

EUROPEAN UNION (EU) – EXIT PLANNING

REPORT OF THE EXECUTIVE DIRECTOR OF CORPORATE SERVICES

1. PURPOSE OF THE REPORT

- 1.1 To provide the Scrutiny Coordinating Committee with an update on the Council's European Union – Exit Planning arrangements.

2. EUROPEAN UNION (EU) – EXIT PLANNING

- 2.1 Members will be aware the UK left the EU on 31st January this year and as part of the Withdrawal Agreement entered into an 11 month Transition Period – to allow the Government to seek to put in place a Trade Deal.
- 2.2 Officers have continued to track progress with regard to the negotiations and assess the potential risks.
- 2.3 On 17th November, an update report was provided to Cabinet on the negotiations, the key risks for the City and Council within the context of Covid-19 and entering the winter period, and the Council's exit planning arrangements.
- 2.4 A copy of the Cabinet report is appended for the Committee's consideration.

3. RECOMMENDATION

- 3.1 The Scrutiny Coordinating Committee is recommended to consider and comment on the information provided in the report.

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CABINET MEETING – 17 NOVEMBER 2020

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

European Union (EU) - Exit Planning

Author(s):

Executive Director of Corporate Services

Purpose of Report:

To provide Cabinet members with an update on the Council's European Union – Exit Planning arrangements.

Description of Decision:

To note and agree the Council's European Union – Exit Planning arrangements.

Is the decision consistent with the Budget/Policy Framework? **Yes**

Suggested reason(s) for Decision:

To ensure that the Council is prepared to respond to the end of the transition period.

Alternative options to be considered and recommended to be rejected:

The alternative of not preparing for the end of the transition period was not considered prudent and therefore rejected.

Impacts analysed:

Equality ☐ Privacy ☐ Sustainability ☐ Crime and Disorder ☐

Is the Decision consistent with the Council's co-operative values? **Yes**

Is this a "Key Decision" as defined in the Constitution? **No**

Is it included in the 28 day Notice of Decisions? **No**

EUROPEAN UNION (EU) - EXIT PLANNING

Report of the Executive Director of Corporate Services

1. Purpose of the Report

- 1.1 To provide Cabinet with an update on the Council's European Union – Exit Planning arrangements.

2. Description of Decision (Recommendations)

- 2.1 To note and agree the Council's European Union – Exit Planning arrangements.

3. Introduction/Background

- 3.1 The UK left the EU on 31 January 2020. Under the Withdrawal Agreement with the EU, the UK has until 31 December 2020 ("the Transition Period") to negotiate and implement new trade and customs arrangements with the EU before it leaves the EU Single Market and Customs Union on 1 January 2021.
- 3.2 The Council's planning for the United Kingdom's (UK's) European Union (EU) exit was initiated in September 2019. A risk register was regularly reported to the Chief Officer Group (COG), along with briefings to Portfolio Holders.
- 3.3 Upon the UK leaving the EU on 31 January 2020 these arrangements were stood down until September 2020, pending the development of the UK-EU trade negotiations. At that point, the state of negotiations was to be assessed and the risk assessment updated with a view to any mitigations being required.
- 3.4 Reporting to COG recommenced at its meeting on 8 September. Chief Officers agreed to reinstate the EU exit planning arrangements via regular updates to COG on relevant policy and risk management considerations.
- 3.5 Reviewing past arrangements in the context of the emerging picture of the trade negotiations plus the Covid-19 pandemic, flu and the potential for severe winter weather is part of the Council's preparations for potential impacts arising across winter 2020/21. This is focussing Council activity to respond quickly and appropriately to the evolving situation.

4. UK-EU Trade Negotiations

The comments below are based on the position as at 28/10/20.

- 4.1 The UK and EU originally agreed that a trade deal should be negotiated by 31 October to allow time for ratification by both sides.
- 4.2 The ninth round of EU-UK trade negotiations concluded on 2 October without agreement.
- 4.3 On 3 October the Prime Minister and President of the European Commission agreed that the trade deal negotiations would continue until the end of November if necessary.
- 4.4 UK-EU trade negotiations resumed on 22 October. During this so-called “tunnel phase” the negotiations will take place daily including weekends, unless both sides agree otherwise. Either the chief negotiators or their deputies will also meet every 24 hours and to maintain focus on the negotiations, regular briefings and updates to the press are not planned.

