

Overview & Scrutiny Committee

Brexit Scrutiny

Challenge Session



February 2018

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The Chair's Foreword

I conducted this Brexit Scrutiny Challenge session to obtain an overview of the Local Authority's understanding of the likely impact of Brexit on the organisation. It was also to begin exploratory discussions on the Council's resilience planning for the organisation and to recommend key priorities for mitigation planning going forward.

This is just the start of the discussions on the impact of Brexit. Due to uncertainty around Brexit negotiation, limited time, resources and scope, this Challenge Session was not able to fully discuss the impact of Brexit on Tower Hamlets as a place, such as our economic stability and community cohesion. This is not because these are not important, they are absolutely vital, but because our main focus at the session was to consider the potential impact of Brexit on the Council's operations.

The broader issues are already being considered by the Tower Hamlets Strategic Partnership and as clearly recommended in this report; Scrutiny will need to have further sessions devoted to more detailed discussions on the possible impact of Brexit on our attractiveness and competitiveness as a business destination and the communities that call it home.

I envisage that the Brexit Scrutiny work will go over into 2018/19 and I expect it to be picked up by the new Overview & Scrutiny Committee after May 2018. The reason for putting aspects of this Challenge Session back into next year is that it should then be clearer what kind of Brexit the country is facing.

This report makes it clear that the Council needs to be fully prepared for all eventualities (including a "no deal Brexit") and constantly keep abreast of all key Brexit developments, by identifying and reviewing areas of potential impact. This will allow it to increase resilience and develop high level contingency plans that protect our revenue streams, workforce, local regeneration, infrastructure projects and community cohesion priorities.

I am grateful to all the Officers and Scrutiny Members for their contributions, time, energy, thoughts, and insights which really focussed our discussion and were instrumental in producing this report.

Councillor Ayas Miah
Scrutiny Lead, Governance



1. Executive Summary

Brexit Impact

1.1 The potential impact on the population in Tower Hamlets:

- Brexit will have an impact on the UK economy, labour market and migration patterns, which will consequently affect the population of Tower Hamlets, especially non-UK EU citizens;
- Local third sector organisations supporting migrant, refugee and asylum seeker communities in the borough have reported an increase in hate crimes in the period immediately after the vote to leave the EU and Police figures record an increase in hate crime reporting at this time.

1.2 The potential impact on the Council's legal and governance considerations:

- There will be no real effect on the Council's Powers to Act;
- The current procurement rules are likely to remain intact;
- There may be small opportunities to assist our objectives e.g. speeding up tendering and increased local expenditure, but this will all depend on the final Brexit arrangement and model that the UK government agrees with the EU.

1.3 The potential impact on the Council's workforce:

- Potentially more EU nationals leaving the country/fewer coming in. There is currently insufficient information to make a determination on the specific impact this might have but it could result in skills losses/shortages in areas more dependent on EU workers e.g. care workers, nurses, health care and construction;
- Wellbeing issues for all Council staff, including EU nationals – e.g. a reported rise in hate crimes since referendum.

1.4 The potential impact on Council funding:

- European Social Fund (ESF) resources will be unavailable in the future. Whilst not likely to be affected this time, local programmes currently funded by ESF include the Community Employment programme (£1.35m over next 3 years, half of it being funded through ESF), which helps local residents into work and Usage of ESF funds (approximately £100,000 per quarter) in Economic Development area might be at risk; however, these funds are likely to be replaced by s106 monies.
- European Regional Development funding revenue and/or capital funds for stimulation of markets, access and employment, supply chains, business start-ups (current programme £1.6m incl. £25,000 from Council for enhancing supply chain trade locally).

1.5 The potential impact on the Council's development and regeneration schemes:

- A loss of consumer confidence and rising build costs will affect the financial viability of schemes and could result in stalled development. This may lead to the Council being unable to meet its housing supply targets and to potential social and safety issues associated with sites being closed for a substantial period of time;
- Diminished infrastructure funds, housing loans from the European Investment Bank and housing association borrowing abilities;

- Construction sector - skills shortages, job losses and reduced employment opportunities.

Mitigations

1.6 Key mitigations include:

- Ensure the Council is regularly appraised of the latest developments in Brexit negotiations for clarity of on areas of potential impact and to allow for action to be taken as appropriate;
- Keep abreast of key Brexit issues and leading/latest thinking from Human Resources and Employment Law specialists and assess their local impacts.
- Increased communications and stakeholder engagement on Brexit;
- Identify any areas where support/guidance can be given by the Council to help and support contractors and suppliers;
- A robust research programme to identify European labour volume and sectors, effects on population and businesses in the borough;
- Review the re-distribution of funds to replace lost inward investment – e.g. through grants, loans, co-operatives etc.;
- Consider and reference Brexit in the development of key partnership and corporate strategies and plans.

2.0 Summary of Recommendations

Recommendation 1:

The Council should carry out a more detailed migration analysis of the potential impact of Brexit on our local population and develop an updated profile of the European Migrant community in Tower Hamlets.

Recommendation 2:

The Council should carry out a more detailed equalities analysis of the potential impact of Brexit on community cohesion in Tower Hamlets and publicise the 'No Place for Hate' campaign to reassure and address wellbeing and insecurity issues of EU Nationals.

Recommendation 3:

The Council should identify the specialist skills and the number of EU nationals within its workforce and those employed by our key suppliers and ensure retention strategies and positive wellbeing provisions are in place.

Recommendation 4:

The Council should commission research to examine the contribution European migrants make to the borough's labour market and the potential impact of Brexit on the Financial & Professional Services, construction industry and the borough's key growth sectors.

Recommendation 5:

- a) The Council should produce a finance report which identifies all EU funded projects and services that our key partners deliver in Tower Hamlets including regeneration schemes at risk of stalling.
- b) The Council should work closely with developers and partners to develop mitigation strategies to replace lost EU funds for community employment programmes, services and regeneration projects.

Recommendation 6:

The Council should work closely with other Local Authorities and London Councils to co-ordinate the lobbying of Central Government to replace the EU funding loss.

Recommendation 7:

The 2018/19 Overview & Scrutiny Committee should carry out a full Brexit Scrutiny Review to obtain detailed assessment and better understanding of the progress of Brexit and its implications for the borough including a focus on:

- 1) Impact on the Council, core funding and services for residents;
- 2) Challenges and opportunities for local economy;
- 3) Community Cohesion.

Recommendation 8:

The Community Plan and all our strategic and risk management plans should reference Brexit.

Recommendation 9:

The Council should proactively seek out and respond to all direct and indirect opportunities to communicate and represent the Tower Hamlets interests in the Brexit process.

Recommendation 10:

The Council should develop policies and targeted marketing strategies to promote the Borough to retain and attract business and enable the future economic growth.

3.0 Introduction and Rationale

- 3.1 As part of the Overview & Scrutiny work programme for 2017/18 the Scrutiny Lead for Governance conducted a Brexit Scrutiny Challenge session to obtain a brief overview of the Local Authority's understanding of Brexit and its likely impact on the Council as an organisation.
- 3.2 It was also to begin exploratory discussions on the Council's resilience planning for the organisation and to recommend key priorities for the Council's mitigation planning.
- 3.3 The key questions that the Challenge Session explored and addressed were:
- What impact could Brexit have on Tower Hamlets as a Local Authority, particularly in relation to our legal powers and responsibilities?
 - What are the likely challenges and opportunities of Brexit for our workforce and funding for core services? What is the likely impact of this on our local residents and regeneration schemes?
 - How could the Council ensure that it develops a comprehensive and proactive plan to mitigating the impact of Brexit?
 - In preparing the Council for Brexit what should be our priority areas of contingency planning and how do we ensure that this is effectively communicated to all our internal and external stakeholders?
- 3.4 The Challenge Session received brief presentations on the following areas:
- Context of Brexit, for example local demographics
 - Impact of Brexit on our legal powers and responsibilities
 - Impact of Brexit on our workforce
 - Impact of Brexit on our core funding
 - Impact of Brexit on our development and regeneration schemes
- 3.5 The format of the Challenge Session consisted of presentations followed by a question & answer session and then an exploratory discussion on key priorities and mitigation plans. The findings and recommendations from the session are conveyed in this report.

