

## **Financial Implications of Brexit**

### **1 Introduction**

- 1.1 The County Council has been preparing for the potential impacts of a no deal Brexit for some time and more recently Government guidance has come out that sets out the key role that local government must play both in terms of its own service provision and its wider role dealing directly with communities and businesses.
- 1.2 There is a range of governance associated with Brexit planning, but this Appendix seeks to consider the purely financial impacts of a no deal Brexit on the County Council.
- 1.3 Clearly at this stage, as with other areas, there are a large number of unknowns and the purpose of this Appendix is to highlight, as part of the updated Medium Term Financial Strategy (MTFS), those areas that could have a financial impact on the County Council going forward.

### **2 Background**

- 2.1 Through the Brexit Working Group, which is chaired by the Assistant Chief Executive (who is the County Council's formal Brexit lead), officers have been gathering information on the potential financial implications of a no deal Brexit.
- 2.2 This information has been requested under three separate headings:
  - The direct external costs of preparing for Brexit (this excludes officer time which whilst significant, represents an opportunity cost to the County Council).
  - Potential changes in service delivery as a result of a no deal Brexit, for example the need to employ additional Trading Standards Officers to deal with imported goods from the European Union (EU).
  - The impact of a significant increase in the price of directly purchased goods and services (e.g. food for HC3S) or in general inflation, which would feed through to contracts that are index linked to inflation on annual basis.
- 2.3 The paragraphs below set out the key areas where it is considered there could be a financial implication on the County Council as a result of a no deal Brexit, and considers what mitigating actions can be put in place to offset these.

### **3 Direct External Costs**

- 3.1 The table overleaf summarises the external costs that the County Council has already incurred in preparing for Brexit (including a forecast to the end of the year for existing resources):

	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>
Programme and Project Lead Officers	103	163
Preparatory works to the A31	230	
Design and Production of advance warning signs		52
Abortive costs incurred on A31 site since April 2019		55
<b>Total</b>	<b>333</b>	<b>270</b>

- 3.2 The total currently known direct costs to the end of the year for the programme and project officers are therefore anticipated to be £603,000. Of this sum, the works and costs associated with the A31 are expected to be claimed against the £1.25m that has been set aside by the Department for Transport (DfT) for the Hampshire and Isle of Wight Local Resilience Forum (LRF).
- 3.3 The programme and project officers' costs of £266,000 are almost entirely met from the Brexit implementation grants that have been received by the County Council which now equate to £262,500 following the recent announcement of extra grant in this financial year.
- 3.4 The only other areas potentially relating to implementation at this stage are:
- The potential need to stand up the stacking site on the A31 (known as Operation Transmission), for which previous approval has been given to incur costs of up to £968,000 to operate the site for a 6 week period. Any extension to this would incur costs in the order of £100,000 per week.
  - Additional communication activity (much of which is directed by the Government) which may require additional communication staff to deal with the peak workloads. At this stage a range of between £83,000 and £315,000 for the remainder of 2019/20 and a full year 2020/21 have been estimated, dependent on the total level of activity and the extent to which this is concurrent and overlapping.
- 3.5 For both of these items, reimbursement would be sought from the Government as all of this activity is as a direct result of leaving the EU without a deal and should not be a burden on local council tax payers, albeit that provision has already been made within contingencies for Operation Transmission in the event that this funding is not forthcoming. The costs for additional communication activity will also be provided for in contingencies in case of this eventuality.

#### **4 Service Delivery Changes**

- 4.1 Departmental leads have been asked to consider where there may need to be changes in the of provision services as a result of an EU exit. This does not include potential impacts on service delivery (such as lack of supplies or price increases – which are covered in detail in the next Section), but more where services will need to change to meet the changing environment.
- 4.2 At this stage, the only two key areas that have been highlighted are:

- **Trading Standards** – It is thought that between four to six additional trading standards officers (£160,000 - £240,000) may be required to deal with issues arising from disruption to farming communities and the increased risks to animal health and welfare, together with changes to import arrangements which could significantly increase the risk of unsafe goods making it into the country. This is obviously very difficult to predict and would need to be based on evidence post exit, but the current view is that any immediate activity would be re-prioritised from within the service and it is anticipated that some of the key impacts may not be felt for some time in any event, so could start to have a direct impact in the next financial year.
- **Economic Development** – Whilst no extra resources are required within the Department, there will inevitably be a change in focus and prioritisation of activity as they look to support businesses and business led organisations (such as the Chamber of Commerce) through the changing economic landscape. Direct resources are being provided for this area by the Government, but these are going to other organisations to co-ordinate support.

4.3 Whilst there is no immediate financial impact from the areas highlighted above, they will need to be kept under review and where there is a direct link between Brexit and the additional activity, the Government will be asked to fund this as a new burden. In the short term if any funding is required, this will need to come from general contingencies, as outlined later in this Appendix.

## 5 Inflation, Price and Other Impacts

- 5.1 Perhaps the most difficult area to assess is the wider economic impact that Brexit could have in the longer term, which could affect the general economic climate, inflationary pressures and the workforce supply.
- 5.2 In general terms, the County Council does not buy large quantities of goods from the EU but in areas where there are large volumes of goods purchased they are integral to the provision of that service (e.g. food for HC3S and medical supplies for adults' social care and public health services).
- 5.3 General inflationary costs could also have an impact on capital investment or areas where contracts are linked to annual Retail Price Index (RPI) or Consumer Price Index (CPI) increases. In addition, potential shortages in the workforce could force up the cost of some in-house or externally purchased services if higher prices are being paid to attract scarce labour to undertake roles in social care services for example.
- 5.4 Detailed below are some of the highest impact areas (in financial terms), based on an assumed price increase of 5%, which has been modelled for all areas (unless specifically stated otherwise). The additional cost of this in relation to the overall cost of the service has been a determining factor as to whether a service has been included below. Details of potential mitigating impacts that can be put in place where appropriate have also been provided although in some areas there may be a further policy decision to be made (e.g. to pass on the cost to end users or to absorb within the Council) and in

others any additional pressure would just have to be factored in to the County Council's usual monitoring of service pressures and future financial planning.

