
Report to: CLACKMANNANSHIRE COUNCIL

Date of Meeting: 25TH October 2018

Subject: Brexit Update Report

Report by: Strategic Director – Partnership & Performance

1.0 Purpose

- 1.1. The purpose of this report is to summarise the latest developments in Brexit negotiations, and to highlight the high level implications for Scotland and Clackmannanshire. Given the critical stage of the EU Withdrawal negotiations, it is advised that regular future briefings are prepared to ensure that Council is kept updated on developments.

2.0 Recommendations

- 2.1. It is recommended that Council:
- a) Note, challenge and comment on the report as appropriate;
 - b) Note that future update briefings on EU Withdrawal negotiations will be brought to Council until at least 29th March 2019.

3.0 Considerations

Background and Update on Brexit Negotiations

- 3.1. Details of the final withdrawal treaty and any transitional deals require to be ratified by the EU nations and the UK Parliament before the UK leaves in March 2019. Negotiations on the UK's departure from the EU is governed by provisions in Article 50 of the Treaty of the European Union. Article 50 makes provision for a withdrawal agreement to include the terms of the UK's withdrawal from the EU and to take account of future relationship between the EU and the UK. Updates on the latest negotiation rounds in July and August 2018 have focussed on resolving the remaining issues in relation to the Withdrawal Agreement. Further negotiations in late August took place in Brussels with the focus being on the framework for future relationship between the UK and the EU.
- 3.2. Discussions on the terms of withdrawal have focussed on 3 broad priorities; citizens' rights; financial settlement and Northern Ireland. Whilst negotiations on the terms of withdrawal on the issues of citizen's rights and the financial

settlement are at an advanced stage, further negotiations are required concerning the border between Northern Ireland and the Republic of Ireland.

- 3.3. Negotiations on future relationships are at an earlier stage and are focussed on two key areas; an Economic partnership proposing the establishment of a free trade area; and a Security partnership focussed on effective exchanges of intelligence and information in the areas of fighting crime, money laundering, terrorism and extradition. Negotiations on the latter have reached earlier common ground than those on an economic partnership.
- 3.4. The UK Government published its White Paper on the future relationship between the UK and EU in July 2018. The paper, also known as the Chequers Plan, sets out its negotiating position on the future UK-EU relationship. The issues covered by the paper are money, law and borders; trading relationships; free movement, borders between Great Britain & Northern Ireland and Ireland; Parliamentary sovereignty and the authority of the UK Supreme Court; trade deals around the world and security. The White Paper also sets out proposals on a series of reciprocal commitments aimed at ensuring that UK businesses could carry on competing fairly in the EU markets and vice versa.
- 3.5. Negotiations on Withdrawal and future EU/UK relationships are now at a critical stage. The Scottish Parliament Information Centre (SPICe) published an updated Brexit report in September 2018.¹ That report sets out an indicative timeline to Brexit leave day on the 29th March 2019. Key dates set out are:
 - 18/19th October 2018 – European Council meeting where EU27 will consider progress in finalising the Withdrawal Agreement.
 - 13-14th December 2018 – European Council meeting where EU27 will consider progress in finalising the Withdrawal Agreement. If agreement is reached it shall be concluded on behalf of the European Union by the Council (EU27) acting by a qualified majority after obtaining the consent of the European Parliament. The UK Government will also need to secure the agreement of the UK parliament by passing the European Union (Withdrawal Agreement) Bill which will give legal standing to separation from the EU.
 - January to March 2019 – If agreement has been reached these 3 months will involve implementation ahead of Brexit. If there has not been agreement it is likely that talks will continue, although a ‘no-deal’ scenario would be highly likely.
 - 29th March 2019 – Unless there is a unanimous vote of the EU27 to extend the Article 50 period, the UK will leave the European Union. If a Withdrawal Agreement has been finalised, a standstill transition will begin alongside detailed negotiations for a future relationship. During this transition period, it is anticipated that most EU laws would continue to apply in the UK. If there is no Withdrawal Agreement, the UK will leave the EU with no arrangements in

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http://www.parliament.scot/S5_European/General%20Documents/CTEER_Brexit_update_2018.09.06.pdf

place for managing the EU-UK relationship (unless limited individual sectoral approaches have been approved).

