

<b>REPORT TO:</b>	<b>CABINET 10 DECEMBER 2018</b>
<b>SUBJECT:</b>	<b>BREXIT PREPARATIONS FOR CROYDON</b>
<b>LEAD OFFICER:</b>	<b>JO NEGRINI, CHIEF EXECUTIVE</b>
<b>CABINET MEMBER:</b>	<b>CLLR TONY NEWMAN,</b>
<b>WARDS:</b>	<b>ALL</b>

**CORPORATE PRIORITY/POLICY CONTEXT**

The United Kingdom's exit from the European Union on 29 March 2019 has major implications for local authorities in terms of their budgets, local economies, regulatory framework and community cohesion. A 'no-deal Brexit' remains a distinct possibility as the date for leaving the European Union approaches and would exacerbate the impact on the borough. Amid this uncertainty this report sets out some of the issues and Croydon's approach to mitigate the impact and safeguard the Council's ability to deliver its plans for growth, opportunity, enabling people to live health and independent lives and to drive fairness for all communities, people and places.

**FINANCIAL IMPACT:**

Leaving the European Union brings with it financial uncertainty for the Council, as well as the Country as a whole. Whilst the exact impact cannot be estimated at this point, sound financial management requires consideration and preparation for a range of consequences.

**KEY DECISION REFERENCE NO.:** N/A

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below

**1. RECOMMENDATIONS**

The Cabinet is recommended to:

- 1.1 Note the potential impact and responses to Brexit in Croydon, as set out in the report
- 1.2 Endorse the statement that 'Croydon is open' for business and that everyone in our diverse communities is welcome
- 1.3 Authorise officers to make arrangements to keep EU citizens in Croydon aware of the EU Settlement Scheme and work with our partners to ensure those who need it have access to support to apply for settled status
- 1.4 Note that the Council will pay the application fee for Council employees earning less than £35,000 and their partners and children seeking settled status and encourage contractors to do the same
- 1.5 Ensure businesses are aware of the EU citizens' rights to residency and employment as they are confirmed

1.6 Agree that regular updates be provided to all councillors and relevant stakeholders for each of the key categories outlined in the report

1.7 Support the Mayor of London's #LondonIsOpen campaign

## **2. EXECUTIVE SUMMARY**

2.1 The United Kingdom's exit from the European Union on 29 March 2019 has major implications for local authorities in terms of their budgets, local economies, regulatory framework and community cohesion.

2.2 A 'no-deal Brexit' remains a distinct possibility as the date for leaving the European Union approaches and would exacerbate the impact on the borough. Amid this uncertainty this report sets out some of the issues.

2.3 The implications of Brexit are grouped into the following categories within the report:

- Local Economy
- Workforce and Employment
- Finance and Procurement
- Community Safety and Cohesion

2.4 The report takes each category in turn and summarise the potential impact, the actions being taken by the Council, further plans, and options for further action.

2.5 In many cases it is difficult to provide financial analysis due to the uncertainty. Therefore a key action across all activities is to continue monitoring the progress of negotiations and work with the Local Government Association and London Councils to ensure our concerns are shared effectively with Government and lobby for effective responses.

2.6 The Council will only be able to respond effectively to the challenges posed by Brexit through working closely with its partners in the Local Strategic Partnership, its providers, businesses and Voluntary and Community Sector (VCS) and faith organisations.

## **3. BACKGROUND**

3.1 Whatever view is taken towards Brexit, it is likely to have significant implications for Croydon in terms of the local economy, workforce and skills, community cohesion, demand for public services, the Council's finances and regulatory framework. There is great uncertainty over the scale and timing of these implications, not least because there are a range of different scenarios that could occur.

### **EU Exit process and negotiations**

3.2 The UK is due to leave the EU at 11pm UK time on 29 March 2019. Three possible scenarios on the manner of the withdrawal are:

- a deal is reached on both the Withdrawal Agreement and a future relationship between the UK and EU.
  - the terms of withdrawal are agreed but it proves impossible to agree on a future relationship
  - the UK leaves the EU without a Withdrawal Agreement in March 2019.
- 3.3 A Withdrawal Agreement has been agreed by the UK Government and European Council. If it is approved by the UK and EU parliaments and the Withdrawal Treaty is ratified by March 2019, it will provide for an implementation period. The period would last until December 2020, with the possibility of a time-limited extension for up to one or two years. This would give more time for the future relationship between the UK and EU to be defined, and for national and local government, business and others to put arrangements in place. The Political Declaration endorsed at the European Council on 25 November sets out the framework for the future relationship with the EU on matters such as trade, migration, cooperation on security and data-exchange, and participation in programmes in areas such as science, youth, culture and education and civil protection. However, the declaration is not a legally binding agreement and the terms may change.
- 3.4 If the Withdrawal Treaty was ratified, but there was no agreement on a future relationship with the EU, there would be a transition period until December 2020 (unless it was extended) and reciprocal rights of EU and UK citizens would be confirmed. After the transition period ended, and without any other agreement, World Trade Organisation rules would apply.
- 3.5 However, it is uncertain whether the UK parliament will approve the agreement. 'No-deal' would mean that the proposed implementation period would not happen. Preparations would, in that case, need to be ready for 29 March 2019.
- 3.6 The Withdrawal Act 2018 transfers existing EU legislation and regulations underpinning key services into UK law. They will continue to apply, unless changes are made subsequently. The Act applies even under 'no-deal', but the Withdrawal Agreement, which contains important provisions including reciprocal rights of EU and UK citizens, would fall. It has been estimated that some 800 items of secondary legislation would need to be passed by March 2019 to ensure that UK law was operable on 'Brexit day'.
- 3.7 For the purposes of this report we have assumed a 'no-deal' scenario, recognising that this would present the most change, and therefore greater uncertainty and risk. Any scenario where the Withdrawal Agreement is approved and / or the future relationship is agreed would result in less uncertainty and risk.

### **Risk Management**

- 3.8 The Council maintains and regularly reviews a risk register. This ensures that we are monitoring and planning for potential issues that may impact on the Council's ability to deliver services, financial position or reputation.
- 3.9 The decision to leave the European Union has been included in the risk register since 2017, following the UK Government's triggering of Article 50 of the Lisbon

Treaty, which formalised the process for exit negotiations and set the timetable for March 2019.

