Public Document Pack

CABINET AGENDA

for the meeting
on
7 March 2022 at
2.00 pm

Delivering for Croydon

CROYDON
www.croydon.gov.uk

To: Croydon Cabinet Members:

Councillor Hamida Ali, Leader of the Council
Councillor Stuart King, Deputy Leader (Statutory) and Cabinet Member for Croydon Renewal
Councillor Muhammad Ali, Cabinet Member for Sustainable Croydon
Councillor Janet Campbell, Cabinet Member for Families, Health & Social Care
Councillor Alisa Flemming, Cabinet Member for Children. Young People & Learning
Councillor Patricia Hay-Justice, Cabinet Member for Homes
Councillor Oliver Lewis, Cabinet Member for Culture & Regeneration
Councillor Manju Shahul-Hameed, Cabinet Member for Communities, Safety and Business Recovery
Councillor Callton Young OBE, Cabinet Member for Resources & Financial Governance

Invited participants: All other Members of the Council

A meeting of the **CABINET** which you are hereby summoned to attend, will be held on **Monday, 7 March 2022** at **2.00 pm** in **Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX**

Katherine Kerswell
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

Democratic Services
democratic.services@croydon.gov.uk
www.croydon.gov.uk/meetings
25 February 2022

Residents are able to attend this meeting in person, however we recommend that you watch the meeting remotely via the following link: https://webcasting.croydon.gov.uk/croydon/meetings

If you would like to attend in person please note that spaces are limited and are allocated on a first come first served basis. If you would like to attend in person please email democratic.services@croydon.gov.uk by 5.00pm the day prior to the meeting to register your interest.

If you would like to record the meeting, we ask that you read the guidance on the recording of public meetings here before attending. The agenda papers for all Council meetings are available on the Council website www.croydon.gov.uk/meetings

If you require any assistance, please contact Darce.Gocoul@croydon.gov.uk

AGENDA – PART A

1. Apologies for Absence

2. Disclosure of Interests

Members and co-opted Members of the Council are reminded that, in accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, they are required to consider **in advance of each meeting** whether they have a disclosable pecuniary interest (DPI), an other registrable interest (ORI) or a non-registrable interest (NRI) in relation to any matter on the agenda. If advice is needed, Members should contact the Monitoring Officer **in good time before the meeting.**

If any Member or co-opted Member of the Council identifies a DPI or ORI which they have not already registered on the Council's register of interests or which requires updating, they should complete the disclosure form which can be obtained from Democratic Services at any time, copies of which will be available at the meeting for return to the Monitoring Officer.

Members and co-opted Members are required to disclose any DPIs and ORIs at the meeting.

- Where the matter relates to a DPI they may not participate in any discussion or vote on the matter and must not stay in the meeting unless granted a dispensation.
- Where the matter relates to an ORI they may not vote on the matter unless granted a dispensation.
- Where a Member or co-opted Member has an NRI which directly relates to their financial interest or wellbeing, or that of a relative or close associate, they must disclose the interest at the meeting, may not take part in any discussion or vote on the matter and must not stay in the meeting unless granted a dispensation. Where a matter affects the NRI of a Member or co-opted Member, section 9 of Appendix B of the Code of Conduct sets out the test which must be applied by the Member to decide whether disclosure is required.

The Chair will invite Members to make their disclosure orally at the commencement of Agenda item 3, to be recorded in the minutes.

3. Urgent Business (If any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

4. General Fund and Housing Revenue Account Budget 2022/23-2024/25 (Pages 7 - 112)

Cabinet Member: Leader of Croydon Council, Councillor Hamida Ali

Officer: Interim Corporate Director of Resources (Section 151 Officer), Richard Ennis
Key decision: No

5. **Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2022/23** (Pages 113 - 172)

Cabinet Member: Deputy Leader (Statutory) and Cabinet Member for Croydon Renewal, Councillor Stuart King
Officer: Interim Corporate Director of Resources (Section 115 Officer), Richard Ennis
Key decision: No

6. **Exclusion of the Press and Public**

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

"That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended."

PART B AGENDA

REPORT TO:	**Cabinet 7th March 2022**
AGENDA ITEM:	
SUBJECT:	**General Fund & Housing Revenue Account Budget 2022/23 to 2024/25**
LEAD OFFICER:	**Katherine Kerswell, Chief Executive** **Richard Ennis, Interim Corporate Director of Resources (Section 151)** **David Padfield, Interim Corporate Director of Housing**
CABINET MEMBER:	**Leader Councillor Hamida Ali – Leader of Croydon Council** **Councillor Stuart King – Cabinet Member for Croydon Renewal** **Councillor Callton Young – Cabinet Member for Resources and Financial Governance** **Councillor Patricia Hay-Justice – Cabinet Member for Homes**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

The annual budget is the formal resource allocation process that enables the delivery of the Council's policies and priorities.

In particular, the delivery of the Council's priorities of value for money for the residents of the borough of Croydon, living within our means and balancing the books are woven throughout this budget.

This report sets out the detailed financial budget proposals for the financial year 2022/23 and the further Medium Term Financial Strategy [*MTFS*] planning assumptions through to 2024/25.

FINANCIAL SUMMARY:

The report details the revenue and capital budgets for the General Fund for 2022/23 (setting out further growth and savings proposals to 2024/25), the proposed Council Tax charges for 2022/23, and the revenue and capital budgets for the Housing Revenue Account [*HRA*]. In addition, this report sets out the expected levels by which reserves can be rebuilt at the end of 2021/22, and the planned reserves which may be created to provide future resilience against risks or known cost pressures, subject to the final decision based on the 2021/22 outturn.

The delivery of significant savings and efficiencies to balance the 2022/23 budget requires investment in order to deliver those necessary changes. This report sets out those initiatives to be financed from "flexible capital receipts" for which Council approval is sought.

This report only seeks approval of the Budget for 2022/23 but Cabinet and Council are to be asked to agree the longer-term Medium Term Financial Strategy [*MTFS*]. This report builds on information provided to Cabinet, and decisions approved, during March 2021, December 2021 and January 2022.

FORWARD PLAN KEY DECISION REFERENCE

The recommendations set out below are not executive decisions and therefore are not key decisions. The final decisions are to be recommended to Full Council for consideration at the meeting scheduled for 7th March 2022

RECOMMENDATIONS

The Leader of the Council has delegated authority to the Cabinet to make the following decisions:

That Cabinet be recommended to approve and to recommend the following to Full Council for its consideration and approval at its meeting on 7th March 2022:

1. The General Fund revenue budget for 2022/23 as set out in appendices A to D;

2. The Council's request for a capitalisation direction from the Department of Levelling Up, Housing and Communities [DLUHC] of up to £50m for 2021/22 and up to £25m for 2022/23 as set out in paragraph 9.26

3. 1.99% increase for Croydon Services in 2022/23 (in line with government's core spending power assumptions) as detailed in Section 10 and Appendix E

4. A 1.00% increase in 2022/23 for the Adult Social Care Precept (in line with government's core spending power assumptions) as detailed in Section 10 and Appendix E

5. To note the draft Greater London Authority precept on the Collection Fund and increase of 8.8% as set out in Appendix F

6. With reference to the principles for 2022/23 determined by the Secretary of State under Section52ZC (1) of the Local Government Finance Act 1992 (as amended) confirm that in accordance with Section 52ZB (1) the Council Tax and GLA precept referred to above are not excessive in terms of the most recently issued principles and as such to note that no referendum is required. This is detailed further in section 10 of this report.

7. The calculation of budget requirement and council tax as set out in Appendix E and F including the GLA increase will result in a total increase of 4.11% in the overall council tax bill for Croydon.

8. The revenue budget assumptions as detailed in this report and the associated appendices

9. The detailed programme of revenue savings, income and growth items, by directorate, as set out in Appendix B

10. That based on the advice of the Pension Fund Actuary and the Fund's independent investment advisors (as provided to the Pension Committee), and upon the wording of the Hymans Robertson recently issued Draft Rates and Adjustments Certificate, the Council

agrees not to progress plans to transfer properties to the Pension Fund (as detailed in Section 12);

11. The Council's 2022/23 HRA revenue budget as set out in Section 15

12. The amendment to the previously approved General Fund capital budget to reflect the change in requested transformation funding requests (to be financed by the use of flexible capital receipts) as detailed in section 16.

13. The list of individual transformation projects as detailed in Section 16

14. In relation to the Facility Agreement with Brick By Brick Croydon Ltd:
    i. Approve variations to the Facility Agreement to:
        a. change the repayment structure to allow flexibility in the way the Council can apply repayments, as explained in section 9; and
        b. reflect the inclusion of £1.379m of outstanding liabilities post the Fairfield Halls expenditure review.
    ii. Approve that the Section 151 Officer shall be authorised to finalise the varied terms thereof and make decisions in respect of the loan repayment application (in consultation with the Brick By Brick Shareholder Cabinet Advisory Board)
    iii. Note that these changes shall be reported to Cabinet as part of the next Brick By Brick quarterly update in addition to briefings to the Brick By Brick Shareholder Cabinet Advisory Board

15. In exercising its functions including in making decisions on the setting of the 2022/23 budget and proposed changes, due regard is to be had to the public sector equalities duties as detailed in Section 20.

16. That in setting the Budget and Council Tax members must have regard to the Section 151 Officer's statutory report under Section 25 of the Local Government Act 2003 on the robustness of the estimates made for the purposes of the Council Tax calculations and the adequacy of the proposed financial reserves as set out in Section 11, and in particular the risks relating to the accounting treatment of Croydon Affordable Homes and Croydon Affordable Tenures leases.

17. Consider the comments and recommendations from the budget engagement with local residents, businesses and representatives of non-domestic rate payers as set out in Appendix I

18. Note the planned contribution to reserves set out in Section 11 of this report which will be confirmed subject to the final 2021/22 outturn and reported to Cabinet as part of the Outturn report in July 2022

19. In respect of the Council's public sector equalities duties, where the setting of the capital, revenue and HRA budget result in new policies or policy change the relevant service department will carry out an equality impact assessment to secure delivery of that duty including such consultation as may be required.

20. The recommendations and comments of the Scrutiny and Overview Committee and the General Purposes and Audit Committee as will be communicated as draft minutes or verbally reported to this meeting.

That Cabinet note:

21. The NHS contribution to deliver social care services as set out in section 13 and request officers to continue to negotiate with the NHS for their remaining contribution to the service or bring forward alternative council led service redesign proposals to reduce costs in this service area

22. That officers shall report back in July 2022 with a further update on the NHS funding position and preparations on integrated care services.

23. That officers shall report back to the March Cabinet on the detailed fee increases in respect of General Fund as appropriate to Cabinet services, as required.

24. The ongoing work around seeking improved funding to deal with the continuing issue of unaccompanied asylum seeker children [UASC] as detailed in paragraph 9.7.

25. That a report be presented to Members in July at the latest to update on progress to resolve the accounting issues in relation to Croydon Affordable Homes and Croydon Affordable Tenures as set out in Section 13 and Appendix H.

2.

1. Executive Summary

1.1. Over the past 16 months the council has embarked on a wide-ranging transformation programme delivering significant improvements to its financial management, governance and culture.

1.2. The changes delivered through the Croydon Renewal Plan, and the accompanying improvement of financial management, have meant that at Period 9 the council is currently projecting a relatively modest underspend in this financial year.

1.3. Alongside work to strengthen the council's finances, new governance arrangements have, and are being, introduced within the council and for the council's companies.

1.4. The report of independent reviewers Chris Wood and Alan Gaye stated in December 2021 that the council was making 'significant progress' and that the 'recovery was well underway' highlighting that:

> "*On matters of finance there are encouraging signs with pressures being managed in a much better way and the prospect of no significant overspends for 2021/22. The big spending social care departments are beginning to show discipline in budgetary control.*"

1.5. The council's priority remains to deliver the everyday services our residents depend on by focusing on transforming our services and ensuring we are targeting our resources where they make the most difference and securing full value for every penny spent.

1.6. This report builds upon the progress made during year one of the three year Croydon Renewal Plan to deliver a challenging yet sustainable budget, setting the Council on a solid foundation for 2022/23 and beyond.

1.7. There are improvements in financial management but there is still more to do. 2022/23 is going to be a challenging year requiring even more focus on delivery. It is important to recognise that the Council is currently on track to deliver its services within budget for 2021/22. That said, the Council faces a bigger challenge to deliver its 2022/23 budget as this is with a tightening financial framework. The capitalisation direction provided by government has given the authority the time to develop a more robust Medium Term Financial Strategy for this coming and future years. 2022/23 will be a tougher year than last year in delivery terms as there are significant savings to be made alongside planning to mitigate growth pressures. This is in a period of increasing demands for Council services, high inflation and an uncertain public sector funding future with the continuation of annual budget settlements that significantly hamper medium and long term planning. In addition, the Council is also preparing in May 2022 for its first elected Mayor. Many of these savings need to be delivered from April 2022 onwards and the delivery assurance work of the Assistant Chief Executive's directorate is essential in both assuring and ensuring the readiness of savings delivery.

1.8. The Council has made significant progress in 2021/22 in its financial arrangements. Subject to consideration and recommendation by Cabinet to Full Council this budget includes in particular:

- Delivering services in 2021/22 within budget
- Protecting significant annual service investment of over £1 billion (total budget spend)
- Maintaining the general un-earmarked reserves at £27.5m for unforeseeable events
- Projecting to increase and rebuild the earmarked reserves of the Council by £22m (to be confirmed in July 2022 as part of the Outturn)
- Delivery of the savings plans necessary to balance the 2022/23 budget
- Ensuring service growth areas are budgeted appropriately
- Reducing the remaining MTFS budgetary gap in 2023/24 and 2024/25
- Creating a capital programme spending £208m over the next 3 years to invest in the borough
- Reducing borrowing (the Capital Financing Requirement) by £80m to £1.195bn
- Paying for the government capitalisation direction with the Council's own capital receipts
- Creation of the 2022/23 Housing Revenue Account (HRA) budget with the HRA business plan to follow in March

1.9. The proposals in this budget protect many services that residents rely upon and reflect many of the priorities highlighted by residents in the budget engagement exercise. Reserves have been maintained and are being rebuilt to put the council's finances in a much more robust place.

1.10. The delivery of the 2021/22 budget by service has been in overall terms very good with overspends limited to a net £1m across all areas. This is significantly less than in a number of other London boroughs.

1.11. This report, after publication, will be considered by both the Scrutiny and Overview Committee and the General Purposes and Audit Committee and their feedback will be circulated at this meeting. In addition, the report includes the feedback from the local business community.

1.12. There remains a significant legacy accounting issue regarding the Croydon Affordable Homes [*CAH*] and Croydon Affordable Tenures [*CAT*] leases to resolve. It is the main reason the accounts for 2019/20 and 2020/21 remain to be completed. This report shows the options the Council is discussing with its external auditors. The Council has to set a budget and this report recommends proceeding to set a budget based on the best estimates the Council has at this present time, notwithstanding the risk and the potential accounting treatments, which shall be considered further in the new financial year. The risk is that this will be resolved and that adjustments will be required in the new financial year which could be significant. Members' attention is drawn to the risks set out in the Section 151 Officer's Section 25 Statement. A supplementary briefing note on the issues surrounding this matter is set out in Appendix H and is also covered in Section 13

1.13. While challenges remain, the council has demonstrated over the past year an ability to deliver complex financial, governance and cultural changes and has made clear its resolve to transform the council into a modern and resident focused organisation. It is essential that the Council continues to deliver its services within the budget for 2022/23, as is currently being achieved in 2021/22, and continues the focus on financial and internal governance matters – in short, delivering on the Croydon Renewal Plan. It is also essential that the Council prepares for the short and medium term prioritization shifts for the elected mayor's manifesto and continues to shift its focus to external matters that are a priority for Croydon's residents and businesses.

2. <u>The Current Budget and MTFS</u>

2.1. Following the issuing of a Report in the Public Interest [*RIPI*] by the Council's external auditors in October 2020, a number of measures were put in place to transform the Council's financial position which included the issuing of a Section 114 Notice to limit spend in the latter part of 2020/21 and the development of the Croydon Renewal Plan to transform the way in which the Council operated.

2.2. As part of the Croydon Renewal Plan, a refreshed budget setting process was introduced to rebase budgets to levels that could be sustained and delivered, seeing £72m of service growth added for 2021/22 and the financial planning horizon returned to a three year outlook. The budget setting process recognised that the scale of organisational change needed to enable expenditure to match income would require a journey over several years, and as such a multi-year capitalisation direction was sought in December 2020 from the Department of Levelling Up, Housing and Communities [*DLUHC*] (known at that time as the Ministry of Housing, Local Government and Communities [*MHCLG*]). In total, up to £150m of capitalisation directions were requested over a four-year period - £70m for 2020/21; £50m for 2021/22; £25m for 2022/23; and £5m for 2023/24. The overall quantum requested and tapering over the four years reflected the scale of transformation necessary and time it would take to make the changes to the cost of services alongside ongoing financial pressures being faced by all councils across the country.

2.3. Full Council considered and approved the setting of the 2021/22 budgets on 8th March 2021, which followed written confirmation from the Minister for Regional Growth and Local Government on 5th March 2021 approving a capitalisation direction of up to £70m for 2020/21 and being “minded to” approve a capitalisation direction of up to £50m for 2021/22. At that stage no confirmation was made with regard to any further capitalisation requests by the Council beyond that timeframe and in particular the £25m requested for 2022/23. This was due to the time period for those directions being outside the then comprehensive spending requirement timeframe.

2.4. The General Fund revenue budget for 2021/22 agreed at that Council meeting included £45.7m of service savings (with a further £41.3m over the future two years), whilst reflecting 2021/22 service growth of £71.9m (and a further £14.2m over the following two years). The table below illustrates the three-year Medium Term Financial Strategy [*MTFS*] budgetary position as approved in March 2021 and the as then remaining gaps to be resolved of £38.4m and £22.1m in future years:

Table 1 – General Fund Approved 2021/22 and Medium Term Financial Strategy Summary – March 2021

	2021/22		2022/23		2023/24	
	Savings *(£,000's)*	Growth *(£,000's)*	Savings *(£,000's)*	Growth *(£,000's)*	Savings *(£,000's)*	Growth *(£,000's)*
Children, Young People & Education	(9,052)	16,343	(4,436)	85	(2,036)	77
Adult Social Care & Health	(11,352)	33,030	(10,848)	6,919	(9,665)	6,880
Housing	(4,212)	311	(227)	-	(100)	-
Sustainable Communitities, Regeneration & Economic Renewal	(12,471)	900	(6,984)	1,000	(3,401)	1,000
Assistant Chief Executive	(5,766)	6,649	(707)	(720)	(855)	(863)
Resources	(2,815)	14,638	(1,508)	(200)	(534)	-
Service Savings & Growth	**(45,668)**	**71,871**	**(24,710)**	**7,084**	**(16,591)**	**7,094**
Corporate & Cross-Cutting	(34,395)	58,192	22,573	8,430	(11,639)	23,269
All Savings & Growth	**(80,063)**	**130,063**	**(2,137)**	**15,514**	**(28,230)**	**30,363**
	50,000		13,377		2,133	
Change in Capitalisation Direction *	(50,000)		25,000		20,000	
Remaining Incremental Budget Gap	**-**		**38,377**		**22,133**	

* This is the change in capitalisation direction request - the actual amounts assumed to be charged vi capitalisation direction is: £50m (2021/22); £25m (2022/23); £5m (2023/24); and zero in 2024/25.

(Note that following the corporate restructure implemented in late 2021, the above analysis has been re-stated to reflect the new structure rather than that in place at March 2021)

3. In-Year Financial Performance

3.1. The additional spending controls and improvements in overall financial grip introduced in late 2020 began to deliver benefits immediately and by the end of 2020/21 the amount required under the approved capitalisation direction was £4.2m less than the originally requested £70m and forecast at the time of the March 2021 Council meeting. As part of that outturn and capitalisation direction usage, general reserves were able to be restored to more resilient levels of £27.5m.

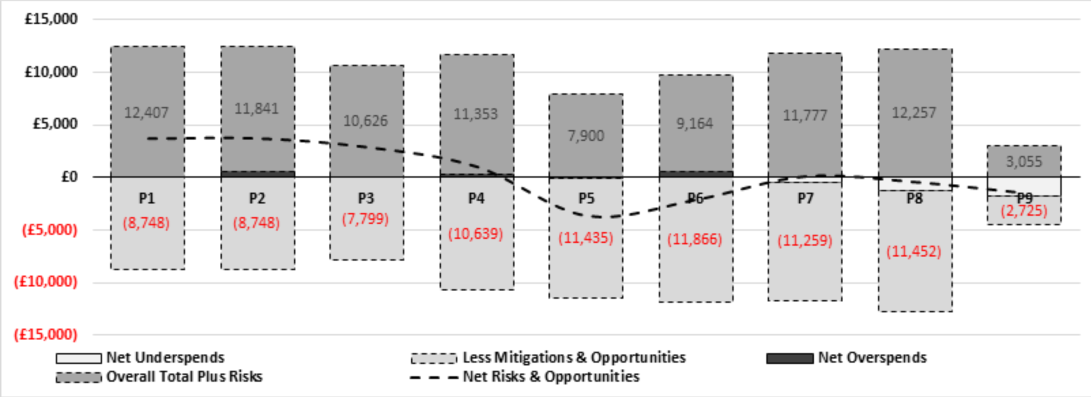
3.2. As part of the Croydon Renewal Plan, the Council has introduced a more rigorous financial monitoring regime – reporting monthly to the Corporate Management Team [*CMT*] and to Cabinet. This new-style report recognises not only the hard forecast position but also potential other risks or opportunities and progress in delivering against approved savings initiatives.

3.3. On 21st February 2022 Cabinet considered the most recent (Period 9 – December 2021) General Fund revenue monitoring report which forecasts a year end underspend of £1.8m, an improvement of £0.6m on the previous month forecast. Potential risks remain that may materialise amounting to £3.1m but officers continue to work to mitigate those risks. Offsetting those risks are £2.7m of potential opportunities that may result in mitigating the risks or increasing the forecast underspend.

3.4. A review of publicly reported forecasts across other outer London boroughs around the mid-year point would suggest that the Council is performing well in managing its in-year budgets without the need to draw down on reserves or fully utilise the one-off Covid grant provided as part of the 2021/22 Local Government Finance Settlement [*LGFS*]. Indeed, the anticipated outturn for 2021/22 is expected to see further contributions to help rebuild earmarked reserves as has already taken place with regard to general reserves. The forecast is based on known issues at this date but given the challenges the authority has these numbers will inevitably change. Further work is being undertaken in relation to business rates and the collection fund. This will be reported to members as part of the outturn report in July. All risks will continue to be monitored and actions taken as necessary as part of routine monthly financial reporting to mitigate their potential impact.

3.5. The following chart is taken from the detailed Period 9 Financial Monitoring report and provides an overview of the monthly monitoring trends during the year:

Chart 1 – Monthly General Fund Revenue Monitoring Trend



3.6. The projected underspend position reflects the significant change the council has made to its financial management and is a dramatic improvement on the same point in last financial year.

4. Economic Outlook

4.1. The economy as a whole and local government finance has faced a number of particular pressures over the last ten to fifteen years that many would see as "*once in a generation*" events, and have included:

- The 2010 Banking Crisis and subsequent years of public finance austerity;
- The 2020 (and ongoing) Covid-19 pandemic; and
- The 2022 World Energy Price increase.

4.2. The Council will continue to operate in a difficult financial environment over the coming years and expects to face future uncertainty, cost pressures and funding restraint. As such it becomes more important to consider the rebuilding of earmarked reserves to provide for resilience against such potential risks and pressures. This paper sets out initial proposals for a £22m contribution to earmarked reserves which will be confirmed following the final 2021/22 outturn when reported to members in July.

4.3. Some of the economic and demographic pressures the Council is aware of, and thus takes into consideration, in its MTFS planning assumptions are set out in the following paragraphs:

a) **Contract Inflation** – The Bank of England [*BoE*] has been granted independent powers to set monetary policy with the overall aim of maintaining Consumer Price Index [*CPI*] inflation at around 2%. Whilst the longer-term effects of the banking crisis / world recession have seen low levels of inflation over recent years, most recently major economies have seen significant increases above the BoE target – currently 5.4% and forecast by the BoE to peak at 7% by April before falling back over the following two years. Our assumptions in the March 2021 MTFS allowed for BoE target 2% contract inflation over future years – each 1% approximating to a budget pressure in the region of £4m for the Council. The budget allows for inflationary costs at an appropriate level but it must be clear that the council will not as a matter of course pick up all the inflationary costs of our partners. Those who do business with the Council will be expected to absorb some of these pressures and not pass on these costs to our residents.

b) **Pay Award Inflation** - The nationally negotiated local government pay award for 2021/22 is expected to be settled at around 1.75% - this is higher than the 1.50% allowed for when the current year budget was approved in March 2021. The labour market remains robust with the impact of the Covid pandemic and the end of the furlough scheme not being so far as adverse as was forecast a year ago. The February 2022 BOE Monetary Policy Report projects average wage growth of just under 5.00% by the end of 2022, falling back to around 2.5% in the medium term – each 1% approximating to a budget pressure in the region of £2m for the Council. Whilst the Government are expected to continue with public sector pay restraint, the local government pay award is determined outside of their direct control, but may be reflected in government funding settlements to Councils.

c) **Interest Rates** – Interest rates have been at historically record lows over an extended period since the 2009 recession. Two rises over the last three months point to further rises of perhaps another one percent over the next twelve months before levelling out as is forecast in the latest Monetary Policy Report. With around one third of current council borrowing due for redemption or re-financing over the next three-year MTFS period, forecast interest rate changes have been factored in to the budgetary position but are subject to potential variance beyond those planning assumptions.

d) **Population and Households** – The estimated population of Croydon has grown at a faster rate than the national average since 2010 (as has London as a whole) seeing 9.0% growth over the last ten years. This is also reflected in property numbers where Croydon has seen an increase of 11.1% in the period 2010 to 2021, and is higher than the national average (9.1%). The higher-than-average changes in demographics (only partly offset by Council tax base income increases) brings with it additional spending pressures – something not taken into account in the Settlement Funding Assessment grant provided by government since 2013 when it was last base-lined.

5. Local Government Finance Settlement

5.1. The Provisional Local Government Finance Settlement [*LGFS*] was announced by Ministerial statement on 16th December 2021 and was confirmed in the Final LGFS announced on 7th February 2022.

5.2. An analysis of the implications of the Provisional LGFS was presented to the January 2022 Cabinet meeting in the report on "Medium Term Financial Strategy 2022/23 to 2024/25 – Update on Position". The Final LGFS has seen an additional £1,497k allocated to the Council for 2022/23 (£1,484k for under-indexing of the business rate multiplier now based on RPI rather than the previous CPI rates, and an additional £13k in adjusted allocation of the Lower Tier Services Grant). An additional announcement has also been made with regard to the Public Health Grant for 2022/23 – rising by £624k (2.8%) but this is ring-fenced and thus offset by equivalent and corresponding spend forecasts in public health.

5.3. The Government's own preferred measure of the resources available to local authorities to fund service delivery is Core Spending Power [*CSP*] and this was published as part of the LGFS papers. It shows a £22.3m (7.1%) increase in the assessed CSP between 2021/22 and 2022/23. A summary of that published calculation is summarised in the table below:

Table 2 – 2022/23 Core Spending Power – Final LGFS

	2021/22 *(£,000's)*	2022/23 *(£,000's)*		Change *(£,000's)*	%age Change
Settlement Funding Assessment	88,249	88,690		441	0.5%
Compensation for under-indexing the business rates multiplier	3,858	7,568	*A*	3,710	96.2%
Council Tax Requirement excluding parish precepts	198,093	207,600		9,507	4.8%
Improved Better Care Fund	9,685	9,978		293	3.0%
New Homes Bonus	5,168	4,115		(1,053)	-20.4%
Social Care Grant	7,837	11,120		3,282	41.9%
Market Sustainability and Fair Cost of Care Fund	-	946		946	n/a
Lower Tier Services Grant	634	681	*B*	47	7.3%
2022/23 Services Grant	-	5,104		5,104	n/a
	313,525	**335,803**		**22,277**	**7.1%**

(A) Under-Indexing Compensation £6,084k and (B) Lower Tier Services Grant £668k in Provisional LGFS

5.4. Of particular note in the Government's CSP calculations summarised above is their assumption that Council Tax charges would be increased by both a 1.99% general increase and a further 1.00% as an Adult Social Care Precept. The budget proposals set out in this report assume that the Council's own Council Tax charges are increased in line with this assumption.

5.5. Whilst a 7.1% increase in CSP funding is to be welcomed, it should be noted that this is less than the "*estimated average real-terms increase of 3% a year in core spending power*" that was stated in the October 2021 Autumn Budget and Spending Review when the current and projected inflation rates are taken into account.

5.6. The LGFS again promises a review and re-basing of the Settlement Funding Assessment [*SFA*] formula. However, this review has been promised before and has yet to materialise. When the formula was last determined in 2013/14, the Council was allocated £10m less in funding growth than the formula calculated should have been allocated. This reduction was top-sliced to pay for damping grants given to Councils where grant would otherwise have significantly fallen. This reduction in funding for Croydon has fundamentally remained from 2013/14, and is why the Council would welcome the implementation of a new fair funding formula.

5.7. The Settlement Funding Assessment (Revenue Support Grant and Locally Retained Business Rates) as determined by government in the Local Government Finance Settlement ranks Croydon as twenty first out of the thirty two London boroughs when comparing average levels of SFA allocations per resident over the last five years. The table below provides average SFA data across all London boroughs:

<u>Table 3 – Average Settlement Funding Assessment per Head by London Borough</u>

	2018/19 (£'s)	2019/20 (£'s)	2020/21 (£'s)	2021/22 (£'s)	2022/23 (£'s)	Average (£'s)	Rank (1-33)
Barking And Dagenham	369	347	351	350	357	355	15
Barnet	180	160	161	160	164	165	28
Bexley	176	158	159	159	161	163	29
Brent	356	332	336	335	348	341	16
Bromley	124	113	114	114	116	116	32
Croydon	**245**	**224**	**227**	**226**	**228**	**230**	**21**
Ealing	294	273	278	278	280	281	19
Enfield	290	269	273	273	277	276	20
Haringey	402	376	381	381	393	387	13
Harrow	182	162	164	164	164	167	27
Havering	154	135	136	135	138	140	30
Hillingdon	191	172	174	173	176	177	26
Hounslow	232	213	215	215	218	219	22
Kingston upon Thames	129	122	123	123	123	124	31
Merton	217	196	199	199	200	202	25
Newham	432	406	410	408	421	415	10
Redbridge	224	206	208	208	210	211	23
Richmond upon Thames	110	112	113	113	114	112	33
Sutton	227	205	207	206	209	211	24
Waltham Forest	336	312	316	315	324	320	17
OLB Total	249	230	232	232	236	236	
Camden	448	413	414	410	411	419	9
City of London	2,708	2,592	2,615	2,600	2,119	2,527	1
Greenwich	392	366	368	366	381	375	14
Hackney	537	504	508	504	526	516	2
Hammersmith And Fulham	442	412	416	413	435	424	8
Islington	473	442	445	442	446	450	5
Kensington And Chelsea	429	396	402	403	403	406	11
Lambeth	458	429	434	433	450	441	6
Lewisham	420	393	396	394	407	402	12
Southwark	494	462	466	463	480	473	3
Tower Hamlets	464	431	430	423	442	438	7
Wandsworth	307	289	291	290	298	295	18
Westminster	481	449	450	446	451	455	4
ILB Total	450	420	423	420	432	429	
Grand Total	323	300	303	302	309	307	

6. Budget Development Process

6.1. Financial recovery and sustainability is a key element of the Croydon Renewal Plans. This was submitted to the Government in December 2020 as the basis for the Council's capitalisation request, and was supported by the Secretary of State.

6.2. During 2021/22, significant improvement have been made to the Council's monitoring, assurance and reporting of financial performance. Regular assurance meetings have been held to ensure that all proposals within the medium term financial strategy were managed well and that budgets remained on track during the year.

6.3. As part of this work, the Council had already identified and approved savings within the MTFS to support the move to a sustainable financial position. Almost as soon as the new financial year started, work began to develop proposals to close the funding gap identified within the MTFS.

6.4. The Croydon Renewal Plans include a commitment to drive efficiency and spend reductions in order to be in the lower quartile of local authority spend in London. Our collective actions are aimed at supporting the Council's approach to setting a balanced budget, with a focus on transforming the way the Council operates by reducing spending on contracts, administrative functions and service efficiencies.

6.5. The budget development proposal had a number of key elements:

- **Data:** benchmarking and other data sets were compiled to understand how the services performed compared to other local authorities, and the statutory / non statutory positions for our services. This data was also used to understand demand trends and comparative costs over time.
- **Challenge:** using the data sets as a starting point, a series of challenges sessions were employed to identified
- **Develop:** budget proposals were then created based on the challenge areas, prioritising savings in those areas where the Council was a higher spend compared to other local authorities. The budget process also sought to recognise where demand or other pressures required investment (or growth) in the budget.
- **Review:** each proposal was reviewed by the Cabinet and the Corporate Management Team

6.6. Proposals were developed in a range of areas including:

- Reducing senior staffing spend
- Renegotiating our contracts to reduce costs and ensure we are getting value for money
- Renting out underused office space
- Restructuring services to make them more efficient
- Embracing better use of technology
- Reducing spending on support services
- Creating new income streams

6.7. At each stage, Cabinet Members were involved in the budget development process, providing input and challenge. Each proposal has been subject to financial verification and equality impact assessment (further details are provided in Section 20).

6.8. Savings proposals as well as further emerging growth pressures have been collated and documented before being subject to review and challenge at both officer and member led Star Chamber style meetings. Progress on the remaining gap for 2022/23 (as well as the longer planning horizon) has regularly been reported to the Corporate Management Team as well as to Cabinet portfolio holders.

6.9. Progress on balancing the 2022/23 budget was reported to Cabinet in December 2021 and a further update provided to the January 2022 Cabinet meeting.

7. Public and Business Engagement on Draft Budget Proposals

7.1. Following Cabinet approval to the draft 2022/23 budget and medium term financial strategy, the Council launched a budget engagement exercise.

7.2. An engagement survey was created and published on the Council's website on 13 December 2021 and closed on 12 January 2022. The survey was promoted via a range of channels:

- social media channels
- press release
- weekly Your Croydon bulletin
- intranet
- business newsletter

7.3. The results on the consultation are set out in Appendix I. A brief summary of key headlines is provided below.

7.4. There was significant support for the Council's approach to setting a balanced budget, with a focus on transforming the way the Council operates by reducing spending on contracts, administrative functions and service efficiencies. 78% somewhat or strongly supported the approach. 10% somewhat or strongly did not support the approach.

7.5. The top two service priorities identified by respondents were children, young people, families & education and support for elderly and vulnerable adults. The Council has sought to prioritise these areas within the proposed budget including by deferring the proposed efficiency saving to youth services from

2022/23 to a future year to allow more time for development.

7.6. Respondents were supportive of seeking alternative funding to invest in key services, with particular support for education facilities, open space and public realms and community facilities. It is anticipated that this feedback will help inform the council's approach to use of the Local Meaningful Proportion of the Community Infrastructure Levy.

7.7. The survey highlighted the importance residents placed on financial management. There was, however, concern about the proposals in relation to Low Traffic Neighbourhoods and the expansion of Automated Number Plate Recognition [*ANPR*] enforcement schemes.

7.8. The Deputy Leader and Corporate Director of Resources and S151 Officer also led a budget consultation exercise with the Croydon Business Network. The meeting was attended by 23 business representatives, representing approximately 1,500 Croydon businesses.

7.9. The Croydon Business Network, which includes representatives of non-domestic ratepayers in the borough, welcomed the financial improvement and transparency of the Council as a very positive step forward. It was acknowledged that despite local, national and global financial challenges, the Council had taken significant steps to balance its budget.

7.10. Businesses appreciated that given the financial challenges facing the Council, difficult decisions were inevitable. However, the importance of supporting economic recovery was considered critical, as well as the Council's role in protecting vulnerable residents and communities.

7.11. There was a desire for further support to the local economy and economic recovery, which in turn has an impact on the lives of residents that live and work in the borough.

7.12. It was also recognised that the Council retained significant spending power, and that the Council procurement opportunities can support local SME's in the future as part of the economic recovery.

8. <u>Growth and Savings Proposals</u>

8.1. In December 2021, Cabinet noted the progress in identifying growth and savings proposals to balance the 2022/23 Budget and to refresh the longer term MTFS planning horizon.

