

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

- 21.1 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 2021/22. The Chief Financial Officer and Section 151 Officer statutory responsibility resides with the Interim Director of Finance, Investment and Risk. This is his statement under the Section 25 requirement of the Act.
- 21.2 All Members of the Council have been advised of the financial challenges the Council faces over the next financial year, the medium and longer term. The levels of government funding for 2021/22 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 MHCLG has not at the time of writing this report been received. The Council is seeking £150m in capitalisation direction support which is necessary to balance this budget and deal with 2020/21 overspends.
- 21.3 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% has further supported increased funding. 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.
- 21.4 These continue to be very challenging times for Croydon Council and therefore it is certain that further difficult 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 2021/2022 and in future years. The refreshed Medium Term Financial Strategy which will be presented to Cabinet in July 2021 will provide an update for Members on the future financial challenges the Council expects to face as well as progress made on the 21/22 Budget and the Renewal Plan. This refreshed document will include the full impact of the review of the Council's company and property investments with a view to limiting liabilities and proposals for transforming the operation of its services so as to deliver good performance on an affordable basis. This will form a strong robust platform and tool to develop and manage future budgets.
- 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 Executive Leadership Team and my conclusions and assumptions have been reported to the Cabinet as part of the Council's overall governance and financial stewardship arrangements. 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 hitherto existed and the expectation must be that services can be and must be delivered within the budget as set.

- 21.5 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:
- a) The structural growth and savings in service expenditure or income;
 - b) The level of increase in local taxation (council tax); and
 - c) The level of reserves and balances.

- 21.6 With regard to the Housing Revenue Account, in 2020/21 where Local Authorities were allowed to raise Housing Rents by CPI+1%. This proposal continues into 2021/22 and this will ensure that the years of lost income from the 1% reduction in rents better supports the upkeep of our housing stock and support tenants in a better way. The updated 30 year HRA Business Plan shows a stable position however the Council need to keep a close eye on pressures in regards to repairs and maintenance and more importantly the investment that will be needed to for Fire Safety works. The development of new housing units within the HRA including the purchase of any units will need to be cost neutral in terms of revenue income covering the costs of managing and maintaining the new units and servicing debt.

Growth, Savings and income options in service expenditure

- 21.7 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), 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

- 21.8 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.
- 21.9 The Current level of Reserves are very low for the size of Croydon and historic mismanagement of this reserve balance has resulted in placing the Council in very weak position. The exact level of current reserves is currently under discussion with the External Auditor and cannot be firmed up until the 2019/20 audit of the accounts has been completed. In the light of this it is not possible to state with certainty as required under section 25 (1)(b)of the Local Government Act 2003; that the reserves are adequate until the audit is completed

The 2021/22 Budget and the MTFs ensures there is a clear plan to build up the reserve balance and each year £5m is being earmarked for contribution to the

General Balance. In light of the Covid-19 pandemic the need to have a strong reserve balance is clear as it allows the Council to create a necessary buffer to tackle unforeseen risks.

21.10 Earmarked reserves are also relevant in supporting the budget and objectives of the council. The level of earmarked reserves reflects a number of policy decisions by the council and supports the revenue budget. The decision to use earmarked reserves for particular purposes needs to reflect the financial strategy objectives of the council. Earmarked reserves have reduced over the last 3 years and are expected to be in the region of £10m at the end of 2020/21. This is a position that needs to be kept under review. The Council has previously relied upon the increased flexibility on the use of capital receipts which allowed the authority to use these to support transformation projects. This funding pays for capacity that would previously have to be funded from earmarked reserves. This option is no longer available due to the absence of capital receipts and the national cessation of the Government's flexibility in this regard.

21.11 Despite budgets being calculated on most likely estimates, not the best estimates basis, the budget contains significant challenges in terms of the delivery of efficiency savings as well as managing demand led pressures and income generation. The Council has set in place plans to deliver departmental efficiencies and generate an additional income of £40m. The external financial environment does remain volatile due to the pandemic. However, subject to :

- the Council introducing a strong corporate process to review and monitor spend throughout the year (mirroring to a degree the current s114 spending control panel) ,
- corporate and political buy in to the new arrangements combined with , prioritising the improvement of and compliance with the financial management arrangements,
- vigorously reducing expenditure as set out in Appendix A and ,
- subject to the receipt of the capitalisation directive at the sum requested ,

it is confirmed that the estimates as set out are robust as required by section 25 (1) (a) of the Local Government Act 2003