- 3.10 The risk register provides a useful summary of the issues that the Council needs to consider. Whilst it recognises that the results of the Brexit negotiations are outside of our control, the Council will need to react to the issues that arise and the following potential impacts are identified:
- Uncertainties about the residency rights of current EU citizens in Croydon could cause community tensions.
  - Wider uncertainties about the UK's economy and trade arrangements could potentially impact development plans and inward investment that are vital for the borough's regeneration.
  - The Council has received funding for a number of initiatives from the EU with some of these part way through delivery. There is uncertainty about future funding and the availability of funds for projects.
  - The UK Economic performance will impact local authority budgets and grants. Currently there are unknowns about whether further grant cuts will be imposed and how Croydon's budget may be affected.
  - Croydon's business rates income could be impacted by any loss of confidence in investment in the UK economy.
- 3.11 The Council's Scrutiny and Overview Committee has considered the risks posed by Brexit at alternate meetings. The Committee will review the impact of Brexit at its meeting on 30 April 2019.
- 3.12 Whilst the risk register recognises that the results of the Brexit negotiations and terms of any deal are outside of the Council's control, we are taking action to protect Croydon from any negative impact, and maximise any benefits. The remainder of this report will outline these actions and consider further actions that could be taken.
- 3.13 The following sections summarise the potential impact of a 'no deal' Brexit on Croydon, outlines the actions being taken and identifies further actions that could be considered.

#### **4. POTENTIAL IMPACT ON THE LOCAL ECONOMY**

- 4.1 The GLA's 'Preparing for Brexit' report cites the Cambridge Econometrics model which suggests that the more abrupt the UK's exit from the EU, the greater the negative impact on the London Economy, ranging from a loss of between 0.8% and 2.1% in Gross Value added by 2030. The impact in terms of growth, employment and productivity in Croydon would appear to be less than the London average. Comparing the impact on growth to 2030 in the South London Partnership area which includes Croydon, against 'no Brexit', it suggests:
- a loss of 0.8% in Gross Value Added (GVA) by 2030 and 0.5% reduction in employment under a 2 year transition followed by Single Market (SM) without a Customs Union (CU)
  - a loss of 1.0% in GVA by 2030 and 0.9% reduction in employment under a 2 year transition with a CU, but no membership of the SM.

- a loss of 1.6% in GVA and 1.3% reduction in employment if the Brexit outcome is a 2 year transition followed by no membership of the SM or CU and falling back to World Trade Organisation (WTO) rules.
  - a loss of 1.8% in GVA and 1.3% reduction in employment where there is no transition, no membership of the SM or CU and no preferential EU/UK trade agreement.
- 4.2 Croydon's Small Business Commission reported that Brexit was a factor in reducing confidence and slowing investment. Businesses in Croydon may be impacted by higher interest rates, inflation and banking delays (set out more fully at Section 8 below), as well as higher tariffs on imports from the European Union on food, clothing, construction materials, car and transport equipment and paper. Additional customs and border controls may cause delays, which may affect 'just-in-time' deliveries and perishables.
- 4.3 Any reduction in economic growth is likely to impact on household budgets, which could subsequently cause a reduction in spending in the retail and hospitality sectors.
- 4.4 Many of the potential challenges faced by property developers are consistent with those in the wider economy, mainly concerning labour supply in the construction sector and cost inflation within the supply chain (driven by currency fluctuations and restrictions on the supply of materials). For Brick by Brick (BxB), the Council's development company, challenges also include the impact on the UK property market, in terms of property values and housing demand. The impact of each Brexit scenario on the property market is unclear. Any hint of reduced confidence in the wider UK economy is likely to create a more challenging environment for property developers. Uncertainty about Brexit has already affected the property market: the Royal Institute of Chartered Surveyors reported that new surveying instructions fell in each of the first seven months of 2018, indicating falling demand. Growth in property values in Outer London was around 0.3% in mid-2018, better than Inner London (which has seen a contraction in values). The impact in Croydon has been downward pressure on the annual growth rate in property values over the last two years, although this was from a high peak in July 2016. The average value of new-build residential units in Croydon has remained relatively flat over the last 18 months. Brexit uncertainty is one of a number of market factors contributing to this.
- 4.5 A positive impact of the uncertainty has been investors' reduced appetite for committing to buy land, which has reduced land values. This presents an opportunity for BxB to secure new sites for development (within an appropriate risk profile) and ensure that sites which would have otherwise been bought by private developers can release greater affordable housing provision.
- 4.6 On 29 October, the Future Place Board considered the local impact of Brexit. The Board is part of Croydon's Local Strategic Partnership and considers skills, employment and inclusive growth. Its membership comprises Council members and officers, and representatives of organisations from the public, private and voluntary sectors. Board members expressed concern about Brexit and the effect on confidence, community spend and workforce, in particular in the construction, hospitality, health and social care sectors which could suffer skills

gaps and rising wage bills. They indicated that social care and hospitality had slim profit margins.

- 4.7 Board members felt that, while Brexit could not be ignored, participants and businesses did not know what to expect, particularly given the lack of communication about it. It was reported that the Council already asked businesses what their future skills needs were, but that some firms did not have the ability to look ahead to 'future-proof themselves' from Brexit. While it was noted that the Partnership was already making connections between education and training organisations and business, Board members felt that there was more work to be done to enable young people to visualise what new career opportunities in trades, not just roles needing academic qualifications, might mean for them in real terms, and also to raise awareness of career progressions that might be possible for people already in work. Concern was also expressed over the loss of EU funding for training and learning.

