

# Cabinet Supplementary Agenda



7. **Croydon Renewal Plan and amendments to the 2020/21 General Fund Budget** (Pages 3 - 16)  
Officer: Lisa Taylor  
Key decision: no
  
8. **Finance Review and Medium Term Financial Strategy** (Pages 17 - 24)  
Officer: Lisa Taylor  
Key decision: no

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<b>REPORT TO:</b>	<b>Cabinet 21st September 2020</b>
<b>SUBJECT:</b>	<b>Croydon Renewal Plan and amendments to the 2020/21 General Fund Budget</b>
<b>LEAD OFFICER:</b>	<b>Katherine Kerswell, Interim Chief Executive</b> <b>Jacqueline Harris-Baker, Executive Director Resources</b> <b>Lisa Taylor, Director of Finance, Investment And Risk (Section 151 Officer)</b>
<b>CABINET MEMBER:</b>	<b>Councillor Tony Newman, The Leader</b> <b>Councillor Simon Hall, Cabinet Member For Finance And Resources</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> <p>The London Borough of Croydon's annual budget is required by law to be both balanced and deliverable in year and to provide a sustainable and balanced footing over the medium term for the delivery of all council services. The budget must also ensure that there is sufficient provision in its general and earmarked reserves to ensure the council is resilient in the context of significant risks materialising.</p> <p>The Council set its budget on 2 March 2020 and as this report explains how the budget has come under significant pressure and is no longer balanced or deliverable. As such this report sets out proposals to make further in year savings and requests that a formal approach for a capitalisation direction is made to MHCLG to ensure that a legally balanced budget is delivered in both this year and the medium term. The amended budget continues to make a contribution to reserves to address the resilience of the Council's reserves as well.</p> <p>The recommendations in this report inform elected members of the serious financial position of the council and will enable swift action to be taken and address the serious financial issues the council faces.</p>	
<b>FINANCIAL IMPACT</b> <p>This report sets out the savings and other actions that need to be implemented immediately to deliver the 2020/21 budget and the plan to be developed to deliver the budget in the medium term.</p> <p>It also declares the Council's intent to approach MHCLG for a capitalisation direction and the formal announcement of the development of Croydon's Renewal Plan, which is to be the programme to create a financially sustainable budget over the next three years.</p>	

The impact of Covid19 has led to a reduced level of income, increased costs, and the inability to deliver 65% of the savings that were approved in the 2020/21 budget.

This report details the additional savings options that need to be taken immediately this financial year to reduce costs and the work that needs to be undertaken in the medium term to set and deliver a balanced budget.

**FORWARD PLAN KEY DECISION REFERENCE NO. -**

Not a key decision, as recommendations to Full Council for approval.

**1. RECOMMENDATIONS**

Cabinet is recommended to :

- i) Note the latest forecast revenue budget overspend of £50.3m detailed in section 3.
- ii) Approve the savings options of £27.9m listed in section 5 of this report to reduce the forecast overspend this year, and amend the 2020/21 budget to include the additional in year savings.
- iii) Agree that a formal approach is made to the Ministry of Housing, Communities and Local Government to seek a capitalisation direction to enable the 2020/21 budget to be balanced.
- iv) Agree to the development of Croydon's Renewal Plan, to deliver a sustainable balanced budget over the medium term, and to provide an update to Cabinet in November 2020.
- v) Note the in year review of the Capital Programme and agree that a review of the future Capital programme is undertaken and to provide an update to Cabinet in November 2020.
- vi) Agree that a strategic review of the Council's group of companies and entities is undertaken and to delegate to the Executive Director of Place the scope and terms of that review, and to provide an update to Cabinet in November 2020.

**RECOMMEND TO COUNCIL TO**

- vii) Note the latest forecast revenue budget overspend of £50.3m detailed in section 3.
- viii) Approve the savings options of £27.9m listed in section 5 of this report to reduce the forecast overspend this year, and amend the 2020/21 budget to include the additional in year savings.

- ix) Agree that a formal approach is made to the Ministry of Housing, Communities and Local Government to seek a capitalisation direction to enable the 2020/21 budget to be balanced.
- x) Agree to the development of Croydon's Renewal Plan, to deliver a sustainable balanced budget over the medium term, and to provide an update to Full Council in November 2020.
- xi) Note the in year review of the Capital Programme and agree that a review of the future Capital programme is undertaken and to provide an update to Full Council in November 2020.
- xii) Agree that a strategic review of the Council's group of companies and entities is undertaken and to delegate to the Executive Director of Place the scope and terms of that review, and to provide an update to Council in November 2020.

## 2 EXECUTIVE SUMMARY

- 2.1 This report provides an update for the Cabinet on the actions that need to be undertaken to reduce costs this year and the plan to develop a sustainable medium term balanced budget.
- 2.2 Full Council approved the 2020/21 Revenue and Capital budget on the 2 March 2020. Cabinet and Council when approving the budget were made aware that the budget was very finely balanced as it contained a significant level of savings that were very ambitious to be delivered in year.
- 2.3 This budget was approved before the impact of the current worldwide Covid19 pandemic was fully known. The pandemic remains incredibly challenging and has put significant pressure on council services and budgets since the beginning of this financial year. Croydon is not alone in facing these financial pressures and nationally it has been forecast that Covid19 has cost in excess of £7bn.
- 2.4 Croydon Council is currently facing a significant in year overspend of £22.4m and does not have the necessary resources to cover it. In accordance with the Local Government Act 1988, the Council is required to "manage its budget within the approved estimates". This means that it cannot spend more than it has available to fund those costs, and if it appears that expenditure in the year is going to exceed available resources, then action needs to be taken immediately to ensure spend is reduced and the budget is balanced and therefore remains lawful.
- 2.5 The Local Government Act 1988, Section 114 places certain responsibilities on the Chief Finance Officer in this regard. Paragraph 3 states:-  
*'The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed resources (including sums borrowed) available to it to meet that expenditure.'*

