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Scrutiny & Overview Committee Agenda

To: Councillor Sean Fitzsimons (Chair), Councillor Robert Ward (Vice-Chair), Leila Ben-Hassel, Jade Appleton, Mike Bonello, Joy Prince, Stuart King, Callton Young and Hamida Ali

Reserve Members: Louis Carserides, Richard Chatterjee, Pat Clouder, Mary Croos, Clive Fraser and Oni Oviri

A meeting of the **Scrutiny & Overview Committee** which you are hereby summoned to attend, will be held on **Tuesday, 1 March 2022** at **6.30 pm.** **This meeting will be held remotely**.

Katherine Kerswell
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www.croydon.gov.uk/meetings
Monday, 21 February 2022

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AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any members of the Committee.

2. Minutes of the Previous Meeting (Pages 5 - 20)

To approve the minutes of the meetings held on Wednesday 19 January 2022 and Thursday 20 January 2022 as an accurate record.

3. 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), another 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.

4. 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.

5. Report in the Public Interest concerning the refurbishment of Fairfield Halls and related governance arrangements
(Pages 21 - 100)

The Committee is recommended to:

1. Consider and review the Action Plan attached at Appendix 1B;
2. Consider any proposed amendments or feedback that it wishes to make on the action plan; and
3. Submit that feedback in a report to Cabinet at its meeting on 21 March 2022.

6. Budget Scrutiny 2022-2023 (Pages 101 - 270)

The Scrutiny and Overview Committee is asked to:-

1. Note the update to be provided on the delivery of the 2021-22 budget and setting the 2022-23 Budget.

2. Consider the conclusions of the Committee on 2022-23 budget, to be submitted to the Budget Council meeting on 28 February 2022, including:-
    a. Reaching a conclusion on deliverability and sustainability of the 2022-23 budget.
    b. Reach a conclusion on whether sufficient evidence has been provided to conclude that there is understanding of the key risks and ownership of the proposals by the Council's political leadership.
    c. Consider whether there are any further conclusions on the 2022-23 budget the Committee would like to bring to the attention of Council.

7. 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

Scrutiny & Overview Committee

Meeting held on Wednesday, 19 January 2022 at 6.30 pm

This meeting will be held remotely and a recording can be viewed on the Council's website

MINUTES

Present: Councillors Sean Fitzsimons (Chair), Robert Ward (Vice-Chair), Leila Ben-Hassel (Deputy-Chair), Jade Appleton, Mike Bonello and Joy Prince

Also Present: Councillor Muhammad Ali

PART A

1/22 **Disclosure of Interests**

There were no disclosures of interest made at the meeting.

2/22 **Urgent Business (if any)**

There were no urgent items of business for consideration by the Scrutiny & Overview Committee at this meeting.

3/22 **Call-In: Key Decisions Relating To The Introduction Of Croydon Healthy Neighbourhoods**

The Committee considered a call-in request set out on pages 5 to 38 of the agenda. In introducing the item, the Chair explained the process for considering a call-in, confirming that the Committee needed to agree whether to review the decision and if it was decided to proceed, to confirm how much time it wished to allocate for the discussion of the item. The Committee agreed that it would review the decision and allocated one hour for its consideration.

The Chair went on to explain that there were three outcomes the Committee could reach as a result of its review. These were:-

1. That no further action was necessary and the decision could be implemented as originally intended.

2. To refer the decision to the Cabinet for its consideration, outlining the nature of the Committee's concerns

3. To refer the decision to Council, if the Committee considered that the decision taken was outside of the Budget and Policy Framework.

At the outset of the item the Chair gave Councillor Scott Roche, as the spokesperson for the call-in, the opportunity to outline his concerns on the original decision. Councillor Roche advised that there had been a number of reasons for submitting the call-in request, firstly there was no clear evidence that the type of traffic scheme to be installed would make a difference to local air quality. There was also a question about whether the Council was listening to the views of the public, as the results from a recent consultation indicated that 61% of responders were in favour of removing existing schemes. Given it had been estimated that £26m would be raised from penalty charge notices issued as a result of introducing the proposed schemes, there was also concern that it was being used to increase revenue.

Given these concerns, the outcomes sought from the call-in were confirmation on how the success of the schemes would be measured, confirmation on how the baseline evidence would be determined, confirmation on what quantative and qualitative data would be used and reassurance that the Council had sufficient resources in place to manage these schemes.

Following the introduction to the call-in, the Council's Head of Strategic Transport, Ian Plowright and the Head of Highways & Parking Services, Jane Rusbatch delivered a presentation to the Committee addressing the concerns raised. During the presentation the following points were noted:-

- Central Government had been calling on local authorities to take action to lower vehicle usage and as a result councils across the country were in the process of introducing similar traffic management schemes.

- In the guidance provided by the Secretary of State, it was made clear that local authorities needed to implement the schemes for at least a year to measure whether they worked or not. If schemes were removed early, it would be considered a misuse of the funding provided for implementation.

- It had also been made clear that the funding provided to introduce these schemes had been provided for this specific purpose and could not be used elsewhere.

- Monitoring of the schemes was based on statutory guidance provided by the Secretary of State and other guidance provided by Transport for London (TFL).

- There was a range of data being used to inform the schemes including figures from traffic surveys undertaken in 2017 as part of the proposal to introduce 20mph speed limits. Other data used included in-vehicle telematics to give an indication of traffic flow, TFL bus journey data, and data from Strava and Google.

- A series of Vivacity monitoring stations would be installed to record traffic data and there would be three separate types of air quality monitoring equipment installed as well.

- As part of the process the Council would be carrying out extensive consultation and engagement in line with the requirements of the Secretary of State to compile a wide range of feedback.

- The penalty charge notice (PCN) and appeals process was set out in statute and allowed the Council to install automatic number plate recognition (ANPR) equipment on the public highway.

- The ANPR technology allowed contraventions of the scheme to be detected. There was also a statutory process in place to allow the keeper of a vehicle to appeal a PCN.

- The appeals process was set out in writing to the keeper of the vehicle. The process was the same across the UK and if the appeal was upheld then the PCN would be cancelled.

- Having learnt from previous schemes, there will be advanced signage in addition to the statutorily required signage.

- The Committee had been provided with a set of FAQs used to explain the permitting process, exemption process and which permits are free of charge.

The Cabinet Member for Sustainable Croydon, Councillor Muhammad Ali, was also provided the opportunity to respond to the call-in, highlighting that although the Council had declared a climate emergency in 2019, work had already started before then on traffic related measures. As traffic emissions accounted for 25% of all emissions in the borough, it was important that action was taken, and at the same time care was taken to bring people along with the Council. There was a clear monitoring strategy in place for these schemes and by their experimental nature it would allow the determination of the potential benefits.

Following the introductions, the Committee proceeded to ask questions about the information provided. The first question concerned the use of the money raised through the scheme from issuing PCNs. It was confirmed that all income from parking enforcement was transferred onto the Council's balance sheet and used to fund the Freedom Pass for pensioners which equated to approximately £13-14m in 2021-22 (Note: a figure of £18m was provided at the meeting and subsequently corrected). Any excess raised above this figure was earmarked and could only be used for highways related schemes.

As an aim of the Healthy Neighbourhoods scheme was to improve health outcomes, it was questioned whether there had been any engagement with the local Clinical Commissioning Group (CCG). It was confirmed that there had been engagement with both the CCG and the Ambulance Service to draw on data around childhood obesity in the borough. The Ambulance Service was also supportive of the use of camera enforcement rather than physical barriers.

In response to a question about the monitoring of neighbouring streets, it was confirmed that this had been increased, although a significant issue was not expected.

Reassurance was sought that there was sufficient resource within the Council to manage the complexity of the schemes proposed. It was confirmed that having learnt from the experience of rolling out the earlier temporary schemes, these schemes would be rolled out using a phased approach. Additional resource would be provided by agency staff who would be employed to assist with the processing of exemption permits. The cost for using agency staff had been built into the project to ensure the level of resource could be flexed as needed on a short term basis.

As a follow-up, it was questioned whether the Council had the resource and experience to process the data produced by the monitoring equipment during the experiment. It was confirmed that the resource was not held within the Council, with external expertise being used, although the Vivacity monitoring equipment was able to analyses the data it collected and present it in an understandable format. It was suggested that the potential for working with a university to analyse the data may be a cost effective mechanism to pursue.

In response to concerns about the accuracy of the monitoring system it was confirmed that the Vivacity equipment had 97% accuracy. All monitoring systems recorded continuously and no images were stored within the system. There were no plans to independently test the accuracy of the monitoring equipment as it was already widely in use elsewhere.

Regarding the data being used it was questioned how the Council would be able to judge whether it had achieved net zero carbon emissions. It was advised that a report by the Mayor of London set out what London needed to do to reach net zero by 2030. One of the key aims was to reduce car usage by 27%, which it was hoped the Healthy Neighbourhoods schemes would help to achieve.

As in certain location temporary schemes had already been in place, it was questioned whether there was true baseline data from before the pandemic to use to judge the success of the scheme. Reassurance was given that there was baseline data available from shortly before the start of the pandemic lockdown, which would be supplemented by data from TFL.

Although it was accepted it was difficult to prioritise the objectives for the schemes as the purpose of the Healthy Neighbourhoods scheme was to take a holistic approach, it was highlighted that there was a risk that the public may think the success criteria was being changed if there was no clear indication of the intended outcomes.

It was advised that the Government was very clear about why local authorities should be introducing these schemes. There was also a clear presumption that they should remain in place unless there was evidence that the benefits were not being delivered. As such there was no clear cut answer on the success criteria, but in going ahead with the scheme it would allow the collection of data to determine the benefits. How the scheme and its findings are presented to the public would be key to its success. It was suggest that providing the data gather online for the public to view during the lifetime of the schemes would help the public gain reassurance about what the Council was trying to achieve.

It was questioned whether there had been learning from the previous, temporary schemes that could be used and whether a warning system could be used before issuing PCNs. It was advised that experience had indicated that it was important to use a level of signage over and above the regulated amount. It was also important to clearly differentiate to motorists when they were entering one of the new zones, which could be achieved by a variety of mechanisms such as different coloured road surface at the entrance. It was confirmed that the Council did provide one month's notice before issuing PCNs when introducing a new scheme. If a motorist received multiple PCNs before they received their first letter, they would be able to appeal and have the subsequent fines cancelled.

In response to concerns about temporary carers needing to access roads within the scheme to visit residents, it was confirmed that residents could apply through the exemption process online. If it was not a regular carer, then a retrospective application could be made.

Following its questioning, the Committee moved to determine the outcome for the call-in. It was agreed that a lot of additional information had been provided by the officers and Cabinet Member which had helped to provide reassurance on the concerns raised in the call-in, as such it was agreed that no further action was necessary.

The Committee Resolved: That no further action was necessary and the decision can be implemented as originally intended.

Conclusions

Having agreed that no further action was necessary on the call-in, the Committee reached the following additional conclusions:

1. The Cabinet Member and Officer were thanked for the significant amount of information that had been provided to the Committee, which had helped to provide reassurance on the concerns raised in the call-in.

2. The experimental nature of the Healthy Neighbourhood scheme fitted in to the Council's wider policy objective of taking action to improve health outcomes in the borough.

3. Although concern had been raised about the Council's capacity to resource the administration of the schemes effectively, sufficient reassurance was given that flexibility had built into the budget to increase resources as needed to meet temporary demand.

4. As it was recognised that the Healthy Neighbourhood scheme may have an impact on a wide range of health outcomes, it was agreed that potential benefits needed to be communicated to the public.

5. The call-in request indicated that there was mistrust of the monitoring that would take place as part of the scheme. Options such as making the data publically accessible online and inviting residents to participate in reviewing the outcomes, should be explored.

Recommendations

Following the consideration of the call-in request, it was agreed to make the following recommendations to the Cabinet Member for Sustainable Croydon

1. Ongoing communication was needed to promote to the public the potential benefits of Healthy Neighbourhood schemes.

2. That data gathered during the experiments should be made publically accessible on the Council's website.

Consideration should be given to inviting residents to participate in reviewing the outcomes from the experiment.

4/22 **Exclusion of the Press and Public**

This motion was not required.

The meeting ended at 8.20 pm

Signed: ....

Date: ....

Scrutiny & Overview Committee

Meeting held on Thursday, 20 January 2022 at 6.30 pm

This meeting will be held remotely and a recording can be viewed on the Council's website

MINUTES

Present: Councillors Sean Fitzsimons (Chair), Robert Ward (Vice-Chair), Leila Ben-Hassel (Deputy-Chair), Jade Appleton and Joy Prince

Also Present: Councillors Hamida Ali, Stuart King and Callton Young

Apologies: Councillor Mike Bonello

PART A

5/22 **Minutes of the Previous Meeting**

The minutes of the previous meeting held on 7 December 2021 were agreed as a correct record.

6/22 **Disclosure of Interests**

There were no disclosure of interest made at the meeting.

7/22 **Urgent Business (if any)**

There were no urgent items of business for consideration by the Scrutiny & Overview Committee at this meeting.

8/22 **Community Fund - Community Infrastructure Levy Local Meaningful Proportion Assignment 2022/23**

The Committee considered a report set out on pages 5 to 10 of the agenda, which following a request made at the previous Committee meeting held on 7 December 2021, provided further information on the use of funds from the local meaningful proportion (LMP) of the Community Infrastructure Levy (CIL) for the Community Fund.

An introduction to the report was provided by the Council's Head of Spatial Planning and Interim Head of Growth Zone & Regeneration, Steve Dennington and Community & Voluntary Sector Manager, Simon Bashford. During the introduction the following was noted:-

- The Council had been collecting CIL income since 2013. 15% of the income raised through CIL was allocated as the LMP, which could be used for anything that addressed the demand development places on an area.

- Government guidance advised that in an area where there were no parish or town councils, the borough needed to demonstrate that it had engaged with the community on the use of LMP.

- A bid was submitted by the Communities team to allocate £400,000 from the LMP for the Community Fund, which was considered as part of the budget setting process. Following consideration it was decided that this use of funds would reflected the demand new development places upon an area, and as such was considered an appropriate use.

- The Council was required to produce an annual statement on the use of CIL funding.

- The next commissioning cycle of the Community Fund would begin in the summer, with engagement starting in the spring. The outcome from the bidding process would be reported to Cabinet in November for final determination.

Following the introduction, the Chair commended the full response provided by officers to the questions raised by the Committee, noting that reassurance could be taken from the information given.

Further explanation was requested to explain how applications from community groups were submitted. It was confirmed that the Council created a prospectus to set out what it wanted to commission. This was then disseminated to local groups, with workshops held with the community and voluntary sector across the borough to spread the message. The four local community and voluntary sector coordination groups in the borough helped to raise awareness of the Community Fund.

It was agreed that sufficient assurance had been provided on the legality of using the LMP for the Community Fund. However it was questioned whether consideration had been given to the small grants fund. It was confirmed that the grants element for funding under £15,000 did not feature in the request for £400,000 as it was outside the timescale for this fund. It was highlighted that many small groups had still been able to access the larger sums, with groups encouraged to use the London Tender Portal as this would provide access to other funding sources.

Following discussion of this item, the Chair thanked the officers for the extensive information that had been provided to the Committee.

Conclusions

Following discussion of this item the Scrutiny & Overview Committee reached the following conclusions:-

1. From the information provided the Committee was reassured that the used of the local meaningful proportion of the Community Infrastructure Levy for the Community Fund was within the context of the regulations.

2. The commitment to promoting the availability of the Community Fund to local community groups was welcomed and it was requested that all Members be kept informed when the next round of commissioning was launched.

Recommendation

The Scrutiny & Overview Committee recommends that the Cabinet Member for Communities, Safety & Business Recovery ensures the dissemination of information about the Community Fund is circulated to all Members.

9/22 **2022-23 Budget**

The Committee considered a report set out on pages 11 to 12 of the agenda, together with three Cabinet reports provided in the supplemental agenda. The three report provided were:-

- Financial Performance Report – Month 8

- Medium Term Financial Strategy 2022/23 to 2024/25 – Update on Position

- Updated 2021/22 and

- Forecast General Fund Capital Programme 2022/23 to 2024/25

These reports were due to be considered by the Cabinet on 24 January 2022 and had been provided for the Committee to inform the budget scrutiny process.

An introduction to the information provided was given by the Council's Section 151 Officer, Richard Ennis, during which the following was noted:-

- The Council continued to deliver this year's budget. The Government had not yet provided confirmation on the £50m capitalisation direction, but feedback from the Improvement and Assurance Panel had been positive.

- The level of capital spend against the budget was still low, with an in-depth review planned to test the year end position.

- The Housing Revenue Account (HRA) continued to be overspent, which could mainly be attributed to pressures on maintenance.

- Good progress had been made on the 2022/23 budget to ensure it was robust, deliverable and sustainable.

- The grant settlement from Government had been better than expected, but it was important to continue with cross party lobbying for more support in light of the unique challenges Croydon faced.

- The cost of the concessionary fares scheme had reduced by £4m, which helped to reduce the budget gap.

- There was concern about the possible impact of inflation, with additional allowance added to the budget. The Council would take a robust position when dealing with contractors trying to pass the cost of inflation onto the Council.

- There was currently a gap of £11m in the 2022/23 budget, with work continuing to identify options for closing this gap. There was confidence that a balanced budget would be delivered.

The Leader of the Council, Councillor Hamida Ali, also provided an introduction to this item, during which the following was highlighted:-

- The Council was in a very different place to last year, which was the product of a lot of focussed work over the past 15 months on the Croydon Renewal Plan delivering improvements in the Council's governance and culture.

- Work continued on recruiting a new Corporate Management Team with Jane West being appointed as the new Corporate Director for Resources and Annette McPartland appointed as the permanent Corporate Director for Adult Social Care and Health.

- There had been difficult choices made in the budget, but this reflected the determination of the Administration to get to grips with the challenging nature of the financial environment for local government.

- Despite the scale of savings required, the Council still had approximately £300m in controllable spend. Choices made on this controllable spend had meant that the Council was able to maintain services for residents including fortnightly bin collections, keeping all libraries open, continuing community grants and maintaining the Domestic Abuse Centre.

Following the introduction to this item the Committee was given the opportunity to ask questions about the information provided in the three reports. The first question related to the overspend in the budget for temporary accommodation and whether there was a plan in place to contain the costs. It was confirmed that the Corporate Director for Housing had been reviewing the Council's processes and procedures for temporary accommodation, including looking at other authorities. A report was due to come to the Cabinet in February on the outcome from this review.

Given that it had been highlighted that the Housing Revenue Account was overspent, it was questioned how this was being addressed. It was confirmed that the majority of the overspend related to repairs and claims against the Council for not processing repairs within the required timescale. The Directorate was aware of the issues and was in the process of identifying improvements for the repairs service.

Further information was sought about the fees and charges review included in the section of the report detailing the Medium Term Financial Strategy (MTFS) savings risks. It was advised that due to the difficulties in the economy the demand for income services needed to be reassessed, which was why it was shown as a risk. Further detailed work was underway to prepare an updated schedule with improved forecasting.

As approximately 1,000 asylum seekers had been placed in hotels in the borough by the Home Office, it was questioned whether a needs assessment had been undertaken on the level of support that may be required from the Council and how this will impact upon the budget. It was confirmed that this was being worked through and more detail would be included in the Month 9 – Finance Performance Report.

The Council was constantly working on the broader question of the cost of supporting unaccompanied asylum seeking children (UASC) and liaised closely with the Home Office to make the point about the pressure it placed on the Council's resources. It was confirmed that going forward the cost would be held as a corporate item, as it should not be the responsibility of the service to fund the support. Although the Government had provided a one off payment this year to support the Council with the cost of supporting UASC, lobbying would continue for more sustainable funding.

Although there was cross party support for the Government funding the cost of support for UASC, it was highlighted that there was a risk that the £2.9m shortfall may not be funded, which would leave a gap in the budget for 2022/23. It was suggested that the Government should be approached again before the budget was finalised to try to gain some certainty on this amount.

In response to a question about when the Council would receive the funds for the sale of the College Green site and the Croydon Park Hotel, it was confirmed that the sales had been completed at the end of 2021. The Council had achieved a value of £24.9m for the hotel and £22m for the College Green site, which was felt to be a good return in the current market conditions. The Administration had set out how it wanted to use any capital receipts, with the first part being to fund transformational work and the second being to reduce the Council's debt and to fund capitalisation.

The Committee was supportive of the need to start the budget setting process for 2023/24 as early in the new financial year as possible, but it was acknowledged that there was a risk that this would be impacted by the election of a new Mayor in May 2022 whose priorities would need to be taken into consideration. The Administration wanted to move away from using a salami slicing approach to a more considered budget approach. As this required longer to prepare, work had already started on this budget.

As it was noted that an additional 2% had been added to the budget on top of the already budgeted 3% increase for inflation, it was questioned whether it was expected that this risk would be realised. It was advised that inflation was a big issue nationally and it was difficult to forecast the length of time it would have an impact. The additional sum had been added into the budget to ensure that inflationary costs had been realistically estimated. It was not a given that the Council could pick up inflationary pressures from contractors. The inflationary increase would be held corporately and only released to services once it had been demonstrated that they had done everything possible to keep costs down.

The Committee welcomed confirmation that a group had been set up to improve the capital programme. This group had started by creating the capital budget set out in the Cabinet report and would next be testing the forecasting on delivery. Having a capital programme with a focus on reducing ongoing revenue costs was also welcomed.

It was questioned whether there was a sufficient stock of places of association to accommodate the voluntary sector and whether this could be a principle that was embedded in the capital programme. It was advised that the asset disposal plan needed to consider the broad aspects before disposal. If the Council wanted to drive its debt down, one way of achieving this was through selling assets. However, there was also a need to take a balanced view and look across services to ensure that disposal did not lead to significant knock on problems elsewhere.

The recent disposal of Ashburton Lodge was highlighted as an example of the Council taking account of other factors beyond financial income. It was confirmed that all asset disposals were promoted to the voluntary and community sector in the borough, with a one smaller asset recently sold to an organisation in the sector.

At the end of this item, the Chair thanked the officers and the Cabinet Members for their contribution to the discussion, noting that the progress made with the budget was largely reassuring.

Conclusions

At the end of this item the Scrutiny & Overview Committee reached the following conclusions:-

1. It was recognised that although there were still challenges requiring a continued tight control on expenditure there was a reasonable expectation that the Council would come in on budget.

2. The Committee was supportive of the recommendations set out in the Cabinet reports.

3. The flexibility displayed on capital disposals where there was community interest in the asset was to be commended.

4. Given the Capital Programme was being reviewed, the Scrutiny & Overview Committee would like to be kept informed of the outcomes arising from this, with a view to scheduling further scrutiny of the programme in 2022/23.

10/22 **Scrutiny - Budget Challenge**

The Committee considered two separate reports set out between pages 13 to 40 of the agenda which provided a response to the two budget areas chosen by the Committee as a focus for a deep dive.

The first area was the Corporate, Resources and Assistant Chief Executive areas, from which the Committee was looking for reassurance that it was resourced at the right level to support the improvement journey of the Council. The second area looked at the preparations for the move to the mayoral model of governance and ongoing support for Members, to ensure that these areas were also appropriately resources.

Corporate, Resources and Assistant Chief Executive areas

In reviewing the information provided in the report on the budget for the Corporate, Resources and Assistant Chief Executive service areas, the Committee agreed that it would focus on how the budget would enable the services to support the organisation to deliver cultural change and system improvement.

The first question asked for more information on how the expectation of increasing digital revenue (as set out in the budget report) was estimated. It was confirmed that it had been anticipated that there would be an income from digital advertising once the new digital bus stops had been rolled out. As the full roll out would not be completed in the next year, the estimated income had been reduced.

As the need to change the culture of the Council had been highlighted in both the Report in the Public Interest and the Ark report on Regina Road, particularly the need to improve financial discipline and customer service, it was questioned how the budget would help to deliver this. It was advised that the Beyond Business School had been commissioned, following a procurement exercise, to deliver a key piece of work on cultural change. This work would take a Train the Trainer approach, upskilling Council staff to roll out the change across the organisation. This work would focus on embedding improved customer services skills and improving resident engagement. Once the results had been analysed, the recently completed staff survey would also help to inform the cultural change work. There was also work with the digital team to ensure that staff were aligned to the digital world.

It was questioned whether there was sufficient resource in the Human Resources team to be able to support the improvement of the Council, particularly as there were savings for the team in the budget. The Interim Chief People Officer, Dean Shoesmith, advised that when he join the Council in the autumn, he had undertaken a HR Maturity Index of the service, which had identified a number of opportunities for efficiencies and improvements through business process reengineering using the Lean process.

Along a similar vein, it was also questioned whether Croydon Digital Service was able to deliver the system improvement of the Council. The Interim Head of Corporate Technology, Paul Golland, advised that the work of the service had been reviewed to ensure that the projects being delivered aligned with the Council's priorities.

The Deputy-Chair and Vice-Chair of the Committee reported back on a meeting they had with officers from the Programme Management Office (PMO). It confirmed that the meeting had provided significant reassurance that good people were involved in the team. The only concern raised was whether the PMO was sufficiently resourced to deliver the Council's change programme. It was confirmed that additional external resource had recently be brought in to increase the capacity of the team and to expand expertise, as there was a need to move at pace with this work. A key element of changing the culture of an organisation was to develop an accountable culture. To help achieve this the performance framework had been strengthened to include more KPI's on satisfaction levels.

Concern was raised about the lack of pace in improving the telephony system, with an update on this work requested. It was advised that work on a new telephony system was well underway with the procurement of the new system due to end on Friday. Once the procurement process was completed, the project would move to the implementation phase with a three month roll out programme. The chosen supplier was well proven and key benefits of the new system included staff having access to soft phones and apps to take calls. The implementation team for the project included key services such as customer services. As a result of the new system, mobile phone usage could be reviewed, which should deliver a saving.

It was highlighted that apprenticeships were a good way to change the culture of an organisation and as such was there any plans to increase the number of apprenticeships offered by the Council. It was agreed that apprenticeships were important, not just to changing the culture of the workforce, but also boosting the local economy and community. The Government offered a levy for apprenticeships and it was important that it was fully spent by the Council.

It was agreed that the public also needed to have confidence that the culture of the Council was changing and it was questioned whether external communication had been considered. It confirmed that there was a need to communicate the behavioural changes in the Council, but how this was delivered would need careful consideration.

Move to the Mayoral Model of Governance and Support for Members

This report was introduced by the Council's Monitoring Officer, John Jones, and Governance Improvement Advisor, Heather Wills. During the introduction to the report the following was noted:-

- There was a lot of work being put in to prepare for the move to the new mayoral model of governance. This included the Local Government Association (LGA) carrying out a peer review looking at the progress made to date, the results of which should be available by the end of February.

- The LGA had also been asked to conduct a peer review on the Democratic Services function to give reassurance on what the team should look like and to ensure the structure was fit for purpose ahead of the move to the mayoral system. This was particularly crucial with the election likely to lead to a large cohort of new Members requiring induction and training.

- There was currently staffing challenges within the Democratic Services team, with four vacancies. One of the two senior officer vacancies had been recruited and an interview was scheduled, which if successful, would fill one of the officer vacancies. Democratic Services was a difficult area to recruit staff as the role was specialised, with certain skills needed.

- To cover the immediate resource gap, mutual aid had been sought from other local authorities, with support provided to clear the back log of minutes. Officer support was also being provided by the LGA and a graduate trainee was being seconded from another team in the Council.

- Although the current arrangement was not ideal, having the temporary support in place meant that the immediate situation was manageable with all Committee meetings covered up until the end of March. Tribute was also paid to the commitment of the team who had been working under significant pressure since the start of the pandemic in 2020.

Following the introduction, the Chair highlighted that the Report in the Public Interest and the Governance Review had emphasised that the Council needed to strengthen its governance processes. Areas such as access to information and the availability of the Forward Plan continued to remain a concern for Members.

Thanks was given to the officers in Democratic Services for their hard work, particularly since the start of the pandemic, with it questioned how robust the review would be. It was hoped that the review would show what good looked like and what a good Democratic Services team does, which should include providing support for all members of the Council. There was additional money in the budget to help implement the findings of the review, but the question was whether would be enough. It was likely that any implementation would need to carefully planned and delivered incrementally

At the conclusion of this item the Chair thanked all those involved in the preparation of both reports for the meeting and the participation and engagement of officers with the questions of the Committee.

Conclusions

Following the discussion of the Budget Challenge items, the Scrutiny and Overview Committee reached the following conclusions:-

1. The work commissioned on cultural change was welcomed and it was agreed that this maybe something the Committee would want to revisit later in the year.

2. It was agreed that the cultural change programme was vital to the Council going forward, including the need to ensure the organisational valued its staff. From the information provided, there was a good indication that change was being made in the right direction.

3. A request was made for a summary of the cultural change programme to be provided for the information of the Committee.

4. The Committee was reassured by the information provided in the report on the preparations for the move to the mayoral model of governance and the reassurance given on the commitment to continuing to improve the Council's governance. It was welcomed that significant progress had been made since the report was requested before the New Year and the outcome from the review was eagerly awaited.

11/22 **Exclusion of the Press and Public**

This motion was not required.

The meeting ended at 9.30 pm

Signed: ....

Date: ....

REPORT TO:	**SCRUTINY & OVERVIEW COMMITTEE** **8 December 2020**
SUBJECT:	**Report in the Public Interest concerning the refurbishment of Fairfield Halls and related governance arrangements – Action Plan**
LEAD OFFICER:	**Katherine Kerswell, Chief Executive** **Richard Ennis, Interim Corporate Director of Resources and Section 151 Officer** **John Jones, Interim Monitoring Officer**
WARDS:	**All**

1. **RECOMMENDATIONS**

The Committee is recommended to:

1. Consider and review the Action Plan attached at Appendix 1B;
2. Consider any proposed amendments or feedback that it wishes to make on the action plan; and
3. Submit that feedback in a report to Cabinet at its meeting on 21 March 2022.