## **5. LOCAL ECONOMY: OUR RESPONSE**

- 5.1 The Council is committed to supporting our local economy. The Corporate Plan includes the following priorities:
- Everybody has the opportunity to work and build their career
  - More residents develop their skills and benefit from regeneration and investment in Croydon and more businesses pay the London Living Wage and employ and buy local
  - Business moves here and invests, our existing businesses grow
  - Local communities and high streets benefit from economic growth and flourish, small and medium enterprises (SMEs) and entrepreneurs thrive
  - Infrastructure supports economic growth.
- 5.2 The Council is therefore already taking a number of actions to support the local economy:
- Marketing 'Croydon is open' to attract more investment to the borough
  - Working with the Government and the GLA to improve the infrastructure for growth: better roads and public transport, and excellent broadband
  - Supporting the Growth Zone to develop new retail space, creating 24,000 jobs and 10,000 new homes for local people
  - Through our Value Croydon approach, increasing the number of local suppliers that are benefiting from our £400m annual commissioning – directly and through our existing providers, offering local SMEs access to supply chain opportunities and making it easier for them to bid for Council contracts, for example by breaking down large lots, ensuring that Croydon Businesses are aware of the ability to bid for low value contracts which are available with the Council
  - Encouraging and incentivising business to do the same through the Croydon Good Employer Charter: to pay the London Living Wage, recruit Croydon residents, use Croydon businesses for goods and services and have good policy and practice around equalities, workforce development and environmental sustainability.
  - Helping business to locate space in Croydon, creating work spaces through planning policy, reactivating empty properties and submitting a Creative Enterprise Zone bid to enable us to do more

- Supporting business and enterprise financially, through Croydon Enterprise Loan Fund and the Council's discretionary business rates relief
- Facilitating access to advice, information, mentoring and networking through the Croydon Business Network, Social Enterprise Network, a new small business hub and tech partnerships
- Supporting the development of new Business Improvement Districts and local economic development plans.

5.3 BxB's business plan includes measures to mitigate the potential Brexit impacts of falling property values and rising costs, as decisions to progress with developments are based on financial viability appraisals which make assumptions about property values and construction costs within each scheme:

- Cautious assumptions about property values have been made in appraisals for existing schemes and no inflation in values has been planned for in line with current trends. A recent valuation exercise for 26 schemes undertaken by qualified independent surveyors demonstrated that valuation estimates were higher than those currently used in BxB's business plan. This provides a contingency for any potential negative impact on the UK property market.
- BxB reserves the option to convert some of its existing private sale schemes into private rental schemes (PRS) in the event that capital values for property significantly decrease. Whilst this has an impact on cash flow in terms of how quickly debt can be repaid, it allows the company to hold assets in the expectation that they could be released at a higher value in future, whilst still making a return.
- BxB has been exploring options to procure elements of the construction process in more innovative ways that will allow it to control the cost items which are currently seeing the biggest increase across its programme.

5.4 Recognising the additional challenge that Brexit may create, the following actions will also be taken forward:

- Signposting to advice from Government and other sources to ensure that our businesses base is compliant with emerging legislation, policy and practice. This will include promotion of the Mayor of London's [Brexit Business resource hub](#).
- Supporting opportunities for international trade including attracting new investment, investors and developing new partnerships e.g. building on relationships with Henan Province China.
- With Croydon Business Network, deliver and enable a package of support to help existing businesses access new markets.
- Provide support to our existing business base to help create policies and procedures that enable them to become fit to supply major international companies.
- Joining with the Mayor of London to echo his message that #LondonisOpen - showcasing that Croydon is and will remain open for business, talent and ideas from across Europe and around the world - enhancing the borough's good reputation for being an easy place to invest and develop in, finessing the Council's offer and approaching developers to bring them to Croydon.
- Conduct an annual business survey which will add to our understanding of business confidence, concerns about Brexit, views on the Council's openness

- Encourage anchor organisations in Croydon (like NHS trusts, colleges, the Police) to support the local economy by paying the London Living Wage, buying local and employing local
- As part of its regulatory and enforcement role, the Council will notify retailers and food businesses of changes in regulations,
- Work with the Sussex Innovation Centre and TMRW tech hub and C2C to strengthen growth sectors.
- Once it is announced, respond to Government consultation on the new UK Shared Prosperity Fund to ensure it meets Croydon's needs, and support bids to fund skills training, innovation and export growth.

## 6. POTENTIAL IMPACT ON WORKFORCE AND EMPLOYMENT

- 6.1 The Council values the important contribution EU citizens make to the work of the Council, its partners and providers and key sectors of Croydon's economy.
- 6.2 Although no local data is available, London-wide data shows that the percentage of EU citizens in the construction industry, retail, healthcare and social work, education, accommodation & food and technology is high. All of these are important for the local economy in Croydon (Table A). This suggests that these key sectors all face significant risks of skills shortages.

**Table A: Percentage of jobs filled by non-UK EEA nationals**

Sector	Number of jobs in Croydon by sector	% of all Croydon jobs by sector	% of all London jobs filled by non-UK EEA nationals
Retail	20,000	16.9%	11%
Human health and social work	15,000	12.7%	11%
Education	12,000	10.2%	12%
Professional, Scientific, Technical	12,000	10.2%	12%
Accommodation and food	8,000	6.8%	32%
Construction	7,000	5.9%	32%

Source: NOMIS employee jobs 2016 and GLA.

- 6.3 Table A demonstrates that these six sectors account for 74,000 jobs in Croydon. If the proportion of employees is similar to the whole of London, there are circa 11,500 non-UK EEA nationals employed in these sectors alone across Croydon.
- 6.4 Feedback from construction companies demonstrates concerns about the skills gaps through loss of the EU workforce and increased costs and delays in supplying building materials. This would impact on regeneration projects in Croydon including the infrastructure, retail and housing development plans, repair and improvement works on council homes and the schools expansion programme.
- 6.5 Around 50 Council employees (1.5% of the workforce) are listed as EU nationals including 14 social workers. In addition, according to a preliminary estimate, 15% (110) of some 750 locums and agency staff employed across the Council are recorded as EU nationals. As disclosure of such information by existing employees is voluntary, these figures are likely to be underestimates.

The Council is in the process of assessing the reliance on EU nationals by the many contractors and providers that deliver council services. Many roles could be filled again; however social care workers would be more challenging to replace: 13% of posts filled by the largest agency are held by EU nationals.

