ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	17th August 2016
LEAD OFFICER	Chief Executive
TITLE OF REPORT	EU Referendum
REPORT NUMBER	OCE16/030
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

The report provides the Council with an early assessment of possible local implications of the vote to leave the European Union.

2. RECOMMENDATION

That the Council:-

i. notes to detail of the report; and

ii. note the correspondence received from the Secretary of State for Exiting the European Union;

iii. Agree that further reports on emerging issues be submitted to the appropriate Council committees as required.

3. FINANCIAL IMPLICATIONS

This report does not make recommendations with financial implications. Possible financial implications of the vote to leave the EU are given consideration.

4. OTHER IMPLICATIONS

Implications are described throughout the report.

5. BACKGROUND/MAIN ISSUES

5.1 At their meeting on 29th June, 2016, the Council requested a detailed report on the short, medium and long term implications for Aberdeen City Council, its ALEOs and partner organisations of the vote to leave the European Union. The analysis in this report is presented only a short period after the referendum vote and should be considered in the context of high and continuing uncertainty.

5.2 Local government is at the delivery end of many policies with a European dimension. Social and environmental protection, health and consumer protection, working time directives, the transfer of undertakings, procurement and state aid, transport policies, and rural and maritime policies.

5.3 ***The level of uncertainty around likely outcomes of negotiations to leave the EU make assessing implications difficult***. It seems likely that the UK will be obliged to comply with many EU directives in order to gain access to European markets. It is unclear which areas will see policy continuities and which areas will be significantly changed.

5.4 In the light of this uncertainty, local government, including Aberdeen City Council, must closely monitor the situation and make preparations to, both, respond to developments and feed into new policy and negotiations.

5.5 The Council also instructed the Chief Executive to “write to the Prime Minister and the First Minister seeking advice on the proposed timescales for the exit from the EU exploring with both the UK and the Scottish Governments the opportunity for Aberdeen City Council to receive financial help towards any future project that may no longer receive EU funding as a consequence of the UK’s decision to leave the European Union, and asking the UK and/or Scottish Government to act as a guarantor for any current EU funding which may now be at risk.” Having written as instructed, a response has now been received from the Secretary of State for Exiting the European Union (Appendix B). The Secretary of State concludes his letter stating the willingness of officials in his Department to speak to the Council on the issues raised.

A. Economic Impact

Issues highlighted include post-Brexit trade deals with both the EU and countries outside the EU; potential slowdown in the economy; reduced investment in the UK; the role of economic development without state aid laws; impact on tourism.

The economic headline issues are:-

1. The vote to leave the EU is likely to lead to a significant further slowdown.[1] The main scenario from PWC's UK Economic Forecast in July 2016 projects UK growth to slow to around 1.6% in 2016 and 0.6% in 2017, largely due to the increased political and economic uncertainty following the 'Brexit' vote. A general economic slowdown would have a range of negative impacts;

2. The UK net contribution to the EU is roughly £8.5bn a year. A net contribution of £8.5bn is c.£1 out of every £100 the UK government spends every year, so any savings will be relatively small. The Institute for Fiscal Studies (IFS) and others have pointed out that if leaving the EU implies slower growth, the net saving would be lost through lower tax revenues and higher welfare demand. The IFS estimated that if the economic assessments of Brexit were accurate, leaving the EU would cost UK taxpayers between £20bn and £40bn a year.

3. Future prospects will be dependent upon the nature of the Brexit negotiations around trade and access to the single market as well as freedom of movement. This is particularly the case in Scotland. According to the figures for 2009-2013, Scotland had the highest share of its business economy accounted for by European companies of any UK country or region with nearly one in every six pounds in the Scottish business economy generated by companies based in the rest of Europe.[2]

4. Notwithstanding the uncertainty surrounding Brexit, it is possible to identify potential "winners" and "losers". The following section provides further analysis of this.

Overall Economy

The local economy in Aberdeen City is likely to be severely challenged in the period leading up to Brexit and beyond. The key sector of the Aberdeen economy is the oil and gas industry, although the service sector now accounts for over 70% of local GDP and employment. Other service industries such as retailing and financial services are also heavily influenced by the North Sea oil and gas industry. The largest individual employers are both public sector (Aberdeen City Council and the NHS). Continuing pressure on public finances could see reduced employment in the public sector.

Mackay Consultants forecast that the local economy will grow by just 4.1% in the three years to 2018, with average annual growth of about +1.3%, their lowest forecast growth for any local authority area in Scotland.

