

REPORT TO: POLICY AND RESOURCES COMMITTEE - 26 APRIL 2021

REPORT ON: BREXIT UPDATE

REPORT BY: CHIEF EXECUTIVE

REPORT NO: 112-2021

1. PURPOSE OF REPORT

This report updates members on the impact of the new relationship between the UK and the EU since 1 January 2021, provides information on related domestic political developments, and describes work being carried out by the Council to deal with the consequences of the post-Brexit arrangements.

2. RECOMMENDATIONS

2.1 It is recommended that members:

- (i) note the information provided on the impact of the new relationship between the UK and the EU and on other related domestic political developments; and
- (ii) note the work which continues to be carried out by the Council to deal with the consequences of the post-Brexit arrangements.
- (iii) remit the Chief Executive to write to the UK Government setting out Dundee's case to be included in the Community Renewal Fund pilots as a precursor to receiving funding from the UK Shared Prosperity Fund.

3. FINANCIAL IMPLICATIONS

- 3.1 There are significant financial and operational risks for the Council associated with the UK's departure from the EU, which are likely to exacerbate the financial issues caused by COVID-19. These are being actively monitored by officers.
- 3.2 Impacts will continue to be assessed and reported to Committee as further information on the consequences of the UK's new relationship with the EU becomes known.

4. LATEST DEVELOPMENTS

4.1 Trade between the UK and EU

- 4.1.1 The volume of lorries going from the UK to the EU has increased since the low levels in the immediate period after 1 January, and the UK Government suggest that the level of freight traffic is almost back to normal. However, concerns have been expressed that more lorries are returning to Europe empty than was the case prior to the UK leaving the single market. The Office for National Statistics reported in March that UK goods exports to the EU fell by £5.3 billion (40.7%) in January 2021 compared to the same month in 2020. The ONS said it was "likely the result of temporary factors" including stockpiling prior to the end of the transition period and the emergence of a new strain of COVID-19 which required lorry drivers to take tests to cross the border at the English Channel. The ONS advised against reading too much into the January data. Figures for February, published in mid-April, showed a partial recovery in exports but these remained below 2020's levels. Figures for January also showed that the Republic of Ireland imported £856m less of British goods in January 2021 compared with the same month in 2020. That represents a fall of 65%, with the decline of food imports from Great Britain even steeper, down by 75%. Some of the decline may have been influenced by stockpiling (e.g. imports of chemical and pharmaceutical products from Great Britain were by down by 60% but that followed a spike in imports during December). There may also have been some pandemic factors, for example the lockdown of hospitality may have had an effect on food imports. However, food imports to the Republic of Ireland from the wider EU were only down by 13%.

- 4.1.2 Particular concerns have been expressed about products from Scotland such as seafood and whisky, and an article in the local press in February reported that there had been a 'worrying' decline in exports from firms in Tayside. Dundee and Angus Chamber of Commerce are working to understand whether this is a 'timing' issue (as firms had exported more in the lead up to 31 December 2020 to give breathing space before adjusting to the new customs arrangements) or is suggestive of a wider concern about doing international trade. It does appear that small firms in particular are finding the additional costs and paperwork a deterrent to trading with the EU. The Federation of Small Business said in mid-April that around a fifth of smaller firms which export goods have temporarily halted sales to the EU while some have given up exporting to Europe on a permanent basis.
- 4.1.3 In February, the UK Government announced a £20 million SME Brexit Support Fund which will offer support to small and medium businesses to adjust to new customs, rules of origin, and VAT rules when trading with the EU. Businesses will be able to apply for a grant of up to £2,000 to pay for practical support for importing and exporting and to help prepare for the implementation of import controls. It was also announced in March that checks on some EU goods coming into Great Britain have been delayed by a further six months to give businesses more time to prepare. The need for health certificates on imports such as meat and milk will be pushed back from April to October 2021, while in-person inspections on animal products due from July will now begin in January 2022. It is the second time that the timetable for these checks, originally due to start when the transition period ended on 1 January 2021, has been put back. The European Union has been implementing full checks on goods sent from the UK since the start of the year.
- 4.1.4 There continue to be issues relating to trade between Great Britain and Northern Ireland and the operation of the Protocol which was designed to cover Northern Ireland remaining within the single market to avoid a hard border with the Republic of Ireland. The UK Government announced in March that it was unilaterally extending from April until October the grace period before full checks are carried out to comply with the Protocol. The EU says this breaks international law and is taking legal action on the basis of the trade deal negotiated in December 2020.