- 3.6. The European Union (Withdrawal) Act passed in June is designed to operate in the context of no deal being agreed between the EU and the UK and in the scenario that EU law does not apply domestically as of 29th March 2019. However both the UK and EU are negotiating for a transition period which would extend the application of EU law in the UK until 31 December 2020. If this transition period is agreed as part of the Withdrawal Agreement the European Union (Withdrawal) Act will be changed to reflect this.
- 3.7. The UK Government and the European Union have both have issued a number of technical papers and guidance on the potential impacts of a 'no-deal' scenario on specific sectors of the economy. It is anticipated that further papers will be published over the coming weeks on this scenario.
- 3.8. Over the summer months primary legislation has received Royal Assent and the Trade Bill and Taxation (Cross Border Trade) Bill or Customs Bill have completed the passage through Commons. In addition, the first tranche of secondary legislation under the 'correcting' powers of the European Union (Withdrawal) Act has now been published.
- 3.9. In June 2018 the Home Office also published details of its settlement scheme for EU citizens; the process by which EU citizens living in the UK can maintain their right to live in the UK after Brexit. A phased roll out of the scheme is expected to commence late 2018, with the scheme fully opened by 30th March 2019. Further information on the scheme can be found here: <https://www.gov.uk/government/publications/eu-settlement-scheme-statement-of-intent>.

Brexit and Scotland

- 3.10. In early July the Scottish Government published its 'contribution to the UK Government's White Paper on the Future Relationship with the European Union setting out its preferred position on future economic and security partnerships.
- 3.11. Understanding the potential impact from Brexit on Scotland is complicated by a lack of clarity on what the final deal may look like. The Scottish Parliament's Culture, Tourism, Europe and External Affairs Committee has been undertaking ongoing monitoring of negotiations and the impact of those for Scotland. The committee is currently seeking views on the impact of Article 50 negotiations, the guidance issued to date and the anticipated impact of a 'no deal' outcome on Scottish individuals, businesses and organisations. The call for written views ends in October 2018.
- 3.12. COSLA has also been working with Local Authorities in Scotland to understand potential impacts and has been seeking to influence at relevant government, parliamentary and local authority association level. COSLA's Brexit survey in 2017 confirmed the main issues for Local Government are EU workforce; European Funding; Trade; Procurement and Environment regulations. Migration and the impact on particular economic sectors (agriculture; food processing and hospitality/tourism sectors) was also a concern for councils.

- 3.13. Despite a number of research papers on the matter, data specifically on how leaving the EU will impact different parts of the Scottish economy is scarce. The Fraser of Allandar Institute at the University of Strathclyde Business School published reports in 2016 and 2017. The perspective of these reports is that both the UK and Scottish economies will likely weaken in the short to medium term post-Brexit. The Institute forecasts a sharp slow down in the rate of growth in the Scottish economy with negative impacts on all key short to medium term macroeconomic factors: a decline in purchasing power via a lower value of Sterling; lower interest rates for longer; a rise in inflation due to higher import prices; a decline in real incomes and consumption; a fall in business investment and a consequential fall in employment.²
- 3.14. The “Brexit and the Sectors of the Scottish Economy November 2017” report published by the Institute identifies 5 broad channels through which Brexit could impact on the Scottish Economy: Trade; Inward Investment; The labour market (including migration); Budget contributions; and the policy and regulatory environment. The report highlights a number of key factors relating to the Scottish Economy:
- In 2015 Scotland exported £12.3b of goods and services to the EU – equivalent to 40% of Scottish international exports.
 - There are around 1000 enterprises in Scotland where the parent company is from another EU country and they employ around 130,000 people.
 - In 2015 there were around 180,000 EU nationals living in Scotland; and it is projected that almost half of Scotland’s net population growth has come from people born in EU countries;
 - Goods make up the bulk of Scottish trade with the EU - just over 60% of Scottish trade with the EU was from manufacturing.
 - The most significant sectors are associated with refined petroleum and chemicals, and food and drink (including whisky and linked white spirit products). Other important sectors are services particularly relating to wholesale, retail trade, repair of vehicles and professional, scientific and technical activities.
 - It is estimated that around 134,000 jobs in Scotland are currently supported by export demand from the EU.
 - The importance of key export sectors differs between Scotland and the wider UK. The drinks sector and fish export sectors are important to Scotland but not of high export interest to the rest of the UK.
 - Non-UK EU nationals account for 4.5% of all employment (Scotland 2015). The majority are employed in distribution, hotels and restaurants, although other important sectors are public administration as well as growth sectors in food and drink, finance and business services, tourism and creative industries.