[1] Source: "Economic prospects after Brexit: UK Economic Outlook" – PWC, July 2016
[2] Source: Office for National Statistics, Annual Business Survey

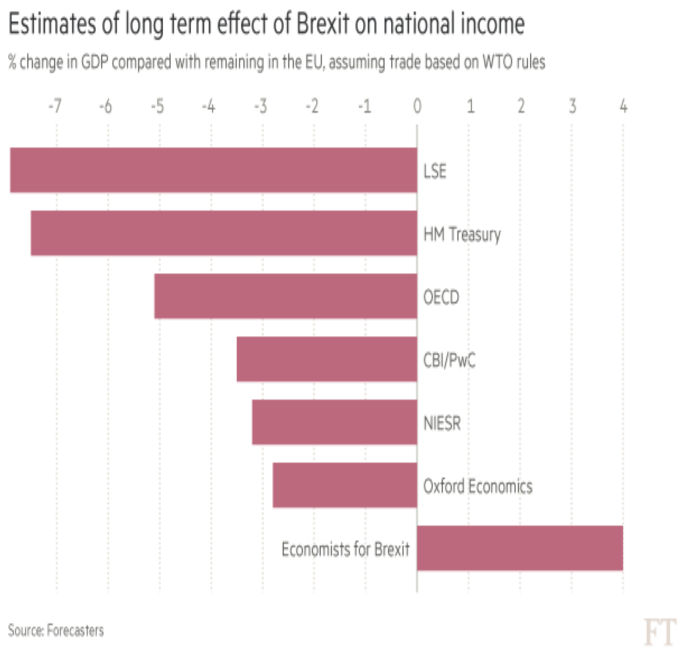
Mackay forecasts that the negative impact on the Scottish economy could be greater than that on the UK on the whole. The reasons for that include:

- greater importance of the EU for Scottish exports;
- importance of EU assistance programmes such as Common Agricultural Policy and European Regional Development Fund;

The two main short term impacts are likely to be:

- lower value of sterling;
- a deterioration in UK Government finances.

In terms of economic prospects in the period following Brexit, the main groups of economists who have published studies in the campaign use different models and different data but speak with more unanimity on this subject than on any other. Erecting trade barriers with the EU would hit prosperity, which is not easily replaced by greater free trade elsewhere. Leaving the bloc will afford the country little additional regulatory freedom and there could be long-term consequences from the short-term upheaval of Brexit. Whilst economists overwhelmingly think leaving the EU is bad for the UK economy one group (economists for Brexit) believes Britain's economy will be stronger if it adopts unilateral free trade, dropping all barriers on imports and letting other countries decide whether to maintain tariffs on British exports. This diverts trade away from the EU, lowers prices and produces gains.



Trade and Investment

Whilst predictions on the overall economic impact are negative, it is the case that exporters will likely see opportunities expanded in the short term as sterling depreciates against the Euro making exports cheaper. As the terms of Brexit are agreed, however, it may be that exporters to the EU will face future Tariffs (trade barriers) which will counter balance the currency depreciation. Long term opportunities for imports and exports outside of the EU will depend on how successful the UK is in repositioning itself through bilateral trade deals with growth areas around the world.

Brexit is likely to challenge investment in the UK. 32.9% of all Foreign Direct Investment into Britain is from the EU. In the short term this is likely to be affected by uncertainty as well as the perceptions of a post EU UK. Last year, a survey by Ernst & Young[3] reported that 72% of investors cited access to the European single market as important to Britain's attractiveness. The survey indicated that 31% of investors will either freeze or reduce investment until the outcome is known. As with trade, the success of bilateral agreements with growth areas around the world will impact on future prospects.

EU Funding

In the short term there is a risk of lower funding for UK research and innovation from the EU as risk of Brexit provides disincentives. Much of EU funding requires countries or regions from three or more member states to be working in partnership. In theory, until the UK leaves, negotiations on funding should continue as normal, however, there is a risk that other member states or regions will be less likely to want to work with regions in the UK as it could create unnecessary risk for them in the event that the UK has to withdraw at some point depending upon Brexit negotiations.

Aberdeen City Council is a direct beneficiary of and / or a bidder for EU funding from a wide range of funding steams, including:-

- Interreg North Sea Region - supports transnational regional development projects in regions from countries by the North Sea;
- Interreg North-West Europe - fosters transnational cooperation to make the Northwestern Europe a key economic player;
- European Structural Funds (ESF) - provide EU Member States with financial assistance to deliver the EU2020 strategy of Smart, Sustainable and Inclusive Growth, increasing economic activity and employment across the EU.;
- Erasmus+ - the European Union programme for education, training, youth and sport;
- Horizon 2020 - the financial instrument implementing the Innovation Union, a Europe 2020 initiative aimed at securing Europe's global competitiveness.;
- European Regional Development Fund (ERDF) - aims to strengthen economic and social cohesion in the European Union by "correcting imbalances" between its regions.

