

The 2021/22 Budget and Medium Term Financial Strategy

The 2020/21 Approved Budget

1. The 2020/21 budget approved in March 2020 was a balanced budget with an increase in Net Budget Requirement of £6.9m seeing the net cost of the Council's General Fund rise from £270.4m to £277.3m – this net cost being financed by business rates, Revenue Support Grant [RSG], and Council Tax income. Within the Net Budget Requirement was included provision to replenish General Reserves by a £5.0m contribution.
2. A summary of that budget is shown in the table below:

Table 1 – Approved Budget 2020/21 and Changes from 2019/20

	2019/20 Approved Budget (£,000's)	Approved Changes (£,000's)	2020/21 Approved Budget (£,000's)
Children, Families & Education	97,349	2,800	100,149
Health Wellbeing & Adults Place	131,272	1,261	132,533
Resources	104,052	(42,554)	61,498
	(3,176)	16,472	13,296
Total Service Budgets	329,497	(22,021)	307,476
Corporate Budgets	(59,132)	28,928	(30,204)
Net Budget Requirement	270,365	6,907	277,272
Funded by:			
Revenue Support Grant	-	(14,127)	(14,127)
Localised Business Rates	(90,337)	19,918	(70,419)
Council Tax	(180,028)	(12,698)	(192,726)
	(270,365)	(6,907)	(277,272)

3. The above table shows the net approved budgets and changes combining both expenditure and income as well as growth and efficiencies changes. An analysis of the gross budgets and changes is further set out in the table below:

Table 2 – Gross Budgets and Approved Changes

	2019/20 Approved Budget			Approved Changes			2020/21 Approved Budget		
	Gross Spend (£,000's)	Gross Income (£,000's)	Net Spend (£,000's)	Approved Growth (£,000's)	Approved Efficiency (£,000's)	Other Changes (£,000's)	Gross Spend (£,000's)	Gross Income (£,000's)	Net Spend (£,000's)
Children, Families & Education	227,168	(129,819)	97,349	9,501	(6,717)	16	231,208	(131,059)	100,149
Health Wellbeing & Adults	226,150	(94,878)	131,272	19,608	(14,253)	(4,094)	234,454	(101,921)	132,533
Place	172,065	(68,013)	104,052	6,555	(9,831)	(39,278)	140,997	(79,499)	61,498
Resources	213,760	(216,936)	(3,176)	5,385	(3,719)	14,806	236,184	(222,888)	13,296
Total Service Budgets	839,143	(509,646)	329,497	41,049	(34,520)	(28,550)	842,843	(535,367)	307,476
Corporate Budgets	47,003	(106,135)	(59,132)	2,370	(1,992)	28,550	48,408	(78,612)	(30,204)
Net Budget Requirement	886,146	(615,781)	270,365	43,419	(36,512)	-	891,251	(613,979)	277,272
Funded by:									
Revenue Support Grant			-		(14,127)				(14,127)
Localised Business Rates			(90,337)		19,918				(70,419)
Council Tax			(180,028)		(12,698)				(192,726)
			(270,365)		(6,907)				(277,272)

Current Year Forecast Position

4. The Council, like all local authorities, has faced unprecedented financial pressures in 2020/21 as a result of the covid pandemic which has impacted on cost pressures; income streams and ability to deliver against approved efficiencies proposals.
5. Revenue monitoring throughout the year has been strengthened during the year to reflect the increased risks and volatility arising from the impact of the pandemic and is now undertaken on a monthly basis rather than quarterly. As at the end of financial Period 9 (month ending December 2020), the General Fund net spend position is forecast to exceed approved budget by £64.7m. This forecast is after the estimated receipt of one-off funding from the Ministry of Housing, Communities and Local Government [MHCLG] via grants in relation to spending pressures and lost income as a result of the covid pandemic.
6. A summary of those forecasts is set out in the table below:

Table 3 – Period 9 Budget Monitoring and Forecasts Summary

	Forecast Variance (£,000's)
Children, Families & Education	28,435
Health Wellbeing & Adults	24,676
Place	18,063
Resources	4,900
Total Service Budgets	76,074
Corporate Budgets	30,489
Net Budget Requirement	106,563
MHCLG Covid Funding	(41,882)
Net Forecast Overspend	64,681

7. Monthly returns to MHCLG are being submitted, and are compiled from individual service submissions, which report the impact the covid pandemic has had on the Council's forecast variances for 2020/21. The last submission made at the end of January 2021 indicated an adverse impact of £77.0m being the result of the pandemic. This total comprised additional expenditure (£38.1m); unachieved savings (£28.7m); and unachieved income (£10.2m). By implication, if around £77m of the above overspend is attributable to the pandemic, the remaining £30m of the £107m overspend (before covid grant funding) would represent an underlying pressure.
8. In addition to the forecast £64.7m net forecast overspend after one-off additional covid grant funding, further identified risks of £31.8m relating to potential prior-year adjustments pending external audit verification (£6m) and interest accruals (£26m) have the potential to materialise and increase that forecast quantum. Should all identified risks materialise in full the call on general reserves would rise from £65m to £97m.
9. General Reserves brought forward from 2019/20 were £7m and all earmarked reserves are required and expected to be used for specific purposes. The forecast deficit set out in the previous paragraph when compared to limited reserves illustrate the need to request a capitalisation direction for the current financial year. The quantum required will be dependent upon any movement in forecast outturn over the remaining three monthly reporting periods and crystallization of any of the known (or as yet unknown) risks.