3.6 The challenge session attendance

The following Members and officers attended the challenge session held on 7th December 2017:

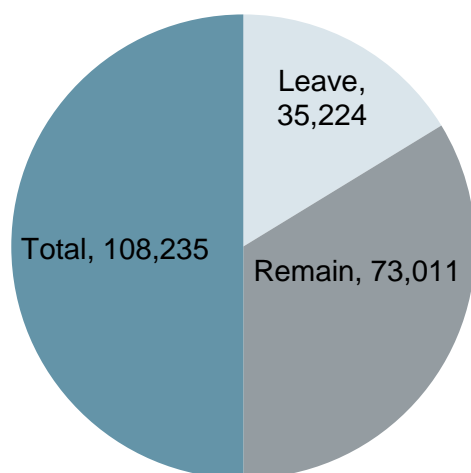
Name	Title	Organisation
Councillor Ayas Miah	Chair of Brexit Challenge Session Scrutiny Lead for Governance	LBTH
Councillor Dave Chesterton	Chair of the Overview and Scrutiny Committee (OSC)	LBTH
Councillor Rabina Khan	OSC Member People's Alliance of Tower Hamlets (Leader of PATH Group)	LBTH
Anne Ambrose	Co-opted Member for Housing Scrutiny Sub-Committee	Housing Scrutiny
Anna Finch-Smith	Employee Relations Officer	LBTH
Bethan Lant	Brexit Research Project Lead	PRAXIS
Emily Fieran-Reed	Cohesion, Community Engagement & Commissioning Service Manager	LBTH
Juanita Haynes	Senior Research Officer Strategy and Performance	LBTH
Jonathan Fox	Contracts Team Leader Legal Service	LBTH
Hannah Ismail	Trainee Solicitor Legal Service Observer	LBTH
Holly Bell	Trainee Solicitor Legal Service Observer	LBTH
Elizabeth Bailey	Senior Strategy, Policy & Performance Officer	LBTH
Shibbir Ahmed	Strategy, Policy & Performance Officer	LBTH
Joseph Ward	Planning & Building Control Officer	LBTH
Owen Whalley	Divisional Director - Planning & Building Control	LBTH
Andy Scott	Acting Service Head for Economic Development	LBTH
Neville Murton	Service Head of Finance and Procurement	LBTH

4.0 Background & Legislative Context

Brexit Background

- 4.1 The United Kingdom European Union (EU) Membership Referendum on 23rd June 2016 resulted in Britain voting to leave the European Union. Tower Hamlets overwhelmingly voted to remain in the European Union: with a Turnout of 64.59% (108,235 residents), 67.46% (73,011) voted Remain and 32.54% (35,224) voted Leave. There was however a lower turnout in TH (64.59%) compared to the UK (72.2%).¹

EU Referendum Vote in
Tower Hamlets



- 4.2 Brexit is one of the biggest political events in UK's history, and will have major implications in the way the country is governed. The Office of Budget Responsibility estimated that Brexit will cost the UK economy £58.7 billion over the next five years and there are likely to be unquantifiable social impacts too.²

The Legislative Context

- 4.3 The Government formally triggered Article 50 on 29th March 2017 and published details of its EU (withdrawal Bill) also known as the "Great Repeal Bill".
- 4.4 This Bill will repeal the 1972 European Communities Act, which took Britain into the European Community and meant that European law took precedent over laws passed in the UK Parliament.
- 4.5 Prime Minister Theresa May used a speech in Florence on 22nd September 2017 to set out proposals for a two-year transition period after the UK leaves the EU in March 2019.

¹ <http://democracy.towerhamlets.gov.uk/mgElectionAreaResults.aspx?ID=121&RPID=11340903>

² <http://www.independent.co.uk/news/business/news/brexit-latest-news-lost-tax-revenue-treasury-productivity-growth-rate-obr-office-budget-a7838891.html>

Brexit Negotiations

- 4.6 Formal negotiations began between UK and EU officials on 19th June 2017. The UK and EU negotiating teams meet face-to-face for one week each month, with extra sessions ahead of EU summits. It is anticipated that the UK departure from the EU should be completed by April 2019.
- 4.7 Their first priorities have been to reach agreement on the rights of UK and EU expat citizens after Brexit, establish a figure for the amount of money the UK will pay on leaving (the so-called "divorce bill") and the status of the Northern Ireland border. Agreement on these issues was reached on 8 December 2017:³
- Guarantee that there will be "no hard border" between Northern Ireland and the Republic and that the "constitutional and economic integrity of the United Kingdom" will be maintained;
 - EU citizens living in the UK and vice versa will have their rights to live, work and study protected. The agreement includes reunification rights for relatives who do not live in the UK to join them in their host country in the future;
 - Financial settlement – no specific figure is referred to in the document but Downing Street sources indicate it will be between £35bn and £39bn, including budget contributions during a two-year "transition" period after March 2019.⁴

