

Subject: Brexit Quarterly Update

Owner: Vernon Everitt

Date: 25 April 2018

Action required: Discuss

This proposal has already been considered by:

☐ Surface Transport Board / BMR /
Portfolio Board

☐ LU Executive Committee / Board

☐ Customer & External Relations Group

☐ Technology & Data Group

☐ Property Steering Group

☐ MTS Delivery Group

☒ Legal

*Professional Service Leadership Teams
(please state):*

☒ HR Leadership Team

☐ Finance Leadership Team

It directly relates to the following organisational focus points:

Draft Mayor's Transport Strategy (MTS)

Not Applicable

Scorecard

A Capable Engaged Workforce

A Workforce Representative of London

We are Financially Sustainable

Manifesto commitment(s)

Not Applicable

1 Summary

- 1.1 This paper provides the latest quarterly update to Executive Committee on preparations for Brexit. It sets out the risk management plan, the latest position regarding people impacts, a preliminary analysis of commercial risk and key themes in media coverage.
- 1.2 The Executive Committee is asked to DISCUSS and RECOMMEND any additional actions.

2 Background and current status

- 2.1 Notwithstanding progress in Brexit negotiations, there remain points of contention which continue to create risks around a final agreement. Consequently we continue to maintain a risk-based approach to preparing for Brexit, as set out in previous Executive Committee updates. This paper sets out the latest position with regard to the key risk clusters. An updated risk register is included at Appendix I.

People

- 2.2 The primary impacts of the Brexit referendum result on TfL employees to date have been uncertainty regarding their and their families' future status and the emotional impact of a public debate which partly characterises them as unwanted.
- 2.3 The Home Office has advised EU citizens that "There is no need for EU citizens living in the UK to do anything now. There will be no change to the status of EU citizens living in the UK while the UK remains in the EU"¹ Nevertheless, the European Staff Network Group (ESNG) has consulted its members and identified a number of concerns and an underlying anxiety and lack of trust in Government assurances including:
 - (a) A desire for more regular communication from TfL, including reassurance that affected employees will not be subject to discrimination and advice to managers to remind them of this and current sensitivities heightened by the negotiations
 - (b) A broad commitment to practical support from TfL, eg provision of suitable supporting documentation once it is clear what the application process will be for continued residence
 - (c) For TfL to supply more advice on the range of options open to staff re citizenship, residency, leave to remain etc.
- 2.4 Colleagues in HR are developing proposals for responding to the concerns raised by the ESNG.
- 2.5 A key Brexit concern in many sectors is the ability to recruit sufficient staff with appropriate skills. HR continually monitor this across TfL and to date have identified no Brexit effect on our ability to recruit.

Commercial

- 2.6 The Commercial team has assessed the risks posed by Brexit and is putting appropriate mitigation actions in place summarised in Appendix I. The analysis has identified the sectors in our supply chain likely to be most affected by Brexit, and the potential costs.

¹ <https://www.gov.uk/guidance/status-of-eu-nationals-in-the-uk-what-you-need-to-know> Accessed 14/3/2018

- 2.7 Reverting to World Trade Organisation (WTO) rules is the “worst-case” scenario. The average WTO tariff rate is 4.5 per cent but most industries relevant to us are below this (see Appendix 2 Figure 1) – for example the tariff for rolling stock is 2 per cent and for electrical machinery is 2.4 per cent. Relevant industries incurring the highest tariffs are vehicles other than rolling stock (9 per cent) and apparel (12 per cent).
- 2.8 Less than 0.5 per cent of our direct third-party expenditure in 2017 was on goods imported from the EU, but this could increase depending on the outcome of live procurements. Our exposure to potential tariffs is mainly indirectly through our supply chain, we anticipate tariff costs would be reflected in higher tender prices.
- 2.9 This analysis estimated that companies in TfL’s supply chain would incur approximately £10m of tariffs on goods imported from the EU. However, this figure is dependent on the outcome of current procurements.
- 2.10 Non-tariff barriers such as customs checks also pose a risk by disrupting the speed and security of supply. However, the potential for serious consequences such as disruption to service or delay to projects is limited to a small number of contracts.
- 2.11 The government has argued that the UK can negotiate on its own terms once it leaves the EU, so the above risks may be offset by new trade deals with non-EU countries. This could lead to, for example, the removal of tariffs on imports from non-EU countries, which currently average 2.8 per cent under the trade deals negotiated by the EU. However, analysis from the Institute of Fiscal Studies (IFS)^[1] suggests that any savings from the removal of tariffs would be offset by the depreciation in sterling in the wake of the referendum result and in 2017 we purchased only £4m of goods from outside the EU.
- 2.12 The TfL Commercial team is taking a range of mitigating actions set out in the risk management plan at Appendix 1.

Revenue

- 2.13 Depending on Brexit’s economic impact it has the potential to affect our future revenue and commercial income. Accurately isolating the direct effect of Brexit from other economic factors is impossible and ultimately not necessary. Aggregate revenue forecasts reflecting all trends and factors are incorporated in the paper ‘Economic factors and drivers of fares income’ to be considered at the Executive Committee meeting on 25 April 2018.

3 Contact

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4 Appendix

1. Brexit Risk Management Plan
2. Brexit Commercial Risk Supporting Analysis
3. Summary of Media Coverage to March 18

^[1] <https://www.ifs.org.uk/uploads/publications/bns/BN225.pdf>