- 2.6 As reported to Cabinet in July 2020 'Responding to the Local Government Financial Challenge', it was made clear that the Council had to take action to control its expenditure and urgently put in place credible plans to bring spending within available resources to avoid a S114 notice being issued. This report details the plan that was enacted and the work achieved to date.
- 2.7 At the Scrutiny and Overview Committee on the 25 August 2020, the committee were advised in the report from the S151 Officer of the following:-  
*'At the time of writing this report, I as the S151 Officer for Croydon Council cannot give full assurance that the Council will be able to deliver a balanced budget in 2020/21 or future years'.*  
*'I can confirm that the Executive Leadership Team and Cabinet are working together supported by the work of the Financial Review Panel and external partners including MHCLG and CIPFA to manage the budget and balance it. This work and the development of these plans at the current time mean that as per the CIPFA guidance I have not had to issue a S114 notice. However, if at any time I do not feel that these plans are developing at the right pace or are actually not deliverable I will have no choice but to issue a S114 notice.'*

### 3 THE BUDGET GAP – OVERSPEND

- 3.1 The quarter one financial monitoring report also on this agenda details the financial position at the end of June 2020 and reported a forecast net general fund overspend of £49m.
- 3.2 These figures have since been updated and include the latest Covid19 return to MHCLG, submitted at the end of August 2020. The council's forecast net general fund overspend is now £50.3m. This is detailed in table 1 below.
- 3.3 It can be seen from the table below that expenditure, income and the council's savings programme are all significantly impacted in this financial year. The funding from government to date of £23.5m for Covid19 plus the forecast reimbursement for lost income of £5m is not sufficient to deliver a legally balanced budget, and so further action is required immediately.

Table 1- August 2020 forecast overspend.

	£m
Aug Covid return - additional expenditure	32.3
Aug Covid return - lost income	12.0
Aug Covid return - unachieved savings	26.2
<b>Gross impact of Covid</b>	<b>70.5</b>
Govt grants covid 1,2 and 3	-23.5
Govt grant - income compensation - estimate	-5.0
<b>net impact covid</b>	<b>42.0</b>
Exceptional Items UASC	3.3
<b>Contribution to reserves</b>	<b>5.0</b>
	<b>50.3</b>

## **4 Reserves**

- 4.1 The Council's unaudited general fund reserves are currently £10.2m and are therefore insufficient to fund this forecast overspend of £50.3m. It must also be noted that there is a risk that these reserves could be reduced if there is a requirement from the audit of the 2019/20 accounts to make adjustments.
- 4.2 With general fund reserves of only £10.2m Croydon does not have the financial resilience to resolve this situation. The Council must take immediate steps to manage the current overspend and put in place long term actions to build up reserve levels and create greater financial resilience.
- 4.3 The 2020/21 budget made a provision to contribute £5m to reserves this year. This was a contribution to reserves for the first time in over 6 years. This recognised that reserves were too low for a council the size of Croydon. It is essential that this contribution to increase the Council's General Fund reserves is maintained even in the face of the budget overspend.

## **5 Savings Options**

- 5.1 Since the implementation of the Finance Review Panel in May 2020 the Council has been developing and implementing a series of immediate savings measures. These savings must be delivered immediately to reduce the forecast overspend. Cabinet is asked to approve the savings options detailed in table 2 and paragraphs 5.6 to 5.19 below. These savings options total £27.9m.
- 5.2 However, even with the swift implementation of the £27.9m of savings, there is insufficient time remaining in this financial year for the budget to be fully balanced. A further £22.4m of savings are still required.

Table 2 – Savings to be agreed for delivery in 2020/21

<b>Savings Options</b>	<b>£m</b>		<b>£m</b>	<b>£m</b>
	<b>Saving</b>	<b>RAG</b>	<b>One Off</b>	<b>Reoccurring</b>
Health Funding	-12.1		-10	-2.1
Transformation funding	-2.5			-2.5
Use of Community Infrastructure Levy (CIL)	-2.2		-2.2	
Contract savings	-2.0			-2.0
Staff savings	-2.0		-2.0	
Capital programme review	-1.7		-1.7	
Children's services	-1.1			-1.1
Parking fees	-1.0			-1.0
Public Health funding	-1.0			-1.0
Non essential expenditure	-1.0		-1.0	
Adult Social Care	-0.5			-0.5
Bulky waste	-0.4			-0.4
Resources Dept	-0.3		-0.3	
Facilities Management	-0.1		-0.1	
Library book fund	-0.1			-0.1
SEN transport - under 5's	-0.1			-0.1
	<b>-27.9</b>		<b>-17.3</b>	<b>-10.6</b>

- 5.3 As can be expected from in year savings a great proportion are one off in value. There is also still a deliverability risk as highlighted in the RAG rated column and work is underway to provide further assurance.
- 5.4 Based on the financial information provided in this report there remains a budget overspend of £22.4m in 2020/21 even after the delivery of all of the savings listed above. This is shown in table 3 below.

