To: Renfrewshire Community Planning Partnership Board

On: 21 September 2016

Report by:

Sandra Black, Chief Executive, Renfrewshire Council

Possible Implications For Renfrewshire Of The Vote To Leave The European Union

1. Summary

1.1 Following the vote for the United Kingdom to leave the European Union in the June 2016 Referendum, community planning partners in Renfrewshire require to consider the implications for each organisation and for Renfrewshire Community Planning Partnership as a whole.

1.2 Renfrewshire Council Leadership Board considered at its meeting on 14 September 2016 a report by Sandra Black, Chief Executive, titled "Possible Implications For Renfrewshire Of The Vote To Leave The European Union". This report is attached at Appendix 1 to inform discussion about the potential impact on community planning partners.

2. Recommendations

2.1 It is recommended that Renfrewshire Community Planning Partnership Board:

(a) notes the report attached at Appendix 1 as the basis for discussion about the implications for Brexit for each community planning partner.

(b) agrees that community planning partners participate in a Brexit working group to be established by the Chief Executive of Renfrewshire Council.

Author: Stuart Graham, Partnerships Planning and Development Manager, Chief Executive's Service, 0141 618 7408.

Email: stuart.graham@renfrewshire.gov.uk

Renfrewshire Council

APPENDIX 1

To: Leadership Board
On: 14 September 2016

Report by: Chief Executive

Heading: Possible Implications for Renfrewshire of the vote to leave the European Union

1. Summary and Key Messages

1.1 The EU Referendum was held on 23 June 2016, with the outcome of the vote being a decision to leave the EU. A previous report to Council in April 2016 outlined the potential economic implications of leaving the EU for Renfrewshire; and following the vote Council agreed to support the Scottish Government in its efforts to reduce the impact of the result on Scotland.

1.2 This report outlines at a high level the potential implications for both the Council and Renfrewshire communities and businesses from the vote to leave the EU (or "Brexit") across a range of areas. What is clear is that the implications for Renfrewshire are likely to take several years to become fully apparent, during which ongoing uncertainty is likely to adversely impact on the Council's financial outlook. Brexit is not an event, but rather a process which will require the Council to be continually vigilant in understanding the implications of decisions taken prior to and throughout the exit negotiation period and subsequent to this as the UK trade and legal position develops.

1.3 Key messages that are outlined in more substantial detail in the main body of this report, are summarised below:

- As anticipated, financial markets have experienced volatility since the vote, with the pound depreciating significantly against both the US dollar and euro although the stock market valuations of major international UK companies have recovered ground lost since the vote. To assist in stabilising matters the Bank of England has cut interest rates and has provided direct financial support to the financial markets, and has acknowledged that further support may be required.

- Both the Bank of England and many economic forecasters have downgraded their forecasts for UK economic growth over the next 2-3 years.

- Renfrewshire hosts many business of national significance for whom the implications of Brexit are again uncertain. An indication of wider business sentiment is available from a recent Fraser of Allander business survey, which suggests that over 60% of firms surveyed conclude Brexit will have a negative impact on their business, while only 19% viewed Brexit as being positive for their firm. Strikingly, 85% of firms stated they had made little or no preparation for an exit vote, therefore a key priority for many will be assessing what Brexit will mean for them. Building capacity and expertise for a post-Brexit business environment will – as for the government - take time. It is recognised however that there may be short term advantages from the current weakening of sterling for businesses in Renfrewshire who are net exporters.

- As well as being a large local employer, Glasgow Airport plays a key role in the nation's infrastructure and connectivity. Maintaining access to the European Single Aviation Market and the EU's multilateral aviation agreements (also known as 'Open Skies' agreements) is a priority for Glasgow Airport. This access has been key in allowing the aviation industry to grow, deliver cheaper air fares and open up new destinations. Continued access to international markets is crucial to supporting the UK aviation sector's future success and growth. Whilst there is still a great deal of uncertainty following the EU referendum around this and other issues, the airport has had early conversations with a number of airlines, including those who have contributed directly to the Airport's recent growth and who have expressed very real concern, in some instances indicating they are no longer planning to implement or are expecting to reduce previous expansion plans in the UK following the Brexit vote.

- At this stage, it is not possible to say what the medium to longer term economic consequences or opportunities may be for the UK and Scottish economies. This will only become clearer over time and in particular as the terms of the UK's exit are agreed and the UK's future international trade position become clear.

