

**17 December 2018**

## **Cabinet**

**Report title:** Initial assessment of the potential impacts of the UK leaving the European Union on Lambeth's population, economy and public services.

**Wards:** All

**Portfolio:** Leader of the Council: Councillor Lib Peck

**Report Authorised by:** Jackie Belton: Strategic Director for Corporate Resources

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## **Report summary**

This report summarises the findings of our analysis of the potential impacts of Brexit on Lambeth. This initial analysis is intended to inform our engagement with partners, stakeholders and residents, as well as being used to inform our process for planning for Brexit.

## **Finance summary**

There are no direct revenue or capital implications arising from this report. This report does set out potential risks that may have implications for the Council's income, costs and borrowing that will need to be considered as part of the Medium Term Financial Strategy and future budgetary proposals.

## **Recommendations**

1. To take note of this analysis, and the potential risks identified.
2. To delegate to the Chief Executive the task of coordinating the organisation's preparation and response to Brexit, including the development of the Council's risk assessment.
3. To delegate to the Chief Executive the task of engaging with partners, stakeholder and residents to develop and implement the borough's preparation and response to Brexit.

## **1. CONTEXT**

- 1.1 Lambeth is situated at the heart of a global city. Our population, economy and public services are shaped by our relationship with the rest of the world, and in particular, the rest of European Union (EU). On 29 March 2019 the United Kingdom (UK) is expected to leave the EU, following the 2016 Referendum. This can reasonably be expected to have an effect on the UK economy, our population and public services.
- 1.2 Lambeth's position within London, the makeup of our population and the nature of our local economy will determine how we are affected by our changing relationship with the EU, along with central government's response. This report draws on published analysis on the effect Brexit is already having, and can be expected to have, to help the Council and partners prepare as best we can for these changes to ensure the continued success of the borough. It also reflects local evidence and data that has been gathered, along with interviews with officers and partners.
- 1.3 The report summarises our initial analysis. This will be developed in the coming months as the Government's policy on Brexit emerges, and as we continue conversations with central government, partners and residents. The Council will draw on this analysis to put in place mitigations and contingency plans where necessary.

## **2. PROPOSAL AND REASONS**

- 2.1 It is less than four months until the UK is due to leave the EU. At this point, there is yet no agreement on the terms by which the UK will leave the EU, the nature of the future trading relationship, and by implication, any transition period to those new trade arrangements. This creates considerable uncertainty for Lambeth's residents, businesses, third sector organisations and public services. While there is little local government can do to influence the Brexit process, it is our responsibility to work with our residents, partners and businesses locally to prepare for this change, to mitigate any negative effects, and position the borough as best we can to deliver and benefit in the future.
- 2.2 Lambeth is a borough shaped by the UK's relationship with the rest of the EU. The rights granted to all EU citizens to move to different member states to live and work has led to communities from Portugal, Poland, Ireland, France, Italy, and other European countries becoming established in the borough, working in public services, establishing businesses and becoming part of our communities. Our borough is a youthful borough, with a large number of people aged between 25 and 44 (51%), many of whom come from other European countries to experience what London has to offer. Current population estimates put the number of EU citizens living in the borough between 42,000<sup>1</sup> (14% of the population) and 70,000<sup>2</sup>.
- 2.3 As part of central London, Lambeth's economy is predominantly service-based, but as distinct from the rest of the UK, central London's services depend to a greater extent on their ability to trade freely within Europe as well as the rest of the world. London's economy is three times more reliant on EU citizens than the rest of the UK. Key sectors of our local economy, such as hospitality, health sciences and technology, and creative and digital industries, have a significant EU workforce. Crucially, for the Council and partners, EU citizens make up a significant proportion of our local public service workforce, from carers, to teachers and nurses.
- 2.4 Brexit can be expected to have a far reaching effect on our borough. This report and the appendix, analyses the potential risks to our borough under the following themes:

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<sup>1</sup> State of the Borough report, 2016

<sup>2</sup> Lambeth GP records, 2018.

