

**HERTFORDSHIRE COUNTY COUNCIL****RESOURCES AND PERFORMANCE CABINET PANEL  
WEDNESDAY, 6 JUNE 2018 AT 10:00AM****IMPLICATIONS OF THE UNITED KINGDOM'S WITHDRAWAL FROM THE  
EUROPEAN UNION – AN UPDATE***Report of the Director of Resources*

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**1. Purpose of report**

- 1.1 To update the Panel on the possible implications of the United Kingdom's (UK's) withdrawal from the European Union (EU), for Hertfordshire and Hertfordshire County Council.

**2. Summary**

- 2.1 The Resources and Performance Cabinet Panel received a first paper on the potential implications of the EU Referendum on 31 October 2016. This report provides an update to that paper.
- 2.2 While the terms of the UK's departure and indeed its future relationship with the remaining twenty-seven member states of the EU continue to be subject to detailed negotiations, it is clear that preparations for 'Brexit' and its implications are likely to continue dominate the legislative and political agenda for many years to come with many of its implications yet to become clear.
- 2.3 This report highlights some known impacts on Hertfordshire and Hertfordshire County Council around issues such as the economy, EU funding, workforce and finances.

**3. Recommendation**

- 3.1 The Panel is invited to comment on the contents of this report and note the actions being taken by the County Council to mitigate the key risks identified.

**4. Background**

- 4.1 On 23 June 2016 the UK voted to leave the EU.

- 4.2 On 29 March 2017 the Prime Minister Theresa May invoked Article 50 of the Lisbon Treaty, formally notifying the European Council of the UK's intention to leave the EU. Formal negotiations then began for the UK's withdrawal settlement. The Department for Exiting the European Union is responsible for overseeing negotiations to leave the EU and establishing the future relationship between the UK and the EU.
- 4.3 One of the key "divorce" issues that the UK Government and the EU have identified is what happens to EU citizens living in the United Kingdom (and vice versa). Provisional agreement has been reached that EU Citizens will be able to apply to stay indefinitely by getting "settled status". This is particularly relevant for the Hertfordshire homecare workforce as highlighted in Section 8.2 of this report below.
- 4.4 On 30 March 2017 the Great Repeal Bill (now known as the European Union Withdrawal Bill) was published. This Bill is currently subject to Parliamentary scrutiny in both the House of Commons and House of Lords and is likely to have many amendments before receiving Royal Assent (expected to be before the Parliamentary summer recess 2018).
- 4.5 The European Union Withdrawal Bill aims to do three main things:
- Repeal the European Union Communities Act 1972.** This legislation provides legal authority for EU law to have effect as national law in the UK. This will no longer be the case after Brexit.
- Bring all EU laws into the UK law.** This means that laws and regulations made over the past 40 years while the UK was a member of the EU will continue to apply after Brexit. The Bill will also enable Parliament to amend and cancel any unwanted legislation and end the jurisdiction of the European Court of Justice in the UK.
- Give ministers power to make secondary legislation.** As there will not be time for Parliament to scrutinise every change, the Bill proposes to give Ministers some powers to make these changes by secondary legislation.
- 4.6 Article 50 gives both sides two years to negotiate and reach agreement so, unless the United Kingdom and the twenty-seven remaining EU member states agree to extend the deadline for talks, the United Kingdom will leave the EU on 29 March 2019.
- 4.7 It has been provisionally agreed that there will be a time limited transition phase immediately after the United Kingdom officially leaves the EU on 29 March 2019. This is to allow businesses time to prepare for the new arrangements, to avoid disruption around the free movement of people, goods and money and to prepare international security measures.

- 4.8 The transition phase is likely to end on 31 December 2020.
- 4.9 Given the huge amount of Parliamentary activity likely to be needed to be devoted by Brexit over the next five to ten years, it is felt that the government may have limited capacity to progress other agendas during this time.
- 4.10 Local government currently has a formal advisory role in the EU law and policy-making process through its membership of the European Union Committee of the Regions. In response to a proposed amendment to the European Union (Withdrawal) Bill seeking to maintain consultative rights for local government following the withdrawal from the European Union, the Government has indicated it is seeking a non-statutory mechanism to replicate these rights and responsibilities.

