

# The new relationship with the EU and what it means for Welsh Local Government

30 March 2021



# Setting the scene

**While responding to a new relationship with Europe and the world, Welsh Local Government will need to prepare for regulatory adjustments and disruption that will impact how it does business and the future growth and development of its communities.**

The UK formally left the 11-month transition period on 31 December 2020, to begin trading on the terms outlined in the Trade and Co-operation Agreement (TCA). This represents a significant change for the UK. And a much more detached relationship with Europe, meaning additional barriers to trade between the two blocks – as highlighted in the table opposite.

However, there are many unanswered questions. Negotiations continue in key areas, such as data adequacy, and working groups and committees – established to implement and manage the new relationship – are yet to be formed.

The UK economy is also recovering from its worst performance in 300 years and with further disruption ahead organisations need to be ready for any economic shocks.

Technological, environmental and structural changes present both challenges and opportunities. While changing consumer demands and evolving local economies also create issues that must be navigated.

Finally, it remains to be seen what direction the UK takes next. Will the TCA be built upon? Moving the UK back towards Europe and removing barriers to trade, or will it decide to diverge, moving away and creating more friction. Equally, how will the EU's attitude to trade with the UK affect the future relationship. It will take time before all the details and implications are available.

## Possible trade relationships between UK and EU

		2020	Softer Brexit		TCA	Harder Brexit
		Full EU Membership	E-FTA/EEA (e.g. Norway)	Customs Union (e.g. Turkey)	Free Trade Agreement	WTO
Goods	Tariff free access in goods?	Yes	Yes	Yes	Yes	No
	Avoidance of technical barriers?	Yes	Yes	Partial	No	Partial
	Avoidance of EU-UK customs administration?	Yes	No	Yes	No	No
Services	Market access for services?	Yes	Yes	No	Partial	No
People	Free movement of labour?	Yes	Yes	No	Partial	No
Data	Avoidance of restrictions on EU-UK data transfers?	Yes	Yes	Possible	Possible	Possible

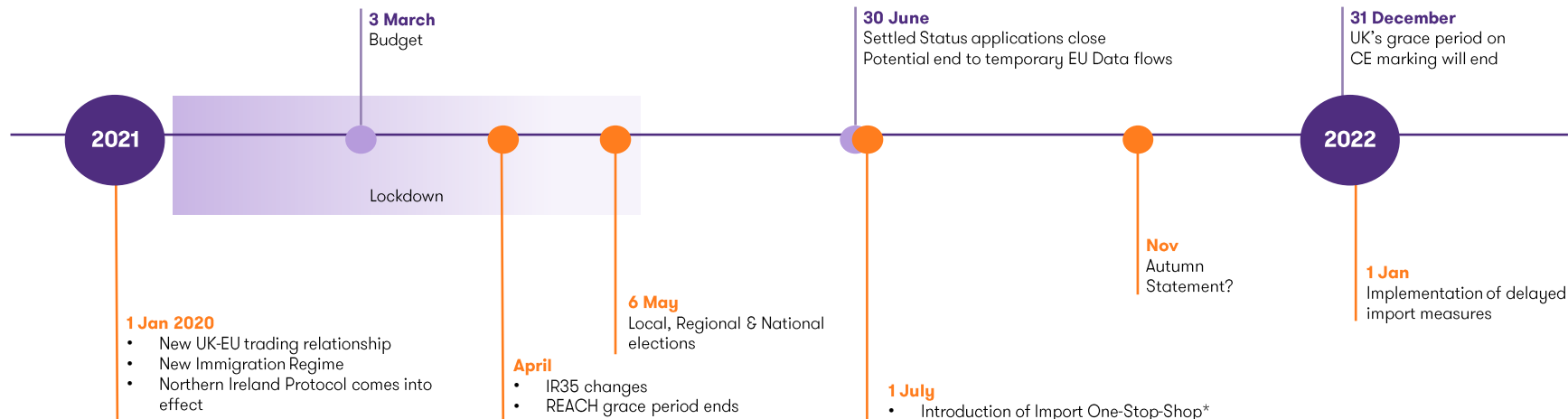
This document builds on the work already undertaken by the Welsh Government ([The new relationship with the EU: What it means for Wales](#)) and focuses on drawing out the key headlines and implications for local authorities in Wales.

This has been supplemented by our work around 'Brexit' as a firm and our wider experience of Local Government.

