

**TITLE OF REPORT:** Impact of Brexit

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## SUMMARY

This report provides an update to the Committee on the impact of Brexit on areas relevant to its remit.

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### Background

1. Brexit was the withdrawal of the United Kingdom (UK) from the European Union (EU) at 23:00 on 31 January 2020 GMT. The UK had been a member of the EU and its predecessor, the European Communities, since 1 January 1973.
2. At the time the withdrawal took place, the UK, together with the rest of the world was impacted by the global COVID-19 pandemic, and therefore there are many combined impacts of Brexit and COVID-19 faced by the Council and the People of Gateshead. It is difficult to identify the specific root cause of some of the issues raised in this report and understand the impact of Brexit alone. The impact of COVID-19 is the subject of another report to the Committee.

### Planning for Brexit

3. The decision for the UK to leave the EU resulted from the United Kingdom European Union membership referendum in June 2016 and there was a lengthy lead in period for the UK and the Council to prepare. It was not straightforward, however because from the date of the referendum there was a period of the UK trying to negotiate a trade agreement with the EU which would impact on the way in which businesses would transact internationally, and some Council preparations required a difference of approach depending on whether or not a trade agreement could be reached, and the details of any such agreement. A 12 month transition period was agreed however the negotiations went down to the wire and a UK-EU trade agreement came into force on 1 January 2021.
4. Brexit brought to an end the free movement of people, goods, services and capital between the UK and 27 EU member states and it freed up the UK to negotiate trade agreements with other countries without being restrained by the EU. To date, the UK has signed trade agreements with 69 countries in addition to the UK-EU trade deal covering key industrial sectors that are vital to global manufacturing production, food and medical supplies such as haulage, aviation and energy. The majority are

“rollover” deals that copy the terms of the deals the UK already had as an EU member, rather than creating new benefits. Some trade talks are still ongoing with non-EU countries, the most topical currently being the negotiation of a trade deal between the UK and the USA.

5. The UK has also become a member of the World Trade Organisation (WTO) in its own right, rather than through membership of the EU, resulting in payment of tariffs on all imported goods, and the introduction of new administrative procedures for all UK based businesses.
6. In preparation for Brexit, the Council developed and implemented a comprehensive Brexit Business Impact Assessment. The Impact Assessment clearly identified service delivery risks and RAG rated them in terms of likelihood and impact which combined gave an overall risk rating. All risks were regularly monitored, those in red were monitored more frequently, and control measures were implemented where possible in order to manage the risks as far as possible.
7. A regional Brexit Group (comprising business groups, the TUC, VCS, LRF and local authorities including Gateshead) met regularly to identify and mitigate risks affecting businesses and workers. Business Gateshead promoted a regional Growth Hub toolkit, which helped companies to comply with Government guidance and access partner resources (NECC and Make UK) to adapt to a new business environment.

### **Impacts of Brexit**

8. Accelerating globalisation of manufacturing means that even where products are manufactured in the UK, companies often source components or raw materials from across the world, and manufacturers relying on global supply chains, either in the UK or elsewhere, have faced unprecedented challenges in sourcing materials.
9. In 2019 the EU was the UK's largest trade partner with 52% of all UK imports originating from the EU and 43% of all UK exports going to the EU. Within the North East 58% of North East exports go to the EU (automotive, pharmaceuticals, energy, digital, financial services and healthcare). The main impacts were anticipated to have been more acutely felt by manufacturers, ports, large international firms, and SMEs in the domestic supply chain.
10. Brexit has caused border delays and an additional administrative burden on imports and exports resulting in significantly extended supply chain lead times and increased costs. The full impacts of Brexit impacts are still emerging and will continue to do so for some time to come, but they can be summarised as:
  - Shortage of labour
  - Shortage of goods and materials (and longer lead times)
  - Price increases

### **Shortage of labour**

11. The freedom of movement of employees between EU countries and the UK ceased as a result of Brexit, and foreign workers were required to apply for Settled Status by June 2021. It is understood that although 4.9 million EU citizens applied for Settled Status, a large number of EU nationals, estimated to be in the region of 1.3million,

have decided to leave the UK post-Brexit, a trend which has been accelerated by COVID-19. The UK has introduced a new points based immigration system which treats EU and non-EU citizens equally, however there are shortages of candidates within the UK for some professions, and a list of occupations where there are too few candidates to fill vacancies is maintained by the Home Office.

12. The Home Office Shortage Occupation List which was last updated in April 2021 lists shortages in the following occupations:

- Health service and public health managers, residential, day and domiciliary care managers, care workers and proprietors;
- All scientists including nuclear chemical scientists, biological scientists and biochemists, and construction related ground engineering scientists;
- Variety of jobs in the oil and gas industry;
- Archaeologists;
- All types of engineers including civil, mechanical, electrical, electronic, design and development, production and process engineers;
- IT business analysts, architects and business designers, programmers and software development professionals, web designers and cyber security specialists;
- Veterinarians;
- Actuaries, economists and statisticians;
- Architects;
- Quality control and planning engineers and laboratory technicians;
- Artists, dancers, choreographers, musicians, graphic designers;
- Welding trades.