8.2. In the December 2021 Budget and MTFS report to Cabinet, and summarised from that report's Appendix 1, the remaining 2022/23 General Fund revenue gap was £13.2m (with further gaps in 2023/24 and 2024/25 of £15.7m and £2.4m respectively) as shown in the table below:

Table 4 – Budget Gap Reported to Cabinet December 2021

	Incremental Budget Changes				Cumulative Budget Changes			
	2021/22 (£,000's)	2022/23 (£,000's)	2023/24 (£,000's)	2024/25 (£,000's)	2021/22 (£,000's)	2022/23 (£,000's)	2023/24 (£,000's)	2024/25 (£,000's)
Budget Gap - March 2021	-	38,378	22,133	-	-	38,378	60,511	60,511
Savings Options	(6,093)	(51,239)	(10,840)	(17,926)	(6,093)	(57,332)	(68,172)	(86,098)
Further Growth Requests	51	23,233	2,195	11,787	51	23,284	25,479	37,266
Capitalisation Direction	-	-	-	5,000	-	-	-	5,000
Savings Delivery Certainty Risk	1,219	7,602	2,168	3,585	1,219	8,821	10,989	14,574
Remaining Budget Gap	**(4,823)**	**17,974**	**15,656**	**2,446**	**(4,823)**	**13,151**	**28,807**	**31,253**

8.3. Progress on refining that gap for 2022/23 was further reported to Cabinet in January 2022 and noted that the impact of the Provisional LGFS saw a net reduction in the gap from £13.2m to £6.4m – an improvement of £6.8m. Other changes reported to that Cabinet meeting also saw further reductions in the gap of £2.0m to a remaining £4.4m. However, it was noted latest views on future inflation rates and delivery certainty risk levels (partly offset by additional interest earning forecasts) would have the effect of producing a revised 2022/23 gap of £11.4m. A summary of that position for 2022/23 is set out in the table below:

Table 5 – 2022/23 General Fund Gap presented to Cabinet Jan 2022

	2022/23 (£,000's)
2022/23 Budget Gap - Cabinet 6th Dec	13,151
Impact on Gap of Finance Settlement	(6,779)
Other Changes Reported Jan Cabinet	(2,035)
	4,337
Plus Likely Inflationary Pressures	13,000
Interest & Capital Financing	(6,000)
Remaining Budget Gap	**11,337**

8.4. As noted in the January 2022 Cabinet report, work has continued to refine the growth and savings proposals and where possible to de-risk them by strengthening delivery plans and thus reduce risk and contingency requirements. In addition, officers have throughout the process indicated there would be the usual risk based annual review of reserves.

8.5. The position reported to Cabinet in January 2022 has thus evolved and now includes increased provision for contract inflation (now 5% rather than 3%); 2022/23 Pay Award (now 3% rather than 2%); revised interest and capital financing costs; refined delivery risk provision; and the impact of further improvement in the LGFS between Provisional and Final announcements.

8.6. Whilst in January, the remaining budget gap for 2022/23 would have required £11.4m of the available £15.0m revenue contribution to reserves budget to be used to bridge the gap, that requirement has reduced to £8.1m (a reduction of £3.3m) as a result of those subsequent changes.

8.7. Having been able to replenish general reserves as part of the 2020/21 outturn to £27.5m and (as detailed in Section 11) planning on adding £22.0m to earmarked reserves at the end of 2021/22, this part use of the budgeted contribution to reserves is considered to be prudent and allows reserves to be adequate at this stage. The final decision on this will be taken by members in July 2022 as part of the consideration of the Outturn report for 2021/22.

8.8. The recommended budget for 2022/23 and longer-term is set out in summary form in the table below:

Table 6 – Summary of Growth and Savings and MTFS Gap

	2021/22		2022/23		2023/24		2024/25	
	Savings (£,000's)	Growth (£,000's)	Savings (£,000's)	Growth (£,000's)	Savings (£,000's)	Growth (£,000's)	Savings (£,000's)	Growth (£,000's)
Children, Young People & Education	(9,052)	16,343	(9,474)	-	(3,072)	-	(1,630)	-
Adult Social Care & Health	(11,352)	33,030	(16,378)	8,545	(9,665)	6,880	-	740
Housing	(4,212)	311	(2,853)	2,100	(1,889)	-		
Sustainable Communities, Regeneration & Economic Renewal	(12,471)	900	(12,396)	7,364	(4,406)	881	5	-
Assistant Chief Executive	(5,766)	6,649	(8,334)	1,482	3,265	(263)	(2,250)	-
Resources	(2,815)	14,638	(5,652)	266	(2,029)	-	(1,590)	400
Service Savings & Growth	**(45,668)**	**71,871**	**(55,087)**	**19,757**	**(17,796)**	**7,498**	**(5,465)**	**1,140**
Corporate & Cross-Cutting	(34,395)	58,192	(26,841)	35,756	(16,520)	32,990	(12,361)	16,820
Less Saving Delivery Risk Contingency	-	-	1,415	-	1,217	-	3,565	-
All Savings & Growth	**(80,063)**	**130,063**	**(80,513)**	**55,513**	**(33,099)**	**40,488**	**(14,261)**	**17,960**
		50,000		(25,000)		7,389		3,699
Change in Capitalisation Direction *		(50,000)		25,000		20,000		5,000
Remaining Incremental Budget Gap		**-**		**-**		**27,389**		**8,699**

* This is the change in capitalisation direction request - the actual amounts assumed to be charged vi capitalisation direction is: £50m (2021/22); £25m (2022/23); £5m (2023/24); and zero in 2024/25.

8.9. Further details of the above proposed budget for 2022/23 and longer term growth and savings over the MTFS period are set out in Appendices A to D

9. Service Narrative on Budget and MTFS Assumptions

9.1. The following provides narrative around service pressures, savings and delivery plans relating to the proposed 2022/23 Budget and MTFS.

Children, Young People and Education

9.2. Croydon's Children's Services were rated as good by Ofsted in March 2020, an outcome achieved through the successful implementation and delivery of the Children's Services Improvement Plan. Croydon's Local Area SEND services were inspected in October 2021 and this did not highlight any serious weaknesses or require a statement of action, which is a very rare outcome for these inspections. Both of these outcomes reflect the good levels of service still being provided to Croydon residents at a time of financial challenge. £866k of growth was added to the 21-22 budget to ensure the continued implementation of the SEND Strategy and the positive improvements for this service.

9.3. The 2021/22 budget included a £16.3m of growth to right size budgets that had historically overspent, including £10.462m for Children Looked After [*CLA*] placements and £2m for Children with Disabilities.

9.4. Since the growth was calculated for CLA placements detailed work has continued:

- To reduce the number of children in care by more effective and consistent gatekeeping entry to care, diverting from care, and reviewing and reuniting with families where safe to do so;
- To improve the commissioning and procurement of placements to reduce costs and provide better value for money;
- Overhauling and improving end-to-end business processes and payments including integrating the case recording and finance systems; and
- Weekly placement review panels before new placements are confirmed as part of the Spending Control Panel process.

9.5. Detailed, regular forecasting indicates that the CLA placement growth can be reduced by £2m in 2021/22 and £1m in 2022/23.

9.6. The 2022/23 budget includes saving proposals totalling £9.474m. £4.654m of this relates to CLA placements of which £3m relates to a reduction in growth mentioned above. The other major savings target relates the reconfiguration of roles and responsibilities across children's social care to maximise direct work with children and families.

Unaccompanied Asylum Seeking Children and Young People

9.7. Unaccompanied Asylum-Seeking Children's [*UASC*] costs continue to be a pressure after children become 18. This has now been formally recognized by the Home Office with a £2.357m additional grant awarded in this financial year. There is a residual estimated pressure of £0.997m in 2021/22 due to the increased number of care leavers and the council's financial forecast indicates that there will be budget pressure of £2.91m in 2022/23 and

£2.35m in 2023/24. As noted in the 21st February 2022 Cabinet report on Accommodating Asylum Seekers in Croydon, the Leader and Cabinet Member for Children, Young People and Learning have written to the Home Secretary to raise concerns about the funding arrangements for Croydon's Unaccompanied Asylum Seeking Children and Young People and highlighting the forecast gap in funding over 2022-24.

<u>Adult Social Care and Health</u>

9.8. The 2021/22 budget for Adults included growth of £28.94m right-sizing the budget to meet the pre-existing run rate pressures and the in-year demographic and cost of care increases. The directorate also has a savings target of £11.053m. In addition, on 1 April 2021 the Transitions Service for younger adults moved from Children's to Adults. This included £4.090m growth to meet the current run rate and a proportion of £384k saving.

9.9. The directorate is showing an under spend of £0.028m at the end of period 9, which has been made possible by the successful implementation and delivery of the Adult Social Care and Health Improvement Plans. The growth requirement is reviewed as part of the improvement plan.

9.10. The 2022/23 budget includes savings of £16.378m. The key areas are £11.9m which relates to year two of the improvement programme, £1.387m is a reduction in agreed growth and £0.942m is new grant funding for market sustainability. Growth of £8.545m funds demographic and cost increases, and market sustainability.

9.11. The directorate's improvement plan is committed to reducing spend by changing the way social care is delivered and to live within available resources. The council is working with social work practice and finance leads from the LGA and have accepted their view that Croydon's spending on younger and older adults is significantly higher than that of comparable boroughs. Therefore, by reducing spend in line with the average level of spending in London or England as appropriate, there is scope to make significant savings in the medium term. The Adult Social Care and Health Improvement Plan has been developed with Local Government Association guidance taken into consideration.

9.12. This is against a backdrop of fragility in the care market, with increasing costs of staffing, in part driven by lack of availability of staff, rapidly increasing utility costs and additional costs of infection control following Covid.

9.13. 2022/23 will be challenging for the directorate as, in addition, it prepares for the implementation government's 10 year plan for adult social care reforms and, health and social care integration.

9.14. During 2021/22 the department will receive an estimated £5.126m from the national Hospital Discharge Programme [*HDP*], including discharge to assess [*D2A*], funded by NHS England in response to the additional pressures due to Covid. This funding ceases on 31st March 2022. Currently there is no national funding for 2022/23 for HDP or funding for the cohort of people in receipt of care following accelerated discharge due to Covid protocols. The directorate has had a strong partnership with health during the pandemic, working seven days a week to ensure that people are moved efficiently from a hospital setting to the most appropriate follow on care setting in the community.

9.15. The council has received one-off local NHS funding for the budget in 2022/23 to support the provision of D2A, however the directorate can only provide this service up to the value of its cash limit and is subject to improvements already identified. It is working to ensure that all system partners benefit from lower costs from providing existing or improved services. In addition there is ongoing work to ensure appropriate joint funding protocols are in place in relation to continuing health care (CHC).

9.16. The council needs to meet its statutory requirement within its budget. It will revert back to pre-pandemic discharge processes (Plan B) should the ongoing pressures from D2A exceed budget.

9.17. The delivery of the directorate's contribution to the MTFS will be support by the Adult Social Care strategy implemented through the business development and Adult Social Care and Health Improvement Plan. This will enable adult social care in Croydon to go forward on a sustainable footing whilst ensuring that people who need services receive them.

<u>Housing (General Fund)</u>

9.18. Housing General Fund activities sit primarily within the Homelessness & Assessments Service. The challenging economic circumstances and continued uncertainty as a result of the pandemic continues to adversely impact the number of households who are supported by the Emergency and Temporary Accommodation teams in Croydon.

9.19. A Temporary Accommodation strategy is currently being developed, with an emphasis on preventing homelessness and therefore reducing the number of households requiring temporary accommodation. It will seek to improve accommodation standards, improve the out of borough offer, and reduce the number of families in bed and breakfast accommodation and support the delivery of priorities in the upcoming Homelessness Prevention and Rough

Sleeping strategy. The draft strategy will also include a review of the existing commissioning arrangements and private sector schemes

Sustainable Communities, Regeneration and Economic Recovery

9.20. The Sustainable Communities directorate continues to face challenging budgetary pressures for 2021/22 as a result of the continuing effects and the on-going impact of Covid-19. The service is showing a major reduction in the level of income collection in the Parking division resulting from the Governments advice on limiting travel during the pandemic and the overall change in the public's shopping and travel habits. The reduced level of transactions processed has impacted on the projected income from parking.

9.21. The new Private Landlord Selective Licensing Scheme was proposed to be operative from October 2020 however the Secretary of State refused to confirm the proposed designations and the scheme cannot therefore be implemented. The service is exploring strategies to mitigate the budgetary implications in year and a potential reduced scheme in 2022/23.

Assistant Chief Executive

9.22. Significant savings in 2022/23 are expected in the costs of the Transport for London [*TfL*] Freedom Pass and from the rationalisation of IT software and contracts. In addition savings are expected from improved business processes and increasing using of digital solutions to modernise resident services during 2022/23 and future years. The freedom pass savings will reduce significantly in 2023/24 as travel is expected to return nearer to normal levels.

Resources

9.23. Expenditure and income reviews are ongoing to reduce overall costs across the Directorate including reducing the costs of the managed service provider for temporary agency resources.

Corporate and Cross-Cutting Budgets

9.24. Corporate and cross-cutting budgets include the non-service specific income and expenditure of the Council. They include such items as Council Tax and Business Rate Income, Core Grants, Capital Financing Costs, Risk and Contingency Provisions, and the requested Capitalisation Direction amounts.

9.25. The Council in setting its 2021/22 Budget and MTFS had made budgetary provision to contribute £10m to General Reserves in the current financial year, with a further £15m and £20m allocated in 2022/23 and 2023/24 respectively. Having significantly rebuilt General Reserves at the end of

2020/21, the £10m allocated for 2021/22 is instead being focused to rebuild earmarked reserves in the current year. For 2022/23, £8m of the budgeted £15m is recommended to be used to balance the gap that could otherwise exist between in-year spending and income. The remaining £7m would be available to further bolster earmarked reserves at the end of 2022/23, subject to spend and income for that year being contained within funding envelopes. By rebuilding reserves over this and next year, the remaining £12m would be available in 2024/25 to contribute to the overall efficiencies and savings targets required for that year or continue to build reserves and consideration on these options should be taken as part of next years MTFS.

9.26. The balanced budget for 2022/23 set out in this report is predicated on the approval of the requested (up to) £25m Capitalisation Direction currently being considered by DLUHC (and as recommended by the Improvement and Assurance Panel). In addition, the forecast outturn for 2021/22 and levels of balances able to be carried forward is subject to similar approval of the up to £50m request for the current year. At time of despatch of this report, formal written confirmation of the approval of both has yet to be received from a Minister. A verbal update to Cabinet will be made as to any notification received between despatch and meeting date.

9.27. The Council entered into a revised loan agreement with Brick by Brick Croydon Ltd [*BBB*] in May 2021 as part of the strategic review of the company. Within the loan agreement the Council set out a waterfall mechanism which is the process which governs how the use of receipts from BBB would be applied. The waterfall mechanism indicated that the Council would prioritise applying receipts from BBB towards outstanding debt and the MTFS was adjusted to reflect the reduced interest income.

9.28. In order to provide further flexibility to the Council, it is recommended that the waterfall mechanism be adjusted to move the application of the interest from the date of the agreement upwards as a second priority rather than the fourth priority as it currently is. This will allow the Council apply the receipts to interest income within the revenue budget or to debt depending on the in-year MTFS position. It does not make any impact on the sums BBB have advised the Council will receive nor does it result in the total debt outstanding to be impacted.

9.29. As part of the RIPI review it transpired that the loan balance needed to be updated to reflect an additional £1.379m due to further work done to identify a more accurate figure.

9.30. It is recommended that the Section 151 Officer be authorised to finalise the terms of the variation to the BBB Facility Agreement and make decision in respect of the appropriate application of the receipts to either interest income or to debt[, in consultation with the Brick By Brick Shareholder Cabinet Advisory Board]. These changes shall be reported to Cabinet as part of the next BBB quarterly update in addition to briefings to the Brick By Brick Shareholder Cabinet Advisory Board.

10. Council Tax Requirement

10.1. The amount expected to be collected from Council Tax receipts stems from the size of the expected tax-base (affected by growth in the number of properties and mix of bandings, and the number of residents eligible to discounts or exemptions) and the Band D charge set for 2022/23 (which in Croydon's proposed 2.99% increase is below the level at which a referendum would be required). The total amount payable by each household is subject to relevant proportions of the standard Band D charge based on property bandings (based on ninths) and includes the Council's own charge as well as the precept collected on behalf of the Greater London Authority [*GLA*].

10.2. As referred to in the December 2021 and January 2022 Cabinet reports updating members on the budget position, in line with DLUHC Core Spending Power assumptions of all councils increasing their Band D charges by the maximum allowable under referendum principles, this report is recommending the Band D charge for Croydon is increased by 1.99% as a general increase and 1.00% as an adult social care precept. The GLA is subject to separate referendum thresholds and is recommending its Band D charge across London (except for the City of London) rises by 8.8%

10.3. Taken collectively, and assuming the Croydon share is increased as recommended, the following table sets out the charges for 2021/22 and 2022/23:

Table 7 – Proposed Council Tax Band Charges

		Total 21/22 Charge			Proposed 22/23 Charge				
Band	Ratio	Croydon *(£'s)*	GLA *(£'s)*	Total *(£'s)*	General *(£'s)*	ASC *(£'s)*	Croydon *(£'s)*	GLA *(£'s)*	Total *(£'s)*
A	6 9ths	1,016.33	242.44	1,258.77	922.91	123.81	1,046.72	263.73	1,310.45
B	7 pths	1,185.72	282.85	1,468.57	1,076.72	144.44	1,221.16	307.68	1,528.84
C	8 9ths	1,355.10	323.25	1,678.35	1,230.54	165.08	1,395.62	351.63	1,747.25
D	**9 9ths**	**1,524.49**	**363.66**	**1,888.15**	**1,384.36**	**185.71**	**1,570.07**	**395.59**	**1,965.66**
E	11 9ths	1,863.26	444.47	2,307.73	1,692.00	226.98	1,918.98	483.50	2,402.48
F	13 9ths	2,202.04	525.29	2,727.33	1,999.63	268.25	2,267.88	571.41	2,839.29
G	15 9ths	2,540.82	606.10	3,146.92	2,307.27	309.52	2,616.79	659.32	3,276.11
H	18 9ths	3,048.98	727.32	3,776.30	2,768.72	371.42	3,140.14	791.18	3,931.32

10.4. The proposed annual increase of £45.58 for the Croydon Council element represents the equivalent of 88p extra per week for a Band D property household of two or more adults not subject to any reliefs or discounts. Including the GLA precept, the equivalent annual increase would be £77.51 (£1.49 per week).

10.5. The tax-base has continued to grow as new homes are brought into occupation. Growth is forecast to see around 1.5% increase in property numbers next year and is in line with historic trends over the past five years.

10.6. In October 2021, Cabinet received a report outlining the principles of a proposed change to the Local Council Tax Scheme [*LCTS*] following review of the operation of that scheme first introduced in 2013/14. Those original principles were subsequently subject to extensive consultation, and taking into account stakeholder feedback, Cabinet approved revised and reduced proposals at its meeting in January 2022. Taking into account the changes to the LCTS, which forms part of the overall tax-base calculation, the total expected to be collected for Croydon Council in 2022/23 from Council Tax is as per the following table:

Table 8 – Council Tax Requirement

	2021/22	2022/23	Change
Gross Taxbase (Band D Equiv)	133,272.6	138,447.6	5,175.0
Assumed Collection Rate	97.50%	98.50%	1.00%
Net Taxbase (Band D Equiv)	129,940.8	136,370.9	6,430.1
2021/22 Croydon Band D Charge (£'s)	1,524.49	1,570.07	45.58
	(£,000's)	*(£,000's)*	*(£,000's)*
	198,093	214,112	16,018
		of which: Organic Growth	*4,692*
		LCTS Changes	*5,111*
		Change in Band D Charge	*6,215*

10.7. The proposed 2022/23 increase of 2.99% for Croydon Services (as assumed in the Government's Core Spending power calculations for 2022/23) is not determined to be excessive in accordance with the criteria for 2022/23 under Section 52ZC(1) of the Local Government Finance Act 1992 (as amended) and the published Referendums relating to Council Tax Increases (Principles) (England) Report 2022/23.

11. Risks, Reserves and Resilience

11.1. The Council recognised that in transforming its financial position it needed to rebuild both its general and earmarked reserves from the levels they had reached at the end of 2019/20. This was explicit in the Council's request to government for capitalisation direction support.

11.2. Reserves are required to provide resilience against unexpected events or to be set aside against known future spending commitments. The gross general fund budgeted expenditure for 2021/22 was approved in March 2021 at £929m – even delivering within 1% of that quantum could see a variance of £9m.

11.3. Whilst general reserves were able to be rebuilt from a negative balance of £4m (following post year-end audit adjustments) at the end of 2019/20 they have been able to be returned to more resilient levels at the end of 2020/21 of £27.5m. However, earmarked reserves brought forward into 2021/22 remain low given the scale of transformation the Council still plans on delivering and the uncertainties over coming years regarding the economy and public sector core funding.

11.4. In setting the 2021/22 budget in March 2021, £10m was earmarked to be added to be a revenue contribution to reserves (rising to a £15m contribution in 2022/23 and £20m in 2023/24). Given the Council was able to replenish general reserves in 2020/21, the January 2022 Cabinet report on the MTFS noted that instead these budgets would be used to balance any remaining 2022/23 gap and thereafter could be used to further build earmarked reserves instead of general reserves.

11.5. The period 9 outturn position (as separately reported) allows for not only the £10m budgeted contribution to reserves but also to consider use of the £7m unused unfenced one-off Covid grant to bolster reserves. Should the forecast underspend of £1.8m be maintained and the net opportunities of £3.0m also materialise, around £22m could be available to rebuild earmarked reserves

11.6. The table below sets out the potential contribution to earmarked reserves and an indication of possible reserves that it might be allocated to. The definitive quantum available to rebuild reserves will not be ultimately finalised until the draft year-end accounts are produced and will be reported for approval as part of the 2021/22 Outturn Report in July.

Table 9 – Anticipated Contribution to Earmarked Reserves

	(£,000's)	
Insurance Reserve	1,500	Allowance for claims yet to be potentialls received and not part of the insurance provision
Schools Deficit Reserve	1,000	Allowance for schools in deficit closing and remaining deficit falling on General Fund
LCTS Hardship Fund	2,000	Allowance for impacts of changes to Council Tax Support Scheme to be offset by Hardship Fund
Capital Financing Reserve	3,000	Mitigation for potential delays to delivery of capital receipts / interest rate changes
Audit Findings Reserve	1,000	2019/20 Accounts not yet signed off - reserve to cover any potential adjustments
Pandemic Impacts Reserve	2,000	£3.5m of unspent Covid grant retained in case of further waves/variants impacting budget savings
Streets & Neighbourhoods	1,500	Reserve to support initiatives across streets and neighbourhoods to promote resident and business experience
Demographic Demand	2,500	Allowance for pressures arising from demographic or demand-led changes
Bad Debt Reserve	1,000	Allowance for decline in collection rates in case of economic decline
Taxbase Reserve	3,000	Allowance for decline in business rate / council tax yields in the event of economic decline
Recharges Reserve	2,000	Savings and structural change may impact on allocation of support service costs outside of GF
Fair Funding Reserve	1,500	Allows for period of transition if any future change to Settlement basis is adverse
	22,000	

11.7. In addition to the balances forecast to be available to contribute to earmarked reserves by the end of 2021/22, a further £7m could be able to be added at the end of 2022/23 subject to full delivery of the 2022/23 cash limits and savings and growth targets as assumed in this report.

12. Pensions Property Asset Transfer

12.1. The Council's Pension Committee received a report in November 2018 regarding the potential to transfer of properties (which were leased to Croydon Affordable Homes) into the Pension Fund at the forty year lease break point. Such a transfer was envisaged to offer reductions in employer deficit contributions with effect from the transfer being agreed (i.e. with immediate effect). It was recommended that the s151 officer at that time obtain specialist advice including in relation to legal implications and risk and develop appropriate proposals regarding the asset transfer initiative.

12.2. In commenting on the proposals, the Funds actuaries noted a number of risks as follows (the full detail of which can be found by reference to the original committee report):

The uncertainties involved in the proposal present many risks which can be broadly grouped into the following main categories.

- *Legal Risks*
- *Regulatory Risks*
- *Investment Risks*
- *Political Risks*
- *Operational Risks*

12.3. Whilst Full Council on 28th January 2019 resolved to the break in leases after forty years and subsequent lease to the Pension Fund, formal transfer or assignment of the leases has not taken place, and the Council's General Fund not been credited with reduced employer contributions as was proposed in the original business case outline.

12.4. In undertaking due diligence and ensuring full legal, financial and actuarial advice has been taken into account before any final transfer is legally entered into, the Council's viewpoint on the merits of such an undertaken have changed.

12.5. At the Pension Committee on 3rd December 2021, consideration was given to the appropriateness of continuing with the asset transfer, especially in light of the additional proposal to amend the employer's contribution rates.

12.6. An extract from that report sets out the Council's rationale for not wishing to proceed with the asset transfer as follows:

The contribution review proposal was being considered alongside the Council's preference to withdraw the arrangement to transfer property leases to the Fund in lieu of future contributions. However, at the May 2021 meeting the Pension Committee deferred a vote to agree an Officer led recommendation to rescind the decision to accept the proposal. The Pension Committee requested more detail on the reasons for the recommendation

In summary, for a number of reasons the combination of the two would represent too much risk for the Fund. Indeed, the contribution review proposal was developed in response to the property transfer proposal floundering. Reducing the flow of contributions highlights the risk of the Fund tipping into negative cash flows which would impact on the growth of the Fund. The property transfer proposal on its own has caught the attention of the MHCLG, the Government Actuary's Department and the Pensions Regulator. The reasons that the proposal was shelved have not changed: too complex, too resource hungry and expensive to administer and too uncertain to succeed. In

addition, if the contribution reduction was accepted, there would be less need for the savings from the arrangement.
In addition the Scheme Actuary recommends that the Fund considers the appropriateness of the property arrangement described above alongside any agreement to reduce the Council's employer contribution rate. In addition, they also continue to strongly recommend investment advice is sought on receiving the property arrangement asset (both to provide a valuation of the asset the Fund would receive and also how assets of this nature are allowed for in the Fund's current and future investment strategy). From an actuarial perspective, the property transfer arrangement increases the complexity and risk of the Council's funding strategy. In particular, the proposed time period of 40 years at which the ownership would potentially transfer to the Fund far exceeds the Council's current time horizon for funding strategy purposes (or any other LGPS Fund employer). As previously advised, if the Council is seeking to reduce its contributions to the Fund due to budgeting pressures, the Actuary would recommend that this is achieved via reduced cash employer contributions and within the current funding strategy framework.

12.7. Having sought professional valuations as to the likely building condition of the assets at the time of the forty year break clause, the potential risk to the Pension Fund of failing to achieve value for money through the proposal is significant.

12.8. Having due regard to the reasons set out in the above, and to provide absolute clarity for both itself and the Pension Fund, Cabinet is being requested to recommend to Full Council that the Council (as one of the two parties to the arrangement) formally notify the Pension Fund that it is no longer proceeding to complete the asset transfer.

12.9. Whilst both parties may have incurred costs in undertaking due diligence to arrive at this position, those activities have enabled the full risks associated with the proposed transfer to be fully understood. The Pension Fund may seek compensation for their own costs in evaluating the proposals but that is a matter for the Fund.

13. Statement of the Section 151 Officer on reserves and balances and robustness of estimates for purposes of section 25 of the Local Government Act 2003

13.1. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (CFO) to report on the robustness of the budget estimates and adequacy of the planned reserves when the council tax decision is being made by the Council. This forms part of the statutory advice from the Section

151 officer to the Council in addition to their advice throughout the year in the preparation of the budget for 2022/23. The Chief Financial Officer and Section 151 Officer statutory responsibility resides with the Interim Director of Corporate Resources. This is his statement under the Section 25 requirement of the Act.

13.1.1. It has been an important year for Croydon Council. This is the year that the Council has started to repair the significant financial damage that has had to be dealt with and take on the challenges of delivering a balanced Council budget to support services to our residents and businesses. There is a huge amount to deliver in 2022/23 in particular and the Council needs to maintain this focus on delivery before and after the mayoral elections.

13.1.2. The Council continues to face challenges, the most significant of these issues appear to be:

- The unaudited 2019/20 and 2020/21 accounts – specifically in relation to Croydon Affordable Homes / Croydon Affordable Tenures, and Bank reconciliations.

    - Out of these two issues, the most significant of these is Croydon affordable Homes and Croydon Affordable Tenures which could either be resolved subject to agreement with our external auditors or require a revenue charge to the Council's General Fund significantly close to £73m. This is an issue about the accounting treatment of a lease, it is not about any monies gong missing;
    - The s151 Officer cannot form a judgement on the outcome of this accounting issue until work has concluded with Grant Thornton (our external auditors).
    - Therefore provision has not been made for this risk in the reserves proposals.
    - If the final outcome is that this is an operating lease then the Council is at risk of a further s114 notice being served due to the revenue charge of £73m needing to be met in year;
    - The view of the Council's s151 officer in addition to the Council's legal advice, is that it is essential that the material and not inconsequential nature of this risk is flagged, particularly given the inability to form a judgement at this point and should be included in this s25 statement for clarity and openness. It is possible the Council will now need to speak to those officers and advisors involved at the time the accounting arrangements for this were determined ;

    - This issue is material enough that it is required to be stated in this Section 25 commentary given the still uncertain outcome of this issue.

- Whilst the bank reconciliations remains incomplete a change to the prior year accounts and closing reserves position cannot be ruled out.
- The Council currently holds £1.25m in long term debtors (£1m dating from 2007 and the balance from 2012) for funding provided to Croydon Enterprise Loan Fund (CELF), a company limited by guarantee but one that is not owned by the Council. The Council has accounted for the funding as a loan but no repayments have been made yet and therefore there is now a risk that this funding is less likely to be paid back in full.
- The above example dating back to 2007 underlines the ongoing and pressing need for the Council to continue reviewing legacy financial arrangements and undertake a Balance Sheet review to ensure there are no more difficult issues that need resolving in both the General Fund and the HRA
- The significant amount of savings and other Council improvements that need to be delivered in 2022/23 and beyond;
- Ensuring the Council has adequate experienced and specialist resources to ensure it delivers the savings and the improvement programme;
- Planning early for the 2023/24 budget and MTFS process to deliver future savings;
- Recognise the increased demand-led pressures and identifying more cost effective ways to deal with those pressures;
- The NHS negotiations as to funding has resulted in an outcome that only provides one-year funding for 2022/23. The budget assumes that this contribution towards the cost that the Council incurs will continue. It is expected that there will be discussions between the NHS and Croydon Council with regard to Integrated Care Services. It is essential in narrow financial terms is that any outcome improves the financial position of the Council, hence the assumption that the minimum the Council will accept is as per 2022/23 funding levels or financial outcomes. The Council must continually ensure that it does not over-spend its budgets particularly in relation to this area and is prepared to take the necessary decisions in relation to taking back control of the discharge of patients, that ensures it stays within budget;
- The revenue budget is predicated on capital receipts being received and applied as forecast with no material delays;

- The Council's financial grip is improving but there are issues in parts of the Council where the data and metrics needs to improve further to enable and support robust financial management;
- The Council needs to ensure the right balance between stretching targets and over-optimism bias, particularly given the high level of savings needed to be delivered.
- The Council has taken some significant steps forward in building a solid foundation and has a significant plan to rebuild its financial strength in the General Fund. That focus and attention now needs to be applied to the Housing Revenue Account alongside delivering the General Fund budget. In addition, the Council needs to obtain greater clarity on the condition of its housing stock and wider assets;
- The Council's corporate management team have made compliance and internal audit and control an issue of major importance but there remain too many audits of limited or nil assurance. The corporate management team are focussing significant attention on these audits to deal with these actions.

13.1.3. The Council is currently on track to deliver services within budget in 2021/22 and this is expected to enable the Council to build its reserves resilience. The culture of the organisation needs to now continue to be one where delivery of services within budget is the norm. That said an open and constructive culture is needed where officers continue to surface issues and problems early so they can be resolved in an open and transparent way.

13.1.4. The capitalisation directions provided by Government (subject to final confirmation) have given the Council time to create a savings programme in 2022/23. The Council requested the up to £50m, £25m and £5m directions in respect of 2021/22, 2022/23 and 2023/24.

13.1.5. The Council will use its own capital receipts resources to fund the capitalisation direction so as to not pay the premium interest rate and more punitive shorter repayment period. Croydon Council is starting the journey to reduce its own borrowing levels.

13.1.6. The Council will reduce its General Fund debt level (Capital Financing Requirement) by £80m from £1,275m to £1,195m

13.1.7. There are significant economic risks in the country and the budget has made assumptions about inflation levels. It is essential that the council tax payer does not 'pick up the tab' of inflationary costs and government tax increases. It is essential that all those in the supply chain take on some of the inflationary costs.

Audit of Prior Year 2019/20 and 2020/21 Accounts

13.1.8. For 2019/20 there is a key issue outstanding that the auditors have flagged to the Council, which relates to the lease arrangements for Croydon Affordable Homes / Croydon Affordable Tenures LLPs. The history of this decision is set out in Appendix H of this report. At the time of setting the budget, discussions are still underway with the external auditors over the accounting treatment of this issue and is yet to be resolved. The Council has taken advice from a leading QC in respect of this matter. This report both reflects the requirement to ensure this issue is set out for all members to understand where the matter has progressed and the possible outcome should the capitalisation of £72.8m have to be reversed into the revenue account if the Council's financial assumption in 2017/18 that the transaction was a financial lease is proven incorrect. In addition, the QC has confirmed the Council may set its budget with this key risk unresolved by proceeding with the best estimates available at the current time. The CAH/CAT issue will need further consideration and a resolution in 2022/23 which could require a further capitalisation direction request to Government and reconsideration of its reserves position, reserves strategy and timing in addition to other options.

13.1.9. The Council primarily has three options that it has been and is progressing. The Leader and relevant Cabinet members have been briefed as work has developed, as have the Corporate Management Team, the external auditors Grant Thornton, the Improvement and Assurance Panel, and DHLUC.

13.1.10. The Council has commissioned PWC to assist specifically with the assessment of whether the accounting treatment of the lease payment was a finance lease and therefore could be correctly used for transformation funding. There is a question regarding the significant scale of the transformation funding relative to the Council's financial position at that time that may require further analysis. Along with other advisors, including CIPFA, a number of options are being explored to clarify and resolve this issue. Three main options are being considered as follows:

- Determine the previous accounting treatment met the finance lease criteria and thus no changes are required;
- Componentise the lease arrangements splitting the land and building elements – this has the potential to still generate enough capital receipts to finance the transformation costs; or
- Review the accounting treatment of the original capital loan to CAH/CAT which in itself may have the potential to generate corresponding capital receipts.

13.1.11. If none of the above options prove to be able to resolve the problem and the receipt is treated as an operating lease the Council will be required to charge £72.8m to the General Fund revenue account. A modest offset against this potential liability would arise as the annual release of c£2m of rental income would flow through the revenue accounts. A full briefing note on this issue is attached as Appendix H. The external auditor has in particular raised the issue of risk transfer and the weight that could be attributed to the different indicators, when standing back and looking as a whole, in determining whether a lease arrangement is financial or operational. The Council accounted for the lease as financial and spending £72.8m on transformation.

13.1.12. The 2022/23 Budget is being set on the working assumptions that these options will resolve the matter but that further work and engagement with external auditors required.

13.1.13. As part of the Internal Audit and external audit reviews of the financial process and 2019/20 audit respectively, it was identified that the Council did not perform monthly Bank Reconciliations, a key internal control lapse. Bank Reconciliation is a two way check between the Council's bank account and Council's financial ledger. It ensures that transactions are correctly recorded between the Bank's processes as well as the Council's, which helps to avoid risks related to cash. The Bank Reconciliations have not been done on a monthly basis for a few years and therefore this requires a detailed understanding of the end to end processes along with the inter-relationship between various Council systems. In light of the work being done for 2020/21 it could have an impact on the 2019/20 position if it is deemed there are issues with balance brought forward balances.

13.1.14. The Council has appointed CIPFA to carry out a detailed review, help the Council produce bank reconciliations for 20/21 and 21/22 and then put in place, if required, an improved process for 2022/23. Croydon's arrangements are complex and with the need to review historic transactions it is expected that this process could take some time and was not completed at the time of writing of the Budget Report. This process is part of the overarching financial improvement process the Council has embarked on and will help strengthen the internal controls and improve financial management.

13.1.15. In addition, at its meeting on 3rd December 2021 the Pensions Committee were asked to agree to confirm they would notify the Council of their rescission of the decision to transfer the property assets of the CAH/CAT transaction to the pension fund at year 41. The draft committee minutes indicate the committee was cognisant that the transfer was unlikely to proceed subject to further information requested previously. This rescinding was supported by Hymans Robertson, Mercers and both the S151 officer and the Monitoring Officer in particular given the uncertainties that exist until year 41, and the life expectancy of the assets. The Council is requested to rescind its own decision to undertake this transaction made in January 2019 in the recommendations of this report given the above and the novel and contentious nature of this matter. The Council has taken external legal advice in this respect.

13.1.16. There are a significant number of savings to deliver in 2022/23. In doing so the Council has undertaken significant testing by all directorates of the robustness of the estimates including the evidence to support these savings and the removal of any significant optimism bias. There are some stretch targets in the budget and these are important to focus delivery on. The Council budget has de-risked these by holding a central corporate budget to mitigate some non-delivery. Given the level of savings needing delivery it is important to consider this alongside the desire of achieving stretch targets.

13.1.17. The budget has ensured that the growth pressures put forward by directorates were also considered, challenged and included where appropriate to do so in the budget. It is essential that these growth pressures continue to be worked upon to mitigate these pressures on an ongoing basis and in particular in advance of setting next year's budget.