² <https://www.sbs.strath.ac.uk/economics/fraser/20171129/GMB-Brexit-report.pdf>

- Wider impacts on other sectors including universities and research; farming and fishing; oil and gas; financial services; pharmaceuticals and whisky manufacturing need to be taken into consideration given current and possible tariffs on export trade.

Overview of Potential Impacts on Clackmannanshire

- 3.15. Whilst Clackmannanshire Council can learn from commissioned research, data on the likely impacts is scarce at this time. Some councils are considering the impacts of Brexit on local economic or growth strategies or using key intelligence or data to support the development of local economic resilience strategies. These have been informed by specific commissioned research to understand the impact of both a hard and soft Brexit.
- 3.16. We already know from research carried out elsewhere, and from our early analysis that there is likely to be an impact on the economy in Clackmannanshire after Brexit. Many of our economic indicators already lag other council areas and Scotland on the whole, and it is widely anticipated that communities which struggled to recover after the economic recession, could be less resilient to recover following the impact of Brexit.
- 3.17. The London School of Economics predict the average impact effects of Brexit, although it highlights regional variations. They report that Clackmannanshire can expect to see a decrease of between 1.0% and 1.9% (depending on a soft Brexit or hard Brexit deal) of Gross Value Added (ie the value of goods and services produced in the Clackmannanshire).³ Whilst still significant to Clackmannanshire's economy, it is modest when compared to a projected decrease in the value elsewhere. For example, of Aberdeen City's goods and services is predicted to be impacted somewhere between 2.1% and 3.7%.
- 3.18. The latest information shows that 2.2% of Clackmannanshire's population (1100 people) was born in a non UK EU country.. 77% of these people are of working age and 69% are in employment. The majority of those employed are in the public administration, education and health sector, followed by distribution, hotels and restaurants; manufacturing; financial, real estate and professional sectors with smaller numbers employed in agriculture, energy and water, construction and transport and communications.⁴
- 3.19. The Council has commenced work to better understand the proportion of employees who are non UK EU citizens and who will be impacted by the Settlement Scheme. This work has included asking employees and managers to update equalities information in relation to nationality and country of birth. Numbers of employees known to be non UK EU citizens are low, however this will be assessed once again following this exercise. What we do know is that employees who are non UK EU citizens cover a range of roles but predominantly early year workers, social care assistants and teaching employees.
- 3.20. Latest information on employment by job sector in Clackmannanshire highlight that there are approximately 17,300 jobs (2017 data). The main

³ <http://cep.lse.ac.uk/pubs/download/brexit10.pdf>

⁴ <https://www.nrscotland.gov.uk/files/statistics/demo-cen-profiles/clackmannanshire-eea-profiles.pdf>

employment sectors in Clackmannanshire are: Human health and social work activities (18% of total employment); Wholesale and retail trader (16%); Education (11%) and Manufacturing (10%). Marginal employment growth is anticipated in Clackmannanshire and is forecast in 4 sectors: construction, professional, scientific and technical; wholesale and retail and human health and social care.⁵ Further analysis will be required on the impact of local employment and business sectors in Clackmannanshire over the course of coming months.