4.2 EU Settlement Scheme

- 4.2.1 The deadline for applications to the EU Settlement Scheme is 30 June 2021, and the UK Government is resisting calls to extend this deadline to reflect the difficulties in providing face-to-face help with applications during the pandemic and concerns that some vulnerable people may 'slip through the net'.
- 4.2.2 The Home Office has updated its guidance for staff dealing with the EU Settlement Scheme, which includes a section on reasonable grounds for failing to meet the 30 June deadline. The guidance is not exhaustive and the document states that every case must be considered in light of its particular circumstances. Examples of reasonable grounds include: children (including children in care and care leavers); physical or mental capacity and/or care or support needs; a serious medical condition or significant medical treatment; victims of modern slavery; abusive or controlling relationship or situation; and other compelling practical or compassionate reasons.

4.3 University Applications

- 4.3.1 Data published by UCAS in February showed that applications from EU citizens to British Universities were down by 40% compared to the previous year, from 43,030 to 26,010.
- 4.3.2 This national trend is reflected in applications to both Dundee and Abertay Universities. However, both advise that, although there will be a loss of diversity with less students from EU countries, there will be no reduction in overall student numbers due to applications from other areas.

4.4 Erasmus and Turing Schemes

- 4.4.1 Despite a letter signed by 145 MEPs asking that Scotland should be allowed to participate in the Erasmus scheme in its own right, the EU Commission has said that the UK would have to

associate with the scheme as a whole or not at all. However, options for Scotland's involvement are still being pursued by MEPs and the Scottish Government.

- 4.4.2 The UK Government has launched the Turing scheme to replace Erasmus but this is more limited in terms of funding and scope and, in particular, does not offer the opportunities for teachers, youth groups etc which were so beneficial in Dundee as described in previous reports. The Turing scheme will provide funding for around 35,000 students in universities, colleges and schools to go on study and work placements overseas, starting in September 2021. The UK Government says the scheme will be targeted at parts of the country with historically low levels of take-up of previous schemes and that disadvantaged students will be supported with additional grants for living costs and travel expenses.

4.5 Funding

- 4.5.1 Regarding the UK Shared Prosperity Fund, the UK Government has announced that it will publish a UK-wide investment framework in Spring 2021 and will then confirm multi-year funding profiles at the next Spending Review. In the meantime, it was announced alongside the Chancellor's UK Budget that a new Community Renewal Fund will see £220m of revenue funding made available in 2021-2022 to help local areas prepare for the introduction of the UK Shared Prosperity Fund. The funding aims to support people and communities most in need across the UK in pilot programmes and new approaches and will invest in: skills; community and place; local business; and people into employment. The UK Government has identified 100 priority places based on an index of economic resilience which measures productivity, household income, unemployment, skills and population density. Although there are 13 areas included in the list from Scotland, Dundee is not among them. There are concerns that, as the Community Renewal Fund is being used as a pilot/precursor to the UK Shared Prosperity Fund, if the UK Government continues to use the same assessment methodology of prioritising areas then Dundee may lose out on significant potential funding. There have been many approaches to the UK Government on the methodology and its flaws. For example, they appear to be using rurality as an identifier of need, or people with no qualifications (which is more biased towards older generations as most young people now leave school with some sort of qualification). Although the UKSPF will see 2 elements of support delivered differently – with a place-based approach for regeneration etc. and a needs based approach for employability – there are concerns about the implications for Dundee.
- 4.5.2 The UK Government has also announced that they are extending the 'Levelling Up' fund previously announced for England to the other 3 nations of the UK, adding another £0.8 billion to the scheme on top of the original £4 billion. Information on who can bid, and for what projects, was published on the day of the Chancellor's Budget. The Fund will invest in infrastructure that improves everyday life, including regenerating town centres and high streets, upgrading local transport, and investing in cultural and heritage assets. The Prospectus says funding will be targeted towards places with the most significant need, as measured by an index which takes into account the need for economic recovery and growth, improved transport connectivity and regeneration. Using this index, places have been placed into category 1, 2, or 3, with category 1 representing the highest levels of identified need. Dundee is in category 1. In the first round of funding, the UK Government will prioritise projects which are able to demonstrate investment or begin delivery on the ground in the 2021-2022 financial year, and there will be future opportunities to bid in subsequent rounds. The Executive Director of City Development is preparing a report regarding a bid from Dundee.
- 4.5.3 It seems clear that, with both the UK Shared Prosperity Fund and Levelling Up Fund, the UK Government intends to largely bypass the devolved administrations and manage these funds on a UK basis. The Levelling Up Fund will be jointly managed by HM Treasury, the Ministry of Housing, Communities and Local Government (MHCLG) and the Department for Transport (DfT). The Prospectus for the Fund says "Where appropriate, MHCLG and DfT will seek advice from the relevant devolved administrations at the shortlisting stage on projects that will be delivered in their geographical areas, including on deliverability and alignment with existing provision".