## **5. The Local Government response to Brexit**

- 5.1 **The Local Government Association (LGA)** has established a post-Brexit England commission with the aim to evaluate the role of local government in England in the period following the transition phase. The Commission aims to identify what powers (local government) would need to help contribute to a thriving and prosperous country outside the EU and, in particular, what further devolution may be possible beyond city regions.
- 5.2 Hertfordshire County Councillor, Chris White, Member for St Albans Central, sits on this Commission.
- 5.3 The commission aims to publish its findings in Spring 2019 at around the same time Britain's membership of the European Union will end.
- 5.4 The LGA hopes that by recognising place as a crucial component of sustainable growth, local industrial strategies will provide a fresh opportunity for the Government, business leaders, universities and local councils to forge new relationships with each other, for the benefit of local residents, following Brexit.
- 5.5 **The National Association of Local Councils (NALC)** has announced a re-think of the role of England's 10,000 community councils to inform their strategic direction post Brexit. This "stock-take" will be discussed at their annual Conference in Autumn 2018.
- 5.6 In November 2017 **the County Councils Network (CCN)** launched the findings of a new research project, undertaken by Localis, on local labour markets and skills devolution. From a Hertfordshire perspective, the research suggests the key threat to the county's economy is said to be the automation of manual jobs rather than the effect of Brexit. However, that is not to say that some specific sectors within the county will not be affected by labour shortages especially in hard to fill parts of the public sector workforce as highlighted in Section 8 below.

## 6. The Hertfordshire economy

- 6.1 In January 2018 the England's Economic Heartland alliance prepared a Brexit analysis of EU nationals in the workforce, the value of imports from and exports to the EU in its member areas.
- 6.2 This analysis, which can be found at **Appendix A**, shows that as of 2015 Hertfordshire's economy was the largest exporter of goods of the councils shown (£6,679m) and was the second largest recipient of imports (£6,884m). Roughly half of these exports (49.8%) and almost two thirds of its imports (62.7%) were with the EU. Key export sectors to the EU included the medicinal and pharmaceutical products, power generating machinery and other transport (air/rail/space/military etc).
- 6.3 This analysis also showed that at the time of the 2011 Census 5.74% of the Hertfordshire workforce were EU nationals (4th smallest out of 11 council areas), although it is noted that inward migration from the EU had risen significantly between 2011 and 2016 so current numbers are likely to be larger. Industries in which where EU nationals were most represented were wholesale and retail and accommodation and food services.
- 6.4 The Department of International Trade (DIT) annual performance data for the Hertfordshire economy will be available in June 2018 and this will need to be examined closely to see what impact the ongoing negotiations with the EU have on investment and export levels.
- 6.5 The Hertfordshire business view on Brexit does vary and is somewhat anecdotal. The Hertfordshire Local Enterprise Partnership (LEP) has discussed the issue of the impact of the decision to withdraw from the UK at their Business Forum. This forum represents a combined membership of around seven thousand businesses active in Hertfordshire. The key issue raised by the Forum concerned the impact on the labour market which it was felt would impact across all sectors and at all levels. As a result, it was felt that, Small and Medium Enterprises were increasingly reluctant to plan for growth in the current climate of uncertainty and that the already stretched labour market may shrink further as a result of limitations on free movement.
- 6.6 From a labour market perspective, [the Hertfordshire skills strategy](#) was re-freshed in 2017 and the LEP are currently in the process of updating their Hertfordshire skills and labour market review. When this was last conducted in 2016 this was showing that skills shortages in the county were reducing but there are now concerns around shortages in a number of areas including construction, service industries and healthcare professionals.

## 7. EU funding

- 7.1 Hertfordshire as a county has been allocated around £55.3m European Union Structural & Investment Funds (ESIF) for the period of 2014-2020. The actual amount depends on exchange rates. This consists of approximately:
- £27.72m European Union Regional Development Funds (ERDF);
  - £26.2m European Union Social Funds (ESF); and
  - £1.4m European Union Agricultural Farming and Rural Development (EAFRD).
- 7.2 This funding is managed by a mixture of central government department (The Ministry of Housing, Communities and Local Government (MHCLG), the Department for Work and Pensions (DWP) and the Department for Environment, Food and Rural Affairs (DEFRA)) with the Hertfordshire LEP's ESIF Sub-Committee providing specification and call details on behalf of the county.
- 7.3 Of the ERDF funds, 83.6% has been committed to date (£23.165m)
- 7.4 Of the ESF funds, 56% has been committed to date (£14.88m).
- 7.5 Of the EAFRD funds, 22% has been committed to date. (£305,600)
- 7.6 Hertfordshire County Council have been successful in winning £5.5m of funding from The Big Lottery and the European Social Fund, mentioned above, to run the Building Better Opportunities programme as part of a partnership with a number of voluntary and third sector partners included.
- 7.7 Having got through the first stage, the County Council has also submitted a second stage bid for £1.5m to the DWP to upskill the health and social care workforce. If successful, it requires match funding from the County Council.
- 7.8 The Hertfordshire LEP's local ESIF Sub-Committee chair has received written confirmation that following agreement reached between the UK Government and the European Union on the draft Withdrawal Agreement, the UK will continue to participate in all European Union programmes in the 2014-20 funding period, subject to overall agreement being reached between the UK and EU on the UK's exit from the European Union. This means that ESIF monies programmes will continue to invest in Hertfordshire until they close – i.e. ERDF, ESF and EAFRD programmes will continue to award funding to successful projects across England to the full value of programme allocations.
- 7.9 Plans for replacement funds post Brexit are being developed by government. For example, a proposed UK Shared Prosperity Fund, is under development to replace ERDF. Details are not yet known on the size of funding pot, the distribution formula, or what the funding can support, but it is expected that MHCLG will commence a stakeholder consultation sometime in the autumn of 2018 although this date is not yet confirmed.