13.1.18. The Council must ensure that it continues its focus to align sufficient resources to deliver the savings, improvement and transformation programmes. This includes the enhancements to build the programme office team to both challenge and drive forward the savings programmes for 2022/23 so they are delivered to the profile required and on time in the budget.

13.1.19. The Council needs to ensure that the mayoral readiness programme is ready for the election of Croydon's first mayor. Starting the budget process early is of paramount importance. The mayoral priorities will set the policy objectives for the Council for the next 4 years and early work will be needed to ensure the strategy is in place to deliver these priorities within the financial constraints of the Council.

13.1.20. The maintaining of general un-earmarked reserves at the 31st March 2022 position of £27.5m continues the maintaining of a robust level of general un-earmarked reserves for unforeseen issues. Given the size of the Council and uncertainty levels these should be maintained and increased, and also continue to be kept under review annually.

13.1.21. The Council expects to be in a position to consider adding some £22m as a minimum to its earmarked reserves. Section 11 of the report sets out the areas officers believe need earmarked reserves. There are further areas and the budget for 2022/23 includes adding £7m more to overall reserves. Given the economic uncertainty, a continuing single year national budget settlement, significant inflation risks, the specific NHS funding risk and demand pressures.

13.1.22. The Council has cross-party political support for local tax payers to not be forced to pick up the disproportionate costs of unaccompanied asylum seeking children and young people it faces due to the siting of the Home Office's Lunar House facility in the borough. This remains an unresolved issue by successive governments. It is the Council's position that the one-off funding provided last year, which was welcomed, is something that should continue until a national resolution to this matter is found.

13.1.23. The funding provided through to the NHS is significant and necessary. However, the Council must receive a proportion of this funding to ensure it can work efficiently and effectively with the NHS. If a fair proportion is not received the Council will need to implement a cost lowering 'plan B' to ensure it lives within its means.

13.1.24. The financial budget gaps the Council faces in 2023/24 and 2024/25 are circa £28m and £8m.

13.1.25. The levels of government funding for 2022/23 have been clearly identified in this report and it must be recognised and understood that a one year funding settlement creates a level of future year uncertainty and therefore creates a financial planning risk. In addition, in regards to the request for Capitalisation Direction a response from DLUHC has not at the time of writing this report been received for 2021/22 or 2022/23. An update will be provided at the meeting if received.

13.1.26. Until 2019/20 the Council in common with other local authorities experienced substantial reductions to Local Government funding. 2020/21 saw a slight increase in our baseline funding however the pressures experienced since the start of 2020/21 have had a significant impact on the Council's financial position. A marginal increase in baseline funding into 2021/22 and the ability to raise Council Tax by 4.99% further supported increased funding.

13.1.27. The settlement for 2022/23 is set out in Section 5 of this report. Whilst the settlement has helped to deliver a balanced budget, the Council needs to ensure that the new Mayor works with local MP's to lobby Government to increase the funding available to Croydon Council.

13.1.28. In taking decisions on any budget all Members must first and foremost understand the underlying funding changes which the Council faces and set these associated decisions within the context of the overall financial environment the Council faces.

13.1.29. Over the last year the Council has started the journey to take control of its own financial position. The capitalisation direction provided by Government has bought the time needed to take the decisions to balance the budget in this year and get to an achievable set of future year savings targets. The single year government settlement makes it very difficult to plan with any certainty.

13.1.30. Inflation is an international issue. The funding assumptions of the government grant settlement have been eroded completely by the pressures this places on the Council’s budget. Croydon's budget allows for significant inflation but it is impossible to be certain on its adequacy given this serious economic issue. Whether the Bank of England has acted fast enough and hard enough remains to be seen. The impact of inflation will require a robust financial response from the Council in respect of those who contract with the Council and be kept under regular review.

13.1.31. Recruiting and retaining sufficient skills in the Council will remain a challenging task. The workforce strategy will need to ensure this matter is thoroughly analysed and solutions worked up and implemented.

13.1.32. These continue to be very challenging times for Croydon Council. Therefore it is certain that significant implementation choices will be required over the coming budget cycle if the Council is to develop a solid financial foundation and achieve the delivery of a balanced outturn in 2022/2023 and in future years.

13.1.33. In forming my statement of the robustness of the budget estimates and adequacy of planned reserves this position has been reviewed in detail with the Chief Executive and Corporate Management Team. My conclusions and assumptions have been reported to the Cabinet as part of the Council's overall governance and financial stewardship arrangements.

13.1.34. It is important that there is buy in and ownership at all levels from both political leadership and officers, that there is a need for a more robust financial process for providing services within budget, than has existed even in this year where delivery has been strong.

13.1.35. All Members must also be aware that the calculation of the budget is, in its simplest form, dependent on three key factors, which are set in the context of the level of support from central government, these are:

- The structural growth and savings in service expenditure or income;
- The level of increase in local taxation (council tax); and
- The level of reserves and balances.

13.1.36. With regard to the Housing Revenue Account, in 2020/21 where Local Authorities were allowed to raise Housing Rents by CPI+1%, this principle continues into 2022/23 and this will ensure that the years of lost income from the 1% reduction in rents better supports tenants in an improved way and the upkeep of the housing stock. The updated 30 year HRA Business Plan will be presented to Cabinet in March 2022. The Council will need to review the HRA account in more detail as part of and after the 30 year business plan is produced for March Cabinet in particular to ensure the appropriateness of charges between the accounts that have not been reviewed in detail for some time.

Growth, Savings and income options in service expenditure

13.1.37. Proposals for growth, savings and income generation in service expenditure are ultimately a matter of political judgment balancing the needs and priorities of the borough within the available revenue resources. In balancing such decisions Members must have regard to the professional advice of officers in such matters as service need, statutory responsibility, changes to Government legislation, demographic factors (particularly in respect of demand-led services), and unavoidable cost pressures whilst always having regard to the need to remain with the statutory requirement to balance the budget and to keep within that budget and available reserves once the budget is set. This report forms part of that advice.

The Level of Reserves and Balances

13.1.38. The level of reserves and balances are principally the responsibility of the s151 officer and are key to ensure the financial sustainability of the Council. The general fund and earmarked reserves additions included in this report provide a reasonable safety net for the Council. It must be kept under review and delivery of services within the 2022/23 budget is essential.

13.1.39. In addition, whilst is not possible to be certain that there are no further legacy issues that will emerge in the future, the Council can take some comfort from the external auditors work in having already surfaced a number of issues within the accounts, but this is still a work in progress. Specifically, the auditors have identified a number of matters relating to the 2019/20 accounts – the main two being Croydon Affordable Homes / Croydon Affordable Tenures and bank reconciliations.

13.1.40. There are too many internal audit reports with limited and indeed nil assurance findings that will need targeted resources to resolve them. With the Budget now completed, the Council now needs to undertake a full review of all balances within the Balance Sheet.

13.1.41. I have endeavoured to both remove what appeared to be non-robust savings and added in real growth pressures to the budget as proposed, and additionally allowed reasonable stretch targets without over-optimism bias. There remains work to be done with the NHS to ensure that sufficient and adequate financial resources are provided by the NHS on a more sustainable and medium-term basis.

13.1.42. Whilst the Budget includes investment in the capital programme for the next three years there needs to be further work in respect of the stock condition of the Council's assets, for the HRA in particular as well as the General Fund.

13.1.43. Given the significant financial problems that have emerged over the past two years my view is that the 2022/23 Budget is sufficiently robust and deliverable provided the Council maintains a focus on financial management both pre and post the Mayoral election.

13.1.44. The most significant unresolved issue relates to the Croydon Affordable Homes / Croydon Affordable Tenures lease arrangements as already articulated in this statement. Should this crystalize as an operating lease, the Council will require a new financial strategy which would be likely to involve consideration of a further capitalisation direction request, a review of potential Council asset sales as an alternative to further borrowing, and careful consideration of whether to use some of its reserves or undertake other measures to ensure the Council's financial position is robust and sustainable.

13.1.45. In conclusion, the Council has made some significant improvements in its financial management particularly being on target to deliver a forecast 2021/22 budget outturn that enables both the planned and additional reserves increase that provides a more solid reserves robustness for the Council's finances at this time. These reserves levels will require further review on an annual basis. The budget for 2022/23 required significant savings plans which made it a much tougher budget to deliver than 2021/22 when significant growth was added.

13.1.46. In summary there has been good progress, however there is a significant financial issue remaining to be resolved, and there is still more progress needed.

14. Dedicated Schools Grant

14.1. Dedicated Schools Grant (DSG) is paid yearly to Local Authorities by the Secretary of State under the Education Act 2003 section 14. It is a ring-fenced specific grant provided outside the local government finance settlement. It must be used in support of schools' budget for purposes defined in recent regulations and schedule of The Schools and Early Years Finance.

14.2. The Government in July 2021 reaffirmed its commitment to provide additional funding for the school's budget. The overall core schools funding is therefore expected to increase by £7.1bn for 2022-23 as published in the 21st July 2021 ESFA National funding guide. Local authorities are responsible for ensuring that the DSG is deployed in support of the schools' budget. All DSG funding must therefore be allocated to the schools' budget in the year in which it is paid to the local authority by the Department.

14.3. As shown in table 10 below, Croydon DSG allocation for the 2022/23 financial year increased by £10.324m to £401m.The key areas with the growth were the High Needs and the Schools Block. High needs funding is provided to local authorities through the high needs block of the dedicated schools grant (DSG). Local authorities must spend that funding in line with the associated conditions of grant, and School and Early Years Finance Regulations. The High Needs block has been difficult to manage since the introduction of the Children and Families Act 2014 driven by meeting the needs of 18 to 25 year old students resulting in a significant budget gap of approximately £4.5m each year.

Table 10 – Croydon DSG Allocation 2021/22 and 2022/23

	Schools Block [A] (£'s)	Central Schools Services Block [B] (£'s)	High Needs Block [C] (£'s)	Early Years Block [D] (£'s)	Total DSG Allocation [E] (£'s)
2021/22	281,312,962	6,045,693	73,279,047	30,108,452	390,746,154
2022/23	285,662,392	5,301,948	82,292,789	27,813,102	401,070,231
Change	**4,349,430**	**(743,745)**	**9,013,742**	**(2,295,350)**	**10,324,077**

14.4. Local authorities with an overall deficit on its DSG account at the end of the 2021 to 2022 financial year, or whose DSG surplus has substantially reduced during the year are expected to co-operate with the Department for Education in handling that situation as part of the grant condition. The Secretary of State may also impose specific conditions of grant on individual local authorities that have an overall deficit on their DSG account, where he believes that they are not taking sufficient action to address the situation.

14.5. Croydon's DSG management plan outlines the actions being taken by the LA to reduce the High Needs Deficit. The actions taken have played a significant role in managing and reducing the in-year deficit.

14.6. Recent fall in school rolls has raised the risk level in relation to deficit budgets for a number of schools including the Maintained Nurseries.

Schools Block

14.7. The Schools Block funds mainstream schools from reception class to Year 11. (note that it excludes nursery and 6th form funding).

Table 11

	2021/22	2022/23	Change
Primary Rate of Funding (£'s)	4,821	4,945	124
Primary Pupil Numbers (no.)	32,055 no.	31,410 no.	(645 no.)
Primary Block Funding (£'s)	154,523,846	155,312,399	788,553
Secondary Rate of Funding (£'s)	6,433	6,628	195
Secondary Pupil Numbers (no.)	18,820 no.	18,904 no.	84 no.
Secondary Block Funding (£'s)	121,071,883	125,299,304	4,227,421
Total School Block Basic Funding (£'s)	275,595,729	280,611,703	5,015,974
Premises (£'s)	3,338,917	3,092,041	(246,876)
Growth (£'s)	2,378,316	1,958,648	(419,668)
Total Schools Block (£'s)	**281,312,962**	**285,662,392**	**4,349,430**

14.8. Primary school numbers have fallen by 645, whilst secondary school numbers have had a small increase of 84. A number of primary schools are facing financial challenges due large reductions in pupil numbers.

14.9. The funding formula factors are determined by the Department for Education [*DFE*]. The funding rates are recommended by the Schools Forum and were agreed by the Cabinet on 6th December 2021. For details of the funding factors please see the Schools Forum reports for 6th December 2021.

14.10. The DFE wish to move to a national funding formula for all mainstream schools. In Croydon this could potentially mean a greater impact for our primary schools who would have a reduction in funding overall whilst secondary schools would have an increase in funding. This is because the secondary to primary funding ratio is lower than the national average.

14.11. In comparison to other Outer London boroughs, Croydon receives relatively less funding within the schools block, given it has the highest levels of deprivation. (21-22 data):

<u>Table 12</u>

Local Authority	Primary Unit of Funding *(£'s)*	Level of Deprivation (%age)	Secondary Unit of Funding *(£'s)*	Level of Deprivation (%age)
Greenwich	5,447	28.1%	7,600	35.2%
Brent	5,324	17.7%	6,966	26.4%
Barking and Dagenham	5,314	24.8%	7,012	34.9%
Ealing	5,099	24.4%	6,879	29.2%
Enfield	5,015	27.6%	6,690	33.9%
Merton	5,002	23.3%	6,802	31.4%
Croydon	**4,945**	**29.4%**	**6,628**	**38.4%**
Waltham Forest	4,932	23.8%	6,697	33.9%
Barnet	4,922	22.1%	6,458	26.4%
Hounslow	4,909	21.3%	6,610	29.8%
Hillingdon	4,856	19.3%	6,580	28.6%
Bromley	4,678	14.3%	6,048	20.8%
Havering	4,667	18.7%	6,285	24.3%
Harrow	4,657	13.6%	6,403	23.7%
Sutton	4,628	16.9%	6,039	19.6%
Kingston upon Thames	4,617	13.9%	6,057	16.3%
Bexley	4,598	19.7%	6,195	24.3%
Redbridge	4,591	13.7%	6,227	23.3%
Richmond upon Thames	4,498	11.3%	6,074	17.8%

14.12. Croydon is the 7th highest for primary funding and 8th highest for secondary. Croydon but has the highest level of deprivation across both sectors.

High Needs Block [*HNB*]

14.13. A summary of the 22-23 HNB compared to 2021/22 is provided below:

Table 13 High Needs Block

	Basic Allocation *(£'s)*	Special Schools *(£'s)*	Import / Export *(£'s)*	Misc' Factors *(£'s)*	Additional Funding *(£'s)*	Total HNB Allocation *(£'s)*
2021/22	68,065,082	6,529,051	(2,478,000)	1,162,914		73,279,047
2022/23	73,484,936	7,055,654	(2,478,000)	1,199,199	3,031,000	82,292,789
Change	**5,419,854**	**526,603**	**-**	**36,285**	**3,031,000**	**9,013,742**

14.14. The special schools national factor does not reflect how special schools are funded locally.

14.15. The HNB supports all special education needs (SEN) provision including, maintained special schools, independent special schools and SEN support in mainstream schools. The HNB national funding factors are largely based upon historical factors. A move away from historical allocations would mean a reduction in HNB funding for Croydon. This is because Croydon's historical HNB funding is relatively high.

14.16. The increase for 2022/23 is £9.014m or 12.3%. The national average increase is 13%.

14.17. The large increases are in recognition that over the past 10 years or so HNB funding has not kept pace with either the rise in pupil numbers, inflationary pressures, nor the increase in demand for SEN support.

14.18. Many LA's have deficits on their HNB due to the demands referred to above. In Croydon this was £24.221m at 31st March 2021 and is expected to be £28.327m as at March 2022. There is a deficit recovery plan in place which aims to prevent the deficit from increasing. The main strategy is to have far more reliance on local provision and less reliance on expensive independent special school places whilst ensuring the Council continues to deliver its statutory duties in this regard.

14.19. As a condition of the 2022/23 DSG, LAs with an overall DSG deficit of one per cent or more at the end of the previous financial year are required to submit recovery plans for that deficit. Croydon is continuing to liaise with the DFE on the progress of the plan which it was required to submit.

Early Years

14.20. The Early Years Block covers funding for pupil's free entitlement across all early years settings. The universal free entitlement is 15 hours per week but some parents are eligible for 30 hours. The funding allocations for 2022/23, compared to 2021/22 are shown below:

Table 14

	2021/22	2022/23	Change
3&4 Year Old Funding Rate (£'s)	5.27	5.44	0.17
3&4 Year Old (Hours)	4,924,088 hrs	4,501,598 hrs	(422,490 hrs)
3&4 Year Old Funding (£'s)	25,949,942	24,488,692	(1,461,250)
2 Year Old Funding Rate (£'s)	5.82	6.03	0.21
2 Year Old Funding (Hours)	575,016 hrs	429,837 hrs	(145,179 hrs)
2 Year Old Funding (£'s)	3,346,593	2,591,918	(754,675)
Miscellaneous Factors (£'s)	811,917	732,492	(79,425)
Total Funding (£'s)	**30,108,452**	**27,813,102**	**(2,295,350)**

14.21. There is a considerable reduction in early years funding due to the fall in the number of hours required to be funded. The Early Years National Funding Formula [*EYNFF*] was introduced in April 2017. The primary aims were to ensure all early years settings were funded at the same rates within each LA. It also provides some consistency across LA's although the funding rates differ (see below).

14.22. The EYNFF means Schools Forum have very limited powers to decide what amount must be delegated to the early years formula for early years providers.

14.23. Croydon's early years funding is low in comparison to other Outer London Boroughs as demonstrated below:

Table 15

	3 and 4 Year Old Funding Rate	2 Year Old Funding Rate
Bromley	5.22	6.03
Bexley	5.42	6.03
Croydon	5.44	6.03
Redbridge	5.52	6.03
Havering	5.59	6.03
Brent	5.68	6.29
Sutton	5.77	6.29
Barking and Dagenham	5.81	6.03
Ealing	5.83	6.29
Waltham Forest	5.83	6.03
Newham	5.88	6.03
Harrow	5.89	6.29
Enfield	5.93	6.03
Merton	5.95	6.29
Haringey	5.97	6.03
Richmond upon Thames	6.00	6.29
Kingston upon Thames	6.08	6.29
Hillingdon	6.14	6.29
Hounslow	6.22	6.29
Barnet	6.24	6.29

14.24. There is a 23% difference between the lowest and highest funded Outer London LA's for 3 and 4 year olds. The low funding and reduction in hours will mean many of Croydon's early years settings will face financial challenges in the coming year.

14.25. The main risk with this block is the challenges faced by the maintained nurseries schools which have high operational costs

14.26. The 2021 to 2022 hourly supplementary funding rates are the starting point for calculating the 2022 to 2023 supplementary funding rates. These are uplifted by 3.47% and then rounded to 2 decimal places, which is equivalent to the increase in the 3 and 4-year-old hourly funding rates.

<u>Central Services School</u>

14.27. In 2018/19, the NFF created a fourth block within the DSG called the Central Services Schools Block (CSSB). This block is made up of two parts – ongoing Functions and Historic Commitments.

14.28. The CSSB allocations for 22-23 and 21-22 are shown below:

Table 16

	CSSB Unit of Funding (£'s)	CSSB Pupil Count (no.)	Ongoing Commitments (£'s)	Funding for Historic Commitments (£'s)	Total Central School Services Block (£'s)
2021/22	55.68	50,875	2,832,693	3,213,000	6,045,693
2022/23	54.29	50,314	2,731,548	2,570,400	5,301,948
Change	**(1.39)**	**(561)**	**(101,145)**	**(642,600)**	**(743,745)**

Ongoing Commitments

14.29. There is a £101k shortfall but this may be funded by savings. The historical teachers' pensions reduce each year due to people leaving the service. The ongoing commitments cover the following activities:

Table 17

	2021/22 (£'s)	2022/23 (£'s)
Schools forum costs	39,000	39,000
Commissioning standards, Other Statutory Duties and Asset management	344,000	344,000
Academies - Legal Cost	60,000	60,000
Historic Teachers pensions costs	989,000	989,000
School improvement central	424,000	424,000
Finance and Audit	333,000	333,000
Education welfare service	584,000	584,000
Health & Wellbeing	20,000	20,000
Safeguarding & multiagency liaison	5,000	5,000
SACRE	34,000	34,000
Sub- total Ongoing costs	**2,832,000**	**2,832,000**

Historical Commitments

14.30. The DFE did indicate that the CSSB historical commitments allocation would reduce by 20% in 22-23. A report explaining this was written to Schools Forum on the 23rd November 2021.

14.31. The historical commitments are shown below. They still total £3,213,000 in 2022/23 but the allocation is reduced by £642,600. This reduction is now a pressure on the General Fund.

Table 18

	2021/22 *(£'s)*	2022/23 *(£'s)*
Termination Costs	213,000	213,000
Prudential Borrowing	3,000,000	3,000,000
Total	**3,213,000**	**3,213,000**

15. Housing Revenue Account

15.1. The Housing Revenue Account [*HRA*] is a ring-fenced account used to separately account for income and costs associated with managing the Council owned social housing stock and related assets which includes shops and garages on council housing estates. It is funded primarily from tenants' rents and service charges. The services provided to tenants and leaseholders which includes responsive repairs, management and supervision services and caretaking costs as examples are resourced from this account.

15.2 The draft budget for 2022/23, Table 19, shows a balanced position which is required by statute. The rent and other charges income increases were approved by Cabinet on 7th February.

Table 19 – 2022/23 HRA Revenue Budget

DESCRIPTION	ORIGINAL	BUDGET
	2021/22	2022/23
	£'000	£'000
Employees	15,162	18,579
Premises related expenditure	17,740	18,494
Supplies and Services	3,081	3,636
Third Party Payments	363	401
Transfer Payments	656	663
Transport related expenditure	44	91
Capital Charges	33,824	34,235
Intangible Charges	122	122
REFCUS	180	180
Corporate support services bought in	6,705	7,034
Recharges from other services	10,988	6,944
TOTAL EXPENDITURE	**88,865**	**90,378**
Government Grants	-	-
Other Grants, reimbursements and contributions	- 185	-
Customer and Client Receipts(Rents & Service Charges)	- 86,591	- 88,278
Interest Receivable	-	-
Recharges to other services	- 2,089	- 2,100
TOTAL INCOME	**- 88,865**	**- 90,378**
NET EXPENDITURE	-	-
Contributions to / (from) Reserves	-	-

16. Capital Programme

16.1. The General Fund capital programme was presented for Cabinet consideration at its January 2022 meeting and approved as summarised in Table 3 of that report and presented again below:

Table 20 – General Fund Capital Programme Approved Cabinet Jan 2022

	2021/22		2022/23		2023/24		2024/25		4-Year
	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,000's)	Total (£,000's)
Adult Social Care & Health	68	-	1,707	-	269	-	-	-	2,044
Children, Young People & Education	15,451	(12,649)	15,964	(15,964)	6,057	(6,057)	-	-	2,802
Housing	3,393	(2,993)	3,493	(2,993)	2,993	(2,993)	2,993	(2,993)	900
Sustainable Communities, Regeneration & Economic Renewal	45,427	(13,529)	45,064	(18,249)	28,386	(14,672)	29,496	(15,444)	86,479
Assistant Chief Executive	11,867	-	14,028	-	7,271	-	6,276	-	39,442
Resources	3,456	(168)	4,631	(404)	2,687	(34)	-	-	10,167
Corporate	2,393	(8,793)	2,500	(9,100)	2,500	(9,100)	2,500	(2,500)	(19,600)
Capitalisation Direction	50,000	-	25,000	-	5,000	-	-	-	80,000
	132,055	**(38,132)**	**112,387**	**(46,710)**	**55,162**	**(32,856)**	**41,265**	**(20,937)**	**202,234**
		Net		Net		Net		Net	
Being: Gross Spend		131,897		112,387		55,162		41,265	340,711
CIL/s106 Funding		(12,630)		(10,462)		(7,220)		(226)	(30,538)
Grant Funding		(22,951)		(33,747)		(23,136)		(18,211)	(98,045)
Capital Receipts		(2,393)		(2,500)		(2,500)		(2,500)	(9,893)
Borrowing		**93,923**		**65,677**		**22,307**		**20,328**	**202,234**

16.2. Since that meeting further transformation funding requests have been received and whilst the reported requirement for 2021/22 has reduced from £2.393m to £1.348m – a reduction of £1.045m – the value of requests, validated and considered by an officer-led Transformation Funding Board, has increased from £2.500m to £4.622m.

16.3. Members are requested to approve, and recommend to Full Council to approve, the changes outlined above from the General Fund capital programme approved in January 2022. In particular it is a requirement of regulations governing use of flexible capital receipts for transformation purposes that each proposal is made visible and approved by Full Council and that approval cannot be delegated to Cabinet or other decision-making bodies.

16.4. The table below sets out the changes to the flexible use of capital receipts projects previously approved by Full Council and the spending plans requested to be approved for 2022/23:

Table 21 – Transformation / Flexible Capital Receipts Proposals

Dept	Proposal	Approved 5th July 2021/22 (£,000's)	Changes 2021/22 (£,000's)	Forecast 2021/22 (£,000's)	
	Approved in July 2021 and Latest Forecasts				
CYPE	Reconfigure Early Help Services	74	-	74	
	Review of Children with Disabilities Packages	37	-	37	
	Reduction in Numbers of Children in Care	11	-	11	
	Improve Practice System Efficiency	437	(350)	87	Project Slippage
	Improve Practice System Efficiency	48	-	48	
RES	Consolidate Debt Collection	23	(23)	-	Funded by other means
	Consolidate Debt Collection	90	(90)	-	Funded by other means
	Digital Billing by Default	82	(82)	-	Funded by other means
	Commissioning & Procurement Transformation	330	-	330	
HWA	Baseline Savings - Disabilities Operational Budget	105	-	105	
	Baseline Savings - Disabilities Operational Budget	65	-	65	
	Baseline Savings - Disabilities Operational Budget	96	-	96	
	Baseline Savings - Disabilities Operational Budget	240	-	240	
	Options Appraisal of Provider Services	80	-	80	
	Mental Health Operational Budget	61	-	61	
	Savings on Care Provision - ASC Older People	59	-	59	
	One Alliance PMO	55	-	55	
		1,893	**(545)**	**1,348**	

		2022/23 (£,000's)	
New Requests			
HSG	EA Commissioning Cost Reduction	159	Staffing resources to implement a Dynamic Purchasing System and provider framework to reduce costs of EA/TA accommodation
	Change Capacity	80	Additional Change manager posts within Housing Directorate to support delivery of savings and change programme
CFYP	Improve Practice System Efficiency	350	Roll-Forward of underspend of 2021/22 approval
	Improve Practice System Efficiency	597	Staffing and recruitment costs to deliver a more sustainable and efficient workforce.
	Reduce CLA Spend	207	Create a team to support in house foster carers and have less reliance on agency foster care
	Accelarate reduction in HNB deficit	244	3 SEND Leads to create more local SEND provision and less reliance on more expensive provision
ASCH	Capitalise Savings Project Management Costs	1,100	Departmental change and innovation staff engaged in delivering savings programme charged to flexible capital receipts
	Older Peoples Package of Care (POC) Review	317	Five social workers employed to review care packages to ensure packages are apprpriate for client needs
SCRER	Phase 1 Exploration of Service Delivery Options for Building Control	45	Review of Building Control Team to lead to service transformation in light of changing market and additional burdens on service - maximising future income
ACE	Members Enquiries Transformation Bid	43	Two G7 posts to support the implementation/delivery of new Member enquiry software - leading to improved response times and lower adminstrative burden on organisation
	Core Contract Procurement Transformation	530	Support for review and rationalisation of Digital Services contract spend to deliver on savings targets
	Transformation and PMO	798	Staffing for the Project Management Office function to support project delivery and monitor progress in delivering all savings plans
	Rationalisation of software applications and contra	152	Business analyst support to review the 400+ software applications across the Council and by rationalising deliver on savings
		4,622	

16.5. Whilst the officer-led Transformation Board has reviewed the outline business requests for the new proposals set out above, they would wish to see further information as to delivery plans before any schemes approved by Full Council are able to proceed.

17. FINANCIAL CONSIDERATIONS

17.1. As set out throughout this report

18. LEGAL CONSIDERATIONS

18.1. The Head of Litigation and Corporate Law Comments on behalf of the Interim Director of Law and Governance and Deputy Monitoring Officer that:

18.2. The provisions of the Local Government Finance Act 1992 sets out what the Council has to base its budget calculations upon, and require the Council to set a balanced budget with regard to the advice of the Council's section 151 officer. The setting of the budget is a function reserved to full Council, which needs to consider the draft budget which has been recommended for approval by Cabinet. Once the budget has been agreed by full Council, the Executive cannot make any decisions which conflict with it although virements and in-year changes can be made in accordance with the Council's financial regulations.

Setting the Council Tax

18.3. Section 30 of the Local Government Finance Act 1992 ("The 1992 Act") requires that the Council as billing authority, for each financial year and each category of dwellings in its area, shall set an amount of council tax in accordance with Section 30(2). An amount so set shall be calculated by taking the aggregate of-

a) the amount which, in relation to the year and the category of dwellings, has been calculated (or last calculated) by the authority in accordance with sections 31A, 31B and 34 to 36

(b) any amounts which, in relation to the year and the category of dwellings have been calculated in accordance with sections 42A, 42B and 45 to 47 below and have been stated (or last stated) in accordance with section 40 in precepts issued to the authority by major precepting authorities.

18.4. Section 30(5) provides that Council as billing authority shall assume for the purposes of subsections (1) and (2) of Section 30 reflected above that each of the valuation bands is shown in its valuation list as applicable to one or more dwellings situated in its area or (as the case may be) each part of its area as respects which different calculations have been so made.

18.5. Any amount to be set as Council tax must be set before 11th March in the financial year preceding that for which it is set, but is not invalid merely because it is set on or after that date. (Section 30(6)) Section 30(7) provides that no amount may be set before the earlier of the following-

a) 1st March in the financial year preceding that for which the amount is set;

b) the date of the issue to the authority of the last precept capable of being issued to it (otherwise than by way of substitute) by a major precepting authority for the financial year for which the amount is set.

18.6. Furthermore, no amount may be set unless the authority has made in relation to the year the calculations required by Chapter III of the 1992 Act. (Section 30(8)) Any purported setting of an amount, if done in contravention of subsection (7) or (8) above, shall be treated as not having occurred (Section 30(9)). It is therefore an important feature of Council Tax is that the statutory budget calculation must be followed exactly. If not the Council Tax resolution will be invalid and void.

18.7. As set out above, Section 30(6) of the Local Government Finance Act 1992 provides that the Council is required to set its budget (including Council Tax rates) before 11th March 2022 for the financial year 2022/23, although failure to set a budget within the deadline does not invalidate the budget. A delay to agreeing the budget may, however, have significant financial administrative and legal implications including potentially an individual liability for those Members who contributed to the failure to set the budget.

18.8. Section 66 of the 1992 Act provides that the setting of the budget (and this includes the failure to set or delay in setting the budget) can be challenged by an application for judicial review, with either the Secretary of State or any other person with sufficient interest (which could include a council taxpayer) able to apply. An important feature of Council Tax is that the statutory budget calculation must be followed exactly. If not the Council Tax resolution will be invalid and void.

18.9. When considering the budget proposals the Cabinet and Council will be mindful of their fiduciary duty to ensure that the Council's resources are used in a prudent and proportionate manner, as detailed more fully below. Members are required to have regard to their statutory duties whilst bearing in mind the requirement to act reasonably when taking in to account the interests of the Council Tax payers.

18.10. The Local Government Finance Act 1992 (as amended), requires the Council as billing authority to determine whether its relevant basic amount of council tax for a financial year is excessive. If it is excessive then there is a duty under s.52ZF - s.52ZI to hold a referendum. Determining whether the Council Tax is excessive must be decided in accordance with a set of principles determined by the Secretary of State and approved by a resolution of the House of Commons.

18.11. The thresholds for excessive council tax were published and approved on 7 February 2022 and for authorities such as Croydon the thresholds are expressed as follows: For 2022-23, the relevant basic amount of council tax of an authority is excessive if the authority's relevant basic amount of council tax for 2022-23 is 2% + A% (comprising A% for expenditure on adult social care, and 2% for other expenditure), or more than 2%+A%, greater than its relevant basic amount of council tax for 2021-22.

18.12. Section 25 of the Local Government Act 2003 provides that where an authority is making calculations in accordance with that section 31A (calculation of Council tax requirement) of the Local Government Finance Act 1992, the chief finance officer of the authority must report to it on the following matters-(a) the robustness of the estimates made for the purposes of the calculations, and (b) the adequacy of the proposed financial reserves.

18.13. An authority to which a report under section 25 is made shall have regard to the report when making decisions about the calculations in connection with which it is made (Section 25(2). In this section, "chief finance officer", in relation to an authority, means the officer having responsibility for the administration of the authority's financial affairs for the purposes of section 151 of the Local Government Act 1972 (c. 70) (Section 25(3)(a))

18.14. The procedure to be followed in developing the budget proposals as detailed in the report are set out in the Budget and Policy Framework Procedure Rules provided in Part 4.C of the Council's Constitution. To deliver some of the budget proposals action may be required which should be undertaken in accordance with statutory requirements including any legal requirements for consultation and equality impact assessments.

18.15. Members will be aware of the requirement to consider the Council's obligations under the Equality Act 2010 as detailed more fully in the Equalities Considerations, section 20 below.

18.16. There is also a duty, under section 65 of the 1992 Act, to consult with representatives of Non-Domestic Ratepayers about the proposed revenue and capital expenditure before the budget requirement is calculated.

18.17. When considering what level of general reserve to hold, the following are relevant considerations:

18.18. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing authorities (i.e. the Council) to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. Specifically, sections 31A and 42A require local authorities to set a balance budget including an adequate level of reserves;

18.19. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (the Council's the Section 151 officer) to report on the adequacy (or otherwise) of reserves and the robustness of estimates supporting the budget;

18.20. Section 26 of the Local Government Act 2003 requires that when setting the budget requirement, the reserves include a minimum level for controlled reserves - this minimum level is determined by the Section 151 officer, and;

18.21. Section 27 of the local Government Act 2003 requires the Section 151 officer to report on the inadequacy of controlled reserves - i.e. when it appears to the Section 151 officer that the level of a controlled reserve is inadequate or likely to become inadequate

Members' fiduciary duty:

18.22. The obligation to make a lawful budget each year is shared equally by each individual Member. In discharging that obligation, Members owe a fiduciary duty to the Council Taxpayer.

18.23. The budget must not include expenditure on items which would fall outside the Council's powers. Expenditure on lawful items must be prudent, and any forecasts or assumptions such as rates of interest or inflation must themselves be rational. Power to spend money must be exercised bona fide for the purpose for which they were conferred and any ulterior motives risk a finding of illegality.

18.24. In determining the Council's overall budget requirement, Members are bound to have regard to the level of Council Tax necessary to sustain it. Essentially the interests of the Council Taxpayer must be balanced against those of the various service recipients.

Setting HRA Budget:

18.25. The HRA consists of expenditure on Council-owned housing and there is a statutory requirement whereby the Council is obliged to keep its HRA separate from other housing activities in accordance with the Local Government and Housing Act 1989 (as amended) ("the 1989 Act"). In addition, there is a requirement not to allow cross-subsidy to or from, the Council's General Fund resources.

18.26. The Council is required to prepare proposals in January/February of each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property. The Council has to secure that the HRA for any year does not show a debit balance.

18.27. Section 76 of the 1989 Act places a duty on local housing authorities: to produce, and make available for public inspection, an annual budget for their HRA which avoids a deficit; to review and if necessary, revise that budget; and to take all reasonably practicable steps to avoid an end-of-year deficit.

18.28. The authority shall, within one month of formulating or revising their proposals in compliance of the duty pursuant to section 76 of the 1989 Act, prepare a statement setting out those proposals as so formulated or so revised and the estimates made by them in formulating/revising these proposals.

Arrears of Council Tax and Voting

18.29. In accordance with section 106 of the Local Government Finance Act 1992 ("the 1992 Act"), where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the Member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a meeting: (a) Any decision relating to the administration or enforcement of Council Tax. (b) Any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax. (c) Any recommendation, resolution or other decision which might affect the making of the Annual Budget calculation.

The Interim Head of Commercial and Property Law comments on behalf of the Interim Director of Law and Governance and Deputy Monitoring Officer as follows:

Brick by Brick

18.30. In accordance with the governance arrangements established for Brick By Brick Croydon Ltd [BBB], Cabinet shall receive quarterly reports and the BBB Shareholder Cabinet Advisory Board shall actively supervise and monitor the Council's investment in BBB, including lending arrangements. Officers should ensure that the variations to the Facility Agreement with BBB, recommended as part of this report, are also reported following the established governance arrangements.

Croydon Affordable Homes and Croydon Affordable Tenures

18.31. The potential risks regarding the accounting treatment of the leases with Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP are explained in this report and the Section 151 Officer's Section 25 report. Advice from leading Queen's Counsel has been sought specifically in relation to the Council's ability to set a lawful budget in light of these uncertainties. Counsel has advised that the budget must be set in time notwithstanding uncertainties.