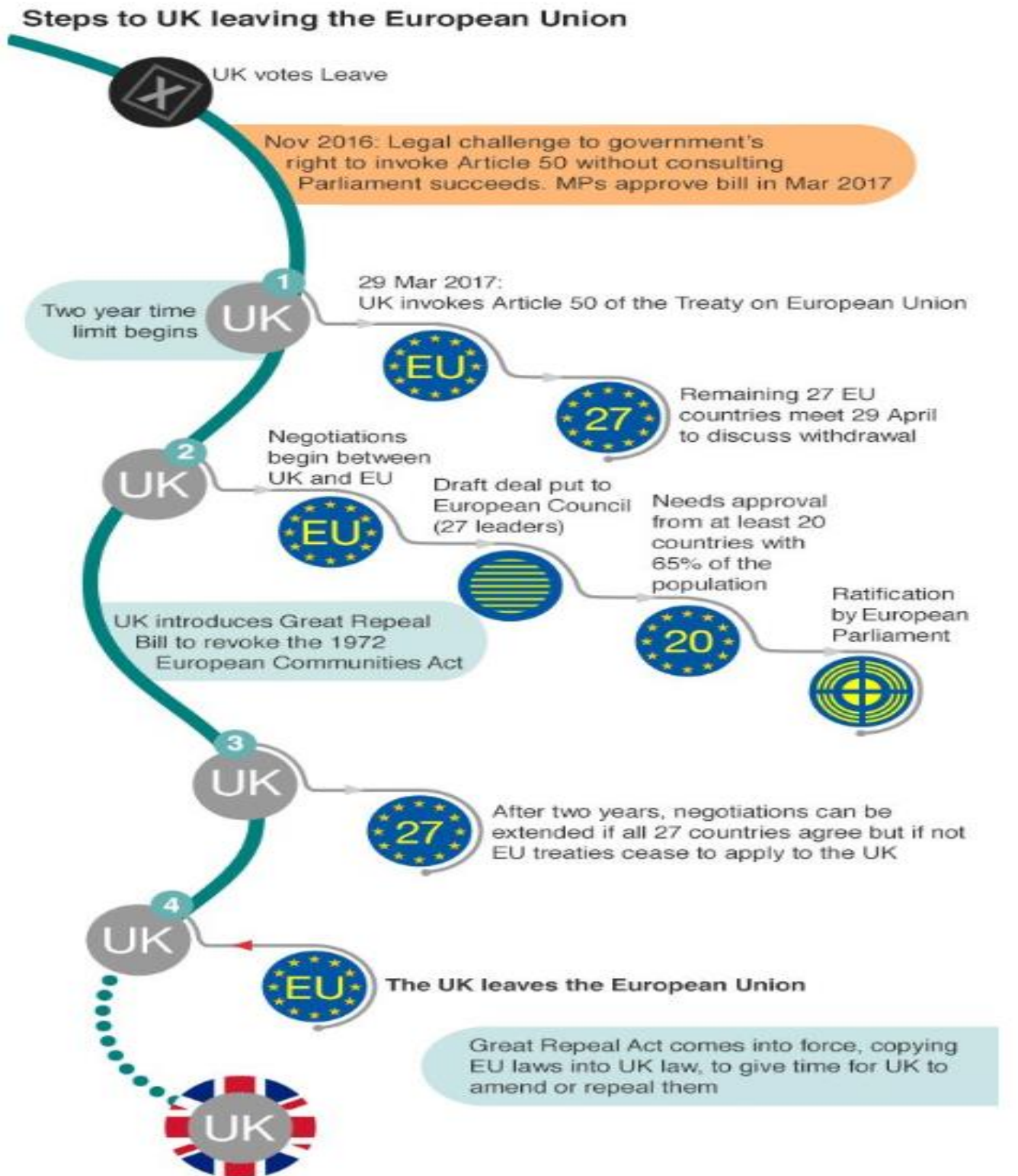
Transition Period

- 4.8 Prime Minister Theresa May has said the transition period, which the UK side tends to refer to as an "implementation phase", will allow businesses time to prepare for the new arrangements, and avoid disrupting holiday-makers and things like international security measures.
- 4.9 Although we do not exactly know yet what the transition period will look like, (because this is what is currently being negotiated between the UK and the EU) we do know the following things the two sides want:
- The EU, which published its demands recently, has said the transition period should not extend beyond 31 December 2020, 21 months after Brexit is completed and wants the UK to continue to follow its rules during this time - but not be involved in making decisions.
 - The UK has said businesses should not have to adapt twice to new rules and regulations - suggesting it agrees on a largely "status quo" arrangement and free movement of people, goods and money can continue, and that it will still be subject to European Court of Justice rulings.
 - The UK wants a "right to object" to new EU laws it doesn't agree with, and has predicted an "argument" with the other side about this.
 - Another potential point of disagreement comes with regards to citizens' rights - in particular EU nationals who move to the UK during the transition period. Do they get treated the same as if they had arrived while the UK was in the EU? The EU says yes, the UK no.
 - The UK also wants to be able to strike trade deals with other countries - which it cannot do as an EU member - although these cannot come into force until the transition ends. The EU has not objected to this.

³ BBC News Website: <http://www.bbc.co.uk/news/uk-politics-42277040> (Dec 2017)

⁴ BBC News Website: <http://www.bbc.co.uk/news/uk-politics-42277040> (Dec 2017)

4.10 Steps to Leaving the EU



5.0 Regional and Local Context

- 5.1 Research published by the Migration Observatory suggests that uncertainty caused by the EU Referendum is already beginning to have an impact on migration. International migration statistics published by the Office for National Statistics at the end of November 2017 shows that net migration to the UK has fallen by 106,000 and that this decrease has been mainly driven by the fall in immigration of EU citizens. Nationally the departure of migrants from the A8 countries, those that joined the EU from the A8 countries in 2004 – Poland, Latvia, Lithuania, Estonia, Hungary, the Czech Republic, Slovakia and Slovenia – appears to be driving the decline.⁵
- 5.2 The Migration Observatory also suggests that there are number of factors which may be influencing the decline:
- The fall in the value of the pound leading to the reduction in the relative value of wages for foreign workers in the UK;
 - The UK no longer appearing attractive to A8 workers because of the lack of clarity about their long term rights of residence; and
 - The increase in the number of hate crimes which appeared to particularly affect Polish and other Eastern European migrants immediately after the EU Referendum.⁶

London

- 5.3 London contributes 30% of the UK's tax revenues and its population and economy have been growing since the 1990s. Today the capital is one of a handful of truly global cities in an increasingly urbanised world. Its global character is reflected in the diversity of its population, in its relatively relaxed attitude towards immigration and the clear majority of Londoners who voted to remain in the EU.⁷
- 5.4 London is a global centre for finance, for tech, for creative industries, for not-for-profits and for higher education. Its vitality, diversity and economic growth have made it a magnet for young and creative people from across both the country and the world. London's economy generates one fifth of the UK's GDP and one third of UK taxes, and firms based in the capital provide jobs across the country. Growth has also brought strains to the capital. Speculation and undersupply have pushed up house prices to levels that are unaffordable for many middle-income Londoners. Transport congestion constrains mobility and worsens air quality, while transport costs are also rising as workers have to commute longer distances.⁸
- 5.5 London's success is not solely a result of EU membership, but Brexit presents big challenges to the capital – challenges that are different both in degree and in character from those posed for the rest of the UK. Addressing these obstacles – and the opportunities that Brexit could offer – in the upcoming negotiations and in domestic devolution, will be essential to ensuring a prosperous future for the UK.⁹

⁵ <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/november2017>

⁶ <http://www.migrationobservatory.ox.ac.uk/resources/briefings/determinants-of-migration-to-the-uk/>

⁷ Better Brexit – Better City Report 2017: <https://www.centreforlondon.org/reader/better-brexit-better-city/>

⁸ Better Brexit – Better City Report 2017: <https://www.centreforlondon.org/reader/better-brexit-better-city/>

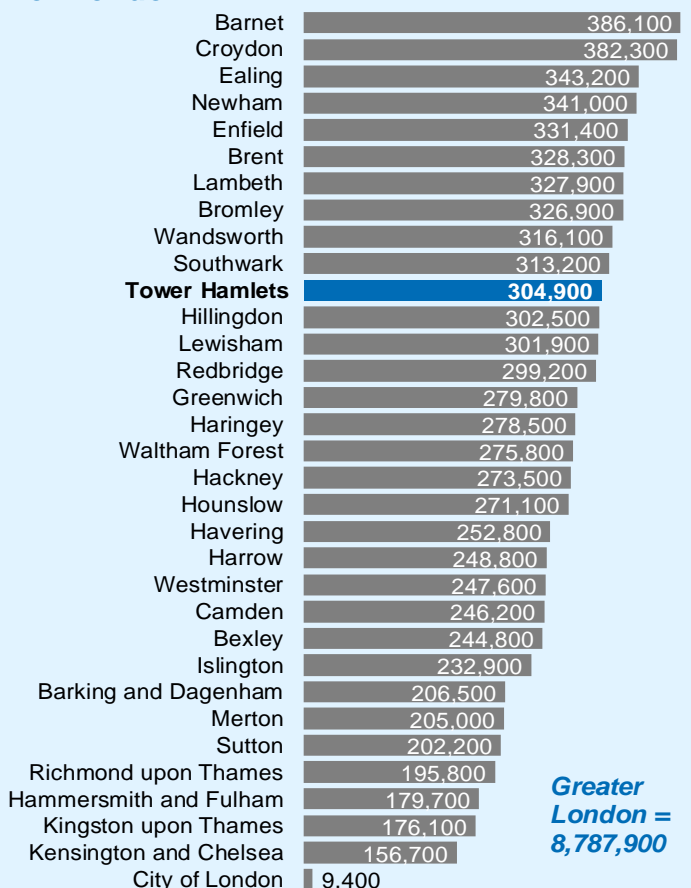
⁹ Better Brexit – Better City Report 2017 <https://www.centreforlondon.org/reader/better-brexit-better-city/>