## **8. Agriculture**

- 8.1 On exiting the EU, Britain will no longer be part of the EU's Common Agricultural Policy (CAP) which has, for several decades, determined how British land is farmed, how food is grown, how animals are reared, and the state of the natural environment. The way land is managed and farming subsidies will change. The government have agreed that there will be an 'agricultural transition' period in England until the end of the current Parliament. This will give farmers time to prepare for new trading relationships and an environmental land management system. Although specifics are not yet known, this could affect the way land is managed in rural Hertfordshire.
- 8.2 The UK farming industry is heavily dependent on pickers from the EU — notably Eastern Europe — for seasonal work. As with other counties with rural and farming areas, this national shortage of seasonal agricultural workers could have an impact on Hertfordshire. The Department for Environment, Food and Rural Affairs (DEFRA) are considering new ways of securing an agricultural workforce given low unemployment rates and the seasonal nature of farm work makes it difficult to attract domestic pickers.

## **9. Community Cohesion**

Led by the Hertfordshire's Police and Crime Commissioner's Office, any incidences of hate crime in the county are closely monitored, going forward to the UK's withdrawal date in 2019. A countywide hate crime strategy has been in place since October 2017.

## **10 Issues for HCC**

### **10.1 *General Workforce***

The impact Brexit will have on workforce issues remains unclear. The Chartered Institute of Personnel and development (CIPD) have noted that the competition for well-qualified talent and unskilled labour is set to increase and predict further difficulty to recruit over the next 3 years. From a county council perspective, there are concerns about possible skills shortages in a range of service areas - including engineers, carers, nurses and planners. In recognition of this, Human Resources will be conducting an analysis of the County Council's workforce with a view to producing an overall workforce strategy to address key priority areas.

### **10.2 *Home Care Workforce***

- 10.2.1 It is estimated that approximately 16% of the care workforce in Hertfordshire is from the EU. There is significant evidence that the decision to leave the UK has impacted the county's homecare workforce – an area which is generally hard to recruit to in any case.

- 10.2.2 Human Resources are working with Adult Care Services (ACS) to conduct a review of workforce planning and responding to the NHS Facing the Facts, Shaping the Future – A draft health and care Workforce Strategy for England until 2027.
- 10.2.3 Adult Care Services are currently carrying out a detailed Pay and Conditions review across the whole care sector, which will include specific questions about EU workforce and recruitment – this will be complete by the end of July 2018.
- 10.2.4 The NHS in Hertfordshire are also working to identify wider health workforce issues for hospitals and other health care provider settings.
- 10.2.5 Information outlined at **Appendix B** provided by one of the Council's lead providers, Care by Us, last year shows there has been a decline in foreign new joiners after the withdrawal from the EU was announced whilst leavers in general remained fairly constant. There was a large spike in leavers in the three months after the referendum vote indicating that many people probably decided to leave after the vote but just needed to a few months to get their affairs in order so that they could return to their country of origin. Historically, Care By Us had always been in positive territory for net foreign recruitment. However, they went into negative net foreign recruitment in September 2016 and apart from a few minor isolated blips had remained as such to the end of the period shown– that is they were losing more foreign workers than they were gaining. It was also noted that the deterioration in the value of sterling negatively impacted on their ability to recruit abroad or to retain foreign workers.
- 10.2.6 In addition, **Appendix C** provides a snap shot of each of the lead providers (LPs) of homecare in Hertfordshire covering broadly the same time period as the information provided by Care by Us.

### **10.3 Procurement**

- 10.3.1 Whilst there continues to be uncertainty around issues such as workforce mobility and material costs, there continues to be no clear indication of what the effect Brexit may have on procurement matters beyond the proposed transition period.
- 10.3.2 In terms of procurement law, the relevant existing European Union directives are already enshrined into UK law so there is not anticipated to be a huge change initially.
- 10.3.3 However, the current level of publicity around supplier failure following the demise of Carillion, the profit warnings from Capita and the general difficulties being endured by High Street businesses has led to an increased emphasis on monitoring activity by central government and the wider public sector. Whilst not necessarily connected to Brexit, the increased focus on preparedness may be of benefit as the County Council continues to move into an uncertain business landscape. As such, service areas are liaising closely with key suppliers to

ensure that the Council is aware of any challenges they may be experiencing that could affect future service delivery.

10.3.4 The LGA reports that very few public contracts are awarded to companies in other EU member states. Only 20 per cent of English councils receive EU expressions of interest from companies based in other EU countries. Across Europe, only 1.6 per cent of public contracts are awarded to companies in other member states.