The Council's external legal advisors comment on behalf of the Interim Director of Law and Governance and Deputy Monitoring Officer as follows:

Pension Fund Property Transfer Advice:

18.32. On 21 November 2018 the Pensions Committee resolved to receive into the Croydon Pension Fund 346 housing properties from Croydon Council, between November 2057 and April 2059 in exchange for which it was agreed to adjust the Council's employer contribution rates to take account of the future transfer of properties. It was also resolved to delegate to the Council's s151 Officer, in consultation with the Chair of the Pension Committee, to agree the appropriate wording of the Council resolution to gain agreement of Full Council to transfer these assets from the Council's General Fund to the Pension Fund in 40 years.

18.33. On 28 January 2019 the Full Council resolved to the break in the leases in 40 years, subject to all linked outstanding debt having been cleared, to transfer the 346 homes leased to Croydon Affordable Homes LLP and Croydon Affordable Tenures via an additional lease to the London Borough of Croydon Pension Fund, or any successor body, via a Pension Fund nominee company as part of meeting the Council's liability to the Pension Fund as a scheme employer.

18.34. The mechanics of how this would work formed part of the complex Croydon Affordable Homes structure and involved the granting by the Council in its capacity as the Landlord of the properties of new Superior Headleases to two nominee companies, London Borough of Croydon Pension Nominee 1 Limited and London Borough of Croydon Pension Nominee 2 Limited, being wholly owned subsidiary companies of the Council in its capacity as the Administering Authority of the Pension Fund.

18.35. The Superior Headleases would effectively be inserted into the existing Croydon Affordable Homes structure. Because the Council was acting as both Landlord and as Administering Authority, as a point of basic legal principle one legal entity could not form a binding contract with itself and hence why the nominee companies were being used to represent the Pension Fund but as separate legal entities.

18.36. Despite various attempts to agree the legal documentation, the transaction has never completed and has therefore not been implemented. Following advice received from the Pension Fund's actuary and its investment advisers in December 2021 recommending that the structure should not proceed, a proposal to rescind the Pension Committee's earlier decision was discussed at a Pensions Committee meeting on 3 December 2021. The draft committee minutes indicate the Pensions Committee was cognisant that the transfer was unlikely to proceed subject to further information requested previously. No formal decision to rescind was made however.

18.37. The Council in its capacity as Landlord now also wishes to rescind its decision of 28 January 2019, in particular because of uncertainties that will exist until year 41 and because of the life expectancy of the residential properties in question. The Council has also managed to negotiate a separate reduction in its employer contribution rate for financial years 2021/22 and 2022/23 which is not contingent on the transaction proceeding.

18.38. The transaction cannot proceed if either party make a decision not to proceed with the transaction. If the Council as Landlord decides it is not prepared to grant the Superior Headlease to the Pension Fund nominee companies then the transaction simply cannot proceed despite the fact a formal decision does not yet appear to have been made by the Pensions Committee. In any event we understand that the two nominee companies have been struck off at Companies House which means the transaction could not proceed in its proposed form in any event without new nominee companies being formed as the Council cannot contract with itself.

18.39. We have been asked to consider whether the Pension Fund/Pensions Committee could have any form of recourse against the Council as Landlord/scheme employer if the decision is rescinded. For reasons similar to those set out above, the Council cannot sue itself. It is also difficult to see what losses the Pension Fund will actually suffer as a result of any decision to rescind other than the professional fees incurred investigating and progressing the proposal. These costs are paid from the Pension Fund which is funded by the employers with the Council being the main employer in the Pension Fund.

18.40. We understand the Council has not benefitted from any reduced employer contribution rate under the proposal as it was never implemented. We also understand that the value of the properties under the Superior Headlease has never been formally valued and quantified. Because the transaction was not planned to happen for another 40 years there has been no lost investment returns caused by the delay in implementing the transaction. The Fund would have received no immediate income from the Superior Headleases.

18.41. Other than the Pensions Committee specifically asking the Council to cover the aborted professional fees the Pension Fund has incurred, we do not see that the Pensions Committee (on behalf of the Pensions Fund) would have any recourse against the Council for rescinding its decision of 28 January 2019, a decision which the Pensions Committee would appear to support in any event.

(Approved by: Sandra Herbert, Head of Litigation and Corporate Law and Kiri Bailey, Interim Head of Commercial and Property Law on behalf of the Interim Director of Law and Governance and Deputy Monitoring officer.)

19. HUMAN RESOURCES IMPACT

19.1. The implementation of the savings proposals will in a number of instances have a staffing impact. Where organisational change is proposed which impacts on structure, such as through restructures or transfers, this will be managed in accordance with the Council's policies and procedures.

Approved by: Gillian Bevan, Head of HR (Resources and Assistant Chief Executives) on behalf of the Chief People Officer.

20. EQUALITIES IMPACT

20.1. Under the Public Sector Equality Duty of Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others.

20.2. Section 149 of the Act requires public bodies to have due regard to the need to:

- Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- Advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- Foster good relations between people who share a protected characteristic and people who do not share it.

20.3. Protected characteristics defined by law include race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, and religion or belief and marriage and Civil Partnership. The law now recognises gender identity along with gender reassignment.

20.4. Having due regard means there is a requirement to consciously address the three tenets of the Equality Duty within decision-making processes. By law, assessments must contain sufficient information to enable the local authority to show it has paid 'due regard' to the equalities duties; and identified methods for mitigating or avoiding adverse impact on people sharing protected characteristics. Where a decision is likely to result in detrimental impact on any group with a protected characteristic it must be justified objectively. Report authors have been guided towards ensuring that there is sufficient mitigation when a service has been changed to ensure that there is no detrimental impact on service users as a result of the change.

20.5. As a result, budget proposals have been subject to the Council's own equality impact analysis processes (EIA) between January 22 and February 22, as part of a risk-based approach to analyse potential equalities impact of budget proposals. Budget holders have identified where proposals are likely to have a disproportionate impact on those with protected characteristics (i.e. Race, sex, disability, religion or belief, sexual orientation, pregnancy and maternity, age, gender identity and marriage and civil partnership). In some instances budget holders have extended the equalities consideration to include analysis of non-statutory factors - such as language recognising that some service users do not have English as a first language, socio-economic and health and social wellbeing. Where adverse impact has been identified mitigating actions have been specified and written into an action plan which will be monitored by the risk owner. This is essential to ensure that the Council deliver the best service that they can afford whilst not impacting on the recipients of the service by passing the costs onto the service users.

20.6. In developing its detailed budget proposals for 2022/23 the Council has sought to achieve best practice in equality and inclusion. The Council recognises that it has to make difficult decisions in order to reduce its overall expenditure to meet Government cuts in grant funding and to deliver a balanced budget while ensuring that it is able to respond positively to increases in demand for essential services, and meet its legal equality obligations at the same time. In doing so it endeavours to best meets the specific needs of residents, including those groups that share a "protected characteristic". In doing so due regard has been placed on the Council's core priority, to tackle ingrained inequality and poverty in the borough, following the evidence to tackle the underlying causes. This enables the Council to take account of the socio economic impact of the proposals and ensure compliance with section 1 of the Equality Act 2010.

20.7. Through its budget proposals, the Council will also seek to identify opportunities to improve services and the quality of life for all Croydon residents while minimising any adverse impacts of decisions, particularly in regard to groups that share protected characteristics. In doing so the Council will focus on another core priority to focus on providing the best quality core service we can afford, in particular social care for the most vulnerable people and keeping streets clean and safe. It is guided by the broad principles of equality and inclusion and has carried out equality impact assessments to secure delivery of that duty, including such consultation as required. This also includes negotiating with our partners, the NHS for example to ensure that we minimise our costs by facilitating an equitable balance in our contributions.

Particular care has been taken to minimise the impact on reductions on Adults using social care and children, along with children of asylum seekers. Where a change in provision has been made, each service has ensured that this has been mitigated by robust action plans which are monitored and reviewed.

20.8. An equality analysis has been completed in respect of the overall Council Tax increase which will apply to all households in the borough. While this increase is relatively modest, it will nonetheless impact those on low and fixed incomes and in particular those affected by changes to the benefit system and no longer qualify for Council Tax Support. This segment of the population is more likely to live in the most deprived areas in the borough where there is a greater proportion of Black Asian and Minority ethnicity residents. In addition the Council will continue, through the Council Tax Support scheme to provide financial relief for vulnerable households including:

- Pensioners on low incomes.
- People that are in receipt of disability living allowance or employment support allowance, or other benefits which have a disability element including Universal Credit payments where an element of the payment is in relation to a disabled child. This ensures that parents of disabled children are not adversely affected by their association with their disabled child in line with the Equality Act 2010. Particular consideration has been taken to the impact on families and single parents, disabled people and parents of disabled children.
- Introducing a new hardship fund to support families affected by recent changes to the scheme

20.9. As part of wider overall welfare support provided, residents having difficulties with their payments are offered practical budgeting advice and support as well as help in finding work through the Council's Gateway service. Residents who may be having difficulties have also been signposted to Debt Advisory organisations within the Borough. The Council have also provided a hardship fund to support residents who have difficulty in making payments for the first 12 months of the increase.

20.10. In respect of specific proposals, it is likely that some proposals may result in new policies or policy or service changes, in this instance each proposal will be accompanied by an equality analysis which will inform the final proposal and its implementation, on a case by case basis made available at the time of decision.

Approved by Denise McCausland – Equality Programme Manager

21. ENVIRONMENTAL IMPACT

21.1. None direct from the budget report specifically, but will be considered as art of the implementation of any of the proposals contained in this report.

22. CRIME AND DISORDER REDUCTION IMPACT

22.1. As set out in the body of the report and appendices.

23. DATA PROTECTION IMPLICATIONS

23.1. None direct from the budget report specifically, but will be considered as art of the implementation of any of the proposals contained in this report.

SUPPORTING DOCUMENTS:

- Final Local Government Finance Settlement 2021/22
- 2021/22 Council Tax and Budget – Council 8th March 2021
- Independent Non-Statutory Review – Follow Up Report – Cabinet 6th December 2021
- 2022/23 Budget and Medium Term Financial Strategy – Cabinet 6th December 2021
- Review of Council Tax Support Scheme 2022/23 – Cabinet 24th January 2022
- Updated 2021/22 and Forecast General Fund Capital Programme – Cabinet 24th January 2022
- Medium Term Financial Strategy 22/23 to 24-25 Update – Cabinet 24th January 2022
- HRA Rent Setting and Budget Report – Cabinet 7th February 2022
- Final Local Government Finance Settlement 2022/23

LIST OF APPENDICES

A Summary of General Fund Revenue Estimates
B General Fund Growth and Savings Proposals
C General Fund Departmental Revenue Budgets
D General Fund Service Subjective Budget Summary
E Recommendations for Council Tax Requirement 2022/23
F Greater London Authority Budget and Council Tax Precept
G Pension Fund Committee Asset Transfer Decision
H Croydon Affordable Homes/Tenures Briefing Note
I Budget Proposals for 2022/23 – Feedback from Survey

BACKGROUND DOCUMENTS

None

Appendix A - Summary of General Fund Revenue Estimates

SERVICE DEPARTMENT	2022/23 Budget £'m	Estimated 2023/24 Budget £'m	Estimated 2024/25 Budget £'m
Children, Young People & Education	79.683	76.611	74.981
Adult Social Care & Health	114.215	111.430	112.170
Housing	8.028	6.139	6.139
Sustainable Communitities, Regeneration & Economic Renewal	26.467	22.942	22.947
Assistant Chief Executive	32.478	35.480	33.230
Resources	24.787	22.758	21.568
NET EXPENDITURE	**285.658**	**275.360**	**271.035**
Contribution to provisions for Doubtful Debts	1.000	0.000	0.000
Corporate Held Service Budgets	30.275	52.154	67.663
Other Corporate Items	(3.202)	(2.170)	1.408
Interest (Net)	19.392	24.656	26.883
MRP	21.000	20.062	20.246
Capitalisation Direction	(25.000)	(5.000)	0.000
General Risk Provisions	5.000	10.000	10.000
Core Grants	(37.333)	(35.987)	(36.418)
NNDR Smoothing Reserve	(10.447)	(10.447)	(10.571)
Levies	1.411	1.454	1.497
Contribution to / (from) General Balances	0.000	0.000	0.000
Contribution to / (from) Earmarked Reserves	6.887	0.000	0.000
Budget Gap	0.000	27.389	36.088
TOTAL ADJUSTED BUDGET REQUIREMENT	**294.642**	**357.472**	**387.832**
Financed by:			
Revenue Support Grant	(14.646)	(14.939)	(15.238)
Business Rates Top Up Grant	(34.192)	(31.490)	(31.490)
Business Rates Income	(30.752)	(34.925)	(34.912)
Collection Fund Surplus/Deficit	(0.940)	2.504	0.000
Croydon Tax Element	**(214.112)**	**(223.843)**	**(234.016)**
Greater London Authority Precept Element	(53.947)	(53.947)	(53.947)
TOTAL COUNCIL TAX REQUIREMENT	**(268.059)**	**(277.790)**	**(287.963)**

This page is intentionally left blank

Appendix B - General Fund Growth and Savings Proposals

Children, Young People & Education

Proposal Ref	Proposal Name:	Part A - Savings Approved March 2021 Part B - New Savings Proposals 2022/23	Savings/Growth	2021/22 £ m	2022/23 £ m	2023/24 £ m	2024/25 £ m	TOTAL 2021-24 £m
CFE Sav 02	Reconfiguration Of Early Help Services	Part A	Savings	(424)	(185)	-	-	(185)
CFE Sav 03	Reconfiguration Of Adolescent Services	Part A	Savings	(1,608)	-	-	-	-
CFE Sav 04	Review Of Children With Disabilities Care Packages	Part A	Savings	(384)	(384)	(384)	-	(768)
Transfer 01	Transfer to HWA - Transitions	Part A	Savings	260	260	260	-	520
CFE Sav 05	Reduction In Spend on Children In Care	Part A	Savings	(794)	(1,654)	(1,385)	-	(3,039)
CFE Sav 06	Review Support For Young People Where Appeal Rights Exhausted	Part A	Savings	(295)	(560)	(142)	-	(702)
CFE Sav 07	Improve Practice System Efficiency	Part A	Savings	(1,065)	(1,450)	(385)	-	(1,835)
CFE Sav 08	Embed Systemic Practice Model	Part A	Savings	(272)	-	-	-	-
CFE Sav 17	Release Of One Off Investment / Full Year Effect Of Savings From 2020/21	Part A	Savings	(1,462)	-	-	-	-
CFE Sav 15/16	Staffing Review	Part A	Savings	(1,471)	-	-	-	-
CFE Sav 09	Review Children's Centres Delivery Model	Part A	Savings	(660)	(240)	-	-	(240)
CFE Sav 10	Reduce Non-Statutory Education Functions	Part A	Savings	(587)	(221)	-	-	(221)
COR Sav 17	Fees And Charges	Part A	Savings		(1)		-	(1)
CFE Sav 12	Early Learning Collaboration Contract	Part A	Savings	(82)	-	-	-	-
CFE Sav 14	Reduce Family Group Conference Service	Part A	Savings	(203)	-	-	-	-
22/23 CFE SAV 04	Increase the Education Traded Offer	Part B	Savings	-	(65)	(65)	-	(130)
22/23 CFE SAV 02	Youth Service review	Part B	Savings	-	-	(392)	-	(392)
TBA	Additional Grant Income - Staying Put	Part B	Savings	-	(400)	-	-	(400)
22/23 O/S Form 11	Implementation of new senior structures	Part B	Savings	-	(91)	-	-	(91)
22/23 O/S Form 01	Contract Savings	Part B	Savings	-	(71)	-	-	(71)
22/23 CFE SAV 01	Previously Applied Growth reduction	Part B	Savings	-	(3,000)	(330)	(330)	(3,660)
22/23 O/S Form 02	NHS Funding	Part B	Savings	-	(790)	-	-	(790)
22/23 CFE SAV 05	Capitalisation of System Team Staff Costs	Part B	Savings	-	(216)	216	-	-
22/23 O/S Form 06	Refocusing Public Health funding - New Youth & Wellbeing Offer	Part B	Savings	-	(300)	-	-	(300)
22/23 O/S Form 06	Refocusing Public Health funding - Parenting Programmes	Part B	Savings	-	(100)	-	-	(100)
22/23 O/S Form 20	Increase in fees and charges	Part B	Savings	(5)	(6)	-	-	(6)
22/23 O/S Form 06	Refocusing Public Health funding - Parenting Programmes	Part B	Savings	-	-	(465)	-	(465)
22/23 CFE SAV 06	Develop Family Support Centres and introduce external funding	Part B	Savings	-	-	-	(1,300)	(1,300)
	Children, Young People & Education Savings			**(9,052)**	**(9,474)**	**(3,072)**	**(1,630)**	**(14,176)**
CFE Gro 01	Children Looked After Placements - fund Demographic and Cost Pressures	Part A	Growth	8,431	85	77	-	-
CFE Gro 02	Leaving Care - fund Demographic and Cost Pressures	Part A	Growth	2,031	-	-	-	-
CFE Gro 03	Children with Disabilities - fund Demographic and Cost Pressures	Part A	Growth	2,387	-	-	-	-
CFE Gro 08	Realignment of Budgets where other funding sources have ceased	Part A	Growth	1,719	-	-	-	-
CFE Gro 07	Realignment of Budgets from 2020/21	Part A	Growth	909	-	-	-	-
CFE Gro 04	SEND Strategy - support inclusion and access to local provision	Part A	Growth	866	-	-	-	-
TBA	Children Looked After Placements - fund Demographic and Cost Pressures	Part B	Growth	-	(85)	(77)	-	-
	Children, Young People & Education Growth			**16,343**	**-**	**-**	**-**	**-**
	Children, Young People & Education Net Proposals			**7,291**	**(9,474)**	**(3,072)**	**(1,630)**	**(14,176)**

Adult Social Care & Health

HWA Sav 06	Baseline Savings - Disabilities Operational Budget	Part A	Savings	(3,015)	(4,371)	(5,570)	-	(9,941.0)
HWA Sav 07	Stretch Savings - Disabilities Operational Budget	Part A	Savings	(1,367)	(1,213)	293	-	(920.0)
Transfer 01	Transfer from CFE - Transitions	Part A	Savings	(260)	(260)	(260)	-	(520.0)
HWA Sav 08	Review Of Contracts - Obc Commissioning, Working Age Adults	Part A	Savings	(600)	(586)	-	-	(586.0)
HWA Sav 09	Baseline Savings - Mental Health Operational Budget	Part A	Savings	(459)	(683)	(881)	-	(1,564.0)
HWA Sav 10	Stretch Savings - Mental Health Operational Budget	Part A	Savings	(225)	(201)	47	-	(154.0)
Transfer 02	Fees And Charges	Part A	Savings	(374)	(75)			(75.0)
HWA Sav 19 and 20	Savings On Care Provision - Asc Older People	Part A	Savings	(2,599)	(3,195)	(3,019)	-	(6,214.0)
HWA Sav 22	Income From Care UK Beds Released To Self- Funders	Part A	Savings	(254)	(264)	(275)	-	(539.0)

				2021/22		2022/23	2023/24	2024/25	TOTAL 2021-24
Proposal Ref	**Proposal Name:**	**Part A - Savings Approved March 2021 Part B - New Savings Proposals 2022/23**	**Savings/Growth**	**£ m**		**£ m**	**£ m**	**£ m**	**£m**
HWA Sav 23	Staffing Review	Part A	Savings	(2,199)		-	-	-	-
22/23 HWA SAV 20	Review of disability (Inc transitions) packages of care	Part B	Savings	-		(566)	-	-	(566.0)
22/23 HWA SAV 23	Review of Older Adults Packages of Care	Part B	Savings	-		(505)	-	-	(505.0)
22/23 HWA SAV 22	Review of Mental Health Packages of Care	Part B	Savings	-		(50)	-	-	(50.0)
22/23 HWA SAV 25	Innovation Budget Reduction	Part B	Savings	-		(180)	-	-	(180.0)
22/23 HWA SAV 24	Removal of previously agreed growth - HWA GRO10	Part B	Savings	-		(1,387)	-	-	(1,387.0)
22/23 HWA SAV 19	Capitalise Savings Project Mgmt Costs	Part B	Savings	-		(1,100)	-	-	(1,100.0)
22/23 O/S Form 06	Refocusing Public Health funding	Part B	Savings	-		(380)	-	-	(380.0)
22/23 O/S Form 20	Increase in fees and charges	Part B	Savings	-		(374)			(374.0)
22/23 O/S Form 11	Implementation of new senior structures	Part B	Savings	-		(42)	-	-	(42.0)
22/23 HWA SAV 26	Market Sustainability / Fair Cost of Care - LGFS Changes	Part B	Savings	-		(946)			(946.0)
	Adult Social Care & Health Savings			**(11,352)**		**(16,378)**	**(9,665)**	**-**	**(26,043)**
HWA Gro 02a	Growth To Fund Current Activity/Run Rate	Part A	Growth	19,048		-	-	-	-
HWA Gro 02b	Rebase Income From Health Budget	Part A	Growth	4,000		-	-	-	-
HWA Gro 06	Growth To Fund Cost Inflation In Care UK Contract	Part A	Growth	254		264	275	-	539
HWA Gro 07/08/09	Growth To Fund Care Packages/Placements Projected Demographic And Cost Pressures	Part A	Growth	5,221		5,209	5,065	-	10,274
HWA Gro 10	Care Package/Placements Inflation Above Corporate Allowance	Part A	Growth	-		1,387	1,479	-	2,866
HWA Gro 11	Progression Team	Part A	Growth	360		-	-	-	-
HWA Gro X	Growth To Fund Demographic And Inflation Pressures In Community Equipment Service	Part A	Growth	57		59	61	-	120.0
HWA Gro 3a	Disabilities - fund Demographic and Cost Pressures	Part A	Growth	4,090		-	-	-	-
22/23 HWA GRO 03	Financial Assessments Improvements	Part B	Growth	-		50	-	-	50.0
22/23 HWA GRO 06	Financial Assessments Improvements additional review	Part B	Growth	-		250	-	-	250.0
22/23 HWA GRO 04	Replacement of Public Health Funding	Part B	Growth	-		380	-	-	380.0
22/23 HWA Gro 07	Market Sustainability / Fair Cost of Care - LGFS Changes	Part B	Growth	-		946	-	-	946.0
22/23 HWA Gro 08	De-capitalise Savings Project Mgmt Costs	Part B	Growth	-		-	-	740	740.0
	Adult Social Care & Health Growth			**33,030**		**8,545**	**6,880**	**740**	**16,165**
	Adult Social Care & Health Net Proposals			**21,678**		**(7,833)**	**(2,785)**	**740**	**(9,878)**

Housing

HWA Sav 23	Staffing Review	Part A	Savings	(1,239)		-	-	-	-
HWA Sav 01	Reduction Of Welfare Rights	Part A	Savings	(442)		(88)	-	-	(88.0)
HWA Sav 13	Reduction In Placements & Accommodation Nrpf Budget	Part A	Savings	(200)		(100)	(100)	-	(200.0)
Transfer 02	Fees And Charges	Part A	Savings	(18)		(4)			(4.0)
HWA Sav 15	Croydon Discretionary Support - Reduction In Service	Part A	Savings	(285)		(7)	-	-	(7.0)
HWA Sav 16	Croydon Discretionary Support - Deletion Of Service	Part A	Savings	(235)		(7)	-	-	(7.0)
HWA Sav 18	Restructure In Gateway Services	Part A	Savings	(114)		(21)	-	-	(21.0)
HWA Sav 25	Increase In Homelessness Prevention Grant	Part A	Savings	(1,679)		-	-	-	-
22/23 HSG SAV 01	Impact of maximising homelessness prevention	Part B	Savings	-		(578)	(683)	-	(1,261.0)
22/23 HSG SAV 02	Impact of increasing speed of homelessness decisions	Part B	Savings	-		(101)	(179)	-	(280.0)
22/23 HSG SAV 03	Increase use of LA Stock for EA/TA	Part B	Savings	-		(163)	(187)	-	(350.0)
22/23 HSG SAV 04	Repurpose under-utilised sheltered housing stock	Part B	Savings	-		(158)	(53)	-	(211.0)
22/23 HSG SAV 05	Reduction in housing stock supply under occupancy	Part B	Savings	-		(77)	(91)	-	(168.0)
22/23 HSG SAV 06	Incentivising empty private properties into use for EA/TA	Part B	Savings	-		(96)	(114)	-	(210.0)
22/23 HSG SAV 07	Ending EA/TA where the council has no duty	Part B	Savings	-		(193)	(35)	-	(228.0)
22/23 HSG SAV 08	Bringing long term voids back into use	Part B	Savings	-		(103)	(100)	-	(203.0)
22/23 HSG SAV 09	Incentivising temporary accommodation leasing schemes	Part B	Savings	-		(138)	(163)	-	(301.0)
22/23 HSG SAV 10	Housing supply pipeline maximisation	Part B	Savings	-		(80)	(109)	-	(189.0)
22/23 HSG SAV 11	Contract Reviews	Part B	Savings	-		(250)	-	-	(250.0)
22/23 HSG SAV 12	Staffing Review	Part B	Savings	-		(225)	(75)	-	(300.0)
22/23 HSG SAV 13	Income Maximisation - Rent Collection	Part B	Savings	-		(240)	-	-	(240.0)

				2021/22		2022/23	2023/24	2024/25	TOTAL 2021-24
Proposal Ref	**Proposal Name:**	**Part A - Savings Approved March 2021** **Part B - New Savings Proposals 2022/23**	**Savings/Growth**	**£ m**		**£ m**	**£ m**	**£ m**	**£m**
22/23 HSG SAV 15	Resident Engagement & Tenancy Services	Part B	Savings	-		(100)	-	-	(100.0)
22/23 O/S Form 20	Increase in fees and charges	Part B	Savings	-		(18)			(18.0)
22/23 O/S Form 11	Implementation of new senior structures	Part B	Savings	-		(6)	-	-	(6.0)
22/23 HSG SAV 14	Housing Benefit Maximisation	Part B	Savings	-		(100)	-	-	(100.0)
	Housing Savings			**(4,212)**		**(2,853)**	**(1,889)**	**-**	**(4,742)**
HWA Gro 05	Emergency/Temporary Accommodation Officers	Part A	Growth	311		-	-	-	-
22/23 HSG GRO 01	EA/TA Pressures	Part B	Growth	-		2,000	-	-	2,000
22/23 HSG GRO 02	Tenancy Services	Part B	Growth	-		100	-	-	100
	Housing Growth			**311**		**2,100**	**-**	**-**	**2,100**
	Housing Net Proposals			**(3,901)**		**(753)**	**(1,889)**	**-**	**(2,642)**

Sustainable Communities, Regeneration & Economic Recovery

CFE Sav 13	Croydon Music & Arts (Cma)	Part A	Savings	(126)		-	-	-	-
PLA Sav 03	Closure Of Libraries Buildings	Part A	Savings	9		(404)	-	-	(404)
PLA Sav 20	Closure Of South Norwood Library	Part A	Savings	-		(100)	-	-	(100)
PLA Sav 21	Combining Posts Across Museum And Libraries	Part A	Savings	(73)		-	-	-	-
PLA Sav 05	Economic Development Team Streamlined Service	Part A	Savings	(208)		(52)	-	-	(52)
PLA Sav 06	Move To Streamlined Regeneration Team	Part A	Savings	(153)		(51)	-	-	(51)
PLA Sav 18	Economy & Jobs - Remove Pressure From General Fund	Part A	Savings	(66)		-	-	-	-
PLA Sav 19	Merge Parks And Green Spaces	Part A	Savings	(369)		(80)	-	-	(80)
PLA Sav 07	Reduce Spatial Planning (Local Plan Team And Place Making Team)	Part A	Savings	-		(484)	-	-	(484)
PLA Sav 11	Cease Specialist Nursery Transport	Part A	Savings	(113)		(57)	-	-	(57)
PLA Sav 10	ANPR Camera Enforcement	Part A	Savings	(5,025)		(3,180)	(3,401)	-	(6,581)
PLA Sav 24	Parking Charges Increases	Part A	Savings	(3,014)		-	-	-	-
PLA Sav 08	Public Realm - Staffing Review	Part A	Savings	(270)		(90)	-	-	(90)
Transfer 02	Fees And Charges	Part A	Savings	(292)		(58)			(58)
PLA Sav 23	Providers' Savings Proposals	Part A	Savings	(166)		-	-	-	-
PLA Sav 12	Revised Landlord Licensing Scheme	Part A	Savings	1,500		(2,300)	-	-	(2,300)
PLA Sav 13	Night Time Noise Reduction Service	Part A	Savings	(85)		(28)	-	-	(28)
PLA Sav 22	Re-Introduce Bulky Waste Charges	Part A	Savings	(307)		-	-	-	-
PLA Sav 09	Reviewing Provision Of Household Reuse And Recycling Centres (HRRCS)	Part A	Savings	(11)		(100)	-	-	(100)
PLA Sav 01	Reduce The Antisocial Behaviour Team	Part A	Savings	(80)		-	-	-	-
PLA Sav 04	Reduce Functions And Team In The Violence Reduction Unit	Part A	Savings	(204)		-	-	-	-
PLA Sav 27	15% Immediate Measures Staffing Savings	Part A	Savings	(3,418)		-	-	-	-
22/23 PLA SAV 26	CCTV merger	Part B	Savings	-		-	(4)	-	(4)
22/23 O/S Form 03	CCTV footage charge for insurance claims	Part B	Savings	-		-	(2)	-	(2)
22/23 PLA SAV 14	Review CCTV Control Room and functions following council telephony upgrade	Part B	Savings	-		-	(152)	-	(152)
22/23 PLA SAV 11	Review of bin charging policy	Part B	Savings	-		(50)	-	-	(50)
22/23 PLA SAV 13	Charging managing agents for contaminated waste removal	Part B	Savings	-		(95)	5	5	(85)
22/23 PLA SAV 03	Review and reduction of the Neighbourhood Operations (NSO team)	Part B	Savings	-		(950)	(150)	-	(1,100)
22/23 PLA SAV 12	Review of clinical waste (clinical v offensive)	Part B	Savings	-		(30)	-	-	(30)
22/23 PLA SAV 06	Introduction of a variable lighting policy	Part B	Savings	-		(417)	-	-	(417)
22/23 O/S Form 04	ASB Charging	Part B	Savings	-		-	(6)	-	(6)
22/23 COR SAV 13s	Contract Savings - SLWP Waste Disposal - Energy Recovery Facility	Part B	Savings	-		(150)			(150)
22/23 COR SAV 13w	Contract Savings - Trees and Woodlands	Part B	Savings	-		(25)			(25)
22/23 COR SAV 13x	Contract Savings - Pay and Display Machines	Part B	Savings	-		(300)			(300)
22/23 PLA SAV 05	Withdraw council funding for school crossing patrols	Part B	Savings	-		(50)	-	-	(50)
22/23 PLA SAV 10	Adult Travel assistance review	Part B	Savings	-		(150)	(50)	-	(200)
22/23 PLA SAV 02	Bus Re-Tender Contract Savings	Part B	Savings	-		(120)	(80)	-	(200)
22/23 PLA SAV 04	Private Sector Environmental Enforcement	Part B	Savings	-		(250)		-	(250)

				2021/22		2022/23	2023/24	2024/25	TOTAL 2021-24
Proposal Ref	**Proposal Name:**	**Part A - Savings Approved March 2021 Part B - New Savings Proposals 2022/23**	**Savings/Growth**	**£ m**		**£ m**	**£ m**	**£ m**	**£m**
22/23 PLA SAV 08	Parking charges increase	Part B	Savings	-		(650)	(200)	-	(850)
22/23 PLA SAV 09	Independent travel optimisation	Part B	Savings	-		(20)	-	-	(20)
22/23 PLA SAV 28	New gym in Monks Hill Leisure Centre	Part B	Savings	-		(90)	(90)	-	(180)
22/23 PLA SAV 29	Non-capital and contract impact of Purley Leisure Centre closure	Part B	Savings	-		(50)	-	-	(50)
22/23 PLA Sav 20	Increase in Pre Planning Applications	Part B	Savings	-		(66)	-	-	(66)
22/23 O/S Form 20	Increase in fees and charges	Part B	Savings	-		(292)			(292)
22/23 PLA SAV 18	Reduce existing Leisure management fee	Part B	Savings	-		(510)	-	-	(510)
22/23 PLA SAV 19	Alternative funding for Libraries Books and Publications	Part B	Savings	-		(300)	-	-	(300)
22/23 PLA SAV 19	Reduction of Revenue Posts in Economy & Employment	Part B	Savings	-		(138)	(46)	-	(184)
22/23 O/S Form 05	Amalgamation of spatial planning team and regeneration team	Part B	Savings	-		(57)	-	-	(57)
22/23 O/S Form 11	Implementation of new senior structures	Part B	Savings	-		(552)	-	-	(552)
22/23 PLA SAV 31	Merger of Management Functions in Place	Part B	Savings	-		(100)	(230)	-	(330)
	Sustainable Communities, Regeneration & Economic Recovery Savings			**(12,471)**		**(12,396)**	**(4,406)**	**5**	**(16,797)**
PLA Gro 05	Highways Maintenance Growth	Part A	Growth	400		1,000	1,000	-	2,000
PLA Gro 10	Active Lives Ph Funding	Part A	Growth	418		-	-	-	-
PLA Gro 01	Violence Reduction Management - Sufficient Revenue Costs	Part A	Growth	82		-	-	-	-
22/23 PLA GRO 02	Additional seasonal grounds maintenance workers	Part B	Growth	-		360	-	-	360
22/23 PLA GRO 03	Fairfield Halls Management Fee	Part B	Growth	-		193	(119)	-	74
22/23 PLA GRO 04	Special Educational Needs pupil transport (pupil number growth)	Part B	Growth	-		1,313	-	-	1,313
22/23 PLA GRO 05	Unavoidable contract inflation	Part B	Growth	-		-	-	-	-
22/23 PLA GRO 06	Unavoidable contract inflation not applied in 21/22	Part B	Growth	-		743	-	-	743
22/23 PLA GRO 01	Property growth / waste growth and new government charges	Part B	Growth	-		693	-	-	693
22/23 PLA GRO 10	Landlord licensing scheme - loss of income	Part B	Growth	-		3,062	-	-	3,062
	Sustainable Communities, Regeneration & Economic Recovery Growth			**900**		**7,364**	**881**	**-**	**8,245**
	Sustainable Communities, Regeneration & Economic Recovery Net Proposals			**(11,571)**		**(5,032)**	**(3,525)**	**5**	**(8,552)**

Assistant Chief Executive

HWA Sav 23	Staffing Review	Part A	Savings	(120)		-	-	-	-
HWA Sav 17	Contact Centre And Access Croydon - Reduction In Line Management	Part A	Savings	(87)		(8)	-	-	(8)
HWA Sav 24	Savings On Tfl Freedom Pass Due To Reduction In Usage	Part A	Savings	(2,375)		-	-	-	-
RES Sav 11	Voluntary Community Services Small Grants	Part A	Savings	(100)		-	-	-	-
Transfer 02	Fees And Charges	Part A	Savings	(93)		(19)			(19)
RES Sav 10	Rent Subsidy	Part A	Savings	(244)		-	-	-	-
RES Sav 31	Business Intelligence	Part A	Savings	(65)		-	-	-	-
RES Sav 09	Policy Team Reduction	Part A	Savings	(110)		-	-	-	-
RES Sav 07	Communities Team Reduction	Part A	Savings	(123)		-	-	-	-
RES Sav 20	Community Safety Fund Reduction	Part A	Savings	-		(400)	-	-	(400)
RES Sav 29	Stop Your Croydon Publication	Part A	Savings	(50)		-	-	-	-
RES Sav 13	Reduction To The Communications Team	Part A	Savings	(218)		-	-	-	-
RES Sav 27	Removal Of Campaigns And Stop Campaigns Budget	Part A	Savings	(50)		-	-	-	-
REV Sav 26	Restructure Of Croydon Digital Services To Provide A Reduced Service For Support And Maintenance Of Core Ict For Staff	Part A	Savings	(175)		(30)	-	-	(30)
RES Sav 24	Croydon Digital Services Reduction In It Contract Costs Due To Smaller Workforce	Part A	Savings	(50)		(100)	-	-	(100)
RES Sav 23	Extensions Or Procurements Of Core It Contracts	Part A	Savings	(340)		(150)	(250)	-	(400)
RES Sav 25	Rent Out Lbc Capacity To Brent	Part A	Savings	(72)		-	-	-	-
RES Sav 22	Croydon Digital Services Large Format Digital Advertising	Part A	Savings	-		(45)	(150)	-	(195)
RES Sav 22	Croydon Digital Services Large Format Digital Advertising	Part A	Savings	-		45	150	-	195
RES Sav 16	Reduce Staffing In Mayor's Office	Part A	Savings	(98)		-	-	-	-
RES Sav 15	Deliver Governance Review In Cost Neutral Way	Part A	Savings	(250)		-	-	-	-
RES Sav 18	Scale Back Members Special Responsibility Allowances	Part A	Savings	(303)		-	-	-	-

