Brexit: risks and issues for Lambeth
Findings of our initial analysis

December 2018
Aim of this presentation

This presentation summarises the risk analysis developed by the London Borough of Lambeth to understand, plan and mitigate the potential impacts of Brexit on Lambeth’s population, its economy and public services.

The analysis is derived from already published analysis, as well as officer, partner and stakeholder interviews, and locally available evidence.

This analysis has been produced to support further conversations with partners and stakeholders to enhance our analysis and preparation.
Where are the areas of risk?

- Macro economic
- Lambeth’s economic sectors
- Lambeth council services
- EU citizens, cohesion, security
- No deal
Brexit is already having an impact

The exchange rate (alongside wage stagnation) impacting:
  • Increasing inflation;
  • higher shop prices;
  • declining spending power (even with Lambeth’s above average London pay growth); and,
  • the Council’s ability to generate revenue.

Falling migration from the EU and its effects on:
  • Staffing;
  • employment;
  • business and industry; and,
  • make-up of communities (increasing non-EU migration).
The current economic and trade effects are mainly caused by uncertainty of negotiations, however it is expected that:

• The UK services industry (80% of GDP) is likely to be outside the EU’s single market and custom union arrangements. Currently around 40% exported. London is particularly dominated by services.
• Some security offered by customs proposal in the draft withdrawal agreement – along with continuity on labour and environmental regs and taxation
• UK economy shrinks and put on a long-term, slow-growth trajectory;
• trade costs will increase whilst output will decrease;
• UK Parliament will continue to prioritize Brexit legislation;
• London and south east will be hit hardest in short-term (greater exposure), but recover more quickly (better access to alternative markets, skills, investment); and,
• harder Brexit scenarios will lead to overall more negative economic impacts.
London’s key sectors are exposed in the short-term, but less so long-term due to higher value, resilient sectors; however,

- London is a significant beneficiary of foreign direct investment (FDI), critical for productivity, employment, innovation, skills and growth.
- London has a larger proportion of non-UK workers than rest of UK. This has helped compensate for skills gaps in UK workforce. Brexit may exacerbate current difficulty in recruiting and retaining staff, particularly low wage sectors.
- Regulation and trade arrangements as important as any duties levied on London’s key sectors in enabling London to continue to grow.
- London received £581m (2014-2020) in European funding (ESF and ESIF) focused on those furthest from the labour market and SME support. Lambeth has benefitted from this funding in recent years. There are yet no details on the Government’s replacement Shared Prosperity Fund.
Citizens will bear the brunt of the effects

- Short-term impacts of inflation impact low-income households disproportionately, and particularly those with children (also need to consider UC rollout), in context of London’s high poverty levels;

- Medium-term living standards of every income group likely lower;

- Projected drops in income of average UK household range between 1.8% (£754) to 4% per year (£1,637) in ‘soft’ / ‘hard’ Brexits;

- Longer-term effects on productivity could see average households lose between 6.1% - 13.5% (£2,519 - £5,573) of annual real income;

- The poorest 10% of households could see annual real income loss of 1.7% - 3.6% (short-term) and 5.7% - 12.5% (long-term); and,

- UK must find replacement strategic investment tools in social infrastructure or double current domestic funding.

Sources: CEP/LSE, GLA
EU citizens make up a significant proportion of London’s population

<table>
<thead>
<tr>
<th>EU COUNTRY OF ORIGIN</th>
<th>POPULATION IN LONDON</th>
<th>% OF TOTAL LONDON POPULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>POLAND</td>
<td>158,300</td>
<td>1.94</td>
</tr>
<tr>
<td>IRELAND</td>
<td>129,807</td>
<td>1.59</td>
</tr>
<tr>
<td>FRANCE</td>
<td>66,654</td>
<td>0.82</td>
</tr>
<tr>
<td>ITALY</td>
<td>62,050</td>
<td>0.76</td>
</tr>
<tr>
<td>GERMANY</td>
<td>55,476</td>
<td>0.68</td>
</tr>
<tr>
<td>ROMANIA</td>
<td>44,848</td>
<td>0.55</td>
</tr>
<tr>
<td>PORTUGAL</td>
<td>41,041</td>
<td>0.50</td>
</tr>
<tr>
<td>CYPRUS (EU)</td>
<td>40,931</td>
<td>0.50</td>
</tr>
<tr>
<td>LITHUANIA</td>
<td>39,817</td>
<td>0.49</td>
</tr>
<tr>
<td>SPAIN</td>
<td>37,491</td>
<td>0.46</td>
</tr>
<tr>
<td>BULGARIA</td>
<td>27,207</td>
<td>0.33</td>
</tr>
</tbody>
</table>
They also make up a significant proportion of Lambeth’s population.