For the Interreg North Sea Region and Interreg North West Europe programmes (under which we are waiting to hear if the applications have been successful or not) the following advice has been given:

> *"The UK is still a full member of the European Union with all the associated rights and obligations this entails.*
>
> - *All project contracts are still valid for UK beneficiaries as well as for all other beneficiaries.*

[3] http://www.ey.com/UK/en/Issues/Business-environment/2015-UK-attractiveness-survey

- *The approved fact sheets and procedures are all still in place and will remain in place until a new decision is made – a process, which may take years to complete.*
- *The next meeting in the Steering Committee where new projects will be decided on will take place as planned. Decision making at the meeting will be in line with the same criteria and rules as before."*

The UK referendum will clearly eventually have an impact on our programme, but at this stage it is impossible to say precisely what the impact will be. It will be one of the negotiations which the UK government will need to address in agreeing the exit conditions from the EU. In the meantime, our programme will continue within the current framework and will deliver the programme along the lines agreed in the Cooperation Programme.

For the CIVITAS programme the consortium agreement and grant agreement were signed before the referendum therefore no impact on this project is anticipated. This project will officially begin Sept 2016 for 4 years.

For ERDF and ESF funding we have been advised by Scottish Government that it continues to be 'business as usual'. The Scottish Government has legally committed European funds to projects until the end of 2018, some cases 2019. As an example, for the 8th City Programme the planned closure date is the 31st March 2019, so this fits well within this timeframe therefore we don't expect projects to be impacted. If any changes were to be introduced to the Structural Funds the earliest this would be considered is as part of the mid-Programme review, which won't take place until 2018.

Looking beyond the Council's programme, lower funding for UK research and innovation would have a likely negative impact. Between 2007-13 the UK received €6.9bn through the FP7 programme which was the main EU funding for science and research. EU Sources of Research Grants and Contracts to Universities amount to £0.789bn in 2013/14 (2.6% of all UK higher income sources). https://www.hesa.ac.uk/pr213

Science/research funding from the EU is substantial and UK universities are significant beneficiaries. EU funding tends to allow broad topic range, whereas national funds may focus on key policy areas. UK innovation in research and science may be affected, which could include activity to diversify the North East economy. For instance, Pharmaceutical firms have raised concerns that Brexit would restrict access to European research funds worth $1 billion. TxCell, a French biotech company, will, reportedly no longer team up with British researchers for fear of losing EU funding.

Migration

If severe constraints were imposed on migration this would further challenge the economy nationally and locally. Low and middle level skilled jobs such as construction, health and care and support services may be particularly affected if a points based system were introduced. Another factor may be geographical variations in the levels of available labour causing pinch points in areas with a high cost of living. The need to apply for visas may be an impediment in industries where labour market flexibility is vital to competitiveness.

In the short term it is estimated that up to 0.5m people from the EU could move to the UK before article 50 is instigated.

Universities UK has analysed the impact of EU student in-migration to different regions of the UK; based on figures from 2011-12, it found that EU students have generated £414.1m for the Scottish economy and in doing so created 3,743 jobs.[4] Brexit could significantly reshape recruitment to Scottish universities, which currently do not charge tuition fees to non-UK EU students, but may feel compelled to do so in future. In recent admissions cycles, growing numbers of European applicants have tended to maintain overall recruitment levels to UK universities, with the number of UK-domiciled 18-year-olds stagnating or declining. With fewer EU students coming to Scotland this could have negative implications for the economy overall, for future research, and for skilled employees in Scotland.

Key Sectors

1. Oil & Gas - In the short term exporters trading in dollars could benefit from sterling's depreciation. Costs for operators would be reduced for operators who pay their costs in £s but sell oil in dollars. Conversely, companies with revenues in sterling could have higher dollar denominated debt.

   Post Brexit concern exists over the movement of workers and the ability to attract highly skilled workers from the EU. In addition, the UK has been a net oil importer since 2004 and import dependency is expected to grow by 55% by 2024. A permanently weaker £ could increase the cost of oil imported into the UK, which could feed into the supply chain (input into production) and result in higher overall consumer prices.

2. Tourism - In the short term, Brexit may result in an increase in tourists coming to UK as well as in domestic tourists holidaying at home. A depreciation of sterling will reduce the cost of foreign tourists holidaying in the UK and made the cost of holidaying abroad more expensive. However, if economic forecast are accurate, Brexit is likely to reduce UK GDP in the short run and thus reduce personal disposable incomes.

3. Fishing - Post Brexit UK fishing rights, much of which is based in the North East of Scotland, will not be subject to the Common Fisheries Policy (CFP). However, it is not clear what the outcomes of the negotiations would be for CFP and whether this would mean more Scottish fishing boats and fishermen. Prior to the referendum vote, George Eustice, the Minister for Farms, Food and Fisheries indicated that in the event of Brexit, the UK would respect catch limits set out to preserve stocks, but that fish quotas shared between EU nations could be "tweaked" to Britain's benefit.

   Peterhead harbour board have produced a business case for the development of Peterhead harbour, including a £49m bid to the European Maritime and Fisheries Fund (EMFF). It can only go ahead if they are successful in receiving EMFF grant. Call for applications opens late summer. EMFF is delegated to member states to manage so their application will be assessed at UK level and there will be no requirement for partnership working with other regions. If they submit the application then it can be approved in

[4] http://www.universitiesuk.ac.uk/news/Pages/eu-students-vital-to-regional-economies.aspx

time for works to begin as soon as the port authority are ready - they expect works to take 18 months - so long as they keep to timescales then there shouldn't be an increased risk to securing funding. Risk will increase if any delays are incurred or if the government invokes article 50 prior to works being started.

