

REPORT TO:	CABINET 11 JULY 2016
AGENDA ITEM:	6
SUBJECT:	Implications for the Council of the referendum vote to leave the European Union
LEAD OFFICER:	John Montes, Senior Strategy Officer
CABINET MEMBER:	Tony Newman, Leader of the Council
WARDS:	ALL
CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON:	
<p>The referendum decision that the United Kingdom should leave the European Union has major implications for local authorities in terms of their budgets, local economies, regulatory framework and community cohesion. This report sets out the measures to safeguard the Council's ability to deliver its plans for growth, independence and liveability, and to drive fairness for all communities, people and places.</p>	
FINANCIAL IMPACT	
<p>There are no immediate direct financial implications from the recommendations in this report. However the report does set out a number of key areas of financial risk for the council which will be monitored over the coming months.</p>	
KEY DECISION REFERENCE NO.: This is not a key decision	

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 Endorse the statement that citizens of the European Union are welcome in Croydon; the Council values the enormous contribution they make through working, paying taxes, and taking part in civic and cultural life. Croydon is an open society and is proud of its diversity;
- 1.2 Note that the Council and its partners will be vigilant in identifying any hate crime and will not hesitate to take vigorous action against the perpetrators;
- 1.3 Endorse the statement that Croydon is open for business and that plans are in place to safeguard our growth plans that will bring opportunities for local business and jobs for local people;
- 1.4 Note the Council's plans to monitor developments over the coming months and take action to mitigate any threats posed by the vote to leave the European Union.

2. EXECUTIVE SUMMARY

- 2.1 The referendum on Thursday, 23 June 2016 resulted in a decision that the United Kingdom should leave the European Union (EU). This outcome has major implications for local authorities in terms of their budgets, local economies, regulatory framework, community cohesion and the prospects of further devolution.
- 2.2 In response to the referendum result, the Mayor of London said that London will continue to be the best place in the world to do business and will continue to look outwards and trade and engage with the entire world, including the EU. He highlighted the responsibility of all to seek to heal the divisions that have emerged during the campaign and in particular reassured Europeans living in London that they are welcome here and that the enormous contribution that they make to London – in work, civic and cultural life – is valued and will not change.
- 2.3 The Council welcomes the Mayor's statement and endorses it. Croydon is an inclusive borough, proud of the diversity in our society and value the contribution that all communities make. We will continue to work to strengthen community cohesion in Croydon and will not hesitate to employ the full powers of the Council with our partners to tackle any hate crime that should occur.
- 2.4 Croydon remains open for business and has plans in place to take the necessary action to ensure that our growth plans remain on course and offer opportunities for businesses and jobs for our residents.
- 2.5 The full implications of the vote to leave the EU will become clearer over time. Three broad phases of reaction to the decision to leave the EU are expected:
- Initial volatility
 - Medium term uncertainty
 - Longer term transition.
- 2.6 The Council is monitoring developments and planning measures to safeguard the prosperity of Croydon and community cohesion in the borough, mitigating risks and considering new mid- to long-term opportunities. It is preparing for any potential further local government cuts following the government's Autumn Statement 2016.

3. DETAIL

3.1 Community Cohesion

- 3.1.1 Croydon is a diverse borough, a quality that brings great social, economic and cultural benefits and has long been recognised as one of our key strengths. Croydon is a place with a long tradition of celebrating the differences within our community. All communities living in Croydon, including EU citizens, are welcome here. The enormous contribution they make to the borough by working hard, paying taxes, and participating in Croydon's civic and cultural life is valued.

3.1.2 There is a risk that some people who hold divisive views may believe that the referendum vote to leave the EU gives them licence to share these views more widely and commit hate crimes. The Council calls on its partners and the wider community to join it in seeking to heal the divisions that have emerged during the referendum campaign. The Council and its partners will remain vigilant and vigorously tackle hate crime.

