas therefore suggests that the UK has existing provisions to maintain emergency oil stocks that can be released in response to disruptions to the oil market. That said,

the fuel protest of 2007 demonstrates that any disruption to supply can be compounded by consumer behaviour.

- **Disruption at Ports.** The Local government Association set out the impact on local authority services at ports of entry under a 'no deal' scenario. A number of sources have identified the potential for delays at ports due to insufficient regulatory capacity, no access to EU wide databases and no agreement on trade and customs relationships.
- **Civil Unrest.** A number of Local Authorities have cited the potential for social unrest following any withdrawal from the EU, as neither Leave nor Remain voters feel their concerns are being met.

It is difficult for the Council to make any determination on the likelihood of these scenarios occurring in the absence of any published national risk assessment work. It is prudent, however, for the Council to be aware of all the possible consequences so that Business Continuity Plans can be tested by Plan Leads and that the Council's embedded Emergency Management Infrastructure is ready to respond. The Council's emergency response infrastructure was tested during the snow event in March 2018, proving resilient and effective. A number of key areas demonstrated the ability to continue essential services and support vulnerable people during periods of severe disruption.

- **Day Services:** Management of the council's fleet was coordinated to enable the continued delivery of hot meals
- **Tele Care:** The service handled over 8000 calls and managed almost 400 emergency repairs for the most vulnerable tenants.
- **Home Carers:** Over 550 home care visits were made to 141 people during the 4 days when services were significantly disrupted due to weather conditions, the majority of done on foot
- **Outreach teams:** Maintained a presence in the city despite extreme weather conditions to support rough sleepers.
- **Internal Supported Living:** The serviced ensured that the 25 adults with learning disabilities in Council care, in 11 schemes across the city, received support and supervision around the clock.
- **Communications and Media:** The Council's communication infrastructure effectively managed key messages, fielding over 2,500 messages on social media and sent out posts which generated more than 25,000 click throughs to online updates, advice and information.
- **ICT Infrastructure:** The Council's ICT infrastructure accommodated unprecedented levels of homeworking, which would not have been possible without investment in mobile technology and staff training.

- **Hub Network:** The city's network of hubs and libraries proved resilient and an invaluable source of information on a number of key issues.

Services Areas delivering support to vulnerable people have already been requested to consider the impact of any disruption to supply chains within their normal business continuity planning and procedures. The Council's most critical and time sensitive activities, which could be impacted by staff loss or supply chain issues, will be considered through the continuity plan review with a view to providing an assurance statement about their readiness for a Brexit "no deal" scenario.

This could arise from a shortage of food, medicine and other materials arising from disruption to trade and border issues. This is particularly relevant in relation to services for older people such as domiciliary care. It should be noted that responding to any supply chain failure would be a national issue and that, under such circumstances, UK Government would be expected to issue a national emergency management response to local authorities and other affected partners. The reality is that Wales cannot prepare for Brexit in isolation and Cardiff's ability to plan is constrained by what the UK Government shares. Unless and until detailed plans for a range of issues, such as possible new border checks at ports are released, there are limits to local preparation and operational readiness. On the specific issue of Health and Social Care, Cardiff continues to work closely with the Cardiff and Vale Health Board to consider issues such as the care for vulnerable people, drug supply and the availability of essential services. Representatives from the Council's Emergency Management Team have met with their counterparts in the Health Board to discuss the likely impact of Brexit and consider any coordinated activity.

11. Other Considerations

Foreign Currency Transactions

The Council makes very few transactions in foreign currency. These would generally relate to any exchange trips etc.

One of the few projects impacted by foreign currency movements was Lamby Way Household Waste Recycling Centre, where the modular system was manufactured in Europe.

Treasury Management

The Council can only invest in sterling investments. Its borrowing is in sterling and is fixed so there will be no short-term impact as a result of interest rate changes. If confidence in the UK is weakened and if long-term inflation expectations increase, then there could be an increase in borrowing rates compared to those currently estimated. This may impact on the affordability of current capital programmes.