4. Agriculture - Local farmers are very dependent on the subsidies from the Common Agricultural Policy (CAP). There is a risk that the UK and/or Scottish governments will be unable or unwilling to continue to provide such a high level of subsidy such that the agricultural industry would suffer from Brexit.

5. House Building - According to Samual Tombs of Pantheon Macroeconomics, a consultancy, "An index of big house builders fell sharply following the referendum vote. The house-price-to-earnings ratio is over seven to one, well above the long-term average and developers may struggle to find house buyers as consumer confidence dwindles. The collapse in their shares is consistent with a 5% fall in house prices next year, based on historical data of the index"[5]. Construction, therefore, could be hit by some weakening in demand and possible delays or cancellations to infrastructure projects. Any pull on the share values of housing developers could make the UK a less attractive investment option and hence create a lessening of new build schemes and projects.

   Brexit has been highlighted as an issue for the Aberdeen City and Shire Strategic Development Plan, as it will have an impact on planning which in turn will impact on housing delivery. The majority of environmental protection law affecting new development arises from the EU.[6] How this is will be repealed or replaced is not known.

   Locally, the housing market is already facing challenges from the current economic issues in the North East. An economic slowdown and reduced consumer confidence may inhibit investment in local housing development. Brexit could have a direct impact on housing through a potential reduction in EU migration which, over time, could reduce demand for housing, including "affordable" housing which the Council has identified as a clear priority. However, Savills state that "The housing crisis is a long-term structural issue which is not limited to population growth alone. Even with substantial falls in net migration, we (the UK) will still require around 300,000 new homes a year."[7]

   Whilst existing plans are in place locally to mitigate shortages in affordable housing, including those targeted to "key workers", and no direct impact is anticipated, there are broad issues arising from Brexit which should be considered, these include:-

- the availability of labour for construction / maintenance;
- the volume of level of raw materials brought in from the EU and their sensitivity to fluctuation of exchange rates as well as possible tariffs; and

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[5] http://www.economist.com/news/britain/21701547-firms-mull-move-continent-policymakers-options-are-limited-sifting-through

[6] http://andersonstrathern.co.uk/news-insight/what-does-brexit-mean-for-planning-environmental-law/

[7] http://pdf.euro.savills.co.uk/uk/residential---other/brexit-briefing--the-impact-on-residential-development-21-july-2016.pdf

- the availability of finance to deliver housing developments.

A reduction in house prices would see potential winners and losers. Some first time buyers may find buying a house more affordable, however, existing home owners would see a fall in the value of their assets.

B. Workforce Impact

Any significant changes to employment laws are likely to be gradual and shaped by Political direction and/or economic necessity. Moreover, much of UK employment law has been generated by the UK Parliament rather than the EU. Brexit would not, of itself, result in changes to the law on, for example, unfair dismissal or the national minimum wage. Equally, where EU law does apply the UK has in many cases opted to provide enhanced worker benefits or protection. Potentially any changes in migration policy may impact on recruitment and the cost of labour.

A number of views are being formulated by employment lawyers and business analysts as to the specific medium to long term implications of Brexit on UK employment. Whilst these opinions are clearly of interest, it is too early for these to be afforded a status other than 'informed speculation'.

C. Legal implications

The EU referendum result has no immediate impact on UK or Scottish legislation: the law remains as it was on 23 June 2016. On withdrawal from the EU, under Article 50 the UK would no longer be formally required to comply with EU law and could repeal or amend domestic laws that give effect to EU law. Any new deal with the EU might involve agreeing to continue to respect EU laws.

As a matter of domestic constitutional law, the Prime Minister is unable to issue a declaration under Article 50 – triggering withdrawal from the European Union without having been first authorised by an Act of the UK Parliament. The sovereignty of Parliament as opposed to the stated intention of the Government or the "will of the people" is required. Although there has been discussion around Royal Prerogative, this is considered VERY improbable given the constitutional importance and politically charged subject matter. (UK Constitutional Law Association).

Triggering Article 50 (following the passage of an Act of Parliament) starts the two year clock. There are only two possible outcomes that both lead to exit from the EU i) negotiating a deal within 2 years or ii) exit upon expiry of 2 years without a deal. Any extension to two years is within the gift of the EU. Notice once properly given cannot be revoked.

The EU bloc cannot negotiate a separate trade deal with one of its own members, hence the Commissioner's insistence that the UK must first leave. This suggests the issue is not that the EU will not negotiate with the UK prior to triggering Article 50…it cannot. It is also contrary to EU law for a member to negotiate its own trade deals with "outsiders"…there can be talks (about negotiation) but nothing can be concluded until after the UK has actually left the EU

(i.e no negotiation whilst in the process of leaving the EU.)