4.6 Employee Protections

- 4.6.1 The Financial Times reported in February that employee protections enshrined in EU law could be removed. It said a package of deregulatory measures is being put together by the UK Government's business department and, although this has not yet been put to the Cabinet, some business leaders have been sounded out. The main areas of focus are on ending the 48 hour working week, amending the rules around rest breaks at work and not including overtime pay when calculating some holiday pay entitlements.
- 4.6.2 Changes like this would potentially mark a clear divergence from EU labour market standards. However, the UK would only face retaliation under the terms of the post-transition trade deal if the EU could demonstrate that the changes had a material impact on competition. EU officials have said that decisions on whether to trigger tariffs and other "rebalancing measures" against the UK will depend on the practical effects of policy decisions. Since enforcement of some of these employment rules across the EU is patchy, it might be difficult to prove the practical impact on competition.

5. COUNCIL ACTION

5.1 Horizon Scanning/Engagement with Governments, COSLA etc

- 5.1.1 Officers involved in the Brexit Advisory Team have continued to monitor developments and participate actively in teleconferences organised by the UK and Scottish Governments, COSLA etc with the aim of ensuring that any risks and/or opportunities flagging nationally or from other local authorities are assessed here.
- 5.1.2 Officers within the Council also continue to participate actively within their professional networks and liaise with other Councils and bodies such as COSLA, ESEC, SLAED, Scottish Cities Alliance etc on a regular basis.

5.2 Citizens' Rights

- 5.2.1 Information on the number of applications to the settled status scheme (EUSS) continues to be monitored. The Home Office's latest quarterly statistics included applications up to 31 December 2020 and showed that 7,900 applications had been made by Dundee residents, of which 7,310 had been concluded. By 31 December, 3,880 Dundee residents had been awarded full settled status and 3,270 pre-settled status, with 170 applications described as 'other outcome'. There is no mechanism to know exactly how many people in each Council area are eligible to apply, but based on the estimates available Dundee appears to have a relatively high % of applications submitted from the estimated number of EU nationals in our area, compared to other Scottish local authorities. The National Records of Scotland estimated there were 6,000 EU citizens living in Dundee but recognised this could be out by 3,000 either way. In any case, the number of EU nationals living in an area is not necessarily an exact match for the number of people who might be expected to apply for settled status (for example, those who can apply for settled status include non-EEA national family members and eligible EEA citizens not resident in the UK who are not usually included in estimates of the resident EU/EEA population, while estimates of EU/EEA nationals living here will include some people who have no intention to settle in Scotland permanently). Clearly the 6000 was an under-estimate, as there have already been significantly more than this number of applications. If the figure was as high as 9,000, then the number of applications approved to 31 December would represent around 79.4% of this figure and the number of applications made by that date would represent around 87.8%. Officers are investigating if figures might be available by local authority area on any increase in applications for British citizenship, as some EU citizens have chosen that route to secure their future in the UK rather than applying for settled status.
- 5.2.2 A communications campaign has continued to ensure that EU citizens are aware of the need to apply for settled status and aware of the assistance available. Officers have continued to update the dedicated page on the Council's website which outlines the EUSS scheme and signposts people to UK/Scottish Government information and sources of advice and assistance. Social media channels such as Twitter, Facebook and LinkedIn have also been used, with regular posts providing key information. A flyer about the scheme was included in the mailing sent to

over 70,000 households about the 2021/2022 Council Tax, with electronic copies of this information being shared widely with local organisations.