## **10.4 Finance**

### **10.4.1 *Interest rates***

A risk identified by some financial institutions is that if, for some reason, the UK does not reach an agreement with the EU by March 2019, this could prompt emergency measures by the Bank of England (BoE) – interest rate cuts and further quantitative easing (QE). It is understood that the BoE has been considering a possible raise or raises of interest rates in case of this outcome, so as to have tools to reduce rates in case this event occurs.

10.4.2 The Council's treasury position is reviewed on a weekly basis and officers will continue to model opportunities to optimise the Council's treasury position and mitigate risk.

### **10.4.3 *Pensions***

At the time of the writing of the previous report to Cabinet Panel on the implications of the withdrawal from the EU, it was noted that initial volatility in the markets had led to short term hits to the Council's Pension Fund. However, the Council's Pension Fund is a long-term investor and has a diverse range of assets and global market exposure to mitigate against the risk of volatility in asset returns. The funding level of the Fund is around 97% as at 31 December 2017 which is an improvement in the funding level since the last formal valuation of the Fund in 2016 of 91%.

10.4.4 The Pension Committee has decided to 'lock in' this improvement in the funding level by de-risking and reducing the County Council's exposure to growth assets classes such as equities where there is more risk, and invest in defensive asset classes such as real assets that provide inflation linked returns similar to the liabilities that the Fund has to pay out in the form of pensions. The Fund has reduced its equity exposure by 10% since January this year including the removal of an equity manager who had a particular UK based investment focus, this manager did suffer a downturn in returns after the outcome of the Brexit referendum.



#### 10.4.5 ***Currency exchange rates***

Recent exchange rate volatility is felt to have been good for Hertfordshire's exports. However, conversely this also presents risks around the potential fluctuations for the cost of waste disposal, in particular recycling commodities. The weaker strength of the Pound compared to the Euro is also felt to be contributing to some of the workforce issues Hertfordshire is currently experiencing.

##### *Background Information*

<https://www.hertfordshirelep.com/what-we-do/priorities/skills-employment/skills-strategy/>