- 5.6 The new independent economic analysis commissioned by the Mayor of London, Sadiq Khan, indicates that a 'no deal' hard Brexit could lead to a lost decade or longer of significantly lower growth. The worst-case scenario could result in:
- 500,000 fewer jobs
 - 87,000 fewer jobs in London by 2030
 - nearly £50bn UK-wide investment lost by 2030¹⁰
- 5.7 The GLA Brexit research report (Preparing for Brexit) suggests potentially the impact could be greater in Inner than Outer London. Inner London is expected to experience a larger negative impact as a result of Brexit in terms of Gross Value Added (GVA), employment and population (compared to what may have happened if the UK remained in the Single Market and Customs Union), as this is where the majority of EU-dependent economic activities occur. In particular, sectors in London that are likely to be more exposed to the risks of Brexit, such as Financial & insurance, Media, IT Services, Legal & accounting and Head offices & management consultancy, have a greater presence in Inner London areas such as Tower Hamlets and the City of London than in Outer London areas. Together, these sectors account for 44% of total GVA and 29% of total employment in Inner London in 2016, compared to 18% of total GVA and 13% of total employment in Outer London.¹¹
- 5.8 Financial and professional services could be the hardest hit with 119,000 fewer jobs nationally. Other sectors reported include: science and technology (92,000 fewer jobs), construction (43,000 fewer jobs) and the creative sector (27,000 fewer jobs).¹²
- 5.9 Even softer Brexit scenarios, like the UK remaining in the Single Market, but leaving the Customs Union after a transition period could still result in a 176,000 fewer jobs across the country.¹³

6.0 Tower Hamlets

- 6.1 The Office for National Statistics (ONS) estimated the usual resident population of Tower Hamlets to be 304,900 as at 30 June 2016.ⁱ This is the first time the area's population has exceeded 300,000 since before the Second World War. Figure 2 shows that in terms of population size, Tower Hamlets is ranked 11th largest out of the 33 local authority areas in London (32 boroughs and City). The borough previously ranked as the 14th largest London borough in mid-2015 – we surpassed Hillingdon, Lewisham, and Redbridge in the past year.

Figure 2.1: Mid-2016 population estimates for London



¹⁰ <https://www.london.gov.uk/press-releases/mayoral/jobs-under>

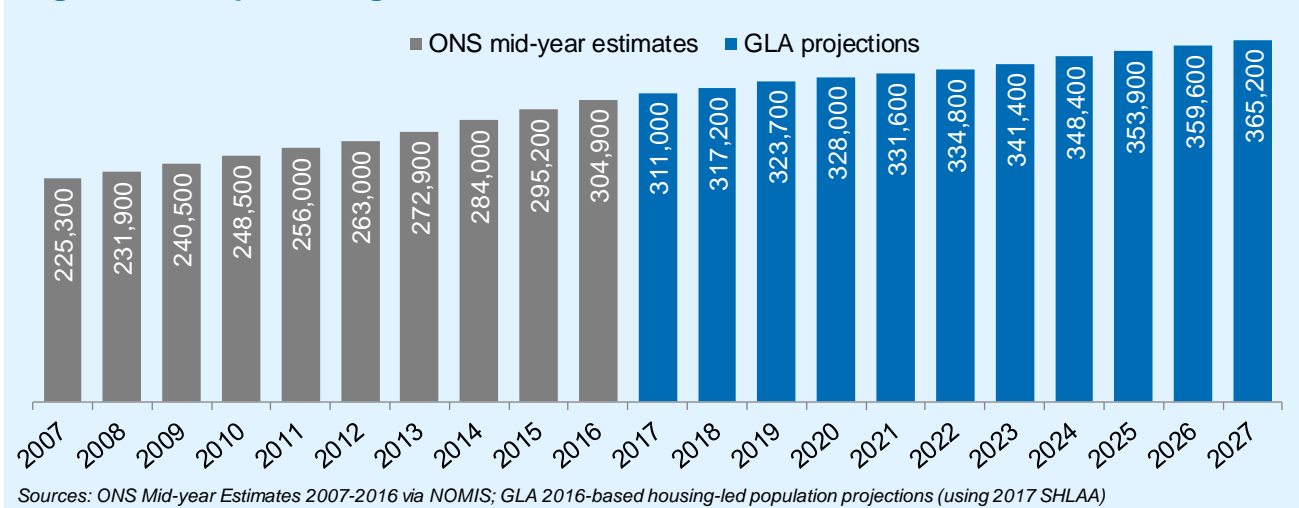
¹¹ https://www.london.gov.uk/sites/default/files/preparing_for_br

¹² <https://www.london.gov.uk/press-releases/mayoral/jobs-under>

¹³ <https://www.london.gov.uk/press-releases/mayoral/jobs-under>

- 6.2 The borough’s population is very diverse with around 43% of our residents born outside the UK and more than two thirds of the population (69%) are from ethnic minority groups. Tower Hamlets has the 9th highest proportion in England of residents born outside the UK. Our migrant population is hugely diverse and includes older residents who arrived in London decades ago alongside recent arrivals.¹⁴
- 6.3 The population of Tower Hamlets has more than doubled in the past 30 years, rising from 150,200 in 1986 to 304,900 in 2016. Growth has been particularly fast over the last decade. Between 2006 and 2016, the population grew by 86,500 residents – a 40% increase. This was the fastest population increase out of all 391 local authority areas in the UK. The borough’s population growth rate (40%) was more than double that in London (16%) and more than four times that in England (8%).¹⁵
- 6.4 Taking this expected development into account, projections from the Greater London Authority (GLA) expected to reach 365,200 by 2027 (see Figure 2.2). This would be an increase of nearly 54,000 residents over the next decade – equivalent to an average of around 15 additional residents every day for the next ten years. The borough’s population is expected to reach 400,000 by 204.¹⁶

Figure 2.2: Population growth in Tower Hamlets, 2007 to 2027



- 6.5 However, it should be noted that these projections based on recent trends and do not attempt to take into account the impact of Brexit. This will likely have an impact on the UK economy, labour market and migration patterns, which will consequently affect the population of Tower Hamlets.

Impact of Brexit on our local population

- 6.6 The borough’s population growth has largely been driven by international migration. Over the past ten years, it is estimated that net international migration increased the

¹⁴ https://www.towerhamlets.gov.uk/Documents/Borough_statistics/Population/Mid_2016_Population_Estimates_for_Tower_Hamlets.pdf

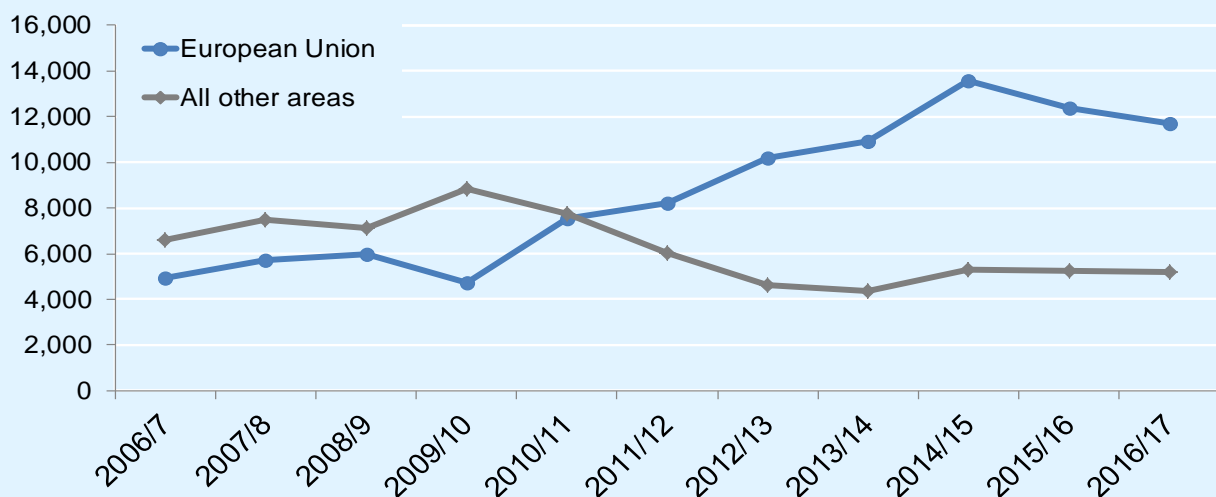
¹⁵ https://www.towerhamlets.gov.uk/Documents/Borough_statistics/Population/Mid_2016_Population_Estimates_for_Tower_Hamlets.pdf