The 2021/22 Budget and Three-Year MTFS Process

10. The Council recognised the need to improve its budget development processes in both pressures and efficiencies were recognised and validated and the length of time over which it planned. A revised process was begun in June 2020 to develop a new three-year Medium Term Financial Strategy [MTFS] over the period 2021/22 to 2023/24 rather than solely considering a single year position (the last three-year MTFS had previously been presented to members in October 2018) and at the same time more robust procedures put in place to develop growth and efficiencies proposals; to validate these; and to ensure ownership of those changes by service and corporate managers as well as members.
11. In particular, all proposals are required to be supported by a two-page business case that sets out not only details of the financial impact, but also an assessment of delivery risk; impact on stakeholders; and key milestones and dependencies assumed and required to deliver. These forms have been used as the basis to develop a Project Management Office [PMO] led tracking system that will be used to monitor delivery and progress of all agreed savings to improve their rate of delivery.
12. Proposals put forward have been scrutinised via a series of offer and cabinet portfolio led Budget Challenge sessions and additionally have been regularly reviewed and considered at Executive Leadership Team [ELT] meetings. To provide external challenge, a number of the proposals have been reviewed by PWC consultants as well as via a CIPFA review. In some specific instances the Local Government Association have also contributed to assessing growth and efficiencies proposals – an example being the re-basing and future glide-path savings in relation to Adult Social Care costs. External auditors, the Finance Improvement Panel and members of the Croydon Improvement Panel have also been kept apprised of the overall proposals and been able to make observations and suggestions thereon.
13. In launching the three-year MTFS process, an original assessment of the likely quantum of efficiencies was developed to give services a guideline as to the quantum that would be required to be found over the period 2021/22 to 2023/24. Overall efficiencies of £79m where at that time assessed to be required by 2023/24.
14. The following table illustrates the main components in that original gap analysis:

Table 4 – Initial Provisional Funding Gap

	2021/22 (£,000's)	2022/23 (£,000's)	2023/24 (£,000's)	
Underlying Service Pressures	30,000	35,000	40,000	<i>Based on 2019/20 outturn & future demographics</i>
Pay and Contract Inflation	9,921	19,911	29,901	<i>2% allowance for each</i>
Investment Property Rents	5,400	4,000	4,000	<i>£4m change in 20/21 but strategy changed</i>
Immediate Measures Savings	(15,000)	(15,000)	(15,000)	<i>Assumed in-year measures could continue</i>
Service Area Pressures	30,321	43,911	58,901	
Risk and Contingency Provision	4,652	9,304	13,956	<i>Same req't as in 20/21 - assumed used each year</i>
Group Finances	10,000	10,000	10,000	<i>Dividend and interest considered at risk</i>
Capital Financing Costs	1,648	6,535	8,904	<i>Future Capital Financing + £50m Capitalisation Dir'n</i>
Transformation Fund	-	5,000	5,000	<i>Flexible Receipts Regime ended at end of 2021/22</i>
Re-Build GF Balances	5,000	5,000	5,000	<i>Need to rebuild balances against risks</i>
Other Corporate Budgets	4,945	(1,600)	(1,569)	
Corporate Items Pressures	26,245	34,239	41,291	
Service and Corporate Pressures	56,566	78,150	100,192	
Growth in NNDR and RSG	(1,714)	(3,461)	(5,244)	<i>Assumed 2% increase - base unchanges</i>
Council Tax Increases	(7,709)	(11,718)	(15,807)	<i>Assumed 2% increase - base unchanges</i>
OVERALL GAP	47,143	62,971	79,141	
Annual Change	47,143	15,828	16,170	

Latest Budget and MTFs Position

15. Against the above provisional determination of the likely funding gap, proposals have been put forward, challenged and validated for both spending pressures and efficiency proposals. The draft Budget and MTFs report being prepared for consideration by Cabinet at the start of March 2021 and thereafter to be considered by Full Council can be summarised in the table below:

Table 5 – Summary of Budget Change Proposals by Directorate

	Incremental Annual Change			Cumulative Change		
	2021/22 (£,000's)	2022/23 (£,000's)	2023/24 (£,000's)	2021/22 (£,000's)	2022/23 (£,000's)	2023/24 (£,000's)
<u>Efficiencies Proposals</u>						
Children, Families & Education	(9,433)	(4,694)	(2,296)	(9,433)	(14,127)	(16,423)
Health, Wellbeing & Adults	(17,494)	(10,745)	(9,505)	(17,494)	(28,239)	(37,744)
Place	(12,759)	(7,378)	(3,513)	(12,759)	(20,137)	(23,650)
Resources	(4,982)	(1,693)	(1,277)	(4,982)	(6,675)	(7,952)
Total Efficiencies Proposals	(44,668)	(24,510)	(16,591)	(44,668)	(69,178)	(85,769)
<u>Growth Requests</u>						
Children, Families & Education	20,433	85	77	20,433	20,518	20,595
Health, Wellbeing & Adults	29,251	6,919	6,880	29,251	36,170	43,049
Place	10,102	800	1,000	10,102	10,902	11,902
Resources	13,585	(720)	(863)	13,585	12,865	12,002
Corporately Held Service Growth	10,463	10,673	10,886	10,463	21,136	32,022
Total Growth Requests	83,834	17,757	17,980	83,834	101,591	119,570
Service Area Growth and Efficiencies	39,166	(6,753)	1,388	39,166	32,413	33,801
Corporate Pressures	16,433	47,213	9,614	16,433	63,646	73,260
Corporate Funding (Ctx/NNDR/RSG)	(5,582)	(12,083)	(8,870)	(5,582)	(17,665)	(26,535)
	10,851	35,130	744	10,851	45,981	46,725
TOTAL GROWTH AND EFFICIENCIES	50,017	28,377	2,132	50,017	78,394	80,526
Capitalisation Direction Request				(50,000)	(25,000)	(5,000)
REMAINING GAP				17	53,394	75,526

16. Whilst the Council has been successful in identifying efficiency proposals in excess of the originally target £79m, growth pressures significantly exceed the level originally modelled.

The significant proportion of service growth that materialises in 2021/22 reflects the need to re-base budgets in order to reflect underlying run-rates required to be addressed.

17. In submissions to MHCLG, the Council has provisionally identified a request for a £50m capitalisation for 2021/22. Such a level of capitalisation, if approved, would produce a balanced budget on latest budget change proposals. Should a direction at that level not be forthcoming a budgetary Gap in 2021/22 would emerge. Although the current forecast outturn for 2020/21 allow for general reserves to be increased from £7m to £12m and the proposals for 2021/22 allow for a further £10m contribution, any diminishing of these contributions would represent a significant risk to the robustness of the budget when facing a challenging financial environment and requiring the delivery of significant savings.
18. Although the Council has requested further capitalisation directions in the second and third year of the MTFS (£25m and £5m respectively), MHCLG have indicated that at this stage they would not consider making directions beyond the current one-year spending review period. Without such certainty, on existing budget proposal forecasts, up to £78m of further savings would need to be found for 2022/23 if further capitalisation or early rebuilding of reserves is not delivered.
19. The scale of re-balancing the underlying budgets over the three years cannot be underestimated – even if all efficiencies are delivered as proposed and pressures contained within levels allowed in the MTFS, a further £80m of efficiencies would be required to not be reliant on one-off capitalisation direction resources over the three years. Such a level of changes represent a 29% reduction when compared to the 2020/21 Net Budget Requirement of £277m. However it is worth considering the £80m further requirement against the £891m of General Fund 2020/21 budgeted spend to gauge the scale of the future challenge.
20. Full details of growth and efficiencies proposals are set out in the appendices to this report, but the 2021/22 changes are summarised in the table below:

Table 6 – Proposed Movement in Budget 2020/21 to 2021/22

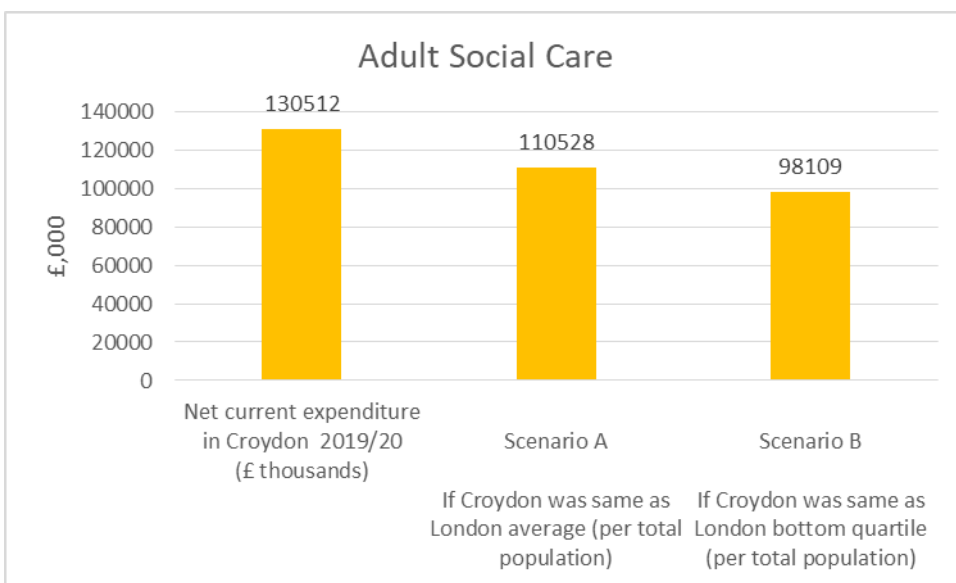
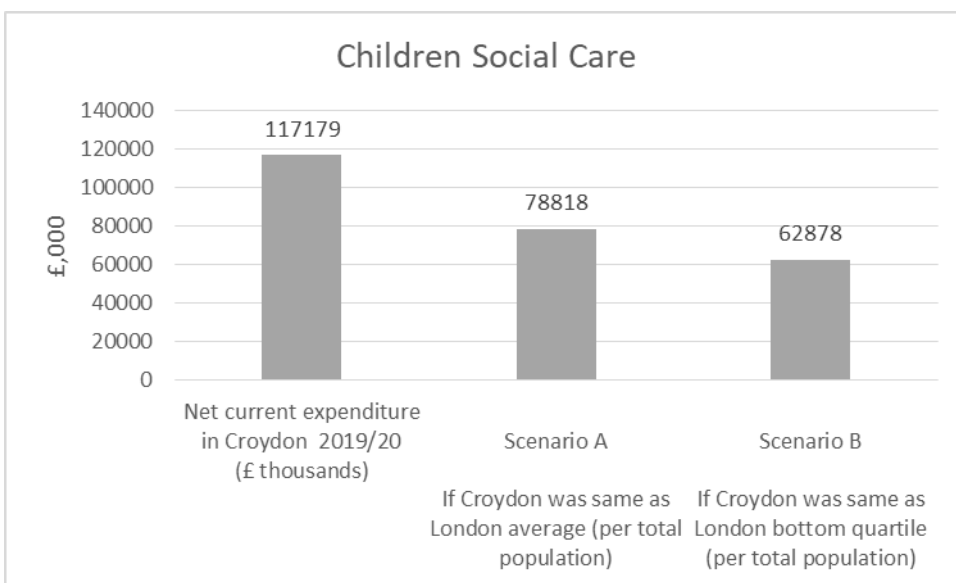
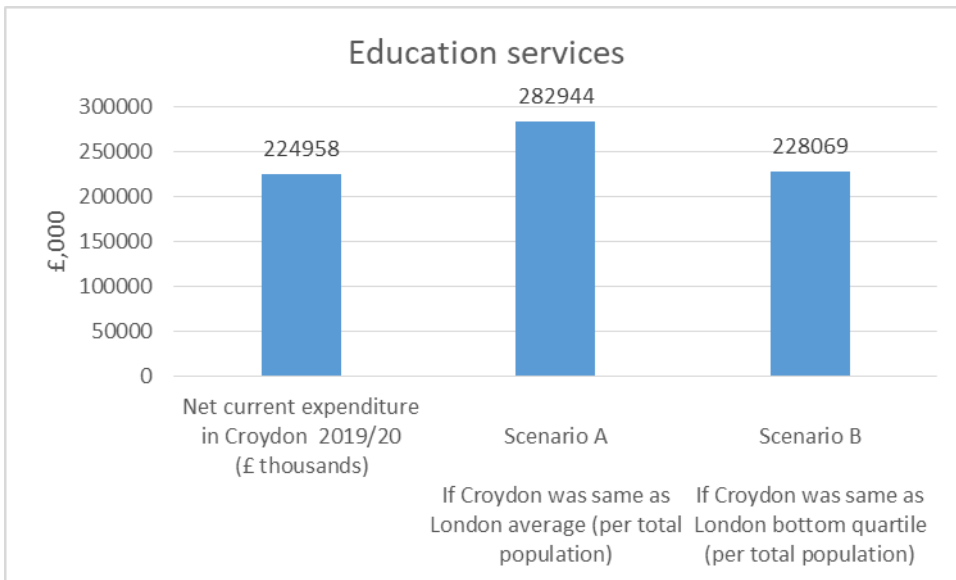
	2020/21 Approved Budget (£,000's)	2021/22 Proposed Growth (£,000's)	2021/22 Proposed Efficiency (£,000's)	2021/22 Other Adj's (£,000's)	2021/22 Proposed Budget (£,000's)	Net Change (£,000's)	Net Change (%)
Children, Families & Education	86,892	20,433	(9,433)	(282)	97,610	10,718	12%
Health, Wellbeing & Adults	121,177	29,251	(17,494)	-	132,934	11,757	10%
Place	45,766	10,102	(12,759)	(186)	42,923	(2,843)	(6%)
Resources	37,682	13,585	(4,982)	468	46,753	9,071	24%
	291,517	73,371	(44,668)	-	320,220	28,703	10%
Corporate Budgets	(13,124)	26,896	(17)	-	13,755	26,879	305%
Capitalisation Request	-	-	(50,000)	-	(50,000)	n/a	n/a
Net Budget Requirement	278,393	100,267	(94,685)	-	283,975	5,582	2%
Funded By:							
Revenue Support Grant	(14,127)	-	(78)	-	(14,205)	(78)	(1%)
Localised Business Rates	(71,540)	-	(134)	-	(71,674)	(134)	(0%)
Council Tax	(192,726)	-	(5,370)	-	(198,096)	(5,370)	(3%)
	(278,393)	-	(5,582)	-	(283,975)	(5,582)	(2%)