Table 3 Summary of overspend in 2020/21.

<b>Detail</b>	<b>Table</b>	<b>£m</b>
Forecast overspend	1	50.3
Savings Options	2	-27.9
Remaining overspend		<u>22.4</u>
General Fund Reserves		10.2

- 5.5 The savings items listed above have been identified for delivery in the remainder of this financial year and Cabinet is asked to approve the delivery of all of these options, which are listed below in more detail.
- 5.6 Health funding – a contribution from health due to partnership arrangements. £12.1m = £5.5m Covid19 contribution in the immediate measures programme. £2.1m health contribution.



£4m Covid19 funding of which £2m relates to August (with the remaining £2m Covid19 cost under new government NHS Covid19 guidance between September and March 2021).

£0.5m health contribution to Continuing Health Care for Children.

- 5.7 Transformation funding – Release of £2.5m previously allocated monies to offset transformation projects currently funded from the general fund.
- 5.8 CIL – Use £2.2m of the CIL local meaningful proportion to fund grants to the voluntary sector that were previously funded from the general fund.
- 5.9 Contract Savings – Negotiations have taken place with providers and a number of contracts have been identified where savings can be generated this year. These are mainly as a result of the Covid19 pandemic and total £2m. The greatest saving in this financial year is associated with the passenger transport service.
- 5.10 Staff Savings – This £2m is an estimated saving arising in year from the 15% staff headcount reduction. There is a much larger saving in next year which is estimated to be in excess of £15m and once the final redundancy notices have been served and the notice period for staff leaving the organisation has completed it will be possible to fully verify this figure.
- 5.11 Capital Programme Review – As part of the immediate measures programme, a review of the current year's capital programme has taken place with a view to reducing investment in year by delaying or permanently removing projects from the programme. By doing this the level of capital borrowing will be reduced and therefore the corresponding interest and principle repayments are reduced. It is anticipated that £1.7m will be saved this year. Schemes in year that have been stopped or delayed include the commercial asset acquisition programme.
- 5.12 Children's services – There have been a number of in year savings identified in the Children, Families and Education department. These savings include a review of the children's centre offer, savings from placement costs and a review of the family safeguarding function. Estimated saving for the remainder of this year are £1.1m.
- 5.13 Parking Fees – Implement an increase in parking fees from January 2021 and implement the emissions based parking scheme from 1 January 2021, earlier than previously planned to generate an estimated £1m for the remainder of this year. Parking charges are a traffic management device that contributes towards meeting the Council's road network duties under the Traffic Management Act 2004 and the Road Traffic Regulations Act 1984. The RTRA1984 makes provision for the Council managing parking facilities on and off the highway, having regards to the desirability of securing and maintaining reasonable access to amenities, the National Air Quality Strategy and other relevant traffic management objectives. This includes the establishment of parking charges to help manage the demand and nature of use of the parking facilities.

- 5.14 Public Health – the Council received a public health grant of £22m for 2020/21. £1m of this funding was retained as a contingency. This contingency will now be released to fund services previously funded from the general fund this year.
- 5.15 Non-Essential expenditure – to reduce costs this year a freeze on non-essential expenditure was implemented as part of the immediate measures programme. This approach will now be strengthened by the implementation of a spending review panel to enable further spending controls to be put in place and drive down spend. This is an essential requirement if a S114 notice is issued and is considered to be a good practice approach given the serious financial circumstances faced in Croydon. It is estimated that £1m will be saved.
- 5.16 Adult Social care – reduce costs by undertaking a review of packages of support to residents with a view to reducing discretionary levels of support around cleaning and shopping. Also to fast track the use of the direct payments scheme and for funding for all new packages of care to be made via direct payments to residents so they are more in control of the support they receive and less reliant on the council.
- 5.17 Bulky Waste – immediately cease the current bulky waste service and implement a revised charging scheme where residents will be charged for the service based on the number of items collected.

Price for 1-3 items = £31

Price for 4-6 items =£51

The current service allows residents the following items per year (April to April):

- 2 free bulky waste collections, thereafter a charge is applied
- 1 free large white goods collection – this can be a large household electrical items like washing machines and dishwashers, thereafter a charge is applied.

- 5.18 Resources department – a number of small savings options across the department, including democratic services and HR.
- 5.19 Other minor savings – there are a number of other minor savings arising from delays to building survey work as a result of Covid19, in year savings on schools transport costs for under 5's and savings in spend from the library book fund.
- 5.20 It is essential that all of the savings identified above are implemented fully and immediately if the forecast overspend is to be reduced in this financial year. Failure to deliver any of these options detailed in this report will result in an increase in the overspend. Consultation where required by law will be undertaken immediately.

## **6 Risks**

- 6.1 It must be recognised that there are a number of risks associated with delivering all of the savings options listed above and the forecast overspend figures. These risks include:-

- There may be a further Covid19 spike, resulting in an increase in costs without the sufficient funding.
- Pressures in services especially adults and children's care services could increase above the forecast level, resulting in increased costs.
- Not all savings options are delivered. Any items not delivered will lead to an increased overspend.
- The 2019/20 audit of accounts has not been completed and there could need to be adjustments. These could be as much as £17m and relate to the treatment of capital receipts for transformation projects, the recharges to capital projects and the reversal of the housing benefit bad debt provision. If required these would reduce the available reserves.
- Organisational capacity to deliver all of the services and changes needed.
- Changes in government legislation, requiring local authorities to undertake additional duties without the corresponding funding e.g. Covid19 marshals.
- The ongoing conversations with the External Auditors regarding the treatment of the Dedicated Schools Grant High Needs deficit that may impact reserves.