- a. **Macro-economic change** – the effects on the borough brought about by the short- and medium- term change to the UK economy;
- b. **Lambeth’s local economy** – the effects on Lambeth’s local economy and the sectors within our local economy;
- c. **Local public services** – the effects on local public services and in particular those provided by the Council;
- d. **EU citizens, security and cohesion** – the effects on Lambeth’s communities, their security and levels of cohesion, as well as the rights of EU citizens living and working in the borough; and,
- e. **No deal** – this considers the areas above, but under a scenario in which the UK leaves the EU without a withdrawal agreement in place or a deal on the future UK/EU trade relationship.

## **Potential Impacts of Brexit**

### *Macro-economic change*

- 2.5 The UK is currently experiencing a prolonged period of low economic growth. The last ten years has been characterised by below trend levels of GDP growth, low levels of productivity growth, and low wage growth. While regional economic performance has varied, with London’s economy performing well compared to other areas and employment levels remaining high, the overall effect of weak economic performance has been to limit the ability of government to invest in public services, to increase the costs of living for some households, and to limit business investment.
- 2.6 The uncertainty created by Brexit is already having an impact on our economy. The UK has seen increased Pound volatility and a 14% fall in the value of Pound Sterling against the Euro since May 2016, leading to increasing prices for consumers. Recent surveys suggest business confidence has been affected<sup>3</sup>, leading to delays in recruitment and investment. Significantly for London’s economy, migration from the rest of the EU has fallen, exacerbating pre-existing skills gaps.
- 2.7 Medium-term risks include a continuation in the slow rate of growth for the UK economy overall, including falls in productivity associated with the loss of access to the single market, increased trade costs, reduced Foreign Direct Investment (FDI) and increased skills gaps. In the longer-term, analysis suggests that the UK economy will undergo some restructuring to reflect new trade relationships with the EU and the rest of the world.

### *Lambeth’s local economy*

- 2.8 Lambeth’s ambition is to have a strong local economy that provides the jobs and investment to support opportunity and rising living standards for residents, and contributes to the overall success of the wider London economy. Brexit poses potential risks to our local economy, affecting employers’ ability to recruit the staff they need, inward investment, the regulatory environment businesses operate in, their supply chains and the costs of exporting their products.
- 2.9 Lambeth has a large number of jobs in sectors that employ significant numbers of EU citizens, for example health, science and technology, accommodation and food. Employers are already expressing concerns about the impact uncertainty around EU citizens’ rights is having on recruitment, and whether prolonged uncertainty will exacerbate this issue.
- 2.10 These sectors are not only expected to be affected by workforce issues; analysis from the Greater London Authority (GLA) also suggests that they are generally more exposed to Brexit risks including tariff and non-tariff barriers, slowdown in investment and growth, and changes in population. This is significant for Lambeth because these are sectors we are looking to strengthen and grow, which

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<sup>3</sup> <https://www.icaew.com/technical/economy/business-confidence-monitor/latest-business-confidence-monitor>

have the potential to offer good jobs and progression for our residents, and investment in our borough.

#### *Local public services*

- 2.11 The degree to which public services will be exposed to Brexit risks depends on their reliance on EU citizens in their workforce, their procurement and contracts, any increases in service costs, and increases in demand. There are also indirect effects including the capacity of the Government to develop and implement policy.
- 2.12 Our analysis shows that in some areas Brexit is already having an impact on the demand for public services, and their delivery. In the 12 months following the referendum, the number of nursing applicants from the EU for new vacancies fell by 90 per cent<sup>4</sup>. Analysis undertaken by local partners point to Brexit already having an impact on staffing; in a recent report, Guys and St. Thomas's Trust found that there had been a 63% fall in net recruitment from the EU in financial year 2016/17.<sup>5</sup> The Trust employs a significant number of EU citizens, with particularly high numbers (20%) in nursing and midwifery.
- 2.13 As well as staffing, Brexit is likely to affect the make-up of our local population, with consequences for public service demand. For example, changes in the number of EU migrants coming to London is already having an impact on school places. Many EU citizens require housing support; 1/3 of approaches for temporary accommodation in Lambeth last year were made by people from Spain and Portugal. Increased vulnerability or a weaker economy could increase demand.
- 2.14 Our analysis points to potential risks in relation to housing, growth and regeneration, health and social care, education and environmental services. These risks are associated with our population (and high numbers of EU citizens), access to funding and capital, workforce, and risks faced by those delivering contracts. As local government moves to a funding model whereby more of our income is raised locally through taxation and economic growth, there are also risks to our income, and consequently our financial viability, if the economy deteriorates.