3.1.3 At this time of uncertainty, the Council will take the following actions with its partners to promote community cohesion, tackle hate crime and reduce extremism:

- The Council, its partners and the wider community will demonstrate our collective commitment in the borough to living and working together and ensure that EU citizens living in Croydon know that they continue to be welcome here and that the enormous contribution to life in Croydon is valued.
- Croydon's Stronger Communities Plan 2016-19, to be adopted by the Stronger Communities Partnership in July 2016, will aim to ensure that 'Croydon is a place where people from different backgrounds get on well together'. It will include the following priorities:
 - Work together to advance equality and inclusion
 - Encourage a range of social and cultural street and neighbourhood activities especially those that are community-led and delivered
 - Publish information that promotes community cohesion and dispels myths
 - Develop a programme of social and cultural activity that promotes community integration.
- A Community Cohesion sub-group of the Stronger Communities Partnership Board will monitor and seek to increase levels of community cohesion.
- The Council will enable activity that supports community cohesion through providing funding opportunities such as Croydon Community Grants (of up to £5,000 to support the outcomes and objectives of Croydon's Community Strategy, the Council's Corporate Plan and the recommendations of Croydon's Opportunity and Fairness Commission) and Community Ward budgets of £6,000 per ward for spending on locally set community priorities.
- CCTV and the Intelligence Hub will continue to be used to monitor suspicious individuals and share intelligence between all agencies to reduce the risk of crime and anti-social behaviour in Croydon
- The Council will work in close partnership with the Police to prosecute all perpetrators of hate crime
- The Graffiti Removal Service removes all graffiti that is racist or offensive within 48 hours of reporting

- Prevent training sessions will be run for all partner agency staff (Prevent is the Government's Anti-Terrorism Strategy); over 100 training sessions have been completed in the past 6 months.

3.2 Economy

- 3.2.1. The fall in Sterling, downgrading of the UK's sovereign credit rating, prolonged equity market volatility and a fall in bond values threatened by possible further Quantitative Easing, are all significant challenges both for the economy and the Council.
- 3.2.2 London Councils has called for the Mayor and boroughs to work closely together to sustain the growth and success of London in the post referendum environment. The Mayor of London is pressing the Government to ensure that remaining in the single market is the cornerstone of negotiations with the EU.

3.3 Development in Croydon

3.3.1 At this stage, considering the unprecedented volatility in a variety of economic inputs into the development process, it is difficult to predict the specific impact on development in Croydon with any certainty. Officers are monitoring the market closely, both in Croydon and more widely, to detect any clear pattern which may be emerging.

3.3.2 At a macro level, the areas for concern at this stage revolve around:

- **Economic confidence** delaying investment decisions by manufacturers, retailers and office occupiers. There is potential for hesitancy among occupiers which may not be fully offset by upsides (such as a cheaper currency or a delay in finance rate rises).
- **International occupiers** (particularly in London) potentially moving their operations elsewhere to benefit from single market access, leading to an impact in the commercial market. This is unlikely to occur until there is more certainty around the long term arrangements regarding trade and travel within the EU and, even then, it would be a very protracted process due to lease constraints, etc.
- **Investment sentiment** will be affected in similar ways to before the referendum, probably leading to increased yields. However, there are potential upsides arising from exit for investors such as currency revaluation and diversification of interests.
- **Development and construction** - major schemes in some markets which have not yet started on site are likely to be delayed until there is more clarity about the level of demand in the economy. Planned office development is most likely to be affected in this way, while residential development is least likely to be affected. Infrastructure and public sector development are also less likely to be affected, at least in the absence of any further public spending controls.

3.3.3 While it is possible at this stage to detect an anecdotal slowing of investment in the wider national residential market, it is likely that this is in part due to the

number of schemes which had 'Brexit' clauses built into them in order to allow a re-evaluation in the event of a leave vote. More formal market advice points towards a relatively stable environment in the short term. CBRE for instance point out that the Leave vote doesn't reduce the pent-up demand in the UK housing market, so while it is likely to be a quiet summer for new residential sales, forced sales and/or a marked negative impact on property prices are unlikely. Indeed, if developers scale back and new housing supply contracts significantly, there may even be upward pressure on prices.

3.3.4 With regard to specific major schemes in Croydon, the Council maintains a close dialogue with major developers and investors regarding their interests in Croydon. In general, their outlook for Croydon post-Brexit is positive. Specifically:

- Brick by Brick – the Brick by Brick Board reports that all work is continuing as planned at this stage. The majority of Brick by Brick sites are suburban in nature and in the lower value ranges, comparative to the rest of London. The funding model for these developments remains unaffected by the Leave vote, and the demand for these properties, comprising predominantly of owner occupiers, remains very high. For larger schemes, planned enabling work will continue and the Board will adopt a close watching brief and respond accordingly to any major changes in the market.
- Westfield/Hammerson (Whitgift) – the Croydon Limited Partnership has confirmed that it is business as usual for them, and there are no changes proposed to the Whitgift scheme arising from the decision. The Board will continue to monitor the market closely.
- Stanhope Shroder (Ruskin Square) - Ruskin Square is seeing the creation of up to 625 new homes, 1.25 million square feet of offices and 100,000 square feet of retail and restaurants on a nine acre landscaped site immediately next to East Croydon station. The development remains firmly on track with the first office due for completion by the end of this year and the first 161 apartments even sooner. They consider that the demand for new, high quality, affordable and well-connected business accommodation is likely to remain strong, as is the demand for homes for Londoner. Their strategy for this development has not changed.
- Menta (Morello) – Menta have confirmed that there are no changes to their approach on the current phase arising from the referendum decision. In keeping with the CBRE analysis, their expectation is that while the sales rate of residential units on their scheme may slow a little this will not have an impact on value. For future phases of the scheme, particularly the Morello Tower, they will continue to monitor the market closely to ensure the Croydon value context supports the development.
- LB Croydon (Taberner House) – LB Croydon are in advanced discussions with a development partner regarding the residential-led development at Taberner House and an announcement is expected very soon. The development partner has confirmed that there are no changes to their offer or development programme for the site arising from the Leave vote.

3.3.5 The Council will continue to work closely with developers and investors to enable their schemes in Croydon, in particular through the development of the

Growth Zone work which will provide the infrastructure necessary for growth and de-risk development comparative to other parts of London. Equally, officers will monitor changes in the market closely over the coming months to ensure the Council can respond quickly to protect investment in the borough.

3.4 Implications for the Council's Budget

3.4.1 The Council has been planning on the basis of the Autumn Statement 2015 and consequential four year settlement for local government, it is clear that from various announcements that there is potential that public sector spending will be reviewed as part of an Autumn Statement and this could lead to a revised settlement for local government. It is clear that funding for local government is inexorably linked to the strength of the British economy and therefore any relatively small adjustments could lead to further cuts for local government. The plan to allow councils to retain 100% of business rates by 2020, phasing out government revenue support grant, will make councils bear 100% of the risk of a reduction in business rates and feel a more immediate impact of any downturn in the economy.

3.4.2 The Council has borrowed £25.745m from the European Investment Bank for schools projects and has a facility for £102m in total, to be drawn by December 2018. The availability of these funds is not expected to be affected by leaving the EU; there is now an added uncertainty of the interest rate although we still expect it to be better value than the Public Works Loan Board. The ability of the Council to borrow a further sum in support of our regeneration programme will depend on future exit negotiations.

3.4.3 In terms of the Council's Pension Fund, our strategy of asset diversification serves to mitigate the immediate effects of financial turbulence. Nevertheless, in respect of its Treasury and pension investments the Council/pension fund will:

- Assess the risk of the investment environment having changed, the possibility being that infrastructure is the most exposed.
- Check whether the investment vehicles will work after the UK leaves the EU, for example in terms of passporting and tax transparency
- Assess how the Council can access more attractive regions and investment opportunities
- Monitor changes for the investment regulations for the Local Government Pension Scheme. Almost all the regulatory framework governing investment is based on EU law. It is unclear what legislative changes will be required after leaving the EU, but costs may well increase in respect of big euro-denominated trades.
- Review the Treasury Management policy and the level of risk the Council is prepared to accept in view of the UK's credit rating.

3.5 EU funding and Corporate Social Responsibility funding

3.5.1 £5.3bn of EU regeneration funding has been allocated to communities in England up to 2020. Since 2012 £2.856m has been awarded to Croydon in EU funding for projects, since completed, that have supported growth in the SME

sector and increased the employability of young people and the long-term unemployed.

- 3.5.2 Current EU funding opportunities include a total of £656m of EU Structural and Investment Funds available through the London Local Enterprise Partnership (LEP) and £57.4m through the Coast to Capital LEP. The Council is also directly eligible for other major European Funding Programmes for the 2014-2020 funding period. The Council has submitted a proposal under the European Regional Development Fund for a business growth programme under the London LEP with a total project value of £2m. The outcome is pending.
- 3.5.3 Generally domestically managed EU programmes have a programme period which runs to 2020. Initial indications from Government departments suggest that these funds may be secure, but this is unconfirmed. The Government has been called upon to guarantee to protect EU funding. Withdrawal of this funding would impact on achievement of the Council's priorities for skills and business growth as there would be a funding gap in respect of non-statutory Council work including economic development covering skills and business development as well as environmental sustainability.
- 3.5.4 The voluntary and community sector (VCS) will be affected by the loss of funding opportunities in the medium term. Many of the larger funding programmes receive matching funds from the European Social Fund 2014-2020 to invest in local projects tackling the root causes of poverty and promoting social inclusion. This risks undermining the Council's aim in this time of austerity to empower the VCS to bridge the gap between public services and need. Some voluntary sector organisations receive Corporate Social Responsibility (CSR) funding from business. While there is a theoretical risk that a downturn in economic activity in Croydon would result in a reduction in CSR funding for the sector, the sums involved are not large and there is no evidence to date that this will happen.