## **7 Government Support – Capitalisation Direction from MHCLG**

- 7.1 With the current forecast overspend of £22.4m and insufficient reserves to fund this overspend we are currently unable to deliver a balanced budget and under normal pre Covid19 circumstances should have issued a S114 notice. However as stated in paragraph 2.7 and previously reported to Scrutiny and Overview Committee in August we have not issued the notice at this stage due to the change in guidance on this matter.
- 7.2 Informal discussions have been had to date with the government in regard to a capitalisation direction.
- 7.3 A capitalisation direction is a request to government to borrow capital money for revenue spend. It is not 'free' money and must be repaid. It is also not a given that councils are granted this permission. Without this government support it will be very unlikely that we will be able to deliver a balanced budget this year given the forecast overspend, the very limited level of general fund reserves and the little time left in the financial year to make large savings.
- 7.4 In order for Government to consider supporting us financially, they will require a very robust delivery plan that lays out how we will change the council into a sustainable, financially resilient organisation.
- 7.5 Cabinet is recommended to agree to formally ask Government for a Capitalisation Direction and to the development of The Croydon Renewal Plan.

- 7.6. If the Government agrees to financially support the Council it will give it the time and space needed to make fundamental changes to reset the organisation to deliver a balanced and sustainable budget over the next three years. If the Council is unable to secure government support. It will have to find a further £22.4m of savings this year and deal with the full forecast budget gap of £47m by March 2021. (Full details of the Medium Term Financial Strategy and future year's budget gaps are contained on this agenda at item 8).
- 7.7 It is recognised that this is an incredibly challenging time, perhaps the most difficult period the council has experienced. There will be some tough decisions to make as services are remodelled and in some cases some things will need to be stopped altogether.
- 7.8 This plan will benefit from the input of all the council's staff and the communities and people who live in the borough. A programme of engagement will be drawn up as part of developing and implementing the plan.

## **8 Review of the Capital Programme.**

- 8.1 Part of the work to reduce costs and ensure long term financial sustainability must include a review of the current capital programme and asset investment strategy in this year and in total. At this moment it is essential that a full review of the capital programme is undertaken with a view to reduce borrowing and its associated costs.
- 8.2 Borrowing costs currently account for £26m of our annual spend. All future and current capital projects must be reviewed to ensure these annual borrowing costs are kept as low as possible and don't put extra financial pressure on the revenue budget.
- 8.3 Cabinet are asked to agree to a review of the total planned capital programme and seek to reduce and delay projects to reduce borrowing costs where possible, and will be brought back to Cabinet and Full Council.

## **9 Strategic Review of Group Companies and Entities.**

- 9.1 A review of all companies that are in the Croydon group and their relationship with the Council needs to be understood to ensure they remain fit for purpose and that the risk profile they present for the Council is fully understood and acceptable both individually and in total. Group Companies and entities include Brick by Brick Croydon Limited and Croydon Affordable Homes LLP, The Growth Zone and The Revolving Investment Fund and Taberner House.
- 9.2 Cabinet is asked to agree that such a review be undertaken and that authority to scope the precise terms of the review is delegated to the Executive Director of Place, with a report to be brought back to Cabinet and Full Council.

## **10 SUMMARY AND CONCLUSIONS**

- 10.1 Cabinet will be aware from earlier reports that delivering the 2020/21 budget was going to be difficult with all of the growing demands on services and the ambitious savings programme. The impact of the Covid19 pandemic has now made this extremely challenging, resulting in the forecast overspend.
- 10.2 Informal discussions have taken place with MHCLG to raise awareness of the challenges we face and to seek their support and help to manage this. The changes in guidance by MHCLG and CIPFA mean that it has not been necessary to date to issue a S114 notice. In normal circumstances and with a forecast financial overspend of this size, a S114 would have been required. As discussed at Scrutiny and Overview Committee in August 2020, it is not possible at this time to say that a S114 notice will not be issued.
- 10.3 Work is underway on developing a three year Medium Term Financial Strategy (MTFS) and the setting of a budget for 2021/22 that is robust, balanced and deliverable. This will be challenging, and will involve a number of difficult decisions. Details of the work on the MTFS is contained in a separate report on this agenda. It can be seen in this report that there are significant financial pressures next year with a current forecast budget gap of £47m.

## **11 FINANCIAL CONSIDERATIONS**

- 11.1 This report deals with the assumptions in planning and managing a balanced budget both in this financial year and over the medium term as well as informing the Cabinet of the 2020/21 outturn position and the challenges faced especially in light of the Covid19 pandemic. It amends the 2020/21 Council budget as agreed by Cabinet and Full Council with the additional in year savings and capitalisation request.
- 11.2 This report formally endorses a request be made to MHCLG for a capitalisation direction. It should be noted that if such a decision is reached this will commit the Council to a long term borrowing agreement. This will be brought to a future Cabinet and Full Council for approval.
- 11.3 There is a risk that the organisation does not have the internal capacity to undertake all of the tasks detailed in this report to deliver a balanced budget in the future. This will need to be mitigated.

Approved by Lisa Taylor Director of Finance, Investment and Risk (Section 151 Officer)

## **12 LEGAL CONSIDERATIONS**

- 12.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Council is required by statute to set a balanced budget.
- 12.2 The Local Government Finance Act 1988 places certain responsibilities on the Chief Finance Officer under section 114(3) whereby the "Chief Finance Officer of a relevant authority shall make a report under this section if it appears to him that the expenditure

of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.

