

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
<p>CORPORATE PRIORITY/POLICY CONTEXT:</p> <p>The annual budget is the formal resource allocation process that enables the delivery of the Council’s policies and priorities.</p> <p>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.</p> <p>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.</p>	
<p>FINANCIAL SUMMARY:</p> <p>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.</p> <p>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.</p> <p>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.</p>	

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 Section 52ZC (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 [*RIP*] 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 Communities, Regeneration & Economic Renewal	(12,471)	900	(6,984)	1,000	(3,401)	1,000
Assistant Chief Executive Resources	(5,766) (2,815)	6,649 14,638	(707) (1,508)	(720) (200)	(855) (534)	(863) -
Service Savings & Growth	(45,668)	71,871	(24,710)	7,084	(16,591)	7,094
Corporate & Cross-Cutting	(34,395)	58,192	22,573	8,430	(11,639)	23,269
All Savings & Growth	(80,063)	130,063	(2,137)	15,514	(28,230)	30,363
		50,000		13,377		2,133
Change in Capitalisation Direction *	(50,000)		25,000		20,000	
Remaining Incremental Budget Gap		-		38,377		22,133

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

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

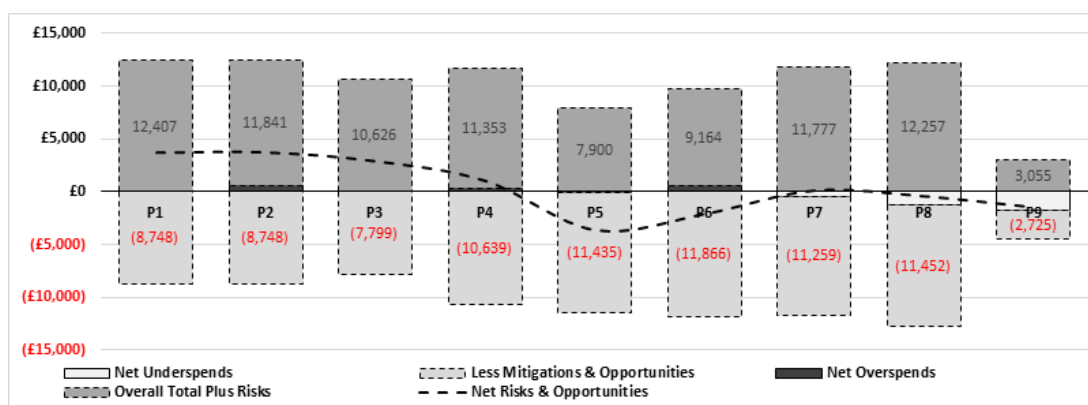
3. In-Year Financial Performance

- 3.1. The additional spending controls and improvements in overall financial grip introduced in late 2020 began to deliver benefits immediately and by the end

of 2020/21 the amount required under the approved capitalisation direction was £4.2m less than the originally requested £70m and forecast at the time of the March 2021 Council meeting. As part of that outturn and capitalisation direction usage, general reserves were able to be restored to more resilient levels of £27.5m.

- 3.2. As part of the Croydon Renewal Plan, the Council has introduced a more rigorous financial monitoring regime – reporting monthly to the Corporate Management Team [CMT] and to Cabinet. This new-style report recognises not only the hard forecast position but also potential other risks or opportunities and progress in delivering against approved savings initiatives.
- 3.3. On 21st February 2022 Cabinet considered the most recent (Period 9 – December 2021) General Fund revenue monitoring report which forecasts a year end underspend of £1.8m, an improvement of £0.6m on the previous month forecast. Potential risks remain that may materialise amounting to £3.1m but officers continue to work to mitigate those risks. Offsetting those risks are £2.7m of potential opportunities that may result in mitigating the risks or increasing the forecast underspend.
- 3.4. A review of publicly reported forecasts across other outer London boroughs around the mid-year point would suggest that the Council is performing well in managing its in-year budgets without the need to draw down on reserves or fully utilise the one-off Covid grant provided as part of the 2021/22 Local Government Finance Settlement [LGFS]. Indeed, the anticipated outturn for 2021/22 is expected to see further contributions to help rebuild earmarked reserves as has already taken place with regard to general reserves. The forecast is based on known issues at this date but given the challenges the authority has these numbers will inevitably change. Further work is being undertaken in relation to business rates and the collection fund. This will be reported to members as part of the outturn report in July. All risks will continue to be monitored and actions taken as necessary as part of routine monthly financial reporting to mitigate their potential impact.
- 3.5. The following chart is taken from the detailed Period 9 Financial Monitoring report and provides an overview of the monthly monitoring trends during the year:

Chart 1 – Monthly General Fund Revenue Monitoring Trend



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

4. Economic Outlook

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

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

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

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

- a) **Contract Inflation** – The Bank of England [*BoE*] has been granted independent powers to set monetary policy with the overall aim of maintaining Consumer Price Index [*CPI*] inflation at around 2%. Whilst the longer-term effects of the banking crisis / world recession have seen low levels of inflation over recent years, most recently major economies have seen significant increases above the BoE target – currently 5.4% and forecast by the BoE to peak at 7% by April before

falling back over the following two years. Our assumptions in the March 2021 MTFS allowed for BoE target 2% contract inflation over future years – each 1% approximating to a budget pressure in the region of £4m for the Council. The budget allows for inflationary costs at an appropriate level but it must be clear that the council will not as a matter of course pick up all the inflationary costs of our partners. Those who do business with the Council will be expected to absorb some of these pressures and not pass on these costs to our residents.

- b) **Pay Award Inflation** - The nationally negotiated local government pay award for 2021/22 is expected to be settled at around 1.75% - this is higher than the 1.50% allowed for when the current year budget was approved in March 2021. The labour market remains robust with the impact of the Covid pandemic and the end of the furlough scheme not being so far as adverse as was forecast a year ago. The February 2022 BOE Monetary Policy Report projects average wage growth of just under 5.00% by the end of 2022, falling back to around 2.5% in the medium term – each 1% approximating to a budget pressure in the region of £2m for the Council. Whilst the Government are expected to continue with public sector pay restraint, the local government pay award is determined outside of their direct control, but may be reflected in government funding settlements to Councils.
- c) **Interest Rates** – Interest rates have been at historically record lows over an extended period since the 2009 recession. Two rises over the last three months point to further rises of perhaps another one percent over the next twelve months before levelling out as is forecast in the latest Monetary Policy Report. With around one third of current council borrowing due for redemption or re-financing over the next three-year MTFS period, forecast interest rate changes have been factored in to the budgetary position but are subject to potential variance beyond those planning assumptions.
- d) **Population and Households** – The estimated population of Croydon has grown at a faster rate than the national average since 2010 (as has London as a whole) seeing 9.0% growth over the last ten years. This is also reflected in property numbers where Croydon has seen an increase of 11.1% in the period 2010 to 2021, and is higher than the national average (9.1%). The higher-than-average changes in demographics (only partly offset by Council tax base income increases) brings with it additional spending pressures – something not taken into account in the Settlement Funding Assessment grant provided by government since 2013 when it was last base-lined.

5. Local Government Finance Settlement

- 5.1. The Provisional Local Government Finance Settlement [LGFS] was announced by Ministerial statement on 16th December 2021 and was confirmed in the Final LGFS announced on 7th February 2022.
- 5.2. An analysis of the implications of the Provisional LGFS was presented to the January 2022 Cabinet meeting in the report on “Medium Term Financial Strategy 2022/23 to 2024/25 – Update on Position”. The Final LGFS has seen an additional £1,497k allocated to the Council for 2022/23 (£1,484k for under-indexing of the business rate multiplier now based on RPI rather than the previous CPI rates, and an additional £13k in adjusted allocation of the Lower Tier Services Grant). An additional announcement has also been made with regard to the Public Health Grant for 2022/23 – rising by £624k (2.8%) but this is ring-fenced and thus offset by equivalent and corresponding spend forecasts in public health.
- 5.3. The Government’s own preferred measure of the resources available to local authorities to fund service delivery is Core Spending Power [CSP] and this was published as part of the LGFS papers. It shows a £22.3m (7.1%) increase in the assessed CSP between 2021/22 and 2022/23. A summary of that published calculation is summarised in the table below:

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

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

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

- 5.4. Of particular note in the Government’s CSP calculations summarised above is their assumption that Council Tax charges would be increased by both a 1.99% general increase and a further 1.00% as an Adult Social Care Precept. The budget proposals set out in this report assume that the Council’s own Council Tax charges are increased in line with this assumption.
- 5.5. Whilst a 7.1% increase in CSP funding is to be welcomed, it should be noted that this is less than the “*estimated average real-terms increase of 3% a year in core spending power*” that was stated in the October 2021 Autumn Budget

and Spending Review when the current and projected inflation rates are taken into account.

- 5.6. The LGFS again promises a review and re-basing of the Settlement Funding Assessment [*SFA*] formula. However, this review has been promised before and has yet to materialise. When the formula was last determined in 2013/14, the Council was allocated £10m less in funding growth than the formula calculated should have been allocated. This reduction was top-sliced to pay for damping grants given to Councils where grant would otherwise have significantly fallen. This reduction in funding for Croydon has fundamentally remained from 2013/14, and is why the Council would welcome the implementation of a new fair funding formula.
- 5.7. The Settlement Funding Assessment (Revenue Support Grant and Locally Retained Business Rates) as determined by government in the Local Government Finance Settlement ranks Croydon as twenty first out of the thirty two London boroughs when comparing average levels of SFA allocations per resident over the last five years. The table below provides average SFA data across all London boroughs:

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. Growth and Savings Proposals

- 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 Resources	(5,766) (2,815)	6,649 14,638	(8,334) (5,652)	1,482 266	3,265 (2,029)	(263) -	(2,250) (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.

Housing (General Fund)

- 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

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

- 10.4. The proposed annual increase of £45.58 for the Croydon Council element represents the equivalent of 88p extra per week for a Band D property

household of two or more adults not subject to any reliefs or discounts. Including the GLA precept, the equivalent annual increase would be £77.51 (£1.49 per week).

- 10.5. The tax-base has continued to grow as new homes are brought into occupation. Growth is forecast to see around 1.5% increase in property numbers next year and is in line with historic trends over the past five years.
- 10.6. In October 2021, Cabinet received a report outlining the principles of a proposed change to the Local Council Tax Scheme [LCTS] following review of the operation of that scheme first introduced in 2013/14. Those original principles were subsequently subject to extensive consultation, and taking into account stakeholder feedback, Cabinet approved revised and reduced proposals at its meeting in January 2022. Taking into account the changes to the LCTS, which forms part of the overall tax-base calculation, the total expected to be collected for Croydon Council in 2022/23 from Council Tax is as per the following table:

Table 8 – Council Tax Requirement

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

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

11. Risks, Reserves and Resilience

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

- 11.2. Reserves are required to provide resilience against unexpected events or to be set aside against known future spending commitments. The gross general fund budgeted expenditure for 2021/22 was approved in March 2021 at £929m – even delivering within 1% of that quantum could see a variance of £9m.
- 11.3. Whilst general reserves were able to be rebuilt from a negative balance of £4m (following post year-end audit adjustments) at the end of 2019/20 they have been able to be returned to more resilient levels at the end of 2020/21 of £27.5m. However, earmarked reserves brought forward into 2021/22 remain low given the scale of transformation the Council still plans on delivering and the uncertainties over coming years regarding the economy and public sector core funding.
- 11.4. In setting the 2021/22 budget in March 2021, £10m was earmarked to be added to be a revenue contribution to reserves (rising to a £15m contribution in 2022/23 and £20m in 2023/24). Given the Council was able to replenish general reserves in 2020/21, the January 2022 Cabinet report on the MTFs noted that instead these budgets would be used to balance any remaining 2022/23 gap and thereafter could be used to further build earmarked reserves instead of general reserves.
- 11.5. The period 9 outturn position (as separately reported) allows for not only the £10m budgeted contribution to reserves but also to consider use of the £7m unused unfenced one-off Covid grant to bolster reserves. Should the forecast underspend of £1.8m be maintained and the net opportunities of £3.0m also materialise, around £22m could be available to rebuild earmarked reserves
- 11.6. The table below sets out the potential contribution to earmarked reserves and an indication of possible reserves that it might be allocated to. The definitive quantum available to rebuild reserves will not be ultimately finalised until the draft year-end accounts are produced and will be reported for approval as part of the 2021/22 Outturn Report in July.