2. EXECUTIVE SUMMARY

2.1 Following the extraordinary meeting of Council held on 3 February 2022, this report provides an opportunity for Members of the Scrutiny & Overview Committee to review the action plan developed in response to the recommendations made in the recent Report on the Public Interest. Any comments or feedback made by the Committee on the action plan will be reported to the Cabinet at its meeting on 21 March 2022.

2.2 Discussion of the findings from the Report in the Public interest is in law reserved to the extraordinary meeting of the Council held on 3 February. At that meeting the Council agreed to accept the recommendations set out in the report. It is not the role of other Council committees, such as Scrutiny and Overview Committee, General Purposes and Audit Committee or Cabinet to conduct its own review of the finding in the Report in the Public. Discussion of this item at these meetings should focus on the whether the action plan will deliver the recommendations accepted by Council on 3 February.

3. BACKGROUND

3.1 The extraordinary meeting of Council held on 3 February 2022 considered a Report in the Public Interest (attached at Appendix 1A) concerning the Council's financial position and related governance arrangements issued by the Council's external auditors, Grant Thornton. A copy of the report to Council is attached at Appendix 1, including the appendices to that report, namely the Action Plan (labelled as Appendix 1B).

3.2 In considering the report, Council agreed the action plan to implement the recommendations made in the report in the public interest.

4. REPORT IN THE PUBLIC INTEREST ACTION PLAN

4.1 In agreeing the action plan, Council also agreed that the plan be presented to the next meetings of the General Purposes and Audit Committee and the Scrutiny and Overview Committee. This is to allow the respective committees to consider and review the action plan from their differing constitutional positions.

4.2 Following consideration of the action plan, any comments and feedback from the Committee will be reported to the Cabinet meeting scheduled for 21 March 2022. At that meeting, Cabinet will also consider any feedback from the General Purposes and Audit Committee as well as further detail on the recommendations, timelines and accountabilities, the delivery mechanism to support the improvement work and the costs, where possible, associated with implementing the recommendations.

4.3 In considering the action plan, Members of the Committee should also note that Council agreed all of the recommendations listed in Appendix 1.

CONTACT OFFICER: Stephen Rowan, Head of Democratic Services and Scrutiny

APPENDICES TO THIS REPORT

Appendix 1 - Report to Extraordinary Council 19 November 2020

Appendix 1A - Report in the Public Interest

Appendix 1B - Action Plan

REPORT TO:	**EXTRAORDINARY COUNCIL** **3 February 2022**
SUBJECT:	**Report in the Public Interest concerning the refurbishment of Fairfield Halls and related governance arrangements**
LEAD OFFICER:	**Katherine Kerswell, Chief Executive** **Richard Ennis, Interim Corporate Director of Resources and Section 151 Officer** **John Jones, Interim Monitoring Officer**
WARDS:	**All**

SUMMARY OF REPORT:
In late December 2020, the Council held discussions with its external auditor, Grant Thornton, regarding concerns over historical governance arrangements and spending in relation to the refurbishment of Fairfield Halls and related projects over the financial years 2016/17 – 2019/20.

The external auditor initially reviewed the concerns and decided to begin a formal value for money review of the refurbishment of Fairfield Halls and the associated governance arrangements between June 2016 and early 2020.

The external auditor commenced a formal Value for Money report in the late spring / early summer of 2021. However, the external auditor then paused work on that draft and determined that the issues uncovered required further consideration and investigation, the results of which are set out in the Report in the Public Interest.

Grant Thornton has now issued its 'Report in the Public Interest' **concerning the refurbishment of Fairfield Halls and related governance arrangements** on 26 January 2022, which was published by Croydon Council on Wednesday 26 January 2022. The report details significant concerns regarding the decision making, value for money, behaviour and governance arrangements that were associated with this major project during the financial years 2016/17 to 2019/20.

This report details the Council's statutory obligations in response to the publication of the report, which have to date been met in full. The report outlines the further statutory requirements that the Council is required to take following this Extraordinary Council Meeting.

The report further details the range of corrective actions that have been taken to date and proposes an action plan in response to the recommendations made by the external auditor. It is also proposed that this new action plan be included in the Croydon Renewal and Improvement Plan, currently being refreshed for 2022/23 and beyond.

This Report in the Public Interest is an entirely separate report from the previous Report in the Public Interest received by the Council on 23 October 2020.

Whilst it touches on some of the same subject matter as that first report, its production by the external auditor does not infer in any sense that the Council has failed to respond to the requirements and recommendations of the first report. In fact, the external auditor comments “the Council has made considerable improvements [since] and is continuing to respond to matters contained in that report [October 2020 RIPI]”.

As has been very recently reported and independently audited, delivery of the actions agreed by full Council for the November 2020 Report in the Public Interest stands at 62% and was most recently noted by Cabinet on 24 January 2022 as standing at 65%.

FINANCIAL IMPACT:
There will be costs associated with the implementation of the recommendations detailed within the report and for the production of the external auditor’s report.

The costs of this report are yet to be finalised and an update regarding the associated costs will be presented to a future meeting of Cabinet for consideration and approval.

The approved budget for the refurbishment project was £30m. The total expenditure in relation to this total project was £67.5m as set out in section 2 below and in the Report in the Public Interest.

In relation to the financial impact on the Council accounts, detailed by the RIPI report, the Council proactively corrected and provided for the associated costs within 2019/20 and 2020/21 accounts and therefore will not affect the general fund in this financial year nor going forward.

Section 2 of the report details the accounting corrections the Council has made in agreement with the external auditors.

1. RECOMMENDATIONS:

Council is recommended to:

1.1 Fully accept the findings of the Report in the Public Interest and the external auditor’s recommendations;

1.2 Note that recommendations 1, 2, 3, 4, 7, 9 and 11 have been identified by the external auditor as S24 statutory recommendations as detailed in appendix 1 to the report;

1.3 Note the range of corrective actions that have already been taken to date as detailed in paragraph 2 of the report;

1.4 Note that the financial issues detailed in the report have already been fully taken into account in the Council’s Medium Term Financial Strategy as agreed by Council in March 2021 and that the report does not create any significant additional financial pressures that have not already been dealt with by the Council.

1.5 Consider and agree with the opinion contained in the Council's Chief Finance Officer's (Section 151 Officer) report set out in paragraph 4 of this report;

1.6 Consider and agree with the opinion contained in the Council's Monitoring Officer's report set out in paragraph 5 of this report;

1.7 Consider and agree the action plan detailed at appendix 2 to this report, that includes a response to each of the external auditor's recommendations, and the indicative timeline for actions and accountabilities;

1.8 Agree that the action plan be presented to both the General Purposes & Audit Committee and the Scrutiny & Overview Committee at their next meetings to consider and review the plan from their differing constitutional positions and report any feedback to Cabinet.

1.9 Request that Cabinet receives a report that includes any feedback on the action plan from the Scrutiny & Overview Committee and the General Purposes & Audit Committee and provides further detail on the delivery of the Action Plan, including the anticipated costs of implementing the recommendations;

1.10 Agree that the action plan be incorporated into the Croydon Renewal and Improvement Plan as part of the refresh currently underway;

1.11 That progress on implementing the external auditor's recommendations be included in the existing Croydon Renewal Improvement Plan update reports that are presented to Cabinet, the Scrutiny & Overview Committee, General Purposes and Audit Committee and Council;

1.12 Note that a report detailing proposals to finalise any further refurbishment of the Fairfield Halls will be presented to Cabinet in March 2022.

1.13 Note that the Chief Executive has written to the Directors of Brick by Brick to request that they review and explain the charge made to the Council in relation to the project management of the refurbishment of the Fairfield Halls and the variations.

1.14 Note that the Council will continue to maintain an open dialogue with the external auditor, Independent Chair of the General Purposes and Audit Committee, Department for Levelling Up, Housing and Communities and the Improvement and Assurance Panel to keep them appraised of the progress in implementing the Action Plan.

1. BACKGROUND

1.1 As part of the Council's work following the original Report in the Public Interest received in October 2020, it formally raised concerns about historical arrangements, behaviour and spending regarding the refurbishment of Fairfield Halls with its external auditor, Grant Thornton. At that point, the Council and the external auditor jointly discussed whether consideration should be given to undertaking a formal Value for Money review of the major project. Following their own assessment, the external auditor decided to progress on this basis.

1.2 During this work however, the external auditor determined the issues uncovered required further consideration and so the Value for Money review approach was paused and their work focused on investigating those issues, the results of which are set out in the Report in the Public Interest.

1.3 Having completed that additional work, the external auditor has determined to issue a Report in the Public Interest (the report) concerning the refurbishment of the Fairfield Halls and the related governance arrangements. The full report is attached at Appendix 1.

1.4 The conclusions of the external auditor's review are detailed in full in Appendix 1. They include that the Council "failed to ensure the legality of the arrangements for the project", that the Council "failed to ensure it was acting lawfully", and "the lack of formal consideration of the external legal advice, the lack of completed legal land transfer documentation and the lack of properly executed written legal arrangements covering the provision of funding to Brick by Brick is in our view a very serious matter and demonstrates fundamental failings by the Council". These are significant findings.

1.5 For clarity, Members should note that *unlawful* expenditure should not be confused with *illegal* expenditure. The external auditor has not made any suggestion that any act has taken place that is prohibited by law.

1.6 In summary, the external auditor is of the opinion that the failures were:

i) to ensure that statutory duties were fulfilled;
ii) that legal advice was not followed;
iii) that the requirements of the constitution were not followed; and
iv) therefore the governance practices including the approach to decision making and financial control

likely led to significant expenditure being incurred without the legal authority to do so.

1.7 In considering what action to take as a result of the findings of its review, the external auditor has noted that the Council has fully accepted the concerns in regard to the governance and financial arrangements for the project, had already correctly rectified its treatment of the expenditure on the Fairfield Halls refurbishment project and as such, is of the view that seeking a declaration of unlawful expenditure from the court would not materially remedy the situation.

1.8 On that basis, the external auditor has issued a Report in the Public Interest fulfilling their statutory duty in accordance with Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014.

1.9 The report stated in its conclusions that the external auditor is of the opinion that:

i) The Fairfield Halls refurbishment was a complex project that was delivered later and at a higher cost than authorised by the original Cabinet approval in June 2016.

ii) That the Council failed to ensure the legality of the arrangements for the project;

iii) That gaps in the Council's governance at that time restricted wider scrutiny and challenge that may have allowed corrective action to be taken; and

iv) That throughout the project there have been examples of a failure to discharge duties from a small group of senior officers (the then Senior Statutory Officers and the then Executive Director of Place). These senior officers were responsible for reporting to the then Portfolio holders (the Portfolio Holder for Homes and Gateway Services, for Finance and Resources and the Leader) who were either not briefed by officers and failed to request briefings on the project or did not take effective action in response to concerns raised by the senior officers.

1.10 In reaching these conclusions, the external auditor highlighted 19 areas where it had concerns regarding the refurbishment project. These 19 areas are:

i) The legal arrangements for engaging Brick by Brick to refurbish the Halls

ii) The legal arrangements for funding Brick by Brick to refurbish the Halls

iii) Not fully considering or implementing legal advice received

iv) The statutory powers on which the council relied in order to lend money to Brick by Brick

v) Compliance with State Aid rules (now known as UK obligations on subsidy control)

vi) How challenge and concerns raised by another Local Authority, working as the accountable body for the Coast to Capital Local Enterprise Partnership, were considered

vii) How the loans to Brick by Brick were treated in the Council's Minimum Revenue Provision policy

viii) Signing of contracts and record keeping of formal documents

ix) Governance arrangements for Brick by Brick

x) Governance over the Fairfield Halls Refurbishment Project

xi) Reporting to the Scrutiny & Overview Committee

xii) The financial position of the project

xiii) The original budget setting process for the project

xiv) The final cost of the project

xv) The impact on the Council's overall financial position

xvi) The project management of the refurbishment and the co-ordination of contractors

xvii) The value for money achieved by the project

xviii) The inherent conflicts of interest

xix) Issues regarding delegated decision making

1.11 The report contains 12 recommendations, of which 7 are identified as statutory recommendations. Statutory recommendations are written recommendations to the Council made by the Auditor under section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under Schedule 7 requires the Council to discuss and respond publicly to the report. This discussion and response is taking place at this Extraordinary Meeting, which is being held within one month of receiving the report and statutory recommendations as required by the Act. Council must decide (i) if the recommendations are accepted and (ii) what, if any actions will be taken in response to them. The Action Plan at appendix 2 sets out the actions that the Council proposes to take in response to all of the recommendations made in the report, including the 7 statutory recommendations.

1.12 The Council fully accepts the findings of the report and the concerns raised by the auditor.

1.13 Both the new administration, the current statutory officers and the chief officers share the serious and significant concerns at the findings in the report, and particularly that those responsible for the failures of the refurbishment project did not provide formal, regular information to members that would be expected in running a project of this scale.

1.14 In the time that has passed since the events described in the report, the Council's new political and chief officer leadership has been clear that the Council needs to learn from its past failings and put in place more rigorous governance and higher expectations on accountability and transparency for both officers and Members. The work to date on this has been positively commented upon by the external auditor in the report.

1.15 The events, decisions and actions described in the Report in the Public Interest are an important part of understanding what went wrong in the past so that the Council can ensure it never happens again. The recommendations made by the external auditor reinforce the importance of the work that is underway to strengthen not only the Council's governance processes, but also the culture and values of the Council.

2. ACTIONS ALREADY TAKEN SINCE THE EVENTS DESCRIBED IN THE REPORT

2.1 Members will be aware that this Report in the Public Interest reflects decisions and events relating to the four year period 2016 to early 2020. Over the past fifteen months, the Council has begun to deliver a wide-ranging transformation programme with new political and chief officer leadership and a strong focus on embedding a new culture of more rigorous governance, openness and accountability. The Improvement and Assurance Panel appointed by the Secretary of State for Department for Levelling Up, Communities and Housing has assessed the Council's progress over that period and provided routine updates to the Government. In her letter in response to the latest update from the Panel on 2 November 2021, the Minister of State for Equalities and Levelling Up Communities, Kemi Badenoch MP noted the "significant progress" made by the Council.

2.2 At its meeting on 6 December 2021, Cabinet received a report that provided a one year on update from lead members of the non-statutory rapid review team that was appointed by the then Secretary of State for Housing, Communities and Local Government in October 2020. The update report reviewed the Council's progress against the recommendations the review team had made in its original report, along with reviewing the Council's progress in improving its financial performance.

2.3 The report of the follow up review concludes "significant progress has been made against the Non-Statutory Review recommendations, and the recovery effort is well underway. Where the recommendations have not be completed in full, there is progress". The report can be read in full at https://democracy.croydon.gov.uk/ieListDocuments.aspx?CId=183&MId=2512&Ver=4.

2.4 At its meeting on 13 December 2021, Council also noted the latest update report on the progress made to implement the recommendations made in the previous Report in the Public Interest that was published in October 2020. This report detailed that 62% of recommendations had been implemented and can be read in full at https://democracy.croydon.gov.uk/mgAi.aspx?ID=13763#mgDocuments.

2.5 As a result of the progress in delivering the significant change programme across the council since September 2020, there are many areas identified in this Report in the Public Interest where the Council has already learned from its previous failings and has implemented improvement measures. A number of these steps that relate to the findings described in the external auditor's report are summarised below.

Ensuring that expenditure on refurbishing Fairfield Halls has now been accounted for correctly

2.6 The external auditor's concerns regarding the expenditure on Fairfield Halls flowed out of the previous report in the public interest issued in October 2020. As part of the Council's response to the issues contained in that report, and to issues that the Council had identified itself, concerns regarding the historical decision making and governance relating to the refurbishment project were raised with the external auditor in December 2020.

2.7 The Council previously reported to Cabinet in February 2021 progress being made on resolving legacy spend issues on Fairfield Halls and associated projects. The Council reported that the total spend on Fairfield Halls and associate projects was £69.16m. During 2021/22 Brick by Brick presented updated figures to the Council after a further detailed internal review within the Company. This has resulted in a revision downwards from the figures presented in February 2021 and the total spend on the Halls and associated projects is £67.5m. The main reasons for the change related to VAT and duplicate ledger entries and reduction in accrual following further detailed analysis.

As at the end of March 2020, a total of £67.5m had been spent on the Fairfield Halls. Brick by Brick had additionally incurred a total interest charge of £9.10m. Of the £67.5m spend the Council had loaned Brick by Brick £61.0m and the balance of £6.5m had been funded from the Local Enterprise Partnership "Coast 2 Capital" grant funding. In addition, the £0.3m of further works were expensed on the adjacent car park and public realm sites, which were all funded from using Council loans.

2.8 The Council's accounting follows the accounting principle under International Financial Reporting Standards that require accountants to ensure transactions are accounted for based on the substance of the transaction rather than their legal form. Substance over form means that when accounting for financial transactions, the measurement and reporting is of the actual impact of the event and not its legal description.

2.9 In other words, if your actions are different to what is required by definition in law, to make something lawful, the substance (your actual actions and deeds) of what you have done takes precedence in determining the lawfulness of the actions and not what you have defined them or described them to be.

2.10 The Council accounted for the transactions in the manner they were designed to occur. This meant that the Council's loan to Brick by Brick Croydon Limited was accounted for as such and the Council accrued the interest on that loan at a rate of 6.25%.

2.11 The Fairfield Halls building as well as the land it sits on were also accounted for within the Council's balance sheet as no transfer had taken place and the Council continued to own the asset.

2.12 The review by the external auditor identified that the works done by Brick by Brick Croydon Limited were on a Council asset and therefore should have been classified as capital expenditure from the Council's perspective. As mentioned within 2.8, it is important that transactions are accounted for based on substance of the transaction rather than legal form. The Council and Brick by Brick, whilst not formally documented via a legal agreement, had always intended to transact in a way where the Council would lend monies to the company to develop the Halls and the College Green site. The Council and Brick by Brick both accounted for the monies loaned, in line with the June 2016 Cabinet report.

As indicated within 2.7 and 2.8 the total spend position has changed since figures previously reported to Cabinet in February 2021. As a result of this change the Council will need to work with Grant Thornton to ensure all accounting entries are correctly implemented. The Council had initially calculated an interest write off of £9.15m based on a total spend of £69.16m, however revision to the numbers will result in a positive interest adjustment by £0.050m, therefore reducing the amount initially written off.
Overall, the change in figures is not expected to impact the Council's financial position adversely.

2.13 The Council has agreed with the external auditor's assessment and subsequently made corrections to its 2019/20 and 202/21 accounts. The loan was corrected from the Council's balance sheet and the Council accounted for the costs incurred by Brick by Brick as capital expenditure which was capitalised to the asset. The accrued loan interest charge of £9.15m was written off to the Income & Expenditure statement as a prudent measure. Whilst the accounting entries and corrections have been agreed with Grant Thornton in principle, further review and tests are ongoing to ensure all key accounting requirements are fulfilled.

2.14 The approach to correcting the Council's accounts and the accounting treatment had been discussed and agreed with the external auditor prior to being implemented by the Council in the budget report of March 2021.

2.15 It needs to be explicitly understood that the financial issues identified in this Report in the Public Interest 2021 report have been already fully taken into account in the Council's MTFS as agreed by Council in March 2021. This report does not create any significant additional financial matters that need to be dealt with.

The Future of Brick by Brick Croydon Limited

2.16 At its meeting on 21 September 2020, Cabinet resolved to commission an independent review of all companies and entities that it owned to fully document their relationship with the Council, to ensure that they were fit for purpose and to ensure that the risk profile they presented for the Council was fully understood. The report and minute can be viewed here: https://democracy.croydon.gov.uk/mgAi.aspx?ID=9341.

2.17 The findings of that independent review were reported to Cabinet on 25 November 2020 and predominantly focused on Brick by Brick due to the high value of loans that the Council had made to the company and the higher public profile of that investment. The full report and minute can be viewed here: https://democracy.croydon.gov.uk/mgAi.aspx?ID=10047.

2.18 As an immediate consequence of that review, the Council:

i) Removed the existing Directors of Brick by Brick and appointed two new Non-Executive Directors with strong financial backgrounds (Council should note the appointment of 2 additional further Directors to ensure that the Board has strong industry experience to supplement the strong financial experience of the current directors);

ii) Passed a resolution to formally allow the Council to have sight of all minutes of Company Directors' meetings and records of all decisions made by the Company Directors.

iii) Passed a resolution to formally allow the Council to inspect all Company accounting or other records or documents at any time.

iv) Commissioned a further review to assess the different options identified in the independent review regarding the Council's interests in Brick by Brick.

2.19 Cabinet has considered a number of papers on the future of Brick by Brick during 2021.

At its meeting on 18 February 2021, Cabinet agreed to pursue an option that included Brick by Brick building out a number of sites in its portfolio, the sale of a number of other sites and keeping the option of a sale of the business under consideration.

On 17 May 2021, Cabinet received a further report that included details of a single bidder to purchase Brick by Brick and that a best and final offer had been received.

At its meeting on 12 July 2021, Cabinet resolved to reject the offer to purchase Brick by Brick, and instead to build out 23 sites and for six remaining sites to be returned to the Council and marketed for sale. This was because it considered that this provided the best means for the Council and local taxpayers to maximise the return on previous expenditure on Brick by Brick.

2.20 Having resolved to pursue this partial build out option, it is estimated that those sites being built out will be completed in the 2023/24 financial year and Cabinet will be presented with a report at that time to determine the next steps for Brick by Brick following the conclusion of the partial build out.

Governance Arrangements for Brick by Brick Croydon Limited

2.21 As the Report in the Public Interest makes clear, the Council has had a number of governance bodies for its growth activity and major projects, including Brick by Brick. Learning from these models, a new approach to governance is being introduced with clarity on Member and officer roles clearly established.

2.22 In January 2021, the Council established a Brick by Brick Shareholder and Investment Board which was designed to oversee performance and delivery matters within Brick by Brick. The Board monitored and reviewed the delivery of the revised business plan for Brick by Brick and replaced the previous "Shareholder Investment Board". That previous Board was comprised of a combination of Members and Officers.

2.23 Cabinet considered a further paper at its meeting in November 2021 that set out the future governance arrangements for Brick by Brick. This report established the Brick by Brick Shareholder Cabinet Advisory Board which replaced the Shareholder & Investment Board. The new Board is comprised exclusively of Cabinet Members with officers participating in an advisory capacity only.

2.24 Full details of the new Board can be found in the Cabinet paper here: https://democracy.croydon.gov.uk/documents/s33733/06%20Report%20-%20BBB%20Governance.pdf.

Governance Arrangements for Other Council Owned Companies

2.25 In addition to strengthening the governance arrangements for the Council's ownership of Brick by Brick, Cabinet also agreed new arrangements for all other Council owned companies at its meeting on 26 July 2021 where it was agreed to establish the Croydon Companies' Supervision and Monitoring Panel. This is an officer only panel that will formally report and, if appropriate, make recommendations to Cabinet on a biannual basis and brief relevant Cabinet Members frequently between formal reporting to Cabinet.

2.26 Full details of this Panel can be found at https://democracy.croydon.gov.uk/documents/s31451/Governance%20of%20Companies.pdf.

2.27 Both the Croydon Companies Supervision and Monitoring Panel and the Brick by Brick Shareholder Cabinet Advisory Board are operating to a set of principles of good governance, which are detailed in Section B of the appendix to the Cabinet report and can be seen here https://democracy.croydon.gov.uk/documents/s31453/Appendix%202%20-%20Terms%20of%20reference.pdf.

Other Actions to Strengthen the Council's internal governance

2.28 In addition to the specific measures mentioned above, the Council has undertaken a range of further activities to improve areas of governance that have been covered in this and the previous Report in the Public Interest.

2.29 This includes clarifying member roles and responsibilities through the production of a range of member role profiles which were noted by Ethics Committee at its meeting on 30 September 2021, copies of which can be seen here https://democracy.croydon.gov.uk/documents/s32629/MD%20Panel%20Member%20development%20update%20121021.pdf.

All corporate director and director role profiles have also been rewritten as part of the reorganisation of the council, incorporating the Nolan principles, and agreed by Full Council in July 2021. Together, this has helped to clarify the respective roles and responsibilities of members and chief officers.

2.30 This has been reinforced through the adoption of the new model code of conduct for members by Council at its meeting in October 2021. A new code of conduct for all officers has now been adopted and rolled out to all staff. These new governance arrangements will be supplemented by the production of a new Member and Officer working protocol which is due to be presented to Council in March 2022.

2.31 In July 2021, full Council agreed the Organisation Redesign report which introduced the new approach to internal control in terms of officer and member boards and activity. The actions outlined ranged from agreeing a new vocabulary, a set of new job descriptions and accountabilities as mentioned above and a set of new internal control officer boards and a reporting framework into Cabinet.

2.32 Officers already operate within a system of briefing Cabinet members and opposition leads and working with Scrutiny. However, the internal control system requires a more co-ordinated and coherent range of management activity across the Council that will then report into the relevant Cabinet and opposition lead Member briefing meetings, Cabinet Advisory Boards and Scrutiny Chairs.

2.33 As the July 2021 Council report mentions, the Council did have a set of internal controls and bodies that had fallen into abeyance and many documents are still available on the council's intranet for managers and staff.

2.34 There is a great deal in those resources online that is of value and is still of relevance today. For example, there is a corporate code of governance that incorporates the CIPFA "Delivering good governance" code and each directorate used to have their own scheme of management and internal controls and delegations defined and published.

2.35 A system of internal control inside a local authority consists of a range of processes and activities that must be complied with by managers and staff to ensure effective governance and that stewardship of public money can be assured. But it is not solely about the correct implementation of policies, processes and forms. For it to be truly effective it needs to be part of the day to day management behaviours and dialogue of the Council.

2.36 Another very important element of an internal control system is the need for it to be effectively organised so it can form part of the business of the Council in a smooth and efficient way. It also needs to involve managers and senior managers across the Council in order for it to be a truly lived culture.

2.37 As part of the proposed changes to the senior management structure, it was proposed to introduce a new series of internal control officer boards. These have been established or are in the process of being established, and will be captured in the updated Code of Governance and other associated codes, regulations and references in the Council's constitution.

2.38 The proposed new officer boards will be:

Equality, Diversity & Inclusion	Information Management & Transparency
Finance, Risk and Assurance	Performance, Transformation & Productivity
Health & Safety	Resident Voices
Capital Board	Digital Board

2.39 Each officer board has / will have its own terms of reference (following a corporate template), membership from each directorate management team and other officers and will also be allocated corporate strategies to own on behalf of the Council. The minutes of these meetings will be shared with the corporate management team and the 6 departmental management teams. Participation in these boards will also be open to staff across the council as part of a development opportunity.

2.40 The first of these new officer boards outlined in the July Council Report which are in operation are the Equality, Diversity and Inclusion Board and the refreshed Health and Safety Committee. The next two to be launched will be the Finance, Risk and Assurance Board and the Performance, Transformation and Productivity Board.

2.41 A new Capital Board has also been set up and is in operation.

2.42 As mentioned earlier in this report, in January 2021, the Council established a Brick by Brick Shareholder and Investment Board which was designed to oversee performance and delivery matters within Brick by Brick. This new Board is comprised exclusively of Members with officers participating in an advisory capacity only.

2.43 Cabinet also agreed new arrangements for all other Council owned companies at its meeting on 26 July 2021 and established the officer Croydon

Companies' Supervision and Monitoring Panel which reports into Cabinet via the normal Cabinet member briefing process.

2.44 All of these new bodies will be brought together in a new internal control system and mapped visually to aid understanding for members, managers and staff.

Improving the Council's Procurement Systems and Processes

2.45 Members may be aware that the Council has been implementing a procurement transformation plan since the summer of 2021. This plan has been developed by and is being implemented with support from an LGA Procurement Improvement Advisor.

2.46 In addition to actions to deliver contract savings, the plan also contains a range of actions to improve other aspects of procurement, including governance and strategy; people and skills; and systems and processes.

2.47 Initial improvement actions have included a reshaping of the commissioning and procurement function, with commissioning roles now embedded within service departments and a new Strategic Procurement and Governance team established.

2.48 Proposed revisions to the Council's Tender & Contract Regulations have been drafted and it is anticipated that initial revisions will be presented to Members for consideration in March 2022 with further revisions to be considered in the next municipal year. These proposals are designed to ensure that Member engagement in commissioning and procurement is routinely more strategic, meaningful, and much earlier in the cycle to ensure that Members have greater ability to influence the outcomes.

2.49 A new remit for the officer 'Strategic Commissioning and Contracts Board' has been implemented to provide senior management involvement in contracting and the drive for improvements across the function.

2.50 A review of all the Council's Procurement processes, documents and policies will commence shortly and the outcome will inform a new procurement strategy for the Council.

Holding those responsible to account

2.46 Given the nature of the failures described in this Report in the Public Interest, it is natural that Members, officers and residents will seek reassurance that measures have been taken to hold those persons responsible for the issues raised in the report to account.

2.47 As Members will be aware, the Council has to balance the giving of that assurance against its duty to comply with the formal processes in relation to any action against members or officers, including where those individuals have contractual or other rights for action being taken against them to be considered privately.

2.48 This situation is heightened by the fact that this report must be considered entirely in public and therefore cannot be supplemented by an accompanying confidential section.

2.49 However, the Council can confirm that following the publication of the previous Report in the Public Interest in October 2020, the two subsequent section 114 reports and other reports, formal council processes were initiated in order to establish any personal accountability of lead members and officers.

2.50 These formal processes were initiated to enable a full, fair and proper accountability process to be undertaken in line with the council's constitution and the terms and conditions of officers' employment.

2.51 These processes were overseen by the Ethics Committee, the Appointments Committee and the Investigating and Disciplinary Sub-Committee. There is one element of this process still underway. All others were halted due to the decision of the individual to exit their relationship with the council.

2.52 Council may wish to note that since January 2021, where officers exited their relationship with the council following the initiation of these formal processes, there have been no additional or supernumerary payments to any individual.

3. STATUTORY RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

3.1 Reports in the Public Interest are issued under the provisions of the Local Audit and Accountability Act 2014. The Act sets out a number of statutory requirements that a Local Authority must comply with following the publication of the Report.