				2021/22		2022/23	2023/24	2024/25	TOTAL 2021-24
Proposal Ref	**Proposal Name:**	**Part A - Savings Approved March 2021 Part B - New Savings Proposals 2022/23**	**Savings/Growth**	**£ m**		**£ m**	**£ m**	**£ m**	**£m**
RES Sav 04	Deletion Of Legacy Oracle Financials	Part A	Savings	-		-	(60)	-	(60)
RES Sav 03	Reduce Learning And Organisational Development Service	Part A	Savings	-		-	(135)	-	(135)
RES Sav 05	Redesign Core Teams Within The Human Resources Service Based On Workflow Assessment	Part A	Savings	-		-	(200)	-	(200)
RES Sav 06	Hr Management Team Reorganisation	Part A	Savings	-		-	(210)	-	(210)
RES Sav 01	Deletion Of Learning And Development Manager Post	Part A	Savings	(80)		-	-	-	-
RES Sav 30	Consolidation Of Training Spend	Part A	Savings	(200)		-	-	-	-
RES Sav 41	15% Immediate Measures Staffing Savings	Part A	Savings	(563)		-	-	-	-
22/23 RES SAV 18	Reduction in previously agreed growth - RES GRO 10	Part B	Savings	-		(207)	207	-	-
22/23 RES SAV 17	HR Whole service redesign	Part B	Savings	-		(210)	200	-	(10)
22/23 RES SAV 16	Learning and Organisational Development redesign	Part B	Savings	-		(50)	85	-	35
22/23 ACE SAV 01	Reduction in By-Election Cost Budgets	Part B	Savings	-		(147)	-	-	(147)
22/23 RES SAV 15	Croydon Digital Service staffing reduction	Part B	Savings	-		(97)	-	-	(97)
22/23 RES SAV 13	Increase Croydon Digital Service capitalisation	Part B	Savings	-		(510)	-	-	(510)
22/23 RES SAV 14	Mobile phone reductions	Part B	Savings	-		(38)	-	-	(38)
22/23 O/S Form 07	Saving through online engagement and consultation	Part B	Savings	-		(20)	-	-	(20)
22/23 COR SAV 09	Rationalisation of software applications and contracts	Part B	Savings	-		(750)	-	-	(750)
22/23 COR SAV 08	Digital resident self service	Part B	Savings	-		-	(750)	(750)	(1,500)
22/23 COR SAV 07	Workforce digital capability	Part B	Savings	-		-	(500)	(1,000)	(1,500)
22/23 O/S Form 20	Increase in fees and charges	Part B	Savings	-		(93)			(93)
TBA	Additional Public Health Grant 22/23	Part B	Savings	-		(624)			(624)
22/23 RES SAV	TfL Freedom Pass Costs	Part B	Savings	-		(4,210)	4,878	-	668
22/23 COR SAV 13c	Contract Savings - Zoom Savings	Part B	Savings	-		(5)			(5)
22/23 COR SAV 13p	Contract Savings - Managed Print	Part B	Savings	-		(50)			(50)
22/23 COR SAV 13q	Contract Savings - Income Management System (AIMS)	Part B	Savings	-		(16)			(16)
22/23 COR SAV 13o	Contract Savings - Managed Service Provider for Temporary Agency Resources	Part B	Savings	-		(600)			(600)
22/23 O/S Form 12	Consider new structures through layers and spans review	Part B	Savings	-		-	-	(500)	(500)
	Assistant Chief Executive Savings			**(5,766)**		**(8,334)**	**3,265**	**(2,250)**	**(7,319)**
COR Gro 27	Improvement Costs	Part A	Growth	1,000		-	-	-	-
RES Gro 11	Business Intelligence Team - Permanent Resource	Part A	Growth	212		-	-	-	-
RES Gro 04	Correction Of Reliance On Capital Funding For Business As Usual Works	Part A	Growth	4,054		(325)	(355)	-	(680)
Seth A 1	Cost Of May 2022 Election (Net Of Reserve)	Part A	Growth	-		250	(250)	-	-
Seth A 2	Cost Of Directly Elected Mayor Referendum	Part A	Growth	650		(650)	-	-	(650)
RES Gro 03	Corporate Programme Management Office	Part A	Growth	480		-	-	-	-
RES Gro X	Additional Hr Capacity To Support Organisational Change	Part A	Growth	253		5	(258)	-	(253)
22/23 RES GRO 08	Establishing an Elected Mayor's Office	Part B	Growth	-		330	-	-	330
22/23 RES GRO 05	Registrars Growth	Part B	Growth	-		28	-	-	28
22/23 RES GRO 09	Registrars Income Shortfall	Part B	Growth	-		300	-	-	300
22/23 ACE GRO 01	Additional Mayoral Election Costs	Part B	Growth	-		240	(180)	-	60
22/23 ACE GRO 01	Borough-Wide Election Costs Reserve	Part B	Growth			(250)	425		175
22/23 RES GRO 02	Complaints Recharge Growth	Part B	Growth	-		290	-	-	290
22/23 RES GRO 06	Reversal of 21/22 Croydon Digital Service Saving	Part B	Growth	-		325	355	-	680
22/23 O/S Form 11	Implementation of new senior structures	Part B	Growth	-		315	-	-	315
TBA	Additional Public Health Grant 22/23	Part B	Growth			624			624
	Assistant Chief Executive Growth			**6,649**		**1,482**	**(263)**	**-**	**1,219**
	Assistant Chief Executive Net Proposals			**883**		**(6,852)**	**3,002**	**(2,250)**	**(6,100)**

Resources

PLA Sav 26	Savings On Building Closures / Disposals	Part A	Savings	(126)		(452)	(112)	-	(564)
PLA Sav 25	Savings On Facilities Management	Part A	Savings	(333)		-	-	-	-

				2021/22		2022/23	2023/24	2024/25	TOTAL 2021-24
Proposal Ref	**Proposal Name:**	**Part A - Savings Approved March 2021 Part B - New Savings Proposals 2022/23**	**Savings/Growth**	**£ m**		**£ m**	**£ m**	**£ m**	**£m**
Transfer 02	Fees And Charges	Part A	Savings	(218)		(43)			(43)
PLA Sav 27	15% Immediate Measures Staffing Savings	Part A	Savings	(247)		-	-	-	-
RES Sav 22	Croydon Digital Services Large Format Digital Advertising	Part A	Savings	-		(45)	(150)	-	(195)
RES Sav 12	Hwa Contract Reductions	Part A	Savings	(242)		(110)	(75)	-	(185)
RES Sav 32	Community Equipment Service Income Generation	Part A	Savings	(75)		-	(50)	-	(50)
RES Sav 33	Review Of Staffing Portfolio Across C&P Services (Procurement, Hwa, Place, Cfe And P&B)	Part A	Savings	(260)		(175)	(100)	-	(275)
RES Sav 36	Consolidate Debt Collection	Part A	Savings	-		(60)	-	-	(60)
RES Sav 37	Simpler Council Tax Support Scheme	Part A	Savings	-		(250)	-	-	(250)
RES Sav 38	Automation Of Revenue Processes	Part A	Savings	(50)		(100)	-	-	(100)
RES Sav 39	Digital By Default For Billing	Part A	Savings	-		(120)	-	-	(120)
RES Sav 40	ICT Operational Savings	Part A	Savings	(10)		(153)	(47)	-	(200)
RES Sav 41	15% Immediate Measures Staffing Savings	Part A	Savings	(1,254)		-	-	-	-
22/23 PLA SAV 24	Reduction in postage costs	Part B	Savings			(25)	-	-	(25)
22/23 PLA SAV 25	Review and release of additional space in BWH	Part B	Savings			(152)	(1,156)	(1,355)	(2,663)
22/23 COR SAV 13i	Contract Savings - Audit & Anti-Fraud	Part B	Savings			(38)			(38)
22/23 COR SAV 13j	Contract Savings - FM- Cleaning Services	Part B	Savings			(50)			(50)
22/23 COR SAV 13k	Contract Savings - Hard FM - mechanical and electrical maintenance	Part B	Savings			(100)			(100)
22/23 COR SAV 13v	Contract Savings - Hard FM - Building Maintenance	Part B	Savings			(100)			(100)
22/23 COR SAV 13l	Contract Savings - FM Security	Part B	Savings			(50)			(50)
22/23 COR SAV 13n	Contract Savings - Premier Supplier Programme for Early payment discounts	Part B	Savings			(25)			(25)
22/23 COR SAV 13z	Contract Savings - Pool Cars	Part B	Savings			(50)			(50)
22/23 O/S Form 11	Implementation of new senior structures	Part B	Savings			(124)	-	-	(124)
22/23 RES SAV 01	Council wide legal services review	Part B	Savings			(130)	-	-	(130)
22/23 RES SAV 02	Legal business team review	Part B	Savings			(65)	-	-	(65)
22/23 RES SAV 12	Income from additional digital billboards	Part B	Savings			30	(70)	(80)	(120)
22/23 RES SAV 08	Contract Savings	Part B	Savings			(53)	-	-	(53)
22/23 RES SAV 10	Procurement team changes in Adults and Children's	Part B	Savings			(61)	-	-	(61)
22/23 RES SAV 09	Procurement team changes in Sustainable Communities	Part B	Savings			(53)	-	-	(53)
Res Sav 40	Further ICT Savings (Change to Previous RES SAV 40)	Part B	Savings			(20)	-	-	(20)
22/23 RES SAV 05	Discretionary Charitable Business Rate Relief	Part B	Savings			-	(114)	-	(114)
22/23 RES SAV 19	Restructure technical support & development teams	Part B	Savings				(30)	(30)	(60)
22/23 O/S Form 20	Increase in fees and charges	Part B	Savings			(218)			(218)
22/23 RES SAV 03	Mid-Triennial Review of Pension Contributions - subject to the outcome of consideration by Pensions Committee	Part B	Savings			(2,760)	-	-	(2,760)
22/23 RES SAV 07	Finance staffing review	Part B	Savings			-	(125)	(125)	(250)
22/23 RES SAV 04	Savings from Review and Re-Tendering the Insurance Contract	Part B	Savings			(100)	-	-	(100)
	Resources Savings			**(2,815)**		**(5,652)**	**(2,029)**	**(1,590)**	**(9,271)**
PLA Gro 06	Unachievable FM Staff Savings	Part A	Growth	100		-	-	-	-
PLA Gro 09	Reduction Of Recharges Of Revenue Costs To Capital	Part A	Growth	1,360		-	-	-	-
PLA Gro 07	Investment Property Income Decline	Part A	Growth	6,445		(150)	-	-	(150)
PLA Gro 08	Landlords Rent Growth	Part A	Growth	1,297		(50)	-	-	(50)
RES Gro 13	Growth To Remove Unachievable Parking Permits Saving	Part A	Growth	300		-	-	-	-
RES Gro 07	Agency Rebate Internal Model	Part A	Growth	3,610		-	-	-	-
RES Gro 12	Croydon Equipment Service Pension Cost Shortfall	Part A	Growth	308		-	-	-	-
RES Gro 05	Build Resilience For The Finance Team	Part A	Growth	1,000		-	-	-	-
RES Gro 14	Removal Of Gateway Income Virement Pressure	Part A	Growth	218		-	-	-	-
22/23 RES GRO 10	Ongoing PPE Costs	Part B	Growth	-		325	-	-	325
22/23 RES GRO 01	Staff Resourcing in Committee Services	Part B	Growth	-		141	-	-	141
22/23 RES GRO 03	Insurance Fund Growth	Part B	Growth	-		-	-	400	400

				2021/22		2022/23	2023/24	2024/25	TOTAL 2021-24
Proposal Ref	**Proposal Name:**	**Part A - Savings Approved March 2021 Part B - New Savings Proposals 2022/23**	**Savings/Growth**	**£ m**		**£ m**	**£ m**	**£ m**	**£m**
	Resources - Growth			**14,638**		**266**	**-**	**400**	**666**
	Resources Net Proposals			**11,823**		**(5,386)**	**(2,029)**	**(1,190)**	**(8,605)**

Corporate & Cross Cutting

RES Gro 09	Unachieved 20/21 Saving - Recharges To HRA	Part A	Savings	2,000		-	-	-	-
RES Gro 08	Unachieved 20/21 Saving - Recharges To Capital	Part A	Savings	500		-	-	-	-
COR Sav 05	Pension Contribution	Part A	Savings	(589)		(589)	-	-	(589)
COR Sav 06	Increased Social Care Grant	Part A	Savings	(405)		-	-	-	-
COR Sav 07	Lower Tier Services Grant	Part A	Savings	(634)		-	-	-	-
COR Sav 17	Fees And Charges	Part A	Savings	(1,000)		(200)	(200)	-	(400)
Transfer 02	Fees And Charges	Part A	Savings	1,000		200			200
COR Sav 14	Use Of Nndr Smoothing Risk Reserve	Part A	Savings	(7,000)		7,000	-	-	7,000
COR Gro 22	Business Rates S31 Grant Funding	Part A	Savings	(18,072)		24,199	-	-	24,199
COR Gro 19	Interest Payable	Part A	Savings	(77)		(490)	(2,569)	-	(3,059)
COR Sav 15	Local Council Tax Income Guarantee 20/21 Grant	Part A	Savings	(4,536)		4,536	-	-	4,536
COR Sav 04	Revenue Support Grant	Part A	Savings	(78)		(284)	(290)	-	(574)
COR Sav 11	Business Rates Top-Up Grant	Part A	Savings	-		(2,883)	(733)	-	(3,616)
COR Sav 12	Locally Retained Business Rates	Part A	Savings	(134)		(526)	(751)	-	(1,277)
COR Sav 01	Council Tax - Tax Base Changes	Part A	Savings	4,045		(4,692)	(2,920)	-	(7,612)
COR Sav 02	Council Tax - Social Care Precept	Part A	Savings	(5,660)		-	-	-	-
COR Sav 03	Council Tax - Band D General Increase	Part A	Savings	(3,755)		(4,136)	(4,176)	-	(8,312)
22/23 COR SAV 02	Social Care Precept - 1% Council Tax increase	Part B	Savings	-		(2,079)	-	-	(2,079)
22/23 COR SAV 04	Collection Fund Surplus/Deficit - Council Tax	Part B	Savings	-		(3,636)	3,444	(2,504)	(2,696)
22/23 COR SAV 10	Change in Levies from Other Bodies	Part B	Savings	-		(154)	11	43	(100)
22/23 COR SAV 11	New Homes Bonus	Part B	Savings	-		(2,347)	-	-	(2,347)
22/23 COR SAV 12	Interest Receivable	Part B	Savings	-		(6,473)	3,219	2,648	(606)
TBA	Interest Payable	Part B	Savings	-		(3,322)	4,614	(421)	871
TBA	Apprenticeship Levy - Impact of Pay Awards	Part B	Savings	-		18	15	13	46
TBA	Release of 21/22 Contingency Provision	Part B	Savings	-		(4,742)	-	-	(4,742)
22/23 COR SAV 13r	Contract Savings - SLWP Environmental Services (Phase C, Lot 1) waste collection, street cleaning	Part B	Savings	-		(50)	-	-	(50)
22/23 COR SAV 13s	Contract Savings - SLWP Waste Disposal - Energy Recovery Facility	Part B	Savings	-		(25)	-	-	(25)
22/23 COR SAV 13f	Contract Saving - PFI Caring for Croydon (Homes for the Future)	Part B	Savings	-		(56)	-	-	(56)
22/23 COR SAV 13g	Contract Savings - Ashburton Learning Village PFI	Part B	Savings	-		(30)	-	-	(30)
22/23 COR SAV 13t	Contract Savings - Street Lighting PFI	Part B	Savings	-		(110)	-	-	(110)
22/23 COR SAV 06	Streamline corporate business processes	Part B	Savings	-		-	(250)	(250)	(500)
TBA	Revenue Support Grant - LGFS Changes	Part B	Savings	-		(157)	(3)	(299)	(459)
TBA	Localised Business Rates - LGFS Changes	Part B	Savings	-		1,481	30	30	1,541
TBA	s31 Grant NNDR Multiplier Indexation - LGFS Changes	Part B	Savings	-		(825)	(17)	(17)	(859)
TBA	Additional Indexation at Final LGPS	Part B	Savings	-		(1,484)	-	-	(1,484)
TBA	Improved Better Care Fund - LGFS Changes	Part B	Savings	-		(293)	(200)	(204)	(697)
TBA	Use of Contrib to Reserves to Balance 22/23	Part B	Savings	-		(8,113)	(11,887)	-	(20,000)
TBA	Social Care Grant - LGFS Changes	Part B	Savings	-		(3,283)	(222)	(227)	(3,732)
TBA	Lower Tier Services Grant - LGFS Changes	Part B	Savings	-		(34)	-	-	(34)
TBA	Lower Tier Services Grant - Final LGFS	Part B	Savings	-		(13)	-	-	(13)
TBA	2022/23 Services Grant - LGFS Changes	Part B	Savings	-		(5,104)	-	-	(5,104)
TBA	Local Council Tax Income Guarantee Grant - LGFS Changes	Part B	Savings	-		1,512	-	-	1,512
TBA	DLUHC New Burdens Grant - LGFS Changes	Part B	Savings	-		790	-	-	790
22/23 O/S Form 19	Negotiate changes to the balance of funding between health and social care	Part B	Savings	-		(5,336)	-	-	(5,336)
22/23 O/S Form 20	Increase in fees and charges	Part B	Savings	-		-	(1,000)	(1,000)	(2,000)
22/23 COR SAV 05	Local Council Tax Reduction Scheme Support review - subject to final decision making post-consultation	Part B	Savings	-		(5,111)	-	-	(5,111)

Proposal Ref	Proposal Name:	Part A - Savings Approved March 2021 Part B - New Savings Proposals 2022/23	Savings/Growth	2021/22 £ m		2022/23 £ m	2023/24 £ m	2024/25 £ m	TOTAL 2021-24 £m
	Corporate & Cross-Cutting Savings			**(34,395)**		**(26,841)**	**(13,885)**	**(2,188)**	**(42,914)**
COR Gro 01	Pay Inflation Provision	Part A	Growth	2,804		3,814	3,890	-	7,704
COR Gro 02	Contract Inflation Provision	Part A	Growth	5,142		6,859	6,996	-	13,855
COR Gro 03	New Homes Bonus	Part A	Growth	2,161		3,400	1,768	-	5,168
COR Gro 05	Bad Debt Provision	Part A	Growth	100		-	-	-	-
COR Gro 06	Contingency Provision	Part A	Growth	3,000		5,000	5,000	-	10,000
COR Gro 09	Precepts And Levies	Part A	Growth	30		31	31	-	62
COR Gro 24	Asylum Seekers Budget Correction	Part A	Growth	2,137		-	-	-	-
COR Gro 20	Cessation Of Flexible Homelessness Support Grant	Part A	Growth	1,100		-	-	-	-
COR Gro 17	Interest On Brick By Brick Loans	Part A	Growth	4,592		6,908	-	-	6,908
COR Gro 18	Dividend On Brick By Brick Investment	Part A	Growth	5,200		-	-	-	-
COR Gro 25	Other Interest Receivable	Part A	Growth	1,871		-	-	-	-
COR Gro 26	Minimum Revenue Provision Charges	Part A	Growth	949		1,461	584	-	2,045
COR Gro 11	Contribution To GF Balances	Part A	Growth	5,000		5,000	5,000	-	10,000
COR Gro 04	Collection Fund (Surplus) / Deficit - Council Tax	Part A	Growth	2,451		52	-	-	52
COR Sav 16	Lcig 20/21 Grant Transfer To/(From) Earmarked Reserve	Part A	Growth	3,024		(4,536)	-	-	(4,536)
COR Gro 23	Business Rates S31 Grant Smoothing Reserve	Part A	Growth	17,649		(17,649)	-	-	(17,649)
COR Sav 13	Collection Fund (Surplus) / Deficit - Nndr	Part A	Growth	185		(1,910)	-	-	(1,910)
COR Gro 21	Nndr Collection Fund 20-21 Deficit - Spreading Cost	Part A	Growth	797		-	-	-	-
22/23 COR GRO 01	Minimum Revenue Provision reprofiling	Part B	Growth	-		8,743	(1,522)	184	7,405
22/23 COR GRO 02	Corporate Contract Inflation Provision	Part B	Growth	-		13,073	10,108	13,341	36,522
22/23 COR GRO 03	Corporate Pay Award Provision	Part B	Growth	-		1,931	775	3,825	6,531
22/23 O/S Form	Reduction in DSG Grant	Part B	Growth	-		430	-	-	430
22/23 CFE GRO 01	Increases in Unaccompanied Asylum Seeking Children leaving care	Part B	Growth	-		2,954	302	(578)	2,678
TBA	Increases in Unaccompanied Asylum Seeking Children leaving care	Part B	Growth	-		(2,137)	-	-	(2,137)
22/23 COR GRO 05	Increase in Employers National Insurance contributions	Part B	Growth	-		2,332	58	48	2,438
TBA	20% Generic Service Savings Risk Weighting	Part B	Growth	-		6,076	241	1,093	7,410
TBA	20% Generic Corporate Savings Risk Weighting	Part B	Growth	-		9,883	976	2,472	13,331
TBA	Adjustment for Line by Line Risk Weighting	Part B	Growth	-		(14,544)	-	-	(14,544)
	Corporate & Cross-Cutting Growth			**58,192**		**37,171**	**34,207**	**20,385**	**91,763**
	Corporate & Cross-Cutting Net Proposals			**23,797**		**10,330**	**20,322**	**18,197**	**48,849**

Appendix C - General Fund Departmental Revenue Budgets

NET CONTROLLABLE BUDGETS MOVEMENTS 2021/22 TO 2022/23	2021/22 Original Budget (£000's)	2021/22 Approved Changes (£000's)	2021/22 Approved Budget (£000's)	2022/23 Growth & Savings (£000's)	2022/23 Other movements (£000's)	2022/23 Original Budget (£000's)
C1520E : CHIEF PEOPLE OFFICER DIVISION	(15)	20	5	(412)	2,823	2,416
C1530E : POLICY, PROGRAMMES AND PERFORMANCE	7,160	48	7,208	(997)	(841)	5,370
C1505E : ASSISTANT CHIEF EXECUTIVE DIRECTORATE SUMMARY	(60)	4	(56)	37	(85)	(104)
C1510E : CROYDON DIGITAL AND RESIDENT ACCESS	13,582	227	13,809	(5,430)	14,508	22,887
C1550E : SERVICE QUALITY, IMPROVEMENT AND INCLUSION	224	(43)	181	(50)	1,778	1,909
C1500D : TOTAL ASSISTANT CHIEF EXECUTIVE	20,891	256	21,147	(6,852)	18,183	32,478
C1605E : RESOURCES DIRECTORATE SUMMARY	145	-	145	(724)	(6,932)	(7,511)
C1630E : INSURANCE, ANTI-FRAUD AND RISK	-	32	32	(133)	1,095	994
C1620E : PENSIONS DIVISION	-	1	1	(2)	316	315
C1625E : MONITORING OFFICER	3,782	19	3,801	140	(1,863)	2,078
C1690E : COMMERCIAL INVESTMENT AND CAPITAL DIVISION	19,001	49	19,050	(1,391)	3,532	21,191
C1640E : LEGAL SERVICES DIVISION	763	3	766	(195)	(2,284)	(1,713)
C1650E : INTERNAL AUDIT SERVICE	-	8	8	(40)	627	595
C1610E : DIRECTOR OF FINANCE	10,219	1,053	11,272	(3,041)	607	8,838
C1600D : TOTAL RESOURCES	33,910	1,165	35,075	(5,386)	(4,902)	24,787
C1305E : RESIDENT ENGAGEMENT AND ALLOCATIONS	13,727	526	14,253	(753)	(5,538)	7,962
C1310E : ESTATES AND IMPROVEMENT	66	-	66	-	-	66
C1300D : HOUSING	13,793	526	14,319	(753)	(5,538)	8,028
C1405E : TOTAL ADULT SOCIAL CARE AND HEALTH DIRECTORATE SUMMARY	11,202	(3,505)	7,697	(42)	(4,972)	2,683
C1410E : ADULT SOCIAL CARE OPERATIONS	108,847	5,227	114,074	(6,786)	(163)	107,125
C1420E : ADULT SOCIAL CARE POLICY AND IMPROVEMENT	5,439	(27)	5,412	(1,005)	(1)	4,407
C1400D : TOTAL ADULT SOCIAL CARE AND HEALTH	125,488	1,695	127,183	(7,833)	(5,135)	114,215
C1230E : QUALITY, POLICY AND PERFORMANCE IMPROVEMENT	3,047	1,613	4,660	(622)	430	4,468
C1280E : CHILDREN, YOUNG PEOPLE AND EDUCATION OBSOLETE CODES	6,856	(6,856)	-	-	-	-
C1205E : CHILDREN, YOUNG PEOPLE AND EDUCATION	10,732	7	10,739	5	(10,170)	574
C1210E : CHILDREN'S SOCIAL CARE	71,446	8,165	79,611	(8,020)	(4,207)	67,384
C1220E : EDUCATION DIVISION	14,069	(1,691)	12,378	(837)	(4,284)	7,257

NET CONTROLLABLE BUDGETS MOVEMENTS 2021/22 TO 2022/23	2021/22 Original Budget (£000's)	2021/22 Approved Changes (£000's)	2021/22 Approved Budget (£000's)	2022/23 Growth & Savings (£000's)	2022/23 Other movements (£000's)	2022/23 Original Budget (£000's)
C1200D : TOTAL CHILDREN, YOUNG PEOPLE AND EDUCATION	106,150	1,238	107,388	(9,474)	(18,231)	79,683
C1140E : PLANNING AND SUSTAINABLE REGENERATION DIVISION	2,390	92	2,482	(1,041)	(1,050)	391
C1110E : SUSTAINABLE COMMUNITIES REGEN & ECONOMIC RECOVERY DIRECTORATE SUMMARY	(167)	-	(167)	(551)	432	(286)
C1120E : SUSTAINABLE COMMUNITIES	36,963	683	37,646	(2,007)	(13,929)	21,710
C1130E : CULTURE AND COMMUNITY SAFETY DIVISION	12,213	57	12,270	(1,433)	(6,185)	4,652
C1100D : TOTAL SUSTAINABLE COMMUNITIES REGEN & ECONOMIC RECOVERY	51,399	832	52,231	(5,032)	(20,732)	26,467
TOTAL GENERAL FUND NET CONTROLLABLE BUDGET	351,631	5,713	357,344	(35,330)	(36,356)	285,658

Appendix D - General Fund Service Subjective Budget Summry

	2021/22 Original Budget *(£000's)*	2021/22 Approved Changes *(£000's)*	2021/22 Approved Budget *(£000's)*	2022/23 Growth & Savings and other net movements *(£000's)*	2022/23 Original Budget *(£000's)*
41000X : TOTAL CONTROLLABLE EXPENDITURE	953,849	(5,257)	948,592	(27,770)	920,822
31000W : EMPLOYEES	177,228	1,383	178,612	(1,637)	176,975
31020W : TRANSPORT RELATED EXPENDITURE	11,000	(11)	10,989	617	11,606
31010W : PREMISES RELATED EXPENDITURE	51,835	(1,264)	50,571	(976)	49,595
31070W : RECHARGES FROM OTHER SERVICES OUTSIDE THE GENERAL FUND	-	-	-	-	-
31040W : THIRD PARTY PAYMENTS	228,153	(9,886)	218,267	(1,255)	217,012
31030W : SUPPLIES AND SERVICES	71,019	4,497	75,516	(2,569)	72,947
31060W : RECHARGES FROM OTHER SERVICES WITHIN THE GENERAL FUND	34,661	7	34,668	2,605	37,273
31050W : TRANSFER PAYMENTS	379,954	16	379,970	(24,556)	355,414
40000X : TOTAL CONTROLLABLE INCOME	(633,629)	10,970	(622,659)	(5,800)	(628,459)
30040W : RECHARGES INCOME WITHIN GENERAL FUND	(57)	-	(57)	-	(57)
30050W : RECHARGES INCOME - INTO GENERAL FUND	(44,829)	479	(44,350)	(1,817)	(46,167)
30020W : CUSTOMER & CLIENT RECEIPTS	(110,333)	2,251	(108,082)	(8,361)	(116,443)
30010W : OTHER GRANTS, REIMBURSEMENTS & CONTRIBUTIONS	(31,610)	3,675	(27,935)	(3,796)	(31,731)
30030W : INCOME	-	-	-	-	-
30000W : GOVERNMENT GRANTS	(446,772)	4,565	(442,207)	8,174	(434,033)
42000X : TOTAL CONTROLLABLE APPROPRIATIONS	(28)	-	(28)	-	(28)
50000Y : TOTAL NET CONTROLLABLE EXPENDITURE	320,220	5,713	325,933	(33,570)	292,363
51000Y : TOTAL NET NON-CONTROLLABLE EXPENDITURE	31,411	-	31,411	(38,116)	(6,705)
60000A : TOTAL NET EXPENDITURE (I&E)	351,631	5,713	357,344	(71,686)	285,658

This page is intentionally left blank

Appendix E

Recommendations for Council Tax Requirement 2022/23

The Cabinet has considered a report in respect of the level of Council Tax for 2022/23 and the setting of the Council's Revenue and Capital Budgets for the forthcoming financial year. .

In summary, the Cabinet recommends to the Council a 2022/23 Council Tax at Band D for Croydon purposes of £1,384.36, in addition a 1.0% increase for the Adult Social Care Levy £185.71, GLA Precept of £395.59, giving an overall Band D charge, £1,965.66, a 1.99% increase for Croydon Council, a 1.00% increase for the adult social care levy and a 8.8% increase for the GLA.

Following detailed consideration, the Cabinet recommends that the Council should:

(1) Approve the 2022/23 Revenue Budget of £294.642m, an increase in budget requirement of 5.45%

(2) Approve the 2022/23 Council Tax Requirement of £214.112m.

Calculation of Council Tax Requirement		£'000	£'000	£'000
(A)	Expenditure and other charges (as set out in section 31A(2) (a) to (f) of the Act)			
(i)	expenditure on Croydon's services, local precepts and levies		1,005,580	
(ii)	allowance for contingencies		5,000	
(iii)	transfer to General Reserves		0	
(iv)	transfer to Earmarked Reserves		6,887	
(v)	transfer from the General Fund from the Collection Fund in respect of prior year deficit on the Collection Fund,		0	
				1,017,467
	Less			
(B)	Income and other credit items (in Section 31A(3) (a) to (d) of the Act)			
(i)	Income from services		660,492	
(ii)	Transfer to the General Fund from the Collection Fund in respect of prior year surplus on the Collection Fund,	940		
(iii)	Income from Government			
	Capitalisation	25,000		
	Core Grants	37,333		
	Business Rates Top Up Grant	34,192		
	Business Rates Income	30,752		
	Revenue Support Grant	14,646		
			142,863	803,355
	Equals			
(C)	The Council Tax Requirement, i.e. the amount by which the expenditure and other charges exceed the income and other credits.*			214,112
	This is (A) above less(B) above (as per Section 31A(4) of the Act)			
Calculation of basic amount of council tax				
(C)	Council Tax Requirement			214,112
	Divided by			
(D)	The Council's Tax base			136,371
	Equals			
(E)	The Basic amount of Council Tax (i.e., the Council Tax for a Band D property to which no relief or exemption is applicable) for services charged to Croydon's General Fund (This is (C) above divided by the tax base at (D) as per Section 31(B) of the Act)			1,570.07
	*** The exact figure is**	**£214,111,858.96**		

(F) The tax for different bands calculated as follows (as per Section 36(1) of the Act):

Council Tax for Croydon for 2022/23	
Band A	6/9 x £1,570.07 = £1,046.72
Band B	7/9 x £1,570.07 = £1,221.16
Band C	8/9 x £1,570.07 = £1,395.62
Band D	**9/9 x £1,570.07 = £1,570.07**
Band E	11/9 x £1,570.07 = £1,918.98
Band F	13/9 x £1,570.07 = £2,267.88
Band G	15/9 x £1,570.07 = £2,616.79
Band H	18/9 x £1,570.07 = £3,140.14

(G) to which is added the following precept (issued by the Mayor of London, in exercise of the powers conferred on him by sections 82, 83, 85, 86, 88 to 90, 92 and 93 of the Greater London Authority Act 1999 ("the 1999 Act") and sections 40, 47 and 48 of the Local Government Finance Act 1992 ("1992 Act")

GLA Precept For 2022/23	
Band A	263.73
Band B	307.68
Band C	351.63
Band D	**395.59**
Band E	483.50
Band F	571.41
Band G	659.32
Band H	791.18

(H) That, having calculated the aggregate in each case of the amounts at (F) and (G) above the Council, in accordance with section 30(2) of the local government finance act 1992, hereby set the following amounts as the amounts of council tax for the year 2022/23 for each of the categories of dwellings shown below:-

Total Council Tax For 2022/23	
Band A	1,310.45
Band B	1,528.84
Band C	1,747.25
Band D	**1,965.66**
Band E	2,402.48
Band F	2,839.29
Band G	3,276.11
Band H	3,931.32

Appendix F – GLA Budget Requirement and Band D Charge

Estimated Expenditure

£	GLA Mayor	GLA Assembly	MOPAC	LFC	TfL	LLDC	OPDC	Total
Estimated expenditure	£1,711,848,107	£8,019,148	£4,269,168,000	£508,600,000	£8,266,089,000	£62,000,000	£7,500,000	£14,833,224,255
Estimated allowance for contingencies	£1,000,000	£0	£0	£0	£0	£0	£0	£1,000,000
Estimated reserves to be raised for meeting future expenditure	£0	£0	£0	£0	£0	£0	£0	£0
Estimate of reserves to meet a revenue account deficit including forecast collection fund deficit for retained business rates	£116,746,598	£24,584	£7,207,281	£1,580,211	£56,000	£0	£0	£125,614,673
Estimated total expenditure	**£1,829,594,705**	**£8,043,732**	**£4,276,375,281**	**£510,180,211**	**£8,266,145,000**	**£62,000,000**	**£7,500,000**	**£14,959,838,928**

Estimated Income and Calculation of Council Tax Requirement

£	GLA Mayor	GLA Assembly	MOPAC	LFC	TfL	LLDC	OPDC	Total
Estimate of non-government grant income	-£247,857,238	£0	-£303,359,000	-£44,200,000	-£6,168,452,631	-£32,600,000	-£747,113	-£6,797,215,982
Estimate of specific government grant income	-£370,462,763	£0	-£655,700,000	-£36,500,000	-£8,073,000	£0	£0	-£1,070,735,763
Estimate of general government grant income	-£28,400,000	£0	-£2,278,400,000	£0	-£1,241,500,000	-£100,000	£0	-£3,548,400,000
Estimate of Retained Business Rates income	-£1,044,194,285	-£5,072,000	-£65,392,779	-£242,654,096	-£946,192,000	-£29,300,000	-£6,752,887	-£2,339,558,047
Collection fund surplus for council tax	-£9,800,000	£0	£0	£0	£0	£0	£0	-£9,800,000
Estimated total income before use of reserves	**-£1,700,714,285**	**-£5,072,000**	**-£3,302,851,779**	**-£323,354,096**	**-£8,364,217,631**	**-£62,000,000**	**-£7,500,000**	**-£13,765,709,791**
Estimate of reserves to be used	-£712,410	-£297,723	-£124,049,084	-£6,100,000	£150,600,000	£0	£0	£19,440,783
Estimated total income after use of reserves	**-£1,701,426,695**	**-£5,369,723**	**-£3,426,900,863**	**-£329,454,096**	**-£8,213,617,631**	**-£62,000,000**	**-£7,500,000**	**-£13,746,269,008**
Council tax requirement	**£128,168,009.95**	**£2,674,008.84**	**£849,474,417.45**	**£180,726,114.74**	**£52,527,369.06**	**£0.00**	**£0.00**	**£1,213,569,920.04**
COUNCIL TAXBASE	**3,073,573**	**3,073,573**	**3,065,256**	**3,073,573**	**3,073,573**	**3,073,573**	**3,073,573**	
BAND D COUNCIL TAX	**£41.70**	**£0.87**	**£277.13**	**£58.80**	**£17.09**	**£0.00**	**£0.00**	**£395.59**

Appendix G - Pension Fund Committee Asset Transfer Decision

Agenda Item 6

REPORT TO:	**Pension Committee** **3 December 2021**
SUBJECT:	**London Borough of Croydon Pension Fund: Property Transfer Proposal.**
LEAD OFFICER:	**Richard Ennis, Interim Corporate Director of Resources (Section 151 Officer)**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: The Pension Committee is responsible for the investment strategy for the Pension Fund and ultimately for ensuring sufficient assets are available to meet the liabilities of the Local Government Pension Scheme.

FINANCIAL SUMMARY:

This proposal has implications for the Council and the Pension Fund and will impact on the level of contributions required of the Council.

1. RECOMMENDATIONS

1.1 The Committee is asked to recommend that the decision of Full Council of 28th January 2019, involving transfer of properties into the Pension Fund, be rescinded.

2. EXECUTIVE SUMMARY

2.1 This report sets out the argument for rescinding the decision to take forward a proposal to transfer properties into the Pension Fund.

3 DETAIL

3.1 Previous reports presented to this Committee have described this proposal in detail, together with the steps needed to deliver it and have given an idea of the complexity of this proposal and the risks involved. These reports are listed in the background papers below and Members should refer to them refresh their understanding of this issue.