Pension Fund

Economic and currency impacts may have short or long-term implications in foreign currency based investments, income received in forex.

12. National Response through WLGA

WLGA & the European Transition Fund

The Welsh Government announced a £50million European Transition Fund in January 2018 to help organisations across Wales prepare for the impact of Brexit. The Cabinet Secretary for Local Government & Public Services announced on 10 July 2018 that the WLGA had been successful in bidding for funding under the European Transition Fund totalling £150k. This money will support the WLGA in delivering a European Transition Support Package to all 22 local authorities across Wales, helping them to build resilience and take a focused approach towards leaving the European Union.

WLGA Co-ordination Activity

The WLGA is delivering a Brexit Transition Support Programme for Welsh local authorities, using funding from the Welsh Government's EU Transition Fund, with the aims of:

- ensuring Welsh local authorities are not duplicating work in preparing for Brexit;
- ensuring all local authorities in Wales are equally prepared for all Brexit scenarios; and,
- establishing a more formalised, two-way programme of communication between local authorities and those planning for Brexit in the Welsh and UK Governments.

A series of events have been scheduled which will include appropriate Council representation.

Date	Title	Venue	Time
20 September 2018	EU Settlement Scheme Workshop The workshop will be led by the Home Office, in partnership with WCVA and WLGA, and will: <ul style="list-style-type: none">• provide an overview of how EU citizens and their families can apply for settled status and how third sector organisations and local government will play a role in communicating the system to our communities• provide details of user guidance, information and toolkits for employers, local authorities, and the third sector• explore issues around vulnerable users, those with complex needs and access issues	Old Library, Cardiff	09:45 – 13:30
25 September 2018	Brexit and the Environment The event will bring together Cabinet Members for Environment, Environment Directors and Welsh	City Hall, Cardiff	TBC

Date	Title	Venue	Time
	Government representatives to discuss the key issues of future funding for environment, environmental principles, the future of environmental legislation and the need for new environmental bodies, post Brexit. NRW will also present to Local Authorities on their new Brexit Group and wider Brexit work.	(Syndicate Room D)	
17 October 2018	Brexit and Public Protection Speakers will discuss the impact of Brexit on trading standards, environmental health, including food safety and standards, animal health, product safety and air quality. The WLGA will give a presentation on its Brexit work and representatives of both the UK and Welsh Governments will attend to brief councils on the latest developments and answer questions.	City Hall, Cardiff (Syndicate Room D)	09:45 – 15:35
13 November 2018	Possible Meeting of Local Authority Brexit Leads The meeting will follow the crucial EU Summit on 18-19 October 2018, which is the target date for the UK Government and the EU to agree a Withdrawal Treaty. The outcome of this summit may give us a better idea of how likely a No Deal scenario is. Local Authority Communications Officers will also be invited to attend.	Cardiff – venue TBC	TBC

Appendix 1

EU and Non-EU imports and exports for East Wales, the geographical area for which data is available.

Table: Estimated Tariffs on East Wales Exports under WTO Rules (Manchester Methodology)

Standard International Trade Classification (SITC) Section	Statistical Value (£ million)	Average Tariff under WTO Schedule (%)	Tariffs Payable Estimate (£ million)
Food & live animals	134	19.6	26.3
Beverages & tobacco	14	6.4	0.9
Crude materials, inedible, except fuels	25	3.2	0.8
Mineral fuels, lubricants & related materials	10	1.1	0.1
Animal & vegetable oils, fats & waxes	1	8.8	0.1
Chemicals & related products	542	3.0	16.3
Manufactured goods classified chiefly by material	477	1.9	9.1
Machinery & transport equipment	4,181	4.3	179.8
Miscellaneous manufactured articles	227	5.1	11.6
Commodities/transactions not classified elsewhere	11	2.1	0.2