### **Health & Social Care Implications**

- 6.6 The impact on the health and social care sector if unmitigated has the potential to cause severe disruption. The NHS is currently facing shortages, particularly in nursing, midwifery and health; therefore, any negative impact from Brexit will exacerbate this issue. A Department of Health and Social Care report has outlined the potential impact of not enabling EU workers to work in the UK Social Care sector post-Brexit. The report warns that in a worst case scenario, there could be a shortage of 6,000 doctors, 12,000 nurses and 28,000 care staff. The Government has announced that doctors and nurses are to be exempt from the cap on skilled workers, but this does not address the shortage of care staff.
- 6.7 The social care sector nationally has an estimated vacancy rate of 6.6% and a turnover rate of 27.8%. In Croydon the size of the social care market is significant, with 140 care homes accommodating over 3,500 beds, and 50 domiciliary care providers. The local sector is already under strain due to cost and staffing; there have been eight market failures. An estimated 11% of workers in the sector are EEA nationals. The figures in Table A suggest that over 1,600 health and social care roles in Croydon are held by EEA nationals. Brexit has the potential to significantly worsen this staff shortage as, given the turnover, recruitment is essential. 30% of Croydon's adult social care providers report that they are currently affected by Brexit, mostly due to recruitment issues.
- 6.8 Our response must therefore be two-fold:
- retention of existing EU employees through providing reassurance, directly and through their employers, and enabling them to retain their residence and employment rights through the EU Settlement Scheme (see paragraph 6.9), and
  - skilling up of the local workforce to replace those EU workers who leave.

### **Retention of existing EU employees**

- 6.9 In June 2018, the Government announced an EU Settlement Scheme to enable EU citizens to acquire settled status (indefinite leave to remain) or pre-settled status (limited leave to remain) and continue their lives in the UK with the same entitlements as now to work, study and access public services and benefits, according to current rules. The Withdrawal Agreement states that workers and self-employed persons will be guaranteed broadly the same rights as they currently enjoy.
- 6.10 A pilot of the EU Settlement Scheme, for people working in health and social care and certain educational institutions, will run from 29 November to 21 December 2018. The Scheme will be fully rolled out by 30 March 2019. Application is online. Government grant funding of up to £9 million is available for VCS organisations to support EU citizens who might need additional help when applying for their immigration status through the Scheme.

- 6.11 However, in the event of 'no-deal', the Withdrawal Agreement, including these provisions, would fall and emergency legislation would have to be passed to establish the ongoing status and rights of EU citizens currently living in the UK. The uncertainty of 'no-deal' could accelerate the departure of EU nationals, potentially posing a significant risk of skills shortages in key sectors in Croydon's economy.
- 6.12 In this situation, the status and rights of UK citizens living in EU countries would also be uncertain. It may lead to some UK citizens returning to the UK, but this is not anticipated to be at a level that will improve the workforce implications.

### **Recruitment**

- 6.13 With regard to recruitment, there has already been a fall in job applications from other EU countries. The proposed strict controls on unskilled migrants (EU and non-EU) entering the UK from March 2019, if they earn less than £30,000 a year, would directly affect the important local sectors of construction, hospitality, catering, health, social care and retail.
- 5.14 It is therefore vital to upskill the existing UK workforce and enable young people about to enter the workforce to access job opportunities in these sectors.

## **7. WORKFORCE AND EMPLOYMENT: OUR RESPONSE**

- 7.1 As set out in the section on local economy, the Corporate Plan includes a priority to ensure everybody has the opportunity to work and build their career.
- 7.2 In addition to the local economy actions, there are a number of actions already underway specifically focused on workforce and employment:
- The Council and social care providers are actively recruiting social care staff through various initiatives
  - To improve local skills we are working with schools, colleges, trainers and businesses to support vocational routes for the local workforce into growth sectors of care, culture, retail, tech and construction, through Croydon Works, the job brokerage service. A new construction skills academy in New Addington supports this work.
  - We support business in developing training programmes for current and new employees and in creating new apprenticeships.
  - We also work with schools to engage with business and develop traineeships and entry-level routes into employment.
- 7.3 Whilst not in place, work is already underway to undertake the following actions to support the retention of the local EU workforce. These formed the basis of a commitment announced by the Leader of the Council in October:
- Actively seek a full disclosure from all existing Council staff who are EU citizens and capture status as part of right to work for all new employees, reminding them that they are valued by the Council, which is committed to their ongoing employment.
  - Communicate with the Council workforce in autumn 2018 about the EU Settlement Scheme using information released by the Government.

- Arrange 'drop in' sessions/surgeries for any employee, locum or employee of our contractors engaged in delivering the Council's services, who are worried about their status, assist with applications and offer other welfare support and advice.
- Reassure the Council's employees that the Government's policy is that until 31 December 2020 EU citizens will still work freely in the UK. The application for settlement or pre-settlement status will need to be made before 1<sup>st</sup> July 2021.
- Pay the application fee for Council employees earning less than £35,000 and their partners and children seeking settled status and encourage contractors to do the same
- Ensure the Council's partners and providers are aware of the EU Settlement Scheme and its employer toolkit and are able to support their employees.
- Engage with the business community to raise awareness of the EU Settlement Scheme and employment law in respect to EU nationals' status, particularly during the Brexit transition period.

7.4 The following outlines further potential actions that the Council will take in support of workforce and employment:

- Speak to key partners i.e. agency providers, partner organisations, regarding the impact of workforce attrition on the whole health and social care system
- Assess the impact on supply and access to agency/locum workers
- Develop specific training into work and recruitment packages for those industries likely to be hardest hit by Brexit, for example working with employers and sector skills agencies to create training and recruitment solutions for health and social care, construction, retail and hospitality and developing stronger career pathways.
- Increase promotion of the study of STEM (science, technology, engineering and maths) subjects among young people.
- Support businesses and training providers to seek funding to improve training provision
- Work with the Voluntary & Community sector, faith groups and other places of community focus to ensure EU citizens are aware of the EU Settlement Scheme and get support if required to apply for settled status. Initially the Council will work with law centres, the Citizens' Advice Bureau and other advice agencies to develop a network of support and access to pro-bono advice. The Government has announced up to £9m in funding to VCS organisations to ensure EU citizens needing additional support get help in obtaining their settled status.
- Develop a web portal on Brexit on the Council's website:
  - for EU citizens with links to updated information on the EU Settlement Scheme including the Mayor of London's [guidance hub](#), and local sources of assistance
  - Information, once confirmed, on EU citizens' rights of residence, employment and access to benefits (to inform current and prospective employers and landlords) including a link to [EU Settlement Scheme Employer toolkit](#).