EU Funding in Clackmannanshire

- 3.21. The Council has made extensive use of European Structural Funds over the last 25 years with an initial focus on European Regional Development Fund (ERDF) projects supporting infrastructure improvements to, more recently a focus on European Social Fund (ESF) interventions enhancing training and employability initiatives.
- 3.22. The current Structural Funds programme covers the period 2014 to 2020. Phase 1 runs to the end of December 2018 and approved ESF funding to Clackmannanshire Council for this period amounts to c. £622,000. This has supported our main employability programmes during this period, delivered principally by the Economic Development team under the Clackmannanshire Works brand, but also including the Young Parents Project.
- 3.23. An application for funding for Phase 2 is about to be submitted. Funding committed in the remaining 2019-2020 period can be used to support delivery to December 2022. The funding bid for this period amounts to c. £621,000. In total, therefore, over the period 2014-2022 ESF support for delivering Council priorities is likely to amount to nearly £1.13m.
- 3.24. In addition, under Phase 2, in a Lead Partner role, we are intending to make a joint bid with Stirling Council and the Department for Works and Pensions (DWP) under the Poverty and Social Inclusion strand, and using City Deal funding as the match funding source, for an additional £337,000 of ESF funding. This will augment the £1.9m funding offered through the Regional Skills and Inclusion element of the approved City Deals Heads of Terms Agreement.
- 3.25. As Lead Partner Falkirk Council has successfully applied for ERDF funding to augment Business Gateway delivery throughout the Forth Valley. Similarly, Stirling Council, as Lead Partner for the rurally focussed LEADER programme, has drawn down funds that have supported several projects in Clackmannanshire.
- 3.26. Finally, elements of the Skills Development Scotland's Modern Apprenticeship's programme are supported by ESF. Withdrawal or changes in support could impact on the nature and scale of Modern Apprenticeship opportunities and contracts delivered by Local Authorities, including Clackmannanshire.
- 3.27. Access to European Structural Funds has, therefore, been an important element in bringing additional resources to Clackmannanshire and the Council

⁵ <https://www.skillsdevelopmentscotland.co.uk/media/44065/clackmannanshire-la.pdf>

to deliver its agreed priorities supporting economic development, job creation and training.

- 3.28. Whatever form Brexit takes there has been a developing debate over what happens once access to European Structural funds comes to an end. There is a commitment from the UK Government to create a 'United Kingdom Shared Prosperity Fund' to replace the Structural Funds as well as various transnational programmes. It is understood that the new fund will at least match current funding levels.
- 3.29. In addition, in the August 2016 Autumn Statement, the UK Government announced a Treasury Guarantee indicating that any EU funding in place before Brexit would still be honoured by the Treasury. This is particularly relevant in the context of a hard Brexit.
- 3.30. Access to Structural Funds and any replacement will be critical in offsetting any potential damage caused to local economies caused by the uncertainty around future trade agreements, migration and access to the labour market, particularly in key employment sectors in Clackmannanshire.

Conclusion

- 3.31. This report provides an update on Brexit negotiations to date. It also sets out the anticipated impacts on the Scottish economy broadly and what we know about likely impacts on Clackmannanshire. This is the first update report provided to Council, and recognises that regular updates should be provided to Council on Brexit Withdrawal negotiations between October 2018 and March 2019.

4.0 Sustainability Implications

- 4.1. The Best Value and Sustainability Checklist has been completed. It is considered that this report will have short and medium term negative impacts on:

- Creating sustainable economic development
- Targeting skills and training and reducing unemployment
- Reducing social exclusion
- Regenerating Clackmannanshire's town centres

5.0 Resource Implications

5.1. Financial Details

- 5.2. The above report summaries the likely financial impacts of Brexit, however the full impact will not be known until April 2019. (Ref 2018-19-2) Yes **X**

- 5.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes **X**

5.4. Staffing

6.0 Exempt Reports

6.1. Is this report exempt? No

7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box)

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all

Our families; children and young people will have the best possible start in life

Women and girls will be confident and aspirational, and achieve their full potential

Our communities will be resilient and empowered so that they can thrive and flourish

(2) **Council Policies** (Please detail)

8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? Yes

9.0 Legality

9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

None

11.0 Background Papers

- 11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)
 Yes **X**

University of Strathclyde: Fraser Allandar Institute 'Brexit and the sectors of the Scottish economy' November 2017.
 SPICE Brexit Update September 2018.
 Regional Skills Assessment Clackmannanshire – Local Authority Summary Report
 Local Government Association Briefing – No Deal and Local Government August 2018.
 COSLA Leaders Briefing August 2017

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