- 5.2.3 A priority remains to ensure that vulnerable people are assisted to apply, and efforts have been stepped up to raise awareness among employees who may be in contact with people who need to apply but may lack awareness of this or lack the capacity to apply independently. There are particular concerns about older people and people with physical or mental health issues, those who may have more transient lifestyles and those who have poor English or are less likely to access sources of information and advice. Further information has been sent to services and we have promoted awareness raising sessions. Information has also been targeted through trade unions, Dundee Pensioners Forum and the Pension Fund website, and recorded messages about the scheme have been added to Council helplines. Schools have also recently shared information with parents across their social media channels.
- 5.2.4 The Council has a responsibility to apply for settled status on behalf of any looked after children who are EU citizens. Children and Families have identified that we now have four children in our care who are citizens of a country to which the EUSS applies, and those children are being supported in the process with expert advice from an International Organisation for Migration caseworker. Awareness has been raised among social work managers to ensure that any further EU children who come into our care will also be supported through the EUSS process if appropriate. In addition, the Council's Aftercare Team keeps in contact with many care leavers until they are 26, along with a small number over that age, and are communicating information about the EUSS to that group in response to concerns expressed nationally about a low take-up of the scheme among those who have left care in recent years.

5.3 Local Economy/Businesses

- 5.3.1 Businesses have been encouraged to adapt to the changing environment and, in particular, to changes to rules on exports and imports, including the 'rules of origin' requirements, which may affect them and their supply chains. This has included promoting information from Scottish Enterprise, Business Gateway and both Governments.
- 5.3.2 In particular, the Council has helped to promote services offered by Dundee and Angus Chamber of Commerce to help local businesses prepare for the changes - including events, webinars and their service to assist businesses with export documentation and customs declarations - and officers continue to work closely with the Chamber on any additional assistance which the Council can provide. As an example, discussions took place with the Chamber following press reports that exports from firms in Tayside had fallen, with the aim of establishing the impact on local firms and offering any assistance the Council could provide. The biggest issues they have seen to date, affecting smaller businesses in particular, are lack of understanding of new procedures and processes, lack of staffing resources to complete the paperwork and manage processes which leads to mistakes, and additional costs. Officers plan to do further research with the Chamber and also promote a new International Trade training course which the Chamber is developing. The focus to date has been largely on exports to the EU, but work is also planned to assist businesses which import from the EU, as more changes affecting them are being phased in this year as described earlier in this report.
- 5.3.3 Support for the local economy will be a key consideration of the city's COVID-19 Recovery Plan and any Brexit related impacts will be factored into the associated workstreams.

5.4 Workforce

- 5.4.1 Officers have continued to communicate with the Council workforce about EU settled status. This has been done through the One Dundee staff intranet, allstaff emails, weekly round-up and the Chief Executive's monthly blog, and these communications have also encouraged employees to share information with friends and relatives.
- 5.4.2 The likely impact on service delivery if the number of EU citizens in the workforce was to reduce continues to be assessed as low, and as manageable through workforce planning. The Human Resources team are not anticipating any major implications for the Council's workforce based on current establishment and recruitment patterns. The new points-based immigration system will have implications for recruitment, and Human Resources have updated their procedures to

take these into account. The intention is to extend the Council's status as sponsors to allow recruitment of non-UK citizens as appropriate.

- 5.4.3 Dundee Health and Social Care Partnership commissions a significant level of social care from external partners. The Partnership will continue to liaise with providers to identify any workforce issues following the changes to immigration rules.