3.2 The Council is required under the Act to consider the recommendations of the Report and decide what action to take in response in public at a dedicated Council meeting held within one month from publication. It is also essential that all decisions made by the Council with regard to its governance and other improvements are taken in full cognisance of the report's findings and recommendations.

Publicising the Report

3.3 Following receipt of the Report, the Council is required to ensure that it is brought to the attention of public, elected members, its partner organisations and stakeholders.

3.4 At 2.00pm on 26 January 2022, a dedicated page was published on the Council's website that included the full Report, the formal public notice, further information about the Report and details on how to inspect a copy of the report at the Council's offices. The webpage can be found here - https://www.croydon.gov.uk/publicinterestfairfield. The report is also being publicised on the homepage of the Council's website, which provides a direct link to the detailed dedicated webpage. The Council will also include details of the report in the Your Croydon e-bulletin, which will be delivered to over 80,000 registered email addresses, on Friday 28 January 2022.

3.5 An update will be provided to Members at the Extraordinary Council Meeting on:

- How many persons have visited the webpage
- How many times the report has been downloaded from the Council web site
- Coverage of the report in the media

3.6 A formal public notice will also be published in the Croydon Guardian on 3 February 2022, which is the first available edition of the paper in which the notice could be included.

3.7 The Council has also proactively contacted partner organisations to share the report such as the Local Enterprise Partnership and the Council's regulators, such as Ofsted, the Regulator of Social Housing and the Improvement and Assurance Panel.

3.8 On 26 January 2022, full copies of the report were also sent to all elected Members, the Borough's three Members of Parliament and the GLA Assembly Member for Croydon and Sutton.

3.9 The report was also sent to all members of the Council's General Purposes and Audit Committee, including independent Members.

3.10 All Council staff were contacted via email with a link to the report and extensive staff briefings have been given.

3.11 The report has also been shared with all of the Council's subsidiary companies and Local Strategic Partnership.

3.12 The external auditor has issued the Secretary of State for Levelling Up, Housing and Communities and the members of the Improvement and Assurance Panel with a copy of the report.

Responding to the Report

3.13 Within a period of one month beginning with the day upon which the Council received the report, the Council is required to hold an Extraordinary Council Meeting (this meeting) to consider the report.

3.14 In considering this report, Members of the Council are asked to vote on the recommendations, response and action plan or amend these as they see fit.

3.15 The notice described in paragraphs 3.4 and 3.6 above includes all relevant details of this meeting to comply with the Local Audit and Accountability Act 2014 requirements. In addition, the agenda and supporting papers for this meeting have been published to comply with the Local Government Act 1972 requirements.

3.16 Following the Extraordinary Council Meeting, the Council is required to publish a public notice, approved by the external auditor, that summarises the outcome of the meeting. That notice will be published in both the local press and on the Council's dedicated webpage following this meeting.

Other Considerations

3.17 In considering the Report and the proposed action plan, Members may also wish to reflect upon their personal responsibilities and the Council's constitutional and legal responsibilities, under two further areas. These are the Seven Principles of Public Life, better known as the Nolan Principles, and the Council's "best value" duty under the Local Government Act 1999 – details of which can be read here https://www.gov.uk/government/publications/revised-best-value-statutory-guidance.

3.18 Croydon has fully adopted the Nolan Principles as part of its constitution. They establish the ethical standards and framework for conduct for all those working and governing in the public sector. These standards are mandatory and lay the foundations to the Council's constitution.

3.19 The Nolan Principles are: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Croydon has expanded the honesty principle to also include truthfulness. These principles apply equally to elected Members as well as to officers.

The principles have been included in full in all the job description for the new Corporate Directors, Directors and Heads of Service following the council restructure. They frame the code of conduct that guides behaviour and governance practice in the Council's constitution for both Members and officers. They form the backbone of the new Member Code of Conduct agreed by Council at its meeting on 11 October 2021 which can be read in full here - https://democracy.croydon.gov.uk/documents/s33161/30%20Part%205I%20-%20Members%20Code%20of%20Conduct%20as%20amended%20Jan%202020%2015.10.21.pdf.

3.20 The Local Government Act 1999 introduced the duty of "best value" for all local authorities. This duty requires Councils to "make arrangements to secure continuous improvement in the way in which its functions are exercised having a regard to a combination of economy, efficiency and effectiveness".

3.21 In fulfilling that duty, the Council needs to be a learning organisation that focuses on improvement and development; a Council that is open to challenge and which is fully accountable to the people of Croydon.

3.22 To that end, both of these duties and the lessons learned from the Report in the Public Interest will form part of the learning and induction programme for all councillors elected and re-elected at the forthcoming local elections in May 2022 and the corporate change programme for all officers.

3.23 The Council will also continue its focus on learning and seeking support, advice, guidance and challenge from partners across the sector to ensure that the improvements it delivers reflect best practice nationally.

4. REPORT OF THE CHIEF FINANCE OFFICER

4.1 Members of Croydon Council must consider this report from the Corporate Director of Resources, Section 151 Officer, (the Chief Financial Officer – CFO) under the Local Government Finance Act 1988.

4.2 The Local Government Finance Act 1988, places certain responsibilities on the CFO.

4.3 Section 114 (2a) requires that the chief finance officer (S151 officer) to "make a report under this section if it appears to him that the authority, a committee of the authority, a person holding any office or employment under the authority… :

(a) has made or is about to make a decision which involves or would involve the authority incurring expenditure which is unlawful,

(b) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the authority, or

(c) is about to enter an item of account the entry of which is unlawful".

4.4 Section 114 (2a) requires consultation with the Head of Paid Service and the Monitoring Officer (MO) which has been undertaken.

4.5 Section 114 (2a) also obliges the S151 officer to send a copy of the report to the council's auditors and to every member of the authority.

4.6 The Monitoring Officer has received legal advice and has confirmed that containing the Section 114 (2a) report within this report meets that reporting requirement.

4.7 This report is in respect of S114 (2a) subsection (a) above as the RIPI report refers to a public procurement process that should have been carried out and entry into licence without a procurement process did not reflect the underlying reality and in their view is likely to have been found in breach of public procurement law had it been challenged in court.

4.8 It is important to note that this report is not in respect of the matters covered by the Report being under Section 114 (3), i.e. it is not in relation to the council being unable to meet its expenditure commitments.

4.9 The actions to be taken in response to this Section 114 (2a) report are those contained in this report (and the action Plan), and are considered by the Section 151 officer to be those that are necessary as a consequence.

5. REPORT OF THE MONITORING OFFICER

5.1 Section 5 of the Local Government and Housing Act 1989 provides that it is the responsibility of the Monitoring Officer to report formally to the Council on any proposal, decision or omission by the Council which has given rise to, or is likely to, or would, give rise to, the contravention of any enactment, rule of law or statutory code of practice.

5.2 In doing so the Monitoring Officer must consult with the Chief Executive, as Head of the Paid Service and the Section 151 Officer and must also advise all Members of the Council.

5.3 The report of the external auditor has referred to the fact that the Council failed to comply with its statutory duty to achieve best value and carried out other unlawful actions. On the basis that I concur with those findings, I am required under Section 5(2) of the Local Government and Housing Act 1989 to ensure by way of report that the Council is aware of this fact and what actions are or have been implemented since this fact has come to light. As Monitoring Officer I have received legal advice to confirm that containing the Section 5 report within this report meets that reporting requirement.

5.4 The report of the external auditor explains why she feels there has been a breach of the law and this report, now before Council, details the action taken and what is planned to be taken in response to the findings, which complies with the duty placed on me, as Monitoring Officer, under the above mentioned legislation.

5.5 The purpose of this Section 5 report is to inform Council of the following matters of likely unlawfulness:

i) The failure to properly follow procurement law as described on page 3 of the Report in the Public Interest;

ii) The failure to properly document lending to Brick by Brick, or structure arrangements in compliance with the lending powers relied on as described on page 3;

iii) The failure to be able to demonstrate that the Section 123 duty of best consideration of the Local Government Act 1972 had been met on the land disposal to Brick by Brick as described in section on page 20; and

iv) The general failings of corporate governance of a serious nature that indicate unlawfulness in public law terms as described on page 30.

5.6 The actions to be taken in response to this Section 5 report are those contained in this report (and the Action Plan), and are considered by me (as Monitoring Officer) to be those that are necessary as a consequence.

6. ACTION PLAN IN RESPONSE TO THE RECOMMENDATIONS

6.1 The recommendations in the Report will be responded to by way of a detailed Action Plan as outlined in Appendix 2 to this report. Members are asked to consider and agree the Action Plan which includes a response to each of the external auditor's recommendations, the Chief Finance Officer's recommendations and the Monitoring Officer's recommendations together with indicative timelines for actions and accountabilities.

6.2 The Action Plan has been developed with support from colleagues drawn from across the Council, ensuring that it has benefitted from a blend of knowledge and expertise.

6.3 Overall accountability for the delivery of the Action Plan will jointly rest with the Leader of the Council, Councillor Hamida Ali and the Chief Executive, Katherine Kerswell.

6.4 Accountability for individual actions in the Action Plan are clearly identified by chief officer.

6.5 Following this Extraordinary Council Meeting, the Action Plan will be submitted to both the Scrutiny and Overview Committee on 15 February 2022 and the General Purposes and Audit Committee on 3 March 2022 to consider and review it from their different constitutional positions.

6.6 Those Committees will submit their feedback in the form of a report to Cabinet at a subsequent meeting. The report to Cabinet will also provide further detail on the recommendations, timelines and accountabilities, the delivery mechanism to support the improvement work and if possible the costs associated with implementing the recommendations and the production of the report.

6.7 That meeting of Cabinet will also be asked to agree that the Action Plan be incorporated into the Council's overarching Croydon Renewal and

Improvement Plan. This will ensure that delivery of the action plan is overseen by the Council's project management office and that progress is routinely reported to Cabinet, Scrutiny and Overview Committee, General Purposes and Audit Committee and Council.

7. WHAT HAPPENS NEXT AT FAIRFIELD HALLS REFURBISHMENT PROJECT

7.1 At its meeting on 26 July 2021, Cabinet agreed to novate the Fairfield Halls refurbishment contracts and associated contracts from Brick by Brick to the Council.

Completing the refurbishment works

7.2 Not all contracts have yet been novated to the Council as specific warranties for work have not yet been put in place, however the Council has begun work to ensure that the refurbishment works are completed to a good standard and that best value for money can be achieved.

7.3 This has included non-intrusive survey works and an external quantity surveyor is due to be appointed to identify any aspects of the refurbishment contract that have not been adequately undertaken. This will take place in tandem with the normal snagging and defects process that is being undertaken while the primary contractor completes its works.

7.4 In addition to identifying any works not satisfactorily completed by the contractors, the quantity surveyor will also be tasked with identifying any other works that are required but were not included in the refurbishment contracts.

7.5 It is anticipated that the Council will have a full understanding of all works required to be undertaken by March 2022 following closure of the final Vinci contract. This work is being supplemented by the development of a cyclical planned maintenance programme for the Halls.

7.6 Once the Council has a full understanding of the remaining works required, a paper will be presented to Cabinet detailing options and recommendations for the completion of the refurbishment works.

Achieving Best Value for Money

7.7 The Council has undertaken an initial analysis of the expenditure by Brick by Brick on the refurbishment work. While it is important to stress that this analysis has not identified any suggestion of fraudulent activity, it has identified an issue that is being more thoroughly reviewed.

7.8 The issue relates to charges of £600k made by Brick by Brick to the Council in relation to project management fees and charges. This has been highlighted due to the significant issues regarding the project management of the works raised in the auditor’s report and that these fees are approximately double the normal market level of fees.

7.9 The Chief Executive has written to the Directors of Brick by Brick seeking an explanation and to understand further this expenditure.

7.10 The Council is continuing to review all of the refurbishment contracts that have been novated to it in order to identify any other areas where expenditure, costs or value for money need to be challenged.

8. CONSULTATION

8.1 In addition to the publicity and communications detailed in earlier paragraphs above, a briefing was held for all Members of the Council on the Report in the Public Interest on Wednesday 26 January 2022. This briefing was immediately followed by question and answer sessions with Members within their political groups.

8.2 Statutory consultation has been undertaken by both the Chief Finance Officer and the Monitoring Officer in relation to sections 4 and 5 above.

9. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

9.1 The Report in Public Interest highlights some key internal control breakdowns suffered by the Council and clearly details the financial and non-financial consequences as a result. Delivering the action plan as a result of the recommendations in this report will help to ensure that the Council operates to best practice standards with regard to its financial and decision making governance.

9.2 There will be costs associated with the implementation of the recommendations detailed within the report. These costs are currently unknown and should the implementation result in an increase in costs that cannot be contained within the budgets available, these will be updated to Cabinet via the monthly Financial Performance Reports and subsequent approvals sought before such costs are incurred.

9.3 Section 2 of this report provides for further financial adjustments the Council has made with consultation with the external auditors. The 2019/20 Statement of Accounts have yet to be finalised and therefore no final report on the 2019/20 Accounts has been issued by the Council or the external auditors. The Council’s Finance team will continue to work with the Auditors to ensure the financial impacts of this RIPI are robustly factored into the 2019/20 accounts.

Approved by: Richard Ennis, Interim Corporate Director of Resources (S151 Officer)

10. LEGAL CONSIDERATIONS

10.1 This report to Council sets out the statutory background to the auditors report and the obligations falling on the Council as a consequence. In particular, the Council is reminded that it has a duty to consider and respond to the report as detailed in section 3 of this report. In addition, the Council is to the consider both the Section 114 report of the Section 151 officer and the Section 5 report of the Monitoring Officer and decided whether they agree with the opinions expressed in those reports. The following paragraphs provide further detail.

10.1 The Report in the Public Interest (“the report”) is issued under the provisions of the Local Audit and Accountability Act 2014 (“the Act"). The Council must comply with the requirements of the Act in responding to the report.

10.2 In particular Schedule 7 paragraph 4 on the Act provides that as soon as reasonable practicable after receiving the report the Council must:

- publish the report and a notice identifying the subject matter of the report on the Council’s website;
- permit the public to inspect the report at all reasonable times without payment, make a copy of it, or any part of it, and be supplied with a copy of it, or any part of it, on payment of a reasonable sum;
- supply a copy of the report to each of its Members and its auditor panel (if it has one).

10.3 Paragraph 5 of Schedule 7 further requires the Council to consider the report or recommendation(s) at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Council. At that meeting the Council must decide:

- whether the report requires the Council to take any action; or
- whether the recommendation(s) is/are to be accepted; and
- what if any action to take in response to the report or recommendation(s).

The recommendations and proposed actions by the Council are set out in the body of this report and accompanying Action Plan.

10.4 Paragraph 9 of Schedule 7 goes on to provide that information contained in the Report is not to be treated as exempt information under the Local Government Act 1972.

10.5 After considering the Report and its response to it, the Council must notify the external auditor of its decisions, and publish a notice containing a summary of those decisions which has been approved by the external auditor.

10.6 The powers set out in the Act are without prejudice to the duties and responsibilities contained in sections 114 – 116 of the Local Government

Finance Act 1988 and section 5 of the Local Government and Housing Act 1989 as regards reports which may be issued by the Council's Chief Finance Officer (CFO) or its Monitoring Officer (MO).

10.7 Section 114(2) of the Local Government Finance 1988 (LGFA) requires the Council's CFO to issue a report if it appears to him that the Council (a) has made or is about to make a decision which involves or would involve the Council incurring expenditure which is unlawful; (b) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the authority or (c) is about to enter an item of account the entry of which is unlawful.

10.8 The external auditor identifies in the report expenditure which is considered to be 'unlawful' as a result of a failure to comply with procurement law (the Public Contracts Regulations 2015) and a failure to properly document the lending to Brick by Brick or structure arrangements in compliance with the lending powers relied upon by the Council. This triggers a duty upon the CFO to issue a report under section 114(2) on the basis that the CO concurs. His report is set out in paragraph 4. There are also responsibilities upon the CFO to consult with the Head of Paid Service and the Monitoring Officer. Copies of his report shall also be sent to the Council's auditors and all Members. These obligations have been discharged. The Council is then required to consider the report and decide whether it agrees or disagrees with the views contained in the CFO's report and what action (if any) it proposes to take in consequence of it. The LGFA also imposes a prohibition period during which the unlawful conduct which led to the report being made by the CFO shall not be pursued. The prohibition period runs from the date copies of the CFO's report are sent to Members ending on the first business day to fall after the day the Council considers the report. In the context of the External Auditors report and its subject matter, no such prohibition is applicable (i.e. the subject matter involves historic activity).

10.9 Similarly section 5 of the Local Government and Housing Act 1989 places a duty upon the Council's MO to issue a report if at any time it appears to him that any proposal decision or omission by the Council has given rise to or is likely to or would give rise to (a) a contravention by the Council of any enactment or rule of law. The 'unlawfulness' set out in the report by the external auditor in relation to the breach of procurement law and the failure to properly document the lending to Brick by Brick or structure arrangements in compliance with the lending powers relied upon by the Council triggers a similar requirement upon the MO to issue a report under section 5. His report is embedded in this covering report in paragraph 5. The issue of such a report by the Monitoring Officer, as with a report by the CFO, places a duty on the Council to consider the MO's report at a meeting of the Council not more than twenty-one days after copies of the MO's report are first sent to Members. Similarly the MO is required to consult with the Head of Paid Service and also the CFO and likewise arrange for a copy to be sent to each Member of the Council. These obligations have been discharged.

10.11 The powers set out above are without prejudice to the duties and responsibilities set out in Part I of the Local Government Act 1999 regarding Secretary of State intervention in a local authority.

10.12 The recommendations seek to comply with statutory requirements following the issue of a report in the public interest by the Council's external auditors and reports both by the CFO and also the Council's Monitoring Officer. The actions recommended also seek to improve the governance of the Council in line with the Council's Constitution and promote the Council's statutory duty of best value and continuous improvement.

Doutimi Aseh, Interim Director of Legal Services & Interim Deputy Monitoring Officer

11. HUMAN RESOURCES IMPACT

11.1 The improvement plan is part of a range of measures relating to improving the Council's financial position and it is possible that this will ultimately impact on the Council's workforce, when the Council's agreed Human Resources policies and procedures will be followed.

11.2 The council's officer code of conduct has been reviewed, and strengthened to seek to ensure improved governance and conduct across the Council, implemented in January 2022. The revised code of conduct has been consulted upon and agreed with the trade unions. The revised code of conduct includes the Nolan Principles set out in paragraph 3.19 of this report.

11.3 The failure to adhere to the Council's code of conduct for officers and financial regulations is evident from the external auditor's report. The additional work underway in the Council to strengthen compliance with these has been referenced in the report and forms part of the whole council change programme, which has been initiated.

Dean Shoesmith, Interim Chief People Officer

12. EQUALITIES IMPACT

12.1 The matters raised within the report in the public interest have not highlighted any equality implications, or any suggestion that the actions of the Council have impacted on any group that share protected characteristics under the Equality Act 2010.

12.2 The actions proposed in response to the report in the public interest are intended to strengthen the council's governance and culture. A key element of this new culture is equality and inclusion, and creating a culture where staff can speak out and raise issues. This is incorporated in to the new internal control structures.

12.3 Approved by: Gavin Handford Director of Policy, Programmes & Performance

13. DATA PROTECTION IMPLICATIONS

13.1 The Head of Democratic Services and Scrutiny comments that the recommendations of this report do not involve the processing of personal data and as such, there are no data protection implications arising from this report.

CONTACT OFFICER: Stephen Rowan, Head of Democratic Services and Scrutiny

APPENDICES TO THIS REPORT
Appendix 1 - Report in the Public Interest

Appendix 2 - Action Plan

BACKGROUND DOCUMENTS: There are no previously unpublished documents on which this report is based.

OTHER SUPPORTING DOCUMENTS REFERENCED IN THIS REPORT:

2 November 2021 letter to the Improvement and Assurance Panel from the Minister of State for Equalities and Levelling Up Communities, Kemi Badenoch MP - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1030160/Ministerial_response_to_Croydon_third_report.pdf.

Cabinet 6 December 2021: Independent Non-statutory Review: Follow Up Report - https://democracy.croydon.gov.uk/ieListDocuments.aspx?CId=183&MId=2512&Ver=4.

Council 13 December 2021: Report in the Public Interest – Quarter 2 Update - https://democracy.croydon.gov.uk/mgAi.aspx?ID=13763#mgDocuments.

Cabinet 21 September 2020: Croydon Renewal Plan and amendments to the 2020/21 General Fund Budget - https://democracy.croydon.gov.uk/mgAi.aspx?ID=9341.

Cabinet 25 November 2020: Strategic Review of Companies and other investment arrangements – https://democracy.croydon.gov.uk/mgAi.aspx?ID=10047.

Cabinet 18 February 2021: Review of Croydon Brick by Brick Ltd - https://democracy.croydon.gov.uk/ieListDocuments.aspx?CId=183&MId=2485.

Cabinet 17 May 2021: Ongoing Review of Brick by Brick Croydon Ltd and associated matters relating to the company - https://democracy.croydon.gov.uk/ieListDocuments.aspx?CId=183&MId=2174

Cabinet 12 July 2021: Ongoing Review of Brick by Brick Croydon Ltd and the future of the company - https://democracy.croydon.gov.uk/ieListDocuments.aspx?CId=183&MId=2508.

Cabinet 15 November 2021: Governance of Brick By Brick Croydon Ltd. - https://democracy.croydon.gov.uk/ieListDocuments.aspx?CId=183&MId=2511.

Cabinet 26 July 2021: Governance of Croydon Council Companies - https://democracy.croydon.gov.uk/ieListDocuments.aspx?CId=183&MId=2751.

Council 11 October 2021: Member Code of Conduct - https://democracy.croydon.gov.uk/ieListDocuments.aspx?CId=134&MId=2535.

Ethics Committee 30 September 2021: Members Development Plan Update - https://democracy.croydon.gov.uk/ieListDocuments.aspx?CId=171&MId=2818&Ver=4

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Grant Thornton

London Borough of Croydon

Report in the Public Interest concerning the refurbishment of Fairfield Halls and related governance arrangements

London Borough of Croydon

Report in the Public Interest concerning the Council's refurbishment of the Fairfield Halls and related governance arrangements

Executive Summary

Background

Grant Thornton are the external auditors to the London Borough of Croydon (the Council). We are issuing this Report in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014.

The Council owns Fairfield Halls, an arts, entertainment and conference centre in Croydon which originally opened in 1962. By 2010, the Council had identified a need to update and develop Fairfield Halls and place it on a more sustainable footing. By 2014 the Fairfield Halls became part of the development of a new Cultural Quarter. By 2016 the need to refurbish Fairfield Halls had become urgent and the venue closed in July 2016 for refurbishment, with a planned re-opening date of June 2018 and an initial Cabinet approved investment of £30 million for the refurbishment project (the project).

The project was delivered in September 2019 (over a year late) with a final cost of £67.5 million incurred up to that date (more than double the initial budget).

Our review leading to this report arose after we issued a report in the public interest on 23 October 2020 concerning the Council's financial position and related governance arrangements. The Council has reported considerable improvements since then and is continuing to respond to the matters in that report (as detailed below) and other areas of concern the Council has itself identified. One such matter related to the historical decision making and governance relating to the refurbishment of Fairfield Halls. The Council raised their concerns with us (Grant Thornton UK LLP), as the Council's external auditor, in late December 2020. We considered the concerns raised to represent a significant risk to the value for money conclusion and commenced an initial review in January 2021. Our initial findings required further investigation, the results of which are set out here.

Following the closure of Fairfield Halls during the pandemic in 2020, the Council sought to reopen Fairfield Halls [Although the refurbishment was awarded the RIBA London Award 2021, and the Highly Commended Civic Trust Award 2021] issues relating to the building were reported to the Council. Initial surveys commissioned by the Council indicate the need for additional expenditure to rectify the reported issues. The Council considers that the additional works should have been addressed during the refurbishment and this is disputed by Brick by Brick. The Council raised concerns on the historic governance of the project and, in discussion with current officers, we identified a significant risk to the value for money conclusion.

Our initial work in 2021 identified areas for further investigation, the results of which are set out here.

This report covers the Council's decision making and governance processes in the period from June 2016 - when the decision was made to bring forward a wider regeneration scheme - up to the reopening in September 2019, and references to the Council or to individuals in particular roles during that period should be read accordingly.

Legal arrangements

Engaging Brick by Brick to refurbish Fairfield Halls

In June 2016, the Cabinet approved a proposal to use Brick by Brick (Croydon) Limited (Brick by Brick), its wholly owned housing development company, to bring forward elements of the College Green scheme, which encompassed a house building scheme, public realm improvements and the regeneration of Fairfield Halls. The proposal involved the transfer of land interests (not including Fairfield Halls) to Brick by Brick in order for Brick by Brick to develop residential property on them and to carry out a refurbishment of Fairfield Halls "under licence", with the financing of the works to Fairfield Halls being an estimated £30 million. It was decided that Brick by Brick would be loaned money to fund part of the refurbishment by the Council, which Brick by Brick would need to repay but would be compensated for through the profits made from the sale of 2,000 houses (built by Brick Brick) on the College Green land transferred.

It is not uncommon to use a land transfer option for development of public land for residential housing: this route allows a public body to transfer land to a developer on terms which permit, but do not require, the developer to develop the land, with the public body instead being able to achieve its objectives by retaining a right to re-acquire the land should the development not occur. Such an arrangement may not, depending on how it is executed, engage rules around public procurement (broadly in place with a view to ensuring fair and equitable awarding of contracts, and securing value for money) because it may not involve the public body imposing enforceable obligations on the developer. This type of arrangement can be appropriate where houses are being built as there is less need for detailed specification and timing of delivery of housing, as compared to a public amenity which the public body requires to be built.

However, a decision to include the Fairfield Halls refurbishment in such a land transfer added complexity to the College Green scheme. The challenges and expertise needed to manage a complex refurbishment were very different to the challenges of managing a house building scheme and there was a lack of recognition in the Cabinet paper and minuted discussion of these differences, the risks and how these would be mitigated. While the June 2016 meeting did not explicitly use the land transfer option for Fairfield Halls, it has been suggested by the Council in contemporaneous submissions that this was the intention; this is supported by the fact that later the Council produced a draft conditional sale agreement which would (if properly executed) effect a land transfer in respect of Fairfield Halls.

Some months after the decision, in November 2016, the Council took legal advice which suggested that a land transfer arrangement as described above could work by selling the relevant land to Brick by Brick, with the Council providing lending to Brick by Brick secured with a charge over the land; prior to the land transfer, a licence would be required to enable Brick by Brick to carry out initial works, and such a licence was issued on 1 August 2016.

The legal advice showed that if the land transfer option was properly implemented, it was possible to avoid any public procurement process, although it highlighted risks. In our view these risks were significant. The key to avoiding a public procurement process, it was said was that there was no positive obligation on Brick by Brick to do the works (as the arrangement would rely on the Council's ability to take back the land if the refurbishment were not to occur), but conversely flagged that there was nonetheless a risk of challenge from other potential bidders if the Council set out a detailed specification of works which might amount to giving rise to enforceable legal obligations. It was explained that so doing might require a public procurement process; in the event, one was not carried out on the basis that there were no such enforceable obligations. The legal advice also flagged that Brick by Brick would need to act as an independent company on a commercial basis and avoid acting as if it were a department of the Council, in order for this land transfer option without a public procurement process to be workable and in line with public procurement and state aid law.

The licence issued by the Council to Brick by Brick on 1 August 2016 enabled, but did not require, Brick by Brick to carry out the refurbishment of Fairfield Halls in line with a detailed specification (the licence). The Council also made payments to Brick by Brick for the costs of the refurbishment and treated these payments as lending.

Neither the Council nor Brick by Brick have been able to provide a properly executed written conditional sale agreement (which would have been in place had Fairfield Halls been transferred to Brick by Brick in line with the land transfer option) or properly executed loan agreements covering the funds provided by the Council. Without properly executed written agreements key elements of the legal advice were not met. Further, it is our view that the Council's arrangement was at risk of challenge under procurement law as Brick by Brick was given a detailed specification of works (effectively amounting to a positive obligation to carry out the refurbishment) and the Council did not assess whether Brick by Brick was not acting as an independent company, in line with the legal advice.

In obtaining external legal advice and not fully considering or implementing that advice, it is our view that the Council failed to ensure it was acting lawfully. We have not been provided with evidence of senior statutory officers updating Cabinet formally on the legal risks emerging, considering how the emerging risks could be effectively mitigated or of the anticipated shortfall in funding (covered below) and the foreseeable implications.

In our view, it is likely that the licence did not reflect the underlying reality of the arrangements. Rather it is our view that the licence was (at least in part) intended to circumvent procurement law and competitive tendering, albeit in a way that was believed to be lawful; the licence provided that Brick by Brick was allowed, but not obliged, to carry out the works, but in our view the reality was Brick by Brick was committing itself to carrying out the refurbishment works which the Council wished to see carried out and was doing so in return for economic compensation which had been informally agreed albeit not recorded in binding properly executed contracts. As the Council was specifying the works it wished to see carried out, and the true objective of the licence was to oblige Brick by Brick to carry out those works, for the benefit of the Council, a public procurement process should have been carried out, and the entry into a licence without one did not reflect this underlying reality and in our view is therefore likely to have been found to have been a breach of public procurement law had it been challenged in court.

Regardless of whether the arrangements were a breach of procurement law, the arrangements clearly did not allow the Council to protect its interests and secure economy, efficiency and effectiveness in its use of resources in relation to the project. In our view the eventual outcome was that the Council could not properly exercise control or oversight of the refurbishment, because Brick by Brick was not obliged to carry out the refurbishment to any particular specification and did not have assurance that it had engaged the most appropriate developer for the complex refurbishment in terms of capacity, costs or other factors (as it would have done had it carried out a public procurement process).

Funding Brick by Brick to refurbish Fairfield Halls

While it is our understanding that the project was intended to be cost neutral, the Council intended to fund the project in the short term through a loan drawdown agreement with Brick by Brick. The legal powers the Council intended to rely on would have required Brick by Brick to own the land on which it was carrying out the work, and the loans either to be secured by mortgages or subject to an agreement to oblige Brick by Brick to construct residential units on the land. While draft conditional agreement of sale and draft loan agreements are available, neither the Council nor Brick by Brick can provide properly executed written versions of these documents.