## Appendix A - England's Economic Heartland EU Overview

### Slide 1

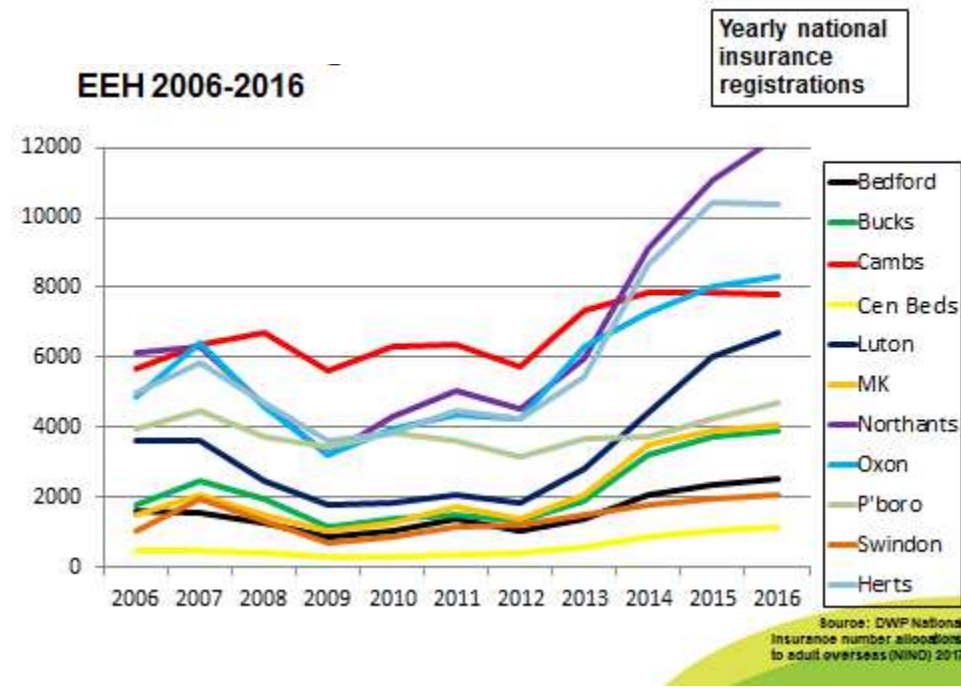
## EEH Overview

2011 Census

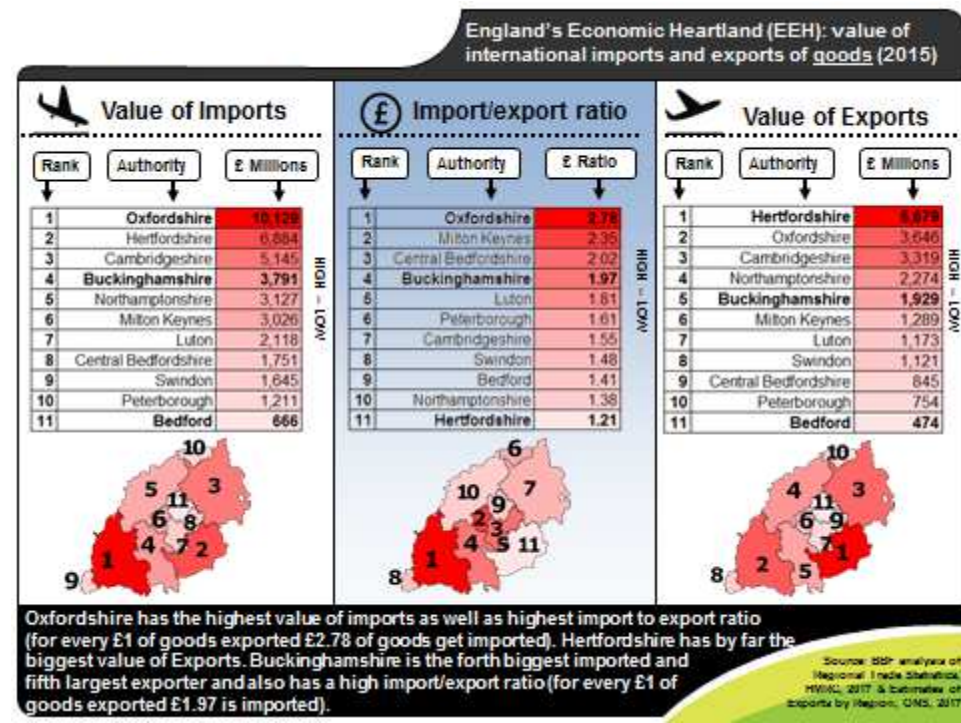
Local Authority	Total workforce	EU workforce	EU % of total workforce	Industry highest number EU workforce	Industry highest % EU workforce
Bedford	74,963	5,449	7.27%	Wholesale & Retail 1,035	Manufacturing 12.58%
Buckinghamshire	226,700	11,244	4.96%	Wholesale & Retail 1,662	Accommodation & Food Services 13.44%
Cambridgeshire	317,241	22,324	7.04%	Manufacturing 3,699	Administrative Services 14.37%
Central Bedfordshire	98,796	4,721	4.78%	Wholesale & Retail 1,042	Transport & Storage 8.93%
Hertfordshire	527,344	30,293	5.74%	Wholesale & Retail 6,046	Accommodation & Food Services 11.36%
Luton	90,364	8,521	9.43%	Wholesale & Retail 1,231	Construction 15.22%
Milton Keynes	144,506	9,358	6.48%	Wholesale & Retail 2,110	Accommodation & Food Services 11.95%
Northamptonshire	331,994	21,488	6.47%	Wholesale & Retail 4,528	Transport & Storage 15.52%
Oxfordshire	345,904	19,900	5.75%	Education 3,267	Accommodation & Food Services 14.69%
Peterborough	101,578	9,152	9.01%	Wholesale & Retail 1,790	Administrative Services 23.86%
Swindon	109,032	5,675	5.2%	Wholesale & Retail 1,037	Transport & Storage 10.4%
EEH Total	2,368,422	148,125	6.25%	Wholesale & Retail 24,976	Accommodation & Food Services 11.88%