- The immediate post referendum impact on the economy along with the ongoing uncertainty, has added a new and significant dimension to the Council's financial outlook and risks. The prospect of an emergency budget post Brexit was dismissed early by the UK Government. Additionally, the Government also confirmed that their key fiscal target to move the public finances into a budget surplus by 2020/21, remains but in the current context has been pushed back by an as yet unconfirmed period of time. The net impact on public sector spending plans across the UK and subsequently in Scotland of the decision to push back the fiscal surplus objective, coupled with the poorer economic growth forecasts that have emerged, will not become clearer until the Government announces a new Comprehensive Spending review in the autumn. What is clear at this stage is that the overall risks to the Council's financial outlook, in both the short and medium term, have increased and there is every prospect that as future spending plans of both the UK and Scottish Governments are confirmed the Council may face increased financial challenges moving forward than those previously projected prior to the exit vote.

- The Council receives EU funding directly in relation to a number of priority areas such as employability and economic development. Assuming the triggering of exit negotiations does not occur during 2016, and is thereafter followed by a 2 year negotiation period then funding of almost £4.8 million for current projects would appear to be secure. However, funding notionally allocated for Renfrewshire in the period 2018-20, of over £2.5 million, appears to be at greater risk. A recent announcement by the Chancellor of the Exchequer has sought to provide guarantee to such funding streams where they are fully signed before the UK Government's autumn statement announcement in November. The exact implications of this announcement in Scotland and in particular for the Council's EU funded projects has yet to be clarified and is subject to ongoing engagement with the Scottish Government. Future employability and economic development projects would be severely disadvantaged in the absence of any UK and or Scottish Government support which replaces the levels of EU funding traditionally enjoyed.

- In addition to the Council, a range of partner organisations including the NHS, Higher and Further Education sectors and 3rd sector agencies may potentially be affected in a number of ways, including access EU funding sources, collaborative working with EU partner institutions, access to skilled labour markets and students and increased cost of key commodities such as drug supplies. It will be important for the Council to work closely on a cross agency basis with key partners through existing arrangements to manage the possible impacts and risks that may arise from the exit process on behalf of the people of Renfrewshire.

- The Glasgow City Region City Deal has an advantage over many other City Deals in that the funding package is agreed, and has the potential to mitigate some of the suggested adverse economic effects of Brexit should infrastructure investment be accelerated.

- There is limited information available as to the number of EU nationals living and working within the Renfrewshire area. Detail from the electoral register suggests there are at least 2,000 EU nationals living in Renfrewshire – however this figure will not include any children, nor any EU nationals who have not attempted to register to vote. This will include employees of the Council, of whom at least 20 are EU nationals. The Council will aim to actively support all employees who could be affected by the vote, but particularly any EU nationals who are employees. However the rights after the UK leaves the EU for all EU nationals who reside in the UK and do not have residency status has yet to be clarified and may yet form part of the outcome of the exit negotiation process.

- The EU exit process is unprecedented and will require considerable government effort to negotiate. The complexity of UK governance, and of the negotiations with the EU and other countries with whom the UK would wish to have a trade agreement post Brexit, suggest that the Brexit process could take several years to complete, during which ongoing uncertainty with regards legal, social, financial and economic issues could have significant and ongoing implications for Renfrewshire. The Council will therefore need to remain alert to any negative impact or indeed opportunities as the exit negotiations unfold and the UK's future trade environment develops.

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2. Recommendations

It is recommended that Council:

2.1 note the information contained in the report

2.2 note that the Chief Executive will form a working group, including representation from Community Planning Partners, to examine and continually monitor the implications of Brexit for the Council and Renfrewshire communities

2.3 note that the financial and economic risks associated with Brexit will be appropriately recognised in the Council's financial planning arrangements, and that those risks will be highlighted to the Scottish Government

2.4 note that the Head of HR, OD and Workforce Planning will communicate regularly with all employees to update them with regards any employment issues which result from changes in legislation linked to the Brexit process

2.5 note that specific discussion with regards the implication of Brexit will be included as a regular item on the Community Planning Partnership agenda

2.6 note that the Chief Executive will ensure the implications of Brexit for the Glasgow City Region City Deal will be regularly discussed with partner Councils and the City Deal PMO; and also that the City Deal Cabinet has agreed where possible to accelerate infrastructure investment projects

2.7 note that future briefings will be provided as appropriate to Members as the exit process develops.