# Lookahead to 2021

## Key dates and events

There are a range of procedures and short term agreements to help ease disruption as the UK and EU adjust to operating under the UK-EU Trade and Cooperation Agreement. These measures are scheduled to fall away at different times – and the following timeline provides an overview of key dates during 2021.



\* Extension of existing Mini One-Stop-Shop (MOSS) to other B2C services and intra-community B2C distance sales of goods. It represents a simplification for non-EU businesses that sell to EU customers.  
NB - only for 'low value' goods up to €150.

\*\* IR35 aims to ensure that workers, who would have been an employee if they were providing their services directly to the client, pay broadly the same Income Tax and National Insurance contributions as employees.

# Brexit on 31 December 2020

## What has changed?

Last year brought much change, a global pandemic was preceded by the agreement of the withdrawal agreement that saw the UK leave the EU formally in January.



### Tariffs

The UK announced new tariff schedules that came into force in January. The UK Global Tariffs apply to countries with which the UK does not have a trade agreement.

It is important to note that these are significantly different to the previous draft tariff schedules announced in 2019.



### Immigration regime

Further details around the new points-based immigration regime have been released. The new thresholds represent a reduction on previous versions which should help businesses looking to recruit foreign talent.



### Border operating policy

The government released details on how the border with the European Union will work after the end of transition.

The changes were intended to be phased in during the first six months of 2021 – across three key dates.

However, on Thursday 11 March, the government announced a new timetable for introducing import border control processes to enable UK businesses to focus on their recovery from the Covid-19 pandemic.

This has seen the full implementation of new border processes pushed back by six months.



### Covid-19 and its economic impact

The global pandemic – and the measures announced in response – has seen the UK economy shrink. Ongoing economic uncertainty has sustained a period of low business investment and detracted attention away from other activity such as preparing for new Brexit implementation dates.

Businesses may be stretched as revenues have fallen and cash reserves been depleted, making them less resilient to any further shocks. Rules on lockdown and isolation, as well as potential absences from work through illness may all combine to make responding to further shocks more challenging.

# Brexit is just one issue for Welsh Local Government

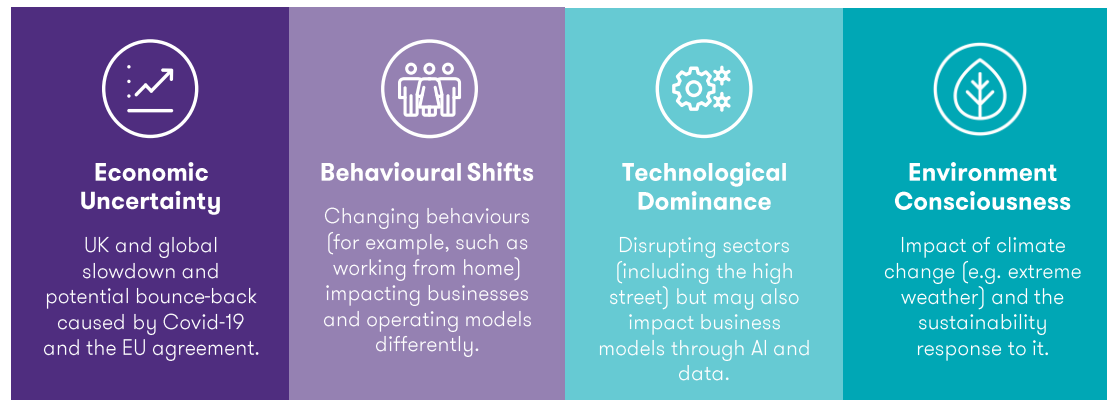
Since its inception, Local Government has had to operate in a world shaped by many different Macro forces. These are the world's broadest currents of change, providing long-term context for changing attitudes, values and behaviours.

More recently, the strategic vision of local authorities has been clouded by two major and very real forces – Covid-19, and Brexit. Both will impact all communities in a variety of forms. The changes they bring, combined with the ongoing disruption from the pandemic, means Welsh Local Government faces an uncertain and disruptive environment.

To help ensure local authorities are able to survive through change and are prepared to navigate what comes next, we focus on a number of basic areas where Welsh Local Government will need to build resilience and agility. Over the following pages we work through a number of the core implications of the TCA, and what they mean for Welsh Local Government, segmenting our guidance into three areas; Your Services, Your Place and Your Organisation.

We highlight where a resolution has been found, where a temporary agreement has been reached or areas where there remains greater uncertainty over the outcome.