In terms of specific areas of law, the following is worth noting:

- The law on **State Aid**, governing when public funds and resources can be used to support commercial enterprises, is entirely EU-based. If the UK withdraws from the EU then it will no longer be bound by the EU State Aid regime. The UK may wish to create domestic rules on State Aid and any new deal with the EU may involve agreement by the UK to respect the EU State Aid regime.
- A new EU General **Data Protection** Regulation (GDPR) was finalised in May 2016. The Brexit vote does not mean that preparations for its introduction will stop. The UK is unlikely to leave the EU before the GDPR comes into force on 25 May 2018. The GDPR's terms will still be relevant to the UK. Firstly, the GDPR requires non-EU organisations to comply with the GDPR's terms when processing the personal data of EU citizens for the purposes of offering goods and services (or monitoring activities). Secondly, assuming the UK will want to make it easy for personal data to be transferred from the EU to the UK, the UK will likely need to adopt the GDPR or similar that the EU will recognise as giving adequate protection to personal data.
- Many of the UK's **consumer protection** rules come from the EU, including large parts of the Consumer Rights Act 2015. Subject to any future UK-EU trade deal, a post-Brexit UK will have greater flexibility to modify or repeal national consumer protection legislation. However, change in those areas is not inevitable. There are several areas where the UK has gone further than the minimum requirements of EU law.
- **Workforce** and **procurement** legislation is dealt with in other sections of this report.

D. Procurement Regulations and Supply Chain Implications

a. Pre triggering of Article 50

There should be no change to EU or domestic law including financial thresholds that govern whether a contract is required to be published in the Official Journal of the European Union (OJEU). Although the value of sterling has dropped against the Euro, the exchange rate for procurement purposes is fixed and not due for revision until 1st January 2018. The two year period of negotiations does not begin until Article 50 is formally invoked by the UK giving formal notice. The Procurement Reform (Scotland) Act 2014, the Public Contracts (Scotland) Regulations 2015 and Procurement (Scotland) Regulations 2016 (all statutory guidance; utilities/concession regulations) still apply and are in full force. Contracting authorities must continue to comply with the rules. Bidders can continue to enforce their rights if they believe there has been a breach. This is also the case with counterpart legislation in England and Wales.

b. In the 2 year period following this

There should be no change to EU or domestic law pertaining to procurement in this period. Contracting authorities need to continue to comply with the rules and bidders can continue to enforce their existing rights. If the UK negotiates membership of the European Free Trade Association (EFTA) and becomes part of the European Economic Area ("EEA"), nothing is likely to change. EEA countries (such as Norway) have very similar procurement rules including the requirement to advertise opportunities for public contracts.

c. Beyond actual exit from the EU

If the UK government does not join the EEA, then the World Trade Organisation's Agreement on Government Procurement is likely to apply by default. The principles within the Public Procurement Regulations are internationally accepted and therefore the procurement regime is unlikely to change substantially. The WTO's Agreement on Government Procurement (GPA) is already compatible with basic treaty principles and sets out many of the basic procurement principles such as the rules on technical specifications and advertisement. Many other jurisdictions which are not part of the WTO have similar rules. WTO rules restrict the circumstances in which countries can discriminate in favour of each other in trade - otherwise, they must apply to each other the tariffs they apply against the rest of the world.

There was procurement legislation before the EU Directives and the UK will still need some form of procurement law – the public sector will still need to purchase supplies, services and works. The UK had considerable input into the existing procurement directives and so it seems likely that future UK legislation will be along the same lines or remain in force exactly as it is. In Scotland, there was enthusiastic cross party support and extensive stakeholder engagement. The domestic legislation now in place needs to be expressly amended or repealed by the same governments that codified it and in many cases "gold plated" it.

Further procurement reform is likely to be a low priority in the broader political and legislative agenda. Rather than de-skilling procurement, this is likely to make procurement more vital and more demanding as European and global trading requirements will have to be absorbed. The principles of equal treatment/non discrimination, transparency and mutual recognition are unlikely to be absent from any new regime to follow.

Economic operators are used to considering whether or not to bring a challenge in the event that they feel unfairly treated in a procurement process. Contracting authorities have become conditioned to a regime that encourages them actively to seek out innovation and social benefit in their procurements. Neither group is likely to support the complete abandonment of the sort of procurement regime we have in place today.

E. Finance Implications

The most immediate impact is the market volatility that has been created by the referendum vote and ensuing events. The value of sterling has fallen sharply and the internationally recognised "Big 3" credit agencies have indicated that the sovereign rating has now reduced to a negative outlook. The sovereign credit rating has also been reduced. Share prices dropped initially but have rallied.

Implications for the Council

In the immediate term the impact will be insignificant.