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3. **Background**

3.1 The EU Referendum was held on 23 June 2016, with the outcome of the vote being a decision to leave the EU. A previous report to Council in April 2016 outlined the potential economic implications of leaving the EU for Renfrewshire; and following the vote Council agreed to support the Scottish Government in its efforts to reduce the impact of the result on Scotland.

3.2 The implications for both the Council and Renfrewshire residents and businesses are potentially far reaching, and significant uncertainty remains with regards the timing of any action by the UK government to trigger formal exit negotiations. This report is set out over a number of areas with the potential implications outlined as far as current information is available.

4 Risk areas and implications

4.1 Political uncertainty and the exit process

4.1.1 The UK government has seen considerable change since the referendum vote with a new Prime Minister and Cabinet now in place. The new Prime Minister has committed that whilst "Brexit means Brexit", she has also outlined to EU partners that there will be no commencement of official negotiations with regards the UK's exit in 2016. The rules for exit are set out in Article 50 of the Treaty on European Union, however the process is unprecedented, and there is a significant level of uncertainty about how it will work.

4.1.2 The Article 50 procedure is started by the UK Government formally notifying the European Council of its intention to leave the EU. The EU and the UK will then be required to negotiate an agreement setting out the arrangements for the UK's withdrawal. The withdrawal agreement requires the consent of the European Parliament before being approved by the European Council. In effect, the withdrawal agreement will be subject to two votes. Firstly, a majority vote in the European Parliament is required before it is subject to a vote in the Council which requires a two thirds majority of all of the remaining member states. Clearly, before the approval of the EU institutions is sought, the terms of the withdrawal agreement will require to be approved by the UK Parliament. This raises the question of what happens if it is not possible to reach an agreement or if the proposed agreement is rejected by one of the institutions who are required to approve the agreement.

4.1.3 Article 50 provides that the EU Treaties cease to apply to the member state that is leaving from the date of entry into of the withdrawal agreement or, failing that, two years after notification of intention to withdraw. The two year period can be extended by the unanimous consent of all 27 remaining members. Therefore, there is a risk that the UK could leave the EU with the terms of their withdrawal remaining uncertain, although it could be argued that it would not be in the interests of either the UK or EU for that to happen. Article 50 does not specify what should be covered by the withdrawal agreement which leaves substantial scope for the negotiators to agree what should be covered.

4.1.4 The negotiating position of the UK is further complicated from existing devolution arrangements. The First Minister of Scotland has outlined her desire to explore all options for continuing Scotland's relationship with the EU. The Prime Minister has also outlined her desire that the Scottish Government be fully engaged in exit discussions. Negotiations are likely to place a large burden on government and will undoubtedly distract from the normal running of business. Trade negotiation capacity within government is unlikely to match that required, again potentially adding delays.

4.1.5 The complexity therefore of UK governance, and of the negotiations with the EU and other countries with whom the UK would wish to have a trade agreement post Brexit, suggest that the Brexit process could take several years to complete, during which ongoing uncertainty with regards legal, social, financial and economic issues could have significant and ongoing implications for Renfrewshire.

4.2 Economy

4.2.1 Prior to the referendum the Remain campaign outlined warnings of what might happen to the economy and government finances in the event of a Leave vote. These warnings had, to varying degrees, been supported by the views and analysis of a majority of economists and think tanks. Immediately following the Brexit vote financial markets did indeed react adversely. The value of Sterling fell sharply against the Euro and Dollar, subsequently stabilising around a 10% drop in value. Additionally, sharp falls in the stock market were experienced albeit over the preceding weeks much of the lost ground was recovered following action from The Bank of England, which provided assurance in the immediate aftermath of the vote that all necessary steps had been taken and would continue to be taken to ensure the ongoing stability of the financial and banking system.

- The share value of the FTSE 100 companies (composed mainly of internationally operating companies) up around 6% from pre-Brexit levels.

- The share value of the FTSE 250 companies (composed mainly of more domestically focused companies) is now largely unchanged from pre-brexit levels.