¹⁶ https://www.towerhamlets.gov.uk/Documents/Borough_statistics/Population/Mid_2016_Population_Estimates_for_Tower_Hamlets.pdf

population by around 67,800 residents with a significant proportion coming from the European Union¹⁷. In 2011, one in ten of the borough's residents were born in EU countries (other than the UK). EU nationals have accounted for seven in ten of the borough's economic migrants over the past five years.¹⁸

- 6.7 Brexit is likely to reduce migration from EU countries, so our population growth may well be lower than what is projected. Figure 2.3 shows that while economic migration, when measured by National Insurance Number Registrations is still high for EU nationals, there has been a fall over the past two financial years. Tower Hamlets has the fourth highest number of NINo registrants in the country after Newham, Birmingham and Brent.
- 6.8 Our analysis shows that EU migrants account for 70% of all registrants and in Tower Hamlets the most common country of origin is Italy, with Italians accounting for over 20% of all registrants in the borough.¹⁹ It should be noted that this data only tells us about the local authority where the new registrant was located at the time of their application and not when they arrived in the country or indeed whether they are still resident in that local authority area.

Figure 2.3: Number of National Insurance Number registrations to overseas nationals in Tower Hamlets by region of birth, 2006/7 to 2016/17



Source: DWP, National Insurance Number Registrations to Overseas Nationals via Stat-Xplore

¹⁷ https://www.towerhamlets.gov.uk/Documents/Borough_statistics/Population/Mid_2016_Population_Estimates_for_Tower_Hamlets.pdf

¹⁸ https://www.towerhamlets.gov.uk/Documents/Borough_statistics/Population/Mid_2016_Population_Estimates_for_Tower_Hamlets.pdf

¹⁹ https://www.towerhamlets.gov.uk/.../A_Profile_of_the_Migrant_Population_in_Tower_Hamlets.pdf

Top five countries of origin for NINo registrations in Tower Hamlets, 2016/17		
Country of birth	Number of NINo Registrations	% of all NINo registrations
Italy	3,816	22.7
France	1,936	11.5
Spain	1,621	9.6
Romania	753	4.5
India	747	4.4
Total	16,844	100

Source: DWP, National Insurance Number (NINo) registrations via Stat-Xplore

- 6.9 Table 2 (above) shows the top five countries of origins in Tower Hamlets. This is very different from the top five countries of origin for London and England. In London the most common are Romania, Italy, Spain, Poland and France whilst nationally they are Romania, Poland, Italy, Spain and Bulgaria.
- 6.10 Analysis of census data helps us profile the European migrant community in Tower Hamlets. Between 2001 and 2011 the proportion of residents born outside the UK increased from 35% to 43%. The most significant increase, in terms of numbers, was amongst European migrants with the number residents born in European countries (other than the UK) which trebled in size increasing from 10,269 in 2001 to 29,363 in 2011 an increase of 186%. European migrants now make up 12% of the population compared to 5% in 2001.²⁰

Table 1: Change in population by region of birth, Tower Hamlets, 2001-2011

			Change 2001-2011		Population composition (% totals)	
	2001	2011	Increase	% change	2001	2011
All usual residents	196,106	254,096	57,990	30	100	100
Born in UK	128,129	144,662	16,533	13	65	57
Born outside UK	67,977	109,434	41,457	61	35	43
<i>Born outside UK: by area</i>						
Europe*	10,269	29,363	19,094	186	5	12
Africa	7,147	11,342	4,195	59	4	4
Middle East*	560	1,687	1,127	201	<1	1
Asia	42,130	54,819	12,689	30	21	22
- Bangladesh	35,820	38,877	3,057	9	18	15
- Rest of Asia	6,310	15,942	9,632	153	3	6
Americas & Caribbean	4,340	8,257	3,917	90	2	3
Australasia/Oceania/other	3,531	3,966	435	12	2	2

Source: ONS 2001 Census (Table UV08); 2011 Census (Table KS204)

* In 2001, ONS included Cyprus under the Middle East, whereas in 2011, it was included as part of Europe. To adjust for this, 2001 data have been adjusted in this table to include Cyprus under Europe not the Middle East to provide a better like for like comparison. This means these figures are marginally different from published ONS data.

Impact on EU migrants working in London & Tower Hamlets

- 6.11 In London 13% (600,000) of the five million jobs are held by EU migrants. Analysis published by the London Assembly's Economic Committee suggests that roughly one quarter of EU migrants are concentrated in elementary occupations, e.g. manual labour, and one in five in professional and senior level positions. Particular sectors in London

²⁰ https://www.towerhamlets.gov.uk/Documents/Borough_statistics/Population/Mid_2016_Population_Estimates_for_Tower_Hamlets.pdf

appear to be dependent on EU-born workers and these include the accommodation and food service activities sector (79,000 jobs), the construction sector (88,000). A sizeable proportion of the workforce in both the NHS and the tech sector are also from EU countries, roughly one in ten NHS workers in London and about one third of those in the tech industry.²¹

- 6.12 Analysis of 2011 Census data shows that in Tower Hamlets the financial, real estate, professional and administrative services, distribution, hotel and restaurant services, and transport and communications sectors are most reliant on EU migrant workforce.
- 6.13 Brexit is likely to have an impact on the population of Tower Hamlets not only through restrictions on migration but may also change people’s perception of London and the UK as an open and welcoming country, in effect making less people wanting to live here.

Community Cohesion Impact

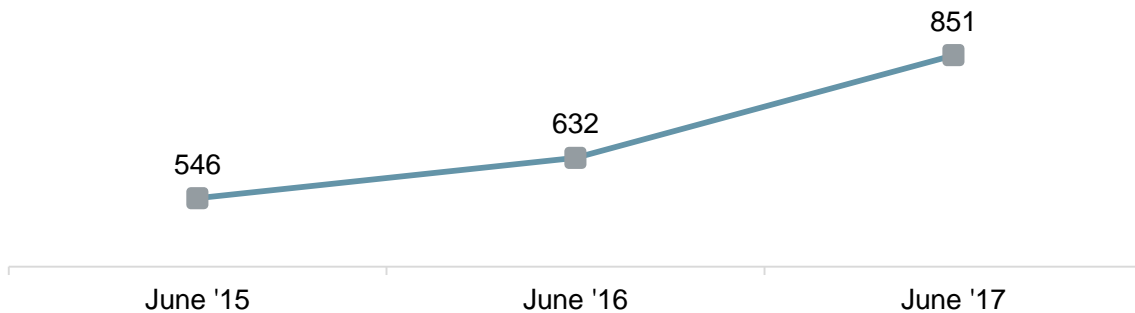
- 6.14 Although the Challenge Session did not plan to focus on the community cohesion impact of Brexit at this stage; the submission from the Officers from Corporate Strategy and Equality included reference to it.
- 6.15 It was mentioned in the session that local third sector organisations supporting migrant, refugee and asylum seeker communities in the borough reported an increase in hate crimes in the period immediately after the vote to leave the EU. Data from the London Metropolitan Police showed there was an increase of 136% in the number of reported incidents for the period between 23rd June 2016 and 31st July 2016 compared to the same period for the previous year. There were 69 reported incidents in June and July 2015 compared to 163 incidents in June and July 2016.