- 12.3 Where such a notice is issued section 115(3) goes on to provide that full council must meet “not later than the end of the period of 21 days beginning with the day on which copies of the report are sent” to consider the notice.
- 12.4 New CIPFA guidance issued in June 2020 provides that the Chief Finance Officer should at the earliest possible stage make informal confidential contact with MHCLG to advise of financial concerns and a possible forthcoming s114 requirement. This modification guidance does not change the statutory responsibilities of the Chief Finance Officer.
- 12.5 The Secretary of State has power to issue a Capitalisation Direction under the Local Government Act 2003 section 16(2)(b) which is the means by which the government exceptionally permits councils to treat revenue costs as capital costs. The effect of such a Direction is that specified revenue expenditure becomes treated as capital expenditure so that instead of having to be charged to revenue it may be funded from capital sources. Ministers have discretion to impose other conditions under section 20 of the 2003 Act. MHCLG guidance provides further information regarding the process and procedures to be complied with

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer.

### **13 HUMAN RESOURCES IMPACT**

- 13.1 Any budget proposals that may have an impact on the workforce would be consulted on in line with agreed formal consultation arrangements with the recognised trade unions.

Approved by: Gillian Bevan for Sue Moorman, Director of HR.

### **14 PRE-DECISION SCRUTINY**

- 14.1 The budget has been an agenda item on two recent Scrutiny and Overview Committees. In July the Committee scrutinised the July Financial review and Responding to the Local Government Financial Challenge Cabinet papers and called them back in for further scrutiny in August. No further action was taken by Scrutiny and Overview Committee following the meeting on the 25<sup>th</sup> August 2020.
- 14.2 Scrutiny and Overview Committee will be prioritising scrutiny of council finances in all future meetings.

## **15 EQUALITIES IMPACT**

- 15.1 There are no specific issues arising from this report. Equality analysis will need to be undertaken to ascertain the potential impact on staff, service users, vulnerable groups and wider communities groups that share protected characteristics and take actions to mitigate any negative impact as each project is developed and implemented.
- 15.2 This current forecast is based on the known position at the time of writing this report. It is indicative at this time and may alter given the significant uncertainty about the pandemic e.g. the risk of a second spike and the ongoing impact on Council services over the medium term. It is expected the economic recovery and continuing associated impact on residents will require significant Council response going forwards, even after the virus has been contained.
- 15.3 Equality analysis will need to be undertaken to ascertain the potential impact on staff, service users, vulnerable groups and wider communities groups that share protected characteristics and take actions to mitigate any negative impact as each project is developed and implemented
- 15.4 The Council will ensure that as part of the process of delivering current and future savings, it will protect the most vulnerable in our communities and ensure when making difficult decisions about funding it maintains an absolute commitment to promoting equality for everyone who lives and works in the Borough

Approved by Yvonne Okiyo, Equalities Manager

## **16 ENVIRONMENTAL IMPACT**

- 16.1 There are no specific issues arising from this report.

## **17 CRIME AND DISORDER REDUCTION IMPACT**

- 17.1 There are no specific issues arising from this report.

## **18 REASONS FOR RECOMMENDATIONS/PROPOSED DECISION**

- 18.1 These are detailed within the report.

## **19 OPTIONS CONSIDERED AND REJECTED**

- 19.1 The options considered are detailed in the report. The only option rejected was the one of do nothing as this is not considered to be a viable as this will result in immediate intervention of the running of the Council, and loss of control which is not a desired outcome.

**REPORT AUTHOR:** Lisa Taylor Director of Finance, Investment and Risk (S151 Officer)

**BACKGROUND DOCUMENTS:** None



# Agenda Item 8

<b>REPORT TO:</b>	<b>Cabinet 21<sup>st</sup> September 2020</b>
<b>SUBJECT:</b>	<b>Finance Review and Medium Term Financial Strategy</b>
<b>LEAD OFFICER:</b>	<b>Lisa Taylor, Director of Finance, Investment and Risk (Section 151 Officer)</b> <b>Jacqueline Harris-Baker, Executive Director Resources &amp; Monitoring Officer</b>
<b>CABINET MEMBER:</b>	<b>Councillor Tony Newman, Leader Of The Council</b> <b>Councillor Simon Hall, Cabinet Member For Finance And Resources</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> The Council's budget and Medium Term Financial Strategy (MTFS) underpins the resource allocation for all corporate priorities and policies and in particular, the corporate priority for the delivery of value for money for the residents of the borough of Croydon. The Finance Review underpins this by the effective monitoring of current year financial performance and the setting of a robust three-year budget for the future.	
<b>FINANCIAL SUMMARY:</b> This report updates members with progress on the Finance Review and work on preparing a three-year Medium Term Financial Strategy and Detailed Budget for 2021/22.	
<b>FORWARD PLAN KEY DECISION REFERENCE</b> The recommendations in section 1.1 are not executive decisions and therefore are not key decisions.	

## **1.0 RECOMMENDATIONS**

### **1.1 That Cabinet note:**

- I. The work undertaken to date under the auspices of the Finance Review Panel and their plans for further development; and
- II. The progress and plans for setting a budget for 2021/22 and the development of a three-year Medium Term Financial Strategy.