13. Surprisingly, as of 23 September 2021, HGV drivers were not included on the list, however labour shortages have been most prevalent in the transportation sector with a national shortage of between 60,000 and 100,000 Heavy Goods Vehicle (HGV) drivers. On 27<sup>th</sup> September 2021, the Government agreed to introduce temporary visas for 5000 fuel tanker and food lorry drivers to work in the UK in the run up to Christmas. Brexit is believed to be a key cause of the shortage of HGV drivers as a large number of foreign HGV drivers have left the UK, however other impacting factors include:

- the high demand of transportation of goods from the hospitality sector following the easing of lockdown and COVID-19 restrictions;
- a delay in new driver training and apprenticeship schemes;
- a backlog of HGV license tests;
- the introduction of IR35 regulations within the private sector which reduced the earning potential of HGV drivers (who had previously declared themselves as independent contractors for tax purposes).
- wages rising and employees choosing to work fewer hours as a result of their hourly rate increasing.

It is therefore difficult to quantify the exact impact that Brexit has had on this sector.

14. The shortage of HGV drivers has in turn hugely impacted on other sectors including the food and retail sectors where deliveries of goods have been delayed resulting in empty shelves in supermarkets and a temporary shortage of some food products. In other parts of the Country, the public sector has lost large numbers of employees

who hold HGV licenses and are able to adapt their skills and drive HGV's e.g. refuse collection operatives, to the private haulage sector (although this has not been experienced in Gateshead).

15. The North East labour market has been more resilient to the shortages due to less reliance on foreign workers, however Gateshead is now experiencing a shortfall within the Social Care sector (both Adults and Children's services) due to severe short falls in workers across a range of external service provision. Brexit is playing a role as a small proportion of EU workers chose to leave Gateshead, resulting in Nursing Care Homes struggling to recruit overseas nurses, and other sectors (e.g. hospitality, factories and retail) facing employment crises. Those sectors are poaching social care workers as they can often offer better terms and conditions than are offered within the Social Care sector.
16. The greatest impact is on the workforce who support people in their own homes which is resulting in more people using more costly services such as remaining in hospital or going into short term care home provision and it is anticipated that the situation is likely to worsen in the weeks ahead, putting an additional strain on the Council's financial position, and more pressure on the NHS.
17. There has been minimal impact on the Council's own workforce as we have not traditionally employed large numbers of EU nationals. As a future precaution, however, the Council has applied to the Home Office to seek approval for the Council to be a Sponsor of foreign nationals, should we ever be faced with having to try to recruit to areas where it is not possible to recruit from within the UK.

Shortage of goods and materials

18. Brexit has had the greatest impact on the provision of food. It has been well reported in the press that the UK's food supply chain from time to time is in short supply, and, following warnings from supermarkets that food and other commodity shortages are causing gaps on shelves and will increase prices and provide less choice for consumers this Christmas, the Government has appointed Cabinet minister Michael Gove to head a new committee tasked with working with suppliers and Government departments on how to solve the shortages.
19. There are also national and world wide shortages of other commodities impacting on Council services, and Brexit is one of the contributing factors due to delays at the border, although there are often other factors to consider too. The table below highlights some of the product shortages and includes a brief explanation of the reason for the shortage and the impact on Council Services:

Commodity	Reason	Council Impact
Plastics	A world-wide shortage of raw materials as huge amounts of plastic have been diverted to PPE production to support the COVID-19 response.	General shortage or extended lead time of: Refuse bins Building materials including PVC window frames, guttering
Electronic	Increased demand due to COVID-	General shortage of:

components	<p>19 and raw material price increases and extended lead times for steel, copper, plastics/resins affecting manufacturing. Shipping backlog in China's Pearl River Delta as hundreds of ships wait to dock compounding extended delivery times.</p>	<ul style="list-style-type: none"> <li>• IT and office equipment;</li> <li>• Electrical and electronic equipment used in Construction.</li> </ul>
Food	<p>Resulting from border delays of imported fresh produce, shortage of HGV drivers and increased demand in the hospitality sector.</p>	<p>The School Meals Team are experiencing shortages of many items including fresh fruit and vegetables, frozen vegetables, pre-prepared vegetables and other grocery items. Normally shortages would be mitigated by adapting menus and swapping dishes, however the shortages are becoming more frequent and are across the board. Shorter shelf lives are compounding the issue and price rises are being proposed by a number of suppliers which cannot be passed onto schools.</p>
Construction materials	<p>Increased world demand, and increased shipping costs has led to shortages of timber, landscaping products,</p> <p>Lack of manufacture allocation systems is leading to upto 6 month lead time for roof tiles</p> <p>Paints and coatings are in short supply due to an ongoing shortage of chemicals, pulp and tin cans for packaging.</p> <p>Sealants and Chemical products are affected by a global shortage of polymers (32 force majeure around Europe)</p> <p>Plastic drainage is in short supply due to plastics being diverted to make PPE.</p> <p>Screws, fixings, sanitaryware, hand and power tools, and bricks and blocks are facing import issues due</p>	<p>Severely impacts on in house construction work, repairs and maintenance and planned housing repairs work.</p> <p>It will also impact on externally contracted construction work and major projects</p>

