Brexit, Infrastructure and Legislative Change Overview and Scrutiny Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	15 January 2020
Title of Report:	**New Burdens and Fiscal Impacts**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Kevin McKenzie
Contact Email:	brexit.office@plymouth.gov.uk
Your Reference:	BILCO/02/19
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

To brief members of the committee about fiscal impacts we anticipate as a result of the UK leaving the European Union and the arrangements currently in place to compensate Local Authorities in particular the new burdens doctrine.

Recommendations and Reasons

Members may wish to consider making a recommendation: -

That Cabinet should ensure we are well prepared for a dialogue with government, about i) the scope and extent of new burdens and ii) the UK Shared Prosperity Fund (UK SPF), as well as other consultations.

Alternative options considered and rejected

N/A

Relevance to the Corporate Plan and/or the Plymouth Plan

The recommendation is consistent with our Corporate Plan Values and Priorities and in particular are commitment to providing a strong voice for Plymouth, Regionally and Nationally.

Implications for the Medium Term Financial Plan and Resource Implications:

Brexit could have a significant impact on the MTFP, the report highlights: -

- Loss of income from Council Tax and Business Rates Collection
- Loss of EU funding and lack of clarity about the UK Shared Prosperity Fund
- Impact of structural unemployment

Carbon Footprint (Environmental) Implications:

N/A

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:

** When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

The report notes the potential for food price rises and this could have an impact on Child Poverty in the longer term.

Appendices

**Add rows as required to box below*

Ref.	Title of Appendix	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	2	3	4	5	6	7
A	New burdens and Fiscal Impacts							
B	Equalities Impact Assessment (not applicable)							

Background papers:

**Add rows as required to box below*

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	2	3	4	5	6	7
The economic impact of Boris Johnson's Brexit proposals - The UK in a changing Europe.							

Sign off:

Fin	akh.19.20.195	Leg	lt/33943/2312	Mon Off	Click here to enter text.	HR	Click here to enter text.	Assets	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Andrew Hardingham (Service Director for Finance)											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 20/12/2019											

Cabinet Member approval: Councillor Lowry

Date approved: 07/01/2020

NEW BURDENS AND FISCAL IMPACTS

1.0 THE NEW BURDENS DOCTRINE

1.1 All new burdens on local authorities must be properly assessed and fully funded by the relevant [Government] department. A new burden is defined as any policy or initiative, which increases the cost of providing local authority services. This could include:-

- new duties, or extension of existing duties
- new powers, or extension of existing powers
- exhortation to authorities
- transfer of function from central to local government
- review of, or change to, local authority procedures
- creation of new reporting requirements outside the local performance framework
- charging authorities for data or information currently provided without charge
- restraint on fee levels that are charged by local authorities, or exemptions from such fees or charges

1.2 The key definition of a new burden is a change that could lead to an increase in council tax if it was not additionally funded by Central Government. Providing they are not de minimums entirely voluntary or separately funded as part of a spending review.

1.3 The new burdens doctrine does not apply in the case of reduced departmental budgets leading to reductions in funding for local authority services, or, to policies, which apply the same rules to local authorities and to private sector bodies.

2.0 WHAT IMPACTS CAN WE IDENTIFY THAT SHOULD BE IN SCOPE

2.1 Council services that will be impacted that would be likely to meet this definition include: -

- Environmental Health – we will need step up our presence at the Millbay ferry terminal to discharge our port authority role, we estimate the cost at an ongoing revenue commitment of £125kpa.
- Trading Standards – there will be a range of impacts on both our advisory and enforcement roles, the new statutory framework is still in development so it is difficult to estimate costs. We have contributed an initial £7,500 to a Devon wide scheme to provide business advice from our Brexit preparation funds.
- Economic Development – at least in the short term we will have an additional demand for business account management. This will be crucial to maintaining current levels of Foreign Direct Investment in the City.
- Brexit preparations – a significant amount of officer time has been committed to meeting requirements imposed by the Secretary of State for Communities and Local Government as well as responding to ad hoc requests from other Government departments and meeting the needs of other local and regional partners.

Most of these areas will require additional staffing, however we may find suitably qualified staff difficult to recruit.

2.2 In 2018/19 we offset our Brexit preparation costs, estimated at over £300,000, against the government grant we received of £104,958. In 2019/20 we have received £209,968 in grants this will again fall short of covering our costs.

3.0 FISCAL IMPACTS

- Net payments to the EU budget currently amount to 0.4% of UK GDP. This could be redirected to fund greater UK public spending, however the UK may have to continue to contribute to the EU budget in return for a closer relationship.
- According to a report by The UK in a Changing Europe, the current Brexit deal is substantially negative relative to the status quo of UK membership in the EU. Their most optimistic scenario predicts that public finances would be £16 billion worse off at current prices, whilst the most pessimistic suggests a cost of £48.8 billion. The National Institute of Economic and Social Research (NIESR) estimate a total cost of £70 billion.
- In the longer term food prices may rise as a result of tariff and non-tariff measures on agriculture and food and the ending of farm subsidies. Food price rises impact disproportionately on low income families and older people for whom they represent a larger share of household expenditure. Since many low income families are already in debt, there could be a knock on impact on Council Tax collection rates in the longer term.
- Based on Bank of England economic analysis and forecasts, which assume a deep economic partnership with the EU, our adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. Whilst, short-term volatility is a near certainty we are mainly invested in the UK. We do not anticipate any negative impact from treasury management.
- These are many businesses in the City which are owned by parent companies outside the UK (FDI companies). Business rates income will be at risk is if any of these businesses decide to relocate out of the City.
- EU structural and infrastructure funding has significantly benefited the city over recent years. On top of the £12.9m in EU funding allocated through the Heart of the South West Local Enterprise Partnership we have secured £78m in local growth funding. We recently secured £3.2m ERDF funding for Oceansgate Phase 2.
- The UK Government has guaranteed to underwrite EU funded schemes which are in delivery by December 2020. The details of the UK Shared Prosperity Fund that the Government says will replace EU funding streams are yet to be published.
- We anticipate structural unemployment as employees displaced from negatively impacted industries will not necessarily have the skills to meet the demands of those experiencing more positive growth conditions. This could be exacerbated by the loss of skills funding much of which is underwritten by EU funds.
- We do not have a figure for the impact of each additional unemployed person on local authority budgets, but the Joseph Rowntree Foundation says local authorities save £482.79 for every out-of-work claimant who moves into job at Living Wage.

4.0 CONCLUSIONS

4.1 Brexit will impose new burdens on local authorities. Some of these are likely to be temporary and related to transition to new arrangements, others will impose a longer term budget pressure. Some additional funding has been made available through the Departments for the Environment, Food and Rural Affairs (DEFRA) and the Department for Business Energy and the Industrial Strategy (BEIS) to manage transition. As with the core Brexit funding this has generally fallen short of the amount required. Some longer term impacts will potentially be eligible costs under the new burdens doctrine.

4.2 Many of the fiscal impacts we anticipate will not be within the scope of the new burdens doctrine. Central Government is operating on a presumption of the resilience of Local Authorities to economic shocks which is arguably unjustified in the context the public sector spending cuts implemented in recent years.