5.5 Procurement

- 5.5.1 All services have been reminded to identify any concerns or issues which emerge, and to highlight any intelligence received from professional networks, regarding supply chains and the cost and availability of any products or services they use.
- 5.5.2 Much of the Council's procurement is done through Scotland Excel and they continue to produce detailed information regarding commodities that have been impacted and are likely to be further impacted due to a concurrence of Brexit, COVID-19 and other issues. Their updates explain issues affecting construction, PPE, food and catering, education, transport, environmental maintenance and care services, and set out a range of mitigation measures to deal with any supply issues, while noting that some of the impacts remain uncertain and some issues are likely to emerge over time. As reported previously, one of the key issues concerns building materials (especially timber) with costs expected to rise and longer ordering times and additional stock holding required. The Council's Head of Construction Services is monitoring any impacts on local projects and it was noted at a recent meeting involving Construction Services, City Development, Housing and Finance that volatility in the market for construction materials is expected to continue over the next six months. It was noted that costs of glass have increased by around 35% and costs of timber by around 25%.

5.6 Regulatory Matters

- 5.6.1 Officers are continuing to monitor any developments concerning regulations, potential changes to regulations, or opportunities to streamline or improve the regulatory environment after the UK's departure from the EU.
- 5.6.2 In particular, officers have been carefully considering any implications relating to data protection and environmental health issues. The Information Governance team report that the EU has issued a decision that the UK is considered to have 'data adequacy' which should mean 'business as usual' for data sharing between the UK and EU, although this will be re-considered after 4 years in case there has been any significant divergence in data protection regimes. Scientific Services have flagged up that discussions are ongoing nationally about the capacity of public analyst laboratories to deal with the additional checks (and fast turnaround times required) on food and animal feed imports and exports.

5.7 Funding

- 5.7.1 In the 2014-2020 programme, Dundee City Council secured around £6.9 million in EU funding, which supports projects such as advice services, employability, smart cities, low carbon transport and active travel. Between 2005 and 2015, Dundee benefited from European grants of around £11 million.
- 5.7.2 A priority for the Council has been to seek to influence the size and shape of the proposed UK Shared Prosperity Fund which is due to replace EU structural funds once the Treasury Guarantee for existing projects ends. As advised under section 4 above, the UK Government has made some announcements about the Community Renewal Fund (the pilot/precursor to the UK Shared Prosperity Fund) and the extension to Scotland of the Levelling Up Fund. The Executive Director of City Development will bring forward separate reports about funding opportunities for Dundee. Information is also expected on an additional fund, targeted at community groups, and this will be circulated once received.

5.8 Other Financial Impacts

- 5.8.1 Officers have modelled the impact of a number of scenarios relating to the new trade arrangements on prices, interest rates etc. No specific contingencies have been made in

budgets, and although general reserves had been increased slightly these will be impacted by COVID-19. Cash flow monitoring will pick up any emerging issues and risk factors to be taken into account in medium/long-term financial planning. Assessment of current capital plan implications has also been undertaken, including a review of scenarios of interest rate changes on plans and borrowing.

- 5.8.2 There may still be an adverse impact on Council finances from the COVID-19 pandemic and the predicted recession which will follow. The impact of the UK's new relationship with the EU will be another element to factor into a broader review of the Council's finances, against a backdrop of existing pressures on local authority budgets and on public expenditure in general.
- 5.8.3 Officers are continuing to monitor the time spent on work relating to Brexit and feed information on this to COSLA with a view to making cases for funding.

5.9 Resilience

- 5.9.1 The Council is linked into national, regional and local resilience planning arrangements. There are not currently any significant issues being reported which relate to Brexit. Much of the recent resilience work relating to Covid and Brexit were merged and monitored as such. The National Coordination Centre which took on the coordination for all issues affecting Scotland was stood down on 27 March.

5.10 Communications

- 5.10.1 Officers continue to review and update the Council's Brexit webpages, linking into key UK and Scottish Government information and communications. Information is available for citizens and businesses and also on what we are doing as a Council. Social media channels are being used to highlight information.
- 5.10.2 Priorities for communications in the coming period will be to continue to encourage citizens to apply for settled status prior to the 30 June 2021 deadline and to encourage businesses to take advantage of information and assistance available with the new requirements for trade with the EU.