3.2 For a number of reasons this proposal no longer represents an appropriate course of action for the Pension Scheme nor for the Council as a Scheme Employer. These reasons include but are not limited to the fact that the funding situation for the Croydon Scheme has significantly improved (and there is a paper on this agenda from the Scheme Actuary that goes into more detail on this). Fundamentally this is an asset allocation issue and this proposal does not match the allocation policy set out in the Council's Investment Strategy Statement. There is no allowance for this in the agreed policy. In short this proposal is not supported by the Fund's advisors. Therefore the Committee advises the Council to rescind its earlier decision.

3.3 The report 'London Borough of Croydon Pension Fund: Property Transfer Proposal Revisited' was presented to the Pensions Committee on 14th September 2021 and discussed at length although not adopted. That report described the Property Transfer Proposal in detail.

3.4 This complex proposal was developed in order to alleviate pressures on the Council's finances and this solution is now not appropriate and indeed sub-optimal. A funding review is set out by the Scheme Actuary in a report elsewhere on this agenda.

3.5 The Pensions Fund's professional, independent investment advisors, considered this proposal and highlighted a number of inherent risks. Officers are of the view that considering those risks in the light of an improved funding situation and other options to achieve the same outcome, this proposal is no longer viable. The intention of this proposal is to enable the Scheme to effectively manage contribution rates. The conclusion of officers set out in this report is that this is no longer the case.

3.6 The Scheme Actuary have set out their position on this matter:

Property transfer arrangement

3.6.1 "We understand that the Council's proposed property transfer arrangement is still under consideration.

3.6.2 "We would recommend that the Fund considers the appropriateness of the property arrangement alongside any agreement to reduce the Council's employer contribution rate. In addition, we also continue to strongly recommend investment advice is sought on receiving the property arrangement asset (both to provide a valuation of the asset the Fund would receive and also how assets of this nature are allowed for in the Fund's current and future investment strategy).

3.6.3 "From an actuarial perspective, the property transfer arrangement increases the complexity and risk of the Council's funding strategy. In particular, the proposed time period of 40 years at which the ownership would potentially transfer to the Fund far exceeds the Council's current time horizon for funding strategy purposes (or any other LGPS Fund employer). As previously advised, if the Council is seeking to reduce its contributions to the Fund due to budgeting pressures, we would recommend that this is achieved via reduced cash employer contributions and within the current funding strategy framework. We will continue to provide advice and analytics to allow the Fund to consider the appropriate level of risk i.e. to set a long-term contribution plan that balances the need for savings versus the long-term solvency of the Fund."

3.7 The proposals were agreed by Full Council on 28th January 2019:

"Council resolved to the break in the leases in 40 years, subject to all linked outstanding debt having been cleared, to transfer the 346 homes leased to Croydon Affordable Homes LLP and Croydon Affordable Tenures via an additional lease to the London Borough of Croydon Pension Fund, or any successor body, via a Pension Fund nominee company as part of meeting the Council's liability to the Pension Fund as a scheme employer."

3.8 The Pension Committee now recommend that the Council rescind that decision in order to allow officers freedom to explore other more efficient ways to manage the cost of the Scheme to the Council, as a Scheme Employer.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1

6.2

Approved by:

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury, Resources department, ext. 62552.

APPENDICES:

None.

BACKGROUND DOCUMENTS:

There are a number of key supporting documents that Members should refer to in order to fully understand the context of this decision and the subsequent recommendation to set aside this decision.

London Borough of Croydon Pension Fund: Property Transfer Proposal Revisited. Report to the Pensions Committee on 14th September 2021.

London Borough of Croydon Pension Fund: Property Transfer Proposal. Report to the Pensions Committee, 5 June 2018.

Croydon Council property transfer proposal, January 2018. Hymans Robertson

Advice to the Council in respect of a future transfer of assets to its Pension Fund, November 2018, Eversheds Sutherland International LLP **(exempt under Schedule 12A paragraph 5 Local Government Act 1972.**

London Borough of Croydon Pension Fund: Property Transfer Proposal. Report to the Pensions Committee, 21 November 2018.

This page is intentionally left blank

Appendix H – Croydon Affordable Homes/Tenures Briefing Note

1. In Financial Year 2017/18 the Council set up an LLP structure, including a charity, in order to increase supply of affordable housing, utilise 1-4-1 RTB receipts and receive income to support the Council's MTFS position.

2. As part of the 2019/20 Audit the Council's auditors have raised significant concerns in relation to the accounting treatment and substance of the structure; this is further explained within section 3.

3. The LLP structure consists of 5 LLP companies, with the Council having a 99% membership of LBC Holdings LLP which, itself, holds a 10% membership of the other sub-LLPs in the structure. An independent charity, Croydon Affordable Housing (the "Charity"), holds a 90% membership in each of the LLPs (other than LBC Holdings LLP). Out of a total of 4 sub-LLPs that were set up, as indicated within Appendix 1, only two are operational and the rest are dormant. The two that are operational are Croydon Affordable Home LLP (CAH) and Croydon Affordable Tenures LLP (CAT). Both together will be referred to as LLPs.

4. As part of a series of transactions, largely back to back for each LLP, the Council disposed of a total of 344 properties on an 80 year lease arrangement. 96 properties were transferred to CAH in November 2017 and 248 properties were transferred to CAT under two tranches with Tranche 1 being 167 properties in March 2019 and Tranche 2 having 81 properties in December 2019.

5. To enter into the lease agreement with the Council for the 344 properties, the Council provided CAH and CAT funding by way of loans and 1-4-1 right to buy capital receipts (under a facility agreement), which the LLPs used to fully pay their liability to the Council under the head lease. The value of the combined funding to the LLPs (CAH & CAT) was circa £112m, consisting of loans from the Council (circa £79m) and granting of RTB 141 receipts (circa £33m).

6. CAH and CAT were then provided with funding by external funders (Canada Life and Legal and General Assurance Society Limited, respectively), through an upfront lease premium under an underlease covering an 80-year term (with a 40-year break clause that can be exercised by CAH and CAT under the agreement; option deed for the transfer of the underlease). CAH and CAT used this upfront lease premium to part repay the Council's loans. CAH and CAH pay the external funders an investment return as per the amount disclosed in the underlease. The investment return is fixed but rises by CPI annually.

7. Within this arrangement a number of other agreements were also established, such as the Council providing a covenant in respect of the payment of the investment return to the funders and the Council has entered into an 80-year property management agreement with CAH and CAT for the Council to provide management and maintenance services to the LLPs.

8. The Council accounted for the disposal of the leases to the LLPs as a finance lease and therefore treated the premiums of c£112m from the LLP for the lease as capital receipts. The Council does not hold the 344 properties on its balance sheet as they were deemed as disposed. The Council then used the receipts from the LLPs to fund £73m of transformation projects (under the Flexile Use of Capital Receipts arrangements for Local Authorities and to finance the capital programme with the balance of c£38m.

9. A further set of transactions includes the repayment of the initial loans by the LLPs using the monies they received from the external investors and the loan balance was reduced to £8.1m. The LLP will pay the remaining loan over a 40 year period and so far all annual commitments have been paid by the LLPs.

10. The Council's external auditors, Grant Thornton (GT), have raised concerns in regards to the structure and how the transactions between the stakeholders have been accounted for in the Council's year end accounts. These challenges include:

    a. On the basis of the transactions as detailed within Section 1 GT challenged whether the risk and reward associated with the properties were ever transferred at the outset of the agreement, and if there was a lease in place then it would be an Operating Lease as opposed to a Finance Lease

    b. Upon considering the whole suite of transactions rather than on perhaps the individual basis it appeared to GT that the Council was the party that the investors transacted with and the LLP is almost just a pass through.

11. The Council commissioned PwC to carry out an independent review of the LLP Structure and were asked to help with examining and advising on the Council's options in responding to Grant Thornton on this issue, particularly the claim 10a (above). Along with PwC support the Council also commissioned legal advice from James Goudie QC to ensure the structure also passed the legal test.

12. GT's challenge raised two potential implications for the Council. Firstly, if it were deemed that the LLP was just a pass through then the application of the 1-4-1 Capital Receipts would have been unlawful as the control test would have failed. Secondly, if the head lease transfer should be classified as an operating lease then the Council would need to unwind the £112m of capital receipts.

13. The Council is comfortable that the legal advice, along with its own management view, indicates that the setup of the structure is not just a pass through. Therefore, GT's second challenge as indicated within 10.b can be responded with a strong degree of confidence. The LLPs do have substance and that the LLP's control test is met as advised by the draft legal opinion from James Goudie. However James Goudie is unequivocal in his view that the structure is of

substance and that the LLPs have independence. This therefore reduces the risk of the entire structure needing to be re-considered for accounting purposes. Particularly, it ensures that the granting of the 1-4-1 Capital Receipts has been correctly done.

14. The Council has also received a draft report from PwC, which provides a rather open ended view of the lease arrangements and does not come to a conclusive position. The complex nature of the agreements indicates that further work will be required with GT to understand their view. GT have asked for the Council to provide a further paper to determine all risks and rewards, within its management assessment, have been transferred to the LLP.

15 The Council has 3 options that could resolve this matter. Option A has been to find all avenues, including engaging with CIPFA policy team to get a view on the lease indicators and CIPFA were asked to attend a meeting (also including DLUHC, PwC, Improvement Panel members and our external auditors along with senior Council officers) to provide their view on how to interpret the Code of Practice to determine the lease classification. The Code and the IFRS standards state that to classify a lease as a finance lease the criteria either 'individually or collectively' needs to be met. There are broadly two views to this, one being that only one criteria potentially needs to be met, out of the eight, for it to be classified as a finance lease and the second that it refers to a weighted assessment. The latter indicating that a number of indicators need to be met rather than just a single one. Albeit the auditor's view is that the assessment needs to be looked at in the round.

16 Option B has been to ensure comprehensive information has been provided to PwC for each of the 8 criteria to provide a correct assessment. One of the indicators which needed further work was to test the actual life of the properties that were transferred to the LLPS. The Council's Property and Assets team has assessed the economic life and based on the condition of the properties his view is that that asset life of the properties that were transferred to the LLPs have a life span between 25 and 75 years, which is within the 40 year lease period. If the asset life of properties is close to the lease term it strongly indicates a finance lease. The outcome of this review suggests that there is an argument to split the land and building components of the properties and it further reveals that the land is more likely to be an operating lease and the buildings are finance leases. The challenge back from GT has been to further test if the risk and reward has been transferred even when componentising and this needs further work to better understand on the likelihood of this option being successful.

17 The Council has also been planning in the event the lease was classified as an operating lease. We believe that it best to plan for such a scenario and this is Option C. The Council is working to re-consider the flow of transactions that would take place if the

lease arrangement are classified as an operating lease. The Council received capital receipts through two transactions and the Council may have the option to convert the second flow of capital receipts to cover the costs of transformation funding. This option has been put forward to GT however due to the complexity of the transactions and the structure it is felt further discussions will need to be held to ensure GT understand the dynamics of this Option C.

18 The worst case scenario for the Council is that the arrangement does not meet the Finance lease test, in which the Council will need to correct its historic accounts and it will result in a minimum of a £112m reversal of entries as indicated within 5. Whilst the Council could replace c£39m of the £112m using borrowing, as it was used to finance the capital programme, the balance of £73m which was used to fund re`1venue spend, under flexible use of capital receipts regime, would be a direct charge to the Council's Revenue account. The council does not have sufficient balances to cover the charge and therefore it would need to seek additional support, most likely a capitalisation direction. A capitalisation would be a route as of last resort and would only occur if the Council is unable to gain an agreement from the auditors.

19 It is expected that this work will roll over into the new Financial Year and it will further delay the finalisation of the 2019/20 audit work.

Appendix I - Budget proposals for 2022/23 – feedback from online survey

On 6 December 2021 Cabinet approved a draft MTFS and budget proposals for 2022/23 -24/25. Following this the Council launched a public engagement to seek feedback from residents on the proposals. This briefing note provides a summary of the responses.

The engagement survey went live from 13 December and closed on 12 January. The survey was promoted via a range of channels:

- social media channels
- press release
- weekly Your Croydon bulletin
- intranet
- business newsletter

A total of 386 responses were received.

Q1 - Croydon Council provides services to 386,000 residents. Most of the council's money – 62% – goes on supporting and protecting children and adults who need our help, with the rest on hundreds of other local services like collecting your bins, leisure, libraries and looking after parks

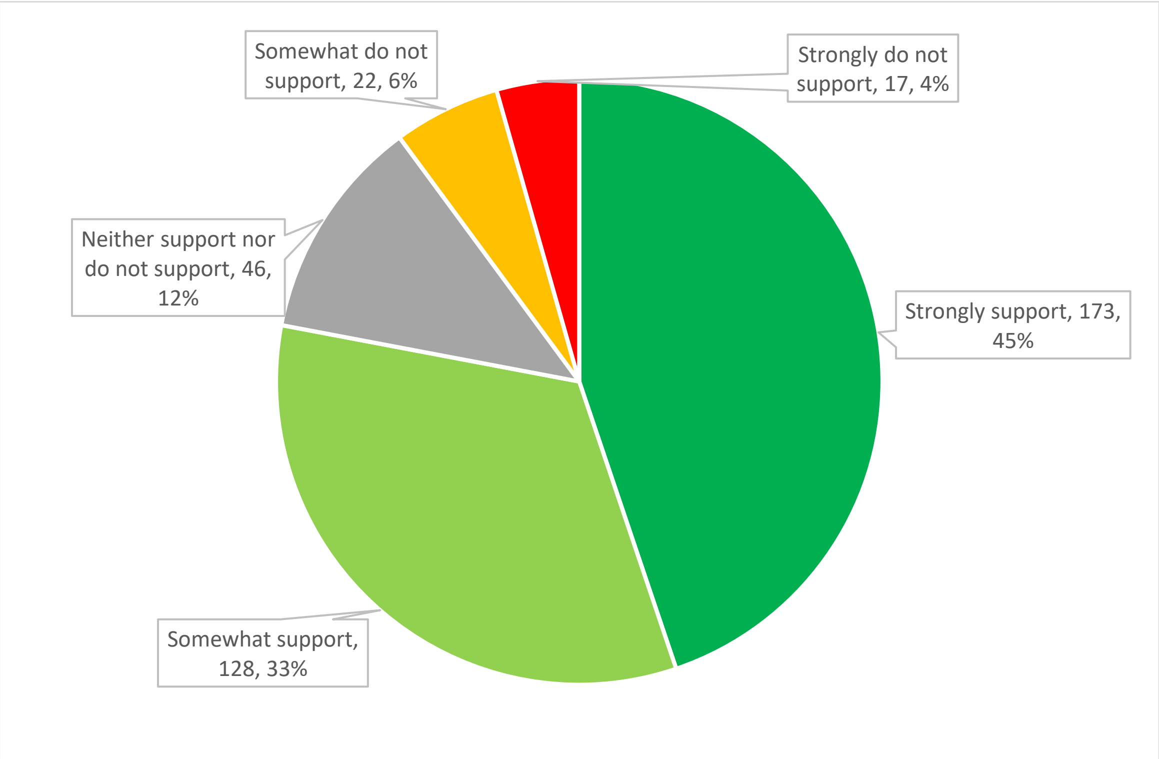
Please rank these services in order of importance to you, with 1 being the most important and 9 being the least important

Order of priority	Service	Average rank
1 (most important)	Children, young people and families, and education	3.5
2	Support for elderly and vulnerable adults	3.56
3	Keeping streets safe and clean	3.91
4	Rubbish and recycling collection	3.97
5	Housing services and homelessness prevention	5.22
6	Parks and open spaces	5.5
7	Economic growth, job creation and regeneration	5.92
8	Libraries and culture	6.55
9 (least important)	Leisure and sport facilities	6.87

Q2: The council needs to make £38m of savings this year to balance its budget, which it is required to do by law. To achieve this, we have focused on transforming the way the council operates by reducing spending on contracts, administrative functions and making our services more efficient. For example:

- **Reducing senior staffing spend by £1m a year**
- **Renegotiating our contracts to reduce costs and ensure we are getting value for money**
- **Renting out underused office space**
- **Restructuring services to make them more efficient**
- **Embracing better use of technology**
- **Reducing spending on support services**
- **Creating new income streams, for example new facilities at Monks Hill Leisure Centre, increased planning fees and charging insurance companies for CCTV footage**

As a result, three quarters of our savings proposals come from making the council more efficient. To what extent do you support or not support this approach?



Somewhat support and strongly support	Somewhat do not support and strongly do not support
78%	10%

Q3: If the council needs to make further savings, to what extent do you support or not support each of the following ideas, with 0 being strongly do not support and 5 being strongly support?

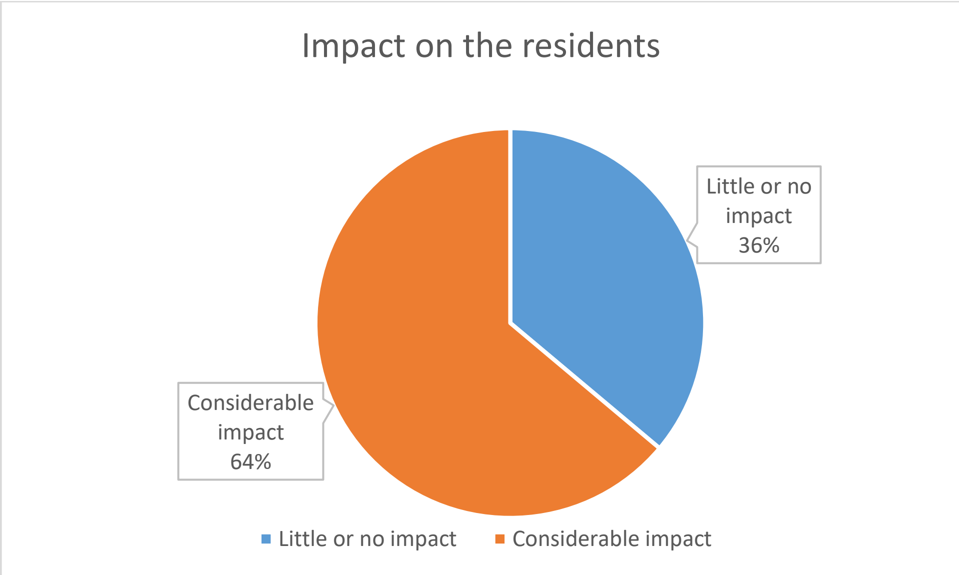
	(4) Somewhat support and (5) strongly support	(1) Somewhat do not support and (0) strongly do not support
Maximise the use of our buildings and assets to bring in income	83%	5%
Reduce spending on temporary agency staff	77%	4%
Reduce spending by making our services more efficient	74%	8%
Reduce costs by making better use of technology	71%	7%
Reduce spending on non-statutory services (services the council	41%	14%
Increase the amount of income we generate from charges for non-statutory services	37%	25%
Reduce spending equally across all services	19%	46%
Reduce spending on frontline services	8%	66%

Q4: If the council has opportunities through alternative funding streams to invest in any of the following areas to what extent would you support or not support each of the following:

	Somewhat support and strongly support	Somewhat do not support and strongly do not support
Education facilities	74%	9%
Open space and public realm	69%	10%
Community facilities	66%	12%
Public sports and leisure facilities	60%	16%
Community projects or services that support communities	59%	15%

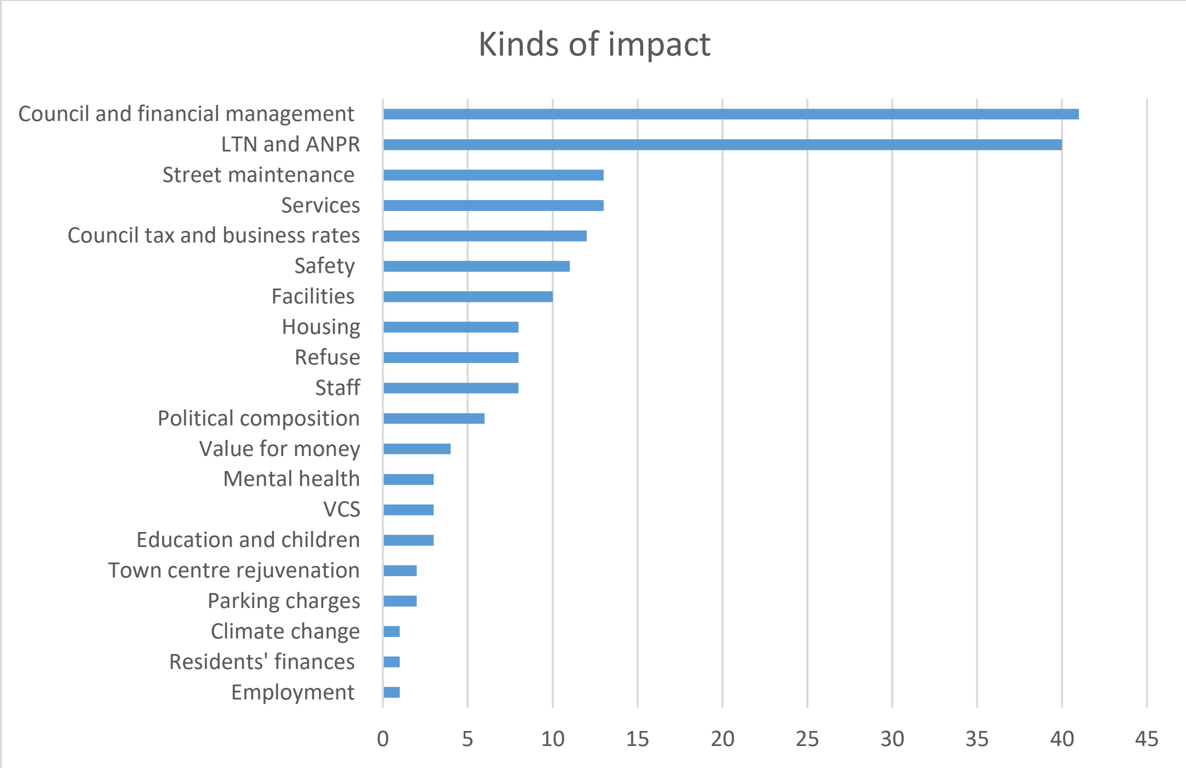
Supporting projects within the council's climate change action plan	42%	34%

Q5: A full schedule of the council's initial investment and savings proposals is available here. The council will seek residents' views ahead of any major services changes. Please tell us if the proposals being considered will have any impact on you and what you think that impact would be?



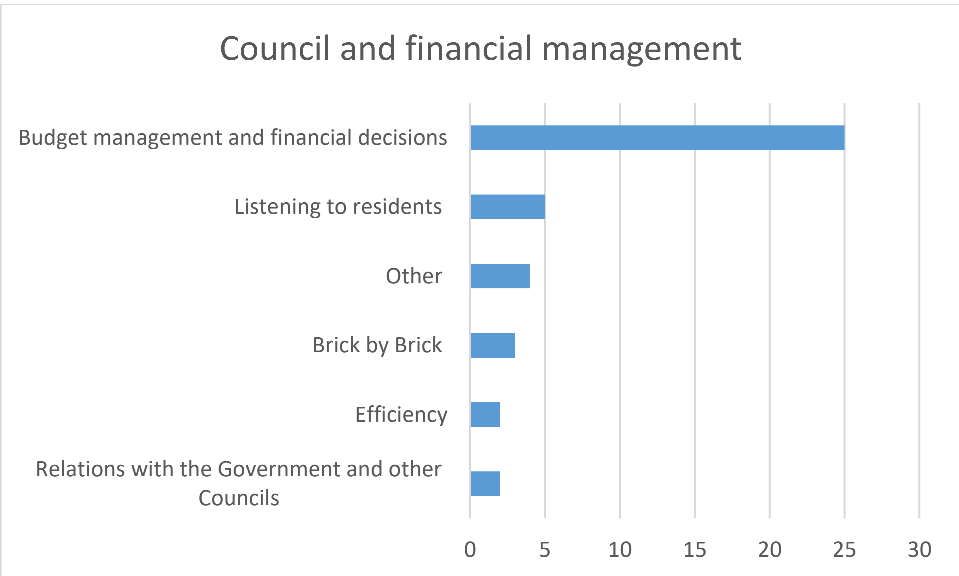
Thirty six respondents explicitly stated whether the proposed budged would affect them. Three respondents explicitly stated that the effect will be negative.

Based on 183 responses, 20 main themes were identified:



Further breakdown of the largest categories of responses (10 or more responses) are provided below.

Council and financial management (41 responses)



Sub category	Summary of comments
Budget management and financial decisions (25)	The respondent indicated that the budget and financial decision-making process needs to be managed more efficiently.
Listening to residents (5)	The Council should listen to and respond to the needs of the residents.
Other (4)	The respondent expressed their doubts about e.g., the future of the Council, the heritage of the Council.
Brick by Brick (3)	The respondent highlighted that Brick by Brick company should be sold, not financed by the Council etc.
Efficiency (2)	The respondent indicated that the Council should focus on increasing efficiency in the Council.
Relations with the Government and other Councils (2)	The Council should establish good relations with the Government and other councils.

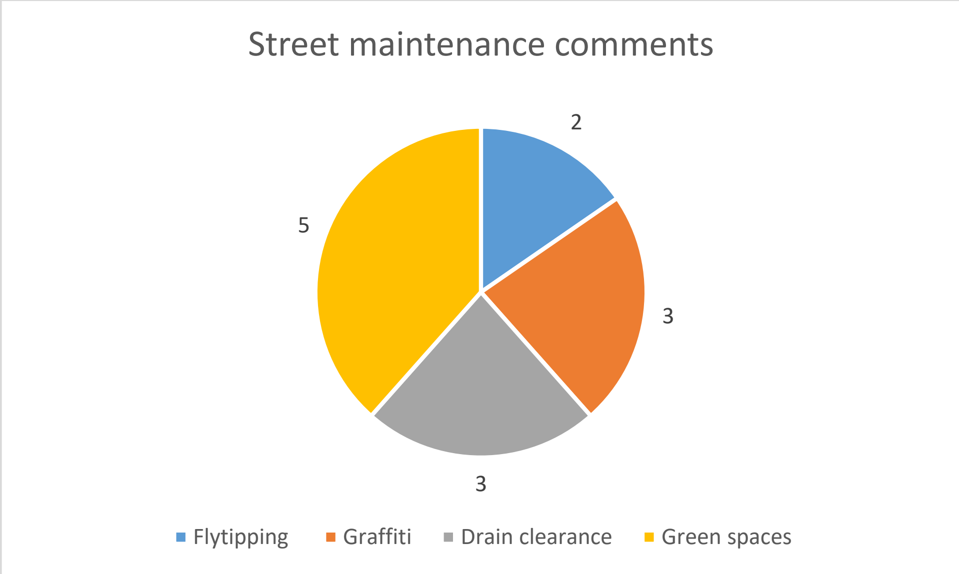
LNT and ANPR (40 responses)

Respondents indicated that the LNT scheme and usage of ANPR cameras:

- has a negative effect on the pollution and emission.
- is to increase Council revenue.

"*To make £11m over 3 years from fines for ANPR camera enforcement is scandalous. You introduced temporary schemes to improve the environment, which have all had very significant objections made against them, yet you continue to push ahead with these divisive schemes, to such an extent that you make it part of your recurring finances, which demonstrates that you don't care for the environment but wish to take financial advantages by penalising your residents.*"

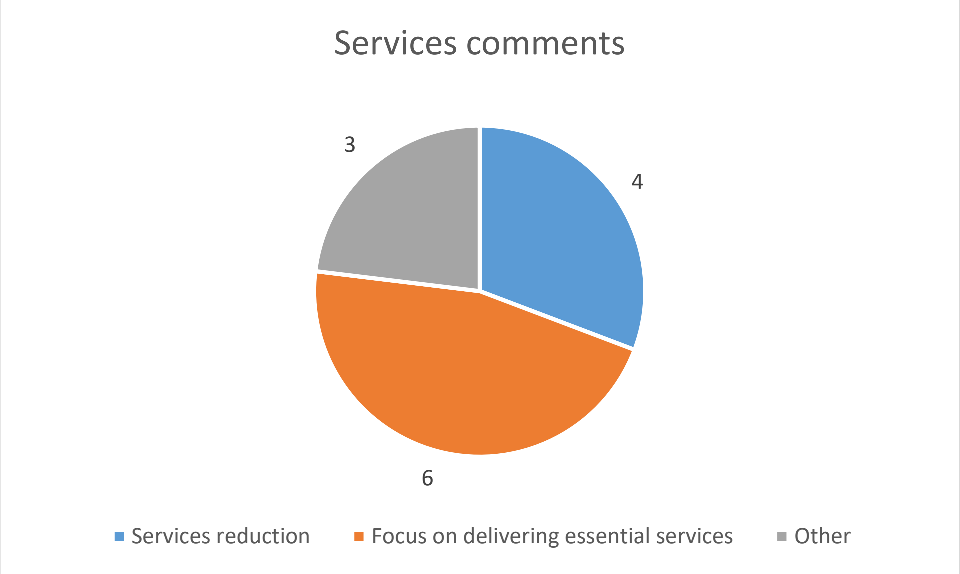
Street maintenance (13 responses)



Sub category	Summary of comments
Green spaces (5)	The respondent highlighted either the importance of green spaces, or that the maintenance of them has to improve.
Graffiti (3)	The respondent suggested that graffiti should be remover more quickly.
Drain clearance (3)	The respondent indicated that there is a risk of a flood connected to drain blockage.
Fly-tipping (2)	The respondent emphasises on the detrimental effect of fly-tipping.

"Bring back graffiti removal. Improve street cleaning and drain clearance."

Services (13 responses)



Sub category	Summary of comments
Focus on delivering essential services (6)	The council should focus on delivering the essential services.
Services reduction (4)	The respondent criticised the service reduction.
Mental health (3)	The respondent indicated that the Council does not focus enough on providing mental health support.

"The cuts so far are visible but the council must prioritise services to the vulnerable in our borough and utilise empty buildings and sell off empty premises where these are just eating up their funds."

Council tax and business rates (12 responses)

Respondents indicated that the

- increase of the council tax could be detrimental
- Council should offer preferable rates to local/new businesses.
- quality and scope of provided services do not correspond with the amount paid. Especially, in comparison to other boroughs.
- One respondent indicated that they would like to pay more council tax in order to maintain services.

"No council tax increase. We pay more than enough already. It's one of the most expensive council tax service and very poor service. Westminster, Wandsworth, Lambeth and Kensington and Chelsea are far cheaper council tax and service much better."

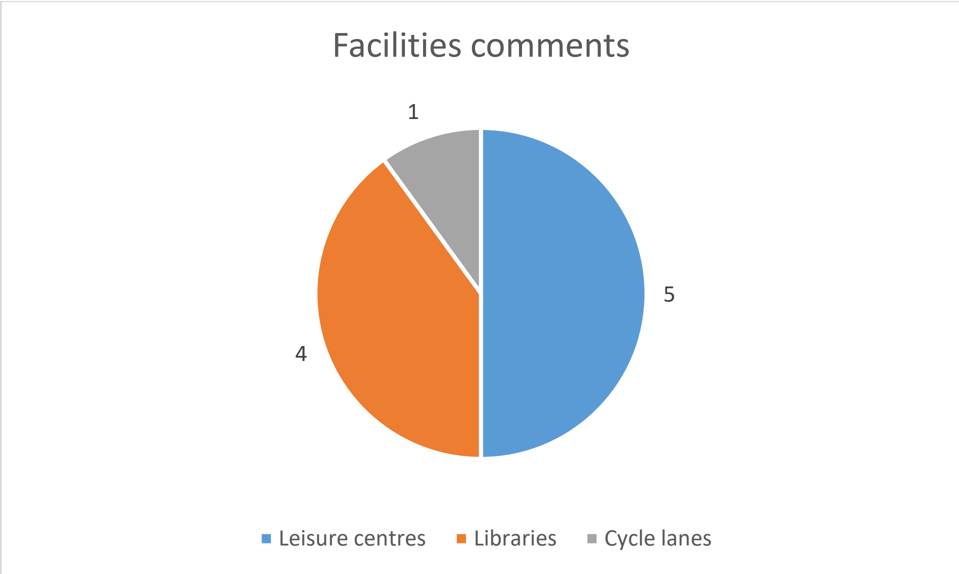
Safety (11 responses)

Respondents commented:

- concern about the crime and anti-social behaviour
- some respondents put a special emphasis on crime among young people.
- should be no cut to the crime/anti-social behaviour prevention budget.

"There should not be a reduction in Anti-Social Behaviour services or basic services such as bin and recycling and street cleaning and safety. Croydon needs to be safe and secure to walk around otherwise there is no point in any of the other services."

Facilities (10 responses)

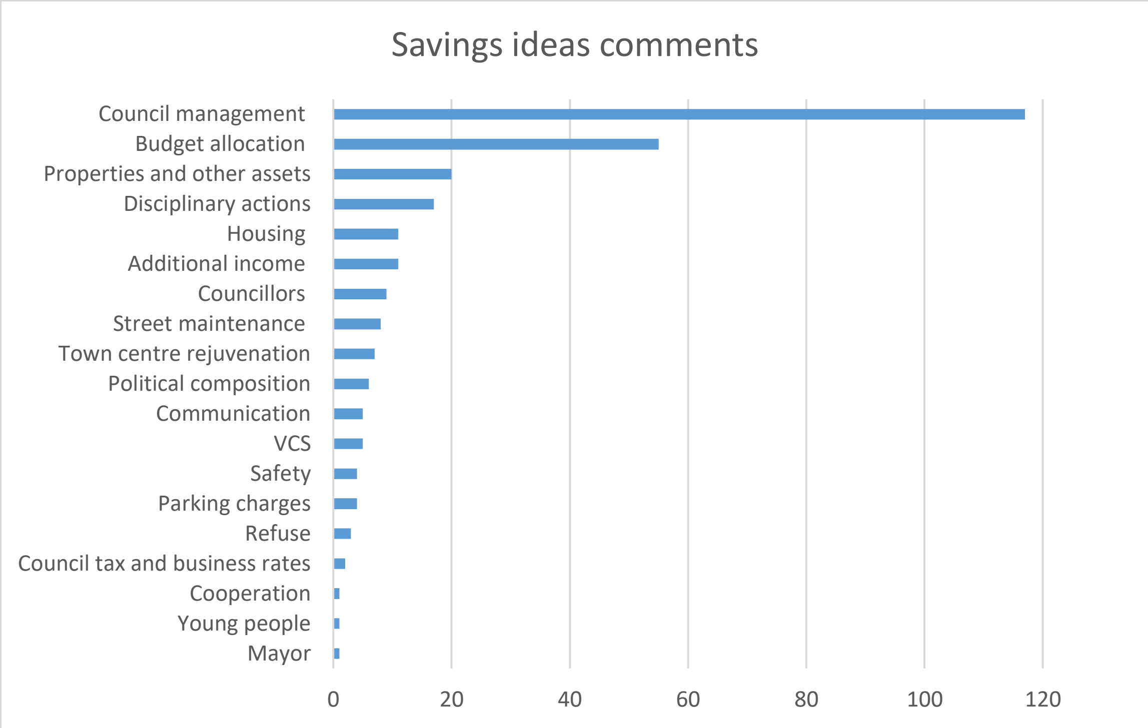


Sub category	Summary of comments
Leisure centres (5)	The respondent indicated the leisure centres, including Purley Leisure Centre should not be closed/ should be reopened.
Libraries (4)	The respondent said that the Sanderstead library should not be closed.
Cycle lanes (1)	The respondent claimed that the Council should not spend money on cycle lanes.

"Planned closure of Purley Pool would remove my only reasonable access to swimming facilities, with health impacts. This will also impact most other residents in the south of the borough and there's a safety risk if children don't have the opportunity to learn to swim. I think sports and leisure facilities are important for health and wellbeing for all as well as providing valuable activities for young people so they don't resort to crime and other undesirable pursuits."

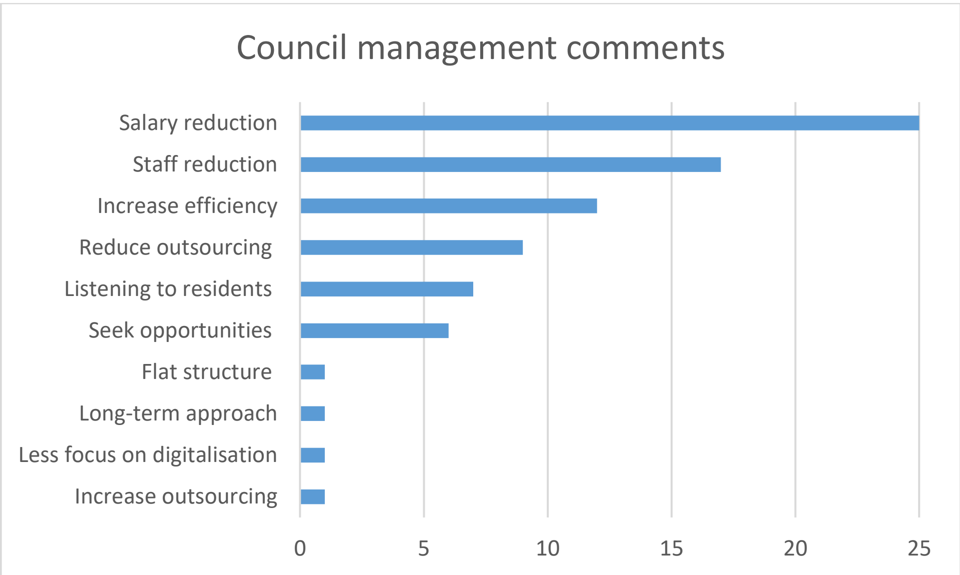
Q5: Do you have any other ideas for how the council can make savings?