2011 census - 42,500 (14%) Lambeth residents born in the EU. GP records suggest a higher figure.

Source: UK Census 2011
London 3 times more reliant on EU citizens than rest of UK

(Source: Centre for London)
Where are the areas of risk?

- Macro economic
- Lambeth’s economic sectors
- Lambeth council services
- EU citizens, cohesion, security
- No deal
Lambeth’s economy will be affected: we have sectors that employ high numbers of EU citizens.

Total employment by broad industrial group in 2015 (LHS) and growth since 2005 (RHS).
This is in the context of a pre-existing skills shortage across a number of sectors in London.

23% of all vacancies in London are due to a lack of applicants with the right skills.

42% of businesses are not confident they will be able to recruit people with the higher-level skills their organisations need over the next five years.

Source: London Councils 2018
## Where are we currently most exposed?

<table>
<thead>
<tr>
<th>High risk sectors</th>
<th>Top Lambeth sectors (10k+ staff)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and professional services</td>
<td>Health</td>
</tr>
<tr>
<td>Science and technology</td>
<td>Business admin and support</td>
</tr>
<tr>
<td>Creative industries</td>
<td>Education</td>
</tr>
<tr>
<td>Construction</td>
<td>Information and communication</td>
</tr>
<tr>
<td>Hospitality</td>
<td>Accommodation and food</td>
</tr>
<tr>
<td></td>
<td>Science and technology</td>
</tr>
</tbody>
</table>

Source: GLA.  
Source: ONS Bres, 2015

We need to think about sectors where Lambeth currently has strengths, but also those we are trying to grow e.g. Creative and Digital Industries.
Where are the areas of risk?

- Macro economic
- Lambeth’s economic sectors
- Lambeth council services
- EU citizens, cohesion, security
- No deal
The degree to which Lambeth council services are affected depends upon:

- **Use of EU workers**, or existing workforce issues;
- **procurement and contracts** – particularly EU-based companies, subcontracts, compounded by any sector-wide problems (e.g. construction);
- **increasing service costs** – which would fall on the general fund or make partners, suppliers or contractors non-viable;
- **Increases in demand** in short or medium term, with cost implications;
- ability to adapt to change in response to difficult to anticipate impacts; and,
- current state of sector’s, and partner’s health.
Impacts on health and social care

**Demand:** no evidence to suggest that Brexit will reduce demand.

**Workforce:** high degree of reliance on EU workers in existing health and social care workforce against backdrop of difficulties with recruitment and retention:

- London’s health service twice as reliant on EU staff as the rest of the country.
- 5,000+ nurses from the European Economic Area (EEA) working in London’s hospitals.
- 13% of social care sector workforce from the EEA.
- Changes to legislation have significantly closed off opportunities for non-EU care workers, increasing the UK’s reliance on support staff from within the EU.
- Anecdotally, non UK workers willing to work more flexibly, including the unsocial hours required to provide 24-7 cover.
- Predicted shortfall in both sectors by 2025/26:
  - 26,000 to 42,000 nurses; and,
  - 70,000 social care workers.

(Sources: Grant Thornton/ London Assembly/CEP and LSE/ King’s Fund)
Health and social care continued:

Regulatory

- Pharmaceutical regulation at EU level. Dropping out of these regulatory arrangements may affect cost, availability and access to new medicines. Could be key partner impact – GSTT, Kings, SLaM

- Health sciences research often conducted at European level, and funded by EU. Could affect sustainability of university research, and impact of UK research in global market place. Could be key partner impact – GSTT, KCL

- Leaving single market can enable firms to innovate, but will make it hard to sell into European market. This could be significant for health sciences and tech and pharmaceuticals where EU adopts a cautious approach. Significant for Lambeth’s ability to attract businesses to the borough looking to sell into EU.

Residents

- EU citizens resident in Lambeth could lose access to reciprocal arrangements for health.
Impacts on housing

Demand:
- EU migrants tend to live in private rented sector – est. 91% of HA and council lettings to UK nationals, but approx. 1/3 of new approaches for temporary accommodation in Lambeth last year from EU nationals.
- Income risks if non-resolution of EU citizens’ citizenship status and benefits access.

Funding (Funding programmes and investment sources impacted by Brexit):
- Affordable housing providers and social infrastructure reliant on EIB’s low cost deals.
- Cost of borrowing or access to capital, combined with falling confidence may impact housing development in borough.
- March 2019+ UK must find replacement strategic investment tools in social infrastructure (including skills training) or double current domestic funding.