- The value of domestically focussed UK companies are down by around 10% from pre-brexit levels, with the property, consumer services and banking sectors having particularly suffered

- Many other EU nations main share indices have performed worse than the UK's post Brexit

4.2.2 More recently, the main ratings agencies have downgraded both the UK sovereign credit rating and that of several UK banks, reflecting a perceived increase in risk. According to Standard & Poor's, the vote was a seminal event which "will lead to a less predictable, stable and effective economic policy framework in the UK". Since the vote however, rates on UK government borrowing have come down, suggesting that despite the uncertainty financial markets continue to view the UK as a safe and secure investment option.

4.2.3 Economic forecasts from Ernst Young, PWC and the Fraser of Allander Institute suggest that the UK (and Scottish) economy will slow sharply, with growth falling from 1.5-2% in 2016 to 0-0.5% in 2017. The IMF also outlined that Brexit has "thrown a spanner in the works" and has reduced its growth forecasts for 2016 and future years, while the Scottish Chambers of Commerce declared it had "very acute fears" the Scottish economy could fall into recession, while the Fraser of Allander Institute suggested a "technical recession" in Scotland is highly possible. Additionally, the weaker exchange rate is beginning to push inflation upwards which, allied with poor confidence in the business sector has resulted in the Bank of England further cutting the base interest rate to a historic low of 0.25% and implementing further "quantitative easing" – the printing of money injected to support the economy.

4.2.4 In its August Inflation Report the Bank of England outlined its view, consistent with the economic commentators referred to above, that the outlook for UK economic growth has weakened markedly (GDP growth in 2017 falling from 2.3% forecast in May to 0.8%), that inflation will rise in the near term, and unemployment will eventually rise following demand weakness opening up spare economic capacity. The Bank has also suggested that further measures are expected to be required if economic data proves consistent with the Bank's forecasts, including further cutting the Bank rate close to 0%.

4.2.5 In addition to monetary policy changes implemented by the Bank of England, the new Chancellor of the Exchequer may also consider fiscal policy change, although the possibility of an "emergency budget" was relatively quickly dismissed by the UK Government. The Government has confirmed that their key fiscal target to move the public finances into a budget surplus remains an objective, but in the post Brexit context the previous timetable of 2020/21 has been abandoned and will be pushed back, by an as yet unconfirmed period of time. The net impact on public sector spending plans across the UK of this decision, coupled with the deterioration in economic growth forecasts that have emerged, will not become clear for a number of months.

4.2.6 It is now clear that the Chancellor will take time to assess developments over the coming months and consider consequential changes which will be detailed in the Autumn Statement, potentially to be announced in November. The current and forecast reduction in economic growth will, undoubtedly impact on the Government's anticipated tax receipts, placing additional pressure on the public sector budget; a situation compounded by growing inflation. There is therefore the risk that poorer post Brexit prospects for UK and Scottish economic growth may ultimately lead to UK Government action to increase the scale of reduction in public sector spending from that which was already planned for in the 2015 spending review. This may involve increasing either the depth of spending cuts and or pushing out and extending the programme of austerity over a longer period of time.

4.2.7 It is also recognised that the current weakening in the value of Sterling is likely to have some positive benefits in terms of exports which will be more competitive, providing an opportunity for growth for those companies who are net. Additionally, it is also acknowledged that there are undoubtedly longer term opportunities that may potentially flow from free trade with countries outwith the EU if the UK Government is successful in securing positive bilateral trade agreements.

4.3 Future Council Resources

4.3.1 As outlined in section 4.2 above, the general consensus of deterioration in the UK's economic outlook may result in the Government's programme of reduction in public sector expenditure across the UK being deeper and or extending for a longer period than was previously planned. Previous reports to Council have outlined the material risk of cuts to the Council's revenue grant continuing over the medium term, potentially at a similar scale to that experienced in 2016/17. The risk of this outcome and indeed the risk of it now extending over a longer period have undoubtedly been exacerbated by the post Brexit impact.

4.3.2 As detailed earlier, it is now inevitable that the outlook for public finances across the UK, which were previously outlined in the 2015 Comprehensive Spending Review, will be revisited by the new Chancellor. Even if a revised multi-year comprehensive spending review is set out by the UK Government, the ongoing level of economic uncertainty and as yet unknown outcome that will emerge from the exit negotiations, would necessitate that future years be treated with an appropriate degree of caution recognising the risk that future events may require further change. It is therefore inevitable that the post Brexit impact will compound the levels of medium term uncertainty over funding levels for both the Scottish Government and consequently Local Government.

