

For discussion

Implications of Brexit

Agenda: 7
HEFCW/18/73

Disclosable

20/07/2018

1 Issue

- 1.1 The purpose of this paper is to share with Council evidence which officers have submitted to the National Assembly for Wales on possible impacts of Brexit, to invite Council to give further consideration to the impact and to explore possible mitigating action.

2 Corporate Planning Implications / Rationale for paper

- 2.1 It is not for the Council to stray into political territory in considering the potential impact of Brexit: where there is uncertainty, we should seek to identify potential impact in a way which is not inflected by views of the appropriateness, or otherwise, of the Brexit referendum. If, however, the most damaging implementation of Brexit were to occur, we can identify an annual exposure of over £100m for the sector, with possible additional complications in terms of collaborative activity with EU institutions and the recruitment and retention of EU nationals as students and staff. This could have an adverse impact on the capacity of the sector to meet Welsh needs and WG priorities.

3 Recommendations

- 3.1 The Council is invited to share intelligence on Brexit, its potential implications and possible mitigating actions which could be considered.

4 Timing for decisions

- 4.1 The negotiations between the EU and the UK are due to be concluded over the coming weeks so this is an appropriate time to give consideration to the possible implications of Brexit and possible responses to it.

5 Council members' interests

- 5.1 No conflicts of interests have been declared in advance of the meeting.

6 Further information

- 6.1 Contact David Blaney (029 2085 9660; david.blaney@hefcw.ac.uk).

7 Background

- 7.1 The UK has voted to leave the European Union (EU) and is currently scheduled to do so on 29 March, 2019, with a planned transition period to run until 31 December, 2020. Negotiations remain in train between Her Majesty's Government (HMG) and the EU to determine the details of the relationship between the UK and the EU after exit and, whilst agreement on some issues was reached on 8 December, 2017, it has been made clear that nothing is agreed until everything is agreed. Ultimately, any agreement arrived at via the current negotiations will be subject to ratification by the 27 remaining EU members. HMG have also made clear that both Houses of Parliament will have an opportunity to vote on the eventual withdrawal treaty, although it is not clear what would result from any rejection of the deal by the Commons. It is also understood that the UK Parliament will need to pass an implementation bill before 29 March, 2018.
- 7.2 The politics of Brexit are fraught, and it is not the place for this paper to attempt to plot the total complexity of the political situation. There is little firm information available about the current negotiations, despite the extensive commentary and underlying assumptions, which fills the void of official information. Virtually every permutation on the continuum between no change, despite the outcome of the referendum, to a 'hard Brexit' where no agreement is achieved between the UK and the EU, leading to assumption of trading under World Trade Rules, has been advocated. Even with assumed positions on that continuum, there are many conflicting assertions about how the UK will be positioned, and will perform economically, post Brexit.
- 7.3 Notwithstanding the substantial lack of concrete intelligence about the nature and consequences of Brexit, it is a reasonable assumption that, except in the circumstance of no change, there will be a degree of perturbation which will have an impact on the UK HE sector and, therefore, on the Welsh sector. The WG has established an HE Brexit Working Group which has met periodically since the referendum to attempt to assess the possible impact of Brexit. HEFCW is a member of that group and has submitted data to it. More recently, we have given evidence to the National Assembly's People, Young Children and Education (CYPE) Committee on the possible implications

8 Possible implications of Brexit

- 8.1 Since giving evidence at the CYPE Committee, we have shared with the Cabinet Secretary a digest of our evidence, which can be found at Annex A. We have indicated that the total exposure of sector to income from the EU in 2016/17 was in the order of £104 million. This is against a total annual turnover for the sector of £1,490 million. We are aware that the sector is making contingency plans to implement cost reductions if substantial reductions of income result from Brexit with no compensating alternative income. As indicated in our letter to the Cabinet Secretary, these cost reductions would be unpalatable, and would be challenging, especially in the context of existing financial pressures and competitive pressures. It is likely, however, that the necessary cost reductions could be achieved. Such action, though, would not be possible to achieve without significant adverse impact on the capacity of the sector to continue to make a full contribution to meeting the needs of Wales.
- 8.2 Our current assessment is that none of the institutions is facing unmanageable short-term financial crises. Whilst we indicated in our letter to the Cabinet Secretary

that the current financial position of the sector is less strong than the position in England, this is not currently critical to the sector’s long-term sustainability, so long as the expected increases in WG funding arising from the Diamond reforms are delivered. If those increases do not arrive, or if the financial impact of Brexit falls at the extreme of the various predictions which have been promulgated in the press and elsewhere, the combination of these pressures could result in longer-term sustainability challenges. We will continue to monitor the situation.

8.3 In our letter to the Cabinet Secretary, we have also reproduced the list of suggested actions to help mitigate the impact of Brexit which we had submitted to the CYPE Committee. Some of these, such as increasing investment in Global Wales, have been actioned already, which is encouraging. Since submitting this material to the Committee, we have also submitted a bid to the WG Brexit Transition Fund to support the capacity of the Welsh HE sector better to position to access UK research funding opportunities and to prosper in a post-Brexit context. We are waiting to hear whether that bid will be successful.

8.4 Notwithstanding the evident uncertainties which surround the Brexit process at present, Council is invited to share intelligence on Brexit, its potential implications and possible mitigating actions which could be considered.

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9 Financial implications

9.1 There are no immediate financial implications arising from this paper but, at the extreme, Brexit could reduce sector income by some £104m p.a.

10 Communications implications

10.1 There is no intention to publicise the consideration of Council in respect of the possible impact of Brexit and we will have to be careful not to adopt any position which strays into political consideration. Any further actions which might be considered will be discussed, in the first instance, with the WG or the sector as appropriate.

11 Diversity and Equal Opportunities implications

11.1 There are no diversity or equal opportunities implications arising from this paper.

12 Risk Assessment

Risk	Action to address risk
Brexit causes unmanageable financial perturbation for the sector or results in failure of the sector to be able to meet WG priorities.	Consideration of the nature and scale of the potential risks, and mitigating actions, in liaison with the sector and WG.