<u>23rd JUNE 2015 TO 31st JULY 2015</u>			
Category	Incidents 2015	Incidents 2016	% INCREASE
Racial & Religious	50	118	+136
Faith Hate	5	13	+160
Anti-Semitic	0	2	+200
Islamophobic	3	11	+266
Homophobic	9	16	+78
Transphobic	1	0	-100

²¹ https://www.london.gov.uk/sites/default/files/eu_migration_report_final_2.pdf

Disability	1	3	+300
Total Hate Crime	69	163	+136

Reported hate crimes in Tower Hamlets



6.16 The New Residents and Refugees Forum invited feedback and input from migrant residents across the borough about their experiences and concerns following the referendum. Key findings included:

- Feeling less safe or comfortable since the referendum;
- Some have experienced some levels of abuse including people saying things such as ‘your benefits are going to be stop and you will be told to go’;
- People were very aware of press reports of serious racist incidents and this increased their sense of unease and insecurity;
- Those with EU residence were very anxious about their own situations and had a lot of questions about what steps they should take.

Recommendation 1:

The Council should carry out a more detailed migration analysis of the potential impact of Brexit on our local population and develop an updated profile of the European Migrant community in Tower Hamlets.

Recommendation 2:

The Council should carry out a more detailed equalities analysis of the potential impact of Brexit on community cohesion in Tower Hamlets and publicise the ‘No Place for Hate’ campaign to reassure and address wellbeing and insecurity issues of EU Nationals.

7.0 What impact could Brexit have on the Tower Hamlets workforce?

7.1 Based on the submission from the Human Resources (HR) and brief analysis taken from the Brexit research project by 'Collaborate'; the key impacts could be as follows:

7.2 EU Labour / Workforce

- Potential impacts from Brexit concerns the number of EU nationals who currently work directly for the Council, or as agency staff for our suppliers in the health and social care services who may leave the UK;
- Despite the UK Government reaching agreement with the EU to protect and preserve the rights of EU citizens living, working and studying in the UK (and vice versa), concerns and anxieties remain about their future employment prospects which may prove pivotal in whether they choose to remain in the UK;
- This Council has not yet undertaken detailed information gathering and analysis regarding EU nationals within the workforce and our suppliers so we are not yet able to determine the full impact or which services may be impacted.
- Anecdotal data and research suggest that some Council's rely heavily on EU nationals to fill caring and hospitality roles in social care and nursing homes. In some Local Authorities EU nationals make up over 50% of the workforce in 'low skilled' jobs in the construction and catering sector.

7.3 Suppliers and Contractors

- Skills losses / shortages, e.g. in terms of agency staff or staff working for Council suppliers could have impact on contracts already in place and ability to deliver on these by providers.
- Construction Sector - skills shortages, job losses and reduced employment opportunities will also impact adversely on the local council, businesses and employers within the borough, e.g. financial institutions in Canary Wharf.
- Financial impact on suppliers and contractors.

7.4 What are the challenges?

- The makeup of the Council workforce – potentially more EU nationals leaving the country/less coming in – currently insufficient information to make a determination on the impact so far or to project future impact.
- Potential skills losses/shortages and the retention of skilled workers. For example, the adult social care workforce has a unique set of skills, but struggles with recruitment and retention.
- Wellbeing issues for all staff, including EU nationals – e.g. a reported rise in hate crimes since referendum.
- Increased demand and competition for 'talent'

7.5 What are the Opportunities?

- Other potential sources of labour depending on post-Brexit migration arrangements could be available and there may be more opportunities for our local graduates and young apprentices and locally trained staff through our various work schemes.

- Given that Tower Hamlets is still seen as an attractive business destination, new businesses may relocate into the borough, bringing different skills and experience and different employment opportunities.

7.6 What could the Council do to mitigate the impact?

- Undertake more detailed information gathering and analysis re EU nationals within the Council workforce.
- Ensure positive wellbeing provisions supporting all staff, e.g. EAP in place
- Publicise 'No Place for Hate' campaign.
- Identify our 'talent' and ensure retention strategies in place.
- Work to become 'Employer of Choice' so attract the best talent.
- Identify any areas where support/guidance can be given by the Council to help and support contractors and suppliers
- Stay up to date on debates around incorporating EU law into UK law as part of the Great Repeal Bill
- Stay informed of potential models for future governance e.g. replacing the European Court of Justice etc.
- Keep abreast of leading/latest thinking from HR and Employment Law specialists.
- Ensure up to date on latest developments for clarity of impact, which will then inform actions.

7.7 Priority areas of contingency planning

- Once the potential impact on the Council workforce is known, identify if there are any priority areas that need mitigating action, e.g. where there is a substantial impact on any service/roles in particular
- Ensure talent management and workforce planning are central to the Council's future approach
- Early communication of any changes and their impacts once known
- Early planning for any changes so that impact is minimal as can be
- Identify any impacts that could have a cost to the Council and include in planning
- Keep abreast of key issues and their impacts and ensure communication channels to suppliers and contractors.
- Once any impacts are known, work with other businesses, suppliers and contractors to minimise.

Recommendation 3:

The Council should identify the specialist skills and the number of EU nationals within its workforce and those employed by our key suppliers and ensure retention strategies and positive wellbeing provisions are in place.

Recommendation 4:

The Council should commission research to examine the contribution European migrants make to the borough's labour market and the potential impact of Brexit on the Financial & Professional Services, construction industry and the borough's key growth sectors.

8 What impact could Brexit have on the Council's legal powers and responsibilities?

- 8.1 Based on the submission from the Legal Services and latest analysis taken from Local Government Association (LGA) briefings as most of the Council's statutory powers and duties come from domestic legislation, if the UK leaves the EU there will be little change. The Localism Act 2011 provides a "catch all" power but also provides the requirement to pay sanctions to the EU for breaches of EU Law such as in relation to procurement. This may still be effective.
- 8.2 According to the Legal Representative; "there will be no real effect on the Council's Powers to Act. Tendering is here to stay. There may be small opportunities to assist our objectives e.g. speeding up tendering and procurement process and increased local expenditure".
- 8.3 However, whilst general powers/duties might not be affected, there are likely to be specific impacts in the following areas:

8.4 Energy efficiency

Local Authorities must manage their buildings and procurement in line with energy efficiency rules based on EU law. The basis of these is the 2012 Energy Efficiency Directive which is transposed into UK law via a number of pieces of secondary legislation. The Directive establishes measures to help the EU reach its 20% energy efficiency target by 2020 and places a requirement on public authorities, which includes local councils, to ensure they purchase energy efficient buildings, products and services. In the past councils have raised concerns that such a requirement places additional costs on council procurement activity.

8.5 Waste collection and disposal

- The key piece of EU legislation is the Waste Framework Directive²² which sets out key definitions and duties relating to how waste must be collected, transported, recovered and disposed of. It also introduced recycling and recovery targets to be achieved by 2020. A detailed summary of current waste legislation applicable in the UK is set out on the Gov.uk guidance page on waste legislation. The majority of EU waste management law has been transposed directly into domestic law within the UK. This means that the relevant legislation and requirements on Local Authorities will not be automatically or immediately affected by the UK's exit from the EU.
- However, if the UK leaves the EU and does not become a member of the European Economic Area (EEA), then the UK Government will be able to amend and/or repeal the domestic legislation that gives effect to EU waste legislation. The

²² Difference between EU Regulation and Directive.

Regulations have binding legal force throughout every Member State and enter into force on a set date in all the Member States. Example: Food Information to Consumers Regulation 1169/2011

Directives lay down certain results that must be achieved but each Member State is free to decide how to transpose directives into national laws. Example: Directive 2002/46 on the approximation of the laws of the Member States relating to food supplements

benefits of effective waste management to both the environment and the economy may mean that an EU exit will not lead to a substantial change in approach from the UK Government, but some commentators have suggested that in this scenario it is likely that legislators would repeal or weaken EU requirements (for example, recycling targets) with the objective of reducing the regulatory burden on businesses.