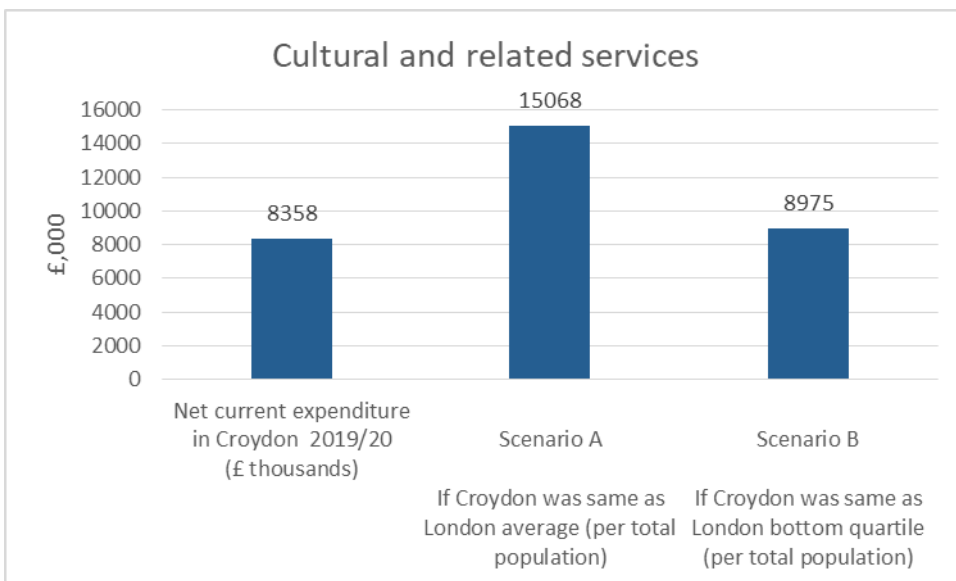
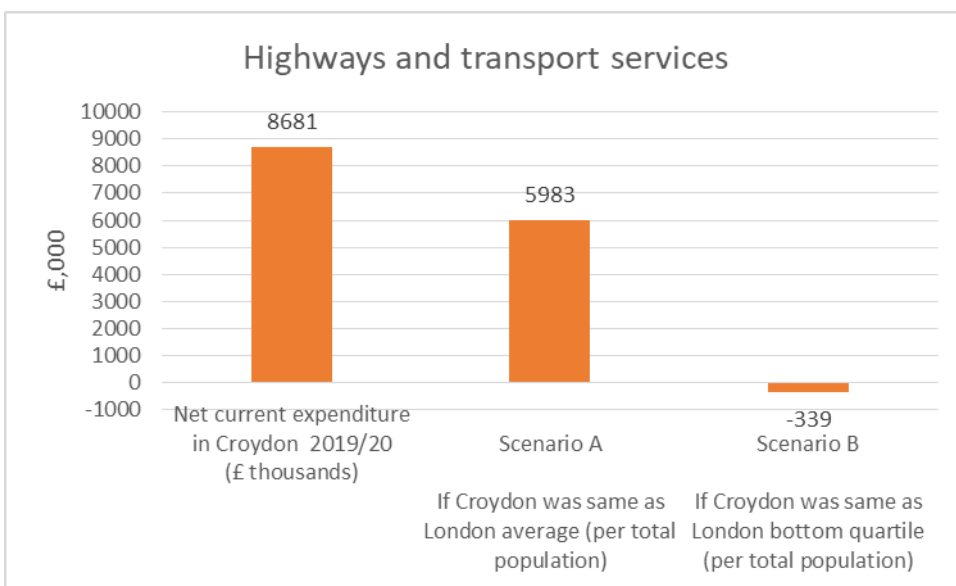
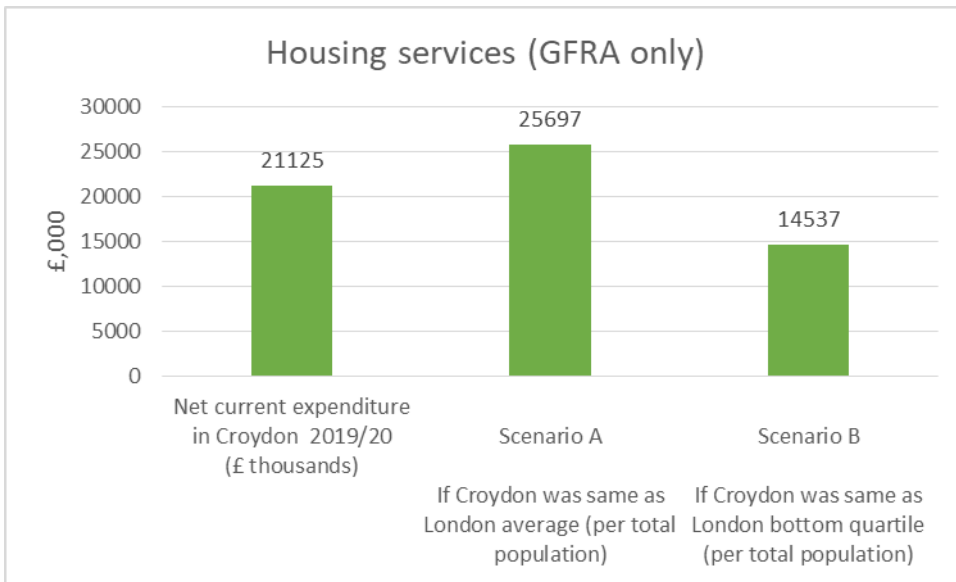
Comparative Benchmarking