6. OPPORTUNITIES

6.1 Overview

- 6.1.1 As the UK left the EU, it was agreed that, along with attempting to mitigate the negative consequences of leaving the EU, a key focus will be on identifying any opportunities which may arise which could go some way to countering the anticipated adverse impacts.
- 6.1.2 This work has been rolled into a wider analysis of the way the city can recover from the double hit of COVID-19 and Brexit through a long-term restructuring plan. It seems likely that programmes of public investment to help rebuild the economy will include an emphasis on green initiatives, addressing inequality and digital transformation, which resonate well with the Council's Climate Change Action Plan, Fairness Strategy and Digital Transformation Strategy, and the idea of 'building back better' rather than returning to the pre COVID-19 status quo.

6.2 Progress with specific opportunities

- 6.2.1 Specific opportunities identified in previous reports are summarised below, with a brief update on how these are being progressed:
- Maximising opportunities for Dundee to benefit from the replacement for EU funding - the Council, through membership of ESEC and representative body SLAED, are continuing to monitor announcements in relation to the UK Shared Prosperity Fund and Levelling Up Fund as described earlier in this report and officers will report separately to Committee on any opportunities to secure funding.
 - As COVID-19 restrictions allow, continue promoting Dundee and the wider surrounding area for 'staycations', building on the recognition for UK Staycation Destination of the

Year - this will be done in conjunction with Visit Scotland and regional partners, as well as at a local level through Dundee Tourism Partnership to promote the city, its accommodation and attractions. Initial phases have focused on the Scottish market, using print and digital channels to encourage people to 'Put Dundee On Your Map' in 2021. This has been supported with updates to the One City Many Discoveries website, including the latest information on opening of businesses and attractions. A further three/four campaigns will be run during 2021/22, targeting geographic and demographic markets as advised by VisitScotland and local industry representatives.

- Lobbying for the location of any new civil service jobs relating to new trade and custom arrangements to be located in Dundee – officers will continue to monitor, explore and lobby as appropriate as potential opportunities emerge.
- The opportunity to train long-term workless people, and those more recently affected by COVID-19 related redundancies, to fill skill shortages linked to the loss/reduction in migrant labour from the EU - both the Scottish and UK Government have made a number of funding announcements that will provide additional resources to supplement the Discover Work Service and support for long term workless people to re-enter the labour market. These include the Scottish Government's Parental Employment Support Scheme and Young Person's Guarantee, and the UK Government's Kickstart Scheme. The Executive Director of City Development is also working with partners regarding jobs and skills gaps for the digital economy.
- Some businesses who trade primarily in the domestic economy may benefit from any reduction in EU competitors bringing goods/services into the UK - this will depend on how the new trade arrangements work in practice and will continue to be monitored.

6.3 Freeports

- 6.3.1 Previous reports to Committee have mentioned the concept of freeports. The Scottish Government's Trade Minister announced in January that Scotland will adapt the UK Government's 'freeports' concept into a new model of "green ports", with a focus on inclusive growth, fair work practices and delivering a net zero economy.
- 6.3.2 Concerns have previously been expressed about the freeports concept, relating to deregulation, reductions in workers' rights and risks of criminality and tax evasion, but the Minister said Scotland will take the freeport model and apply Scotland's priorities. For example, any freeport operator in Scotland will have to pay the real Living Wage, sign up to the Scottish Business Pledge, and commit to supporting sustainable growth.
- 6.3.3 The launch of the Scottish competition had been expected in March but has now been delayed until after the Scottish Parliament election in May. The City Council continues to work with Forth Ports, which operates the Port of Dundee, Michelin Scotland Innovation Parc and others about putting together a bid for Dundee.

7. POLICY IMPLICATIONS

- 7.1 This report has been subject to an assessment of any impacts on Equality and Diversity, Fairness and Poverty, Environment and Corporate Risk. There are no significant issues.

8. CONSULTATIONS

- 8.1 The Council Management Team and Brexit Advisory Team were consulted in the preparation of this report.

9. BACKGROUND PAPERS

None.