4.3.3 In addition, and as previously reported to members, the Scottish Government in 2017/18 will also assume increased powers from the UK Government that will result in around 50% of the Scottish Budget being funded directly by devolved taxes. This in itself adds a significantly new dimension of risk to the Scottish public sector budget. Coupled with the impact of Brexit, the financial years 2017/18 and beyond present potentially a unique and unprecedented level of uncertainty and risk for public finances across Scotland.

Consequently, the Council's financial strategy moving forward will need to recognise this fundamental shift in risk and continue to pro-actively plan for a potentially more negative medium term outlook emerging in the coming months and one which may be less stable, predictable and subject to revision over relatively short period of time.

4.3.4 There is some suggestion from economic commentators that investment in infrastructure and housing will be key to mitigating the economic impact of Brexit, as private sector investment (including foreign direct investment) is put on hold or cancelled altogether. Should both Scottish and UK governments agree with this sentiment, it is possible that capital funding for infrastructure projects could be more readily available. Indeed, the Scottish Government have recently announced that £100 million of budget flexibility will be utilised to accelerate infrastructure investment programmes. In addition, potential freedom from the restrictions of Eurostat accounting rules could assist in the development of alternative funding models for infrastructure projects. However, conversely it is recognised that uncertainty over the general state of the economy may restrict government investment, leading to a 'perfect storm' where private investors are nervous or unwilling to invest, EU funding (or financing through the European Investment Bank) for infrastructure projects is no longer available and the UK government is unable to commit to large scale projects.

4.3.5 The report to Council in April outlined that the Council currently receives direct EU funding, which has averaged out at an equivalent of approximately £1.6m per annum and which would be at risk from Brexit. As outlined in detail in a report to the Economy and Jobs Policy Board on 31st August 2016 this funding largely supports projects aimed at supporting business growth, addressing youth unemployment, and supporting the long-term unemployed into work; in addition to supporting rural communities.

4.3.6 Assuming the triggering of exit negotiations does not occur until 2017, and is thereafter followed by a 2 year negotiation period then funding for current projects could be secure. However the risk of funding being withdrawn after this date could necessitate the reprofiling of programmes to ensure they are completed prior to the 2 year negotiation period ending.

4.3.7 On 13th August the Chancellor of the Exchequer issued a statement indicating the intention of the UK Government to provide guarantees of funding for a range of EU funding streams that are formally agreed prior to the Autumn Statement announcement in November, even where the funding extends beyond the UK exit from the EU. The announcement indicated that this guarantee would be extended to devolved administrations and that the UK Government would progress work with Devolved Administrations over the implications for EU funded projects. The exact implications of this announcement within Scotland and for the Council's projects has yet to be clarified with the Scottish Government. Prior to this announcement informal indications suggested that as the 2014-20 EU funding programme has effectively been split into 2 elements (2015-2018 and 2018-20), those projects which have been allocated a letter of award by the Scottish Government (Renfrewshire's have all been issued) in the 2015-2018 bracket will be honoured. As detailed in Appendix 1, across these projects, total EU funding of almost £4.8 million is potentially secured up to 2018.

Beyond this period, funding notionally allocated for Renfrewshire projects in the period 2018-20, totalling over £2.5 million, appears to be at greater risk and ongoing engagement is being progressed with the Scottish Government in this regard and in particular in the context of the statement released by the Chancellor of the Exchequer. Future employability and economic development projects would however be severely disadvantaged in the absence of any UK or Scottish Government support which replaces the levels of EU funding traditionally enjoyed. EU funding has supported broadly 40% of the costs of these projects.

4.4 City Deal and the City Region

4.4.1 The Council is delivering 3 projects related to the Glasgow City Region City Deal – the Glasgow Airport Access Project (AAP), Clyde Waterfront and Renfrew Riverside (CWRR) project and Glasgow Airport Investment Area (GAIA) project. The overarching aim of City Deal is to enhance economic and employment prospects in the region through investment in key infrastructure projects and by supporting key sectors eg life sciences. Potentially much of this investment would have been in the form of foreign direct investment by overseas companies looking to locate their business in an area which would give them easy access to the UK, but also importantly the European market.

