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<b>Report To:</b>	<b>Policy and Resources Committee</b>	<b>Date:</b>	<b>15 November 2016</b>
<b>Report By:</b>	<b>Chief Executive</b>	<b>Report No:</b>	<b>P+R/16/11/01//AF/SJ</b>
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<b>Subject:</b>	<b>Implications of Brexit</b>		

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## **1.0 PURPOSE**

- 1.1 The purpose of this report is to discuss potential implications of the decision by the United Kingdom to leave the European Union following the referendum in June 2016.

## **2.0 SUMMARY**

- 2.1 Members are aware that the United Kingdom voted for a British exit, or Brexit, from the European Union in a referendum on Thursday June 23, 2016.
- 2.2 It is likely that the decision will have an effect on monetary, fiscal, trade, industry, immigration, and labour markets.
- 2.3 A number of forecasters indicate a sharp slowdown in the rate of growth in the Scottish economy over the next 3 years as a result of the decision to leave the EU, and this is likely to be transmitted into the Inverclyde economy.
- 2.4 The decision may cause a prolonged period of economic uncertainty and financial volatility as the terms of 'exit' are negotiated and beyond. This will carry risks for investment, household incomes and growth. There is a probability that trade and investment will be damaged by the decision to become less integrated with the EU. As businesses and investors adjust their expectations to life outside the EU, it is expected for growth to be lower than it would otherwise have been. Equally, it is fully recognised that there are many unknown issues that make any forecasting highly subjective from any perspective.
- 2.5 There are many unknowns in relation to Brexit, however it is essential that Council continues to review the potential implications of Brexit, engages with the Community and Business, and reacts appropriately during the negotiation period.

## **3.0 RECOMMENDATIONS**

That the Committee:-

- 3.1 note the report; and
- 3.2 agree to regular updates on Brexit as the situation unfolds.

## 4.0 BACKGROUND

- 4.1 The United Kingdom has been a member state of the European Union (EU) and its predecessor, the European Economic Community (EEC), since 1973.
- 4.2 The European Union Single Market refers to the EU as one territory without any internal borders or other regulatory obstacles to the free movement of goods and services.
- 4.3 Members are aware that the United Kingdom voted for a British exit, or Brexit, from the European Union in a referendum on Thursday June 23, 2016.
- 4.4 To date, the value of the Pound has fallen compared the Euro since Brexit. This has both a positive and negative impact on manufacturing and inflation.
- 4.5 A significant effect of being part of the European Union has been a requirement to embrace and apply European Policy and Laws. At this stage it is unclear how much effect the decision to leave the European Union will have on fiscal policy. If Brexit achieves ongoing participation in the single market then it is likely that whilst the United Kingdom may apply its own policy and laws, it will still have to meet the same standards as European Law. These standards would not be required if the UK does not participate in the single market, these standards will not be required.
- 4.6 The impact on UK trade with Europe will depend on the relationship between the UK and the EU after Brexit. In the most likely scenarios – either the Swiss model, or an FTA-based relationship – regulatory divergence that adds to the cost of trade is likely to increase over time, damaging bilateral trade volumes and the UK's position in European supply chains. The costs will be borne by consumers as well as businesses.
- 4.7 The decision may cause a prolonged period of economic uncertainty and financial volatility as the terms of 'exit' are negotiated and beyond. This will carry risks for investment, household incomes and growth. Secondly, there is a high probability that trade and investment will be damaged by the decision to become less integrated with the EU. As businesses and investors adjust their expectations to life outside the EU, it is expected for growth to be lower than it would otherwise have been. Whilst it is not expected for the UK to fall into recession Gross Value Added estimates are being revised to negative figures.
- 4.8 Commentators recognise that the Brexit decision has unsettled a large part of the community of European Nationals living in the UK who have entered the UK from mainland Europe. Decisions on the free movement of EU Nationals are currently a significant burden for the European Union.
- 4.9 Forecasters have revised their population estimates, where growth was previously anticipated they have now revised their estimates to reflect short term growth only in London. Given the fragile nature of Inverclyde's population, the revision of these estimates is of particular concern.
- 4.10 The UK has a population of approximately 63.7 million of which 5.3 million are non British, and of those 2.9 million are from Europe. Reports suggest that there are approximately 2.1 million European Nationals working in the United Kingdom. This represents a significant part of the labour market.
- 4.11 Since 2008 Inverclyde has benefitted from over £7 million of European Funding. This funding has been from the European Regional Development Fund and the European Social Fund. In the current programme European Funding is used to support our employability pipeline activities and these benefit from intervention rates which vary from 40-67%.
- 4.12 There is a large amount of speculation about the immediate/medium and long term impact of the UK leaving the European Union and, given the potential scale of this, it is important that the Council's Financial Strategy recognises the risks and, as firm information becomes available, reflects this in forward planning assumptions.
- 4.13 Impacts predicted include rises in inflation due to the increased price of imports as the pound loses value against other currencies, increased interest rates and a deterioration of the public

finances. The extent to which these factors may impact is unclear at present and some of the predicted immediate impacts following the vote to leave have not arisen to the extent forecast. A recent Directors of Finance briefing by John McLaren from Strathclyde University summarises the position as follows: “These figures are very much guesstimates, as the current lack of much in the way of any negative impacts has highlighted. All the analysis is based on UK forecasts which are highly subjective at present and driven by assumptions rather than evidence.”

## 5.0 PROPOSAL

- 5.1 It is proposed that Officers and Members continue to monitor the Brexit situation and participation in forums, including COSLA, which allow positive participation in the debate is fundamental, both at a Holyrood and Westminster perspective.
- 5.2 Continued engagement with the business community through the Chamber of Commerce and the Federation of Small Businesses is key to ensure that the Council both informs and is informed on business opinions.
- 5.3 Regular reports to Committee providing updates will be made.

## 6.0 IMPLICATIONS

### Finance

#### 6.1 Financial Implications:

##### One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments

Annually Recurring Costs/ (Savings) – **The budget is 100% external contract.**

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

### Legal

- 6.2 There are no legal implications arising from this report.

### Human Resources

- 6.3 There are no HR implications arising from this report.

### Equalities

- 6.4 There are no equalities implications arising from this report.

### Repopulation

- 6.5 It is too early in the process to identify repopulation issues.

## **7.0 CONSULTATIONS**

7.1 Consultations with Departments have included all Heads of Service and appropriate Finance Officers.