Workforce:
- 8% of the current UK construction workforce comes from the EU, but up to 60% on some Lambeth contracts. This affects all skills levels.
- Loss of access to single market could threaten 176,500 jobs exacerbating the skills shortage.

Nature of impact:
- Significant risks to national and local house building programmes.
- Risk to supply of new housing due to lack of confidence, increased costs of investment (cost of borrowing/availability of capital).
- Possible impact on Lambeth’s housing growth assumptions, impacts on Council budgets and MTFS through slow down in housing developments.
Growth, planning and regeneration

Demand
- Overall context of property market slow-down, due to multiple factors.
- Concerns about slow down in development of already granted planning permissions
- Income holding up due to larger developments, but activity down
- Developers looking to convert developments into housing and hotels, rather than high-end housing; would rather covert into offices;

Funding
- Funding and investment (including CIL and s106) needed to deliver infrastructure, projects, political commitments (air quality, sustainability) at risk from economic slow-down;

Workforce
- Construction and hospitality industries concerned about labour supply

Nature of impacts
- Housing delivery (Aug-Sept) holding up and expect to meet 5-year housing target unless hard Brexit;
- Future concerns about costs of borrowing,
- Evidence of start-ups moving from London to EU bases; and,
- Concerns over FDI, skills, industry, workforce (talent/skills) and market access.
Environmental services

Funding
• reliance on income from service demand (parking, leisure) and General Fund; relates to overall performance of the economy

Workforce and contracts
• contracts, workforce, and service delivery potentially affected across services, need to collect data on subcontracted partners;
• each contract and in-house service have contingency plans, but need to be strategically held and to ensure we are able to deliver in the face of significant disruption;
• service suppliers based in, and tool manufacturing/maintenance/servicing in UK;
• park delivery projects and highways supplier purchases from EU/world, but mostly UK;
• concern of unknown partner risks and impacts on their workforces or ability to deliver their projects to quality on time; and,
• c.50% of environmental workforce temporary, concerns on EU staff with £30k threshold and ability to attract candidates post-Brexit may have significant service impacts.

Nature of impacts
• Potential workforce shortages across council and partners leads to delivery issues, or increased costs
• likely delays to projects, but interim maintenance fixes could lessen impacts.
Education

Demand
- Reducing higher education demand (120,000 EU students across the UK, 6% of FT university students) which generates c.£3bn and c.20,000 jobs nationally – essential for universities’ financial sustainability. Key partner risk – KCL, LSBU
- Brexit appears to have decreased demand for London’s primary-secondary school places with declining EU citizens resident in London, affected school sustainability;
- Universities already establishing legal entities inside EU, drawing jobs and focus away from UK

Funding
- UK is one of the largest recipients of research funding in the EU; EU support expands the UK’s research activity via EU/international collaboration;

Workforce
- 55,000 or 28% of university staff nationally are EU nationals;
- free movement benefits UK universities’ competitiveness by recruiting key talent, whilst £35k earning limits makes non-EU nationals expensive to employ; and,
- loss of EU access affects UK students and future job creation.
- currently no data on proportion of EU nationals in Lambeth’s schools workforce, likely greater in early years provision; and,
- loss of EU capacity and talent from Lambeth’s schools – particular concerns about foreign language capacity, may increase staffing problems
Procurement

- Initial analysis is that the key Brexit risks for the Council will relate to Regulation & Legal changes, Staffing, Funding & Procurement;
- In addition the LGA and CIPFA are working with central government to highlight the Brexit risks facing the public sector, and a CIPFA advisory commission has been established to try and ensure the government fully considers public sector needs as it works towards a final deal;
- Lambeth continues to monitor the outcomes of the LGA and CIPFA work streams.
- there is no immediate legal impact and no need to review or amend Lambeth procurement governance at this stage;
- Draft withdrawal agreement indicates procurement remains unchanged for period of transition
- however, there may be increased risks that should be considered further pending the outcome of negotiations.
Lambeth Pension Fund

- Brexit built into Contribution and Investment Strategies/Triennial Valuation 2019;
- current stakeholder’s indications: short-term disruption but no long-term implications;
- no central government funding, but strong covenant for adverse impacts;
- early figures indicate minimal financial services job losses or relocations, however dependent on political appetite and priority of trade agreements/financial services;
- potential short-term currency volatility which might effect the value of assets, but minimal impact in paying pensions, mitigated by a robust investment strategy;
- potential currency conversion costs reducing the value of non-Sterling denominated assets, with further monetary and resource costs; and,
- The fund is a statutory obligation of the Council and member benefits have a Central Government guarantee
Where are the areas of risk?