Councils are going to have to navigate a wide range of issues, including:



When considering these implications, it's important for Councils to challenge themselves on the actions that need to be taken. And the competing agendas that might be impacted by these changes.

The new relationship means that Welsh Local Government needs to work through both the practical steps for an adjusted operating model in a new regulatory landscape and the strategic challenge of defining what its role is in a post Covid/Brexit world.

Further information is available on the [preparing Wales webpages](#).

# Your Services and Suppliers

Theme/subject	Narrative	Implication of TCA on theme/subject		
		Resolution	Temporary Agreement	Continued uncertainty
Workforce qualifications	Now that the UK has left the EU, a 'standstill period' of up to two years is in place where existing EU and international qualifications continue to be recognised. If Councils continue to access an EU workforce for the delivery of key services such as its Social Care workforce, they will need to track these changes		X	
Recruitment	A new points-based system makes exceptions for the <u>majority of health care professionals</u> with an NHS job offer and for qualified social workers via a new fast-track visa route, known as the <u>Health and Care Worker Visa</u> . You now need a sponsor licence to hire most eligible employees from outside the UK. Before applying to be a sponsor you should check that the people you want to hire will meet the requirements for coming to the UK for work.	X		
Procurement	As existing EU directives have been incorporated into UK law, there will be no immediate changes as a result of the transition period ending. Although the above provides a short term resolution, Government have recently consulted on the <u>Green Paper: Transforming public procurement</u> . The goal is to speed up and simplify our procurement processes and place value for money at their heart.	X		
Information sharing	The new trade deal does not include a <u>data adequacy agreement</u> . This means that the EU has yet to formally decide whether the UK's data protection regime is sufficient to protect the privacy of EEA citizens or is secure from external threats. Without a data adequacy agreement there is no formal, legal mechanism to move data from the EEA to the UK. While an agreement is being reached both sides have agreed to keep current EU rules in place in the UK, initially for the first four months of 2021, but with the option to extend it to six months.		X	

## Things to think about

Councils need to ensure resilience and Brexit readiness throughout the supply chain and across all services to ensure business continuity.

- Have you assessed your 'at risk' suppliers: a combination of Covid-19 and Brexit related challenges may mean some are facing cashflow problems and could experience severe financial difficulties or even failure?
- Have you considered the impact of suppliers facing rising costs and seeking to increase prices (particularly regarding importing items such as construction products)?
- Have you understood how services will need to adapt to new administrative rules and demand volumes: what services will see increased demand or application of new rules?

# Your Place

Theme/subject	Narrative	Implication of TCA on theme/subject		
		Resolution	Temporary Agreement	Continued uncertainty
Local business	<p>Businesses need to comply with new trading rules when selling goods and services to the EU. Although Government has made advice and guidance available, many business still remain unsure of how the TCA will impact them directly.</p> <p>There also remains some significant uncertainty for exporters, with businesses facing different approaches/requirements in different member states. New barriers may be removed through negotiations though there is no timeframe for when these easements may appear.</p> <p>This includes the requirement to make customs declarations to export goods and there are also changes to VAT, duties and excise, product marking and labelling; licenses and certification. Support is available through <a href="#">Business Wales</a> and the <a href="#">Business Wales Export Zone</a> provides a wealth of information and advice about exporting including the <a href="#">Export Hub</a> which has up-to-date information on customs, tariffs and markets.</p>	<b>X</b>		<b>X</b>
Export and trade (BCPs)	<p>On Thursday 11 March, the government announced a new timetable for introducing import border control processes to enable UK businesses to focus on their recovery from the Covid 19 pandemic.</p> <p>This delay does not remove the need for new Border Control Posts and associated infrastructure to be in place.</p>		<b>X</b>	
Funding and development	<p>Wales has benefited from significant EU programme funding. The continued absence of new funds will result in important interventions supporting the economy coming to an end without replacement when they are needed most in recovering from COVID-19. As announced in the spending review, increasing focus will be put on new funds such as the <a href="#">Levelling Up Fund</a> and <a href="#">Community Renewal Fund</a>.</p>			<b>X</b>

## Things to think about

Local authorities across Wales are on the front line in managing the impact on their communities and economies, whilst also trying to protect their own financial resilience and capacity to act.