## **8. POTENTIAL IMPACT ON COUNCIL FINANCE AND PROCUREMENT**

- 8.1 No deal Brexit poses a number of fundamental, wide-ranging and complex challenges for the Council's finances. However, it is difficult to predict the long-term impacts.
- 8.2 Inflation is likely to increase due to a fall in the value of Sterling, the impact of tariffs, supply chain concerns and labour shortages. This would increase costs for the council wage bill, supplies and services. Payments to providers rise in line with the Consumer Price Index (CPI). As the Council Pension is pegged to CPI, employer pension contributions would increase in the medium term.
- 8.3 Current levels of long-term borrowing for capital projects supporting regeneration in Croydon's Growth Zone and developing housing through Brick by Brick are insulated from increases in interest rates, but a sustained increase in the cost of debt could have a severe impact on affordability if further loans were required. This could delay or reduce the scale of such projects.
- 8.4 The Council has a loan facility from the European Investment Bank for £102m for the schools expansion programme. At 31 March 2018 it had drawn down £44.745m. The commercial arrangements are expected to continue unaffected.
- 8.5 The Pension Fund investment portfolio is currently valued at over £1 billion and invested in markets both inside and outside the EU. Latterly it has benefited from market volatility but in the longer term the impact of falling exchange rates could be damaging to the economy and cause adverse movements in interest rates and gilt yields.
- 8.6 Two-fifths of high street banks are based in the EU. There could be delays in clearing payments to them, increasing costs.
- 8.7 A decline in the rate of economic growth would impact on the Council's finances in three ways which are impossible to predict:
- by reducing income from Business Rates, Council Tax and charges, such as planning fees. As the Government's revenue support continues to decrease, local authorities are increasingly reliant on the health of the local economy at a time when service demand is increasing
  - by reducing the value of Council assets, such as its housing stock, against which borrowing can be raised
  - by increasing service demand from people whose budgets are squeezed and increasingly at risk of debt and homelessness.
- 8.8 Additional cost pressures are difficult to define at present, but would include increases in procurement costs and demand for services.

### **Procurement and delivery of public services**

- 8.9 After Brexit day, all contract opportunities that would currently be posted on OJEU/TED platforms would be advertised on a new UK-specific e-notification service instead. Contracts in the process of being negotiated could be affected as the rules that frame the process change or disappear overnight. Delays and costs may increase during major procurement exercises if access is lost to EU systems.

- 8.10 Suppliers based in the EU, transporting goods across the continent, or relying on EU based firms (not extensive) may see their costs increase. This could lead to many suppliers asking for more money to deliver the same services. Construction, vehicle leasing and IT contracts are particularly exposed to this risk.
- 8.11 Certain sectors tend to request annual price increases due to fluctuations in market conditions. The uncertainty around Brexit could lead to a larger proportion requesting a price variation to their contracts.
- 8.12 Increase in cost of construction materials and lead-in times (as 64% are imported from EU) and labour costs (due to a worsening skills shortage) impacts on homes and schools capital delivery programme, housing repair, maintenance and improvement programmes.
- 8.13 There may be an increase in the cost of care, driven by staff shortages and food prices on top of existing rate of increase in social care costs. Some social care providers are already indicating that costs are increasing above the CPI rate that is budgeted for.

### **Demand for services**

- 8.14 Brexit has the potential to change the nature and level of demand for services in a number of areas. However, it is not possible to predict the scale of demand, given the uncertainty.
- 8.15 If, following a 'no-deal Brexit', EU citizens lost their rights to residency, employment and eligibility for public services, such as housing and social care, some would be at increased risk of unemployment and homelessness, requiring a different service response, as offered to other people with no recourse to public funds. Those in emergency or temporary accommodation could have their eligibility reviewed. There would be higher risk of rent arrears owed by EU nationals who are council tenants if they ceased to be eligible for benefits or became unemployed.
- 8.16 As nationality is often not recorded and ethnicity data is a poor proxy measure, it is difficult to estimate the number of EU nationals receiving key services:
- Where nationality has been recorded, an average of 1.9% of children and young people across the children in need, looked after children, child protection and care leavers categories were EU nationals, equating to 125 individuals.
  - There is no nationality data for open adult social care users: 389 (7.0%) of those with open provision were 'white other', but this could underestimate the number of EU nationals by half.
  - 27 (4.2%) of approaches for assistance under the Homelessness Reduction Act in April to June 2018 (the first quarter of implementation) were non-Irish EEA nationals. Half (56%) of these were private tenants. 59% were employed but almost all of them were claiming benefits. 85% had dependent children. This indicates the potential vulnerability of this cohort to homelessness and that the Council might be faced with demand for assistance if prevention action were not taken.

- 8.17 The Withdrawal Agreement states that all UK nationals lawfully residing in an EU Member State at the end of the Implementation Period will be able to stay permanently in that Member State. They will have broadly the same entitlements to work, study and access public services and benefits as now where these entitlements have derived from UK membership of the EU. However, in the event of a 'no-deal Brexit', these entitlements would not be protected, and older vulnerable British Citizens returning to UK from other EU countries could require social care and housing. This demand is impossible to quantify, but they would have to meet the habitual residence test (HRT) which requires two years' residence in UK prior to housing application. The trend should be monitored with social care partners and advice agencies, and the policy for applying the HRT consistently in these cases agreed with the Department for Work & Pensions.
- 8.18 Poverty, already set to increase, could be exacerbated by Brexit. According to a JRF report, 'How could Brexit affect poverty in the UK?', the cost of living for the average UK household has increased by over £400 a year since the EU referendum (through the fall in sterling and rise in interest rates). Real wages would fall by 1.0% in the event of 'no-deal', increasing vulnerability to debt and homelessness. This could increase the need for homelessness prevention, budgeting support, discretionary housing payments, as well as temporary accommodation. It could also increase the amount rent and council tax arrears.
- 8.19 4,609 (5.8%) of 0-15 year olds in Croydon had EU passports in 2011. In 2016/17 there was an 8.4% decline in National Insurance Number registrations for work by foreign nationals in Croydon. The Cambridge Econometrics model suggests a reduction in the overall population in the South London Partnership area of between 1.0% and 3.2% by 2030, depending on the Brexit scenario. There could therefore be a decline in demand for school places in areas/wards in north and central Croydon where a larger proportion of EU citizens with children of statutory school age reside - an assumption as there is no precedent. This could reduce grant paid to the schools affected if those places were not taken up by others.
- 8.20 In the longer term, depending on the degree of reduction in household budgets, some residents may have less liquid assets to pay for domiciliary care.

