

## Introduction

1. Pembrokeshire County Council is pleased to have the opportunity to respond to this Inquiry into this important subject. The Council provides public services to around 123,000 people resident in Pembrokeshire, and many more who visit our county. We are responsible for seventy schools and 18,300 pupils; provide direct support to over 5,000 vulnerable people and own and manage over 6,500 homes. The Council maintains 2,500km of roads and 800 bridges. We provide licensing, public protection and environmental health services, which involves enforcing various EU directives and regulations.<sup>1</sup> Our regeneration function has been boosted by EU investment of around £73m since 1996<sup>2</sup> and this has allowed us to provide business and tourism infrastructure as well as many training opportunities and anti-poverty initiatives.
2. The Council's Medium Term Financial Plan 2017/18 to 2020/21<sup>3</sup> identifies that a funding gap of £41.5m has already been addressed for 2014/15 to 2016/17 and that in the most likely scenario, a funding gap of £45.3m will emerge for 2017/18 to 2020/21.
3. A report considered by the Council's Cabinet on planning for Brexit in October this year<sup>4</sup> identified that the UK's termination of its EU membership could have various impacts on both the local authority and Pembrokeshire. This report

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<sup>1</sup> <https://www.pembrokeshire.gov.uk/performance-and-statistics>

<sup>2</sup> Breakdown available on request.

<sup>3</sup> <https://www.pembrokeshire.gov.uk/finance-and-business>

<sup>4</sup>

<http://mgenglish.pembrokeshire.gov.uk/documents/s43214/9%2010%2017%20Cabinet%20Brexit%20Update.pdf?LLL=0>

drew attention to the report<sup>5</sup> of the Centre for Economic Performance at the London School of Economics which identified that every local authority area in Britain would see its GVA fall under either a ‘soft’ or ‘hard’ Brexit scenario.<sup>6</sup>

4. It is natural that the Council should be concerned to ensure that Brexit does not complicate the already difficult circumstances in which local government is expected to deliver and improve its services.

## What are the main issues facing your sector as a result of the UK’s withdrawal from the European Union, and how should the Welsh Government respond to these?

5. The report to our Cabinet referenced above identified a number of factors that Council officers felt could affect the local authority as a result of Brexit, though the list was no means exhaustive. Financial consequences are dealt with below. Those of a non-financial nature are:
  6. Increase in demand for some services: An increase in unemployment will make economic inactivity and the challenge of young people who are NEET harder to tackle. These three issues contribute to others such as poverty, substance misuse<sup>7</sup>, child and animal abuse, vandalism and crime<sup>8</sup>. All of these have an impact on the services the Council provides, including but not restricted to Social Care, Housing, Public Protection and Regeneration. In addition, the possible imposition of customs checks may increase the workload for Port

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<sup>5</sup> <http://cep.lse.ac.uk/pubs/download/brexit10.pdf>

<sup>6</sup> By soft Brexit is meant that the UK remains within the Single Market. Hard Brexit means that the UK is subject to WTO rules. However it must be noted that trading on WTO rules is subject to successful negotiation with other WTO members and so is not automatic. See <https://www.politico.eu/article/us-rounds-on-britain-over-food-quotas-as-post-brexit-trade-woes-deepen/> .

<sup>7</sup> <https://www.12keysrehab.com/blog/drug-abuse-and-unemployment>

<sup>8</sup> <https://www.sciencedaily.com/releases/2010/10/101003081452.htm>;  
<https://www.nspcc.org.uk/globalassets/documents/research-reports/understanding-links-child-abuse-animal-abuse-domestic-violence.pdf>

Health staff and there may be a need for border controls at Withybush airport. The low value of the pound may encourage more “staycations” as well as overseas tourists. While this could boost tourism, this would also increase demands for Council services, e.g. additional refuse.

7. Reduction in demand for some services: Mobile workers who are unable to find employment in the county may move elsewhere (the Murco experience supports this hypothesis). If families follow them there may be a reduction in demand for school places. A reduction of EU nationals in the county could have the same effect.
8. Loss of EU staff: The number of staff from the EU27 is low, just thirteen people. The Council also has five from British Overseas Territories and Crown Dependencies, and nine from the rest of the world. Some EU27 staff are in professional roles.
9. It is expected to be a bigger issue for businesses on which the Council depends to deliver services, for instance in the social care sector and in construction.
10. To these might be added potential changes in the regulatory environment, for instance for environmental health, consumer protection, public protection and state aid. Such changes would lead to increased training requirements.
11. An issue that was stressed by our Leader, Cllr David Simpson at the Council’s Cabinet meeting on 9 October, is the great uncertainty that Brexit brings and the difficulty of carrying out meaningful planning in such circumstances. Compounding this is the risk that valuable member and officer time could be absorbed in wasted work, and the incentive this provides to do nothing but rather focus on the job in hand.

12. What is needed is some way to remove some of this uncertainty in order to provide space in which policy responses can be formulated. This can be done by simplifying the number of possible futures into just a small number of scenarios based on latest intelligence about the progress of the exit negotiations, statements from HM Government, the European Commission and others, socio-economic evidence and high quality academic research etc.
13. Identification of these scenarios is best done at an all-Wales level and it is therefore a task that should fall to the Welsh Government. However, these scenarios must be openly shared with other organisations seeking to prepare for Brexit, and most particularly local government. These scenarios should include a no deal outcome, in which nothing is agreed, as well as the “hard
14. Brexit” outcome of leaving the Single Market and Customs Union for WTO rules. It should also be acknowledged that these scenarios will be refined over time as more information comes available but they will only be of use if they are shared as soon as they are ready in order to give the maximum possible time for their use. They will be of no value if they are constantly withheld pending further information.
15. We would also point out that Brexit will bring a period of rapid change for local government and all others. The temptation to introduce further changes or reorganisations will not assist in managing the fundamental changes Brexit will bring. Welsh Government should act to ensure as much stability as possible during this period.