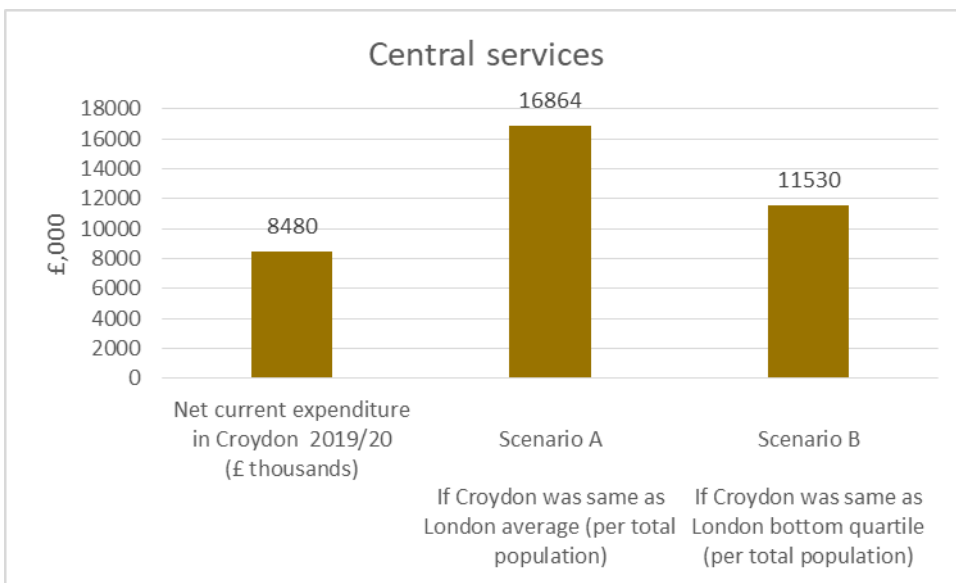
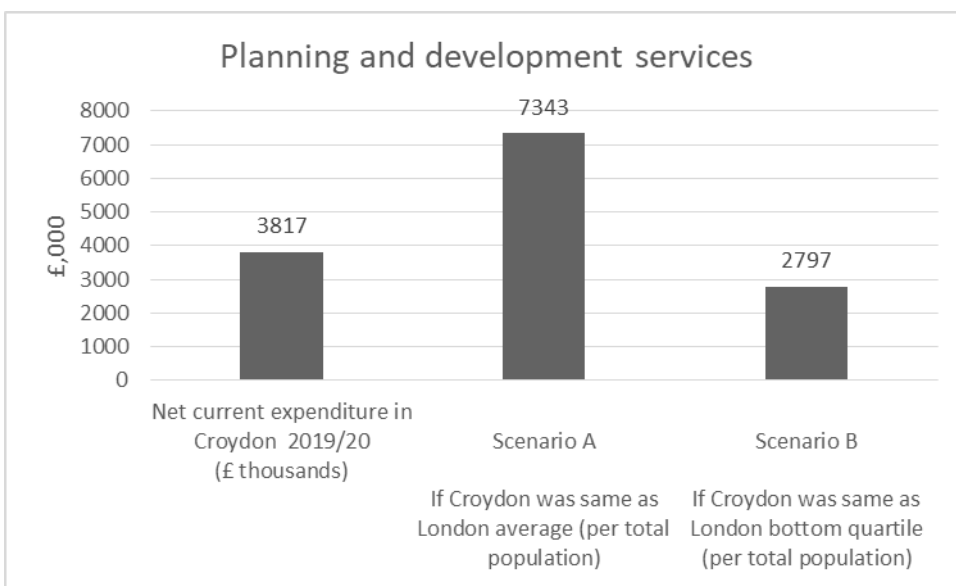
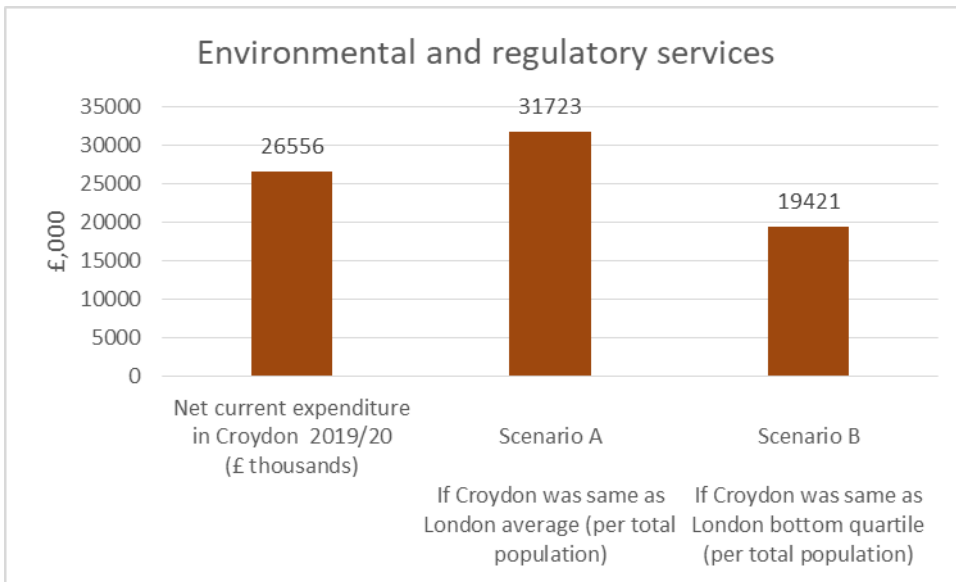
21. In order to inform the challenge process around the departmental growth requests and potential to deliver efficiencies, benchmarking data has been referred to in order to assess potential to bridge the budgetary gap. Whilst any benchmarking has to be used with caution as differing organisations often classify service or cost elements in slightly different ways and comparisons may often unearth underlying causes for differences not immediately apparent at first sight.
22. That said, the following tables set out a comparison between Croydon's actual spending in 2019/20 and other councils in London. The figures extrapolate what Croydon would spend if its unit costs were at London average and London bottom quartile.
23. The service divisions reflect the way MHCLG collects the data, which is not exactly aligned to the way the council's services are structured.
24. The information presented is at the top level. Further analysis is possible at a more granular level, but due to inaccuracies in the way the costs are attributed in each council comparison is much more difficult.
25. The following table sets out the council's actual 2019/20 outturn for each category and shows the council's relative position in terms of spend per head of population. Spending on Adults and Children's social care are highlighted as looking comparatively high. In the case of Children's social care this is due mainly to UASC spending.