### **EU Funding**

- 8.21 The Government has announced that it would 'underwrite' European Structural and Investment Funding (ESIF) until the end of 2020 in the event of 'no deal'. This means that organisations that successfully bid into EU-funded programmes before December 2020 will continue to receive funding over the project's lifetime.
- 8.22 ESIF includes
- European Social Fund (ESF) which focuses on improving the employment opportunities, promoting social inclusion and investing in skills by providing help people need to fulfil their potential
  - European Regional Development Fund (ERDF) supports research and innovation, small to medium sized enterprises and creation of a low carbon economy.

- 8.23 After nearly five years of the 2014-20 programme, only 48% of ESIF funding has been allocated by Government.
- 8.24 The Government has stated that it will consult this year on the UK Shared Prosperity Fund (UKSPF) that will replace ESF and be designed to reduce inequality between communities across the UK and to deliver sustainable, inclusive growth. There is the potential for a funding scheme that is less bureaucratic to apply for and administer, that is more responsive to local needs with devolved decision-making. However, to date no information is available on the criteria, or the overall amount of funding, which could be less than that currently available. The final details will only be known after the next Spending Review. This leaves little time to design and deliver new programmes by January 2021, when councils will be relying on this funding to mitigate the effects of Brexit on their local economies.
- 8.25 Given the variety of timespans and geography of projects funded by the EU that benefit Croydon, it is difficult to give an overall figure. These projects include:
- Croydon is the main delivery partner of a Work and Health Programme for the South London Partnership for which the Council will receive a potential £6.7m of ESF funding over 2017/23 (match-funded by Department for Work & Pensions) for an education/ training programme to get long-term unemployed people back into the work place.
  - £9m ESIF funding was provided across 7 boroughs in 2016-18 for programmes to support NEET young people (Not in education, employment or training), with Croydon benefitting from 20-25% of the funding (£900k - £1.125m per annum). Some contracts have been extended for one year. Failure to replace ESIF funding fully would put at risk the Council's ability to identify young people not in education, employment and training (NEETs) and offer them appropriate support.
  - £105,000 ERDF funding has been allocated for business start-up advice and support in Croydon over three years and a bid for to retrofit properties to be zero carbon rated would provide £135,000 for Croydon if successful. Croydon has also submitted a progression in the Workplace bid under C2C LEP for around £2m in ERDF.
  - Octavo, Croydon's educational support mutual, will bid for funding under Erasmus + programme for Croydon teachers and other school staff to observe/undergo training in countries within Europe.
- 8.26 A number of local organisations, not all of which we are aware of, benefit directly from EU funding to provide skills training and employment support for long term unemployed, homeless people and people with particular support needs.

## **9. COUNCIL FINANCE AND PROCUREMENT: OUR RESPONSE**

- 9.1 The Council manages its finances and resources well. Our Medium Term Financial Strategy has recognised the uncertainty that Brexit has created, although as stated previously it is not possible at this stage to estimate the financial impact with any certainty.
- 9.2 The following actions are already planned or being implemented:

- Plan to update pre-Brexit policies, procedures and other documents to reflect new tender, contract and other regulations for implementation from Brexit day
- Agree an approach for tenders and contracts that are due to end around March 2019. Nine contracts worth £13.3m a year are due to expire around this time
- Collaborate and share information further with neighbouring London councils to resolve issues and create joint-solutions where possible
- Complete the identification of suppliers based in the EU or with prominent EU connections so that the Council can anticipate, engage with relevant suppliers and plan to deal with emerging issues
- Plans to work with existing contractors to identify the impact on workforce and ensure contractors have plans in place to mitigate the impact on the services being delivered to our residents
- Developing a scenarios model with KPMG for the cost of care in Croydon, which will assist with demand budgeting
- Review risks and mitigations with housing contractors and increase time and cost contingencies in budgets for complex capital projects
- Ensure no significant transactions in March and April 2019 to avoid potential turbulence
- Monitor impacts, most of which will become clearer in the medium term.
- Work with the VCS sector, faith groups and others to ensure all our EU citizens will be aware of the EU Settlement Scheme as set out at 7.5 above will serve to mitigate the risk of them facing unemployment and homelessness as the result of being unregistered at the end of the transition period.

9.3 Further actions regarding finance and procurement have been identified, as set out below:

- Given the difficulty in modelling a rise in demand for services, make arrangements to monitor the effects of Brexit with partners across sectors and share monitoring data and information to capture issues as they arise and get an idea of changes in demand. The locality approach of the Council's operating model will enable targeted work with schools, the health service, VCS and other partners as emerging issues and changes in demand are identified.
- Review all council business continuity plans to consider supply chain and people impacts, identify critical suppliers and ensure strategies are in place for the partial/whole loss of these
- Reviewing the Housing Revenue Account 30 year business plan to take account of the decline in asset values and the potential risk of rising rent arrears
- Monitor staffing shortages across the health and social care system and its impact on the infrastructure.
- Lobby Government for clarity on eligibility rules for services in the event of a 'no-deal Brexit', given the potential impact on housing and social care and develop a policy response with DWP and other partners on services for EU citizens with no recourse to public funds.
- Ask partners, VCS infrastructure organisations and other local organisations the amount and purpose of EU funding that they receive and the impact of losing it
- If required, arrange access/facilitate access to Government's provision to underwrite EU funding programmes allocated by the end of 2020

- Once it is announced, respond to consultation on UK Shared Prosperity Fund (UKSPF) that will replace the ESIF and call for it to be a more responsive, less bureaucratic scheme led by local areas and not central government
- Make arrangements to access the UKSPF bidding process. Design and deliver new UKSPF funded schemes by 1 January 2021
- Identify what other sources of funding may be available to replace EU funding streams
- Taking into account the impact of Brexit in the design of the next Community Fund programme, e.g. so advice agencies have capacity.