Table: East Wales (NUTS2) by EU/Non-EU and Standard International Trade Classification (SITC) Section – 2016 EXPORTS

Flow	EU / Non-EU	NUTS2	Standard International Trade Classification (SITC) Section	Statistical Value (£ million)	Business Count
EU EXPORTS:					
Exp	EU	East Wales	Food & live animals	134	143
Exp	EU	East Wales	Beverages & tobacco	14	52
Exp	EU	East Wales	Crude materials, inedible, except fuels	25	165
Exp	EU	East Wales	Mineral fuels, lubricants & related materials	10	68
Exp	EU	East Wales	Animal & vegetable oils, fats & waxes	1	51
Exp	EU	East Wales	Chemicals & related products	542	354
Exp	EU	East Wales	Manufactured goods classified chiefly by material	477	441
Exp	EU	East Wales	Machinery & transport equipment	4,181	411
Exp	EU	East Wales	Miscellaneous manufactured articles	227	448
Exp	EU	East Wales	Commodities/transactions not classified elsewhere	11	65
Exp	EU	East Wales	Below Threshold Traders	N/A	1,441
NON-EU EXPORTS:					
Exp	Non-EU	East Wales	Food & live animals	34	117
Exp	Non-EU	East Wales	Beverages & tobacco	7	51
Exp	Non-EU	East Wales	Crude materials, inedible, except fuels	50	151
Exp	Non-EU	East Wales	Mineral fuels, lubricants & related materials	16	41
Exp	Non-EU	East Wales	Animal & vegetable oils, fats & waxes	-	27
Exp	Non-EU	East Wales	Chemicals & related products	517	466
Exp	Non-EU	East Wales	Manufactured goods classified chiefly by material	139	707
Exp	Non-EU	East Wales	Machinery & transport equipment	802	1,017

Exp	Non-EU	East Wales	Miscellaneous manufactured articles	142	944
Exp	Non-EU	East Wales	Commodities/transactions not classified elsewhere	19	11

**East Wales (NUTS2) by EU/Non-EU and Standard International Trade Classification (SITC)
Section – 2016 IMPORTS**

Flow	EU / Non-EU	NUTS2	Standard International Trade Classification (SITC) Section	Statistical Value (£ million)	Business Count
EU IMPORTS:					
Imp	EU	East Wales	Food & live animals	214	159
Imp	EU	East Wales	Beverages & tobacco	49	57
Imp	EU	East Wales	Crude materials, inedible, except fuels	99	201
Imp	EU	East Wales	Mineral fuels, lubricants & related materials	16	103
Imp	EU	East Wales	Animal & vegetable oils, fats & waxes	5	54
Imp	EU	East Wales	Chemicals & related products	578	453
Imp	EU	East Wales	Manufactured goods classified chiefly by material	424	545
Imp	EU	East Wales	Machinery & transport equipment	706	502
Imp	EU	East Wales	Miscellaneous manufactured articles	157	548
Imp	EU	East Wales	Commodities/transactions not classified elsewhere	1	47
Imp	EU	East Wales	Below Threshold Traders	N/A	2,376
NON-EU IMPORTS:					
Imp	Non-EU	East Wales	Food & live animals	63	159
Imp	Non-EU	East Wales	Beverages & tobacco	28	49
Imp	Non-EU	East Wales	Crude materials, inedible, except fuels	69	185
Imp	Non-EU	East Wales	Mineral fuels, lubricants & related materials	72	48
Imp	Non-EU	East Wales	Animal & vegetable oils, fats & waxes	2	24

Imp	Non-EU	East Wales	Chemicals & related products	342	594
Imp	Non-EU	East Wales	Manufactured goods classified chiefly by material	305	1,068
Imp	Non-EU	East Wales	Machinery & transport equipment	1,057	1,264
Imp	Non-EU	East Wales	Miscellaneous manufactured articles	430	1,373
Imp	Non-EU	East Wales	Commodities/transactions not classified elsewhere	3	7