Source: Census 2011, ONS, 2017

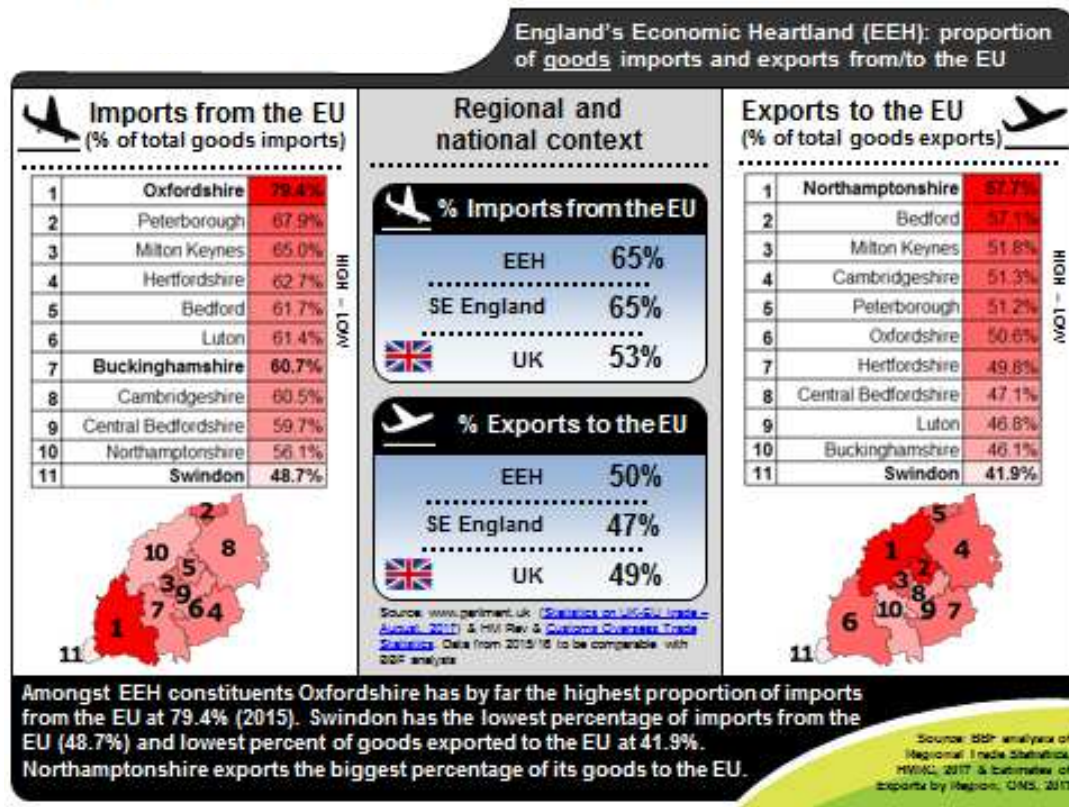
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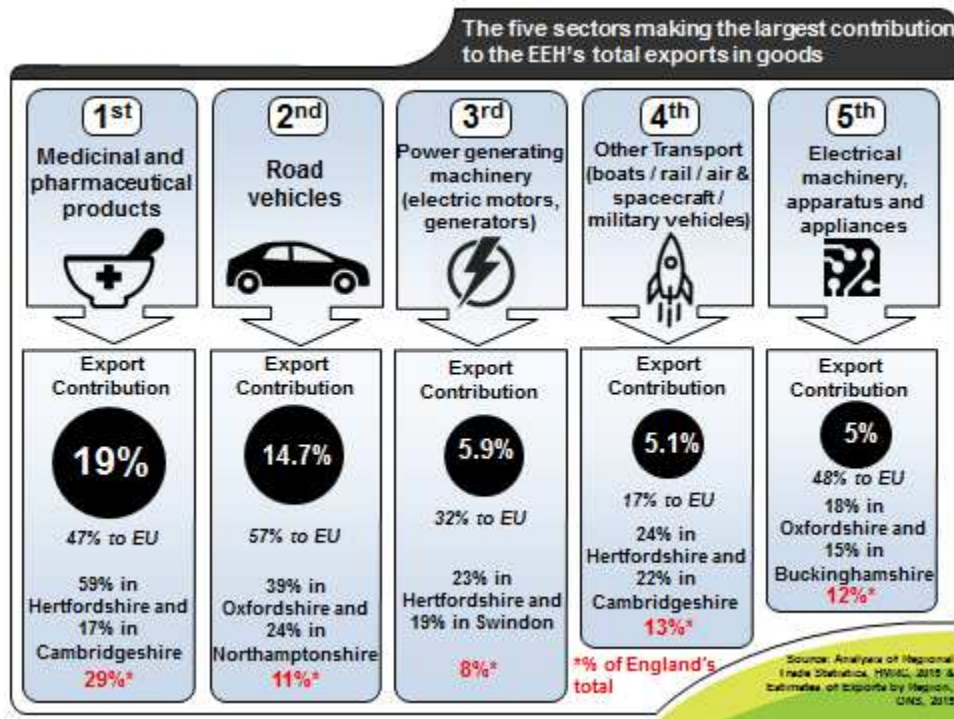
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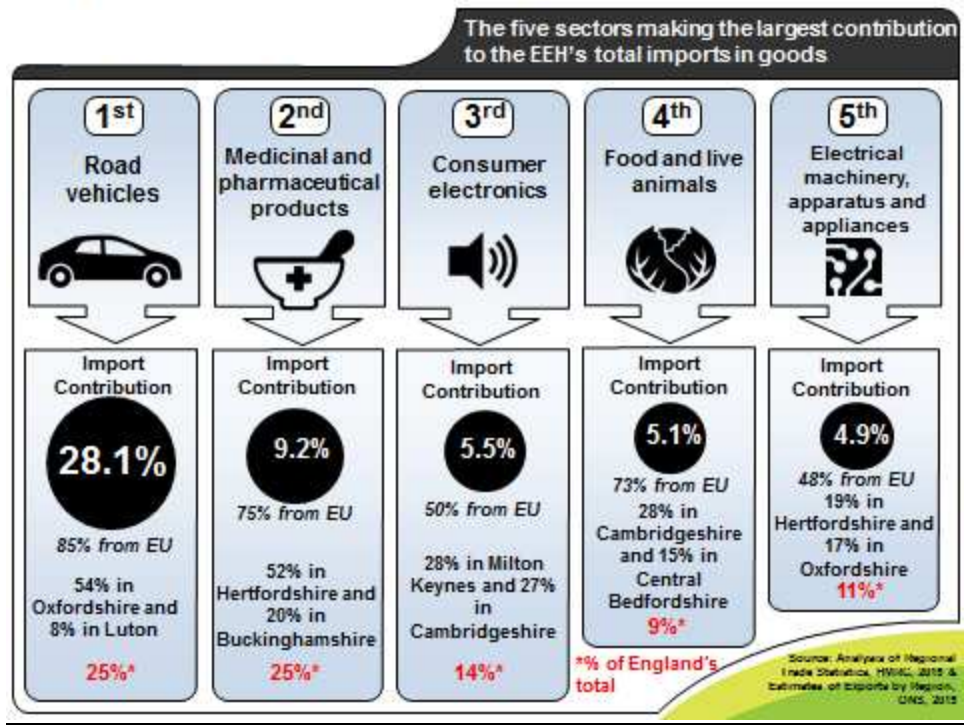
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Slide 5