## **10. POTENTIAL IMPACT ON COMMUNITY SAFETY AND COHESION**

- 10.1 Racist hate crimes rose by 16% in Croydon in the year after the Brexit referendum, but have been decreasing toward pre-referendum levels. The future impact of Brexit on hate crime may depend on how the potential outcomes of 'no-deal' or a deal where freedom of movement was retained to some degree was portrayed in the press and social media.
- 10.2 It is understood that the National Police Coordination Centre has drawn up contingency plans for a no-deal exit, including for general public unrest. Unrest and an increase in acquisitive crime could occur in the event of interruptions in the supply chain leading to a shortage of vital items such as food and medicines. The prioritisation of resources to deal with these issues could lead to significant disruption to local Policing for a prolonged period of time.
- 10.3 Depending on the nature of the exit the Police could lose access to European intelligence system and the European Arrest Warrant which allows EU members to request the arrest and detention of criminals in other countries without extradition talks between them. This could impact on the Police's ability to identify and extradite criminals who were foreign nationals, particularly for transnational serious organised crime.
- 10.4 Restricting the freedom of movement, especially for 'low-skilled EU nationals', would create a market place for organised criminals and modern slavery in the informal economy.
- 10.5 The National Police Chiefs Council is setting up a national unit to enable Police forces to access other tools for information sharing via Interpol, alongside ongoing reviews around the potential for disorder following Brexit and the Police response.
- 10.6 The risk assessment of food and food traders will be more difficult and less targeted following loss of access to EU databases and testing. There is risk that following food price increases, cheaper unregulated products could enter the food chain. If Brexit results in a skills shortage in the catering industry, understaffed businesses will be less able to comply with food and safety legislation, risking an increase in food poisoning and complaints.
- 10.7 Irrespective of Brexit, EU citizens resident in the UK will remain entitled to vote and stand in local government elections until s.2 of the Representation of the People Act 1983 is amended. No amendment has been announced.

## 11. COMMUNITY SAFETY AND COHESION: OUR RESPONSE

- 11.1 The Council's Corporate Plan includes the priority that everyone feels safer in their street, neighbourhood and home, working in partnership to reduce crime, anti-social behaviour and ensure public protection.
- 11.2 The Council is therefore already taking a number of actions to support this area:
- We promote Croydon as a welcoming and open place
  - With our partners we are monitoring the level of community tension through existing projects and will respond to any emerging issues and negative messages arising from a Brexit deal on movement. This work is supported by the Counter Extremism Community Connector who is working with faith and VCS groups to build local networks to promote cohesion, respect and tolerance and monitor community tensions. A protocol on coordinated responses to tensions and cohesion related issues is being agreed. A faith responders group supports responses to community tensions
  - The Safer Croydon Partnership is working jointly to improve support and reduce vulnerability for all victims of crime, focusing on hate crime. This work includes funding community-led activities to overcome hate crime and support victims.
  - Croydon's plans for responding to emergencies align to national and regional protocols and procedures. Discussions are under way with the London Resilience Forum to undertake risk assessments and planning. Planning for any civil disturbance is led by the Police and will be shared with the Croydon Resilience Forum – the local multi-agency emergency planning partnership. They meet to assess risk and implement agreed action.
  - The Council is working with partners and providers to increase awareness of modern day slavery, identify and act to protect victims. Commissioning staff in the Council are being trained to provide assurance that supply chains do not involve enslaved or forced labour.
- 11.3 The following outlines further actions that the Council is intending to take to support community safety and cohesion:
- Improve processes for gathering and assessing information to improve our understanding of our local communities
  - Extend training and awareness raising on modern slavery to more groups including the Council's housing service, recycling and refuse contractor Veolia and Faiths Together. Brexit will be a standing item of the Modern Day Slavery committee to monitor the implications of whatever deal is reached.
  - We will step up food safety checks. However, amending documentation and notices to reflect legislative changes may cause delays in other parts of the service. We will notify retailers and food businesses of changes in the legislation and lobby the Food Standards Authority to provide a suitable replacement for the risk assessment and management function currently performed by EU institutions.
  - We will await guidance from the Association of Electoral Administrators, Cabinet Office and Electoral Commission. If the law changed to remove EU citizens' voting rights Electoral Services would contact each individual

EU citizen registered to advise them of the change. The Council would link up with national communications regarding this.

## **12. CONSULTATION**

- 12.1 The Council will conduct surveys and engage with businesses, its partners and local VCS organisations through the Local Strategic Partnership Boards, networks and other forums and events to understand how Brexit impacts on them. It began this process with local business and employment organisations at the Future Place Board on 29 October. It will take account of these findings and concerns and develop plans with partners to mitigate those negative effects.
- 12.2 As specific measures are proposed, further consultation will be conducted as appropriate at that time.

## **13 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 13.1 At the time of writing this report it is not possible to identify the financial impact for Croydon Council of leaving the European Union. The financial implications will be explored and reported as national plans become clearer.
- 13.2 A key area of concern is the impact on our residents, staff and contractors. It is known that the cost to apply for settled status is £65 for over 16s and £32.50 for under-16s. Under certain circumstances it is free. A family of 4 would have to pay £195. Providing drop-in advice for Council employees, locums or employees of contractors engaged in delivering the Council's services will require extra staffing. Initially the Council could bring in expert help for initial sessions and work with local law centres and the CAB to develop a resource of pro-bono advice, before the VCS is able to access government funding for this work. These options will be assessed during the pilot phase from 29 November.
- 13.3 Risks  
The reports sets out a full range of financial risks that face the authority as a result of leaving the European Union, as well as suggested mitigations.
- 13.4 Options  
There are no options presented in this report.
- 13.5 Future savings/efficiencies  
There are no future savings or efficiencies proposed in this report, although any opportunities that do arise will be incorporated into the Council's existing financial planning mechanism.

Approved by: Ian Geary, Head of Finance, Resources & Accountancy

## **14. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

- 14.1 The Solicitor to the Council comments that in offering incentives and assistance

as suggested within the body of the report, the Council will need to be mindful of the State Aid rules which currently remain in force and which are proposed to remain in force during any transitional arrangements. Furthermore the UK Government have stated that in the event of a no-deal Brexit, it is the government's intention to transpose EU State Aid rules into UK domestic legislation so that they will remain applicable post Brexit.