With the value of sterling falling sharply exports become cheaper and imports more expensive. The Council is not exposed directly to either of these markets to any great level. However it does impact on our supply chain. For example, suppliers buying goods from Europe which we in turn buy from the supplier. These costs are likely to increase if there is a sustained period of low sterling value in a floating exchange (FX) environment depending on how the suppliers have hedged against sterling in the FX market.

The sovereign credit rating being changed to negative watch could potentially impact on the Council, by making liquidity more difficult to purchase and more costly to access than we have experienced recently. However, the intervention measures that the Bank of England has put in place and the cut in base rate has actually reduced liquidity costs in the short term.

Share prices will not directly impact on the Council, but would potentially impact on the North East of Scotland Pension Fund, which may see a fall in its asset value.

Access to Liquidity

The Council accesses liquidity (cash) from a number of sources to enable us to cash flow our finances through a number of mechanisms. Primarily, we have over recent years strengthened the Balance Sheet and the level of reserves and provisions which provides us with immediate access, and control of, cash.

However, we also rely on the ability to raise capital financing through PWLB and this could be impacted upon by the reduction in the UK's sovereign credit rating. Generally speaking as your credit rating moves down your cost of borrowing, conversely, goes up. This will potentially lead to an increase in the price of borrowing from the UK Government. That said, the measures taken by the Bank of England appear to have stabilised the PWLB borrowing rates and Capita's current forecasts are for slightly lower rates on shorter term money over the next 2 years with a gentle rise in borrowing costs after that.

Potentially this would also have implications for the capital programme. If the cost of borrowing increases the Council may need to consider deferring or stopping capital projects going forward.

Demand pressures

The impact of Brexit on demand for council services is unpredictable and may complicate the management of spending reductions in the coming years. The longer term impact on demand will depend on how well the local economy fares.

Medium Term (2 to 5 years)

Looking at the medium term it becomes more difficult to predict what impact this may have on the Council.

Potentially the vote to leave the EU means that the UK no longer makes contributions to the EU budget, offering choices on the pace of deficit reduction. However, any deal made to continue to trade with EU countries may still involve some contribution to the EU, similar to the Norwegian or Swiss models. The availability of any reduction in contributions to the EU budget to support Local Government funding will be a matter for the UK and Scottish Governments, but the scope will be affected by any impact on the general economy and the level of tax receipts. This will impact the Council directly but the nature of that impact is unknown at this stage.

As outlined elsewhere in this report, leaving the EU could potentially impact on a number of policy areas that have been effected through EU legislation e.g. waste collection and disposal, energy efficiency, trading standards, procurement and state aid. Largely speaking these have also been achieved via EU Legislation and Directives then being transposed directly into UK Law. Whilst it would be possible for the UK Government to then repeal some of these laws this seems unlikely in the short term, although some relaxation of such laws may provide financial benefits to Local Government. However, negotiations over future trade agreements might involve a continuing commitment to maintaining EU laws in these areas.

Longer Term

The impact in the longer term is very difficult to predict and over time the impact of other events affecting the global economy will make it difficult to attribute changes directly to Brexit. The impact on the Council over the longer term will be influenced mostly by the state of the general economy and the impact that has on the level of funding for Local Government and the cost of labour, goods and services.

Responding to the uncertainty

Precipitate action is unlikely to be wise when the levels of uncertainty are so high. To ensure that any action is thought through and proportionate, officers will continue to:

- establish the Council’s exposure to the different financial risks identified above and any others that are locally relevant;
- engage with local partners to understand how Brexit affects their risks and any shared risks;
- review risk appetite across the major categories of risk;
- review significant policies relevant to the management of these risks (e.g. investment policy) to ensure they are fit for purpose in the new environment;
- assess any impact of the risk assessment on the assumptions used to generate the medium term financial plan;
- report the emerging picture from this work to the Council and Audit, Risk & Scrutiny Committee on a regular basis; and
- update strategic and operational plans as decisions are made.

F. Political

At the time of writing, the political implications remain fluid. Whilst speculation on an early UK general election has reduced, it does seem likely that a further mandate, or mandates, will be sought on the nature of the UK's relationship with the EU either prior to, during or following negotiations. The UK Government has now given an indication that it will seek to outline a Brexit blueprint later in 2016.

In Scotland, the First Minister announced the Scottish Government's intention to explore all options to retain Scotland's place in the EU and access to the single market. This includes the possibility of holding a second independence referendum. The First Minister has also formed a Standing Council of experts to advise on negotiations to secure an EU deal for Scotland and has gained a mandate from the Scottish Parliament to negotiate directly with EU institutions. Reports indicate that a special "Brexit Committee", featuring ministers from both the UK and Scottish governments is to be created under plans to co-ordinate a "UK approach" to leaving the European Union. Politicians from different parties have raised the possibility that some form of federal, constitutional model could be pursued for Scotland. Some reports have raised the question of the continuation of the Barnett formula, which adjusts the level of funding Scotland receives in line with changes in spending. The continuation of the Barnett formula was part of 'the vow' signed by the then leaders of the Conservatives, Labour and the Liberal Democrats during the final stages of the 2014 independence referendum.