5. Key Policy Considerations

- 5.1 Membership of the EU Single Market and Customs Union currently enables the frictionless movement (zero tariffs and quotas, harmonisation of product rules and standards, no checks at borders and no customs formalities) of people, goods, services and capital between the UK and EU.
- 5.2 Unless the UK-EU trade deal negotiations are concluded with the inclusion of a new customs agreement between the two parties, the UK will leave the EU Single Market and Customs Union on 1 January 2021 and frictionless trade between the UK and EU will cease.
- 5.3 Currently, delays to UK-EU imports/exports are limited to the availability of capacity on cross-border transport, with logistics companies scheduling haulage arrivals at ports of departure to minimise waiting times.
- 5.4 The Government has acknowledged that, should the UK exit the Transition Period without a customs agreement and associated regulatory frameworks in place with the EU, new UK customs and regulatory paperwork and checks will lead to up to 48 hours delays for UK imports and exports.
- 5.5 The Government considers that delays will be worst for the first two weeks of January 2021 and potentially for up to 3 months. However, the Road Hauliers Association considers that the period for delays could last for longer, potentially up to one year or longer.

- 5.6 The level of imports to the UK from the EU is significant. According to Statistics on UK-EU Trade published by the House of Commons Library in July 2020, in 2019 51% of all UK imports were from the EU. The UK imports 40% of its food. Of this three quarters arrive from the EU, equating to 50,000 tonnes of food arriving from the EU daily. Some goods are almost exclusively supplied from the EU. According to the Government's own estimates, three quarters of the UK's medicines and medical supplies come via the EU and, for example, the Agriculture and Horticulture Development Board reported in February 2019 that 99% of frozen potato products in the UK are imported from the EU.
- 5.7 The UK supply chain industry works on a just in time basis across many sectors including foods, medicines and oil for refining. According to the UK Warehousing Association, there is relatively little large-scale UK warehousing for goods, especially for refrigerated warehouses, with only 380 nationally. Most goods are only warehoused for a short period and capacity is estimated to be at around 90%.

6. Concurrent Events

- 6.1 The potential impacts of the UK leaving the Single Market and Customs Union coincides with the pressures associated with Covid-19, the flu season, winter weather preparations/risks and potential industrial action in French ports. Planning and risk assessments are being undertaken in this context.

7.0 Risk Assessment

- 7.1 In line with normal operations, the Council has in place a range of Business Continuity Plans as the basis for prioritisation and response activity.
- 7.2 In addition, an EU Exit Risk Register is in place. The purpose of the register is to ensure key risks are identified, assessed and managed as far as is possible/practical.
- 7.3 The key issues arising are set out below.
- An overarching risk is the disruption to Council services which would be mitigated by normal Business Continuity planning, that has worked effectively in response to Covid-19. However, a combination of the UK's exit from the EU, Covid-19, flu and adverse winter weather would put an increased strain on services. In a worst-case scenario, the next stage of Business Continuity would be to prioritise from the Critical Functions List to ensure that the most critical services could be maintained.

- The register identifies the potential impact on communities and the provision of help and assistance that will be required to enable residents and communities to support themselves. A coordinated media and public information response are in development targeting specific issues and audiences utilising social media, staff communications, local / national media. The areas where issues may arise include:
 - Potential shortages of food and/or food types (possibly exacerbated by panic buying) and/or price increases. The Council operates a crisis support scheme for people who lack the financial resources for food. In addition, foodbanks provide support to people referred to them, who are in immediate financial crisis and who lack money to buy food. The Council continues to provide a range of support to foodbanks in Sunderland and their customers assisting with food supplies, funding and other resource, e.g. fridge/freezers. At present foodbanks are not reporting any significant stock shortages. Details are being obtained of their own contingency planning, including the planning being undertaken nationally by Trussell Trust, Britain's largest food bank network. They have predicted nationally that there will be a spike in food bank use. Area Hubs will continue to support local communities.
 - Shortages of medicines and medical supplies. The Department of Health & Social Care (DHSC) has asked suppliers to find alternative routes away from the Channel ports and to buffer stocks of medical supplies. DHSC is working with the NHS on centralised stocks. Arrangements are being put in place for individual medicines to be subject to Severe Shortage Protocol (SSP).
- It is recognised that the Council alone cannot mitigate all potential issues and the register identifies the need for city and regional partners to be responsive. For example:
 - As a member of the North East Combined Authority the Council is represented on the North East Local Enterprise Partnership's North East Brexit Group which provides a collective single voice to contribute to and influence the ongoing national dialogue around the UK leaving the EU.
 - The North East COVID-19 Economic Response Group, made up of the North East Local Enterprise Partnership (LEP), CBI, North of Tyne and North East Combined Authorities with the support of industry, has published the ambitious North East Recovery and Renewal Deal which asks Government for £2.8 billion investment. The Response Group recognises *"forces such as the EU exit, which will change our relationship with the EU and the rest of the world, as well as the way in which our businesses trade, invest and operate."*