4.4.2 The City Deal Cabinet recently considered a report from KPMG which outlined potential implications for City Deal from the Brexit vote, including the fact that UK and Scottish Government funding is contingent on delivering additional economic benefit ie over and above what would have happened without City Deal. Any Brexit impacts will therefore affect the base case scenario which will require to be updated. Key messages from the report are:

- City Region investment is now even more relevant to generate economic growth, and there may be a case for accelerating the current programme to cushion some of the adverse economic impact of Brexit.

- The City Region economy is set to benefit from payments under the 2014-2020 EU budget, including Social Fund and Regional Development funding, and well as payments under the Common Agricultural Policy and research funding to Universities.

- Thereafter how the City Region is affected by the end of EU programmes will depend largely on future policies of the Scottish and UK governments.

- Post-Brexit, if powers are not reserved to Westminster, policy will automatically flow to the Scottish parliament eg regional and social policy, agriculture and fisheries.

- The downgrading of the UK's sovereign credit rating would be expected to push up borrowing costs, however the trend has recently been in the opposite direction as UK gilts are seen as a safe haven in uncertain times, pushing down gilt yields and therefore the rates at which Councils can borrow from the UK government.

4.4.3 A survey of infrastructure investors carried out by S&P Global ratings has suggested that over 70% were of the opinion that Brexit would suspend private investment in UK infrastructure for the full negotiation period, preferring to wait and see what the economic and Sterling impact will be. PWC in their recent UK economic outlook publication outline that overseas investment in commercial property will be particularly hit, and have also detailed that many commercial property funds have had to suspend trading in response to capital outflows. Taking an opposing view, the cheaper Pound could make the UK a more attractive investment in the longer term for those willing to take a risk while negotiations are ongoing, while the potential lifting of restrictions with regards state aid may provide opportunities for different development investment structures.

4.4.4 One further risk for the Glasgow City Region City Deal relates to the employment support projects (Youth Gateway and Working Matters) which are underpinned in part by EU funding. The delivery of these projects is potentially under some risk until the government clarifies how any gap in funding will be met.

4.5 Legal and procurement

4.5.1 The Council delivers its functions within a well established legal framework which includes provisions derived from Scottish, UK and EU legislation and case law. All existing EU provisions will continue to apply during the negotiation period following service of the Article 50 Notice. However, on the date that the UK's membership of the EU terminates, the continuing effect of any EU legal provision will depend primarily on the terms of the withdrawal agreement that has to be negotiated and also on the type of law and how it has been implemented in the UK.

4.5.2 There are two categories of EU legislation. There are the treaties and Regulations that are of direct effect (ie they don't need UK or Scottish legislation to implement them). In principle these will cease to have effect immediately on the UK's exit from the EU. The second category is law of indirect effect which is in EU Directives. These are the provisions that have to be transposed into domestic legislation through primary or secondary legislation. These provisions will continue to have effect unless specifically repealed.

4.5.3 EU law is adopted into UK law by the European Communities Act 1972. It provides for the direct import of EU Treaties into UK law which will mean that to prevent subsequent EU Treaties applying to the UK, the Act will require to be repealed. However, the UK Parliament is able to introduce a statute to replace the1972 Act which will implement what has been agreed in the withdrawal agreement.

4.5.4 Due to the substantial amount of EU law that is now part of the UK legal system, it will be a difficult task to unpick all of this within a two year timescale.

At this stage, it is understood that the UK Government intended approach will be to adopt a pragmatic approach, putting in place arrangements that will retain all aspects of EU law on day 1 following formal exit and thereafter undertake a programme to revise the as appropriate law over a longer period.

4.5.5 The Council will have a greater interest on how some areas of law derived from the EU are dealt with. For example, the council's procurement function is highly regulated by the EU Procurement regime. Also large areas of employment rights affecting the council's workforce such as maternity leave and TUPE, are derived from EU law; as are significant elements of environmental legislation. The Council will be required to ensure it remains aware of changes and anticipates potential areas where changes in legislation are likely. In this and other respects, particularly around the financial impact on the Council, the Chief Executive will set up a working group to closely examine the implications of Brexit as exit negotiations develop.