- Have you taken action to encourage Brexit readiness by local businesses, overcoming a deficit in digital skills?
- Have you communicated your approach to business continuity and emergency planning, providing reassurance around possible impacts?
- Have you started to identify alternative sources of funding for your projects and investment catalysts for growth and regeneration?
- Have you made a plan for further economic impacts post lockdown, and how you will continue to support the most vulnerable parts of your local economy?
- Do you have a suite of 'shovel ready' projects that meet the criteria of the levelling up fund?

# Your Organisation

Theme/subject	Narrative	Implication of TCA on theme/subject		
		Resolution	Temporary Agreement	Continued uncertainty
Regulatory Services	Statutory instruments which have been laid and identified as having impacts on local authorities are listed <a href="#">here</a> . This includes areas such as the import of products, animals, food and feed system (IPAFFS), UK product safety and metrology from 1 January 2021, and training for environmental health staff, port health and trading standards officers.	X		
Recruitment	Free movement of people between the UK and European Union (EU) ended on 31 December 2020. The new points-based system treats EU and non-EU citizens equally. EU citizens applying for a skilled worker visa need to show they have a job offer from an approved employer sponsor to be able to apply. Employers will need a sponsor licence to hire most workers from outside the UK. These additional barriers will make hiring of EU nationals more difficult.	X		
Local Elections	EU citizens resident in the UK remain eligible to vote, and stand – if qualified in all other respects – in the local elections on 6 May 2021.	X		
Procurement	Cabinet Office has published <a href="#">Procurement Policy Note 08/20- Introduction of Find a Tender</a> , setting out the changes to procurement which came into effect at the end of the Transition Period.	X		
UK Government Subsidy Control	Now the UK has left the EU it will no longer be governed by EU State Aid rules. These rules continue to apply to state aid awarded prior to January 2021, and the European Commission may investigate any aid awarded until the 31st of December 2024. Rules also continue to apply to EU Structural Funds until late 2023. UK Government are <a href="#">consulting</a> on a new domestic subsidy control regime and intend to bring forward legislation to establish a subsidy control system. This will impact Council grant schemes and large scale funds such as the levelling up fund and support provided to mitigate the impact of Covid-19.		X	

## Things to think about

Welsh local authorities must ensure that they understand the potential impacts of Brexit on their own organisations.

- Have you confirmed that your employees (non-UK) EU citizens (or have family members) know that they have a right to remain in the UK and know how to apply?
- The regulatory landscape will change. Have you ensured that your organisation and services comply with the new rules and processes?
- New processes, legislation and service cost will have an underlying impact on Council finances, have you re-assessed your potential financial exposure and developed contingency plans to protect your financial resilience?



# What does this mean for Local Government?

**Over the past year, Welsh local authorities have strived to address the impacts of Brexit and Covid-19, which have been compounded by the longer-term effect of the economic downturn and reductions in public spending.**

In response to these challenges, Welsh authorities have been working in new ways that move away from traditional models of service provision towards seeing the local authority as a facilitator of outcomes, endowed with democratic accountability and legitimacy to make local decisions. Brexit and Covid has had the effect of sharpening the emphases of some changes and in some cases questioning the wider strategic direction of travel.

A recent report from NESTA, on new local authority operating models, has documented how Councils have had to change the way they operate over the past year, noting that:

- A shared sense of purpose has emerged, one which encouraged staff to come together to pursue the same goal without other competing priorities.
- Some existing processes and behaviours had to scale back to allow for new, more agile ways of working to emerge.

- Collaboration between local authorities, other public sector bodies, citizens and the voluntary and private sectors flourished.
- Councils shared more decision-making power and lent more trust to citizens and communities.
- More power was distributed within Councils with staff to deliver on their shared purpose.

Moving forward, the vision in this paper aligns with our view that as Councils move out of the current crisis and towards the recovery stage of the response, their ability to hold on to these changes is dependent on their capacity to overcome challenges related to financial sustainability, the longer term socio-economic impact of these events, and the ability of the workforce to change and adapt.

Taking this into account, there are three practical steps for Councils to take in response to the TCA, and one more substantial question to consider about the longer term role of Welsh Local Government in the future.

## Practical steps to move forward

1

### Maintain service continuity

Make the necessary decisions to keep the show on the road.

2

### Ensure compliance internally and support businesses to upskill

The regulatory landscape has and will continue to change. Ensure that your organisation and services comply with the new rules and processes.

3

### Work towards greater financial sustainability

Local authorities need to think now about the ongoing economic impact, and actions they can take in response.

4

**Ensure local strategies and services are re-shaped for a post pandemic/Brexit world**

## Disclaimer

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