Based on 228 responses 19 themes were identified. These are set out in the chart below:



Further breakdown of the largest categories of responses (10 or more responses) are provided below.

Council management (117 responses)

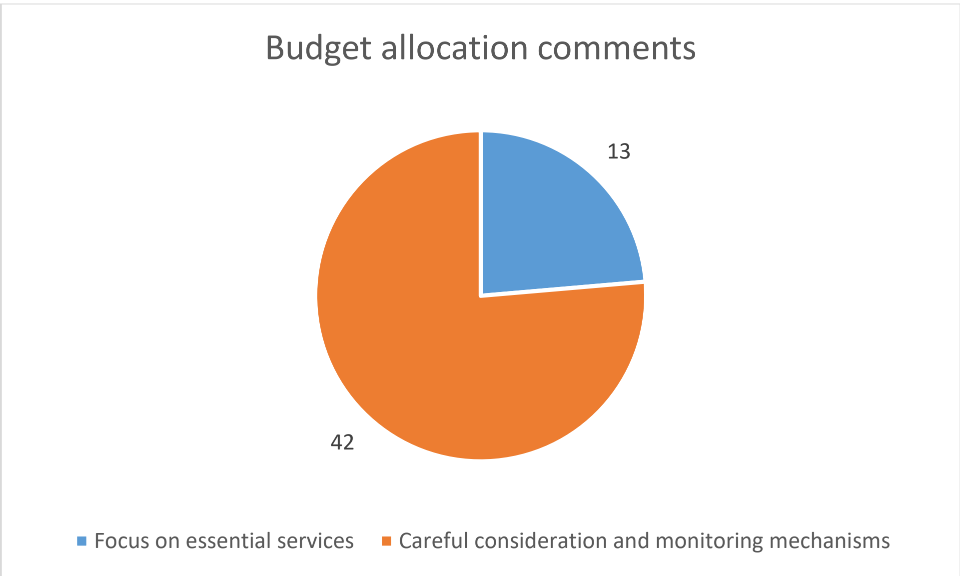


Sub category	Summary of comments
Salary reduction (25)	The salaries should be reduced, especially for the top management.
Staff reduction (17)	The Council should evaluate the staff and take appropriate actions.
Increase efficiency (12)	The Council should improve its efficiency.
Reduce outsourcing (9)	The Council should try to move some services in-house and reduce outsourcing.
Listening to residents (7)	The Council should listen to and consult residents.
Seek opportunities (6)	The Council should proactively seek new opportunities.
Flat structure (1)	The structure within the Council should be less hierarchical.
Long-term approach (1)	The Council should focus more on long-term perspective.
Less focus on digitalisation (1)	The Council should not focus on too much on digitalisation.
Increase outsourcing (1)	The Council should outsource more quality services.

"Too many senior managers: stop recruiting consultants and paying them loads of money; more working from home so as to free up space in council buildings that could be rented to others."

"Talk to local communities who understand local needs and ways to provide these efficiently."

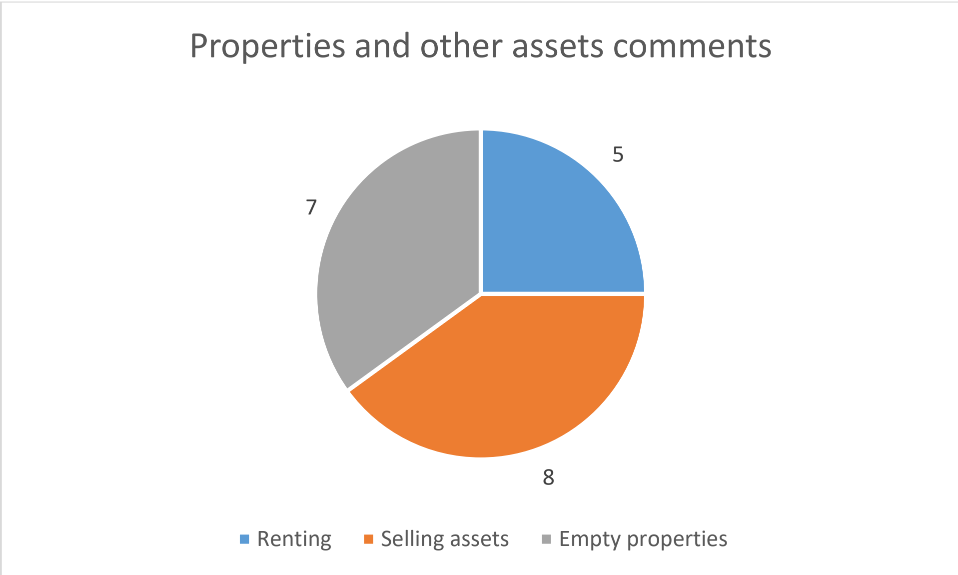
Budget allocation (55 responses)



Sub category	Summary of comments
Careful consideration and monitoring mechanisms (42)	The Council should carefully consider and monitor any activities
Focus on essential services (13)	The Council should focus on delivering the essential services.

"*Consider contracts more carefully and stop investing in poorly thought out schemes."*

Properties and other assets (20 responses)



Sub category	Summary of comments
Selling assets (8)	The Council should reduce its assets.
Empty properties (7)	The Council should take actions concerning empty properties.
Renting (5)	The Council should rent out its assets.

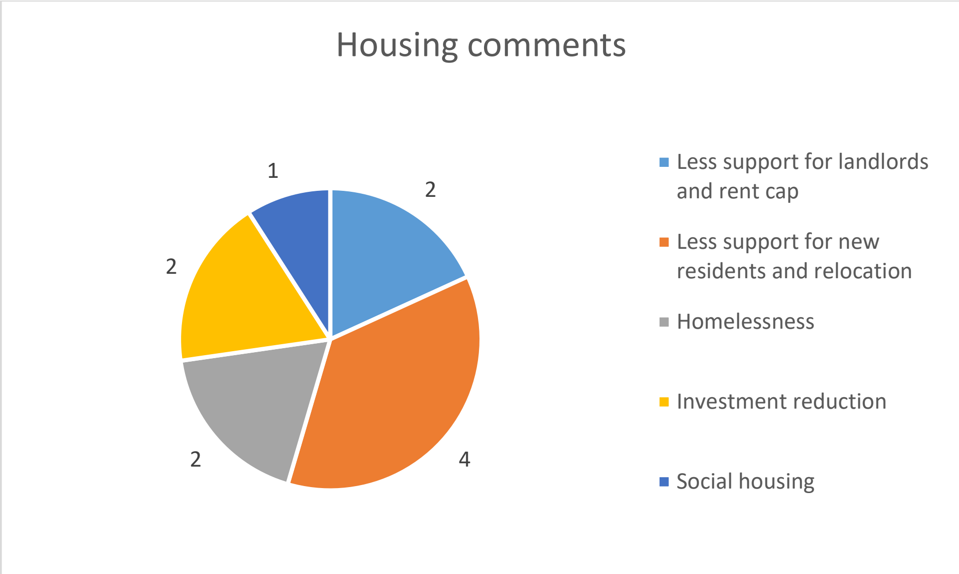
"Make sure any council properties you sell are sold by public auction. Instead of selling them off to your friends families and cronies. These properties belong to the rate payers of Croydon, something you seem to have forgotten."

Disciplinary actions (17 responses)

These respondents indicated that the Council should take disciplinary action against former and current councillors and members of staff.

"Take to court the people responsible in the Council for squandering our money."

Housing (11 responses)



Sub category	Summary of comments
Less support for new residents and reallocation (4)	The Council should not offer additional support for new residents, as Croydon cannot afford new residents. Also, the Council should reallocate some of the residents to other boroughs.
Less support for landlords and rent cap (2)	The Council should provide less support for landlords and introduce a rent cap.
Investment reduction (2)	The Council should stop or significantly reduce any housing investments.
Homelessness (2)	The Council should utilise empty flats and provide accommodation for homeless people.
Social housing (1)	The Council should improve the quality of social housing.

"Fairly and positively move supported people to other boroughs in the country."

Additional income (11 responses)

11 respondents suggested how the Council could raise additional income. The ideas include, utilising street lamps and columns to obtain advertising income; having cafes in the local parks, charging insurance companies for CCTV footage and charging food delivery drivers.

"Charge deliveroo riders etc. licenses to operate in Croydon do more with the parks to make money. Like they do in other countries."

Other saving ideas

Tag	Description
Councillors (9)	Comments indicated that Councillors allowances should be reduced and work more effectively.
Street maintenance (8)	Comments referenced more activity in relation to CCTV and fly tippers. Some respondents suggested that street lighting could be reduced in some areas.
Town centre rejuvenation (7)	The Council should focus on town centre rejuvenation, as it is crucial for the economic growth.
Political composition (6)	The respondent expressed their dissatisfaction with the current political composition of the Council.
Communication (5)	The respondents indicated that the Council should improve its PR strategy (example: *Improve PR, for example the removal of bus stops was not the councils fault, but they are taking the flack, VeloSmartCity and the Council both tried to stop that. Will save the councils image, and present it more professionally.);* should promote more the local services and sustainable facilities. Also, the respondents mentioned that the Council should promote itself less, and should not public *propaganda* materials.
VCS (5)	The respondents indicated that the Council should cooperate more with the VCS.
Safety (4)	The Council should spend more on to address crime and increase safety in Croydon.
Parking charges (4)	The Council should introduce more parking charges – overnight on public roads, in central Croydon and in library car parks.
Refuse (3)	The Council should collect waste every three weeks, increase fines for rubbish dumping. Additionally, the Council should enable residents to access refuse centres without the need to use their cars.
Council tax and business rates (2)	The Council should increase council tax for empty properties, and deduce the tax for businesses.
Cooperation (1)	The respondent would like the Council to cooperate with other councils.
Young people (1)	The respondent would like the Council to increase youth provision.
Directly elected Mayor (1)	The respondent suggested that the Council should not spend any money on directly elected Mayor.

For General Release

REPORT TO:	**CABINET 7th March 2022** **Full Council 7th March 2022**
SUBJECT:	**Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2022/23**
LEAD OFFICER:	**Richard Ennis** **Interim Corporate Director Resources (S151 Officer)**
CABINET MEMBER:	**Councillor Stuart King** **Deputy Leader (Statutory) and Cabinet Member for Croydon Renewal** **Councillor Callton Young** **Cabinet Member for Resources and Financial Governance**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT/AMBITIONS FOR CROYDON:

The prime function of the treasury management operation is to ensure that cash flow is adequately managed, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite where providing adequate liquidity is prioritised over investment return.

The treasury management service finances the Council's capital plans. These plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the achievement of the Council's objectives is critical, as the balance of debt and investment operations ensures liquidity or the ability to meet spending commitments as they fall due, either as day-to-day revenue spend or for larger capital projects. The treasury operation carefully assesses the balance of the interest costs of debt and the investment income arising from cash deposits as this impacts directly on the Council's finances. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance Sheet.

Much of this treasury activity focusses on risk assessment, monitoring and mitigation. Principal among these risks are concerns about liquidity, interest rates, and security, that is to say whether the Council can obtain the cash it needs, whether those loans are affordable and what are the risks of losing those principal sums. Much of this report describes how these risks are monitored, what steps are taken to manage them and what concerns have been identified. It must be noted though that treasury management is about understanding and managing risk and being aware that risks exist that cannot be foreseen. There are risks inherent in all aspects of this function.

Revised reporting on Treasury Management has been required since the 2019/20 reporting cycle due to revisions of the former Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code. This report complies with these requirements.

On 20 December 2021 CIPFA published revised versions of its two codes. The 2021 publication of the Prudential Code applies with immediate effect, except that authorities may defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. The general ongoing principles of the revised Prudential Code, including the requirement in paragraph 51 that an authority must not borrow to invest primarily for financial return, apply with immediate effect.

Nevertheless, the Council has to have regard to these codes when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and related reports during the financial year.

FINANCIAL IMPACT:

This report sets out the Council's Treasury Management objectives, which are to manage the Council's cash flows, borrowing and investments whilst minimising the level of risk exposure; maximising investment yield returns within those risk parameters; and ensuring that capital expenditure and financing plans are prudent, affordable and sustainable. The report details the activities that will be undertaken by the Council in the financial year 2022/23 and the capital borrowing needs of the Council for 2022/2023:

		£m	Total £m
1.	**In Year Borrowing Requirement (Net)**	**36.7**	
2.	**Total Interest Payable on Debt**		
	- chargeable to Housing Revenue Account (HRA)	13.1	
	- chargeable to General Fund	26.7	
			39.8

In addition the report details the investment activities and the estimated level of income earned.

Investment Income net of interest apportioned to Non-General Fund accounts e.g. HRA and other cash balances:- (0.250m)

FORWARD PLAN KEY DECISION REFERENCE NO.:

This is not an executive key decision – this is reserved to the full Council for decision as part of the budget and policy framework.

1. RECOMMENDATIONS

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

The Cabinet is asked to recommend to Full Council that it approve:

1.1. The Treasury Management Strategy Statement 2022/23 as set out in this report including the recommendations:

1.1.1. That the Council takes up borrowing requirements as set out in paragraph 4.15.

1.1.2. That for the reasons detailed in paragraph 4.21, opportunities for debt rescheduling are reviewed throughout the year by the Corporate Director Resources (Section151 Officer) and that he be given delegated authority, in consultation with the relevant member/s of the Executive carrying portfolio responsibilities which cover those currently performed by the Cabinet Member for Resources & Financial Governance and Cabinet Member for Croydon Renewal in relation to Treasury Management in conjunction with the Council's independent treasury advisers, to undertake such rescheduling only if revenue savings or additional cost avoidance can be achieved at minimal risk in line with organisational considerations and with regard to the Housing Revenue Account (HRA) as set out in the Council's Medium Term Financial Strategy 2022/23 to 2024/25.

1.1.3. That delegated authority be given to the Corporate Director Resources (Section151 Officer), in consultation with the relevant member/s of the Executive carrying portfolio responsibilities which cover those currently performed by the Cabinet Member for Resources & Financial Governance and Cabinet Member for Croydon Renewal in relation to Treasury Management, to make any necessary decisions to protect the Council's financial position in light of market changes or investment risk exposure.

1.2. That the Council adopts the Annual Investment Strategy as set out in paragraphs 4.23 and 4.24 of this report.

1.3. That the Authorised Limit (required by Section 3 of the Local Government Act 2003) as set out in paragraph 4.16 be as follows:

2022/23	2023/24	2024/25
£1,674.624m	**£1,677.024m**	**£1,687.824m**

1.4. That the Council approve the Prudential Indicators as set out in Appendix D of this report.

1.5. That the Annual Minimum Revenue Provision Policy Statement (required by the Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008SI 2008/414) as set out in Appendix E of this report be approved.

1.6. That the Council's authorised counterparty lending list criteria as advised within 4.24 and updated from time to time in line with Link Group recommendations, be approved.

1.7. That in the event of the Council receiving a Capitalisation Direction that requires amendments to any part of the statements, strategies or policies contained in this report that the Corporate Director Resources (Section 151 Officer) be authorized to implement those changes and to report them to the next meetings of the Executive and Council.

1.8. The Capital Strategy Statement as provided within Appendix A and further detailed within Section 3 of this Report and have regard to the Capital Programme presented within the General Fund & Housing Revenue Account Budget 2022/23 to 2024/25 report which together comprise the Council's Capital Strategy.

2. INTRODUCTION

2.1. Under Regulations made pursuant to the Local Government Act 2003 the Council is required to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities, (CIPFA Prudential Code), to ensure that the Council's capital investment plans are affordable, prudent and sustainable. In particular, the CIPFA Prudential Code requires the Council to set a number of Prudential Indicators for the next three financial years. This report, which incorporates these indicators, also details the expected treasury activities for the year 2022/23, in the context of the longer term planning forecasts for the Council. The implications of these key indicators function as the overriding control and guidance mechanism for the future capital programme and the revenue consequences that arise for the Council in future financial years.

2.2. Under the same Regulations the Council is required to have regard to the CIPFA Treasury Management Code of Practice, (CIPFA Treasury Management Code) in setting up and approving its Treasury Management arrangements.

2.3 For the last few years authorities have been required to have regard to the 2017 versions of the two CIPFA Codes. However, CIPFA published revised codes on 20 December 2021 though have stated that formal adoption is not required until the 2023/24 financial year. Nevertheless, the Council has to have regard to these codes when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and related reports during the financial year..

2.4 The revised codes have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;

- address Enviornmental Social Governance (ESG) issues within the Capital Strategy;

- require implementation of a policy to review commercial property, with a view to divest where appropriate;

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);

- ensure that any long term treasury investment is supported by a business model;

- a requirement to manage effectively liquidity and longer term cash flow requirements;

- amendment to Treasury Management Principle (TMP1) to address ESG policy within the treasury management risk framework;

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management activity conducted by each authority;

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

2.5 In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management
Arising from the Council's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to manage prudently the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

2.6 As this Treasury Management Strategy Statement and Annual Investment Strategy deal solely with treasury management investments, the categories of service delivery and commercial investments will, if appropriate, be dealt with as part of future Capital Strategy reports and updates to the Capital Programme. The current Capital Startegy Statement has been provided within Appendix A with the Capital Programme provided for within the General Fund & Housing Revenue Account Budget 2022/23 to 2024/25 report presented as part of the Committee agenda.

2.7 Additionally the Department for Levelling Up, Housing and Communities (DLUHC) is proposing to tighten regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme.

3. CAPITAL STRATEGY STATEMENT

3.1. The two CIPFA Codes (Prudential Code and Treasury management Code) require that each local authority prepare a Capital Strategy as a high level corporate document.

3.2 Cabinet has been provided with the Capital Strategy Statement attached as Appendix A. The General Fund & Housing Revenue Account Budget 2022/23 to 2024/25 provides for the Capital Programme for next 4 years and this Treasury Management report takes into account the implications of the capital programme. Full Council has been asked to approve the Capital Programme under the Budget Report.

3.3 A combination of the Treasury Management Strategy and the General Fund & Housing Revenue Account Budget 2022/23 to 2024/25 the Council meets requirements under the Prudential Code to have a high-level overview of how capital expenditure, capital financing, investments and treasury management activity contribute to the delivery of the authority's plans and provision of services.

3.4 In 2022/23 the Council will be carrying out further detailed review of the Capital Programme, which will include Governance, Capital Planning and a revised Capital Strategy. A further detailed report and developed Capital Strategy will be brought to Full Council and Cabinet in 2022/23.

4. TREASURY MANAGEMENT STRATEGY FOR 2022/2023

4.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

4.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

4.3 The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

4.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

4.5 The Council defines its treasury management activities as:

"The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

4.6 The Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of strategies and policies, and estimated and actual figures.

1. **The prudential and treasury indicators and treasury strategy (this report)** - The first, and most significant report covers:

- the capital plans (including prudential indicators);

- an MRP policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be arranged) including treasury indicators; and
- an investment strategy (the parameters for managing investments).

2. **A mid-year treasury management report** – To update members with the progress of the capital position, amend prudential indicators as necessary, and flag whether any policies require revision;

3. **An annual treasury report** – This is a backward looking review document and provides details of the prudential and treasury indicators and treasury operations. The indicators are calculated on the basis of published outturn figures compared to the estimates within the Strategy.

4.7 The Strategy for 2022/23 covers three main areas, capital, treasury management and the Annual Investment Strategy:

Capital

- Capital expenditure plans and borrowing need and associated prudential indicators (paragraphs 4.10 and 4.11);
- MRP policy (paragraph 4.13).

Treasury management

- Current treasury position (paragraph 4.14);
- Borrowing strategy and borrowing requirement (paragraph 4.15);
- Treasury indicators which limit the treasury risk and activities of the Council (paragraph 4.16);
- Interest rate exposure and prospects for interest rates (paragraph 4.17) ;
- Borrowing strategy (paragraph 4.19);
- Policy on borrowing in advance of need (paragraph 4.20);
- Debt rescheduling and repayment (paragraph 4.21);
- Sources of finance (paragraph 4.22);

Annual Investment Strategy

- Investment policy (paragraph 4.23);
- Annual Investment Strategy (paragraph 4.24);
- Prudential Indicators (paragraph 4.25).

These three elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code, and the CIPFA Treasury Management Code.

4.8 Training

The CIPFA Codes require the responsible officer to ensure that members with responsibility for treasury management receive relevant and adequate training. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed. As required, training can be offered for elected members to enable effective scrutiny and monitoring of treasury functions and costs.

4.9 Treasury management consultants

The Council uses Link Group, Treasury Solutions (Link) as its external treasury management adviser. However, the Council recognises that responsibility for treasury management decisions remains with itself at all times and will ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, the treasury adviser. The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review reflecting sound governance practices.

CAPITAL ISSUES

4.10 Capital Expenditure and Borrowing Need

4.10.1 The Council's capital expenditure plans are the key drivers of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators (Appendix D), which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

4.10.2 The Council has an extensive capital programme which includes funding for housing, highways, education, libraries, leisure and environmental schemes. These schemes include recurring key projects and programmes linked to the Council's statutory duties and include the Highways Maintenance Programme and the Education Estates Programme. In addition the programme includes recurring elements to ensure that the Council's infrastructure is repaired and maintained, which includes digital infrastructure, the corporate property programme and one – off elements linked to the Council's corporate priorities.

4.10.3 Capital expenditure estimates are summarised in the table below:

Table 1: Capital Expenditure

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
General Fund services	63.5	80.5	87.4	50.2	41.3
Commercial activities and non-financial investments	0.0	0.0	0.0	0.0	0.0
HRA services	22.8	70.2	23.7	23.3	23.0

Capitalisation Direction	65.8	50.0	25.0	5.0	0.0
TOTAL	**152.1**	**200.7**	**136.1**	**78.5**	**64.3**

4.10.4 In addition to the total for each year included in this table, other long term liabilities, such as PFI and leasing arrangements require borrowing for the purpose of their financing.

4.10.5 If awarded, the Capitalisation Direction will allow for certain items of revenue spend to be charged to Capital.

4.10.6 The Council's financing need is funded from various capital and revenue resources plus borrowing as summarised below:

Table 2: Resources

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital receipts	10.8	52.4	27.5	0	0
Capital grants	18.8	38.7	33.7	32.9	20.9
S106 payments	0.3	5.7	2.9	0.2	0.2
Community Infrastructure Levy	7.9	6.7	7.5	6.9	0
HRA Revenue		10.5	14.1	20.0	16.4
Major Repairs Allowance	12.1	13.7	13.7	13.6	13.5
Borrowing	102.2	73.0	36.7	4.9	13.3
TOTAL	**152.1**	**200.7**	**136.1**	**78.5**	**64.3**

4.10.7 At the time of writing this report the capital programme for 2021/22 may be optimistic. Should there be any shortfall in the expenditure, borrowing will be reduced accordingly.

4.11 The Council's borrowing need (Capital Financing Requirement)

4.11.1 The Council's Capital Financing Requirement (CFR) is the total of historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, effectively its underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which reduces the borrowing need in line with each asset's life. The CFR includes any other long term liabilities such as PFI schemes and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and the Council is not required to borrow separately to deliver them.

4.11.2 The Council's estimated CFR is detailed in the table below:

Table 3: Estimated Capital Financing Requirement

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital expenditure	152.055	200.650	136.087	78.463	64.265
Less amount funded from resources (excluding reserves)	(49.840)	(117.175)	(85.339)	(53.563)	(34.565)
Gross In Year Borrowing Requirement (CFR)	**102.215**	**83.475**	**50.748**	**24.900**	**29.700**
Less In Year MRP for debt repayment.	(12.345)	(18.700)	(21.000)	(20.100)	(20.200)
In Year Borrowing Requirement (Net)	89.870	64.775	29.748	4.800	9.500

4.11.3 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the Council's overall financial position. The capital expenditure figures shown above indicate that no such activity is planned.

4.12 Core funds and expected investment balances

4.12.1 The application of resources to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (eg asset sales). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 4: Core Funds and Cash Balances

Year End Resources	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
General Fund balances / reserves	70.5	92.5	103.0	108.0	113.0
HRA balance	27.6	26.0	26.0	26.0	26.0
Capital receipts	19.2	0.0	0.0	0.0	0.0
Capital Grants	13.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0
Total core funds	**130.3**	**118.5**	**129.0**	**134.0**	**139.0**

4.13 Minimum Revenue Provision

4.13.1 MRP, which is often referred to as a provision for the repayment of debt, is a charge to revenue in relation to capital expenditure financed from borrowing or through credit arrangements.

4.13.2 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, local authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to the statutory guidance issued by DLUHC (previously MHCLG). The latest version of the Guidance was issued on 2 February 2018 and is applicable for accounting periods starting on or after 1 April 2019.

4.13.3 The Guidance states that before the start of each financial year, the Council should prepare a statement of its policy on making MRP in respect of that financial year and submit it to full Council for approval.

4.13.4 Regulation 28 of the 2003 Regulations requires a local authority to calculate in each financial year an amount of MRP that it considers to be prudent. An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or, eventually, from revenue income. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their CFR. In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.

4.13.5 The Corporate Director Resources (Section 151 Officer) is responsible for ensuring that accounting policies and the MRP Policy comply with the statutory Guidance in determining a prudent level of MRP.

4.13.6 The MRP for 2021/22 was adopted by full Council on 8 March 2021 (Minute 19/21) and placed particular emphasis on the need to have robust risk assessment processes in place to ensure that an adequate provision is maintained, especially in those circumstances where loan repayments are anticipated. Appendix D provides for the Minimum Revenue Provision Policy for 2022/23 and this aligns with the assumptions applied within the MTFS 2022/23 Budget Setting report being taken to Full Council on 7th March 2022.

TREASURY MANAGEMENT ISSUES

4.14 The Current Treasury Position

4.14.1 The Council's Treasury position as at 31 December 2021 comprised:

Table 5: Borrowing as at 31 December 2021

		Principal £m	Average Rate %
Fixed Rate Funding	- PWLB[1]	897.426	3.29
	- Local Authorities[2]	391,500	1.02
	- Amber Green LEEF 2LLP	8,575	1.68
	- European Investment Bank	102,000	2.20
Variable Rate Funding	- LOBO [3]	20,000	4.20
Total External Debt as 31/12/21		1,419.501	2.55

1. PWLB is the Public Works Loan Board, the branch of Government that is the principal lender to local authorities. Included within this amount is the £223.1m borrowed for the HRA self-financing settlement made on 28/3/2012.
2. As an alternative to borrowing from the Government, local authorities have come to the market offering loans at competitive rates.
3. Lender's Option Borrower's Option (LOBOs) loans are commercial debts with options for the lender to vary the rate at pre-set intervals. If the option is exercised, then the Council can either accept the new rate or repay the loan with no penalty.

4.14.2 The Council's debt maturity profile is included as **Appendix B**.

Table 6: Temporary Investments as at 31 December 2021

	Principal £m	Average Rate %
Temporary investments outstanding as at 31/12/21	141.000	0.2

4.15 The Borrowing Strategy and Borrowing Requirement

4.15.1 The Council's capital expenditure plans are set out in Section 4.10 and referenced by the Capital Strategy Statement in Appendix A. The treasury management function ensures that the Council's cash is managed in accordance with the relevant professional codes, as issued by CIPFA and DLUHC, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.15.2 The Council's treasury portfolio position at 31 March 2021 and forward projections are summarised below. The table shows the actual external debt against the CFR, highlighting any over or under borrowing.

Table 7: Borrowing and the Capital Financing Requirement

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt at 1 April	1,445.000	1,446.501	1,519.476	1,556.124	1,561.024
Expected change in debt	1.501	72.975	36.648	4.900	13.300
Other long term liabilities	76.021	73,584	71.000	68.500	66.000
Expected change in other long term liabilities	(2.437)	(2.584)	(2.500)	(2.500)	(2.500)
Actual gross debt at 31 March	**1,520.085**	**1,590.476**	**1,624.624**	**1,627.024**	**1,637.824**
CFR	**1,628.484**	**1,727.965**	**1,743.613**	**1,728.413**	**1,721.513**
Under/ (over) borrowing	**108.399**	**137.489**	**118.989**	**101.389**	**83.689**

Within the above figures the level of debt relating to commercial activities / non-financial investment is:

Table 8: Debt relating to commercial activities / non-financial investment

	2020/21 Actual	2021/22 Forecast	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt at 1 April (£m)	99.407	98.479	97.094	95.666	94.193
Percentage of total external debt (%)	6.9	6.8	6.4	6.1	6.0

4.15.3 Within the prudential regime there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current year and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for unauthorised revenue purposes.

4.15.4 The Corporate Director Resources (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

4.16 Treasury Indicators: limits to borrowing activity

4.16.1 Section 3 of the Local Government Act 2003 requires the Council to set limits and to keep under review how much it can afford to borrow. The amounts so determined are to be set on a rolling basis, for the forthcoming financial year and two successive financial years.

4.16.2 **Operational boundary for external debt**. This is the limit which external debt is not normally expected to exceed. It reflects the Council's expectations according to probable events.

Table 9: Operational boundary

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt	1,347.094	1,420.997	1,459.030	1,465.358	1,480.131
Other long term liabilities	73.584	71.000	68.500	66.000	63.500
Commercial activities / non-financial investments	99.407	98.479	97.094	95.666	94.193
TOTAL	**1,520.085**	**1,590.476**	**1,624.624**	**1,627.024**	**1,637.824**

4.16.3 **Authorised limit for external debt.** Another key prudential indicator represents a control on the maximum level of borrowing. This indicator presents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which could be afforded in the short term, but is not sustainable in the longer term.

4.16.4 The Cabinet is asked to recommend to Full Council that it should approve the following authorised limit:

Table 10: Authorised limit

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt	1,397.094	1,470.997	1,509.030	1,515.358	1,530.131
Other long term liabilities	73.584	71.000	68.500	66.000	63.500
Commercial activities / non-financial investments	99.407	98.479	97.094	95.666	94.193
TOTAL	**1,570.085**	**1,640.476**	**1,674.624**	**1,677.024**	**1,687.824**

4.17 Interest Rate Exposure and Prospects for Interest Rates

4.17.1 The Council manages its exposure to interest rate risk by borrowing the majority of its funding requirements at fixed rates over a range of durations. This limits the impact on the Council's ability to cover interest costs when interest rates are rising. The Council is also looking into securing borrowing using forward agreements to limit exposure to future increases in interest over the short term. This is a significant tool for managing interest rate exposure risk. Part of the service provided by Link is to assist the Council to formulate a view on interest rates. The following table gives their current forecasts for certainty rates, gilt yields plus 80basis points.

Table 11: Interest Rate Forecast March 2022 to March 2025

Our current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View 7.2.22	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

4.18.2 Commentary on these interest rate forecasts has been provided by Link in Appendix F. Link's commentary on the current wider economic background is attached as Appendix G.

4.19 Borrowing strategy

4.19.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR) has not been fully funded with borrowing as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent when investment returns are low but counterparty risk, such as a bank failing or borrower defaulting, is still an issue that needs to be considered. Against this background and the risks within economic forecasts officers will be cautious when undertaking 2022/23 treasury operations. The Corporate Director Resources (Section151 Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp fall in borrowing rates then borrowing will be postponed;

- if it was felt that there was a significant risk of a much sharper rise in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a rate response to the sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

4.19.2 Any decisions will be reported to the Executive at the first available opportunity.

4.20 Policy on borrowing in advance of need

4.20.1 The CIPFA Prudential Code states that "authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed." The Council operates within the requirements of the Code. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds

4.21 Debt rescheduling and repayment

4.21.1 The reasons for any debt rescheduling to take place, that is to say, early repayment of debt and, or, substitution with other loans, will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.21.2 However, rescheduling is not likely to occur at present because the Public Works Loan Board rates act as a disincentive. Nevertheless, should circumstances change, any rescheduling will be reported to Cabinet, at the earliest meeting following its action.

4.22 Sources of finance

4.22.1 The Council's main source of finance has traditionally been borrowing from the Public Works Loan Board (PWLB) where funds can be borrowed for up to 50 years at both fixed and variable rates. The Council has qualified for borrowing from the PWLB at the 'certainty rate' which is the prevailing PWLB interest rate on the date of borrowing less a discount of 0.20%. This discounted rate applies for funding of capital schemes through prudential borrowing and for the refinancing of maturing long term debt. The Council continues to source cheaper alternatives to the PWLB including other UK local authorities willing to offer loans up to 5 years. In order to reduce the risk that loans will mature when interest rates are peaking, debt is taken on in tranches that mature over a spread of years.

New loans will be taken to fit into gaps in the authority's existing debt maturity profile.

4.22.2 The most significant risk that the Treasury team manage is that relating to dependence on the PWLB for debt. The Government has been prepared to change interest rates available to local authorities. The Government has also declared itself prepared to shut off the supply of debt if local authorities take policy decisions that are at odds with the Government's policy. HM Treasury may reach the statutory limit on lending to local authorities or the Government might seek to impose a limit. Under such circumstances the Council could find it extremely difficult to secure financing at the most competitive rates.

ANNUAL INVESTMENT STRATEGY

4.23 Investment policy

4.23.1 The Council's investment policy has regard to the DLUHC Guidance on Local Government Investments, the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017(Treasury Management Code) and the CIPFA Treasury Management Guidance Notes 2018. Whilst DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments this section of the report deals solely with financial investments as managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (Appendix A).

4.23.2 The Council's investment priorities will be security first, liquidity second, then return. In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

4.23.3 The key ratings used to monitor counterparties are the Short-Term and Long-Term ratings.

4.23.4 Ratings will not be the sole determinant of the quality of an institution; it is important continually to assess and monitor the financial sector on both a micro- and macro- basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisers to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.23.5 Investment instruments identified for use in the financial year are summarised in paragraph 4.22 with further detail provided in Appendix C under the 'specified' and 'non-specified' investments categories. Specified investments are those with a high level of credit quality and subject to a maturity limit of one year whilst non-specified investments are of less high credit quality and may be used for periods in excess of one year.

4.23.6 The Council may wish, from time to time, to take advantage of financial derivative instruments in order better to manage risks, such as exposure to interest rate movements. Local authorities, including the Council, have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. Lender Option Borrower Option [or LOBO] loans). However, previous legislation was understood to prevent the use of such tools where they were not embedded in other instruments. The Localism Act 2011 includes a general power of competence that removes the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Treasury Management Code requires local authorities to clearly detail their policy on the use of derivatives in their annual strategy.

4.23.7 The Council will only use financial derivatives (such as swaps, forwards, futures and options) either on a standalone, or embedded basis, where it can be clearly demonstrated that as part of the prudent management of the Council's financial affairs the use of financial derivatives will have the effect of reducing the level of financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. This will be determined in liaison with the Council's external advisers. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit if applicable.

4.23.8 At all times the Council will comply with CIPFA advice and guidance on the use of financial derivatives and have regard to CIPFA publications on risk management.

4.24 Annual Investment Strategy

4.24.1 From time to time, under Section 15 (1) of the Local Government Act 2003 the Secretary of State issues statutory guidance on local government investments to which local authorities are required to "have regard."

4.24.2 The current guidance defines investments as "Specified" and "Non-specified".

4.24.3 An investment is a specified investment if all of the following apply:

- the investment and any associated payments or repayments are denominated in sterling;
- the investment has a maximum maturity of one year;
- the investment is not defined as capital expenditure; and
- the investment is made with a body or in an investment scheme described as high quality or with the UK Government, a UK local authority or a parish or community council.

4.24.4 A non-specified investment is any investment that does not meet all the conditions in paragraph 4.22.3 above.

4.24.5 The Council's criteria for the selection of counterparties for investments are based on formal credit ratings issued by Fitch Ratings and supplemented by additional market data such as rating outlooks, the pricing of credit default swaps (CDs) and bank share prices. In addition to the Fitch rated institutions all UK local authorities and some public bodies comprise the Council's Approved Lending List.

4.24.6 Each week, the Council, along with other clients, receives from Link Group a "Suggested Credit List." This is accompanied by a disclaimer reminding recipients, inter alia, as follows:

> *This document is intended for the use and assistance of customers of Link Asset Services. It should not be regarded as a substitute for the exercise by the recipient of its own judgement.*

4.24.7 Notwithstanding this and other similar clauses Link are the largest suppliers of treasury management advisory services to UK local authorities and understand the market well. In their analysis they take into account the views of each of the three major credit ratings agencies along with the pricing of credit default swaps and market intelligence. They are better placed than Council officers to carry out this analysis and the Council has adopted the following lending list criteria:

Specified investments

AAA rated money market funds - limit £20m
Debt Management Office – no limit
Royal Bank of Scotland* – limit £25m
Duration of up to one year.

*Royal Bank of Scotland is included as a specified investment since it is the Council's banker and the UK Government holds a majority stake.