Service	Net current expenditure in Croydon 2019/20 (£ thousands)	Rank in London (1 is highest spend per total population and 28 is lowest spend per total population)
Education services	224,958	22
Highways and transport services	8,681	17
Children Social Care	117,179	1
Adult Social Care	130,512	5
Public Health	21,230	19
Housing services (GFRA only)	21,125	14
Cultural and related services	8,358	24
Environmental and regulatory services	26,556	14
Planning and development services	3,817	16
Central services	8,480	24
TOTAL SERVICE EXPENDITURE	570,897	16

26. The comparisons are set out in the following charts:







Note: *Central services includes only 'front line' services provided centrally and does not include support services such as finance, legal, ICT, HR etc: those costs are distributed to the departments and are included in the charts above.*

CAPITAL PROGRAMME

27. The Council's draft Capital Programme was presented to Cabinet on 18th January 2021. It was noted that in order to move the Council to a financial sustainable footing, work continues on reviewing operational and service delivery costs to bring them to a more appropriate level and this approach applies to the Capital Programme it better reflects the Council's priorities in light of its ongoing financial challenges.
28. Whilst the 18th January Cabinet report presented a draft capital programme, this report provides the final confirmed capital programme report. Furthermore, this report also provides for the Housing Revenue Account (HRA) Capital programme, which is further detailed within Table 7
29. The Council has worked to re-align the capital programme to ensure that it is in proportion to its corporate priorities in light of the current financial challenges. Council will need to prioritise delivery of the Capital Programme based on affordability and critical needs. Other projects which are already in progress will be scaled back accordingly. The projects within the capital programme which are funded from borrowing will be subject to further review, in the light of the impact on the Council's revenue budget and no contractual commitment should be entered into until a review of revenue affordability has been concluded
30. The Capital Programme is typically made up of recurring key projects and programmes linked to the Council's statutory duties such as highways maintenance programme and the Education Estates maintenance Programme. It also includes various upkeep of the Council's own assets such as digital infrastructure, the corporate property Programme. Whilst these are not statutory this spend is important to ensure that the Council's infrastructure is repaired and maintained to protect the value of these assets and ensure they are fit for purpose to deliver vital services to the public.
31. A large proportion of the Capital Programme is funded using borrowing. There is a direct impact of additional borrowing on the Council's revenue account from borrowing as the Council will need to pay for interest costs that arise from taking on borrowing. In addition, as per the Local Government Act 2003, all Local Authorities are required to provide for Minimum Revenue Provision within its MTFs, which as becomes an additional charge to the Revenue account. Both these costs are factored within the interest payable & MRP budgets set out earlier in this report.
32. As part of the Council's regular budget monitoring requirements the Council will provide regular updates on the progress of the delivery of the capital programme.
33. Table 7 below provides a detailed breakdown of various schemes per Directorate.