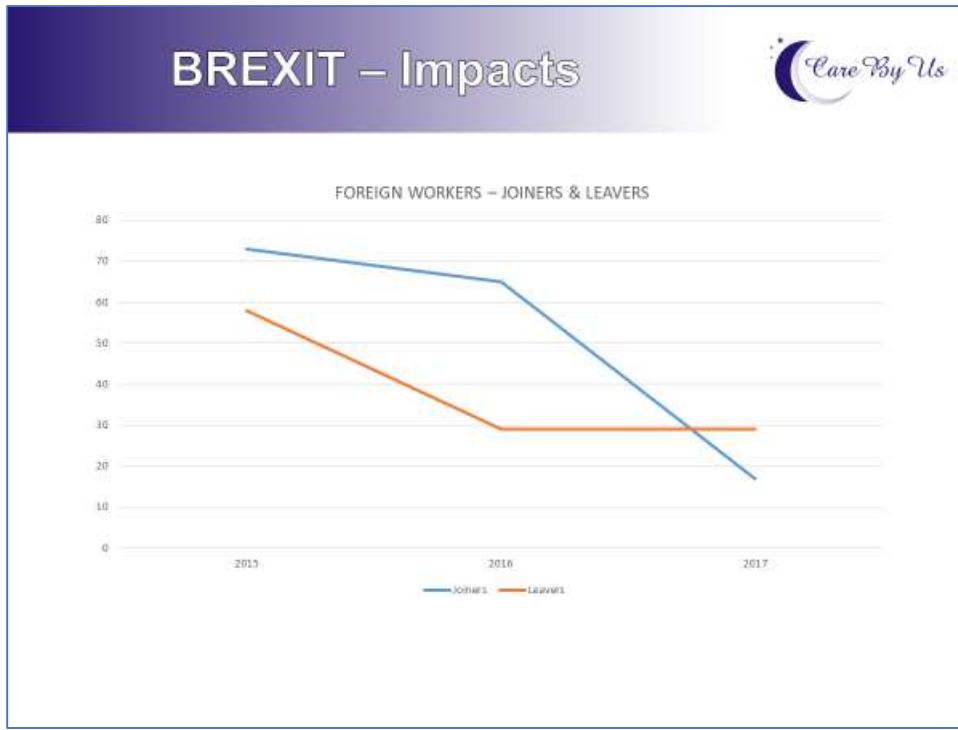


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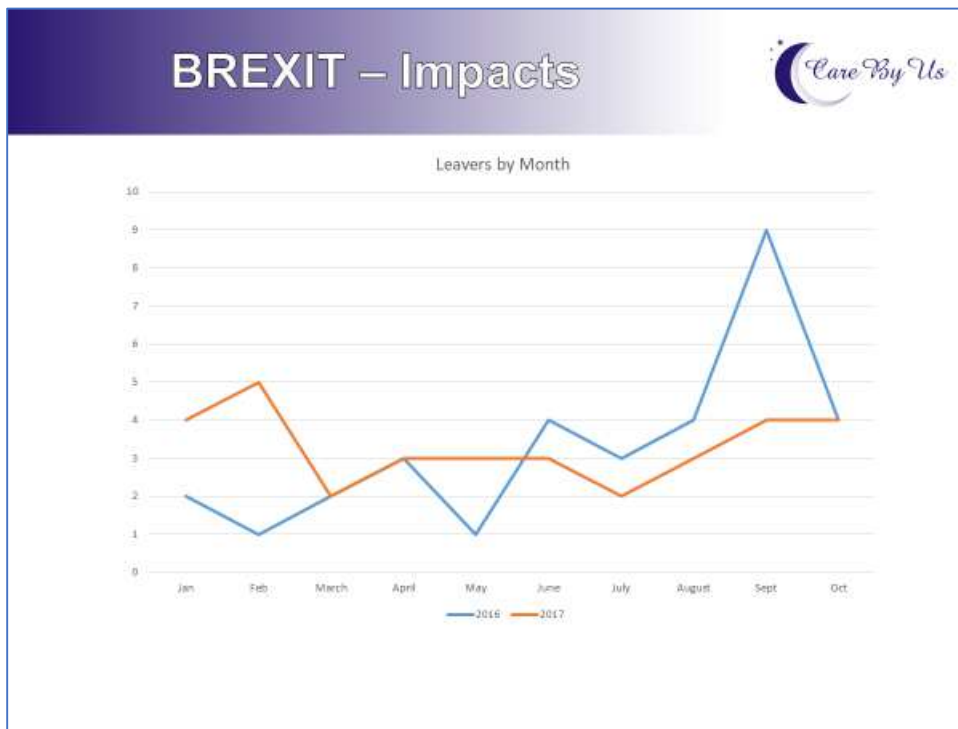