There therefore appears to be no clear contractual basis at all for the project (and we note that while it is technically possible for unsigned written contracts to give rise to enforceable legal obligations, where the parties are acting in accordance with their terms, this will not always be the case, so even in a best case scenario, with absent properly executed written contracts the Council was subject to a material risk that in the event of an action to enforce the loans, a court could find that there was no enforceable contract).

We therefore do not consider that the Council properly exercised its powers to make payments to Brick by Brick. This is a serious concern as to the Council's financial and corporate management and also calls into question the lawfulness of the Fairfield Halls payments and suggests that the Council has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Without properly executed written contracts, there was a material risk that the Council did not have any right (save perhaps under the law of restitution) to obtain reimbursement of the monies paid or to control its use (appreciating that, had the Council been able to control the expenditure, its approach to the application of the public procurement and state aid rules would have differed).

State aid

Without properly executed written contracts for the loan payments, and in light of the circumstances, the payments to Brick by Brick also give rise to a significant state aid risk (state aid being where the public sector gives aid which distorts cross border competition). The legal advice to the Council flagged the risk of unlawful state aid, and it is not clear that this risk was appropriately considered or managed as current officers responding on behalf of the Council have been unable to provide this consideration by their predecessors.

Challenge from another local authority

As part of the project the Council sought to apply for grant funding from the Local Enterprise Partnership, Coast to Capital, where the accountable body was another local authority. Correspondence seen indicates the other local authority raised serious concerns on how the arrangement complied with procurement rules with the Council's then senior statutory officers and the then Executive Director of Place. We do not consider that these officers properly reflected on the challenge presented by peers from another local authority and considered whether the Council's approach was reasonable.

Other legal considerations – record keeping

The absence of records documenting the rationale for decisions in relation to a significant project is a failure to keep the records required and creates legal uncertainty and risk. Throughout the project there are elements where record keeping has been insufficient:

- Documentation setting out the implementation of decisions delegated to officers was not systematically retained or stored to allow retrieval
- Financial analysis supporting decisions taken by the Cabinet is not available

The lack of formal consideration of the external legal advice, the lack of completed legal land transfer documentation and the lack of properly executed written legal arrangements covering the provision of funding to Brick by Brick is in our view a very serious matter and demonstrates fundamental failings by the Council.

Governance

We have already raised significant concerns over the governance culture and reporting mechanisms between the Council and Brick by Brick (in the Public Interest Report published on 23 October 2020) and the PwC review of companies dated 13 November 2020 also raised concerns. The issues in respect of the oversight of the Fairfield Halls Refurbishment reflect many of these concerns.

Governance arrangements for Brick by Brick

The Cabinet paper approving the establishment of Brick by Brick in March 2015, delegated governance arrangements to the then Executive Director of Place (with the holder of that post in March 2012 later becoming the Chief Executive in 2016) in consultation with the then Portfolio Holder for Homes and Gateway Services, the then Section 151 Officer and the then Monitoring Officer. The June 2016 Cabinet paper sets out the governance arrangements in place between the Council and Brick by Brick including presenting the Brick by Brick Business Plan to Cabinet and the appointment of Council nominated Board members and observers. The Brick by Brick Business Plan has been presented each February since 2017. However, there was no formal documented mechanism through which Council nominated Board members or observers reported back to the Council and therefore it is unclear how the Council sought to exercise governance over Brick by Brick through the nominated Board members or observers.

In October 2018 the then Section 151 Officer provided the then Chief Executive with proposed improved governance arrangements for Brick by Brick. A draft terms of reference for a Brick by Brick monitoring group was proposed at the first meeting in April 2019 with final terms of reference being agreed at the September 2019 meeting some four years after the original decision to establish Brick by Brick. This timeline demonstrates a lack of urgency to implement appropriate governance arrangements over Brick by Brick which was in our view ultimately the responsibility of the then Chief Executive as Head of Paid Service with responsibility for establishing proper arrangements.

Governance arrangements for the Fairfield Halls refurbishment project

Initially project oversight was through the Council's Growth Board from 2015 when this was a Council run project. After the project was transferred to Brick by Brick in June 2016 reporting continued to the Growth Board until May 2017. In May 2017, the Fairfield Programme Board (the Board) was set up to provide oversight of the project. In structure, the terms of reference should have been sufficient to manage the project with an escalation route to the Growth Board which itself had escalation to the Corporate Leadership Team or other Council process as it 'sees fit'.

From a wider Council perspective, the governance of the project was not in our view effective (as demonstrated by financial position of the project, set out below) as the only formal reporting to Members was through the Brick by Brick Business Plan which only included high level details on the project, there were no documented mechanism for Council appointees/observers to report back and the Member steering group was not set up until after the Fairfield Halls reopened.

The Scrutiny and Overview Committee (the Committee) was active in attempting to scrutinize the project, its progress and related costs. Reports presented to the Committee, in our view, did not highlight the known increase in costs.

Financial position of the project

The June 2016 Cabinet decision referred to a £30 million investment in the project; we have found that the final expenditure on the project was £67.5 million. Despite the June 2016 Cabinet report referring to a financial appraisal, the Council has been unable to provide any such financial appraisal without which we are unable to conclude whether the project additional spend in excess of the budget was caused by inadequacies in the original budget setting or in controlling costs or in changes in the scope of the work during the project. With no subsequent Cabinet decision recorded on the project budget we consider the original Cabinet-approved budget to be £30 million. During the project there were variations agreed (although not at Cabinet level), which is not unusual for a complex capital project. The variations and expected additional expenditure were reported through the Fairfield Programme Board and the project additional spend was reported to the Growth Board. We have not been able to identify explicit formal reporting to the Cabinet of the project additional spend. Allowing the project costs to more than double from the original budget without explicit formal reporting to the Cabinet represents a fundamental failing by the Council.

[The idea that variations to the project were agreed by the Council also adds to the likelihood that Brick by Brick was obliged to carry out the project, at odds with the Council's approach to the application of the public procurement rules.]

In the absence of the original financial appraisal our understanding is that the project was intended to be cost-neutral to the Council with Brick by Brick using expected profits from the College Green scheme to cover the costs of the project. Under section 123 of the Local Government Act 1972 the Council has a duty to achieve best value in land disposals. We have not been able to obtain the Council's assessment of whether £30 million for the land provided to the College Green projects represent best value and therefore we cannot conclude on whether the Council achieved this duty.

The Council funding (itself borrowed from the Public Works Loans Board) provided to Brick by Brick was intended to be loan funding, repayable to the Council. The Council did not charge Minimum Revenue Provision (MRP) on this borrowing as Brick by Brick was charged a higher interest rate than the Council was paying for the borrowing with the difference being intended to offset the statutory MRP charge. As there are no properly executed written loan agreements it is not definitive that the Council would have been able to enforce any right to recover the loan or its related interest and there is no off set for the MRP charge.

Regardless, the Council has written off the loans receivable of £61.3 million and the accrued interest of £9.1 million (noting that in the group accounts the entries would be subject to consolidated processes) and will need to charge MRP, which we estimate to be an average of £1.5 million per annum adding to the financial pressures already faced by the Council.

Council action since September 2019

Fairfield Halls reopened in September 2019 and was closed during the pandemic in 2020. As the Council sought to reopen Fairfield Halls issues relating to the building were reported. Initial surveys commissioned by the Council indicate there is a need to spend further public monies to rectify the issues identified. The Council considers that the additional works needed should have been addressed during the refurbishment and this is disputed by Brick by Brick. A properly executed written agreement obliging Brick by Brick to carry out the work would have clarified responsibilities in this dispute and the absence of such a properly executed written agreement (as noted above) makes a resolution more challenging. The Council is left with the need to spend further public monies on the Fairfield Halls.

The Council has responded to the previous reports (in the public interest published on 23 October 2020 and the PwC review of companies dated 13 November 2020) including reporting to Cabinet in November 2020, February, July and November 2021 on the actions taken to address governance concerns relating to Brick by Brick and other Council companies. The latest report to Full Council on 13 December 2021, the Council reported that it had implemented 62 of the 99 actions planned in response to the first report in the public interest. The actions taken by the Council includes addressing the governance arrangements in relation to Brick by Brick and the processes for loan agreements. The commentary in this report reflects the arrangements that were in place up to September 2019. There has however been significant turnover in the Council's senior officers and Portfolio Holders since the period this report covers.

In reaching our view on the legality of the arrangement we discussed with and challenged the current Senior Statutory Officers who reviewed the position.

The Council has, in light of the matters reported upon here and their views as set out in this report, decided to account for the expenditure on the project as if it had been direct capital expenditure and has proposed amendments to the draft 2019/20 financial statements which in their view correct the accounting for this arrangement. We understand that the Council is now also in the process of considering future options for Brick by Brick, while in the meantime making other changes to the related governance arrangements.

Conclusion

The Fairfield Halls refurbishment project was a complex project which was delivered late and with significant additional spend beyond the amount approved by Members; the entirety of the project spend has now been accounted for as capital expenditure. The Council's historical arrangements failed to ensure the legality of the arrangements for the project and allowed governance gaps which prevented monitoring of the project, oversight, and wider scrutiny and challenge that may have allowed corrective action to have been taken. Throughout the project there were individuals with both the knowledge of the many issues with the project and who had duties and responsibilities which we would expect to require action to address the known issues. The lack of appropriate action, in our view, represents a failure to discharge the duties expected from a small group of senior officers (the then three Senior Statutory Officers and the then Executive Director of Place). This group reported to the then Portfolio Holders (the then Portfolio Holders for Homes and Gateway Services, for Finance and Resources and the Leader) who were either not briefed by officers and should have requested briefings on the project given what they appeared to know or did not take effective action in response to concerns raised by the officers.

Recommendations

This report makes a number of recommendations for the Council to address, with the statutory recommendations highlighted in bold.

R1 The Chief Executive supported by the Monitoring Officer and the Section 151 Officer should ensure that Cabinet papers for major projects set out clearly

R1.1 the legal powers to enter into a particular arrangement and attendant risk

R1.2 how the Council can protect its interests and secure economy, efficiency and effectiveness.

R2 The Monitoring Officer should ensure that

R2.1 contracts are properly executed before entering into arrangements with third parties

R2.2 the properly executed documents are stored robustly to allow future scrutiny.

R2.3 key requirements underpinning the legal advice are in place before progressing with the arrangement

R3 The Monitoring Officer should ensure that where legal advice changes after a Cabinet decision that the consideration of the implications of the changes is documented and where the Monitoring Officer considers additional legal risks are identified that the Cabinet is updated on the impact on the original decision made.

R4 The Section 151 Officer should ensure that prior to making payments to third parties that appropriate legal documentation is in place such as a properly executed contract or a properly executed loan agreement

R5 The Monitoring Officer and Section 151 Officer should ensure that arrangements are in place to properly consider public procurement rules and UK obligations on subsidy control rules before entering into arrangements.

R6 The Chief Executive, Monitoring Officer and Section 151 Officer need to consider how to respond appropriately to challenge on decisions and be prepared to take corrective action where necessary.

R7 The Chief Executive should improve record keeping arrangements so that
R7.1 the records supporting key decisions including financial analysis are maintained

R7.2 a standard approach to record keeping with monitoring of which decisions have been implemented

R7.2 tolerances are established for reporting back changes to Cabinet

R8 The Chief Executive, as Head of Paid Service, should ensure appropriate governance arrangements are implemented in a timely manner particularly for strategic developments such as Brick by Brick including where appropriate that there is clear guidance for nominated representatives on the expectations of the role including reporting back to the Council

R9 The Chief Executive should work with the Leader to continue to embed

R9.1 a clearly understood distinction between the different roles and responsibilities of Members, officers and representatives of entities akin to Brick by Brick.

R9.2 clear responsibilities for officers and Portfolio Holders in challenging reports presented to Cabinet and other committees for balance, accuracy and consistency in terms of knowledge

R10 The Chief Executive should review the terms of reference for officer and member/officer boards that oversee significant projects and capital/revenue expenditure and clarify the escalation routes for significant additional expenditure in excess of the budget

R11 The Section 151 Officer should ensure financial reporting on significant capital projects is enhanced so that

R11.1 a clear agreed budget for the project is identified and the underlying financial analysis is maintained

R11.2 a clear agreed project expenditure amount can be reported through appropriate governance processes

R11.3 where there are changes in the original financial assumptions that there is an assessment on the project's financial viability with appropriate reporting

R11.4 the revenue impact of any changes in the capital project are addressed in future budget setting

R12 The Chief Executive should put in place arrangements to consider inherent conflicts of interest for executive officers.

Full Report

Introduction

Grant Thornton are the external auditors to the London Borough of Croydon (the Council). We are issuing this Report in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014.

We issued a report in the public interest on 23 October 2020 concerning the Council's financial position and related governance arrangements. The Council has continued to respond to the matters in that report (and the PwC review of companies dated 13 November 2020). The Council has reported progress in implementing agreed actions to Cabinet in November 2020, February, July and November 2021. The December 2021 report to Full Council set out that the Council has implemented 62 of the 99 actions planned. The actions taken by the Council includes addressing the governance arrangements in relation to Brick by Brick and the processes for loan agreements.

Fairfield Halls closed in 2020 during the pandemic, when the Council sought to reopen Fairfield Halls issues related to the building were reported. Initial surveys commissioned by the Council indicate there is a need to spend further public monies to rectify the issues identified as well as matters related to the historical decision making and governance relating to the refurbishment of Fairfield Halls. The Council discussed their concerns with Grant Thornton, as the Council's external auditor, in late December 2020. We considered the matters raised represented a significant risk to the value for money conclusion and commenced an initial review in January 2021. Our initial findings required further investigation, the results of which are set out here.

Background and chronology

The Council owns Fairfield Halls, an arts, entertainment and conference centre in Croydon which originally opened in 1962. In March 2013 the Council adopted the Fair Field masterplan as interim planning guidance with the aim of creating a phased long term framework for delivering the transformation of the area to be:

> 'Croydon's cultural and learning centre; an innovative and inspiring area with a lively and sustainable mix of residential, cultural, educational, commercial uses and a well-connected and high quality public realm.'

The masterplan included improvements to the setting of the Fairfield Halls and its immediate environment and referred to a £27 million refurbishment to be done by 2016. Initial preparatory work on the design was undertaken by the Council including an asbestos survey. In September 2014, the Council's Cabinet approved the development of a Cultural Quarter, including the integrated College Green which encompassed a house building scheme, public realm improvements and the regeneration of Fairfield Hall which by then had a projected capital budget of £33.75 million.

In January 2015, the officer led Growth Board was set up to oversee the monitoring and delivery of capital projects linked to regeneration which at that time included the Fairfield Hall refurbishment. The Council ran a competitive process and appointed a contractor to undertake the Fairfield scheme development and design which included the development and design of, but not physical construction and completion of, the Fairfield Halls refurbishment.

The need to refurbish the Fairfield Halls became urgent and in June 2016, the Council approved a proposal for the Council's wholly owned company, Brick by Brick (Croydon) Limited, to bring forward elements of the integrated College Green scheme which included:

> 'a £30 million package of improvement works to Fairfield Halls, a c200,000sqft new college/university building and approximately 2,000 new residential units alongside new public realm, retail and leisure space'.

The proposals involved a transfer of land interests (not including Fairfield Halls) to Brick by Brick for development as residential property, with Brick by Brick to complete the £30 million package of improvement works to Fairfield Halls under a licence. In Brick by Brick's view, the exact costs were intended to be confirmed at a later stage however this was not documented in the Cabinet paper and there were no further documented Cabinet decisions on the approval of the budget for the refurbishment of Fairfield Halls. We therefore consider the Council's properly approved budget to have been set at £30 million.

In July 2016, the venue closed for refurbishment with an original completion date of June 2018. The decision to close and deliver the refurbishment quickly rather than a phased closure over a longer time period was subject to political debate. A licence was issued on 1 August 2016, enabling Brick by Brick to enter the property in order to carry out the works. This arrangement amounted to commissioning by the Council was not subject to a public procurement process. We do not consider that this structure, analysed below under ‘Legal arrangements’, was satisfactory.

By May 2017, issues had emerged that presented a risk to the successful delivery of the project for example the discovery of additional asbestos and Croydon College no longer being in a position to sell a portion of land to the Council. The reduction in land impacted the number of residential units Brick by Brick had planned which impacted the financial viability of the wider College Green scheme.

Brick by Brick commissioned the main works contractor for the refurbishment with works commencing in September 2017. This commissioning was also not subject to a public procurement process, as Brick by Brick was not deemed to be subject to the public procurement rules.

From 1993, a charity had operated the venue with a grant from the Council. In July 2016, the charity went into administration and the Council needed to secure a new operator. A separate exercise was undertaken by the Council, as a public procurement, and a new operator for the Fairfield Halls was appointed in June 2017. By November 2017 the new operator expressed concerns about the delays would impact on the operator’s ability to deliver its services and generate the necessary commercial revenues previously agreed with the Council. In addition, the operator had a number of requirements that needed to be factored into the refurbishment. The delays impacted the operator with the Council making a payment of £1.7 million to the operator in respect of the delays.

By the end of 2017 the project had run into a number of major problems that changed the risk profile of the project. The original engineering consultant appointed by the Council left the project and was in dispute with Brick by Brick, Croydon College were no longer part of the scheme with a significant impact on the housebuilding element of the wider College Green scheme (which had initially factored in a purchase of land from Croydon College which would be used to build residential property for sale, being one of the key sources of projected profit for Brick by Brick), costs were escalating due to additional changes in the work required and a new engineering consultant had to be procured. At this point delivery of the project was delayed to November 2018.

Letters between Brick by Brick and the Council in October 2018 outlined that the College Green expenditure projections exceeded income by £28.8 million with the Fairfield Halls expenditure figure being £51.6 million and a revised deadline of June 2019 was agreed. This deadline was again revised to September 2019 which was met after further additional costs were incurred to accelerate the works. We do not consider that these increases in costs were appropriately escalated or approved within the Council, and this is covered in the ‘Financial governance’ section below.

The venue re-opened in September 2019 and was closed during the pandemic in 2020. Although the refurbishment was awarded the RIBA London Award 2021, and the Highly Commended Civic Trust Award 2021,] as the Council sought to reopen Fairfield Halls later in 2020, issues relating to the building were reported. Initial surveys commissioned by the Council indicate there is a need to spend further public monies to rectify the issues identified. The Council considers that the additional works needed should have been addressed during the refurbishment and this is disputed by Brick by Brick,

Background context

The matters within this report in the public interest date back a number of years and key people are no longer in role at the Council and have therefore not been able to access their files from the time. We have relied on records the Council has retained but recognize the limitations in this.

During the project’s time frame there were a number of significant matters that the Council was responding to including the September 2017 report from Ofsted assessing children’s services as inadequate, other complex programmes and the wider financial pressures experienced by the Council (covered in the Public Interest Report published on 23 October 2020). The Chief Executive also had a lead operational role in relation to the response to the tram crash in November 2016. The Council had been under considerable pressure.

For full disclosure we set out Grant Thornton’s position. Grant Thornton was the external auditor of the Council over the period of the matters in this report and conducts the audit under the Local Audit and Accountability Act 2014. The matters of concern identified in this report developed over the years and the exact picture only became clear once the matter was identified as a significant risk to the value for money conclusion and work was undertaken to address that risk.

Where a local authority has a group structure the consideration of value for money would include the local authority's governance arrangements over its group structure. Grant Thornton was also the external auditor of Brick by Brick (part of the Council's group structure) until 31 March 2019 with the audit conducted entirely separately and by different personnel under the Companies Act regime. It is common practice that audit firms working in the public sector have commercial clients and for the parent and subsidiary auditors to be from the same audit firm. As the group auditor, the Grant Thornton team acting as auditor under the Local Audit and Accountability Act 2014 had access to the audit working papers of the Grant Thornton team acting as Companies Act Brick by Brick auditor for the limited purpose of the consolidation of the group accounts. Audits under the Companies Act are carried out to a different standard than audits under the Local Audit and Accountability Act 2014 in particular the value for money consideration is not a requirement of an audit under the Companies Act. That regime does not call for the same approach as for a public sector audit. [Brick by Brick's auditors would not be expected to pick up or give rise to the concerns raised in this report given the different approach of a Companies Act audit and the particular circumstances including that the parent was the company's sole funder and that the Council had given third party acknowledgement of the loans such that their auditors would not expect to call for the executed documentation.]

Finally, by way of introductory comment, we note that in this report, references to 'officers' are to the Council's staff, while members or Portfolio Holders refer to elected members (Councillors).

Legal arrangement

Legal arrangements – engaging Brick by Brick to refurbish Fairfield Halls

First, we consider the legal arrangements for the refurbishment of Fairfield Halls.

It is incumbent upon local authorities, including the Council, to have arrangements to secure value for money. They are in addition subject to the Public Contract Regulations 2015, which govern public sector procurement in England & Wales. Broadly, the effect of these regulations is that when awarding a relevant contract that is subject to the regulations (i.e. one which is over certain financial thresholds), the local authorities are required to advertise that contract (previously on the Official Journal of the European Union, and now on the UK's new Find a Tender Service) and then to follow certain, specific procedures for choosing to whom to award the contract, broadly with a view to ensuring fair and equitable awarding of contracts, and securing value for money. The nature and granularity of the specific procedures depends on the subject matter and value of the contract, with the default for relevant contracts being that a competitive tender process must be carried out, unless an exemption applies which enables an authority to use another route. We refer to a process that is subject to the regulations as a 'public procurement process'.

In June 2016, the Cabinet approved the proposal to use Brick by Brick to bring forward elements of the College Green scheme including the refurbishment of Fairfield Halls. The proposal involved the transfer of land interests (not including Fairfield Halls) to Brick by Brick in order for Brick by Brick to develop residential property on them, and to carry out a refurbishment of Fairfield Halls "under licence", with the financing of the works to Fairfield Halls being an estimated £30 million. The proposal intended that Brick by Brick would be loaned money to fund part of the refurbishment by the Council, which it would need to repay, but would be compensated for the refurbishment through the profits made from the sale of 2,000 houses (built by Brick by Brick) on the College Green land transferred.

The Council's records show that it was thought that this structure would allow the Council to dispose of the College Green land in return for housebuilding and to bring forward the refurbishment of Fairfield Halls, without a public procurement process. It is not unprecedented to use a land transfer arrangement such as this and in November 2016, four months after the original decision, the Council took legal advice which suggested that this type of land transfer arrangement could work (and be lawful) as follows:

- The Council would sell relevant land to Brick by Brick;
- The Council would be able to avoid *any* public procurement process by avoiding imposing enforceable obligations on Brick by Brick to develop the land into residential property or to refurbish Fairfield Halls(instead retaining control through an ability to take back the land if the work was not carried out). Further control could be exercised by securing lending from the Council to Brick by Brick with a charge over the land. The lack of an enforceable obligation was key to avoiding requirements to carry out a public procurement.
- There was a risk that other potential bidders or others might challenge the arrangement, arguing that there was in fact a legally enforceable obligation on Brick by Brick to carry out the development or the refurbishment, which would mean that a public procurement process should have been carried out. This was said to be a particular risk if the Council set out a detailed specification of works or otherwise exercised management control of the works.

- Further, Brick by Brick would need to avoid acting as if a department of the Council, and should act independently and on a commercial basis (because, referring implicitly to earlier legal advice given on the establishment of Brick by Brick, it followed if Brick by Brick were acting as if a department of the Council, it might *itself* need to carry out a public procurement process when engaging sub-contractors for work including the project).

We refer to this as the “land transfer option”.

It is not uncommon to use a land transfer option for development of public land for residential housing: this route allows a public body to transfer land to a developer on terms which permit, but do not require, the developer to develop the land, with the public body instead being able to achieve its objectives by retaining a right to re-acquire the land should the development not occur. Such an arrangement may not, depending on how it is executed, engage rules around public procurement, because it may not involve the public body imposing enforceable obligations on the developer. This type of arrangement can be appropriate where houses are being built as there is less need for detailed specification and timing of delivery of the houses, as compared to a public amenity which the public body requires to be built. However, a decision to include the Fairfield Halls refurbishment would add complexity to the College Green scheme.

Although the June 2016 meeting did not in our view decide explicitly to use the land transfer option for Fairfield Halls, it has been suggested by the Council and then officers in contemporaneous submissions that this was the intention; this is supported by the fact that later, the Council produced a draft conditional sale agreement, which would (if properly executed) effect the land transfer, although neither the Council nor Brick by Brick have been able to provide a properly executed written copy of it, and the land was not transferred. If it was the Council’s intention to use the land transfer option for Fairfield Halls, there was a lack of recognition that the challenges and expertise needed to manage the complex refurbishment were very different to the challenges of managing a house building scheme. The downside risks of adding a complex refurbishment to a housebuilding scheme were not appropriately assessed.

As set out in the legal advice taken by the Council, the land transfer option did not permit, if it was to avoid the need for public procurement, the Council to obligate the developer (Brick by Brick) to deliver a defined specification of works. Without a defined specification of works, the Council could not insist that the intended improvements and developments were completed or require them to be completed to a particular standard. In our view the restrictions of the land transfer option were unsuitable for a complex refurbishment of this nature.

Further, it is as noted above unclear whether the Council intended to use the land transfer option to enable Brick by Brick to carry out the development of Fairfield Halls, as well as the wider development. While the June 2016 Cabinet minutes refer to a wider land transfer for the College Green development, the Fairfield Halls venue was not included in that land transfer but was instead referred to as to be developed by Brick by Brick “under licence” in the Cabinet Report considered at that meeting (although as noted above the Council did later prepare sale documentation).

In line with this, the Council issued a Licence for Access to Carry out Works (the licence) for the project, dated 1 August 2016. While this licence does not reflect the land transfer option discussed in the legal advice, it does reflect a preliminary step outlined in the legal advice (to enable initial works ahead of a land transfer). This appears to be the licence referred to in the June 2016 Cabinet Report.

The licence permits Brick by Brick to enter Fairfield Halls to carry the works set out in a detailed specification in the accompanying schedules and includes a clause that allows the works to be extended beyond the schedule where this is agreed between both parties; the licence does expressly not oblige Brick by Brick to carry out the project and did not cover the funding arrangements for the project. We recognize therefore that there is again an argument that this approach does not engage the public procurement rules, because it does not impose enforceable obligations on Brick by Brick (which could trigger a public procurement process). Our view however is that taken in the round, this did not reflect the underlying reality, as set out below.

As a result of the use of the licence:

- The Council was not properly able to exercise control or oversight over the refurbishment as it would have been had this been under a service contract.
- The arrangement was at risk of challenge because Brick by Brick was given a detailed specification of works, which the legal advice had suggested might make the land transfer option subject to challenge (because it might be viewed in the round as giving rise to an enforceable obligation which would then have made the arrangement subject to a public procurement process).

- The Council did not have assurance that it had engaged the most appropriate developer in terms of capability, costs or other factors, which it would have had, had it conducted a public procurement process.

We refer to the licence arrangement that was pursued instead of the land transfer option as the "**development licence option".**

The November 2016 legal advice had also ruled out other methods of compliance with procurement law noting that:

- Brick by Brick was a commercial company that did not qualify for the ''Teckal' exemption, that may have allowed works to be legally awarded to a company which is essentially a Council entity without a public procurement process, where it is treated as equivalent to an internal arrangement.
- There were no unique technical characteristics that would prevent other developers doing the work (which would again mean that no public procurement process was required).

The November 2016 legal advice had also flagged, as above, that Brick by Brick would need to avoid acting as if a department of the Council, and should act on a commercial basis – that is, as an independent third party (because, if Brick by Brick were acting as a department of the Council, it might itself need to carry out a public procurement process when engaging sub-contractors for the refurbishment). In considering whether Brick by Brick was acting as an independent third party we consider that, appreciating that Brick by Brick has significant discretion as a commercial company, the following factors should have challenged the Council's view of Brick by Brick's independence in line with the legal advice obtained:

- An independent company would be very unlikely to enter into an arrangement to deliver a complex refurbishment project without the protection of properly executed written contract to ensure the company received payment for the work undertaken, and to manage the relationship between it and the commissioning body (for example in relation to disputes)
- The Council would be very unlikely to provide significant funding to an independent company without a legal arrangement being in place to safeguard public monies

Brick by Brick is of the view that there was contextual assurance that it would be paid based on the discussions, verbal assurances and intent of the Council through the draft agreements and the fact the Council processed and paid contractor and consultant invoices through the financial management arrangement with Brick by Brick. In addition Brick by Brick is of the view that as the Council is 'its one hundred percent shareholder… the ultimate implications of any detriment to Brick by Brick arising from there being no signed contract with the Council would fall upon the Council'. Brick by Brick's views show how it satisfied itself of its responsibilities. However the Council's legal advice was that for the proposed land transfer arrangement to be lawful the Council needed to ensure Brick by Brick acted as an independent company and we remain of the view that the independence of Brick by Brick is open to challenge from the Council's perspective, as there were no properly executed written contract or loan documents and therefore the Council has not ensured that its own legal advice was followed, or that it could secure value for money.

In obtaining external legal advice and not acting on that advice, it is our view that the Council failed to ensure it was acting lawfully. We can find no evidence of senior statutory officers updating Cabinet formally on the legal risks emerging, consideration of how the emerging risks could be effectively mitigated or of the anticipated shortfall in funding and the foreseeable implications.

In our view, it is likely that the licence did not reflect the underlying reality of the arrangements. Rather, it is our view that the arrangements were (at least in part) intended to circumvent procurement law and competitive tendering, albeit in a way that was believed to be lawful; the licence provided that Brick by Brick was allowed, but not obliged, to carry out the works, but in our view the reality was that Brick by Brick was committing itself to carrying out the refurbishment works which the Council wished to see carried out and was doing so in return for economic compensation which had been informally agreed albeit not recorded in binding contracts, so a licence which purported not to place enforceable obligations on Brick by Brick to carry out the refurbishment did not reflect this reality. As the Council was specifying the works it wished to see carried out, and the true objective of the licence was to oblige Brick by Brick to carry out those works, for the benefit of the Council, a public procurement process should have been carried out, and the entry into the licence without one would in our view be likely to have been found to have been a breach of public procurement law had it been challenged in court..