## **2.0 EXECUTIVE SUMMARY**

- 2.1 This report sets out the progress of the Finance Review Panel (FRP) to date in identifying the future financial outlook and required level of spending

pressures and level of savings and efficiencies required to set a balanced three year budget.

- 2.2 The FRP has recommended that the Council, in accordance with best practice, annually refreshes its Medium Term Financial Strategy (MTFS) as part of its annual budget setting process. The process currently being undertaken considers a three-year planning horizon between 2021/22 and 2023/24. Modelling has suggested a target of £79m over the three years made up of £20m service efficiencies to meet corporate pressures and a further £59m of savings or mitigations to address future departmental cost pressures.
- 2.3 Indicative three-year changes to existing departmental budgets have been agreed as a starting point for services to identify potential options within those funding envelopes and initial submissions are due to be returned by mid-September. Budget Development meetings are scheduled to review all proposals, and refine any remaining gap for further proposals to be developed through October.
- 2.4 Recognising the impact the Covid19 pandemic has had on the Council's in-year budget position, the FRP has endorsed a series of "immediate measures" work streams to deliver savings in the current financial year, with £11.1m of savings recognised to date. Such measures have the potential to deliver on-going savings which in themselves will contribute to balancing the future budget position, or to reduce potential in-year net overspends. An element for such savings being of an ongoing nature has been built into the modelling of the potential three-year MTFS funding gap.

### **3.0 2021/22 Budget Setting and MTFS**

- 3.1 Having set a balanced budget for 2020/21 at the beginning of March 2020, the Council has, in the same way as all other local authorities, seen significant pressures emerge in year because of the Covid19 pandemic. A separate report on this agenda sets out the latest in-year financial monitoring position and forecasts at quarter one for 2020/21, which forecasts a £49m overspend on the General Fund.
- 3.2 Whilst the pandemic has had a significant detrimental impact on the in-year financial performance (with some of its effects likely to be felt beyond the current financial year) other underlying pressures, historical budget decisions and further growth requirements will need to be addressed in setting a balanced, robust and deliverable budget for 2021/22.
- 3.3 Recognising that (especially in these current uncertain times and with the low level of reserves in Croydon) the need to regularly update the future financial outlook over a longer than one year planning horizon, the budget development process this year refreshes the MTFS over the three year planning horizon 2021/22 to 2023/24. This accords with the recommendation emerging as part of the work of the FRP.
- 3.4 Work has commenced on preparing the MTFS and forecast budget gap for the forthcoming three years and a "headline" need to find savings of £79m over the three year period 2021/22 to 2023/24. That £79m over the three

years consists of annual changes of £47m; £16m; and £16m in each of the next three financial years respectively and is summarised in table 1 below.

Table 1. Three Year Savings required

	Annual Change			Cumulative Change		
	2021/22 (£m's)	2022/23 (£m's)	2023/24 (£m's)	2021/22 (£m's)	2022/23 (£m's)	2023/24 (£m's)
Risk and Contingency Provision	4.7	4.7	4.7	4.7	9.3	14.0
Group Finances	10.0	-	-	10.0	10.0	10.0
Capital Financing Costs	1.6	4.9	2.4	1.6	6.5	8.9
Transformation Fund	-	5.0	-	-	5.0	5.0
Tax Base Risk / General Reserves	5.0	-	-	5.0	5.0	5.0
Other Corporate Budgets	4.9	(6.5)	0.0	4.9	(1.6)	(1.6)
<b>Corporate Spend Pressures</b>	<b>26.2</b>	<b>8.0</b>	<b>7.1</b>	<b>26.2</b>	<b>34.2</b>	<b>41.3</b>
Growth in NNDR and RSG	(1.7)	(1.7)	(1.8)	(1.7)	(3.5)	(5.2)
Council Tax Increases	(7.7)	(4.0)	(4.1)	(7.7)	(11.7)	(15.8)
<b>Corporate Income Opportunities</b>	<b>(9.4)</b>	<b>(5.8)</b>	<b>(5.9)</b>	<b>(9.4)</b>	<b>(15.2)</b>	<b>(21.1)</b>
<b>Net Corporate Items</b>	<b>16.8</b>	<b>2.2</b>	<b>1.2</b>	<b>16.8</b>	<b>19.1</b>	<b>20.2</b>
Demographics & Underlying Pressures	30.0	5.0	5.0	30.0	35.0	40.0
Pay and Contract Inflation	9.9	10.0	10.0	9.9	19.9	29.9
Investment Property Rents	5.4	(1.4)	-	5.4	4.0	4.0
Immediate Measures Savings	(15.0)	-	-	(15.0)	(15.0)	(15.0)
<b>Net Service Growth</b>	<b>30.3</b>	<b>13.6</b>	<b>15.0</b>	<b>30.3</b>	<b>43.9</b>	<b>58.9</b>
<b>Total Savings &amp; Efficiencies</b>	<b>47.1</b>	<b>15.8</b>	<b>16.2</b>	<b>47.1</b>	<b>63.0</b>	<b>79.1</b>