Whilst the 2016 "Programme for Government" has not yet been published, based on the SNP Manifesto for the 2016 Holyrood elections, a full legislative programme should be anticipated with a number of bills and policies having significant implications for the future of local government in Scotland. This includes the implementation of new powers devolved to the Scottish Parliament by the Scotland (2016) Act. In acknowledging the expected volume of business, the First Minister has stated that "the business of government and parliament will go on". Scottish Labour have recently published a "Brexit Action Plan". What affect the referendum vote will have on the Scottish Parliament's work over the coming years will be monitored.

G. Service specific assessments

Education and Children's Services

Workforce
Some impact could be felt around possible changes to employment legislation and the impact on being able to recruit from other EU countries. An example would be the recruitment undertaken of teachers from Ireland.

Migration and city population forecasts

Any changes in migration could have an implication on pupil school roll projections. We may lose a number of children and young people if migrant families decide to return to their EU home countries or they lose the right to remain. A marked decrease in pupil roll forecasts for schools would also have a bearing on our predictions for future requirements for school capacity in some areas of the city.

Library and Information Service

The Library and Information service runs the European Direct Information Centre co-funded by the EU. An annual programme of events is agreed by the EU and 70% of the funding is received at the start of the year with the residue paid after submission of a final report based on the programme. Library and Information Service receives an annual grant of approximately 25,000 euros to run the service, which includes a part time post. The immediate impact of the EU referendum has resulted in a review of activity planned for this year.

English as an Additional Language

A decline in inward migration from EU countries may contribute to a reduced demand for the English as an Additional Language Service (EAL).

6. IMPACT

Improving Customer Experience –
At this stage, the report is for information, but it demonstrates that active consideration is being given to the implications of a changing environment for delivery of services to our customers.

Improving Staff Experience –
At this stage, the report is for information, but it demonstrates that active consideration is being given to the implications of a changing environment for our staff.

Improving our use of Resources –
At this stage, the report is for information, but it demonstrates that active consideration is being given to the implications of a changing environment for our use of resources.

Corporate –
The implications for the delivery of the Council's strategic priorities will be fully considered.

Public –
There is significant public interest in the possible implications of the vote to leave the EU.

7. MANAGEMENT OF RISK

Any significant risks will be identified and managed as appropriate. The Council's Corporate Management Team have considered the nature of this report and risks are, and will continue to be, reflected within strategic and operational risk registers.

8. BACKGROUND PAPERS

- "The influence of EU membership on UK public services "Tr*eu*ble and Strife" an uneasy marriage?" - Cipfa
- "Brexit: Q&A" - Brodies
- "UK Economic Outlook" - PWC
- "The implications to Scotland of the UK's decision to leave the European Union" - SPICE
- "Brexit – Negative for London, but not a Disaster" - Oxford Economics
- "First Reactions to EU Referendum Outcome" - Fraser of Allander Business Survey
- "Brexit: The implications for Local Government" - APSE
- "Brexit and local government", Professor James Mitchell - LGiU Scotland
- "The Impact on Residential Development- Brexit Briefing" - Savills
- "To Boldly Go" - Continuity, Insurance and Risk
- "Brexit: EY impact diagnostics aid"- Ernst & Young

- “UK Unplugged? The Impacts of Brexit on Energy and Climate Policy” - Chatham House

9. REPORT AUTHOR DETAILS

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Appendix A

External Groups

CPMR – The Conference of Peripheral Maritime Regions

In its dealings with EU institutions and national governments the CPMR has, since 1973, been targeting its action towards ensuring the needs and interests of its member regions are taken into account in all policies with a high territorial impact. In particular, the CPMR is striving to ensure a strong EU regional policy targeted at all of Europe's regions and is also working towards the delivery of an integrated maritime policy designed to contribute towards Europe's economic growth.

NSC – The North Sea Commission

The North Sea Commission was founded in 1989 to facilitate and enhance partnerships between regions which manage the challenges and opportunities presented by the North Sea. The NSC also promotes the North Sea Basin as a major economic entity within Europe, by encouraging joint development initiatives and political lobbying at EU level.

Scotland Europa

Scotland Europa is a membership-based organisation that promotes Scotland's interests across the institutions of the EU and to the representatives of Europe's regions and Member States. Membership comprises a broad range of interests including business, education, local government, trader unions and voluntary sectors. Membership of Scotland Europa provides a direct link to Brussels-based intelligence and early notifications and thematic developments and funding opportunities. Aberdeen City Council is a member through our subscription to ESEC.

ESEC – The East of Scotland European Consortium

Established in 1991, ESEC is a non statutory joint committee representing the interests of its local authority members in Eastern and North Eastern Scotland. Members collaborate on a shared European agenda centred on knowledge and information on EU funding, developing joint EU funded projects, influencing EU policy change and ensuring policy engagement.