(While the land transfer option was not in the end pursued for Fairfield Halls, we note that the mere entry into the draft conditional sale agreement, which would have effected the land transfer option, would not necessarily have meant that there was no breach of public procurement law; the Council's legal advice in November 2016 highlighted (as set out above) that with the land transfer option there would be a risk that other potential bidders or others might challenge the arrangement, arguing that there was in fact a legally enforceable obligation on Brick by Brick to carry out the development, which would mean that a public procurement process should have been carried out.)

Further, regardless of whether the arrangements were a breach of procurement law, the arrangements clearly did not allow the Council to protect its interests and secure economy, efficiency and effectiveness in its use of resources in relation to the project: even if it had been clearly in compliance with public procurement law, the licence arrangement meant that the Council did not have control over the budget (see further below), specification or delivery of the project, as would have been appropriate for a project of this nature.

While Brick by Brick did itself carry out a competitive procurement process when appointing its own contractors, this was not one in compliance with the Public Contracts Regulations: the issue of whether Brick by Brick itself should have carried out a *public* procurement process when engaging contractors is outside the scope of this public interest report.

Legal arrangements – funding Brick by Brick to refurbish Fairfield Halls

We have also considered the basis on which the Council funded the project (which was not covered in the licence).

Power to lend

The Council intended to fund the project in the short term through a loan drawdown agreement with Brick by Brick. The Council has relied on two powers to make the payments to Brick by Brick: Section 3 of the Local Authorities (Land) Act 1963; and Section 24 of the Local Government Act 1988. We do not consider either to have been available to the Council in the circumstances.

For the Council to advance a loan to Brick by Brick in accordance with section 3 of the Local Authorities (Land) Act 1963 for Brick by Brick to develop land, Brick by Brick would need to own the land on which it was carrying out the work, and the loans would need to be secured by mortgages. Individuals involved at that time assert that there were legally executed documents. However, while drafts of each of a Conditional Agreement of Sale and loan agreement have been provided, and this power may have been relevant had these been properly executed, neither the Council nor Brick by Brick have been able to provide properly executed written contracts. We do not therefore consider that the Council properly exercised this power to make payments to Brick by Brick.

For the Council to advance a loan to Brick by Brick in accordance with section 24 of the Local Government Act 1988 the Council would need to have had agreements in place which legally obliged Brick by Brick to construct residential units as part of the arrangement. Whilst this intention is clear as part of the wider College Green scheme, again, without properly executed written legal documentation there is no evidence that monies lent for the Fairfield Halls refurbishment were lent for the purpose of constructing residential property, and so no evidence that this power was available to the Council in respect of Fairfield Halls. We do not therefore consider that the Council was able to rely on this power to make payments to Brick by Brick.

Setting aside the legal powers which could have been deployed to fund the project, there appears to be no definitive contractual basis at all for the payments, since no properly executed written relevant loan agreements have been found. While it is possible for unsigned contracts to give rise to enforceable legal obligations, where the parties act in accordance with their terms, this will not always be the case, meaning that at best the Council was subject to a material risk that in the event of an action to enforce the loans, a court would find that there were no enforceable obligations. It therefore appears that very substantial amounts of money have been expended by the Council without any formal written basis at all, and without the Council having any right to exercise control and oversight over the use of those monies or (save perhaps under the law of restitution) to obtain reimbursement of those monies, unless a court were to find that, notwithstanding the lack of proper execution, the draft loan agreements had given rise to enforceable obligations. Representations from the then section 151 officer state that the terms of lending and interest rates were agreed at the time. While the then Leader and then Portfolio Holder for Finance and Resources have contended that there were appropriate protections and financial controls in place at all times for the funds, without properly executed written loan agreements the Council's legal position is at best open to challenge.

Even if the Council had had the statutory powers to make the payments, there appear to be no formal documents in which the Council has clearly taken a decision to make the Fairfield Halls payments and recorded its reasons and legal basis for its decision. This is a serious concern as to the Council's financial and corporate management and also calls into question the lawfulness of the Fairfield Halls payments and suggests that the Council has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

State aid

The payments to Brick by Brick which should have been pursuant to loan agreements which were not completed also give rise to a significant state aid risk (state aid being where the public sector gives aid which distorts cross border competition, now replaced in UK law by the new subsidy control regime).

We note that the land transfer option also engaged a risk of being unlawful state aid, as flagged in the legal advice taken by the Council, and it is not clear that this risk was appropriately considered or managed.

It was reasonable to expect the senior statutory officers of the Council to have documented their consideration of how to fund a shortfall in funding for the Fairfield Halls project (flagged in the November 2016 advice as a particular state aid risk) and how to ensure compliance with state aid rules. Current officers have been unable to provide this consideration by their predecessors.

Challenge from another local authority

As part of the project the Council sought to apply for grant funding from the Local Enterprise Partnership, Coast to Capital, where the accountable body was another local authority. We have seen correspondence dated March 2018 between officers of that local authority and the Council's then Monitoring Officer, then Chief Executive and then Section 151 Officer where the legal basis of the arrangement was challenged. Despite assurances from the Council's then Monitoring Officer that they were confident in the Council's approach, the conclusion from the other local authority was:

> 'The Accountable Body is therefore unable at this time to provide Coast to Capital with the assurance in relation to the scheme. Passing monies to an arm's length third party in the absence of a written contract and/or a compliant procurement process is inconsistent with Coast to Capital's Assurance Framework and the national assurance framework.'

The correspondence references discussions with the Council's then Chief Executive before agreeing a meeting with the Accountable Body involving the Council's then Section 151 Officer, the then Executive Director of Place and a representative of the then Monitoring Officer.

The serious concerns expressed by another local authority reflect our concerns regarding the legal powers being used, how the arrangement was compliant with procurement regulations and the absence of a properly executed written contract. From the correspondence we have seen it is clear that the then senior statutory officers and the then Executive Director of Place were aware of the other local authority's concerns. The situation was resolved through providing the grant to the Council who then provided the grant to Brick by Brick and through the Council providing a letter from its external legal advisors. The letter highlights the lack of enforceable obligation on Brick by Brick to undertake the work and does not address the absence of a signed written contract. We consider it would be reasonable to have expected these officers to reflect further on the informed challenge presented by peers from another local authority and consider whether the Council's approach was reasonable. Representations received from the then section 151 officer express the view that on the basis that the grant monies were received the Council's approach was reasonable. Our view continues to be that the level of challenge and concerns raised were significant and the Council could have taken the opportunity to reflect further on their own arrangement at that stage. We have not seen any evidence that these officers reconsidered the Council's approach.

Other legal considerations

Minimum Revenue Provision

The Council is required by statute to make a prudent provision for the repayment of its debt and to have regard to Department for Levelling Up, Housing and Communities' guidance in calculating the Minimum Revenue Provision (MRP) and to publish its policy annually. (Statutory guidance issued under section 21 (1A) of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003). As we reported in our 23 October 2020 Report in the Public Interest, the Council made changes to its 2019/20 MRP policy in respect of how much MRP is charged for borrowing related to loans to third parties. The policy means that no MRP has been set aside for the borrowing amounts related to the project.

To comply with state aid rules the draft loan agreements set out a commercial interest rate for Brick by Brick to pay. The Council's funding to Brick by Brick relied on the Council borrowing from the Public Works Loans Board (PWLB). PWLB charge the Council a lower interest rate than the commercial rate the Council charged to Brick by Brick. The Council's argument was that the difference in interest rates offsets the required MRP. The absence of properly executed written loan agreements means that the Council's right to receive interest on the funding provided to Brick by Brick is at best questionable and therefore the borrowing related to the project requires MRP to be set aside. As the Council was not providing MRP against the borrowing in respect of its own asset, it is our view that the Council was likely breaching the statutory guidance.

Following discussion with the Council on our findings, the Council is now recording the project expenditure as direct capital expenditure. As a result, the Council has agreed to charge MRP on the borrowing related to the project from 2020/21. This is the year after the refurbishment reopened which is in line with the Council's existing policy and would appear to meet the requirements of the statutory guidance.

Record keeping

The Information Commissioner's Office "Section 46 Code of Practice – records management" issued under Section 46 of the Freedom of Information Act 2000 states 'Authorities should ensure they keep records they will need for business, regulatory, legal and accountability purposes' and that 'Authorities should define how long they need to keep particular records, should dispose of them when they are no longer needed and should be able to explain why records are no longer held'. The record keeping requirements of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulation 2012 and the Openness of Local Government Bodies Regulations 2014 are also likely to have applied.

The absence of records documenting the rationale for decisions in relation to a significant project is a failure to keep the records required and creates legal uncertainty and risk. Throughout the project there are elements where the Council's record keeping has been insufficient:

- Delegated decision implementation documentation is not systematically retained or stored to allow retrieval
- Financial analysis supporting decisions taken by the Cabinet is not available

Recommendations

R1 The Chief Executive supported by the Monitoring Officer and the Section 151 Officer should ensure that Cabinet papers for major projects set out clearly

R1.1 the legal powers to enter into a particular arrangement and attendant risk

R1.2 how the Council can protect its interests and secure economy, efficiency and effectiveness.

R2 The Monitoring Officer should ensure that

R2.1 contracts are properly executed before entering into arrangements with third parties

R2.2 the properly executed documents are stored robustly to allow future scrutiny.

R2.3 key requirements underpinning the legal advice are in place before progressing with the arrangement

R3 The Monitoring Officer should ensure that where legal advice changes after a Cabinet decision that the consideration of the implications of the changes is documented and where the Monitoring Officer considers additional legal risks are identified that the Cabinet is updated on the impact on the original decision made.

R4 The Section 151 Officer should ensure that prior to making payments to third parties that appropriate legal documentation is in place such as a properly executed contract or a properly executed loan agreement

R5 The Monitoring Officer and Section 151 Officer should ensure that arrangements are in place to properly consider public procurement rules and UK obligations on subsidy control rules before entering into arrangements.

R6 The Chief Executive, Monitoring Officer and Section 151 Officer need to consider how to respond appropriately to challenge on decisions and be prepared to take corrective action where necessary.

R7 The Chief Executive should improve record keeping arrangements so that

R7.1 the records supporting key decisions including financial analysis are maintained

R7.2 a standard approach to record keeping with monitoring of which decisions have been implemented

R7.2 tolerances are established for reporting back changes to Cabinet

Governance

Significant concerns over the governance culture and reporting mechanisms between the Council and Brick by Brick have already been raised to the Council (in the Public Interest Report published on 23 October 2020 and the PwC review of companies dated 13 November 2020) and the issues with oversight of the Fairfield Halls Refurbishment reflect many of these concerns.

Governance arrangements for Brick by Brick

The Cabinet paper approving the establishment of Brick by Brick in March 2015, delegated authority to agree the board structure and membership, human resourcing arrangements and to agree the processes and governance for monitoring the performance of the company and approving future Business Plans to the then Executive Director of Place (who became the acting Chief Executive in April 2016 and permanent from July 2016) in consultation with the Cabinet Member for Homes and Gateway Services, the then Section 151 Officer and the then Monitoring Officer. The delegated decision paper was signed in February 2016.

The June 2016 Cabinet paper sets out the governance arrangements in place between the Council and Brick by Brick which requires a detailed business plan to be prepared annually and reviewed by the Council and for there to be Council nominated Board members on Brick by Brick together with Council observers. The Council nominated Board members changed during the period and included the then Section 151 Officer until January 2016, when the then Deputy Section 151 Officer (who became the then Section 151 Officer in February 2019) was appointed until January 2019, when the then Executive Director of Place was appointed until September 2020. In January 2016 the Brick by Brick Board minutes record that the then Section 151 Officer 'will continue to attend board meetings as a shareholder representative, with 'observer status' from January 2016 and subsequent minutes refer to their attendance as the 'observor representing the funder'.

The first Brick by Brick Business Plan was presented in February 2017 and in February of subsequent years. There was no formally documented mechanism through which Council nominated Board members or observers reported back to the Council and therefore it is unclear how the Council sought to provide governance over Brick by Brick through the nominated Board members or observers.

The focus and the effectiveness of actions taken by the Council through its internal monitoring arrangements for Brick by Brick between establishment and November 2018 is unclear. Records indicate that the Council's need to improve its governance arrangements was recognized, for example:

- In November 2018 the then Section 151 Officer sent the then Chief Executive (the former Executive Director of Place) a draft paper on improving governance arrangements in relation to Brick by Brick.
- Meeting notes from the then Executive Director of Gateway, Strategy and Engagement (who joined the Council in August 2018 and took on that role in January 2019) show 'clienting' arrangements for Brick by Brick were discussed and identified as priority to develop.
- In April 2019 the then Executive Director of Gateway, Strategy and Engagement presented a formal terms of reference for the Brick by Brick Monitoring Group at it first meeting. [The Executive Director of Gateway, Strategy and Engagement has contended that she had also offered to undertake a governance review of the arrangements for Brick by Brick, but that this offer was not taken up.]
- At the September 2019 an updated terms of reference were finalised led by the then section 151 officer when they took on the chair role. At the same time other core group terms of reference were agreed including land, legal and finance and quality assurance.

The proposed reporting and escalation arrangements were changed between April and September 2019 and in August 2019 the responsibility was transferred from the Executive Director of Gateway, Strategy and Engagement to the then Section 151 Officer. (The terms of reference in April 2019 show that this was an officer only governance meeting and in September 2019, the terms of reference show that the Portfolio Holder for Homes and Gateway Services was included in the distribution list for papers and attended some meetings as an observer.). In our view the changes weakened the reporting and escalation routes however the rationale for the changes in responsibilities or in the reporting and escalation routes is unclear. We have seen correspondence requesting the views of both the Managing Director of Brick by Brick and the Portfolio Holder for Homes and Gateway Services on the terms of reference and the correspondence indicates that the views offered in response were considered although there is no record of the relative weight given to their contributions. It is our view that an officer led internal monitoring arrangement should not involve Members, although we appreciate that this view is based on our view of best practice in these particular circumstances and not upon a legal or regulatory requirement. There should have been a clear distinction between the different roles and responsibilities of Members and officers The Shareholder Investment Board, established in October 2019, is the governance arrangement for Members to hold Brick by Brick to account together with the formal approval of the Brick by Brick Business Plan.

What is clear is that Cabinet delegated authority for establishing governance arrangements for Brick by Brick in March 2015 with a further decision in June 2016 and over two years later in Autumn 2018 officers continued to discuss the need for governance and monitoring arrangements with these being put in place in Autumn 2019. This timeline suggests a lack of urgency by the Council to establish appropriate effective governance arrangements over Brick by Brick.

The Council needed to clearly distinguish between the different roles and responsibilities of Members, officers and Brick by Brick representatives in the governance arrangements so that real and perceived conflicts of interests could be managed transparently.

Governance over the Fairfield Halls refurbishment project

Initially the Council's oversight of the project was through the Council's Growth Board from 2015 when this was a Council run project and then through the governance arrangements established for Brick by Brick. Early in 2015 a competitive tender was used to appoint a contractor for the scheme design and development. In June 2015, a Project Initiation Document for the College Green housing development and Fairfield Halls refurbishment was drafted and reviewed by the Growth Board. Based on the initial design there was a high-level plan and initial costings for the project. Updates on the College Green and Fairfield Halls refurbishment project were taken to the Council's Growth Board until May 2017 with the Brick by Brick Managing Director attending after the project was transferred to Brick by Brick in June 2016.

In May 2017, the Fairfield Programme Board was set up when it was recognised that the Growth Board did not have sufficient agenda time to provide oversight of the Fairfield Halls refurbishment which was a complex and challenging project in its own right. This decision was influenced by an Internal Audit review that indicated the need for a dedicated programme board to meet regularly (as envisaged in the Project Initiation Document).

The Fairfield Programme Board (the Board) terms of reference included responsibility to:

- Provide formal input into the Fairfield Halls refurbishment and works packages including public realm aspects.
- Oversee the procurement and mobilisation of the new operator.
- Manage the delivery relationship with Brick by Brick.
- Approve any project or scope changes to be requested by the Council.
- Agree any new allocation of resources from new or existing capital and revenue budgets.
- Escalate significant risks to the Growth Board.
- Ensure that all significant risks are recorded and managed in line with Council policy.
- Manage the Council's external and internal communications about Fairfield Halls.

The then Executive Director of Place, who was the project sponsor, chaired the monthly Board meetings as the senior responsible officer on the project. The then Executive Director of Place continued to chair the Growth Board.

The available notes show that the meetings did discuss key issues such as delays, financial spend in excess of the budget and risks such as impact of the delays on the operator. There are instances where the meeting records note actions taken for example the December 2018 meeting noted the financial spend in excess of the budget on the project covered in the letters exchanged between the then Section 151 Officer and the Managing Director of Brick by Brick.

In theory, the structure put in place including the terms of reference should have been sufficient to manage the project.

As the project was a significant strand of Brick by Brick's activities, the wider Council could have expected its governance arrangements over Brick by Brick to identify matters of concern over the project through the Brick by Brick Business Plan, the presence of Council appointed members of the Brick by Brick Board and observers together with a proposed member steering group. The governance arrangements were not effective however as:

- The Brick by Brick Business Plan only included high level details of the Fairfield Halls project
- There was no formal documented mechanism through which Council nominated Board members reported to the Council and

- The member steering group was not set up until October 2019, a month after the Fairfield Halls reopened.

By November 2017 the [Fairfield Halls Programme] Board minutes note emerging budget pressures relating to the identification of additional asbestos and the construction contractor indicating that the £30 million estimate may need to be more. The Fairfield Halls Board monitoring papers have a total budget of £34.5 million despite the June 2016 Cabinet decision being for a £30 million investment.

In December 2017 the Brick by Brick Board received a report setting out the financial appraisal of the College Green programme which included the project cost, related public realm works costs, payments to the operator (BH Live), interest on additional borrowing which were offset by the projected profit from the Fairfield Homes development and expected grant funding from Coast to Capital leaving an expected College Green (which included the project) loss of £10.5 million. The financial appraisal appears to have been reported to the Brick by Brick Board only. The notes of the meeting show that apologies were received from the then Executive Director of Place, the then Section 151 Officer and their deputy and we have been provided with the email where the related papers were sent to these officers at that time. The then Section 151 Officer disputes having received these papers.

At the end of 2017 key elements of the issues with the project were known in particular

- the main works contract had not been let
- Croydon College were no longer part of the scheme impacting the land available for house building which was an important strand in the financial case for the wider College Green scheme
- The original engineering consultant had left the scheme necessitating the procurement of a primary engineering consultant
- Additional costs were incurred dealing with asbestos and meeting the needs of the operator that the Council had agreed in a separate contract
- The wider College Green scheme which included the project had a projected loss of £10.5 million

In October 2017 the project was called in by the Scrutiny and Overview Committee (the Committee) and in February 2018 the Brick by Brick Business Plan was presented to Cabinet. The 2018/19 Brick by Brick Business plan had a cover report which detailed the then Executive Director of Place as the relevant Lead Officer, and the then Portfolio Holders for Homes and Gateway Services and for Finance and Resources as relevant Cabinet Members. On neither occasion (the Committee and the Cabinet) were the extent and depth of the known issues highlighted formally to Members instead the impression given was all was progressing well. We consider that the transparency expected in both documents was missing. In particular we consider that:

- The Brick by Brick Business Plan should have highlighted to the shareholder the projected loss of £10.5 million on the overall College Green scheme which included the project and notwithstanding that it did not, the then Executive Director of Place, the then Section 151 Officer and their deputy, were they aware of this (on the basis that the related papers would have been provided to them in December 2017, as set out above), should have flagged this in the cover report to the Cabinet together with any action;[we have seen no evidence that the Portfolio Holders were aware of the projected loss]. Instead, the Cabinet report makes reference to the risk for existing schemes from escalation of cost estimates and time delays with the conclusion that Brick by Brick is *‘currently projecting to achieve a profit of £21 million on its existing development activity in addition to the £30 million investment into the refurbishment of Fairfield Halls’*.
- One of the original assumptions of the wider College Green scheme was for the Council to purchase land from Croydon College to be made available for house building. Early in 2018 Croydon College rejected the offer for the land and progressed with an alternative purchaser. We have not seen evidence of the financial impact of a change in a key assumption being reassessed by the Council or that the Cabinet was updated formally on this change.

Brick by Brick is of the view that the detailed financial models were provided to officers to support all funding requests. Neither the business plan nor the cover report presented to the Cabinet however provided the detailed financial modelling. Brick by Brick is of the view that the Council had the relevant information to challenge the business plan and that there was no request to provide greater clarity on the project within the business plan. In our view, the projected increased project cost at that time was known by the Brick by Brick Board and the then Executive Director of Place, as a member of Brick by Brick’s Board, and the then Section 151 Officer, as the Council appointed observer of the Brick by Brick Board. All were aware of the increased project cost and the known increased costs should have been highlighted to both the Cabinet and the Scrutiny and Overview Committee either by requiring Brick by Brick to highlight the known increase or identifying the amount in the covering report to the Cabinet. The absence of reporting the known loss to a formal Member meeting did not enable scrutiny by the wider Council.

By June 2018 the project monitoring documents showed the expected project spend being £42.8 million. In September 2018, the Brick by Brick Managing Director sent a copy of the financial monitoring reports to the then Chief Executive highlighting the additional spend in excess of the budget. The main works contract was not let by Brick by Brick until October 2018, three months after the original project completion date, and the project cost was £42.7 million. Brick by Brick confirmed the contract amount to the then Executive Director of Place on 9 October 2018. At this point the project cost clearly significantly exceeded the amount approved by Cabinet in June 2016 of £30 million and it would be reasonable to expect officers to formally report back to the Cabinet. Brick by Brick informs us that the contract was let in line with the strategy agreed with the Council and the increased costs reflect the 'constantly changing brief' indicating that both the delay and the increased costs were known within the Council however we have not been able to identify any formal reporting to the Cabinet.

In October 2018 Brick by Brick wrote to the Council's Section 151 Officer setting out a shortfall of £28.8 million on the College Green scheme (which included net expenditure of £49.2 million on the refurbishment project) setting out the proposed strategy to cover the increased costs. The then Section 151 Officer replied in November 2018 noting the proposed actions which were:

Source	Amount	Description
Brick by Brick	£18.3 million	Full value profit from the scheme (£17 million) and ongoing revenue generation from the energy centre (£1.3 million)
Council*	£7.6 million	Unforeseen asbestos removal costs and additional costs for delivery of the operator requirements
Coast to Capital**	£3 million	Redirected grant funding from the Arnhem Gallery part of the project into the general project
	£28.8 million	

* The then Section 151 Officer agreed that the Council would contribute £1.6 million for the operator fit out costs and proposed to flex the overall repayment to manage the remaining gap of £6 million.

** The Local Enterprise Partnership, Coast to Capital, provided grant funding to the project including £3 million for the refurbishment of the Arnhem Gallery. As the project spend grew, the Council was granted permission from Coast to Capital to divert the grant funding into the wider scheme.

In our view, the solutions were problematic in that:

- Brick by Brick's proposal to 'attribute the full value of Brick by Brick profit' from the College Green scheme (estimated to be £17 million at that time) to meet the additional costs of the project is a significant decision for any company to make. We note Brick by Brick wrote to the Council, its shareholder, setting out the proposed action and received an acknowledgement from the then Section 151 Officer. Brick by Brick is of the view that its financial viability model was based on profits generated by the College Green scheme to fund the project and that its involvement in the project was important to Brick by Brick as it gave 'the opportunity to be involved in a high-profile project with enormous value potential'. We remain of the view that the decision to attribute the full value of profit at £17 million from one project to another is an unusual decision for an independent company to make and is a decision that opens the Council to the challenge of whether Brick by Brick was operating as an independent company which is a key requirement of whether the Council's arrangement is legal.
- In addition, the decision to attribute the full value of profits from one element of the College Green scheme to fund additional project expenditure is significant to the Council as it would impact the Council's receipt of future dividend from Brick by Brick and as such it would be reasonable to expect the then Section 151 Officer to report the decision formally to the Council. We have found no such evidence. The then Section 151 Officer is of the view that as the dividends were not included within the Medium-Term Financial Strategy (MTFS) there was 'a very minimal impact' and 'a lower estimated future profit would have no immediate impact'. We acknowledge at that time the MTFS did not

include future dividends from Brick by Brick. It is our view that a decision impacting £17 million is significant to both the Council, even where it is not included in the MTFS, and Brick by Brick and therefore Members should have been informed formally by both the then Section 151 Officer and by Brick by Brick in their next business plan. Brick by Brick is of the view that they met their responsibilities in informing their shareholder and Brick by Brick was not asked to provide more detail in their business plan. The then Section 151 Officer asserts that Cabinet members were briefed on the actions although we have not been able to obtain evidence to support this. The arrangement opens the Council to challenge of the soundness of its investment in Brick by Brick.

- The Council's proposal to transfer a car park associated with the project to Brick by Brick at its carrying value of £6 million was not supported by an assessment of the best value of that land as required by section 123 of the Local Government Act 1972. The proposal was not co-ordinated within the Council as another contract was issued to the operator with the associated income being included in the Council's budget and this income would not have been receivable by the Council if ownership of the car park was transferred. In addition the Council's legal transfer documents for the car park and heads of term for the lease were drafted but remain unsigned.

The Fairfield Halls Board terms of reference include 'all significant risks are recorded and managed in line with Council policy' and 'escalate significant risks to the Growth Board'. From the Council's perspective the view was that the financial risk would be managed in that any spend in excess of the budget would be the responsibility of Brick by Brick and would be covered by their profits. However as the licence (and the land transfer– although this was not followed through in full) gave Brick by Brick full control over the specification of the Fairfield Halls works, the response by Brick to Brick to the additional costs was to cover these through 'value engineering' adjustments. It is clear that the Council did not set out a clear understanding of the legal aspects of the intended land transfer approach with Brick by Brick as the Brick by Brick Managing Director has responded by saying that 'there was an obligation on Brick by Brick to work in partnership with the Council to define and agree the specification for the works. Had Brick by Brick had full control over the specification, we could have delivered £30m worth of improvements of our choosing to the building without any recourse to the needs or desires of the Council'.

The Growth Board exception report for October and November 2018 highlights the project as an area of concern with the spend in excess of the budget noted as £15.89 million, indicating that the significant risk on project spend was reported to the Growth Board. The Growth Board's terms of reference require escalation to the officer led Executive Leadership Team or via other Council processes 'as it sees fit' for breaches outside of specified tolerances. The tolerances included:

- overspends of the greater of £50,000 or 0.1% of the project overspend
- project delays past the financial year into another year

The approval decision in June 2016 was for a £30 million project to be completed by June 2018. In October 2018 the tolerance of a £50,000 / 0.1% of the project budget overspend (as reported to the Growth Board) and delayed project into a future financial year had been significantly breached. It is not clear whether the significant additional spend was escalated to an officer led leadership team or via another Council process. In our view, the then Executive Director of Place, as Chair of the Growth Board, had a responsibility to escalate a reported spend in excess of budget of £15.89 million to a formal Cabinet. We have been unable to identify any evidence of the escalating risks being reported to Cabinet formally.

The December 2018 Fairfield Halls Board minutes refer to the exchange of letters on the financial position. We consider that the letters and the minuted reference to the letters indicates that then Executive Director of Place, as chair of the Fairfield Halls Board, the then section 151 officer and Brick by Brick were all aware of the known additional spend and had a duty to escalate the increased spend formally. We have seen no record of the significant increased spend being escalated to the Cabinet formally.

The 11 December 2018 Scrutiny and Overview Committee included an item on Fairfield Halls which would have provided an opportunity for the known additional spend in excess of budget to be highlighted to Members for their consideration and challenge however the presentation focused on questions to the operator. (We have no evidence that the operator was aware of the additional spend in excess of the budget.) This was a missed opportunity to highlight to Members the scale of the known additional spend at that point.

The 16 January 2019 Growth Board notes record that

> 'Council as a shareholder and funder allowing BBB longer to pay back on equity so it won't emerge as a capital over spend. The financial impact on Council is that our company makes less profit over the medium term'

The then Executive Director of Place and the then Section 151 Officer are recorded as being present for the meeting and could be considered to have knowledge of the discussion. Based on the January 2019 Growth Board notes the rationale appears to be that 'the equity in Brick by Brick would be sufficient to cover the known overspend'. We consider the rationale to be fundamentally flawed as:

- the Council had not to date provided any equity funding to Brick by Brick
- Brick by Brick at that time had not made a profit and therefore it would not be in a position to cover the additional spend of £15.89 million

These facts should have been known by the then Executive Director of Place as a Brick by Brick Board member and the then Section 151 Officer as a Brick by Brick Board observer. The then Section 151 Officer has expressed the view that the intention was for equity to be provided at the end of the project which had not been reached at that point. We have not been provided with evidence of how the intended equity was included in the Council's forward financial plans.

The 2019/20 Brick by Brick Business Plan was presented to the February 2019 Cabinet meeting. The College Green scheme is identified in the Business Plan, one table shows that the projected profit for the College Green was £0 against a sales income of £177.5 million. The presentation, the Council covering report and the Business Plan did not provide a clear or transparent update on the College Green £28.8 million increased spend set out in the exchange of letters between Brick by Brick and the Council or the mitigating actions agreed. Respondents assert that the increased spend was included within the financial modelling that supported the Brick by Brick Business Plan which could be considered to have met Brick by Brick's responsibilities. The then Executive Director of Place and the then former Section 151 Officer (having passed the role onto their deputy on 1 February 2019) were aware of the significant increased spend and could reasonably have been expected to be aware that Brick by Brick's business plan did not provide clarity to the Cabinet on the potential financial risks associated with the College Green project. In not providing that clarity or challenging the lack of clarity these officers failed in their responsibilities to the Council.