Table 7 – Capital Programme and Funding

Description	Budget 2021/22	Budget 2022/23	Budget 2023/24	Total Budget 2021/24
	£000s	£000s	£000s	£000s
DFG	2,400	2,400	2,400	7,200

Empty Homes Grants	500	-	-	500
Bereavement Services - burial land	600			600
Bereavement services – crematorium	465	-	-	465
Health, Wellbeing and Adults	3,965	2,400	2,400	8,765
Education – Fire Safety Works	1,200	300	-	1,500
Education – Fixed term expansion	260	34	-	294
Education – Major Maintenance	2,945	3,000	3,000	8,945
Education – Permanent Expansion	180	44	-	224
Education – Special Educational Needs	8,892	352	555	9,799
Education – other	200	-	-	200
Children, Families and Education Sub Total	13,677	3,730	3,555	20,962
Asset Management	155	-	-	155
Clocktower chillers	462	-	-	462
Corporate Property	2,000	2,000	2,000	6,000
Feasibility Fund	330	330	330	990
Fieldway Cluster (Timebridge community centre)	121	-	-	121
Grounds Maintenance Insourced Equipment	1,200	-	-	1,200
Leisure centre invest to save	140	70	-	210
Libraries Investment	1,610	-	-	1,610
Measures to mitigate travellers	73	73	73	219
Museum archives	100	-	-	100
Parking	475	475	-	950
Play equipment	815	-	-	815
Safety - Digital Upgrade of CCTV	655	-	-	655
SEN Transport	1,275	-	-	1,275
Description	Budget 2021/22	Budget 2022/23	Budget 2023/24	Total Budget 2021/24
	£000s	£000s	£000s	£000s
Signing	112	-	-	112
South Norwood Regeneration	1,323	849	74	2,246

Waste and Recycling	1,558	-	-	1,558
Waste and Recycling - Don't Mess with Croydon	768	-	-	768
Place sub-total	13,172	3,797	2,477	19,446
ICT Refresh & Transformation	6,200	6,200	6,200	18,600
People ICT Programme	1,521	-	-	1,521
Uniform ICT upgrade	-	-	3,719	3,719
Finance and HR System	400	-	-	400
Resources sub-total	8,121	6,200	9,919	24,240
Highways	17,231	8,051	0	25,282
Electric Vehicle Charging Points	500	-	-	500
Growth Zone	10,900	21,000	14,000	45,900
New Addington wellbeing centre	2,979	10,833	0	13,812
Park Life	3,758	4,773		8,531
Asset management - Stubbs mead	3,132	-	-	3,132
Total TBC	38,500	44,657	14,000	97,157
General Fund	77,435	60,784	32,351	170,570
MHCLG capitalisation direction	50,000	25,000	5,000	80,000
Total Including Capitalisation	127,435	85,784	37,351	250,570
Major Repairs and Improvements Programme	26,771	26,771	26,771	80,313
Special Transfer Payments	180	180	180	540
BxB Properties Acquired	54,535	0	0	54,535
HRA Total	81,486	26,951	26,951	135,388
Capital Programme Total	208,921	112,735	64,302	385,958

Sources of Funding

	Budget 2021/22	Budget 2022/23	Budget 2023/24	Total MTFS budget
	£000s	£000s	£000s	£000s
Borrowing	42,254	22,970	5,722	70,946
Borrowing – GZ	10,900	21,000	14,000	45,900
S106	771	-	-	771
CIL	6,800	6,800	6,800	20,400
School Condition Allocation	4,145	3,300	3,000	10,445
Special Provision Capital Funding	897	152	355	1,404
Basic Need Funding	640	78	-	718
ESFA	5,003	-	-	5,003
Other grant - DFG	2,400	2,400	2,400	7,200
Other grant - Football Foundation	2,000	3,073	-	5,073
Other grant - London Marathon	250	250	-	500
Other Grant - ORCS	300	-	-	300
Historic England	374	511	74	959
Other grants - GLA	701	250	-	951
Total Funding	77,435	60,784	32,351	170,570
MHCLG capitalisation direction	50,000	25,000	5,000	80,000
Total General Fund Funding after Capitalisation	127,435	85,784	37,351	250,570

	Budget 2021/22	Budget 2022/23	Budget 2023/24	Total MTFS budget
	£000s	£000s	£000s	£000s
Major Repairs Allowance	12,506	21,209	21,209	54,924
HRA - Revenue Contribution	11,000	1,742	1,742	14,484
HRA - Use Of Reserves	19,805	4,000	4,000	27,805
GLA Funding of BxB Properties	8,500	tbc	tbc	8500
Borrowing BxB Properties	29,675	tbc	tbc	29675
HRA FUNDING	81,486	26,951	26,951	135,388
Overall Funding Requirement	208,921	112,735	64,302	385,958