	<p>to Brexit, container availability and delayed deliveries.</p> <p>Steel products are in high global demand and UK production is at full capacity as British Steel tries to catch up with the back log</p> <p>Bagged Cement is on extended lead times due to huge increase in UK demand exasperated by essential plant shutdowns, shortage of packaging and haulage disruptions.</p>	
Vehicles	Shortage of semi-conductors causing delays exceeding 12 months for some vehicles.	Impacting on the Council's vehicle fleet
Vehicle parts and tyres	Supply issues as most parts are sourced from Eastern Europe and the Far East. Border delays and cost of shipping containers adding to the delays.	Impacting on the Council's vehicle fleet

20. Council services, supported by the Corporate Commissioning and Procurement team are monitoring the situation and putting in place contingency arrangements where possible including buying alternative products from contracted suppliers, sourcing alternative products from a range of non-contracted suppliers, changing specifications where necessary to enable service delivery to continue, increasing stock holding where necessary and continually communicating with suppliers to understand the latest position.

### **Price increases**

21. Brexit is impacting on prices of commodities and services in the following ways:

- Labour costs are rising due to a shortage of key professionals. Examples of this include HGV drivers being offered higher rates of pay by retailers and supermarkets which will ultimately increase the cost of commodities;
- Shortages of imported commodities and raw materials as a result of delays at border control;
- Increased importation barriers and paperwork at the border;
- Loss of competition as some businesses have not survived Brexit, COVID-19 or the combined effect.

22. As a consequence, end consumers will not only have to pay for increased import tariffs for components, but also for additional costs throughout the supply chain such as additional stock holding costs and increased transportation costs.

23. The Brexit based issues in the supply chain for materials and the increase in costs could also have an impact on the Council's ability to maintain its homes in a compliant state. Limited materials, significant increases in cost and or shortage of labour could push the cost for Housing Revenue Account (HRA) to maintain its stock up considerably. This could lead to an increase in the percentage of homes that are non-decent and put financial pressure on

the HRA. Contingency has been built into the HRA business plan to help mitigate the short term issues, but clearly there is still some uncertainty about how long this risk will extend.

24. Major projects are also being impacted including the Multi-Storey Car Park which is being delayed and requiring an uplift on the initial price agreed. To mitigate against some of the risks the Council is considering payment in advance to secure materials and goods via “vesting certificates” through the contract, and SCAPE have also amended their “Model Delivery Agreement” to accommodate changes required as a result of Brexit.
25. There are a range of other factors also impacting on price which are not attributed to Brexit including the global supply chain disruption due to COVID-19, huge increases in energy costs, and temporary shortage of carbon dioxide (CO2), global extremes of weather and the impact of the blockage in the Suez Canal is still being felt.

### **Other Impacts**

26. There are a range of other potential impacts resulting from Brexit that may be felt in the future including:
  - Financial impacts – the end of European Structural Investment Funds will have a significant impact on the Council’s ability to co-finance capital development, business innovation, skills training, rural development, arts, culture and voluntary sector activity. Worth £437 million across the LA7 between 2014 and 2020, EU monies have helped to match fund infrastructure, business support and employment programmes across the borough;
  - Regulatory changes – there has been limited immediate change to the regulatory regime that regulates investment in the economy (State Aid, procurement, social value and environmental protection), however Government have indicated some changes in direction for example by introducing the National Procurement Policy which must be considered when procuring goods, works and services;
  - Social Care – over time, increased financial pressures relating to procurement, additional costs resulting from COVID-19, insurance premiums, recruitment and hiring costs coupled with a reduced occupancy in some care homes may lead to more provider failures.
  - Data Storage – Data stored outside the UK will no longer be “protected” through EU regulations.

### **Recommendation**

27. It is recommended that Corporate Resources Overview and Scrutiny Committee:
  - consider the impact of Brexit as outlined in this report on the areas relevant for this committee;
  - identify any areas, they feel they require more detail about, that could be covered in a Members Seminar.
  - Agree to an annual Members Seminar on the Impacts of Brexit being added to the Councillors work plan.

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