- 5.5 **HC3S Catering Service** – A significant amount of work has already been undertaken within HC3S and Culture, Communities and Business Services (CCBS), not only to look at the potential impact of price increases, but also in terms of disruption to food supply. In financial terms, modelling has shown that a 20% increase in food costs would add around £550,000 to the cost of providing primary school meals for the remainder of this financial year, moving to £1.9m for 2020/21 (secondary school meals and commercial sites have a much more flexible menu and may be able to manage this more flexibly). This could increase the price of a meal by up to 40p which will have a significant impact on the overall demand and the business model for HC3S.
- 5.6 A range of mitigating actions have already taken place in terms of varying food types and liaising closely with suppliers, but the eventual impact is subject to a wide range of variables. Should food prices start to increase significantly then the County Council will need to make a policy decision on pricing strategy going forward.
- 5.7 **IT Costs** – Virtually all IT equipment and software are purchased by IT Services on behalf of the County Council. A 5% increase in prices could lead to an increase of around £600,000 per annum in costs, although this is often more linked to the impact of exchange rates as a high proportion comes from America. IT purchases are often cyclical in nature (as with the refresh of desktop equipment) and there is therefore more ability to plan for future major purchases and consider other options such as cloud-based services, where practical, that do not rely on the purchase of specific physical infrastructure.
- 5.8 **Public Health Commissioned Services** – Some services involve the purchase of drugs by the commissioned provider. An increase in costs of 5% could lead to an increase in drug related purchases of £300,000 which the providers would seek to pass on to the County Council. A significant amount of work has already been undertaken by Adults' Health and Care in respect of the availability of drugs and medical supplies more generally, which is perhaps of greater importance than the cost impact at this stage.
- 5.9 **In-House Care Services** – Whilst in-house care services do buy a range of goods, a 5% price increase in this area compared to the overall cost of the service is not significant. Of greater concern is the potential impact on the workforce supply, that could force up labour costs both for internal and external providers. The overall percentage of EU staff within the County Council is not as high as might be expected and staff have been encouraged and assisted in applying for permanent residency if desired. Recent recruitment rounds have also targeted local applicants to try to create greater stability in the workforce going forward. Whilst the potential impact on the wider availability of a care workforce cannot be predicted at this point (along with the subsequent financial impact), it is clearly an area that is being monitored corporately.
- 5.10 **Highways, Street Lighting and Waste Contracts** – All of these major contracts include an inflation based uplift to the contract terms on an annual basis and wider economic conditions could start to impact on the general level

of inflation (albeit that this is unlikely in the event of a downturn in the economy). Whilst there are many other factors that influence the cost of these services, a 5% increase (above those amounts already allowed for) could mean increased costs in the order of £3.8m. Given the contractual nature of the increases, there is little that could be done to mitigate this, and increases would need to be factored into the forward inflation amounts included within the MTFS.

- 5.11 **Capital Programme** - Given the scale of the County Council's Capital Programme, early and robust design judgements, together with cost controls, continue to be imperative. The UK construction industry performs well but has experienced a drop in confidence in terms of future orders and financial returns. The market nationally is fragile as evidenced by the collapse of a major contractor and continues to be monitored closely.
- 5.12 Tender price inflation is influenced by the level of risk accepted by the supply chain and how that is priced. The Building Cost Information Service (BCIS) are forecasting 3.2% for 2018/19 to 2019/20 and 4.0% for 2019 to 2020. This is considered a reasonable assessment, but could clearly be impacted by changing economics, the supply chain and the consequences of a workforce that relies heavily on EU workers. The Capital Programme already contains allowances for inflation and other risk contingencies, but this is monitored closely and is updated as appropriate when the forward Capital Programme is put together.
- 5.13 Management of costs is always a key factor within the Capital Programme and use of local and regional construction frameworks and the early engagement of contractors will be vital in securing continued value for money from the industry.

## 6 Conclusion

- 6.1 The conditions surrounding Brexit are literally unique and the number and complexity of the issues in play make any predictions speculative at best. Nevertheless, the County council has considered the potential financial impacts that could arise and has put mitigating actions in place where possible.
- 6.2 In any event, the County Council is very experienced in dealing with financial uncertainty, given the sustained period of austerity that it has been navigating. Inflation provisions and contingencies are already built into the forward forecasts and the County Council has sufficient fire power in the short term to deal with any potential financial shocks that it can then build into its longer term planning.
- 6.3 However, reimbursement would be sought from the Government for costs of specific activity directed by the Government to prepare for or as a result of leaving the EU without a deal, which should not be a burden on local council tax payers.
- 6.4 Funding of up to £555,000 will be ring-fenced within existing contingencies to provide resources to respond to the potential direct impact of Brexit on the County Council with approval delegated to the Deputy Chief Executive and

Director of Corporate Resources, in the event that additional government funding is not provided.

- 6.5 In overall terms, other than the impact of an economic downturn on national finances or a significant increase in the cost of in-house and purchased adults' social care services (which is only likely to stem from supply pressures in the workforce) there are not considered to be any major risks to the overall financial sustainability of the County Council as a result of a no deal Brexit.