#### *EU citizens, security and cohesion*

- 2.15 The government has made a number of commitments to EU citizens living in the UK about their future rights to live and work here. This should form a key component of the withdrawal agreement, and the Home Office are developing an EU settlement scheme to embed these rights. As a borough with a large number of EU citizens, this is significant for our residents and the communities they are part of. There are risks associated with EU citizens, particularly vulnerable citizens, failing or being unable to access the settlement scheme. This could lead to citizens being left without clear citizenship status, with considerable costs to the individual and local services.
- 2.16 Lambeth is a borough with high levels of community cohesion. Residents value the diversity of their communities. However, our own research points to the impact ambivalence about the contribution of EU migrants to the UK in our national discourse has on our communities' sense of belonging. There are risks that the process of withdrawing from the EU damages community cohesion, with associated impacts on wellbeing and security.

#### *No-deal Brexit*

- 2.17 The prospect of a no-deal Brexit becomes more likely as we approach the March 2019 deadline. This carries its own risks, as well as exacerbating the risks outlined above. Lambeth is working with the GLA and other boroughs to prepare for a no-deal Brexit as part of the London Resilience Forum,

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<sup>4</sup> NMC data, published by the Health Foundation, June 2017

<sup>5</sup> GSTT, Board of Directors Meeting, 24 October 2018

to assess the impact of no-deal on areas such as access to food, medicines, energy, emergency care and law and order, and develop contingency plans accordingly.

- 2.18 A no-deal Brexit, depending on the amount of time the UK Government and businesses have to prepare, also increases the risk of a short-term economic shock, with impacts on inflation, consumer spending and business investment. The need to move swiftly to new trade arrangements could disrupt supply chains and force businesses to quickly absorb higher trade costs. There may also be uncertainty for businesses and public services that have previously operated in EU regulatory frameworks, such as financial services and pharmaceuticals.
- 2.19 Public services may experience increased demand either from EU citizens impacted by Brexit, for example with uncertain citizenship status or poorer health and wellbeing, or increased demand associated with a poorly performing economy. There are also increased risk of reductions in the number of EU migrants coming to London, and the impacts this will have on the public service workforce.

### **Preparing for change**

- 2.20 The Council will continue to develop our understanding of the risks arising from Brexit and talk to businesses, partners and residents on what role the Council needs to play in helping them to prepare. Our initial analysis suggests there are three immediate areas for us to focus on:
- a. **EU citizens' settlement scheme** – we will put in place appropriate support for EU citizens who may not be able to register themselves, as well as those in our care, and engage with employers in the borough to support their workforce to register;
  - b. **Ensuring business continuity** – we will review our business continuity plans in light of the identified risks, and work with contractors to make sure their plans are in place; and,
  - c. **Resilience planning** – we will work with other London boroughs, local partners and the GLA to put in place contingency plans.
- 2.21 There are also opportunities for the Council to develop policy and plans to ensure that Lambeth is best placed to prosper in the future. There are several areas where we will seek to work with regional and national government as well as local partners over the coming months. This includes:
- a. **Skills and employment** - A high skilled workforce is critical for our local services and for business growth. There are opportunities arising from the devolution of the adult skills budget to strengthen the supply of skills to meet the local economy's needs and fill emerging skills gaps. Although employment is high and unemployment low, we are far from full economic participation, with 50% of disabled adults in Lambeth out of work. The borough has a good record of innovative employment schemes to support people into work which could help employers find the workforce they need. Finally, there are key sectors, such as health and social care, where there is potential to redesign the workforce to support improved productivity, progression and retention.
  - b. **Local economic growth** – London will remain a global city, with people coming to live and work here, and businesses opening here to make the most of London's skills, investment, infrastructure and access to other markets. There are opportunities for Lambeth to benefit from new trade relationships and associated investment as the council and partners continue to promote the advantages of the borough, and our growth industries.
  - c. **Future devolution and public policy** – the incorporation of EU legislation into UK law creates opportunities to improve policy to benefit public services, the third sector and our local economy. The Council will need to work closely with the Local Government Assembly (LGA), London Councils and Central London Forward to identify the needs of the borough, and the policy and governance that would enable the borough to innovate and prosper.