8.6 This could also manifest in a change in approach to waste collection and disposal services for some Local Authorities, particularly if lower cost solutions (such as landfill disposal) are permitted with a relaxation of environmental protections and technical requirements. Global law firm Norton Rose Fulbright has suggested that Local Authorities may push for such changes in order to reduce their costs: there might be greater pressure from Local Authorities to move away from the objectives set by the EU Landfill Directive; to reduce the landfilling of waste by introducing stringent technical requirements for waste and landfills. These EU driven targets have caused local councils to incur large fines for missing the landfill reduction levels.

8.7 **Trading standards**

As with waste directives, most trading standards legislation consists of EU directives transposed into domestic law: therefore, this would not be repealed automatically on leaving the EU.

8.8 **Procurement**

Local Council's must comply with EU public sector procurement rules. The most significant requirement is for all public contracts over £209,000 to be published in the Official Journal of the European Union (OJEU), thus making them accessible to suppliers from across the EU. In the medium term, public procurement rules more generally will remain in place as they have been implemented via UK law.

8.9 **Employment Law**

The Government's stated intention is to incorporate all EU law into UK law – there is potential, however, for changes to be made, e.g. debate over Charter of Fundamental Rights. There is uncertainty around transition arrangements and ongoing cases and precedents. The risk is that 'unpopular' pieces of legislation, such as the Working Time Regulations and the Agency Workers Regulations, may be vulnerable to amendment or repeal in the longer term.

9 What impact could Brexit have on the Council's Funding and Finances?

9.1 Based on the submission from Council Finance and brief analysis taken from the Brexit research project by Collaborate; the key impacts could be as follows:

External grant funding

- The Council receives £2.6 million in funding to improve the local economy, development, infrastructure, employment and training currently comes from the European Union.
- The EU funding sits in two funds
 - 1) European Regional Development Fund (ERDF) for research and innovation, business enterprise and creating a low carbon economy;
 - 2) The European Social Fund (ESF) is for investment in skills, social inclusion and promoting employment opportunities. Leader funds are supporting rural connectivity and small businesses.
- Access to further funding to improve our local economy is a result of match funding these grants but continued support is needed to reverse the trend of social deprivation as Tower Hamlets has the highest rates of child poverty in the country;
- EU funding supports the valuable work of Tower Hamlets community groups to deliver development projects. Such examples include the support to access financial growth for East London SMEs, mobile commerce innovation, green printing processes, Women's Business Innovation Network and a homelessness project;
- The European Social Fund (ESF) Community Employment programme (£1.35m over next 3 years, half of it being funded through ESF), while not likely to be affected this time, will be wrapped up in the future. The programme helps local residents into employment.

Business rates

- 9.2 Workers and businesses in Tower Hamlets make up the third highest contributor to UK tax revenues (£12 billion).
- 9.3 Restrictions on free movement of labour and access to the European market could accelerate the move of financial firms to other European centres like Paris, Frankfurt and Amsterdam from Tower Hamlets economic centre, Canary Wharf; impacting on growth, jobs, development and enterprise.
- 9.4 The loss of business rates in particular due to companies moving out of the borough could be devastating for the Council's budget.
- 9.5 The Government plans to scrap local authorities' Revenue Support Grant by 2020, with Local Government collectively retaining 100% of business rates revenue. Local Authorities would raise most of their revenue locally. They would become more exposed to falls in tax revenue resulting from economic downturns and this maybe a real possibility with a hard-Brexit. The difficulty of forecasting may also increase as result of this; potentially making long-term financial planning trickier.

- 9.6 Finance and insurance is by far the largest sector in Tower Hamlets, followed by professional services and information and communication. These sectors are key economic drivers, and are together with “Tech City” type firms forecasted to grow more than other sectors.
- 9.7 The current business landscape in Tower Hamlets mirrors that of London with 99% of businesses being Small and Medium Enterprises (0-249 employees) and 89% of those being micro businesses (less than 10 employees).
- 9.8 Small businesses are particularly sensitive to the uncertainty of the market due to the weakening of the Pound, which is bad for a net importer like the UK; buying from overseas has been made more expensive. A weak pound that is pushing up inflation which, in turn, increases the price of goods.
- 9.9 This has an impact on small businesses since it means their customers all feel the squeeze. Therefore small business in Tower Hamlets may be adversely affected as a result of a hard Brexit and this could reduce the business rates collected by the Council.
- 9.10 If lots of small businesses are squeezed out and shops boarded up in our high streets this may negatively impact our town centres and also have the potential to increase crime and anti-social behaviour in these areas.
- 9.11 The level of business investment in the UK is predicted to be around 25% lower by 2019 relative to its pre-referendum forecasts, effectively damaging future productivity growth. In turn, this could affect the number of jobs available and the nature of businesses located in TH.

What could the Council do to mitigate the impact?

- 9.12 The Council will produce a register of all ESF related projects and services in the Borough to assess the potential impact of the EU funding loss. Although the Council does not hold information about the EU funds that are received by regional and local providers but this information is a matter of public record and should be available on the EU website.
- 9.13 The Council will work closely with other Local Authorities and London Councils to co-ordinate and strengthen the lobbying of Central Government to replace the EU funding loss. Although there is no certainty around success of a replacement fund, however Councils are grouping together to form joint proposals. London has a particular strong approach through the regional London Councils voice and can submit strong arguments due to the value of funding it stands to lose.
- 9.14 The Chair of London Councils and the London Mayor has already written to the Secretary of State for Communities and Local Government with a joint London Councils paper on proposals around the “UK Shared Prosperity Fund”, (SPF), which is proposed, will replace EU funding after Brexit. It makes the case for four requirements of the Fund:
- 1) London’s share of the UK SPF be fully devolved to London
 - 2) Allocation of the UK SPF is based on a fair measure of need, not regional Gross Value Added.

- 3) London to receive at least as much funding as currently via EU programmes.
- 4) UK SPF administration is much simplified by comparison with EU programmes.

What are the Opportunities?

- 9.15 All EU funds are usually tied with Council match funding funds to extend or increase the volume of existing programmes of work and the workforce usually expands in the short term to accommodate the additional workload. If no alternative funds are available the Council will continue to delivery programmes of work within its budgets without the additional funding opportunities. This does however mean that the matched funding requirements of Council funds can be more freely used for delivery rather than ring-fenced to particular eligible client groups.
- 9.16 The Council still has the opportunity to utilise section 106 and CIL funds and can develop submissions to alternative additional funding streams from central and regional government. The Council can also develop linkages to investment in the locality through Corporate Social Responsibility agendas of major businesses locally

Recommendation 5:

a) The Council should produce a finance report which identifies all EU funded projects and services that our key partners deliver in Tower Hamlets including regeneration schemes at risk of stalling.

b) The Council should work closely with developers and partners to develop mitigation strategies to replace lost EU funds for community employment programmes, services and regeneration projects.

10. The potential impact of Brexit on the Council's housing, development and regeneration schemes:

10.1 According to our Senior Housing and Economic Development Officers submission at the Challenge Session; the key impact and challenges of Brexit are likely to be as follows:

- The decision to leave the EU has prompted warnings across the construction industry about the impact of prolonged uncertainty on house prices and the cost of borrowing may result in development schemes stalling which may lead to Councils such as Tower Hamlets being unable to meet our housing supply targets.
- Construction is an industry that is highly reliant on migrant labour; between 2007 and 2014, the proportion of EU migrants in the construction sector rose from 3.65% to 7.03%. Limits on free movement could, therefore, have an adverse impact on building costs and supply, at least in the short to medium term and make some of our regeneration / construction schemes financially unviable due to rising construction costs and which could ultimately lead to schemes stalling or being scrapped altogether. This may also have the effect of Tower Hamlets being unable to meet our housing supply targets.