We have received representations from officers that the lack of estimated profit for a significant scheme was included in the report and 'could have been open to question at the meeting'. We accept that the position of a £177.5 million scheme delivering £0 profit is included within the Business Plan; in our view, as acknowledged by respondents, this 'is clearly an unusual for a company'. In our view the significance of the lack of estimated profit on the College Green scheme should have been highlighted by officers to draw attention to the matter in the covering report to the Cabinet to provide greater clarity on the potential financial risks associated with the College Green project. The matter was known to the then previous Section 151 Officer (who ceased to be section 151 officer on 1 February and remained employed by the Council until March 2019) and their successor* and the then Executive Director of Place.

*The section 151 officer changed on 1 February 2019, the previous Section 151 Officer who signed the November 2018 letter to Brick by Brick remained in the Council's employ until March 2019 and continued to have a duty to ensure the significant additional spend was reported formally to Members. The Section 151 Officer from 1 February 2019 was a Director of Brick by Brick Board member from January 2016 until January 2019 and we therefore consider they could reasonably have been expected to be aware of the additional spend at that point, which they have acknowledged; however, they have asserted they were not aware that the known additional spend had not been formally agreed with the Cabinet.

At the June 2016 Cabinet, the original delivery date for the project was June 2018 and the actual reopening of Fairfield Halls was September 2019. The June 2016 Cabinet decision approved a £30 million investment for the project that has had a final expenditure of £67.5 million. Both the delays and the escalated costs were known by the then Executive Director of Place, the then Section 151 Officer and the then Chief Executive and there is no evidence of the emerging risks being reported to the Cabinet formally. All had the position and experience to understand their responsibilities to escalate the concerns and there is no formal record of any of this small group of officers doing so. The responsibilities are particularly clear for the senior statutory officers: the Chief Executive and Section 151 Officer as these are set out in statute* and the Council's Constitution. Representations received from this group of officers indicate that in their view concerns were raised to the relevant Portfolio Holders however we have not been able to obtain a written record of the concerns, who they were raised to or at which meeting. There is an onus on the relevant Portfolio Holders (for Homes and Gateway Services, for Finance and Resources and the Leader) to ask appropriate questions of senior officers and to require clear reporting to Cabinet on the progress of a complex project. Representations received from the relevant Portfolio Holders indicate that in their view concerns were not reported to them [and that there is in their view no evidence of a failure to ask appropriate questions]. Without evidence to support either viewpoint, [and in particular without detailed evidence of what questions were put to senior officers by the relevant Portfolio Holders in this regard], it is clear that there were known issues and effective action was not taken. In our view these officers and Portfolio Holders failed to exercise their functions and responsibilities adequately.

As chair of the Board and the senior responsible officer for the project, the then Executive Director of Place was responsible for ensuring the effective operation of the Board. The fact that the project was delivered late, overbudget with the current view from the Council that additional works are required indicates that the then Executive Director of Places was not effective in delivering the agreed terms of reference. There is evidence of the delays and additional costs being reported at the Growth Board, also chaired by the then Executive Director of Place. We would have expected the Growth Board to have considered the scale of the additional spend to require reporting to Cabinet.

The failure in governance appears to stem from the viewpoint that the project was for Brick by Brick to manage and any risks and cost overruns were for Brick by Brick to address. This viewpoint has been expressed by the then Chief Executive, the then Section 151 Officer, the then Leader, the then Cabinet Portfolio Holder for Finance and the Managing Director of Brick by Brick. In our view that viewpoint is flawed in that Brick by Brick was both:

- Wholly owned by the Council meaning any profits or losses would be consolidated into the Council's group accounts and ultimately impact the Council's financial position; and
- at that time the sole source of funding for Brick by Brick was from the Council.

** Statutory responsibility for the Chief Executive is Local Government and Housing Act 1989 section 4 and for Section 151 Officer is the Local Government Act 1972 section 151.*

Role of Scrutiny and Overview Committee

The Scrutiny and Overview Committee (the Committee) were active in considering the refurbishment of Fairfield Halls on at least six occasions between 2016 and 2020. Members of the Committee raised pertinent questions including on project management and the potential additional spend on the project. The magnitude of the financial additional spend on the project was not reported to the Committee and the lack of transparent reporting prevented adequate scrutiny as noted above.

At the 10 February 2020 Committee, the Brick by Brick representative confirmed that the current estimated cost for the project was £42.6 million. The then Executive Director of Place was also present at that meeting. Members on the Committee have a reasonable expectation that the figures reported are accurate. Both the Brick by Brick representative and the then Executive Director of Place were in a position where they could and should have known that the project cost exceeded £42.6 million in that:

- The mains work contract was let in 2018 for £42.7 million
- The October 2018 Brick by Brick Board minutes note the project spend was £50 million.
- The letter from Brick by Brick to the Council in October 2018 highlighted that the total project costs were £50 million (The £50 million was for Fairfield Halls alone with the letter including separate amounts for other elements of the College Green scheme including the car park and public realm).
- As at January 2020, the Council's records show that the Council had provided cash drawdowns to Brick by Brick in respect of Fairfield Halls project of £59.9 million.

Brick by Brick has expressed the view that 'it was not the role of Brick by Brick's representatives to offer contradictory advice to Members'. The reason for the gap between the known project expenditure and the amount reported to the Committee is unclear. In our view the gap was significant and as such the Committee was hampered in its role to scrutinize the project expenditure.

Between 2016 and 2020 the Committee also questioned the then Leader on the project on at least five occasions during the same period, although as above it is unclear whether concerns had or had not been raised to the Leader by the senior officers regarding the project, in light of representations received.

Financial position of the project

The monitoring of financial outcomes is intrinsically linked to the project progress and therefore financial governance is impacted by the weakness in governance over the project section.

Original project budget setting

The September 2014 Cabinet paper had the original project budget of £33.75 million. By October 2015 the Cabinet report indicates that the Council intended to provide Brick by Brick with loan finance to fund the costs of the project and to fund the costs of building the residential units. The June 2016 Cabinet report refers to a £30 million investment in Fairfield Halls and the confidential report states 'the financial appraisal and development assumptions for the land at College Green proposed to be transferred to Brick by Brick have been tested by the Council and found to be prudent for this stage of the development process.'

We have not been able to obtain the financial appraisal and development assumptions referred to in the confidential June 2016 Cabinet report and are therefore unable to comment on the robustness of that appraisal. We consider the financial appraisal supporting a decision to invest £30 million to be a key document that should have been maintained by the Council to enable subsequent scrutiny and the absence of such a document is a weakness in record keeping. Respondents have stated that £30 million was not the original budget. We have been unable to identify any Cabinet report after June 2016 which approved a budget for the project and we therefore consider £30 million to be the original budget. The February 2020 Scrutiny and Overview Committee meeting referred to a £30 million original budget.

Without the detailed financial appraisal, it remains unclear whether the additional expenditure over the original budget reflects issues in the original budget setting or issues in managing the project's expenditure or a mix of both. A detailed scope for the refurbishment of Fairfield Halls was provided by the original engineering contractor in September 2015 which was costed at £73 million. There is evidence that this detailed scope was discussed by officers at that time as would be expected. It is not clear from the evidence available to us how the September 2015 scope connects (or if it connects at all) to the project presented to the June 2016 Cabinet.

In the absence of the original financial appraisal our understanding is that the project was intended to be cost-neutral to the Council with Brick by Brick using expected profits from the College Green scheme to cover the costs of the project. This understanding is based on

- The November 2017 Fairfield Halls Board minutes which note that the budget gap identified at that time was 'Financial risk minimal for council it will be Brick by Brick issue'
- The December 2017 Brick by Brick Board report which sets out that 'the expectation for delivering the wider College Green projects was that the land value for the homes development would be £nil (acting as a barter transaction to fund the refurbishment of Fairfield Halls).'

Under section 123 of the Local Government Act 1972 the Council has a duty to achieve best value in land disposals. We have not been able to obtain the Council's assessment of whether £30 million for the land provided to the College Green projects represent best value and therefore we cannot conclude on whether the Council achieved this duty.

Final cost of the project

The Council provided funding to Brick by Brick through drawdowns and recorded those amounts in its financial statements. The Council has maintained records of the requests however as noted earlier there are no related properly executed written loan agreements providing a legal basis for making payments to Brick by Brick.

According to the underlying financial records:

Financial year	Council Funding provided to Brick by Brick for Fairfield Halls refurbishment	Expenditure incurred by Brick by Brick (from financial ledger)
2016/17	£1.2 million	£1.5 million
2017/18	£9.5 million	£7.5 million
2018/19	£19.9 million	£30.3 million
2019/20	£37.2 million	£27 million
2020/21	-	£1.2 million
Total	£67.8 million	£67.5 million
Adjustments – late VAT and invoices	(£0.3 million)	
Spend on Fairfield Halls refurbishment	£67.5 million	£67.5 million

* Funding provided includes Coast to Capital grant funding

It is a serious financial control and legal failing that payments in excess of £60 million were made to a third party without sufficient clarity as to the powers relied upon or any properly executed written contracts. Both the then Monitoring Officer and the then section 151 officer had a responsibility to ensure that the legal loan agreements were properly executed prior to making payments. In our view, officers treated Brick by Brick as an extended department of the Council in terms of the financial payments made, and did not ensure the level of rigour we would have expected. Had the legal agreements been entered into and monitored, it is likely that the Council could have monitored the position of the loans provided for the project and this would have enabled the Council to have ceased to make loans beyond the original budget or to have invoked loan covenants or to have escalated that the project's financial viability had been breached. In the absence of properly executed written contracts, the payments described as loans do not appear to have been subject to any such oversight.

The actual cost of the project has been difficult to establish which in itself is a serious failing that the Council's financial arrangements are not sufficiently robust to monitor the expenditure on a significant project. The Council was able to demonstrate the amounts the Council provided (recorded as loans) to Brick by Brick for the project. The actual spend by Brick by Brick has taken the Council's finance team longer to determine. The final cost of the project at £67.5 million is significantly greater than the £30 million originally approved at the June 2016 Cabinet. There are a number of factors to explain the spend in excess of the original budget including a lack of Council arrangements in the:

- robustness of the original budget setting
- clear financial monitoring
- monitoring the complexity of co-ordinating contractors on a complex project leading to a dispute with the original engineering contractor (note that although this is disputed by Brick by Brick the relationship ended and the Adjudicator's decision on the financial resolution was found in favour of the contractor with the Council having to pay the contractor's and Adjudicator's cost.)
- effective risk mitigation
- project oversight and scrutiny
- implementing the governance arrangements in the June 2016 Cabinet report

Brick by Brick expressed the view that 'the principal cause of cost increase relates to contract variations and specification delays by the Council and other essential unforeseen works (such as asbestos and structural issues)'. Brick by Brick's view implies that there was both a 'contract' and a 'specification'. We have not seen contractual variations supporting Brick by Brick's view. As noted above, we have not seen properly executed written contracts obliging Brick by Brick to carry out the work in accordance with any specification or enabling the Council to vary the specification; the idea that there was a 'specification' highlights the risk identified by the Council's legal advice that a specification would engage a risk of challenge in the licence / land transfer option route which it pursued.

The Council as the owner of Fairfield Halls would have had knowledge of both the structure of the building and the presence of asbestos and the costs related to these aspects should have been foreseeable by the Council in setting the original budget.

A number of respondents expressed the view that the financial impact was for Brick by Brick to manage. The Council as owner of Brick by Brick has always been required to account for any losses or profits made by Brick by Brick and this is shown through the group accounts. Therefore the Council had a responsibility to understand significant financial risks impacting Brick by Brick which we would argue the project represented. As ultimately the Council would need to account for any significant loss we remain of the view that the Council's arrangements to manage the risk of any increase in cost were not sufficient. The increase in costs was known, it was reported through the Fairfield Board and the Growth Board. The lack of transparency of the increased costs being reported to formal Member meetings has led to the position where it is unclear whether effective action at the time could have been taken to mitigate the financial risk to the Council.

In establishing the financial position of the project there were changes in financial record keeping during the project that contributed to the lack of clarity. The Council changed its financial system from 1 April 2019. Brick by Brick has provided representations that there was a period of five months in 2019 where Brick by Brick had to manage its finances without access to the system with a delay in migrated data being made available.

Taken together the Council missed opportunities to manage the causes of the increasing costs and has, as noted in our 23 October 2020 Report in the Public Interest, again imposed on council tax payers of Croydon an increased borrowing burden.

Impact on the Council's financial position

As noted earlier in the report given the uncertainties in the properly executed written contract and properly executed written loan agreements as a basis to make payments in relation to the project has led to the Council reconsidering its accounting treatment of the project expenditure. In the absence of a clear lawful basis for making payments to Brick by Brick for the refurbishment of Fairfield Halls, the Council is now recording the project expenditure as direct capital expenditure in the 2019/20 financial statements. The uncertainty on the lawfulness of the arrangement led to the Council's revised approach.

The majority of the adjustments to the 2019/20 financial statements impact the capital reserves position however there are some key revenue impacts on interest receivable and the minimum revenue provision which impact on the Council's General Fund position which is already under significant pressure. Key adjustments include:

- Loans receivable – without properly executed loan agreements the Council cannot account for the £61.3 million funding provided to Brick by Brick as receivable and the amounts have needed to be written off in the Council's accounts (noting that in the group accounts the entries would be subject to consolidation processes)
- Interest receivable – The Council has access to low interest rate borrowing from the Public Works Loans Board and part of the financial rationale for lending monies to Brick by Brick was that the Council would charge Brick by Brick a commercial interest rate. The Council has accrued interest of £9.1 million as at 31 March 2021 which will need to be written off as the amounts are no longer considered to be receivable without properly executed loan agreements, and as the Council's approach has now changed with the underlying loans being classified as capital expenditure.
- Minimum revenue provision (MRP) – as noted earlier the Council needs to account for MRP in future years' budgets and we estimate that the charge would be approximately £1.5 million per annum over the life of the refurbishment depending on the Council's assessment of how long the refurbishment will remain useful. The Council has included this in future budgets.

The view of the then Section 151 Officer was that the strategy of providing the last 25% funding of the project as equity would have included MRP. The unsigned loan agreement documents show that the intention was for funding to be split 75% debt and 25% equity funding. At the time of the then Section 151 Officer's departure no equity had been provided to Brick by Brick on the project or indeed on any other Brick by Brick project.

The Council's failure to establish and manage the project appropriately has led to further financial pressure on the Council's challenging financial position.

Recommendations

R8 The Chief Executive, as Head of Paid Service, should ensure appropriate governance arrangements are implemented in a timely manner particularly for strategic developments such as Brick by Brick including where appropriate that there is clear guidance for nominated representatives on the expectations of the role including reporting back to the Council

R9 The Chief Executive should work with the Leader to continue to embed

R9.1 a clearly understood distinction between the different roles and responsibilities of Members, officers and representatives of entities akin to Brick by Brick.

R9.2 clear responsibilities for officers and Portfolio Holders in challenging reports presented to Cabinet and other committees for balance, accuracy and consistency in terms of knowledge

R10 The Chief Executive should review the terms of reference for officer and member/officer boards that oversee significant projects and capital/revenue expenditure and clarify the escalation routes for significant additional spend in excess of the budget

R11 The Section 151 Officer should ensure financial reporting on significant capital projects is enhanced so that

R11.1 a clear agreed budget for the project is identified and the underlying financial analysis is maintained

R11.2 the clear agreed project expenditure amount can be reported through appropriate governance processes

R11.3 where there are changes in the original financial assumptions that there is an assessment on the project's financial viability with appropriate reporting

R11.4 the revenue impact of any changes in the capital project are addressed in future budget setting

Other auditor concerns

As part of our work, we have also identified further areas of concern which impact on the delivery of the project.

Project management - Co-ordination of contractors

The project involved a number of contractors and relied heavily on successful co-ordination of the design, build and operator elements, each of which lay with a separate contractor. An additional complexity was the subcontracting of project management responsibilities by Brick by Brick to a fourth contractor. There was a highly complicated series of interdependencies and the deficiencies in co-ordination between contractors (including the need to replace one contractor during the project) being a contributor to the delays, additional costs and quality of delivery issues.

Delays in the establishment of the dedicated Fairfield Board until May 2017, meant that the procurement of the Operator by the Council, and the main works provider by Brick by Brick lacked an effective mechanism to co-ordinate both contractor requirements at an early stage. The Council was limited in terms of what it could require of Brick by Brick due the Council's original decision to use the development licence option (although we note the outcomes would equally have been limited if the proposed land transfer option had been completed). Therefore, there was no effective mechanism to mitigate the co-ordination risk that became critical in the latter stages of the project, contributing to delays, additional cost and contractor disputes.

The relationship between Brick by Brick and the original engineering consultant broke down with the resolution of increased costs being decided by the Adjudicator. The need to assimilate a replacement engineering consultant mid-project and in a short period of time, was highly challenging and is likely to have contributed to the delays and cost implications.

As there was not a competitive tendering process by the Council to support the appointment of Brick by Brick to manage the project, there is no evidence that the credentials and suitability of Brick by Brick to manage a complex refurbishment project were assessed by the Council prior to selection. At the time the licence was granted, Brick by Brick was newly established without a track record of delivery. We acknowledge that Brick by Brick's articles of association allow commercial developments and not solely housing developments and that the Brick by Brick Board was in a position to assure itself of its ability to manage the project; however the Council did not have appropriate methods of oversight in place. There is also no evidence of how other factors such as value for money and risk were assessed by the Council. Representations received from Brick by Brick state that from Brick by Brick's perspective the financial viability of the project was linked to the wider College Green scheme which was in the best interests of Brick by Brick Their view is supported by Brick by Brick Board discussions of external advice received at that time.

In our view it was not appropriate for the Council to include the refurbishment of Fairfield Halls within a housing development scheme as the projects are very different and require different mechanisms for the Council to be able to secure value for money. The complex interdependencies were foreseeable for the Council and the Council's decision to use Brick by Brick with an arrangement that prevented a legally enforceable obligation to comply with detailed specification for the project should have been supported by a more detailed risk assessment and more robust governance arrangements that responded as risks emerged.

Value for money

In relation to how the Council was able to protect its interests and secure economy, efficiency and effectiveness in its use of resources in relation to the Project, the Council's overall approach was intended to be that the transfer of land to Brick by Brick for development with the value of the land being the same as the estimated cost of refurbishment. Based on representations received, the intention was for the Council to secure the refurbishment of Fairfield Halls and to receive future dividends from Brick by Brick generated from profit as part of the wider College Green scheme.

The Council's detailed financial analysis at that time (June 2016 Cabinet) cannot be found by current Council officers and we are unable to conclude on whether the underlying assumptions were reasonable or not. Brick by Brick did obtain advice on the financial viability of the wider College Green scheme however as would be expected this advice was from a Brick by Brick perspective.

Not withstanding, the failure to secure legality in the arrangement through a properly executed written contract, the intended arrangement involved a licence to access the building which would only require method statements to address how work would be carried out. The intended approach prevented the Council from issuing a detailed specification with which Brick by

Brick would be obliged to comply. It is difficult to see how the Council's intended approach would have secured economy, efficiency and effectiveness in relation to the project.

The Council did establish governance arrangements which required additional spend reported to the Fairfield Hall Board to be escalated to the Growth Board and where tolerances for additional spend are breached for further escalation to the Corporate Leadership Team or via other Council process as it sees fit. The additional costs exceeded the budget by £15.89 million, which breached the tolerances, and was reported to the Growth Board. The costs in excess of the budget was not reported in a clear and transparent manner to a formal Cabinet meeting. Representations received and meeting notes indicate the view at the time was that 'any overspend was for Brick by Brick to manage'.

In our view the governance arrangements did exist to identify and report the known additional spend however the governance did not operate as intended due to the Council's viewpoint at that time which was the financial risk remained with Brick by Brick. We consider this viewpoint misunderstands how any profits and losses of Brick by Brick impact the Council as the shareholder.

It is unclear whether informal mechanisms were used to raise concerns about the project. We have received representations from former officers stating that 'Lead Members' were briefed and that concerns were either not listened to or support was not provided and we have received representations from the three Members consulted that concerns were not raised. In the absence of documented discussions, it is difficult to reach a view on this point. It is however clear that senior officers (namely the then Executive Director of Place, the then Section 151 Officer and the then Chief Executive) should have been aware that the project's original approval of £30 million had been exceeded as this was reported in emails, Fairfield Hall Board papers and Growth Board papers.

Conflicts of interest

There were inherent conflicts of interest in managing a complex project through a wholly owned company. As noted in Internal Audit's review of Fairfield Halls in December 2020, there was a lack of an assessment of the real or perceived conflicts of interest. At one point the then Executive Director of Place was the project sponsor, chaired the Growth Board, chaired the Fairfield Board and was also the Council appointed Director on the Board of Brick by Brick. The inherent conflicts of interest of delivering each of those roles simultaneously should have been visible to both the then Executive Director of Place and the then Chief Executive who was their line manager, however these conflicts were neither addressed nor mitigated.

Delegated decision making

It is within the Council's Constitution to delegate decisions from Cabinet to named officers in consultation with Cabinet Portfolio Holders and in October 2015 the Cabinet delegated to officers, in consultation with relevant Cabinet Portfolio Holders, the authority to enter into relevant commercial agreements to progress the vision. In June 2016 a further paper was brought to Cabinet which approved the proposal to use Brick by Brick to bring forward elements of the College Green scheme including the refurbishment of Fairfield Halls.

There are a number of related issues

- Record keeping - There is a template to record the action taken in implementing delegated decisions which sets out the actions and is signed by the relevant Executive Director and relevant Portfolio Holder. During our work it has become evident that the retention of the formal documentation rests with individual Executive Directors and their local support arrangements. As personnel have changed, the retrieval of signed delegated decision sheets together with supporting documentation has become problematic and this gap in record keeping has led to gaps in demonstrating how delegated decisions were implemented. The lack of systematic and robust record keeping undermines the Council's governance arrangements, creates legal uncertainty and risk and fails to meet the good practice recommendations in the Information Commissioner's Office "Section 46 Code of Practice – records management" issued under section 46 of the Freedom of Information Act 2000.
- Reporting back to Cabinet – where decisions are delegated to officers in consultation with relevant Portfolio Holders there is an expectation that the decision will be implemented in line with the business case which Cabinet approved. With the Fairfield Hall refurbishment project there were fundamental changes that impacted the underlying assumptions for example the additional spend and the withdrawal of the Croydon College land. The decision was delegated to the then Section 151 Officer in consultation with the Portfolio Holder for Homes and Gateway Services and for Finance and Resources and we have not seen evidence that any of these individuals formally updated the Cabinet on the change in circumstances (although the Portfolio Holder for Finance and Resources has made

representations that in his view there was no need to formally update the Cabinet, as the additional spend was a matter for Brick By Brick, while the withdrawal of the Croydon College land was in the public domain and subject to questions by full Council). However, in our view, the lack of formal update to Cabinet did restrict wider scrutiny of the project by other members of the Cabinet or other members.

- Delays in implementing delegated decisions – It is important that where there are delays in implementing delegated decisions that updates are provided to Members to allow consideration of changes in circumstances. There is currently no guidance on what an appropriate time period is to implement a delegated decision or when a review of change in circumstances should be undertaken.

In our view, the Council should develop its governance arrangements to include clarity on record keeping standards (taking into account the statutory Code of Practice), time limits where there are delays in implementing delegated decisions and guidance on when changes in the known facts or risk profile require reporting back to the original decision maker.

Recommendations

R12 The Chief Executive should put in place arrangements to consider inherent conflicts of interest for executive officers.

The Council's position

The Council has acknowledged the difficulties arising from the arrangement, stating, in a letter from the then Section 151 Officer on behalf of the Council during the value for money review, as follows:

> "*The Council sought and obtained legal advice subsequent to the June 2016 Cabinet decision in relation to the public procurement regime and its application to the Fairfield Halls scheme. […] Although the advice assumed an actual land transfer under an option agreement (with buy back and security) the Council elected to grant licences to carry out demolition and other works to the Halls. This was consistent with legal advice, insofar as it meant that there was no enforceable obligation to carry out works. It is recognised however that the overall procurement law position was dependent on the company remaining truly independent and that, as you identify, this was not given sufficient weight. Equally, the Council has not been able to locate all documents entered into by way of licence to carry out works on Council land.*
>
> *In relation to how the Council was able to protect its interests and secure economy, efficiency and effectiveness in its use of resources in relation to the Project, the Council was reliant on the commercial incentive on the Company to control costs and maximise returns. As sole shareholder, as might be expected, the Council had an ability to monitor and control this. No contractual mechanism was applied however, given that no loan agreements were entered into and that the terms of any licence would only require method statements to address how work would be carried out. The external legal advice did make the point that although the Company was not subject to procurement law, it would still be expected to be interested in securing value for money through conducting a competitive tender process for works/services.*
>
> *In summary, whilst the Council did take advice it is recognised that the Council should have sought that advice earlier and in greater depth, and should have then acted on that advice.*"

The Council has, in light of the matters reported upon here and their views as set out above, proposed to account for the expenditure on the project as if it had been direct capital expenditure by the Council (as if the Council had initially merely spent the money on the refurbishment itself, rather than providing a loan the Brick by Brick to carry out its own refurbishment).

Conclusions

The Fairfield Halls refurbishment project was a complex project which was delivered later and at a higher cost than the original Cabinet approval in June 2016. and overspent. The Council failed to ensure the legality of the arrangements for the project combined with governance gaps which restricted wider scrutiny and challenge that may have allowed corrective action to have been taken. Whilst we have been provided with interview information and written assertions that the matters in this report were raised with by officers to the Portfolio Holders they reported to, we have not been able to obtain evidence to verify the content of informal briefings by officers or the questions Portfolio Holders asked of officers.

Representations received from the relevant Portfolio Holders assert that they did not receive any such briefings or updates. In these circumstances, what is notable is a lack of agreement on this point and the fact that there was a failing somewhere. The then Senior Statutory Officers together with the then Executive Director of Place had both the experience and the position to understand their duty to brief Members and in not recording or escalating formally their concerns they have been left open to challenge on their actions.

In summary, throughout the project there have been examples of a failure to discharge duties from a small group of senior officers (the then Senior Statutory Officers and the then Executive Director of Place). These senior officers were responsible for reporting to the then Portfolio holders (the Portfolio Holder for Homes and Gateway Services, for Finance and Resources and the Leader) who were either not briefed by officers and failed to request briefings on the project or did not take effective action in response to concerns raised by the senior officers.

In our view, key senior officers had the following responsibilities:

- The then Monitoring Officer (January 2016 to June 2021) had a responsibility to report on matters they believe to be illegal or amount to maladministration (Local Government and Housing Act 1989 section 5). In not ensuring that the external legal advice received in November 2016 was adhered to, the then Monitoring Officer's actions are open to challenge.
- The Section 151 Officer at that time (January 2015 to January 2019, at which point they moved into another role until March 2019) – under section 151 of the Local Government Act 1972, the Section 151 Officer is required to make arrangements for the proper administration of the Council's financial affairs and to have responsibility for those arrangements. Whether or not the then Section 151 Officer knew the loan documents were not properly executed, they had a duty to confirm appropriate documentation was in place before allowing the funding transactions to be authorized. The then Section 151 Officer also had a duty to escalate financial matters of concern to Cabinet which in our view included the project expenditure exceeding the budget approved by Cabinet. This duty also applied to the subsequent Section 151 Officer (February 2019 to February 2021) in respect of payments authorised from February 2019 although we accept the representations from the subsequent Section 151 Officer that as an ongoing project there was an assumption that appropriate arrangements were in place.
- The then Executive Director of Place was the project sponsor, chaired the Growth Board and the Fairfield Hall Board. Their objectives included
    - establishing 'new client side arrangements to hold Brick by Brick to account in the delivery of the business plan' and to 'oversee the opening of Fairfield Halls',
    - ensuring that their 'department understands and complies with corporate policy and accountability frameworks including those that relate to financial, people and procurement and commissioning processes and procedures'
    - being 'accountable for the robust management of the budget ensuring forecasting is accurate and take immediate action to deal with any unplanned pressures to deliver a balance budget'

  In not ensuring the known project additional spend was reported to Cabinet formally they did not meet their objectives.
- The then Chief Executive Officer (June 2016 to September 2020) as Head of Paid Service has a duty to, where they consider it appropriate, to prepare a report on: (a) the manner in which the discharge by the authority of its different functions is co-ordinated; (b) the number and grades of staff required by the authority for the discharge of its functions; (c) the organisation of the authority's staff; and (d) the appointment and proper management of the authority's staff. (Local Government and Housing Act 1989 section 4). The Chief Executive Officer also had a

responsibility as Chief Executive to effectively manage senior officers reporting directly to them and to do so in line with the Council's Constitution.

In addition, in our view the relevant Portfolio Holders for each of these areas should have been aware of the escalating risks in a complex project (and representations received from relevant senior officers indicate that in their view concerns were raised to the relevant Portfolio Holders, although as noted we have not seen evidence of this, and this is disputed by the relevant Portfolio Holders). In representations made during the drafting of this report some Portfolio Holders have suggested that that the project was Brick by Brick's responsibility and not the Council's; in our view, this demonstrates a misunderstanding of the relationship between the parent entity and its wholly owned company structure (which as some respondents have acknowledged is very different to that with an external company) and the development licence option for the refurbishment which was pursued. It was a political priority. We consider the relevant Portfolio Holders at the time to be the Finance and Resources, Homes and Gateway Services and the Leader

The Council's key failures in the project were:

- receiving external legal advice in November 2016 that raised concerns over the possibility of challenge to the legality of the Council's approach to the project and failing to properly pass these legal concerns on to Cabinet or act upon that advice
- failing to ensure that legal documents were properly executed and retained
- not escalating the known delivery delays and escalating costs
- allowing the lack of transparency of reporting the known issues with the project in the Brick by Brick 2018/19 Business Plan to remain unchallenged
- allowing significant amounts of public money to be incurred on a scheme where the formal written legal documents had not been finalized.
- allowing significant additional expenditure beyond the original budget to remain unreported to Cabinet
- allowing the 2019/20 Brick by Brick's Business Plan to remain unchallenged when it was clear that the public version did not accurately reflect the facts known to the officers
- not responding to direct Member questions with the known project spend at that time in February 2020

As a last resort any of these individuals named above could, and in our view should, have raised their concerns directly with the Scrutiny and Overview Committee (which had sought assurances over the project) or the General Purposes and Audit Committee or the Head of Internal Audit or External Audit. The individuals could, and in our view should, also have used whistleblowing if they did not feel management or Portfolio Holders were acting appropriately.