- 14.2 State aid rules apply as a matter of course to any assistance or advantage given on a selective basis by a public authority (such as the Council) to any organisations that could potentially distort competition and trade in the EU. The definition of state aid is deliberately very broad because 'an advantage' can take many forms. It is anything which an undertaking (an organisation engaged in economic activity) could not get on the open market. It specifically includes such things as grants, loans, tax breaks, rate relief, the use or sale of a state (or Council) asset for free or at less than market price etc. Not all State Aid is unlawful as there are certain defined exemptions. The De Minimis Regulation allows small amounts of aid – less than €200,000 over 3 rolling years – to be given to an undertaking for a wide range of purposes. In calculating whether any assistance or advantage falls within the exemption, it is worth bearing in mind that the €200,000 sum encompasses *any* assistance or advantage from *any* public body during the 3 rolling years, not just monies that the undertaking may have received solely from the Council. Records of aid granted must be kept and all the rules of the De Minimis Regulation must be followed in order for it to be claimed. If the EU Commission determines that assistance or advantage amounts to State Aid not falling within the exemptions, it can impose a range of sanctions, including a requirement that the state recover the aid in question, with interest. Any proposed indemnity to the recipient of aid will not only be unlawful and invalid, but also itself constitute aid. However a recipient of aid may themselves be able, on appropriate facts, to recover damages from the state on the basis of the recipient's legitimate expectation that the state would act lawfully.
- 14.3 Beyond what is set out above, there are no additional legal considerations arising from the recommendations within the report; however, as more clarity is obtained around the direction of travel, specific departmental advice may need to be sought in relation to the legal implications for their services.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law for and on behalf of Jacqueline Harris-Baker, the Director of Law and Monitoring Officer.

## **15. HUMAN RESOURCES IMPACT**

- 15.1 There are no additional human resources implications arising from the recommendations within the report. However, as more clarity emerges, the impact on workforce planning and recruitment will continue to be assessed. Any changes that are required to Human Resources policies will be consulted on as necessary in line with our current practice.

Approved by: Sue Moorman on behalf of the Director of Human Resources

## 16. EQUALITIES IMPACT

- 16.1 Data from the 2011 census showed that 19,882, 5.5% of Croydon residents, held EU passports (excluding Ireland). This is an understatement as 22,975 EU electors are currently on Croydon's electoral register (8.5% of total electors). This is the most recent reliable data available.
- 16.2 Under the Equality Act 2010 the Council along with other public bodies has a statutory duty to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
  - Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - Foster good relations between people who share a protected characteristic and those who do not.
- 16.3 An equality analysis has been conducted of the potential impact of Brexit on Croydon residents. The main negative impacts identified were as follows:
- Depending on the perception of the Brexit deal agreed in terms of the freedom of movement and its portrayal in the press and social media, there may be an increase in community tension and race hate crimes.
  - Unless EU citizens gain settled or pre-settled status through the EU Settlement Scheme by 1 July 2021, they will lose their rights of residency, employment and recourse to public funds. The scheme will be fully operational by March 2019 but its online application system has implications for EU citizens who are digitally excluded. Those who are ill, isolated or hard to reach, have a learning disability or a physical disability such as impaired sight, or lack language skills may find it difficult to apply through the online system and are likely to require support.
  - Poverty could be exacerbated, particularly among low income families and people of working age, irrespective of nationality, due to rising interest rates, inflation and unemployment, increasing vulnerability to debt and homelessness.
- 16.4 The Council has identified the following actions to mitigate these negative impacts:
- One of the Council's equality objectives, adopted under s.5 of the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017, is to improve the proportion of people from different backgrounds who get on well together. The Council will continue to promote Croydon as a welcoming and inclusive place and work in partnership with all sections of the community to monitor the level of community tension, responding to any emerging issues and negative messages arising from Brexit. It will work with faith and VCS groups promote cohesion, respect and tolerance and take appropriate action with its partners to secure the safety and wellbeing of people from all communities and cultures.
  - The Council will work with the VCS, faith groups and other places of community focus to ensure EU citizens are aware of the EU Settlement Scheme and get support if required to apply for settled status.
  - The Council will monitor changing levels of poverty and debt and, where required, respond through its Gateway Service with its partners to prevent

homelessness, provide budgeting support, and link people employment and training opportunities through Croydon Works, the job brokerage service.

Approved by: Yvonne Okiyo, Equalities Manager

## **17. ENVIRONMENTAL IMPACT**

17.1 There is no immediate environmental impact. The EU Withdrawal Act 2018 will ensure all existing EU environmental law continues to operate in UK law, providing businesses and stakeholders with certainty as we leave the EU. The UK's Climate Change Act is domestic legislation and will be unaffected by exiting the EU. The Council will consider the consequences of any subsequent amendment of EU environmental regulations by new UK legislation as these changes arise.

## **18. CRIME AND DISORDER REDUCTION IMPACT**

18.1 There was a 16% rise in hate crimes over the year after the June 2016 referendum, which has since reduced towards the level prior to the referendum. Depending on the perception of the Brexit deal agreed in terms of the freedom of movement, there may be another increase. In the event of 'no-deal', there is also a risk of civil disorder and acquisitive crime in the wake of any rise in food prices, delays in the supply of medication and disruption in the delivery of health and social care services.

18.2 The Council will continue working with its partners as set out in this report to strengthen community cohesion, monitor community tension and tackle hate crime. Implementation of the Equality Policy and statutory equality objectives and working proactively with partners including the police, voluntary, faith and community organisations to raise awareness and develop coordinated responses is critical to tackling hate crime. The Council will work closely with the Police and other partners to monitor and respond to any threat of disorder.

## **19. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION**

19.1 To set out the Council's actions to mitigate the impacts of the UK's departure from the European Union, in particular a 'no-deal Brexit', declare that Croydon remains open for business and reassure EU citizens that their contribution to the working, civic and cultural life of Croydon is valued.

## **20. OPTIONS CONSIDERED AND REJECTED**

20.1 None.

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**APPENDICES:** None  
**BACKGROUND DOCUMENTS:** None