Energy Cities Association

Energy Cities is the European Association of local authorities inventing their energy future. Its main objectives are to strengthen local authorities' role and skills in the field of sustainable energy; to represent their interests and influence the policies and proposals made by EU institutions in the fields of energy, and environmental protection; to develop and promote their initiatives through exchange of experiences and the implementation of joint projects.

The Covenant of Mayors

The Covenant of Mayors is the mainstream European movement involving local and regional authorities, voluntarily committing to increasing energy efficiency and use of renewable energy sources on their territories. By their commitment, Covenant signatories aim to meet and exceed the EU 20% CO2 reduction target by 2020. Covenant signatories undertake to prepare a Baseline Emission inventory and submit a Sustainable energy Action Plan outlining the key actions they are undertaking.

Hydrogen Fuel Cell and Electro-Mobility in European Regions

HyER supports the deployment and commercialisation of hydrogen and fuel cell technologies and electro-mobility in Europe as well as the development of their associate infrastructure in Europe contributing to a low-carbon economy and to a sustainable EU transport and energy system. Electro-mobility, as understood by industry and utilities, comprises battery electric as well as hydrogen/fuel cell powered vehicles and the relevant infrastructure needed for the supply with energy. Both propulsion technologies offer complementary transport solutions but have many elements in common. HyER is therefore actively seeking to support the deployment of the full range of electric transport solutions, battery electric vehicles (BEV) as well as fuel cell vehicles (FCEV), leveraging budgets and links to clean energy networks to ensure sustainable market and infrastructure build-up. Through the active monitoring and collecting of relevant project results and industrial developments and as partner in several EU projects for dissemination and communication, HyER seeks to develop fact-based policy at EU, national and local level to establish robust local deployment channels and a first customer base.

KIMO

KIMO is a confederation of local authorities with an interest in Northern North Sea and North Atlantic to address coastal and marine pollution concerns;

POLIS

Supports European cities and regions improve the quality of life through innovative measures to reduce congestion, enhance safety, lower pollution emissions and offer better access to transport.

Appendix B

Department for Exiting the European Union

Rt Hon David Davis MP
Secretary of State for Exiting the European Union
9 Downing Street
SW1A 2AG

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psdaviddavis@cabinetoffice.gov.uk

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Office of ...
Aberdee...
29 JUL 20..

Angela Scott
Office of the Chief Executive
Aberdeen City Council
2nd Floor
Town House
Broad Street
Aberdeen AB10 1FY

21 July 2016

Dear Angela

Thank you for your letter of 6 July to the Prime Minister. I am responding as Secretary of State for Exiting the European Union.

This is a vitally important time in the history of the United Kingdom as we prepare to leave the European Union. As the Prime Minister has made clear, Brexit means Brexit. But this does not mean turning our backs on Europe. Developing a stable and prosperous relationship with the European Union and our European partners is an absolute priority. I will work very closely with the UK's Devolved Administrations, the UK Parliament, other government departments and a wide range of other interested parties. I aim to establish the best possible relationship with the European Union for the United Kingdom.

The Prime Minister has said that we will develop a UK approach and objectives for negotiations and I look forward to building a collaborative and cooperative relationship with Aberdeen City Council in the future.

Officials in my department would be very happy to speak with you in more detail on the issues raised in your letter.

Yours ever,

Rt. Hon. David Davis MP
Secretary of State

1122

10:11

Your Ref.
Our Ref. AS/CM
Contact Angela Scott
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6th July 2016

ABERDEEN
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Rt Hon David Cameron MP
Prime Minister
UK Government

by email:
publiccorrespondence@cabinetoffice.gov.uk

Dear Prime Minister

Result of the EU Referendum

At its meeting last week Aberdeen City Council considered the following Emergency Motion by Councillors Jenny Laing and Michael Hutchison:

> *"Council notes the decision to leave the European Union following a United Kingdom Referendum.*
>
> *Council instructs the Chief Executive to provide a detailed report to the August Council meeting on the short (0-3 years), medium (3-10 years) and long term (10 years plus) implications of this decision for Aberdeen City Council, its ALEOs and its partner organisations.*
>
> *In addition, Council instructs the Chief Executive to write to the Prime Minister and the First Minister seeking advice on the proposed timescales for the exit from the EU exploring with both the UK and the Scottish Governments the opportunity for Aberdeen City Council to receive financial help towards any future project that may no longer receive EU funding as a consequence of the UK's decision to leave the European Union, and asking the UK and or Scottish Government to act as a guarantor for any current EU funding which may now be at risk."*

I therefore now write to seek the advice envisaged in the motion and to seek the opportunity to discuss with appropriate officials the means by which any negative impact on EU-funded projects in Aberdeen, both current and future, might be mitigated through the assistance of UK Government.

ANGELA SCOTT
CHIEF EXECUTIVE

I will of course share your response with the members of the Council.

I confirm that as instructed I have also written in similar terms to the First Minister.

Yours sincerely

Angela Scott
Chief Executive