The Council has responded to the previous reports (in the public interest published on 23 October 2020 and the PwC review of companies dated 13 November 2020) including reporting to Cabinet in November 2020, February, July and November 2021 on the actions taken to address governance concerns relating to Brick by Brick and other Council companies. In a report delivered on 18 October 2021, the Council announced that it had implemented 62 of the 99 recommendations from the first report in the public interest, and we are told that further progress has been made since; there has been significant turnover in the Council's senior officers and Portfolio Holders since the period this report covers.

In reaching our view on the legality of the arrangement we discussed with and challenged the current Senior Statutory Officers who reviewed the position. . The Council has, in light of the matters reported upon here and their views as set out above, decided to account for the expenditure on the project as if it had been direct capital expenditure. The Council has proposed amendments to the draft 2019/20 financial statements that correct the accounting for this arrangement

We understand that the Council is now also in the process of considering alternative options with Brick by Brick, while in the meantime making other changes to the related governance arrangements.

Between 2016 and 2020 the Council spent nearly £67.5 million on the Fairfield Halls refurbishment scheme. In a drive to get the scheme implemented, the Council's then statutory and other chief officers did not ensure there was an appropriate legal basis for the engagement of Brick by Brick to carry out the works (by the licence and proposed land transfer) which would avoid legal challenge and enable proper scrutiny and oversight of the project and its costs; did not properly advise members about the independent expert legal advice received or act on that advice; did not secure adequate financial governance for the loans; did not formally and publicly advise members of the risks and changes to the project; and did not seek proper formal authority from members for the expenditure.

Appendix: Timeline

Date	Source	Fairfield Halls spend	Comment
Jun 2016	Cabinet paper	£30m	Initial Cabinet approval
Oct 2017	Scrutiny & Overview Committee		Minutes record: *Progress on the main contract had completed. Council is within original budget they set contractor*
Nov 2017	Fairfield Hall Board highlight report	£34.5m	Budget per monitoring reports with no explanation of variation from initial budget of £30m
Dec 2017	Brick by Brick Board report	£34.5m	Board report of forecast project spend including overall £10.5m loss on the wider College Green scheme
Feb 18	Cabinet paper – Brick by Brick Business Plan 2018/19 for shareholder approval	£30m	Officer report to Cabinet refers to Brick by Brick making profits and the £30m investment on Fairfield Halls Business Plan refers to c£30m refurbishment on Fairfield Halls and no reference to the £34.5m budget in the monitoring reports
Feb 18	Fairfield Halls project monitoring report	£38.95m	Forecast project spend increased to £38.95m per monitoring reports
Jun 18	Fairfield Halls Board report	£42.8m	Forecast project spend increased to £42.8m per monitoring reports Brick by Brick confirmed increase in spend in separate email to then Chief Executive who forwarded the email to the then Section 151 Officer
Sept 18	Fairfield Halls Board report and emails	£42.7m	Main works contract let in September 2018 at £42.7m
Oct 18	Letters between Brick by Brick and Council	£49.1m	Net spend on Fairfield Halls refurbishment identified as £49.1m Total College Green projected loss of £28.8m
Oct 18	Brick by Brick Board report	£50m	Forecast project spend on Fairfield Halls refurbishment increased to £50m
Nov 18	Growth Board report	£15.89 m overspend	Reported project spend in excess of the budget included in monitoring report and no detailed explanation i.e., project spend was now £50.39m based on Budget £34.5m + overspend £15.89m
Dec 18	Scrutiny and Overview Committee		No commentary on the known additional spend in excess of the budget Focus of presentation was progress of operator readiness for re-opening
Feb 19	Cabinet paper – Brick by Brick Business Plan 2019/20 for shareholder approval		Officer report to Cabinet has no commentary on Fairfield Halls project spend despite internal reports to the Growth Board showing a forecast spend of £50m which is in excess of the £30m investment approved by the June 2016 Cabinet. Brick by Brick Business Plan reports £0m profit on College Green project. This includes the impact of the financial position on the Fairfield Halls project.
Jan 20	Scrutiny and Overview Committee	£42.6m	First reporting to formal meeting with members on Fairfield Halls refurbishment spend since approval in June 2016. Amount reported to members for spend on project was £42.6m
Mar 20	Financial ledger	£59.9m	Council record of funding provided to Brick by Brick for Fairfield Halls. No additional funding provided by the Council to Brick by Brick in January or February 2020.
Mar 21	Financial ledger	£67.5m	Total spend on Fairfield Halls

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

1. The Council has fully accepted all recommendations made by the external auditor (R1-R12)
2. There are 7 statutory recommendations from the external auditor for the Council to urgently address:

R1 – Cabinet papers for major projects	R7 – Record keeping arrangements
R2 – Contract execution & storage	R9 – Roles and responsibilities
R3 – Updating legal advice	R11 – Financial reporting on significant capital projects
R4 – Payments to third parties	

Note: Statutory recommendations are written recommendations to the Council made by the Auditor under section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report. Council must decide (i) if the recommendations are accepted and (ii) what, if any actions will be taken in response to them. This plan sets out the actions that the council proposes to take in response to all of the recommendations made in the report, including statutory recommendations.

Overall accountability for the action plan rests with Leader of the Council and the Chief Executive

Recommendation 1 The Chief Executive supported by the Monitoring Officer and the Section 151 Officer should ensure that Cabinet papers for major projects set out clearly: R1.1 the legal powers to enter into a particular arrangement and attendant risk R1.2 how the Council can protect its interests and secure economy, efficiency and effectiveness
Cabinet Member Accountability:
Improvement Work to Date Since the last Report in the Public Interest, the Council has taken action to improve the processes surrounding the submission of reports to Cabinet. This has included lengthening the lead in process for the production of Cabinet reports; the introduction of a twelve month forward plan; early consideration of all cabinet papers at the Corporate Management Team; and holding the

Cabinet briefing / Informal Cabinet meetings earlier in the cycle prior to Cabinet papers being published. This allows for much earlier consideration of papers and more opportunity for assurance of, and challenge to, advice being presented to the Cabinet.

The Council's new interim Monitoring Officer has also introduced a new process to reduce the number of Cabinet and Committee reports being published late, which in turn allows Cabinet Members greater opportunity to fully consider recommendations and advice presented to them in Cabinet reports.

The Council has also included a new KPI for late publication of reports in its new Finance, Performance and Risk reports which are presented to Cabinet bi-monthly.

Action	Deadline	Accountability
1.1 A new report writers guide will be produced alongside a new report template for all Council reports to use regardless of which board or committee in will be presented in. This will explain the issues raised in the RIPI and why commentary is needed on the lawfulness of the council's arrangements	**To be determined**	**Monitoring Officer**
1.2 The template for reports will be amended to include a reference in the legal comments section to the need to ensure legal advice is recorded in the paper on the power to enter into a particular arrangement for a major project and the actions required to ensure it remains lawful,	**To be determined**	**Monitoring Officer**
1.3 The Capital Board will be asked to produce guidance on what constitutes a major project and this will be incorporated into the new report writers' guide. This section in the report will also draw out the need for officers and those delivering on the Council's behalf to ensure the council delivers value for money within all its major projects and secures economy, efficiency and effectiveness for the taxpayers and residents of Croydon in accordance with Section 3(1) of the Local Government Act 1999 and the duty of best value. The template will stress the importance of ensuring the report provides decision makers with full information and the requirement to update the decision making body when this information changes.	**To be determined**	**Director of Commercial Investment**

1.4 Progress reports on the delivery of major projects to Cabinet will also incorporate an assurance section that the requirements are to ensure the arrangements are lawful and have been met e.g. contracts signed, land correctly transferred etc prior to committing the Council contractually. This will also be included in the new guide.	**To be determined**	**Monitoring Officer** **Director of Commercial Investment**
1.5 Once the new guide and the new report template has been produced, it will be brought to GPAC and the Ethics Committee for member consultation and agreement. Training will then be developed to ensure understanding of the new requirements by report writers.	**To be determined**	**Monitoring Officer** **Director of Commercial Investment**
1.6 The Council will make full use of its decision management software (Mod.Gov) to automate production of reports. This will have the benefit of allowing report authors to draw in expert advice earlier in the process and prevent reports from being changed after they have received legal and financial commentary.	**To be determined**	**Monitoring Officer**

Recommendation 2		
The Monitoring Officer should ensure that: R2.1 contracts are properly executed before entering into arrangements with third parties R2.2 the properly executed documents are stored robustly to allow future scrutiny R2.3 key requirements underpinning the legal advice are in place before progressing with the arrangement		
Cabinet Member Accountability:		
Action	**Deadline**	**Accountability**
2.1 The Monitoring Officer will undertake a review of existing council processes for the signing of contracts, storage of signed contracts, and assurance on underpinning legal requirements prior to arrangements being entered into.	**September 2022**	**Monitoring Officer** **Director of Commercial Investment**
2.2 The Capital Board will be given a formal role going forward in the assurance of the contracts having been signed, that they are stored securely and all legal requirements have been met prior to approval to proceed with a major project. The terms of reference to be updated to reflect this.		
2.3 This review will be reported to the Statutory Officers' Board in the first instance and will include any recommendations on required changes to processes, thresholds and delegations. This review will then be brought to the General Purposes and Audit Committee for Member oversight and comment.		

Recommendation 3 The Monitoring Officer should ensure that where legal advice changes after a Cabinet decision that the consideration of the implications of the changes is documented and where the Monitoring Officer considers additional legal risks are identified that the Cabinet is updated on the impact on the original decision made		
Cabinet Member Accountability:		
Action	**Deadline**	**Accountability**
3.1 The Monitoring Officer will review the Council's Constitution, particularly Part 5A, the Protocol on Decision Making. This review will have particular regard to setting out proportionate thresholds for decisions to be reported back to the relevant decision-making body when advice (legal or otherwise) upon which the decision was based significantly changes. The review will also consider introducing a time limitation on the delegated decisions that are made by Cabinet in order to ensure they remain relevant and are used appropriately. This will also be included in the new Report Writers Guide.	**May 2022**	**Monitoring Officer**
3.2 A standing item will be included on the Statutory Officers' meeting to identify if there have been any significant changes to advice underpinning Cabinet decisions.	**Immediate**	**Chief Executive**

Recommendation 4 The Section 151 Officer should ensure that prior to making payments to third parties that appropriate legal documentation is in place such as a properly executed contract or a properly executed loan agreement		
Cabinet Member Accountability:		
Action	**Deadline**	**Accountability**
4.1 The Section 151 officer will undertake a review of the Council's existing processes for ensuring payments to third parties meet the required governance controls such as a signed and dated loan agreement or contract. This review will make any recommendations that are necessary to ensure that there are proportionate thresholds, checks and balances on payments to third parties.	**July 2022**	**Corporate Director of Resources**
4.2 The Capital Board will incorporate this assurance check as part of their formal programme board oversight on the progress of major projects and will amend their terms of reference to reflect this additional role.		
4.3 The findings of this review will be reported to the Statutory Officers' meeting in the first instance, with any changes that are required to the Council's Constitution being reported to the Council via GPAC or Ethics committee.		

Recommendation 5 The Monitoring Officer and Section 151 Officer should ensure that arrangements are in place to properly consider public procurement rules and UK obligations on subsidy control rules before entering into arrangements		
Cabinet Member Accountability:		
Action	**Deadline**	**Accountability**
5.1 The Council's Director of Commercial Investment will review the Council's existing arrangements for ensuring compliance with subsidy control legislation. This review will be reported to the Section 151 officer and Monitoring Officer and will highlight any risks in the Council's current arrangements. The review will also make recommendations and set out an action plan to mitigate and address any risks that are identified. The Capital Board may play a part in the assurance mechanism before entering into arrangements. If so, its terms of reference will be amended.	**September 2022**	**Director of Commercial Investment**

Recommendation 6		
The Chief Executive, Monitoring Officer and Section 151 Officer need to consider how to respond appropriately to challenge on decisions and be prepared to take corrective action where necessary		
Cabinet Member Accountability:		
Improvement Work to Date As part of the Croydon Renewal and Improvement Plan, a range of actions have been undertaken to improve the culture of the organisation in relation to openness, transparency, accountability and challenge. The various actions are all designed to facilitate constructive challenge and open dialogue from Members, residents, officers and each other. To date, this work has included: - Introducing a ‘guardians’ programme for staff, providing a safe space for staff across the organisation to raise concerns - New customer complaints handling process - Developing a new access to information protocol for Councillors - Introducing new codes of conduct for Members, Co-opted Members and Officers		
Action	**Deadline**	**Accountability**
6.1 A new member enquiry / casework process and supporting software will be rolled out to allow more pro-active tracking, management and responses to member casework enquiries and also allow learning from the casework to be captured more effectively to improve services. This may result in policy decisions needing to be revisited.	**July 2022**	**Assistant Chief Executive**
6.2 A new system of internal control officer boards will be implemented following a review of core business meetings and forums. At the time of writing this report three have already been re/launched, namely the Health and Safety Committee; Equality, Diversity and Inclusion Board; and the Capital Board. The Corporate Resilience Board has been in operation throughout the pandemic.	**July 2022**	**Director of Policy, Programmes & Performance**

6.3 A new Member / Officer working protocol will be developed and submitted to Council for adoption into the Council's Constitution. *Please note that this action will also support 9.2*	**March 2022**	**Monitoring Officer**
6.4 A new assurance framework will be developed and reported on annually to the General Purposes and Audit Committee	**July 2022**	**Corporate Director of Resources**

Recommendation 7		
The Chief Executive should improve record keeping arrangements so that: R7.1 the records supporting key decisions including financial analysis are maintained R7.2 a standard approach to record keeping with monitoring of which decisions have been implemented R7.2 tolerances are established for reporting back changes to Cabinet		
Cabinet Member Accountability:		
Action	**Deadline**	**Accountability**
7.1 A review will be undertaken by the Council's Information Management Team of record keeping across the Council for key decisions, delegated decisions and Cabinet decisions in general and record keeping of formal internal control boards. The review will make any necessary recommendations regarding proposed future systems of control, in particular to ensure required or agreed future reporting requirements are adhered to through the forward plan and these will be reported to GPAC and Cabinet.	**September 2022**	**Assistant Chief Executive**
7.2 This review to provide assurance that the Council is operating in accordance with the relevant legislation including the good practice recommendations in the Information Commissioner's Office "S46 Code of Practice – Records Management" issued under section 46 of the Freedom of Information Act 2000.	**December 2022**	**Assistant Chief Executive**

Recommendation 8

The Chief Executive, as Head of Paid Service, should ensure appropriate governance arrangements are implemented in a timely manner particularly for strategic developments such as Brick by Brick including where appropriate that there is clear guidance for nominated representatives on the expectations of the role including reporting back to the Council

Cabinet Member Accountability:

Improvement Work to Date

Actions already taken by the Council to strengthen the governance arrangements for strategic and major projects and programmes include:

- Appointment of a new Commercial Investment Director;
- Establishment of a Croydon Companies Supervision and Monitoring Panel (officer only) to have oversight of all Council owned companies
- Establishment of a Brick by Brick Shareholder Cabinet Advisory Board (Member only);
- Established a new programme office that includes a remit to work on the capital programme
- Agreement of new terms of reference for the Capital Board with a focus on good planning, governance and delivery
- Where warranted, non-executive and / or independent chairing and leadership has been sought, including independent chairs for the Council's General Purposes and Audit Committee, Housing Improvement Board, Children's Improvement Board and the Croydon Adult Safeguarding Board.

Action	Deadline	Accountability
8.1 The Croydon Companies Supervision and Monitoring Panel be tasked with considering what additional measures, if necessary, need to be introduced to support and clarify the roles and responsibilities of any person appointed by the Council to be a director of a Council owned company. This review to incorporate an undertaking to abide by the code of conduct and standards of public life (commonly known as the Nolan principles). *Please note that this action will also support 9.4*	**May 2022**	**Director of Commercial Investment**

8.2 The Council has had guidance notes agreed on the role of a non-executive appointee on behalf of the Council but these will now be reviewed and brought back to Ethics Committee for approval.	**To be determined**	**Monitoring Officer**
8.3 Mandatory training will be provided on a regular and timely basis to all Council owned company directors. Attendance at this training is part of the requirements to remain a Council appointed Director.	**To be determined**	**Monitoring Officer**
8.4 The terms of reference for the Council's new internal control boards will be reviewed to ensure that there is clarity on how the work undertaken by these boards flows into member meetings and formal member briefings as appropriate.	**To be determined**	**Director of Policy, Programmes & Performance**

Recommendation 9 The Chief Executive should work with the Leader to continue to embed R9.1 a clearly understood distinction between the different roles and responsibilities of Members, officers and representatives akin to Brick by Brick R9.2 clear responsibilities for officers and Portfolio Holders in challenging reports presented to Cabinet and other committees for balance, accuracy and consistency with their knowledge		
Cabinet Member Accountability:		
Improvement Work to Date The Council has agreed a new code of conduct and guidance for Members and a new code of conduct for officers. This is being supplemented by tailored learning and development activity as part of the May 2022 Member Induction Programme, in new officer induction programmes and the corporate culture change programme.		
Action	**Deadline**	**Accountability**
9.1 Review role descriptions for members and a revised member handbook is being developed. This work will be brought to the Ethics Committee for approval.	**May 2022**	**Monitoring Officer**
9.2 A new Member / Officer working protocol will be developed and submitted to Council for adoption into the Council's Constitution. This protocol will clarify responsibility for providing effective advice and challenge. *Please note that this action will also support 6.3*	**May 2002**	**Monitoring Officer**
9.3 The Croydon Companies Supervision and Monitoring Panel be tasked with considering what additional measures, if necessary, need to be introduced to support and clarify the roles and	**May 2022**	**Director of Commercial Investment**

responsibilities of any person appointed by the Council to be a director of a Council owned company.		
9.4 The Croydon Companies Supervision and Monitoring Panel be tasked with considering what additional measures, if necessary, need to be introduced to support and clarify the roles and responsibilities of any person appointed by the Council to be a director of a Council owned company. This review to incorporate an undertaking to abide by the code of conduct and standards of public life (commonly known as the Nolan principles). *Please note that this action will also support 8.1*	**May 2022**	**Director of Commercial Investment**

Recommendation 10		
The Chief Executive should review the terms of refence for officer and member/officer boards that oversee significant projects and capital/revenue expenditure and clarify the escalation routes for significant additional expenditure in excess of the budget		
Cabinet Member Accountability:		
Improvement Work to Date The July 2021 Council meeting noted the work underway to redesign the Council's internal control system. Two new officer Boards have been created and launched, with further Boards about to start operating, and also a new Cabinet Advisory Board to oversee the work on Brick by Brick and other large commercial shareholder interests the Council has. This redesign has clarified the purpose of existing meetings and forums and has produced a new template for the terms of reference to ensure clarity on accountability of that Board and reporting mechanisms into member meetings and formal member briefings. Since June 2021 the Cabinet has been receiving a monthly update on the council's general fund, housing revenue account and capital expenditure.		
Action	**Deadline**	**Accountability**
10.1 The Capital Board will review its terms of reference to develop an effective role in regard to its oversight of the delivery of major projects and clarify the escalation routes for significant overspends.	**May 2022**	**Director of Commercial Investment**
10.2 The format of the monthly cabinet update on general fund, HRA and capital expenditure will be reviewed in general to ensure it is incorporating the best practice of high performing councils in budget reporting to members. This review will also pay specific regard to the reporting on risks and opportunities, over and underspends on the delivery of significant projects either revenue or capital expenditure and either general fund, parking places reserve account or housing revenue account related.	**May 2022 P1 Report**	**Corporate Director of Resources**

10.3 The Internal Control Board terms of reference template will be reviewed for all boards to ensure clarity on responsibilities for risks in regard to its responsibilities, workload and escalation routes.	**July 2022**	**Director of Policy, Programmes & Performance**
10.4 The current monthly budget assurance meetings chaired by the Chief Executive and Corporate Director of Resources will be reviewed to assess effectiveness after its first year of operation.	**April 2022**	**Director of Policy, Programmes & Performance**

Recommendation 11 The Section 151 Officer should ensure financial reporting on significant capital projects is enhanced so that R11.1 a clear agreed budget for the project is identified and the underlying financial analysis is maintained R11.2 a clear agreed project expenditure amount can be reported through appropriate governance processes R11.3 where there are changes in the original financial assumptions that there is an assessment on the project's financial viability with appropriate reporting R11.4 the revenue impact of any changes in the capital project are addressed in future budget setting		
Cabinet Member Accountability:		
Action	**Deadline**	**Accountability**
11.1 The Corporate Director of Resources will oversee the review work to be undertaken by the Director of Commercial Investment in regard to improving the role of the Capital Board in meeting a number of these recommendations. That review will incorporate the recommendations above.	**May / June 2022**	**Corporate Director of Resources**
11.2 The review of the monthly budget report format will also take into account these recommendations and report to GPAC, Scrutiny and finally Cabinet taking into account members' views.	**To be determined**	**Corporate Director of Resources**

Recommendation 12 The Chief Executive should put in place arrangements to consider inherent conflicts of interest for executive officers		
Cabinet Member Accountability:		
Action	**Deadline**	**Accountability**
12.1 A new code of conduct for all officers is currently in development which will incorporate best practice in regard to the declaration of interests and arrangements for managing any.	**May 2022**	**Monitoring Officer**
12.2 An annual review of declarations for all officers will be undertaken each May. This will update a formal register of all declarations to be published on the council website.	**May annually**	**Head of Internal Audit**
12.3 CMT, DMTs and all internal governance boards will have declarations of interest added as a standing item to their agendas.	**May 2022**	**Director of Policy, Programmes & Performance**
12.4 The Statutory Officers' Board will amend its terms of reference to include the formal review of any officer conflicts of interest and the agreement of arrangements for managing them.	**May 2022**	**Chief Executive**

REPORT TO:	**Scrutiny and Overview Committee** **1 March 2022**
SUBJECT:	**Budget Scrutiny 2022-23**
LEAD OFFICER:	**Richard Ennis, Interim Director of Finance, Investment and Risk (S151 Officer)**
PUBLIC/EXEMPT:	Public

ORIGIN OF ITEM:	This report has been included on the agenda for the Scrutiny and Overview Committee to inform the budget scrutiny process, with the meeting originally to be held on 15 February 2022 and now held on 1 March 2022, being the culmination of the process over the past three months
BRIEF FOR THE COMMITTEE:	The Scrutiny and Overview Committee is asked to:- 1. Note the update to be provided on the delivery of the 2021-22 budget and setting the 2022-23 Budget. 2. Consider the conclusions of the Committee on 2022-23 budget, to be submitted to the Budget Council meeting on 7 March 2022, including:- a. Reaching a conclusion on deliverability and sustainability of the 2022-23 budget. b. Reach a conclusion on whether sufficient evidence has been provided to conclude that there is understanding of the key risks and ownership of the proposals by the Council's political leadership. c. Consider whether there are any further conclusions on the 2022-23 budget the Committee would like to bring to the attention of Council.

3. 2022-23 BUDGET

3.1. The Scrutiny and Overview Committee will be provided with a final update on the progress made with setting the 2022-23 budget. This will include the latest budget reports scheduled to be published as part of the Cabinet agenda for 7 March 2022, when published on 25 February 2022.

3.2. The purpose of this update is to inform the budget scrutiny process, from which the Committee will be looking to reach a view on the deliverability and sustainability of the 2022-23 Budget. The Committee will also be looking to ensure that there is an understanding of the key risks and ownership of the proposals by the Council's political leadership.

3.3. To prepare for the budget scrutiny process, members of the Committee have received two training sessions delivered by the Centre for Governance and Scrutiny on best practice for budget scrutiny. On 23 November 2021, the Committee has also received a briefing from the Council's Section 151 Officer on the key budget principles and the approach to setting the budget.

3.4. At the Scrutiny & Overview Committee on 7 December the agenda included and update on the setting of the 2022-23 Budget and the Three Year Medium Term Financial Strategy. From the discussion a number of areas were identified for further investigation such as programme management capacity of the Council to manage the delivery of the budget and the financial monitoring systems. Since the meeting the Scrutiny Chairs have followed up these issue directly with officers and will report back to the meeting.

3.5. The three scrutiny sub-committees (Children & Young People, Health & Social Care and Streets, Environment & Homes) each had a briefing on the budget proposals for their areas of responsibility in the week of 29 December. At the meetings of the sub-Committees in January/February, each agenda will include a budget challenge item focusing on specific areas of the budget identified for further scrutiny. The outcome from these sessions will be fed back to this Scrutiny & Overview Committee meeting on 1 March 2021**.**

3.6. As this meeting is the final opportunity for the Scrutiny and Overview Committee to consider the budget setting process, at the conclusion of this item the Committee should finalise its conclusions on the 2022-23 Budget. These conclusions will be reported to the Budget Council meeting on 7 March.

4. BUDGET DOCUMENTS REVIEWED BY SCRUTINY

4.1. To aid the Committee in its final consideration of the budget, a series of links are provided below to agenda papers and minutes (where available at the time of publication) already consider over the past couple of months.

Scrutiny & Overview Committee – 7 December 2021

Items Considered:	1. Finance Performance Report – Month 7
	2. 2022-23 Budget & Three Year Medium Term Financial Strategy Agreed Minutes

Children & Young People Sub-Committee – 18 January 2022

Items Considered:

1. Children, Young People & Health Budget Scrutiny Challenge
2. Education Estates Budget 2022-23

Scrutiny & Overview Committee – 20 January 2022

Items Considered:

1. Budget 2022-23 (Including the following Cabinet reports: Financial Performance Report – Month 8, MTFS 2022-23 to 2024-25 Update on position, General Fund Capital Programme 2022-23 to 202425)
2. Scrutiny Budget Challenge

Draft Minutes

Health & Social Care Sub-Committee – 25 January 2022

Items Considered: Budget Scrutiny Challenge: Adult Social Care & Health Directorate

Draft Minutes

Streets, Environment & Homes Sub-Committee – 1 February 2022

Items Considered:

1. Budget Scrutiny Challenge
2. HRA Rent Setting and Draft Budget 2022-23
   Sub-Committee Recommendations to 7 February Cabinet on HRA Rent Setting & Draft Budget

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REPORT AUTHOR: Simon Trevaskis – Senior Democratic Services & Governance Officer

APPENDICES:

Cabinet Finance Reports:
Budget and Medium Term Financial Strategy Report
Appendix A – Summary of General Fund Revenue Estimates
Appendix B – General Fund Growth and Savings Proposals
Appendix C – General Fund Departmental Revenue Budgets
Appendix D – General Fund Service Subjective Budget Summary
Appendix E – Recommendations for Council Tax 22/23
Appendix F – GLA Budget Requirement and Band D Charge
Appendix G – Pension Fund Committee Asset Transfer Decision
Appendix H – Croydon Affordable Home – Tenures Briefing Note
Appendix I – 2022-23 Budget Proposals Feedback

Treasury Management Strategy Statement Report
Appendix A – Capital Strategy

Appendix B – Debt Maturity Profile
Appendix C – Specific and Non-Specific Investments
Appendix D – Capital Prudential and Treasury Indicators
Appendix E – Minimum Revenue Provision Policy
Appendix F – Prospects for Interest Rates
Appendix G – Economic Background

BACKGROUND DOCUMENTS: None

REPORT TO:	**Cabinet 7th March 2022**
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. The Current Budget and MTFS

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.

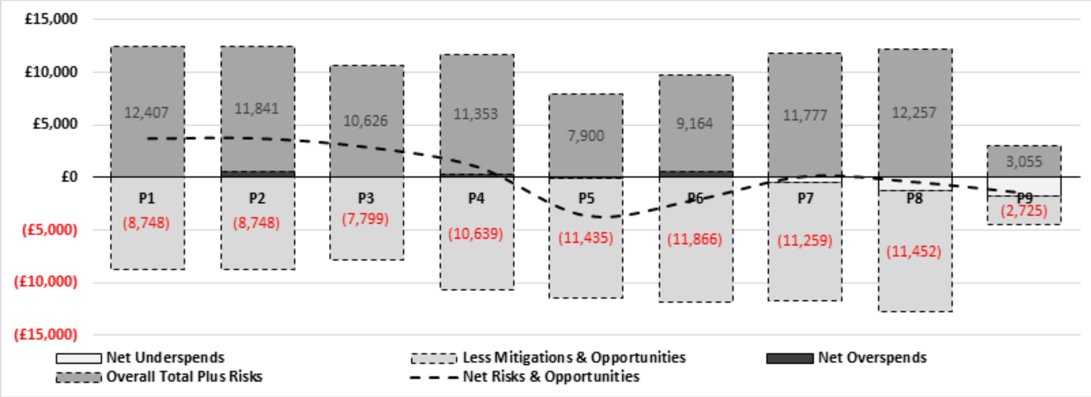
3.2. As part of the Croydon Renewal Plan, the Council has introduced a more rigorous financial monitoring regime – reporting monthly to the Corporate Management Team [*CMT*] and to Cabinet. This new-style report recognises not only the hard forecast position but also potential other risks or opportunities 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. <u>Economic Outlook</u>

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) **<u>Contract Inflation</u>** – 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) **<u>Pay Award Inflation</u>** - 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) **<u>Interest Rates</u>** – 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) **<u>Population and Households</u>** – 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:

Table 3 – Average Settlement Funding Assessment per Head by London Borough

	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.

Adult Social Care and Health

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:

<u>Table 8 – Council Tax Requirement</u>

	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. <u>Risks, Reserves and Resilience</u>

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):

Table 12

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. <u>Housing Revenue Account</u>

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**	

New Requests		2022/23 (£,000's)	
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)**

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Appendix B - General Fund Growth and Savings Proposals

Children, Young People & Education

				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**
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)

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
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)

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
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)	-	-	-	-

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
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)

				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**
	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

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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

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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**

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.