## Appendix B - Care By Us: Workforce Analysis

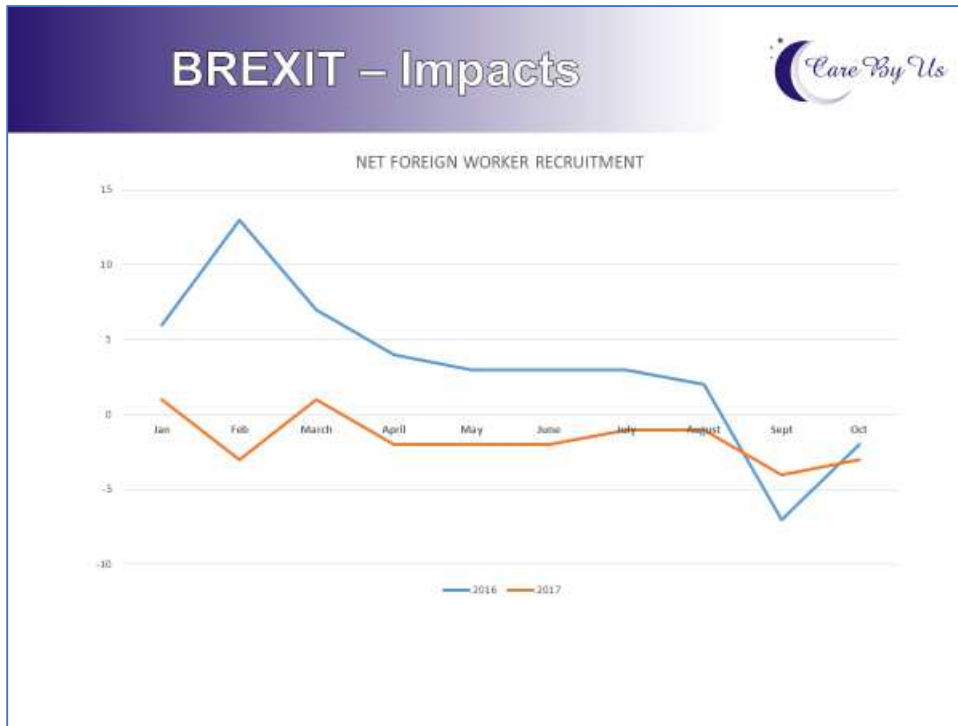
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## APPENDIX C

### Lead Provider Staffing Recruitment and Feedback (figures from October 2017, still valid June 2018)

Provider	No of Staff employed in LP contract	Average Staff turnover	Impact of Brexit on Recruitment
Alina Homecare	163	32.8% annual	<ul style="list-style-type: none"> <li>Alina do not have a high proportion of European Union workers but feel that Brexit is causing tightening of employment market</li> <li>Seeing direct impact of low unemployment levels in Herts – hard to recruit quality staff and having inflationary effect on pay rates</li> </ul>
Care By Us	306	15.0% April 2017 – Sept 2017	<ul style="list-style-type: none"> <li>Jan – June 2016 47 European Union staff recruited, Jan – September 2017 14 European Union staff recruited</li> <li>Hard to recruit from European Union despite benefits - accommodation, utility bills paid, cars, fuel cards and good rates of pay</li> <li>Some recruits from Romania and Portugal through word of mouth – are good and reliable workers</li> <li>European Union workers less focussed on career in the UK, taking more short term view of their prospects in UK – most money in short time</li> </ul>
Abbots	376	12.0% annual	<ul style="list-style-type: none"> <li>Average incoming monthly percent of foreign recruits is 13.3%</li> <li>Retention of foreign recruits is 93% and they are likely to work higher number of hours</li> <li>If foreign recruits choose to leave or cannot stay this will impact on care delivery hours and retention. Would need alternative staff to fill that 13%</li> </ul>
Goldsborough Homecare	282	24.0% annual	<ul style="list-style-type: none"> <li>Currently over 25% of staff are from European Union and Brexit having a detrimental effect on recruitment</li> <li>Will struggle to replace these care workers if they have to leave the European Union</li> <li>Will find it difficult to replace these care staff if they are can no longer work/do not want to work in UK; will impact on availability, capacity and hours</li> </ul>