EU Nationals and Employees

4.5.6 In terms of the Renfrewshire population, there is limited information available as to the number of EU nationals living and working within the area. Detail from the electoral register suggests there are at least 2,000 EU nationals living in Renfrewshire – however this figure will not include any children, nor any EU nationals who have not attempted to register to vote. The rights after the UK leaves the EU for all EU nationals who reside in the UK and do not have residency status has yet to be clarified and may yet form part of the outcome of the exit negotiation process.

4.5.7 The Council will aim to actively support all Council employees who could be affected by the exit process, but particularly any EU nationals who are employees of the Council – data in this regard is based on employees voluntarily completing equalities questionnaires, so is subject to validation; however it appears that there are at least 20 EU nationals employed by the Council.

4.6 Community Planning Partners

4.6.1 The Council works cooperatively with its community planning partners, many of whom will also be affected directly and significantly by Brexit.

4.6.2 The NHS could be affected in a variety of ways:

- A substantial proportion of the NHS workforce consists of non-UK nationals. If following the exit of the UK from the EU it becomes more difficult to recruit EU nationals for key staff groups (eg consultants, specialist nurses), then this could have an impact on capacity of the NHS to maintain treatment time guarantees and possibly core services where sustainability would be under threat.

- It is not possible to say at this point what effect Brexit may have on pay policy or costs; however as mentioned above if Brexit results in a skills shortage, this could result in premiums being payable for certain skills.

- As with the economy generally, the fall in the Pound could result in higher costs of supplies and drugs sourced from outwith the UK; or difficulty in accessing these if trade agreements are not in place.

- Prior to the vote, Scotland's population was projected to increase by 4% over the next 10 years, much of this increase being attributable to net inward migration. It is possible that this projected increase is now overstated and will impact on future demand pressures.

4.6.3 Higher education could also be adversely affected and some general issues are outlined below.

- European collaboration with UK academics could be diminished, with some universities already reporting they have been asked to withdraw from joint submissions as EU colleagues have little confidence in what the future may hold for UK involvement in collaborative research.

- Current and prospective EU students at UK universities may fear their place may be under threat if their immigration status changes, or if access to student loans or tuition fees support is withdrawn.

- It may be more difficult to attract and recruit EU academics, and also prospective EU students such as those on the Erasmus+ student exchange programme. In the Glasgow City Region in 14/15 there were 6,400 undergraduate and post graduate students from EU member states, 8% of the total.

4.6.4 The University of the West of Scotland is likely to suffer from some if not all of these issues (UWS has in excess of 1,000 EU students and 100 EU staff members), and the Council will discuss these issues with the University and other Community Planning Partners in the coming weeks. UWS has stressed that there is no immediate material change to the University's business, including participation in EU programmes such as Horizon 2020 (an EU funded research and innovation programme) and Erasmus+.

4.7 Local business and connectivity

4.7.1 As detailed above there are many areas where Brexit implications are currently unclear. Owing to these uncertainties there is an increasing risk that businesses will be reluctant to make significant decisions related to investment or recruitment.

4.7.2 An indication of business sentiment is available from a recent Fraser of Allander business survey, which suggests that over 60% of firms surveyed conclude Brexit will have a negative impact on their business, while only 19% viewed Brexit as being positive for their firm. Strikingly, 85% of firms stated they had made little or no preparation for an exit vote, therefore a key priority for many will be assessing what Brexit will mean for them. Building capacity and expertise for a post-Brexit business environment will – as for the government - take time.

4.7.3 For some businesses, notably those who are net exporters, the weakness of the Pound will make their products and services more competitive in the short term. The outcome of trade negotiations however will be critical to the success or difficulty many businesses will face in the longer term. In addition to the economic environment, changes the regulatory environment will impact on business eg changes to VAT regulations, the possible reintroduction of customs levies and controls as well as employment legislation. Some changes could benefit businesses where there is a relaxation of rules or removal of "red tape", which makes the UK more attractive to external investment; however these changes could also affect workers rights.

4.7.4 Renfrewshire hosts many business of national significance (Chivas, Diageo, Rolls Royce, HP) for whom the implications of Brexit are again uncertain. Glasgow Airport is also a large local employer and plays a key role in the nation's infrastructure and connectivity. Whilst there is still a great deal of uncertainty following the EU referendum, the airport has had early conversations with a number of airlines who harbour very real concerns. EasyJet has seen its costs increase by £40m in the four weeks since the referendum as a result of the drop in the pound vs the dollar. As airlines purchase fuel in dollars, they have experienced a marked increase in their cost base. Ryanair has stated it is unlikely to base any additional aircraft in the UK in 2017 as they will be allocated to European Union (EU) airports, whilst Wizz Air has confirmed it is planning to cut its proposed expansion in the UK following Brexit. All three airlines have contributed to Glasgow Airport's growth in passenger numbers over the past 18 months. Early indications from the International Air Transport Association (IATA) also suggest the number of UK air passengers could be 3-5% lower by 2020 as a result of Brexit.