Non-specified investments

All institutions included on Link's weekly "Suggested Credit List" – limit £10m

All UK local authorities – limit £10m
Duration to be determined by the “Suggested Credit List” from Link

4.24.8 As at 31 December 2021, the Council held £141m in short-term investments. Any funds above those required to meet day to day expenditure will be used to repay debt as it matures. As it has become clear that the low interest rate environment which has existed for several years is now coming to an end the cost of re-financing debt is likely to exceed the yield on investments. Daily liquidity requirements will be met by investing in AAA-rated MMFs. As investment rates are influenced throughout the year by the release of key items of data, there may be occasions when some investments will be pitched towards specific periods to take advantage of any unexpected higher rates resulting from data issued.

4.24.9 Based on cashflow forecasts for 2022/23 the Council anticipates its average daily cash balances for the year to be £50m. The overall balances include schools balances and HRA revenue balances for which an apportionment of interest earned is made. The net income then due to the General Fund is estimated at £0.250m.

4.25 Prudential Indicators

4.25.2 The Prudential Indicators for 2022/23 to 2024/25 are attached in Appendix D in accordance with the Code.

4.25.3 The Corporate Director Resources (Section 151 Officer) is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council’s Capital Strategy Statement and the Capital Programme as provided within Appendix A and as provided within the 2022/23 Budget Report respectively.

4.25.4 The Council is also required to confirm that it has adopted the CIPFA Code of Practice on Treasury Management as it has done for many years.

4.25.5 The Prudential Indicators set will be monitored throughout the year and will be reported to the Executive on a regular basis. The indicators break down into four blocks relating to capital expenditure; the affordability of the investment programme; maturity structure of borrowing and control of interest rate exposure.

5 CONSULTATION

5.1 Consultation in respect of the contents of this report has taken place with the Council’s treasury management advisers, Link, in preparing this report.

6 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

6.1 Revenue and Capital consequences of this report are dealt with within this report. There are no additional financial considerations other than those identified in this report.

The effect of the decision

Approval to this report will ensure that the Council meets both its legal and financial management requirements in respect of Treasury Management.

6.2 **Risks**

There are no further risks issues other than those already detailed in this report**.**

6.3 **Options**

These are fully dealt with in this report.

6.4 **Future savings/efficiencies**

This report sets out the Treasury Management Strategy and identifies that new loans will only be undertaken if affordable in revenue terms and debt restructuring will only be undertaken on advice from our treasury management advisers.

The Council will need to carry out further detailed work on the Capital Strategy as it improves under the Improvement and Renewal Plans. Current costs and financial considerations from the Capital Programme are sufficiently covered within Treasury Management.

Approved by: Nish Popat – Interim Head of Corporate Finance

7 LEGAL CONSIDERATIONS

7.1 The Head of Litigation and Corporate Law comments on behalf of the Interim Director of Law and Governance that the recommendations within this report are reserved matters for decision by Full Council. The legal implications are set out under the various sections within the report but in particular these include the requirement for the Council to produce a balanced budget of which the various strategies and limits detailed within this report form a part.

7.2 Section 21(1) of the Local Government Act 2003 (“the 2003 Act”) provides that the Secretary of State may make provision about the accounting practices (“proper practices”) to be followed by local authorities, including with respect to the charging of expenditure to a revenue account. Section 21(2) of the 2003 Act provides that ‘proper practices’ includes both enactments in legislation, and codes of practice specified by the Secretary of State in legislation.

7.3 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) ("the 2003 Regulations")made pursuant to the Local Government Act 2003 provide in regulation 31(a) that the accounting practices contained in the "Code of Practice on Local Authority Accounting in the United Kingdom", are to be regarded as proper practices. The code is issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), who may amend and reissue the code from time to time. The regulations requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities ("The Prudential Code"). Regulations 23 and 24 provide respectively that capital receipts may only be used for specified purposes and that in carrying out its capital finance functions, a local authority must have regard to the code of practice in "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("The Treasury Code") issued by CIPFA which is again revised by CIPFA from time to time. The most recently published version is the 2021 edition. This 2021 publication of the Prudential Code applies with immediate effect, except that authorities may defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. The general ongoing principles of the revised Prudential Code, including the requirement in paragraph 51 that an authority must not borrow to invest primarily for financial return, apply with immediate effect.

7.4 Section 21(3) of the 2003 Act provides that where there is a conflict between enactments in legislation, and accounting practices in codes of practice, that the legislative provisions are to be regarded as the proper practices.

7.5 In relation to the Annual investment strategy, the Council is required to have regard to the Guidance is issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 entitled "Statutory guidance on Local Government Investments 3rd Edition" which is applicable from and effective for financial years commencing on or after 1 April 2018.

7.6 Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended.

7.7 The requirement for a Capital Strategy stems from the provisions of the Prudential Code which was most recently updated in December 2021. In order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy that sets out the long-term context in which capital expenditure, borrowing and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. Authorities should report on and clearly distinguish investments for treasury management, service and commercial purposes.

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

8 HUMAN RESOURCES IMPACT

8.1 There are no immediate Human Resources considerations arising from this report. If there are subsequent proposals that may affect the workforce as a result of the Treasury management strategy, consultation and planning must be in line with HR policies and procedures and HR advice must be sought.

Approved by: Dean Shoesmith, Chief People Officer

9 EQUALITIES IMPACT

9.1 Under the Public Sector Equality Duty of Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others.

9.2 Section 149 of the Act requires public bodies to have due regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected characteristic and people who do not share it.

9.3 Protected characteristics defined by law include race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, and religion or belief and marriage and Civil Partnership. Case law has recognised gender identity along with gender reassignment.

9.4 Having due regard means there is a requirement to consciously address the three tenets of the Equality Duty within decision-making processes. By law, assessments must contain sufficient information to enable the local authority to show it has paid ‘due regard’ to the equalities duties; and identified methods for mitigating or avoiding adverse impact on people sharing protected characteristics. Where a decision is likely to result in detrimental impact on any group with a protected characteristic it must be justified objectively. Report authors have been guided towards ensuring that there is sufficient mitigation when a service has been changed to ensure that there is no detrimental impact on service users as a result of the change.

9.5 The Council's Capital and Revenue Budget 2022/2023 is not subject to an equality impact assessment directly. However where the impact of the budget results in change to policies and the delivery of services the department responsible for the change must carry out an equality impact assessment to evaluate how the change impacts groups that share a protected characteristic along with groups that do not share a protected characteristic, (i.e. Race, sex, disability, religion or belief, sexual orientation, pregnancy and maternity, age, gender identity and marriage and civil partnership). It will also identify if the impact is disproportionate amongst protected characteristics.

9.6 The impact assessment process will include using existing data on service users or where no data is available develop a plan to collect data to enable the Council to monitor the impact on protected characteristics and socio economic inequality.

9.7 In reviewing any proposed change arising from the Capital and Revenue Budget 22/23, officers will take a risk-based approach to analyse potential inequalities. Through its budget proposals, the Council will also seek to identify opportunities to improve services and the quality of life for all Croydon residents while minimising any adverse impacts of decisions, particularly in regard to groups that share protected characteristics. In doing so the Council will focus on another core priority to focus on providing the best quality core service we can afford, in particular social care for the most vulnerable people and keeping streets clean and safe.

9.8 The Council will also be guided by the principals of ensuring that the socio economic impact of any changes is identified. This is guided by the socio economic duty in section 1 of Equality Act 2010.

9.9 Where adverse impact has is identified mitigating actions will be specified and written into an action plan which will be monitored by the risk owner. This is essential to ensure that the Council deliver the best service that they can afford whilst not impacting on the recipients of the service by passing the costs onto the service users.

Approved by: Denise McCausland – Equality Programme Manager

10 ENVIRONMENTAL IMPACT

10.1 There are no Environment and Design impacts arising directly from this report.

11 CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no Crime and Disorder reduction impacts arising from this report.

12 REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

12.1 The recommendations proposed are in accordance with the Treasury Management in the Public Services Code of Practice 2017 and 2021 Edition and the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 and 2021 Edition.

13 OPTIONS CONSIDERED AND REJECTED

13.1 Consideration and evaluation of alternative options are dealt with within this report.

14 DATA PROTECTION IMPLICATIONS YES

14.1 Will the subject of the report involve the processing of “personal data?”

No

14.2 Has a Data Protection Impact Assessment (DPIA) been completed?

No

CONTACT OFFICER: Nigel Cook, Head of Pensions and Treasury Ext 62552

Appendices

Appendix A: Capital Strategy Statement
Appendix B: Long-term debt profile
Appendix C: Specified and non-specified investments
Appendix D: Capital prudential and treasury indicators 2022/23 – 2024/25
Appendix E: Minimum Revenue Provision Policy 2022/23
Appendix F: Commentary on prospects for interest rates
Appendix G: Economic background

Background documents

None

APPENDIX A

Capital Strategy 2022/23 – 2024/25

Council has a range of capital resources at its disposal, which it uses to deliver services and achieve its strategic objectives.

These resources will include land and buildings, such as offices schools parks and open spaces leisure and much more. The council's ability to maintain these assets so as to assure and enhance their role in the delivering services is crucial to its financial resilience.

If assets fall into disrepair, they are no longer able to fully fulfil their primary purpose, the council's ability to deliver the associate services is impaired and its resources become tidy in assets it cannot effectively use.

The capital strategy provides a high-level overview of how capital expenditure, capital financing, investments, liabilities and Treasury management activity contribute to the provision of highly effective services, together with an overview on how associated risk is managed and the implications for future financial sustainability is delivered.

Planning and managing the use of Councils capital resources is vital, this includes understanding the role that these assets play in the delivery of services and ensuring that the authorities as it base remains fit for purpose, effective and efficient.

The Council's Capital Strategy is an iterative process which has been reset over the past financial year, the forward plan is set out below.

In late summer 2021 there was the appointment of a new post, Director of Commercial Investment and Capital, who has overseen and reset the Capital Board which monitors and reviews the capital programme, from a strategic oversight basis.

As part of these functional and structural changes there is an overhaul and review of the capital program, via a challenge and review process seeking to align delivery and deployment of Capital.

The capital program is now aligned to the MTFS, with greater focus on strong project management approach. This seeks to monitor delivery, escalate risks and issues and strengthen governance over this critical process.

The Capital Board is now taking standard items on a six weekly basis to review and analyse risk as well as key functional areas such as right to buy receipt, s106/CIL and other external grant funding.

The capital position continues to be reported to Cabinet monthly, with the Cabinet Member for Croydon Renewal being the lead responsible Member, who is briefed by the Director of Commercial Investment and Capital monthly.

Looking forward, the strategic approach will be greatly enhanced with the PMO, which will assist in both project controls and dashboard reporting for individual projects and initiatives in both general fund and across the HRA.

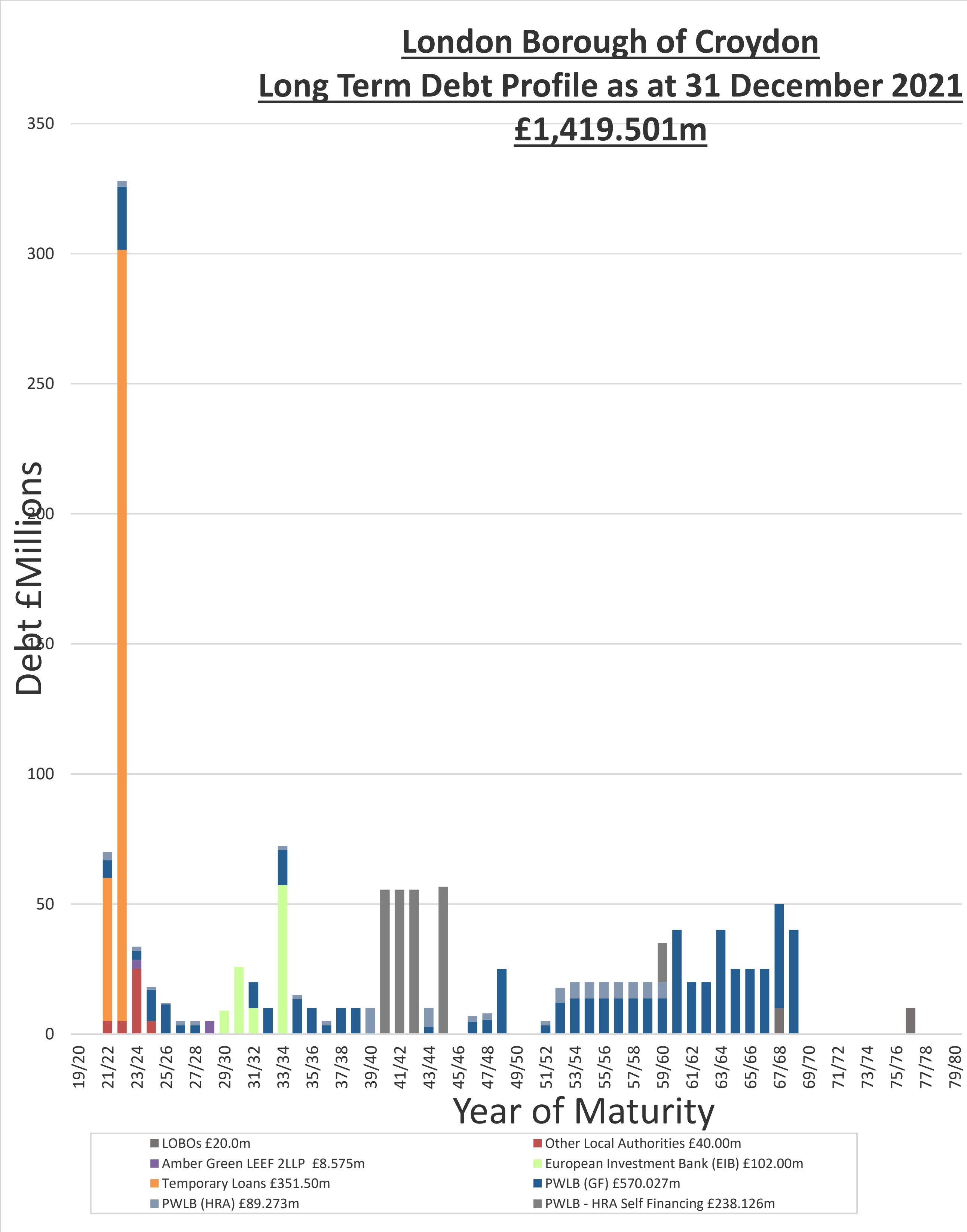
The workplan for 2022/23 seeks to formulate a single focussed Capital Strategy (expenditure and receipts) document to ensure transparency and delivery objectives which is able to be brought back to Cabinet, Scrutiny Committee and GPAC as appropriate, this will be done in collaboration with the new Directly Elected Executive Mayor.

Appendix D details the financial budgeting to implement the strategy to for the next four-year financial period.

This clearly demonstrates a significant investment program for the council which is outcome focused and seeks to provide alignment with corporate priorities and improvement to services experienced by residents and local businesses.

APPENDIX B

LONG TERM DEBT PROFILE



APPENDIX C

SPECIFIED AND NON-SPECIFIED INVESTMENTS

a. **Specified Investments** - Where there is a change in the current investment policy this is specifically noted. All investments shall consist of investments under one year as follows:

- Debt Management Agency Deposits Facility (DMADF) which is currently available for investments up to six months.

- Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to one year.

- Term deposits with credit - rated deposit takers (banks and building societies) including callable deposits, with maturities up to one year.

- Certificate of Deposits issued by credit - rated deposit takers (banks and building societies) up to one year.

- AAA rated Money Market Funds (i.e. a collective investment scheme as defined in SI. 2004 No 534).

- Bonds issued by multinational development banks (as defined in SI 2004 No 534) with maturities under 12 months. The Council currently does not invest in this type of investment. It is recommended, however, that these can now be used and held until maturity, after consulting and taking advice from the treasury management consultants.

- Enhanced AAA rated Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds. The Council currently does not invest in this type of fund. It is recommended, however, that these can now be considered, after consulting and taking advice from the treasury management consultants subject to the same criteria as other investments.

- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market.

- UK Government Treasury Bills which are debt instruments issued by the Government's Debt Management Office through weekly auctions. The bills are issued with maturities of one, three and six months.

b. **Non-Specified investments** - Local authorities now have specific powers to invest for periods in excess of one year. Previously such investments were not permissible, except in respect of the Council's Pension Fund (where specific legislation exists). It is recommended that these shall consist of:

- Term deposits with credit - rated deposit takers (banks and building societies) with maturities greater than one year. As a general rule they cannot be traded or repaid prior to maturity. The risk with these is that interest rates could rise after making the investment and there is also the potential that there could be a deterioration of the credit risk over a longer period. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Term Deposits with UK local authorities. This investment represents intra-authority loans i.e. from one local authority to another for the purpose of cash-flow management. The risk with these is that interest rates could rise after making the investment and it is therefore recommended that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. This risk is common to all term deposits whether with local authorities or other counterparties.

- Certificate of Deposits (C.D.) issued by credit - rated deposit takers (banks and building societies) with maturities greater than one year. With these investments there is a market or interest risk. Yield is subject to movement during the life of the CD, which could negatively impact on the price of the CD if traded early. It is recommended, therefore, that the use of this investment is limited to a maximum of five years and sold on maturity following advice from the Council's treasury management advisers.

- Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than one year. These have the potential of higher return than using a term deposit with a similar maturity. The risk is that only the borrower has the right to pay back the deposit, the lender does not have a similar call, as although the term is fixed only the borrower has the option to repay early. There is, therefore, no guarantee that the loan will continue to its maturity. The interest rate risk is that the borrower is unlikely to pay back the deposit earlier than the maturity date if interest rates rise after the deposit is made.

- Forward deposits with credit rated banks and building societies for periods greater than one year (i.e. negotiated deal period plus period of deposit).

The advantage of the investment is that there is a known rate of return over the period the monies are invested which aids forward planning. The credit risk is that if the credit rating falls or interest rate rise in the interim period the deposit period cannot be changed. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Bonds issued by multilateral development banks (as defined by SI. 2004 No 534). These have an excellent credit quality and are relatively liquid. If they are held to maturity there is a known yield, which would be higher than that on comparable gilts.

- If traded, there could be a potential for capital gain or loss through appreciation or depreciation in value. The market or interest risk is that the yield is subject to movement during the life of the bond, which could impact on the price of the bond, i.e. if sold prior to redemption date. Given the potential for loss any investment would need to be based on the principle that they would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Enhanced Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds. The Council currently does not invest in this type of fund. It is recommended, however, that these can now be considered, after consulting and taking advice from the treasury management consultants subject to the same criteria as other investments.

- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market. If held to maturity there is a known yield but if traded there could be a potential for capital gain or loss through appreciation or depreciation in value. Given the potential for loss, any investment would need to be based on the principle that UK government gilts would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. If held to maturity, these bonds represent the nearest to a risk-free investment.

- Property Funds. Property funds can provide stable returns in terms of fixed period rents, whether commercial or industrial rentals. Property funds can be regulated or unregulated. An investment in share or loan capital issued by a regulated property fund is not treated as capital expenditure but an investment in an unregulated fund would count as capital expenditure. Given the nature of the property sector, a longer-term time horizon will need to be considered for this type of investment. The Council currently has invested in one property fund; the Real Lettings Property Fund Limited Partnership – see 3.5.13. It is recommended, however, that any future investments in property funds should only be considered, after consulting and taking advice from the treasury management consultants.

- Floating Rate Notes (FRNs). These are typically longer term bonds issued by banks and other financial institutions which pay interest at fixed intervals. The floating rate nature of these instruments reduces the exposure to interest rate risk as the interest rate is re-fixed at the beginning of every interest rate period. The option to redeem before maturity is available through the secondary market. It is recommended that investments in FRNs be restricted to those issued by institutions on the Council's authorised lending list, after consulting and taking advice from the treasury management consultants.

- Corporate Bonds are issued by corporate institutions for example General Electric, Vodafone etc. They offer local authorities an alternative to the usual financial institutions. For Corporate Bonds, the minimum credit rating criteria of AA- should apply to fit within the Council's investment parameters. It is recommended that the use of this type of investment can now be considered, after consulting and taking advice from the treasury management consultants.

- Covered Bonds. These are a type of secured bond that is usually backed by mortgages or public sector loans. An important feature of covered bonds is that investors have dual recourse, both to the issuer and to the underlying pool of assets. It is recommended that the use of this investment can now be considered, after consulting and taking advice from the treasury management consultants.

- Investment in equity of any company wholly owned by Croydon Council.

APPENDIX D

CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2024/25

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Housing	2.4	3.4	3.5	3.0	3.0
Adults	0.1	0.1	1.7	0.3	0.0
Assistant Chief Executive	7.8	11.1	14.0	7.2	6.3
Children, Families and Education	17.6	15.4	16.0	6.1	
Sustainable Communities, Regen and Econ Dev	33.1	44.6	45.1	28.4	29.5
Resources	2.4	3.5	4.6	2.7	
Corporate	65.8	52.4	27.5	7.5	2.5
HRA services	22.9	70.2	23.7	23.3	23.0
TOTAL	**152.1**	**200.7**	**136.1**	**78.5**	**64.3**

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a) Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

	2020/21 Actual %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
Non-HRA	13.00	10.67	10.60	10.99	10.99
HRA	13.7	13.4	13.9	13.5	13.08
Total					

The estimates of financing costs include current commitments and the proposals in the budget report.

b) **HRA ratios**

	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
HRA debt £'000	334,342	334,342	334,342	334,342	334,342
HRA revenues £'000	88,582	90,375	94,117	96,765	99,183
Ratio of debt to revenues	3.77	3.70	3.55	3.46	3.37

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA debt £'000	334,342	334,342	334,342	334,342	334,342
Number of HRA dwellings	13,393	14,572	14,700	14,700	14,900
Debt per dwelling £'000	24.96	22.94	22.74	22.74	22.44

Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits. .

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	20%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
10 years and above	0%	100%

MINIMUM REVENUE PROVISION POLICY STATEMENT FOR 2022/2023

1. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 2003/3146, as amended] states that:

   "**a local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent".**

2. The regulations provide authorities discretion in deciding their annual amount of Minimum Revenue Provision (hereafter MRP). Section21 (1)(A) of Local Government Act 2003 ("the 2003 Act") requires authorities to "have regard" to the MRP Guidance ("Statutory guidance on minimum revenue provision") published by the Secretary of State and the recommendations within it. This was last revised on 2 February 2018

3. Regulation 28 does not define prudent provision, the MRP guidance makes recommendations on the interpretation of that term. Within this guidance it is acknowledged that while four methodologies are available to authorities, other approaches are not meant to be ruled out, provided they are fully consistent with the statutory duty to make prudent revenue provision. Therefore it is recognised that in some cases a more individually designed MRP approach is justified, taking into account local circumstances.

4. The Council has had regard to Guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003 in preparing this policy. .

5. The Council's MRP Policy Statement for 2022/2023 is to be as follows:

6. For the proportion relating to historic debt (incurred up to 31 March 2008) and to Government-supported capital expenditure incurred since, the MRP policy will be to adopt Option 1 - the Regulatory Method by providing a fixed amount each financial year, calculated at 2% of the balance at 31 March 2015, reducing on a straight line basis so that the whole debt is repaid after 50 years.

7. For unsupported borrowing undertaken since 1 April 2008, reflected within the CFR debt liability at 31 March 2022, the MRP policy will be to adopt Option 3 – Asset Life Method – Annuity method from the Guidance. Estimated life periods will continue to be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods

and prudent MRP in exceptional circumstances where the recommendations of the Guidance would not be appropriate.

8. As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

9. Where schemes are not fully completed at the end of the financial year, MRP charges will be deferred until the schemes are complete and the assets are operational.

10. MRP on Public Finance Initiative (PFI) schemes debt is to be charged on an annuity basis over the remaining life of each scheme.

11. The Council retains the right to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP).

12. There may be circumstances when the Council may not make a provision for the repayment of the debt liability. In such circumstances where the authority has had regard to the guidance and chooses an alternative approach, the authority will set out the reasons in support to demonstrate it is satisfied that the arrangement is prudent

13. Where the Council has provided loan(s) to a third party to support capital expenditure which is due to be repaid in full under the terms of the contractual agreements, the loan repayments are classed as a capital receipt. Any principal sum repaid will be set aside to reduce the increase in the CFR which relates to any such loan(s) provided.

14. In circumstances where the Council has previously determined not to set aside a provision to repay the debt liability, an annual review will be undertaken to determine if the amount and timing of any loan repayment remains in accordance with the formal loan agreement. Where there is evidence which suggests that the full amount will not be repaid, it would be prudent to reassess the need to commence MRP to recover the impaired amounts from revenue. This will be reviewed on an annual basis to assess the likelihood of default. If required, a prudent MRP policy will commence, following a stringent risk assessment process.

15. The Council holds commercial property as part of its Investment Property Portfolio. The assets are held solely for investment purposes and are managed on a fully commercial basis. The Council has the ability to sell

the assets to repay any outstanding debt liabilities related to their purchase, there is still a need to consider if a prudent provision is required. As above, following a stringent risk assessment a contribution to the MRP may be necessary. The market value of the assets will be reviewed on a regular basis and if the asset value significantly decreases, a prudent MRP contribution will be made. For the 2022/23 Budget and the 3 Year MTFS the Council has calculated the projected MRP costs and these are included within the plans.

16. The Council holds an investment in the Real Lettings Property Fund LP under a 7-year life arrangement which is due to be returned in full at maturity with interest paid on outstanding balances annually. The investment is treated as capital expenditure with the Council's CFR increasing by this amount. At maturity, the funds returned to the Council will be treated as a capital receipt and the CFR will reduce accordingly. The investment is relatively short-term in duration and the funds are to be returned in full. Therefore the Council has assessed the need to set aside a prudent provision to repay the debt liability in the interim period, and determined no MRP provision is required at this time.

17. Loans borrowed from Amber Green LEEF 2LLP, an alternative source to fund energy efficiency and carbon reduction schemes at certain educational institutions within the Borough will be recovered in full from these institutions. As such, the Council has determined there is no need to set aside prudent provision to repay the debt liability in the interim period, and therefore no MRP application is required.

This page is intentionally left blank

APPENDIX F

COMMENTARY ON PROSPECTS FOR INTEREST RATES PROVIDED BY LINK GROUP FEBRUARY 2022

Updating of our forecasts 7th February 2021

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
7.2.22	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
20.12.21	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
change	0.50	0.50	0.50	0.75	0.50	0.50	0.50	0.50	0.25	0.25	0.25	0.25	0.00

- We have forecast a much faster pace of increases in Bank Rate with rises of 0.25% in March, May and November 2022 to end at 1.25% during the forecast period.

- Gilt yields and, therefore, PWLB rates, have been highly volatile since the start of quarter 4 of 2021; they have risen sharply since mid-December as it became clear that the MPC was getting alarmed by the successive sharp increases in monthly inflation figures which have far exceeded their previous forecasts. In addition, sharp increases in inflation in the US, and the consequent rise in US treasury yields, have been exerting some upward pressure on gilt yields.

- PWLB rates have risen sharply since the December MPC meeting. Financial markets have now built in most of the expected increases in Bank Rate into shorter-dated gilt yields, whilst heightened inflation concerns have impacted the medium to long parts of the maturity curve. Consequently, the yield curve has now flattened out considerably.

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

- Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	7.2.22												
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Link Group Interest Ra	20.12.21												
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- The threat from Omicron was a wild card causing huge national concern at the time of December's MPC meeting; now it is seen as a vanquished foe disappearing in the rear-view mirror.
- The MPC shifted up a gear last week in raising Bank Rate by another 0.25% and narrowly avoiding making it a 0.50% increase by a 5-4 voting margin.
- Our forecast now expects the MPC to deliver another 0.25% increase in March; their position appears to be to go for sharp increases to get the job done and dusted.
- The March increase is likely to be followed by an increase to 1.0% in May and then to 1.25% in November.
- The MPC is currently much more heavily focused on combating inflation than on protecting economic growth.
- However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.
- Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.
- The increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC

may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.

- The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?
- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.

PWLB RATES

- The yield curve has flattened out considerably.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate.
- It is difficult to say currently what effect the Bank of England starting to sell gilts will have on gilt yields once Bank Rate rises to 1%: it is likely to act cautiously as it has already started on not refinancing maturing debt. A passive process of not refinancing maturing debt could begin in March when the 4% 2022 gilt matures; the Bank owns £25bn of this issuance. A pure roll-off of the £875bn gilt portfolio by not refinancing bonds as they mature, would see the holdings fall to about £415bn by 2031, which would be about equal to the Bank's pre-pandemic holding. Last August, the Bank said it would not actively sell gilts until the *"Bank Rate had risen to at least 1%"* and, *"depending on economic circumstances at the time."*
- It is possible that Bank Rate will not rise above 1% as the MPC could shift to relying on quantitative tightening (QT) to do the further work of taking steam out of the economy and reducing inflationary pressures.
- Increases in US treasury yields over the next few years could add upside pressure on gilt yields though, more recently, gilts have been much more correlated to movements in bund yields than treasury yields.

MPC meeting 4th February 2022

- After the Bank of England became the first major western central bank to put interest rates up in this upswing in December, it has quickly followed up its first 0.15% rise by another 0.25% rise to 0.50%, in the second of what is very likely to be a series of increases during 2022.
- The Monetary Policy Committee voted by a majority of 5-4 to increase Bank Rate by 25bps to 0.5% with the minority preferring to increase Bank Rate by 50bps to 0.75%. The Committee also voted unanimously for the following: -
    - to reduce the £875n stock of UK government bond purchases, financed by the issuance of central bank reserves, by ceasing to reinvest maturing assets.
    - to begin to reduce the £20bn stock of sterling non-financial investment-grade corporate bond purchases by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023.

- The Bank again sharply increased its forecast for inflation – to now reach a peak of 7.25% in April, well above its 2% target.
- The Bank estimated that UK GDP rose by 1.1% in quarter 4 of 2021 but, because of the effect of Omicron, GDP would be flat in quarter 1, but with the economy recovering during February and March. Due to the hit to households' real incomes from higher inflation, it revised down its GDP growth forecast for 2022 from 3.75% to 3.25%.
- The Bank is concerned at how tight the labour market is with vacancies at near record levels and a general shortage of workers - who are in a very favourable position to increase earnings by changing job.
- As in the December 2021 MPC meeting, the MPC was more concerned with combating inflation over the medium term than supporting economic growth in the short term. However, what was notable was the Bank's forecast for inflation: based on the markets' expectations that Bank Rate will rise to 1.50% by mid-2023, it forecast inflation to be only 1.6% in three years' time. In addition, if energy prices beyond the next six months fell as the futures market suggests, the Bank said CPI inflation in three years' time would be even lower at 1.25%. With calculations of inflation, the key point to keep in mind is that it is the rate of change in prices – not the level – that matters. Accordingly, even if oil and natural gas prices remain flat at their current elevated level, energy's contribution to headline inflation will drop back over the course of this year. That means the current energy contribution to CPI inflation, of 2% to 3%, will gradually fade over the next year.
- So the message to take away from the Bank's forecast is that they do not expect Bank Rate to rise to 1.5% in order to hit their target of CPI inflation of 2%. The immediate issue is with four members having voted for a 0.50% increase in February, it would only take one member more for there to be another 0.25% increase at the March meeting.
- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative tightening) holdings of bonds is as follows: -
    1. Raising Bank Rate as "the active instrument in most circumstances".
    2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
    3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

OUR FORECASTS

a. Bank Rate

- Covid remains a major potential downside threat as we are most likely to get further mutations. However, their severity and impact could vary widely, depending on vaccine effectiveness and how broadly it is administered.

- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

b. PWLB rates and gilt and treasury yields

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show little overall increase in gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for medium to longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. This was in addition to the $900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme roll-out had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

- **At its 3rd November Fed meeting**, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that treasury yields will rise over the taper period, all other things being equal.

- It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.
- At its **26th January meeting**, the Fed became even more hawkish following inflation rising sharply even further. It indicated that rates would begin to rise very soon, i.e., it implied at its March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely that the Fed could take action to force longer term treasury yields up by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Fed because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions, particularly in the US where long rates are a key driver of household and corporate borrowing costs.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

Globally, our views are as follows: -

- **EU.** The ECB joined with the Fed by announcing on **16th December** that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases during the first half of 2022. The ECB did not change its rate at its **3rd February** meeting, but it was clearly shocked by the increase in inflation to 5.1% in January. The President of the ECB, Christine Lagarde, hinted in the press conference after the meeting that the ECB may accelerate monetary tightening before long and she hinted that asset purchases could be reduced more quickly than implied by the previous guidance. She also refused to reaffirm officials' previous assessment that interest rate hikes in 2022 are "very unlikely". It, therefore, now looks likely that all three major western central banks will be raising rates this year in the face of sharp increases in inflation - which is looking increasingly likely to be stubbornly high and for much longer than the previous oft repeated 'transitory' descriptions implied.

- **China.** The pace of economic growth has now fallen back after the initial surge of recovery from the pandemic and China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. However, with Omicron having now spread to China, and being much more easily transmissible, lockdown strategies may not prove so successful in future. To boost flagging economic growth, The People's Bank of China cut its key interest rate in December 2021.

- **Japan.** 2021 was a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated, and new virus cases have plunged. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back towards its target of 2% any time soon.

- **World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

The balance of risks to the UK: -

- The overall balance of risks to economic growth in the UK is now to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed or unable to be administered fast enough to stop the NHS being overwhelmed.

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

- **Bank of England** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **The Government** acts too quickly to increase taxes and/or cut expenditure to balance the national budget.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, Iran, China, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast.

LINK GROUP FORECASTS

We now expect the MPC to sharply increase Bank Rate during 2022 to combat the sharp increase in inflationary pressures. We do not think that the MPC will embark on a series of increases in Bank Rate of more than 1.00% during the current and next three financial years as we do not expect inflation to return to being sustainably above 2% during this forecast period.

With unpredictable virus factors now being part of the forecasting environment, there is a risk that forecasts could be subject to significant revision during the next three years.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e., equities, or the safe haven of government bonds. The overall longer-run trend is for gilt yields and PWLB rates to rise moderately.

There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong and enduring will inflationary pressures turn out to be in both the US and the UK, and so impact treasury and gilt yields?
- **Will the major western central banks implement their previously stated new average or sustainable level inflation monetary policies when inflation has now burst through all previous forecasts and far exceeded their target levels? Or are they going to effectively revert to their previous approach of prioritising focusing on pushing inflation back down and accepting that economic growth will be very much a secondary priority - until inflation is back down to target levels or below?**
- How well will central banks manage the running down of their stock of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

Our forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia / China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

Our target borrowing rates and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 7.2.22 p.m.	Target borrowing rate now (end of Q1 2022)	Target borrowing rate previous (end of Q1 2022)
5 year	2.12%	2.20%	1.50%
10 year	2.24%	2.30%	1.70%
25 year	2.38%	2.40%	1.90%
50 year	2.06%	2.20%	1.70%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate is 2.00%. As nearly all PWLB certainty rates are now above this level, borrowing strategy will need to be reviewed, especially as the maturity curve has flattened out considerably. Better value can be obtained at the very short and at the longer end of the curve and longer-term rates are still at historically low levels. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio.
In addition, there are also some cheap alternative sources of long-term borrowing if a client is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk. Please speak to your CRM to discuss options.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Average earnings in each year	Now	Previously
2022/23	1.00%	0.50%
2023/24	1.25%	0.75%
2024/25	1.25%	1.00%
2025/26	1.25%	1.25%
Years 6 to 10	1.50%	-
Years 10+	2.00%	2.00%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for a trend of moderately rising gilt yields is unchanged. Negative, (or positive) developments could significantly impact safe haven flows of investor money into UK, US and German bonds and produce shorter-term movements away from our central forecasts.
Our interest rate forecast for Bank Rate is in steps of 25 bps, (apart from the current rate of 10 bps), whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.
Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Interest Rate Strategy Group

tort or otherwise for any loss or damage (whether direct, or indirect or consequential) resulting from negligence, delay or failure on the part of Link Group or its officers, employees or agents in procuring, presenting, communicating or otherwise providing information or advice whether sustained by Link Group customer or any third party directly or indirectly making use of such information or advice, including but not limited to any loss or damage resulting as a consequence of inaccuracy or errors in such information or advice. All information supplied by Link Group should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision.

Treasury services are provided by Link Treasury Services Limited (registered in England and Wales No. 2652033). Link Treasury Services Limited is authorised and regulated by the Financial Conduct Authority only for conducting advisory and arranging activities in the UK as part of its Treasury Management Service. FCA register number 150403. Registered office: 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

APPENDIX G

ECONOMIC BACKGROUND

- **COVID-19 vaccines.** These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pandemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.

- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

MPC meeting 16h December 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major expenditure unless it was very limited and targeted on narrow sectors like hospitality. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer".

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% in April 2022, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by geopolitics and its impact on energy prices rises which would most likely result in further inflationary pressures. As the Bank rate is 0.50% which would suggest that the Bank would act to start shrinking its stock of Quantitative Easing, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows:

  Raising Bank Rate as "the active instrument in most circumstances".
  Raising Bank Rate to 0.50% before starting on reducing its holdings.
  Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.

- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.

- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the European Central Banks concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.

- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.

- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.

- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. All this is coupled with the geopolitical risks across Easter Europe in Ukraine. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. In addition, the current pace of providing boosters at 100 million per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.

- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a **reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

This page is intentionally left blank