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

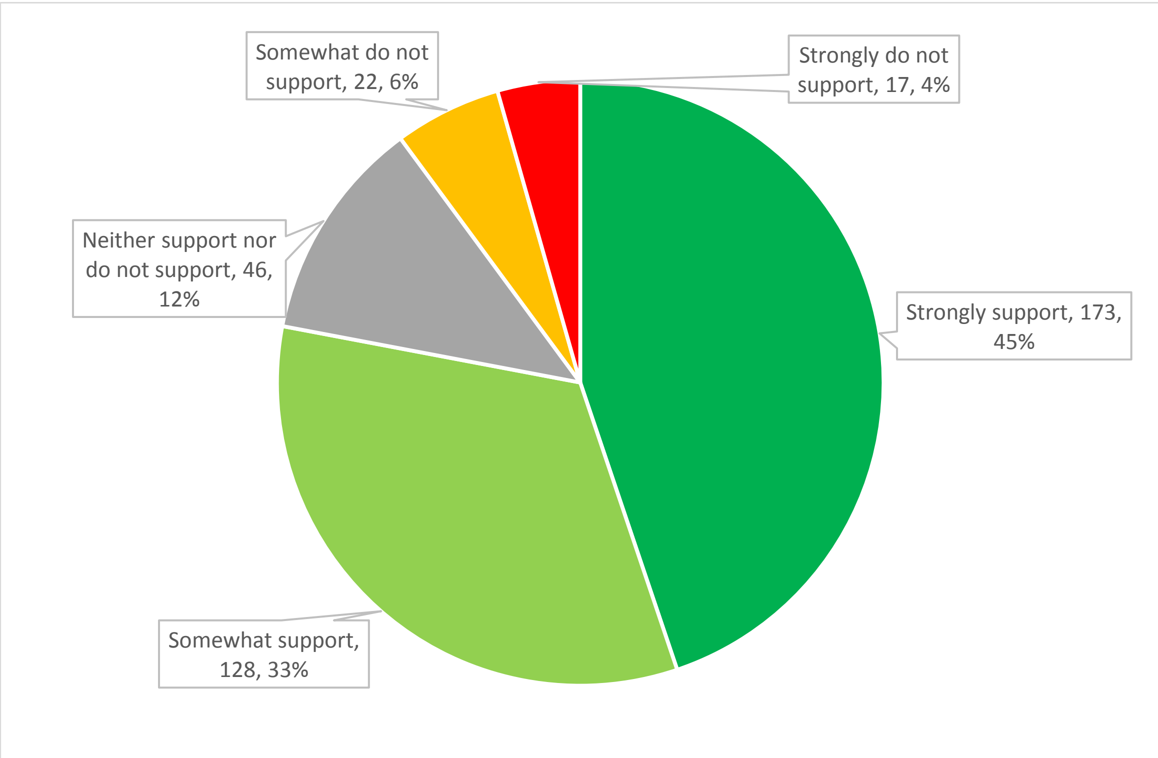
Please rank these services in order of importance to you, with 1 being the most important and 9 being the least important

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?

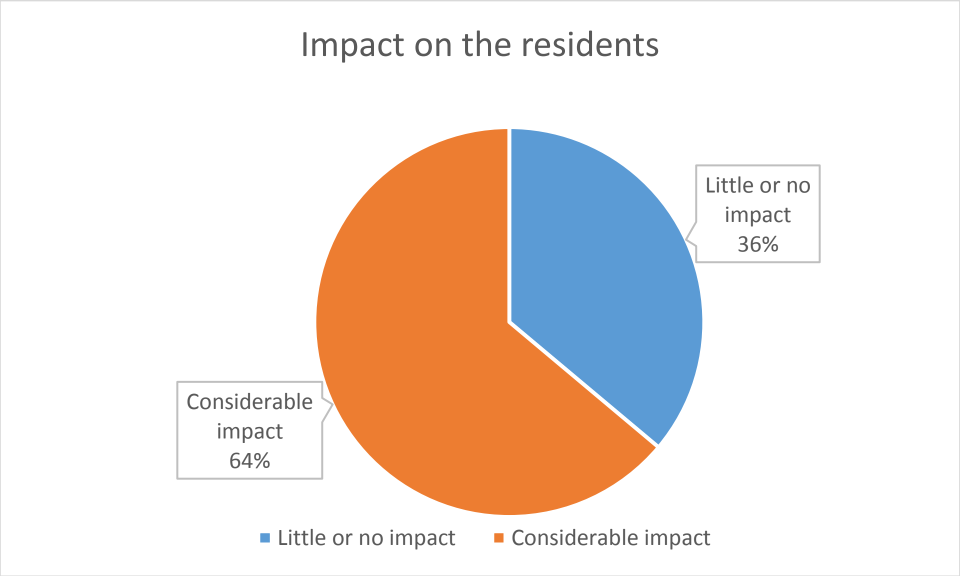
	(4) Somewhat support and (5) strongly support	(1) Somewhat do not support and (0) strongly do not support
Maximise the use of our buildings and assets to bring in income	83%	5%
Reduce spending on temporary agency staff	77%	4%
Reduce spending by making our services more efficient	74%	8%
Reduce costs by 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%

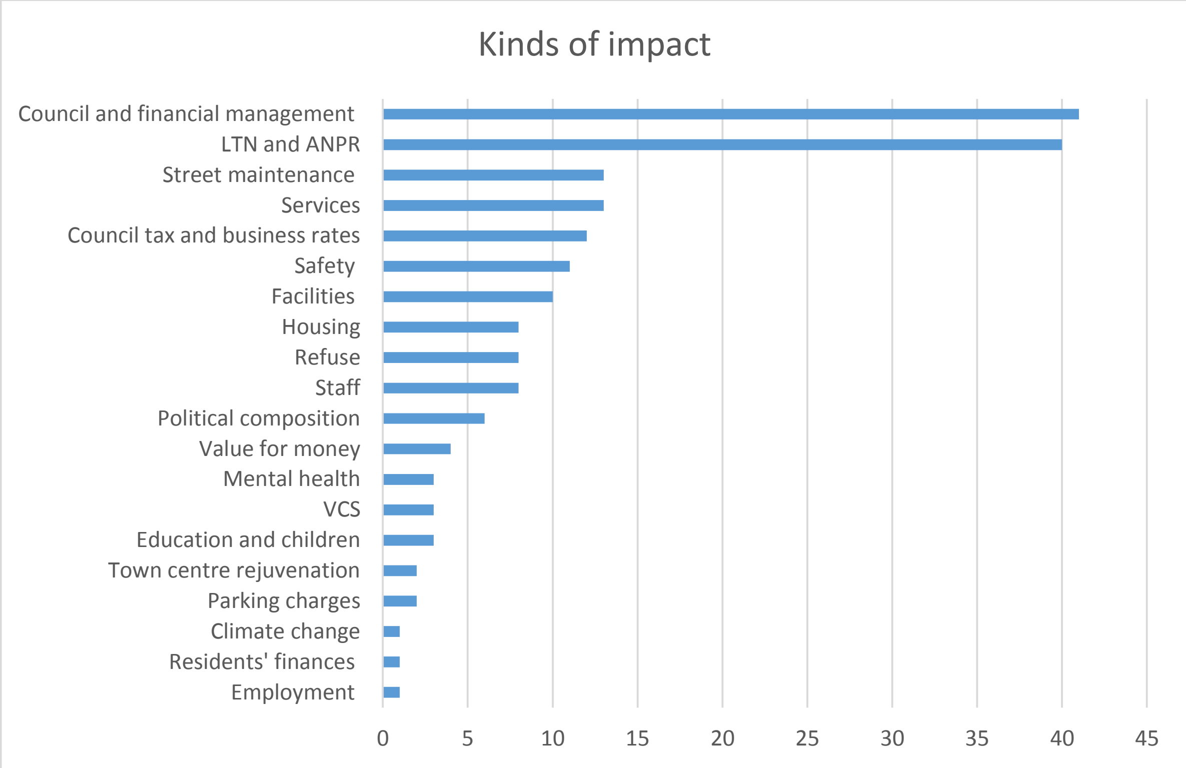
Supporting projects within the council's climate change action plan	42%	34%

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?



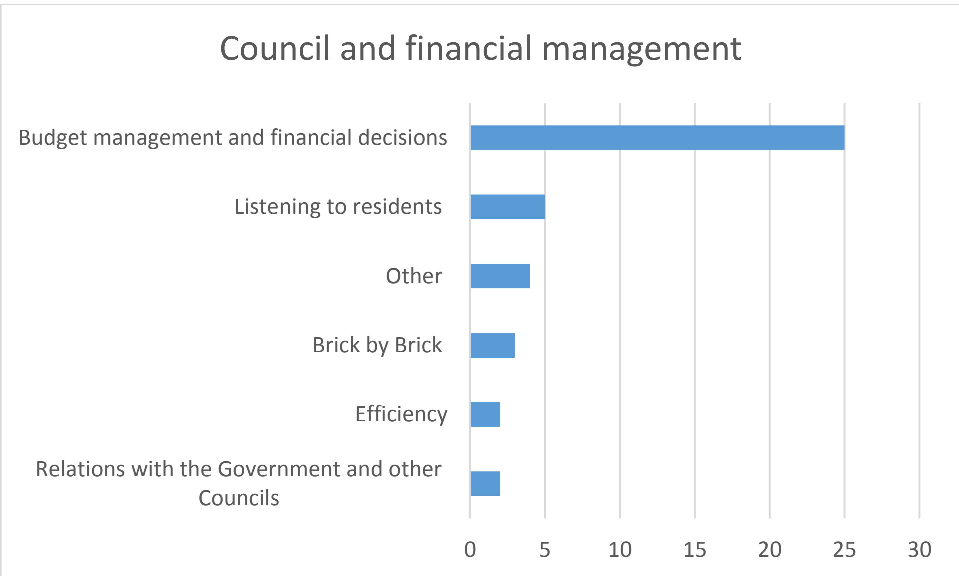
Thirty six respondents explicitly stated whether the proposed budged would affect them. Three respondents explicitly stated that the effect will be negative.

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.

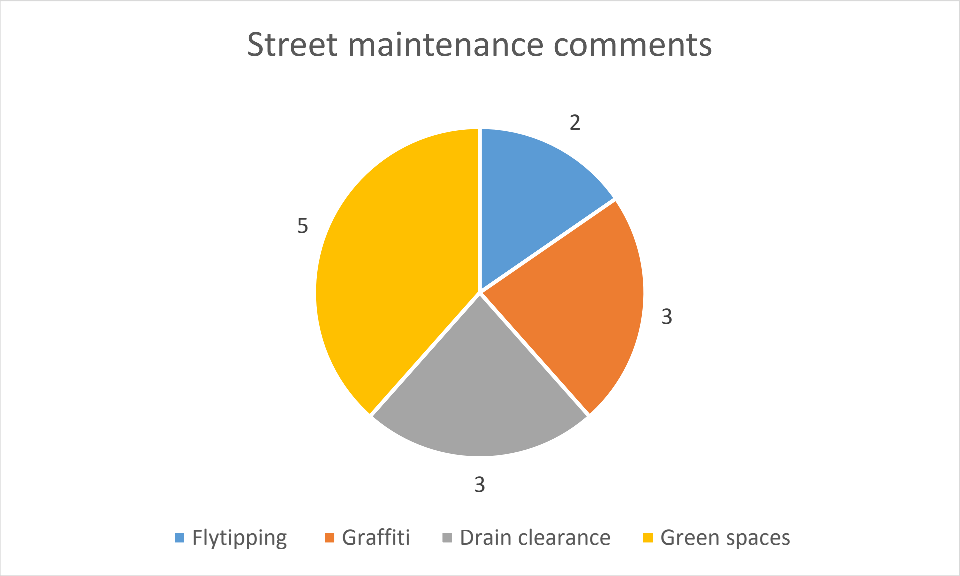
LNT and ANPR (40 responses)

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.*"

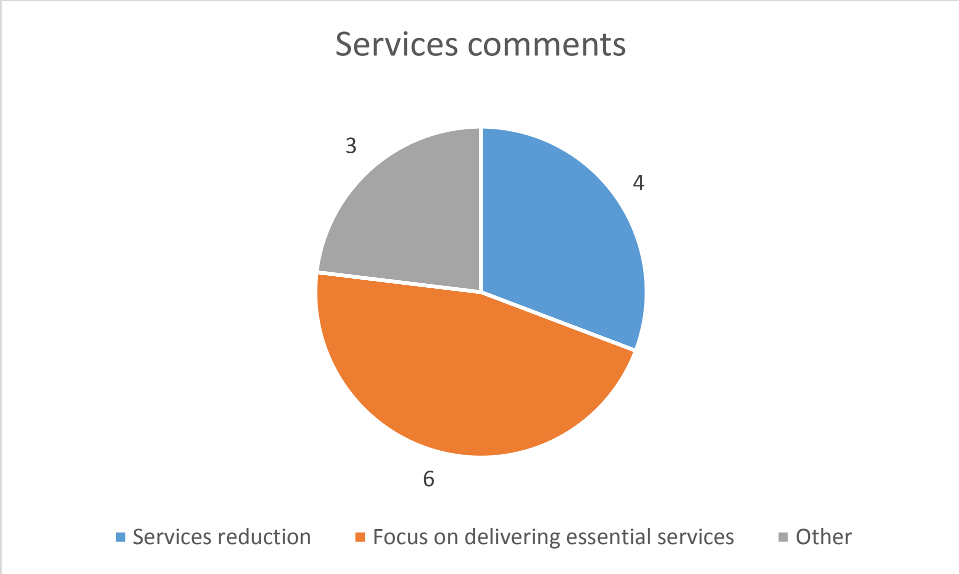
Street maintenance (13 responses)



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."

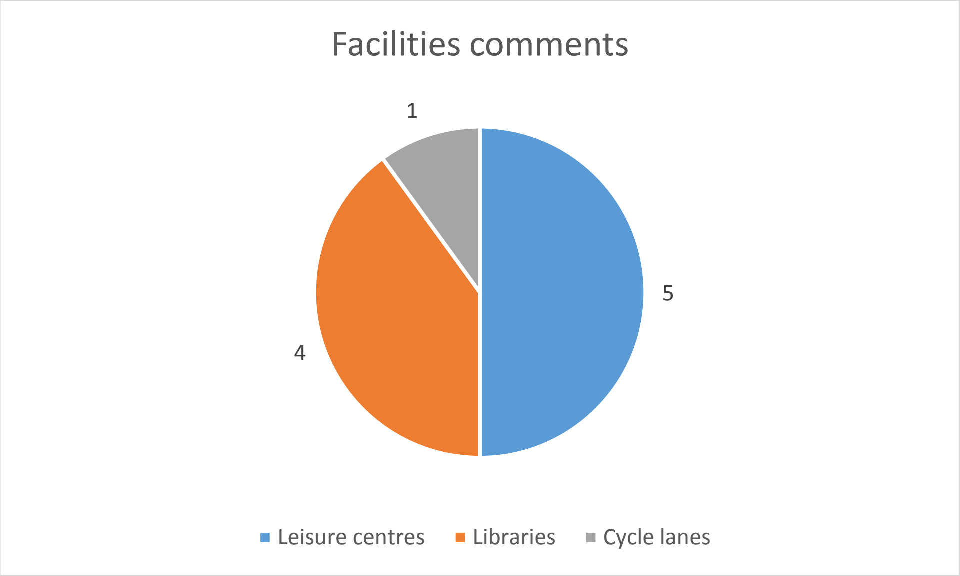
Safety (11 responses)

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)

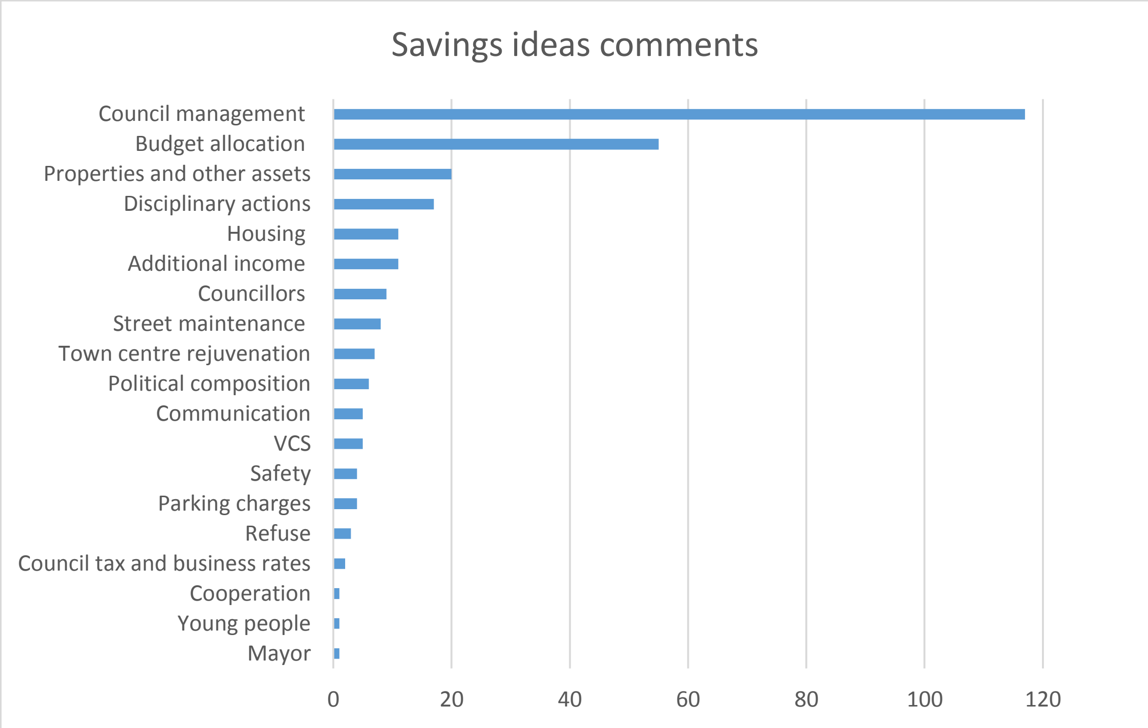


Sub category	Summary of comments
Leisure centres (5)	The respondent indicated the leisure centres, including Purley Leisure Centre should not be closed/ should be reopened.
Libraries (4)	The respondent said that the Sanderstead library should not be closed.
Cycle lanes (1)	The respondent claimed that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

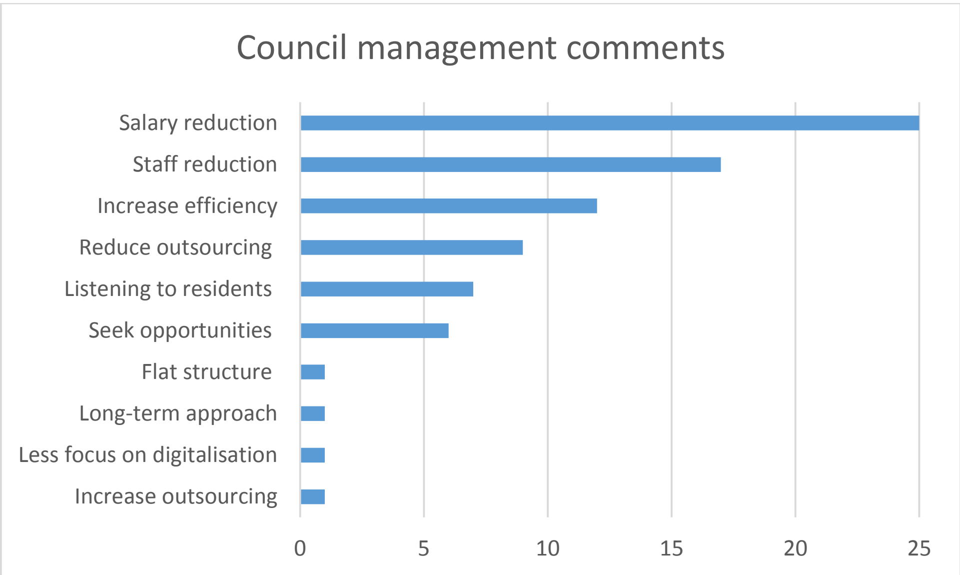
Q5: Do you have any other ideas for how the council can make savings?

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)

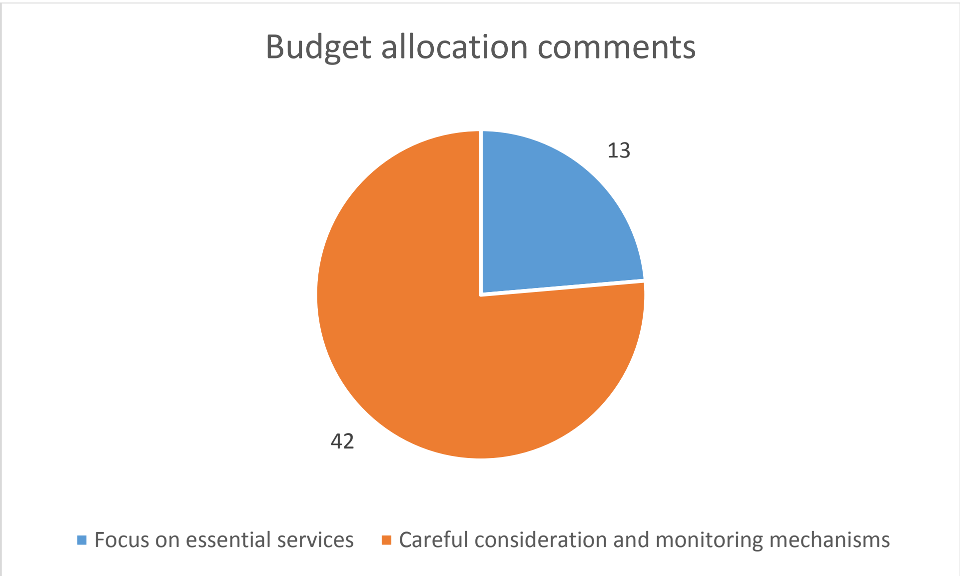


Sub category	Summary of comments
Salary reduction (25)	The salaries should be reduced, especially for the top management.
Staff reduction (17)	The Council should evaluate the staff and take appropriate actions.
Increase efficiency (12)	The Council should improve its efficiency.
Reduce outsourcing (9)	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.”

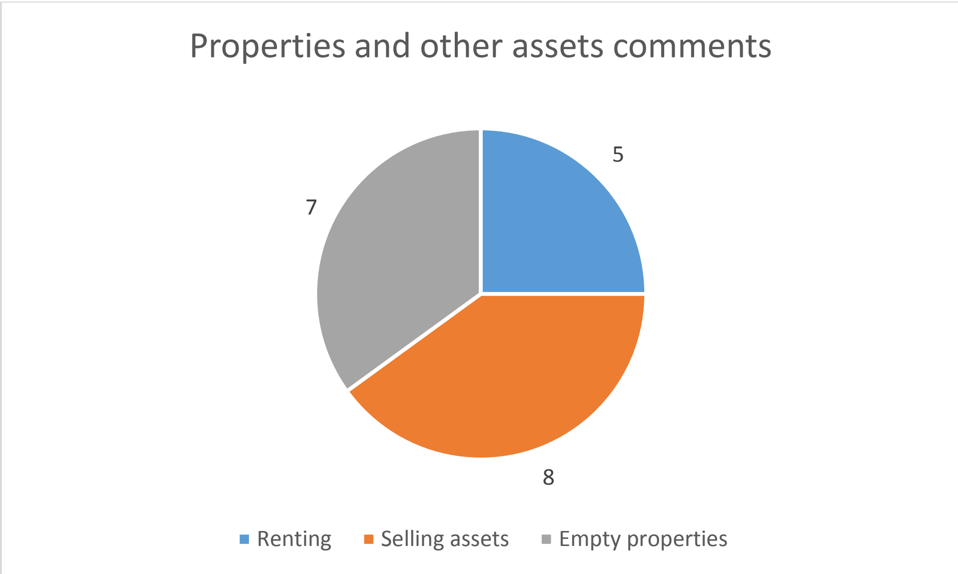
Budget allocation (55 responses)



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.

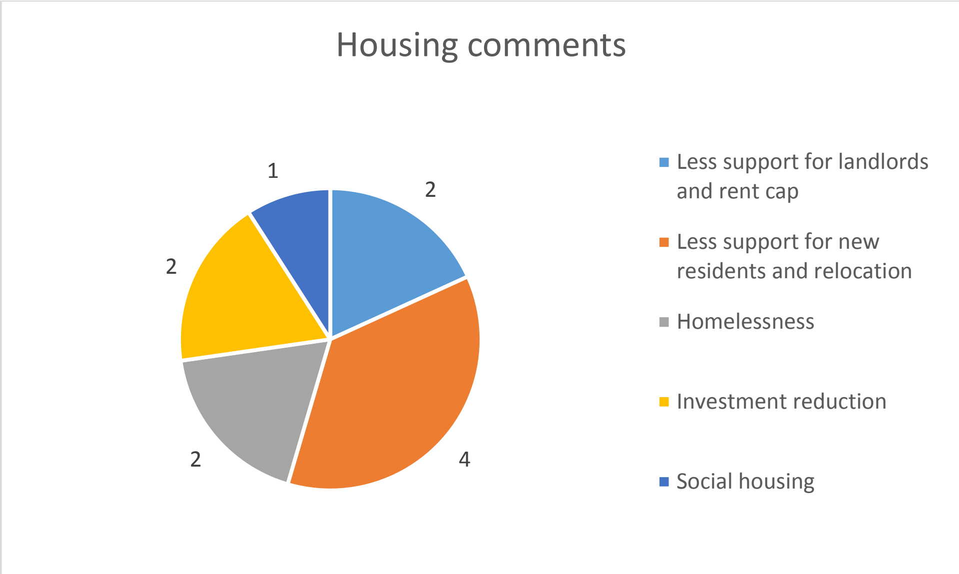
"Make sure any council properties you sell are sold by public auction. Instead of selling them off to your friends families and cronies. These properties belong to the rate payers of Croydon, something you seem to have forgotten."

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.

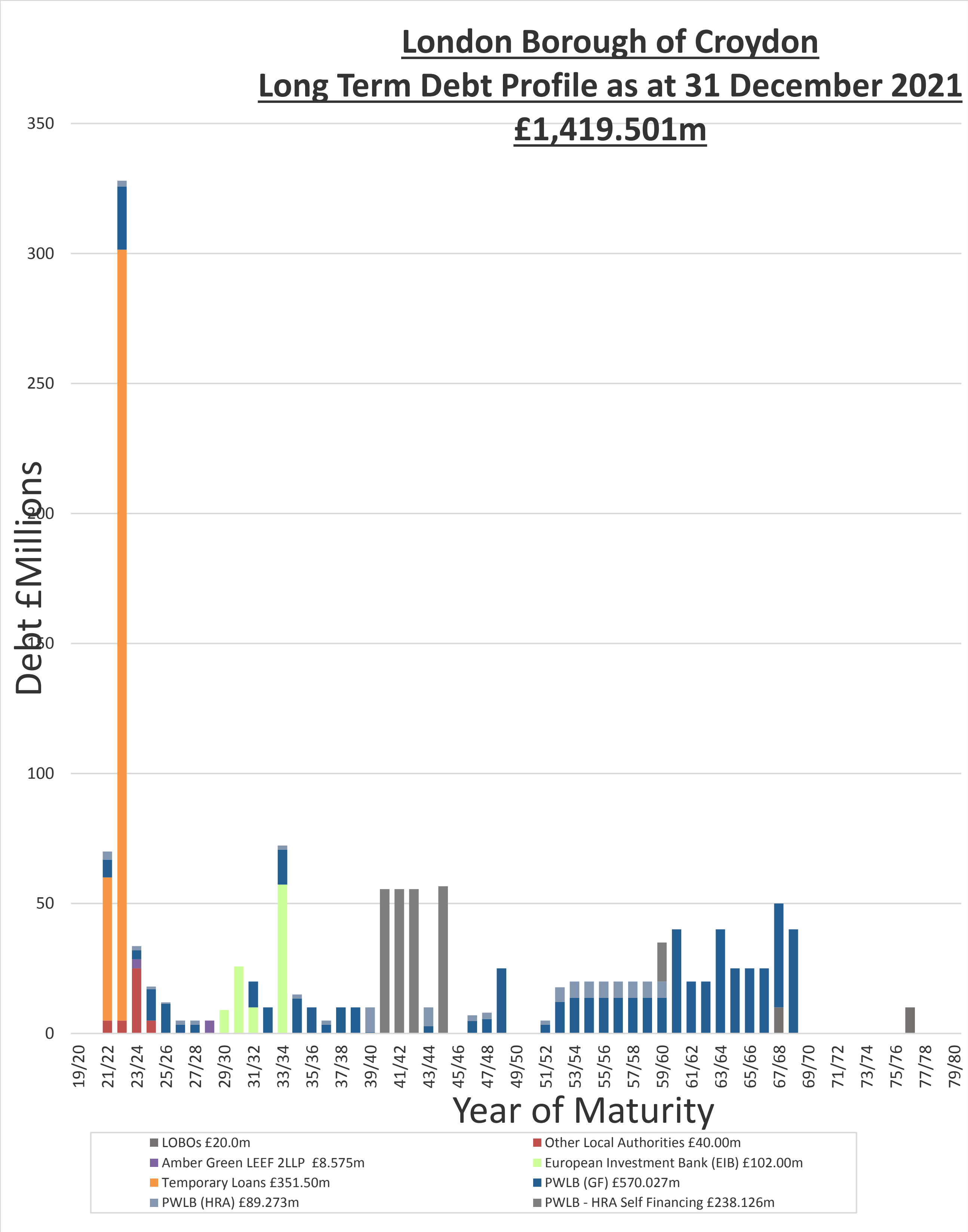
The workplan for 2022/23 seeks to formulate a single focussed Capital Strategy (expenditure and receipts) document to ensure transparency and delivery objectives which is able to be brought back to Cabinet, Scrutiny Committee and GPAC as appropriate, this will be done in collaboration with the new Directly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



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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.

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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

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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 <u>would</u> 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.

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