10.2 Affordable homes

- Local Authorities play a relatively limited role in adding to the stock of newly built affordable homes – the key providers are private developers and housing associations. However, authorities with a development programme will want to ensure that their plans are sustainable in the current environment.
- Diminished infrastructure funds, housing loans from the European Investment Bank and housing association borrowing abilities will hamper the ability of developers and reduce the supply of new affordable homes;

10.3 Access to Council housing

- Changes to the free movement of EU nationals may impact on their eligibility to apply for Local Authority housing and thereby reduce local demands.
- The most recent statistics on social housing lettings in England released by DCLG (October 2015) cover the period April 2014 to March 2015. The bulletin compares lettings since 2007/08 with reference to the nationality of the “household reference person” (HRP). The vast majority of lettings were made to UK nationals.
- Based on this data, the impact of EU migration on demand for Council housing is limited. Changes to free movement may reduce demand, but much will depend on whether UK nationals living in the EU are forced to return.

10.4 What could the Council do to mitigate the impact?

- A robust research programme to identify European labour volume and the potential impact of Brexit on the construction industry and businesses in the borough;
- Identify early and discourage stalling of regeneration schemes and establish mitigation measures;
- Work closely with housing industry bodies to explore ways to replace lost EU funds for re-generation schemes – such as investment through grants and loans.
- Increased communications and stakeholder engagement on Brexit;

Recommendation 6:

The Council should work closely with other Local Authorities and London Councils to co-ordinate the lobbying of Central Government to replace the EU funding loss.

11.0 Exploratory discussion on priorities

In preparing the Council for Brexit what should be our priority areas of contingency planning?

- 11.1 The consensus that came out of the Challenge Session discussion was that the priority areas of the Brexit Scrutiny work should be on getting detail assessment and contingency plans of the potential impact on the Council core funding and the services that we provide for our residents. A focus should be on assessing the impact on the wider local economy, businesses and future growth as well as the impact and opportunities on local communities.
- 11.2 The Challenge Session resolved that the Council should consider commissioning an independent and robust research programme and produce a local impact report of Brexit which includes a detailed analysis of each of our core services and operations and takes into account equalities impact assessment.
- 11.3 As such the scrutiny work programme looking at the impact of Brexit should be split into three areas:
- 1) Impact on the Council, core funding and services for residents
 - 2) Impact on the local economy and development and growth
 - 3) Impact and opportunities for local communities
- 11.4 The main suggestion that came from the discussion was that the consultation with local community groups, residents and businesses regarding mitigating the impact of Brexit needs to be carefully planned, community facing and publicly accessible.
- 11.5 Whilst it's important to have open and frank discussion about Brexit with residents and local business, we should not be alarmist in our approach or just focus on the potential negative impacts.

What should be the scrutiny milestones and the process by which we can maintain a regular and meaningful oversight of the Council's Brexit mitigation plans?

- 11.6 It was mentioned that the new Overview & Scrutiny Committee (OSC) will be in place in June 2018, realistically it is unlikely to get its work programme under way before October 2018. Brexit is scheduled to take place at the end of March 2019. For an OSC Report on Brexit to be of any value it should be finalised in advance of Brexit. Unless the current OSC plans this work for the next OSC to undertake, it is unlikely the work will be completed in time.
- 11.7 The Challenge Session resolved that the formation and timetabling of the Brexit Scrutiny Full Review should be done as soon as possible to ensure a coherent and manageable work programme and to avoid diary clashes.

How do we ensure cross party support, input and involvement?

- 11.8 Challenge Session members raised the concern that given we do not know the complexion of the new OSC following the local election; it is important we secure cross party support for what is proposed now.

- 11.9 The suggestion was the Brexit Scrutiny Lead Member should pull together a small cross-party group of OSC members to agree the Brexit Scrutiny programme for after the election. The Lead Member will need officer support to plan this and put together a detailed Scoping Paper setting out key objectives and focus (key lines of enquiries).
- 11.10 The following Members have been approached and they have agreed to be part of the OSC Brexit Scrutiny committee to help set up the Brexit Scrutiny Full Review for the new municipal year:
- Cllr Ayas Miah (Labour)
 - Cllr Muhammad Mustaquim (Independent Group)
 - Cllr Rabina Khan (People's Alliance)
 - Cllr Andrew Wood (Conservative)
 - Cllr Andrew Cregan (Liberal Democrat)
 - Three Co-opted OSC Members
- 11.11 The proposals and draft Scoping Paper for the Brexit Scrutiny Full Review has been attached to the appendix of this report.
- 11.12 The draft Scoping Paper will need to be brought back to OSC for sign off no later than the March 2018 OSC meeting. This will involve our agreeing the subject areas, those who will be asked to provide evidence, the date and locations for sessions, etc.

12. Conclusion and Next Steps

- 12.1 The aim of this Brexit Challenge Session was to obtain an overview of the Local Authorities understanding of the likely impact of Brexit. It was recognised and appreciated by all who attended, that this was just the start of the conversations on the impact and the beginning of exploratory discussions on the Council's resilience planning and to recommend key priorities for mitigation planning.
- 12.2 Due to limited time and resources the Challenge Session was deliberately very focused on a narrow set of issues. Going forward Scrutiny will need to have further sessions to devote more detailed and specific discussion to the impact of Brexit on the borough.
- 12.3 This Challenge Session highlighted very clearly that there is a lot of uncertainty nationally and it is still not clear what kind of Brexit the country face. Until we have the full and final agreed Brexit agreement in place, it will be difficult to determine the exact impact.
- 12.4 Despite this the Council needs to be fully prepared for all eventualities (including a "no deal Brexit") and constantly keep abreast of all key Brexit developments, by identifying and reviewing areas of potential impact.

Next Steps

- 12.5 The Council should consider commissioning independent and robust research programmes and produce a local impact report of Brexit which includes a detailed analysis of each of our core services and operations and takes into account equalities impact assessment.
- 12.6 Based on these detailed research reports the Council should develop a high level Contingency Plan to protect our revenue streams, workforce, local regeneration, infrastructure projects and community cohesion priorities.
- 12.7 Brexit should feature in our Community Plan and all our strategic and risk management plans going forward. This will allow for regular strategic monitoring and management oversight.
- 12.8 The formation and timetabling of the Brexit Scrutiny Full Review should be done as soon as possible to ensure a coherent and manageable work programme and to avoid diary clashes.
- 12.9 The Council should proactively seek out and respond to all direct and indirect opportunities for Tower Hamlets Council to communicate and represent Tower Hamlets interests in the Brexit process.

Recommendation 7:

The 2018/19 Overview & Scrutiny Committee should carry out a full Brexit Scrutiny Review to obtain detailed assessment and better understanding of the progress of Brexit and its implications for the borough including a focus on:

- 1) Impact on the Council, core funding and services for residents;
- 2) Challenges and opportunities for local economy;
- 3) Community Cohesion.

Recommendation 8:

The Community Plan and all our strategic and risk management plans should reference Brexit.

Recommendation 9:

The Council should proactively seek out and respond to all direct and indirect opportunities to communicate and represent the Tower Hamlets interests in the Brexit process.

Recommendation 10:

The Council should develop policies and targeted marketing strategies to promote the Borough to retain and attract business and enable the future economic growth.

ⁱ Office for National Statistics, [2016 Mid-year Population Estimates](#). See table MYE2. This estimate includes all residents who are expected to live in the borough for at least 12 months, including migrants and term-time students. This estimate does not include short-term visitors or migrants who may live in the borough for less than a year.