### **3. FINANCE**

- 3.1 There are no direct revenue or capital implications arising from this report. However there are potential risks that may have implications for the Council's income, costs and borrowing that will need to be considered as part of the Medium Term Financial Strategy.

### **4. LEGAL AND DEMOCRACY**

- 4.1 There are no direct legal implications arising from this report.
- 4.2 The Council's Constitution requires that all key decisions, decisions which involve resources between the sums of £100,000 and £500,000, and important or sensitive issues, must be published on the website for five clear days before the decision is approved by the Director or Cabinet Member concerned. Any representations received during this period must be considered by the decision-maker before the decision is taken.

### **5. CONSULTATION AND CO-PRODUCTION**

- 5.1 This report has been produced to support the engagement with partners, stakeholders and residents that will take place over the coming months. This includes engagement with our strategic partners through the Lambeth First Partnership Board, the VCS Partnership Forum and with specific groups who may be adversely impacted by Brexit, including EU citizens living in the borough.

### **6. RISK MANAGEMENT**

- 6.1 The report identifies a number of potential risks associated with Brexit. The report recommends that these risks and associated mitigations are developed to inform our planning over the coming months.

### **7. EQUALITIES IMPACT ASSESSMENT**

- 7.2 There are no direct equalities risks arising from the decisions set out in this report. However, there are likely to be significant equalities impacts arising from Brexit, with different groups experiencing different types and levels of impact(s). We intended to develop our equalities analysis as part of our risk analysis to ensure that our policy and planning response takes account of our public sector equality duty (PSED).

### **8. COMMUNITY SAFETY**

- 8.1 The recommendations of this report do not have any direct impacts on community safety, however, the community safety implications of the UK leaving the EU will be considered as part of our risk identification and mitigation work, and through our contribution to the London-wide resilience planning.

### **9. ORGANISATIONAL IMPLICATIONS**

- 9.1 The risks to the organisation arising from the UK leaving the EU will be considered as part of our risk identification and mitigation work.

### **10. TIMETABLE FOR IMPLEMENTATION**

Date	Action
November	Brexit preparation working group established Lambeth First partnership Brexit meeting
21 <sup>st</sup> December	Risk register completed, with accompanying internal audit report
30 <sup>th</sup> Jan	Local support for EU residents agreed, including plans to support vulnerable residents and those in our care to access EU settlement scheme
15 <sup>th</sup> Feb	Council completes review of business continuity plans
16 <sup>th</sup> January	VCS partnership forum – VCS engagement on Brexit
29 <sup>th</sup> March	UK leaves the EU

## AUDIT TRAIL

### Consultation

Name/Position	Lambeth directorate / department or partner	Date Sent	Date Received	Comments in paragraph:
Councillor Lib Peck	Leader of the Council	24.10.2018	06.12.2018	
Councillor Andy Wilson	Cabinet member for Finance and Resources	24.10.2018	26.10.2018	
Andrew Travers	Chief Executive	24.10.2018	05.12.2018	
Jackie Belton, Strategic Director	Corporate Resources	24.10.2018		
Andrew Ramsden, Finance	Corporate Resources	24.10.2018	29.11.2018	
Alison McKane, Legal Services	Corporate Resources	24.10.2018	05.12.2018	
David Rose, Democratic Services	Corporate Resources	24.10.2018	04.12.2018	

## REPORT HISTORY

<b>Original discussion with Cabinet Member</b>	11.10.18
<b>Report deadline</b>	05.12.18
<b>Date final report sent</b>	05.12.18
<b>Part II Exempt from Disclosure/confidential accompanying report?</b>	No
<b>Key decision report</b>	No
<b>Date first appeared on forward plan</b>	N/A
<b>Key decision reasons</b>	Not applicable
<b>Background information</b>	<a href="#">GLA, <i>Preparing for Brexit</i>, January 2018</a> Holger Breinlich, Swati Dhingra, Thomas Sampson and <a href="#">John Van Reenen, <i>Who Bears the Pain of Brexit: How the costs of Brexit would be distributed across income groups</i>, CEP/LSE, June 2016</a> <a href="#">G.Clifton &amp; I. Dimitrova, <i>The Impact of Brexit on Public Services</i>, Grant Thornton/CIPFA, 2017</a>
<b>Appendices</b>	Appendix A – Brexit Risks and Issues for Lambeth