- Macro economic
- Lambeth’s economic sectors
- Lambeth council services
- EU citizens, cohesion, security
- No deal
Lambeth has historically had high levels of cohesion, but Brexit combined with wider economic context may test this

- Lambeth’s referendum result suggests high degree of community cohesion, but that might be tested in the event of no deal with potential disruption to the economy, infrastructure, public services and security.

- Lambeth research has shown concerns by EU-born nationals about place in UK society. Brexit may exacerbate this and result in changing sense of belonging in the UK. Visible role of government in providing continuity and governance is critical.
EU citizens are also likely to be impacted

EU settlement scheme

• Government has given strong commitment to protecting EU citizens’ rights, offering EU citizens settled status (continuation of current rights);

• Currently in the process of developing EU citizen’s registration scheme, soft roll out begun, scheme open to June 2021; and,

• Digital application process, but recognition that this will not be suitable for all – local authorities and VCS are being asked to support.

Risks and issues

• Lambeth likely to have EU citizens who may be less likely/able to apply – risks include no access to benefits, public services, housing or employment, with knock on impacts on no recourse funds; possible groups to consider include Looked After Children, care leavers, those in TA, ASC users

• Our workforce will be part of the early roll out (h&sc) which may affect attitudes and morale; and,

• Will need to review Home Office implementation and its suitability for our population, and what we do in addition.
Security and contingency planning

- Intelligence and security arrangements are part of EU cooperation – Europol, Europact and European arrest warrant - which are likely to be core element of ‘deal’. This is particularly significant for central London, for our residents, businesses and the confidence of tourists.

- Intelligence cooperation is also significant for children – cooperation on security and arrest has been significant addressing CSE, abduction and child exploitation.

- GLA is coordinating resilience planning through Resilience Forum, which we are obliged to contribute to.

- Central government is beginning planning around food supplies, medicines, etc. although detail on the scope and remit is not available yet.
Where are the areas of risk?

- Macro economic
- Lambeth’s economic sectors
- Lambeth council services
- EU citizens, cohesion, security
- No deal
No Deal Scenario – Macro-economic

- No transition period might lead to significant economic shock – severity of this affected by notice period, and central govt contingency planning;
- worst-case GDP predictions: HMT -8%, Rabobank -18% until 2030; Morgan Stanley -7.5%; RAND -4%, and LSE -10%;
- decline of Sterling value and real incomes, rise in inflation, and supply chain disruption;
- WTO arrangements and customs checks will have direct impact on import/export. LBL businesses will be immediately affected by regulatory changes, duties and tariffs; and,
- speculation about the need for fiscal and monetary policy changes. Further QE, and fiscal stimulus (possibly spending on public services).
- Severely reduced capacity to focus on domestic policy
No deal: Lambeth economic sectors

Short-term
• Significant disruption to supply chains, and trade;
• If regulation is not incorporated into UK law by March 19 some businesses may not be able to operate – significant for financial services;
• An economic shock is likely to affect consumer behaviour and business investment decisions, affecting business growth and sustainability, though pre-Brexit stockpiling could lead to GDP boost;
• EU migration could fall rapidly, affecting business’ access to people and skills; and,
• falling asset prices may encourage M&As, impacting decisions about companies’ futures in the borough, but could also encourage purchases (demand for London’s office space currently holding up).

Medium-term
• Rapid exit from single market will lead to economic restructuring, affecting shape and balance of London’s (and Lambeth’s) economic sectors.
Lambeth council services

Most of the risks identified above likely to be exacerbated in a no-deal scenario. In addition, will need to consider:

• overall staff morale, with impacts on productivity;

• utility companies and continuity of provision – phones, broadband, energy, etc.;

• business continuity plans held by services delivered by partners/contractors;

• across all major capital projects and our ability to respond to future issues; and,

• increased demand driven by poorly performing economy and increased vulnerability for EU citizens in Lambeth.
No deal: Community cohesion, EU citizens and security

• LBL will need to have civil contingency plans in place for no deal. Sudden no deal may also impact workforce, with effects on performance and delivery.
• Government has made verbal commitment to EU citizens’ rights in case of no deal, but this is not guaranteed. Uncertainty driven by disorderly exit may increase vulnerability.
• There are groups who we should be particularly aware of – unaccompanied minors, care leavers, those experiencing DA or exploitation – much less likely to be able to get settled status quickly if necessary (should there be no transition period, or shorter period).
• Cooperation on security across EU affected by no deal, with impacts for Lambeth policing and security. If no deal on cooperation, will take time to put in place bilateral agreements and increase capacity.
Lambeth contacts:

Lead officer – Hannah Jameson, head of policy and partnerships, hjameson@lambeth.gov.uk

Jean Taylor, senior manager policy and partnerships, jtaylor1@lambeth.gov.uk