- 3.5 The above three year savings target represents a snapshot in time in the assessment of the funding gap and has been determined as a starting point to indicate the potential level of savings required over the medium term. Further pressures or opportunities will naturally emerge over the coming months either as the result of further information and trends becoming known or by active management to mitigate pressures or identify further opportunities.
- 3.6 A brief explanation of the items contained in the above table is provided below:
- 3.6.1 Risk and Contingency – any budget contains within it the inherent risk that unforeseen pressures will emerge or that savings and efficiencies proposals will take longer to implement than originally foreseen. This corporate pressure allows for such contingencies and would be released in each year as circumstances dictate where mitigating actions cannot be identified.
- 3.6.2 Group Finances – the current base budget includes interest and dividend receipts payable to the Council which may prove difficult to deliver in the coming years due to potential structural changes in the housing market caused by any potential downturn in the economy.
- 3.6.3 Capital Financing Costs – using the annuity method of calculating minimum revenue payments [MRP] the revenue charge relating to historic capital borrowing necessarily rises each year, whilst current and future capital requirements further increase the annual cost year-on-year.
- 3.6.4 Transformation Fund – in delivering long term transformational change, initial costs are often incurred. In recent years Councils have temporarily been able

to use capital receipts for this purpose. However those powers cease at the end of 2021/22. £5m per year has been identified to provide (subject to individual business case approval) funding for such costs.

- 3.6.5 Tax Base / General Reserves – forecasts for income from Council Tax and Business Rates / Revenue Support Grant (RSG) take no account of the potential for either taxbase or government funding to decline as a result in the nature of either property base. Coupled with future reviews of the business rates system and local government financing (as well as New Homes Bonus (NHB)) this element of the assessed future pressure allows for potential shortfalls. Any lesser call on this item would be used to bolster general reserves, increase the contingency provision, or could be released to allow decision makers greater flexibility when considering savings proposals.
- 3.6.6 Other Corporate Budgets – In addition to the above, corporate budgets include a range of other items including pension deficit contributions, levies, collection fund adjustments, carbon credits and apprenticeship levies.
- 3.6.7 Growth in NNDR and RSG – whilst a fundamental review of the localised business rates system and Fair Funding Review of the Revenue Support Grant (RSG) model was planned to be implemented for 2021/22, this has been deferred by central government. Additional reliefs granted in-year by central government will be funded by s31 grants. Assumptions within this model assume annual increases by 2% per year. Potential shortfalls in year will be spread over the coming three years, but a risk exists that the taxbase will see longer term reductions – provision for such a circumstance is contained within 3.6.5 for taxbase reductions.
- 3.6.8 Council Tax Increases – for the purposes of modelling, a 2% increase has been modelled for Council tax increase (with a further 2% in the first year for the Adult Social Care precept). Provision for any underlying decline in the taxbase is contained within 3.6.5.
- 3.7 Taken as a net funding requirement, resources available to fund service spend are modelled to reduce by £20m over the coming three years - £17m in 2021/22 followed by £2m and £1m over the subsequent two years.
- 3.8 A number of service pressures are also recognised in the overall gap, and are summarised below:
- 3.8.1 Demographic and Underlying Cost Pressures – service overspends as a result of underlying demand and service pressure mainly in Adult and Children's services have been funded over the past two years from one-off resources at the year end. This is not sustainable and the budget must be built around anticipated costs from the start. Based on the closing position for 2019/20 before such adjustments £30m has been allowed for service growth in 2021/22 and rises by £5m per year thereafter.
- 3.8.2 Pay and Contract Inflation – allowance of 2% per year growth for each has been built into the model. Both however will be retained corporately and distributed to services in year according to submission of business cases demonstrating the actual need.

- 3.8.3 Investment Property Rents – are expected to decline compared to approved budget assumptions as further acquisitions remain uncertain due to the current market conditions. A higher pressure is recognised in 2021/22 relating to existing vacant tenancies.
- 3.8.4 Immediate Measures – action being taken in-year to mitigate the significant impact of the Covid19 pandemic are currently modelled to deliver £15m of ongoing savings that will roll forward into the starting base budget for 2021/22. Whilst progress on identifying these options is being made, some may be not repeatable year-on-year or helping to reduce current potential overspend rather than producing savings below existing base budget.
- 3.9 Collectively, the service related funding gap or pressures set out above in paragraphs 3.8 represent a three year pressure of £59m, which when added to the corporate funding requirement total the £79m three-year savings target. These gaps make no assumption regarding any capitalisation direction from MHCLG, which if granted would reduce and smooth the profile of the budget gap.
- 3.10 In order to enable services to work towards the formulation of proposals to bridge this assessed £79m funding envelope projection over the next three years, indicative targets have been allocated to departments.
- 3.11 Recognising that opportunities to deliver service efficiencies or savings may be delivered from either expenditure or income budgets, but that the ability to control certain budget classifications (such as government grants or transfer payments), a pro-rata allocation was made on a Gross Adjusted Transactional Value (GATV) basis, where both expenditure and income budgets were added together rather than being netted off. These allocations were circulated to senior management and onward to service managers and are summarised below:

Table 2 – Indicative Savings and Efficiencies Targets

	Children, Families & Education (£m's)	Health, Wellbeing & Adults (£m's)	Place (£m's)	Resources (£m's)	Total (£m's)
Gross Adjusted Spend Budgets (1)	126.6	186.5	115.5	80.3	509.0
Gross Adjusted Income Budgets (2)	1.1	46.2	54.4	4.9	106.6
<b>Gross Adjusted Transactional Value</b>	<b>127.8</b>	<b>232.7</b>	<b>169.9</b>	<b>85.2</b>	<b>615.6</b>
Pro-Rata Share	21%	38%	28%	14%	100%
2021/22	9.8	17.8	13.0	6.5	47.1
2022/23	3.3	6.0	4.4	2.2	15.8
2023/24	3.4	6.1	4.5	2.2	16.2
<b>Three-Year Savings &amp; Efficiency Target</b>	<b>16.4</b>	<b>29.9</b>	<b>21.8</b>	<b>11.0</b>	<b>79.1</b>