- Discussions have been held with city partner communications leads to assess the level of preparedness to provide advice and guidance to respond to EU Exit as well as the cumulative impacts of Covid-19 etc.
- There is the potential for a negative impact on the city's economy arising from increased costs, and a possibility of a loss of future business by companies from current sources due to the impact of tariffs and additional process-related costs on overall price-competitiveness. The Government has an ongoing campaign relating to businesses being prepared for the post transition arrangements.
- Across the advanced manufacturing sector, many UK and city companies operate on a just in time logistics basis, either directly or through a third party logistics provider. It is generally the case that manufacturing companies do not carry large volumes of surplus stock due to the costs associated both in terms of purchasing additional stock ahead of time and of associated storage. Many companies are however developing contingency plans, as they have done for previous such deadlines, although some are experiencing difficulty due to the continued uncertainty regarding future arrangements. Discussions are ongoing with companies in relation to particular risks they may face.
- There is the potential for an adverse impact on Council finances arising from increased costs. EU funding will cease and will be replaced by the UK Shared Prosperity Fund. Full details of the new funding scheme are awaited. The 2021/22 budget (revenue and capital) will go to Council for approval in March 2021, following the usual consultation and scrutiny and will reflect any adverse impacts from the UK's exit from the EU.
- On-going analysis of the Council's supply chain risk is being undertaken. Responses from suppliers is varied with some stating that they are currently focused on Covid-19 issues and not EU exit planning. Potential shortages of food (and/or food types) will not only impact on communities but the council will have a particular interest in school meals, care & nursing homes and vulnerable people. The Council's supply chain of frozen food/fruit & veg/groceries are predominately supplied from the EU and may therefore be subject to delays and price increases. The Council is working with NEPO who are currently liaising with suppliers. Early indications are that food suppliers have increased the stock levels where they can and plan to switch to UK products and sourcing from non-EU countries to keep price increases to a minimum.

- The pressure on Council services may be increased if there was a reduction in the availability of care workers or if council employees fail to register for the UK Settlement Scheme. A self-assessment questionnaire produced by the DHSC explores the plans to mitigate the risks to the continuity of services in care settings, arising from the impact of COVID-19 and EU transition. The outcome of the Council assessment gave reasonable assurance as to the availability of care workers and providers in Sunderland. Adult Services has identified a few members of staff, who will need to register for the UK Settlement Scheme and they are being supported to do this.
- Vehicle fuel shortage caused by delays/reductions in supply. The Council has a Fuel Disruption Plan which feeds in to the LRF Fuel Protocol - this focuses on prioritisation of functions within the Critical Functions List. A recent assessment of the adequacy of the Council's fuel reserves concluded that the current diesel capacity is adequate with about 5 weeks usual usage or 12 weeks utilising the Fuel Disruption Plan. Being mindful of adverse winter weather, it was established that there is an adequate supply for gritters as they run on gasoil.
- There remains a risk of an increase in social unrest and protests. The Safer Sunderland Partnership, which includes Northumbria Police and the Council already has arrangements in place to tackle any crime, disorder or anti-social behaviour in the city.

7.4 The risk register is a live document that is regularly reviewed and considered by the Chief Officer Group.

8. Reasons for the Decision

8.1 To ensure that the Council is prepared to respond to the end of the transition period.

9. Alternative Options

9.1 The alternative of not preparing for the end of the transition period was not considered prudent and therefore rejected.

10. Impact Analysis

- (a) **Reduction of Crime and Disorder – Community Cohesion / Social Inclusion** - There remains a risk of an increase in social unrest and protests. The Safer Sunderland Partnership, which includes Northumbria Police and the Council already have arrangements in place to tackle any crime, disorder or anti-social behaviour in the city.

11. Other Relevant Considerations / Consultations

- (i) Financial Implications** – There are no direct financial impacts as a consequence of this report. The wider financial impact of the EU Exit will be taken account of in the Council's Medium-Term Financial Plans and budget monitoring processes.
- (ii) Risk Analysis** – Risk Register is in place and regularly reviewed by Chief Officer Group.

12. Background Papers

EU Exit Risk Register