## What advice, support, or assistance have you received from the Welsh Government to date in preparation for Brexit?

16. We are not able to identify any advice, support or assistance provided by the Welsh Government to this Council to help our preparations for Brexit.

## What financial considerations have arisen as a result of UK's withdrawal from the European Union and what should be done to prepare for these?

17. Expected financial considerations arising from Brexit have for the most part not yet come into play. Referring back to the Cabinet report, these are expected to be:
18. Reduction in external funding: EU programmes will not operate after 2021/22 and funding from these will peter out after March 2019. Although replacement funding has been promised, this may feed through the Barnett formula and so be much less than the EU programmes. This promised replacement funding may not be forthcoming or suited to our needs in terms of eligibility and/or targeting or in other ways.
19. This point also extends to an anticipated reduction in private sector involvement in regeneration proposals if (as we expect) developer confidence wanes as an effect of rising costs in the construction sector.<sup>9</sup> In Pembrokeshire, this would take place in an area where property values are already low, which makes our area unattractive to developers since commercial returns are more readily available elsewhere.
20. Extension of austerity: A transfer of jobs and business (especially in financial services) to the EU27 is starting and can be expected to accelerate.<sup>10</sup> Other businesses are failing as a result of the decision to withdraw from the EU.<sup>11</sup> This will weaken the UK's tax base, and so reduce tax receipts. The implication is that public spending must be reduced and/or tax rates increased.

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<sup>9</sup> <http://discoverandinvest.com/development-finance/how-has-brexit-impacted-property-developers/>

<sup>10</sup> <http://www.independent.co.uk/news/business/news/city-of-london-brexit-plans-transition-period-clarity-square-mile-government-catherine-mcguinness-a8017681.html>;  
<https://www.bloomberg.com/graphics/2017-brexit-bankers/>

<sup>11</sup> <http://news.sky.com/story/brexit-to-blame-as-machinery-rental-firm-hewden-nears-collapse-10662882>

21. Increase in bad debts: An increase in unemployment, more stubborn economic inactivity and more businesses in difficulty might be expected to make the collection of debts from these parties more difficult.
22. Reduction in income: A reduction in commercial confidence may be reflected in reduced income from planning fees. Business rates may also decline, although the effect on the Council is indirect.
23. Increases in costs: After Brexit, all imports to the UK will probably be subject to tariffs and VAT, which will affect all Councils through increased costs of energy, food and other items.
24. The significant depreciation of the relative value of sterling since the Referendum has led to direct financial consequences that we are already having to manage. Firstly the cost of imported goods are increasing, including food and energy, and this is driving general price inflation that must be financed. Secondly, the continuing cap on public sector pay, when combined with this general price inflation means that our employees' wages are declining in real terms. This affects our ability to retain and recruit staff. Finally, the sterling depreciation has caused the sterling value of the EU programmes to increase significantly.<sup>12</sup> The Welsh European Funding Office and the Welsh Government are looking to local authorities to take up some of this additional funding, but to do so we must provide additional match funding, which is difficult to find at a time of austerity.
25. With regard to this last point, greater flexibility and understanding on the part of the Welsh Government Ministers regarding their expectations for local government match funding would be very much appreciated. Currently, in the

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<sup>12</sup> The WEFO planning rate for the ERDF and ESF programmes in September 2016 was £1:€1.25 whereas in September 2017 it was £1:€1.18. <http://gov.wales/funding/eu-funds/2014-2020/programme-monitoring-committee/?lang=en>.

'Building for the Future' programme for example, local government is expected to find at least 20% match funding from non-Welsh Government (including EU) resources. Such demands achieve no useful purpose and place unnecessary obstacles in the way of local government's attempts to find match funding to ease problems faced by other parts of the Welsh Government.

## What advice or support would you like to see from the Welsh Government that will help you and your sector to prepare for Brexit?

26. There are a number of types of assistance that the Council would appreciate from the Welsh Government.
27. Firstly we are aware that work has been undertaken within the Environment & Rural Affairs portfolio in Welsh Government to map out a small number of evidence-based scenarios to provide a context within which planning for Brexit can take place. We do not know whether similar work has been conducted by other parts of the Welsh Government. We would find it extremely helpful if this work could be shared with local government to allow us to add local evidence and so similarly plan our policy response to a post-Brexit environment.
28. Secondly, and to develop this theme of sharing information, a secure platform, possibly cloud-based, to enable this sharing of information between central and local government as well as other key public services would be immensely beneficial. For wider consumption, Brexit updates by way of an e-newsletter would be helpful.
29. Thirdly, we would wish to see any differential regional impacts of Brexit taken into account in the spatial allocation of funding to local government, whether through Revenue Support Grant or discretionary regeneration funding. Allocating funding solely or partly by means of historical data will not be

equitable when Wales is facing such a sudden and significant change in its socio-economic circumstances.

30. We hope that these brief comments will be of interest to the Committee and will help inform the Inquiry. If anything is unclear, or if further information is needed, please contact Mr Gwyn Evans, European and External Funding Manager, Regeneration Division, Pembrokeshire County Council.