3.6 Devolution

- 3.6.1 The future of the Government's devolution agenda is unclear, but the referendum vote indicates a frustration with national politics and a debate on how to democratise Britain, inevitably involving a robust devolution agenda.
- 3.6.2 Local Government Association (LGA) and London Councils highlight the need to press for further devolution of powers to local government, to ensure the focus is not just upon the transfer of powers from the EU to Whitehall. It is argued that if services are delivered locally, then the power over how to run them should rest locally too, increasing councils' ability to improve services and save money.
- 3.6.3 The Mayor of London has stated that it is crucial that London has a voice at the table during the negotiations to leave the EU. He had stated in his election manifesto that he would seek a strong devolution package for London from the Government and that devolution should be primarily to the boroughs, with the Mayor playing a strategic and co-ordinating role and passing the extra powers he obtains to local authorities.
- 3.6.4 The Council's Corporate Plan includes the outcome 'to be open and transparent and put communities at the heart of decision making'. The Council and its

partners are working to reinvigorate grass roots engagement and increase communities' responsibility. Croydon's Stronger Communities Plan 2016-19 will include the following priorities:

- Promote greater community participation and opportunities to influence local priorities including use of community ward budgets
- Explore opportunities for communities to have more responsibility for the things that matter most to them and their neighbourhoods.

3.7 EU regulations

3.7.1 Replacement of EU regulations will be crucial to local government. They impact on council services such as waste, employment, health and safety, consumer protection and trading and environmental standards.

3.7.2 The end of procurement rules and state aid might see many more freedoms for the Council to operate and to invest in local business. EU regulations on procurement have been codified as UK law, so no changes are anticipated until the UK parliament legislates otherwise. It is not yet known how the provider market will respond and there is a possibility that some EU providers might choose to cease operating in the UK; however, this is unlikely to happen until the UK's exit strategy becomes clearer.

3.7.3 The Council will:

- Monitor legislative and regulatory changes and respond at the appropriate time, taking advantage of opportunities that arise
- Keep abreast of responses by providers in EU markets.

4. CONSULTATION

4.1 This report sets out contingency plans and actions already agreed to mitigate the threats to the Council posed by the vote to leave the EU. As proposals for further action are developed, consultation will be conducted on the proposals as appropriate.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 The financial issues and risks are set out in the body of the report.

(Approved by: Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 officer)

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Acting Solicitor to the Council comments that there are no direct legal implications arising from the recommendations within this report.

(Approved for Gabriel Macgregor, Head of Corporate Law, Acting Council Solicitor and Acting Monitoring Officer)

7. HUMAN RESOURCES IMPACT

- 7.1 There are no immediate HR considerations that arise from the recommendations of this report for LBC staff

(Approved by: Michael Pichamuthu on behalf of Heather Daley, Director of Human Resources)

8. EQUALITIES IMPACT

- 8.1 Data from the 2011 census show that 23,854, 6.6% of Croydon residents, held EU passports and 28,766, 7.9% of residents, held passports from other parts of the world. This is the most recent reliable data available.
- 8.2 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.
- 8.3 It is one of the Council's statutory equality objectives to improve the proportion of people from different backgrounds who get on well together. The Council will work in partnership with all sections of the community and take appropriate action including steps to increase community cohesion and secure the safety and wellbeing of people from all communities and cultures.

9. ENVIRONMENTAL IMPACT

- 9.1 There is no immediate environmental impact. The Council will consider the consequences of replacement of EU environmental regulations by new UK legislation as these changes arise.

10. CRIME AND DISORDER REDUCTION IMPACT

- 10.1 Concern has been raised regarding a number of incidents where individuals have expressed anti-immigrant sentiments and committed hate crimes following the referendum vote to leave the EU. The Council is taking a number of steps set out in this report to strengthen community cohesion 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.

11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 11.1 To set out the Council's actions to mitigate the threats posed by the uncertainty created by the decision that the UK should leave the European Union, 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.

12. OPTIONS CONSIDERED AND REJECTED

12.1 None.

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BACKGROUND PAPERS - LOCAL GOVERNMENT ACT 1972 - None