4.7.5 Maintaining access to the European Single Aviation Market and agreements) is a priority for Glasgow Airport. This access has allowed the aviation industry to grow, deliver cheaper air fares and open up new destinations at home and abroad. This continued access to international markets is crucial to supporting the UK aviation sector's future success and growth.

4.8 <u>Housing</u>

4.8.1 There was some speculation in advance of the vote of the potential impact of a Brexit vote on house prices and demand; with some commentators suggesting both would collapse. While there is some anecdotal evidence of a reduction in some sale prices, there is also evidence that prices are holding up (eg the Nationwide Building Society July 2016 data for mortgage offers).

4.8.2 There is also some evidence since the vote of a reduction in houses being put up for sale as sellers adopt a "wait-and-see" approach which could be sustaining prices, in addition to an acknowledged under-supply of new housing.

4.8.3 Fears of poor economic growth in the UK have had an impact on the value of house builders, with many seeing a sharp fall in their share prices following the Brexit vote which has not rebounded as other FTSE companies have. There is also anecdotal evidence of some hesitance by housebuilders to commit to further developments. Whilst there is no indication of any impact for strategic housing sites in Renfrewshire eg the Bishopton ROF site, the Council should remain alert to market sentiment.

4.8.4 The demand for affordable housing is unlikely to diminish in the wake of the Brexit vote, and could possibly be exacerbated if there is a general economic downturn. Investment in housing, as with infrastructure project investment generally, could be viewed as a tool to mitigate the potential impact of the Brexit vote.

Implications of the Report

1. **Financial** – the Brexit vote presents significant economic and financial risks for the Council as outlined in the report.

2. **HR & Organisational Development** – as outlined in the report.

3. **Community Planning** – as outlined in the report

4. **Legal** – as outlined in the report

5. **Property/Assets** - none

6. **Information Technology** – n/a

7. **Equality & Human Rights** - The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.

8. **Health & Safety** – n/a

9. **Procurement** – there could be significant changes to procurement regulations following Brexit, however the UK government could opt to continue with regulations at a UK level which reflect the EU standards in order to accommodate any requirement to continue to be able to access EU markets.

10. **Risk** – as outlined in the report.

11. **Privacy Impact** – n/a

List of Background Papers

(a) UK Economic Outlook, PWC, July 2016
(b) EU Referendum: Impact of Brexit on the Government & Public Sector, Ernst Young, 27 June 2016
(c) Glasgow City Region City Deal, Brexit - Briefing on possible implication for City Deal, KPMG, (report to City Deal Cabinet 16 August 2016)
(d) Economic Commentary, Fraser of Allander, July 2016
(e) Business Survey: First Reactions to EU Referendum Outcome, Fraser of Allander, 15 July 2016
(f) Inflation Report, Bank of England, August 2016
(g) Brexit and Local Government, House of Commons Briefing Paper, Number 07664, 20 July 2016
(h) UK Commercial Property Market Survey, Q2 2016, Royal Institute of Chartered Surveyors
(i) Markit Flash UK PMI, News Release, 22 July 2016
(j) CFO Survey Q2 2016, Deloitte
(k) "TrEUble and Strife" report, CIPFA
(l) EY Item Club Summer Forecast, Ernst Young, July 2016
(m) Brexit – A public sector perspective, Grant Thornton
(n) Understanding local government Brexit Impacts, Grant Thornton, 31 July 2016
(o) The process of withdrawing from the European Union, HM Government, Cm 9216, February 2016
(p) "IMF warns of 'spanner in the works' and slashes forecasts", article in Financial Times, 20 July 2016
(q) World Economic Outlook, Update July 2016, IMF, July 2016
(r) Brexit: What next for Scotland's Economic Strategy?, Fraser of Allander, July 2016

Author: Alastair MacArthur, Head of Finance Ext 7363