(1) Includes Employees, Premises, Transport, Supplies & Services and Third-Party/Contract Payments

(2) Includes: only Customer and Client Receipts (excludes Grant Funding and Other Contributions)

- 3.12 As a percentage of the gross budget and GATV, the above £79m three-year change to the funding envelope respectively represents a 9% and 13% reduction from the current approved budget.
- 3.13 Standardised templates for the capturing of budget change proposals have

been issued by Corporate Finance to allow identified options to be collated, understood and verified. Initial proposals are due to be submitted in mid-September. A number of Budget Development sessions are scheduled to be held. Members will be appraised of progress towards meeting the three-year savings and efficiencies targets following an initial officer-led review of all received proposals.

- 3.14 A further round of proposal submissions is likely to be required, dependent upon the first review in the latter half of September, at which point the overall funding gap and allocation of remaining savings targets will be refreshed. This will culminate in a report to Cabinet on the latest future funding envelope position in December.
- 3.15 A number of uncertainties remain at this stage, and indeed may not be fully known by the time of the December Cabinet meeting. These include the Local Government Finance Settlement (setting out the basis for allocation of RSG; the operation of localised business rates; New Homes Bonus) as well as the longer term impact on the local economy and Council's finances of any potential second spike in the coronavirus pandemic.
- 3.16 The Budget and MTFS process will culminate in late February / early March when Cabinet and Full Council will consider for approval the 2021/22 Budget and Three-Year MTFS and set the Council Tax.

#### **4.0 Summary and Conclusions**

- 4.1 The Council, along with most other local authorities, faces a challenging financial future as the result of in-year and potential longer term impacts brought about by the Covid19 pandemic. To address the need to recognise pressures beyond solely the next financial year, a three-year budget setting and Medium Term Financial Strategy outlook has been adopted. This principle accords with recommendations from work undertaken by the Finance Review Panel.
- 4.2 Modelling has identified up to £79m of savings and efficiencies will need to be identified by services to produce a three-year balanced budget, of this £59m allows for service growth and underlying pressures to be funded. This represents efficiencies of 9% of existing gross expenditure budgets over three years.
- 4.3 The overall savings target has been pro-rata allocated between services and years using a gross adjusted transactional value basis.
- 4.4 Services are working towards identifying proposals to bridge this funding gap and initial returns are due to be submitted by mid-September, after which a number of Budget Development sessions are scheduled. Following that round of scrutiny, further proposals may need to be developed, as well as the outlook for the overall pressures being reviewed, following a potential second round of budget development meetings, it is expected Cabinet will receive an update on the financial outlook in their December meeting.

## **5.0 Financial Considerations**

- 5.1 The report contains the initial planning assumptions around the potential available funding envelope for the years 2021/22 to 2023/24 and the allocation of the resultant savings and efficiencies targets between services. Services are scheduled to put forward proposals to address this gap by mid-September after which Budget Development sessions are scheduled.
- 5.2 A further round of proposals may be required following this initial stage and Cabinet will receive a report in December summarising progress towards delivering a balanced 2021/22 Budget and three-year MTFS. The Budget will formally be considered for approval at the end of February.

## **6.0 LEGAL CONSIDERATIONS**

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that this report details updated information required to comply with the Council's statutory duty to set a balanced budget.

Approved by: Sandra Herbert Head of Litigation and Corporate Law for and on behalf of the Director of Law and Governance

## **7.0 HUMAN RESOURCES IMPACT**

- 7.1 Any budget proposals that may have an impact on the workforce would be managed in accordance with the Council's normal policies and procedures, and be in line with agreed formal consultation arrangements with the recognised trade unions.

Approved by Debbie Calliste on behalf of Sue Moorman, Director of HR

## **8.0 EQUALITIES CONSIDERATIONS**

- 8.1 There are no specific issues arising from this report.
- 8.2 Equality analysis will need to be undertaken to ascertain the potential impact on staff, service users, vulnerable groups and wider communities groups that share protected characteristics and take actions to mitigate any negative impact as each project is developed and implemented
- 8.3 The Council will ensure that as part of the process of delivering current and future savings, it will protect the most vulnerable in our communities and ensure when making difficult decisions about funding it maintains an absolute commitment to promoting equality for everyone who lives and works in the Borough

Approved by Yvonne Okiyo, Equalities Manager

## **9.0 ENVIRONMENTAL IMPACT**

9.1 There are no specific issues arising from this report

## **10.0 SCRUTINY COMMITTEE**

10.1 The budget has been an agenda item on two recent Scrutiny and Overview Committees. In July the Committee scrutinised the July Financial review and Responding to the Local Government Financial Challenge Cabinet papers and called them back in for further scrutiny in August.

## **11.0 CRIME AND DISORDER REDUCTION IMPACT**

11.1 There are no specific issues arising from this report

## **12.0 REASONS FOR RECOMMENDATIONS/PROPOSED DECISION**

12.1 These are detailed within the report.

## **13.0 OPTIONS CONSIDERED AND REJECTED**

13.1 The options considered are detailed in the report. The only option rejected was the one of do nothing as this is not viable.

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<b>REPORT AUTHOR:</b>	Lisa Taylor, Director of Finance, Investment and Risk, Section 151 Officer
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<b>BACKGROUND DOCUMENTS:</b>	None
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