Table 9 – Anticipated Contribution to Earmarked Reserves

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

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

12. Pensions Property Asset Transfer

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

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

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

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

- 12.3. Whilst Full Council on 28th January 2019 resolved to the break in leases after forty years and subsequent lease to the Pension Fund, formal transfer or assignment of the leases has not taken place, and the Council's General Fund not been credited with reduced employer contributions as was proposed in the original business case outline.
- 12.4. In undertaking due diligence and ensuring full legal, financial and actuarial advice has been taken into account before any final transfer is legally entered into, the Council's viewpoint on the merits of such an undertaken have changed.
- 12.5. At the Pension Committee on 3rd December 2021, consideration was given to the appropriateness of continuing with the asset transfer, especially in light of the additional proposal to amend the employer's contribution rates.
- 12.6. An extract from that report sets out the Council's rationale for not wishing to proceed with the asset transfer as follows:

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

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

addition, if the contribution reduction was accepted, there would be less need for the savings from the arrangement.

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

- 12.7. Having sought professional valuations as to the likely building condition of the assets at the time of the forty year break clause, the potential risk to the Pension Fund of failing to achieve value for money through the proposal is significant.
- 12.8. Having due regard to the reasons set out in the above, and to provide absolute clarity for both itself and the Pension Fund, Cabinet is being requested to recommend to Full Council that the Council (as one of the two parties to the arrangement) formally notify the Pension Fund that it is no longer proceeding to complete the asset transfer.
- 12.9. Whilst both parties may have incurred costs in undertaking due diligence to arrive at this position, those activities have enabled the full risks associated with the proposed transfer to be fully understood. The Pension Fund may seek compensation for their own costs in evaluating the proposals but that is a matter for the Fund.

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

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

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

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

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

- The unaudited 2019/20 and 2020/21 accounts – specifically in relation to Croydon Affordable Homes / Croydon Affordable Tenures, and Bank reconciliations.
 - Out of these two issues, the most significant of these is Croydon affordable Homes and Croydon Affordable Tenures which could either be resolved subject to agreement with our external auditors or require a revenue charge to the Council's General Fund significantly close to £73m. This is an issue about the accounting treatment of a lease, it is not about any monies going 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.

- 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 it 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.

Central Services School

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

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

Table 16

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

Ongoing Commitments

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

Table 17

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

Historical Commitments

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

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

Table 18

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

15. Housing Revenue Account

- 15.1. The Housing Revenue Account [*HRA*] is a ring-fenced account used to separately account for income and costs associated with managing the Council owned social housing stock and related assets which includes shops and garages on council housing estates. It is funded primarily from tenants' rents and service charges. The services provided to tenants and leaseholders which includes responsive repairs, management and supervision services and caretaking costs as examples are resourced from this account.
- 15.2 The draft budget for 2022/23, Table 19, shows a balanced position which is required by statute. The rent and other charges income increases were approved by Cabinet on 7th February.

Table 19 – 2022/23 HRA Revenue Budget

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

16. Capital Programme

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

Table 20 – General Fund Capital Programme Approved Cabinet Jan 2022

	2021/22		2022/23		2023/24		2024/25		4-Year Total (£,000's)
	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,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 Resources	11,867	-	14,028	-	7,271	-	6,276	-	39,442
Corporate	3,456	(168)	4,631	(404)	2,687	(34)	-	-	10,167
Capitalisation Direction	2,393	(8,793)	2,500	(9,100)	2,500	(9,100)	2,500	(2,500)	(19,600)
	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
Being:		Net	Net	Net	Net				
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
	Improve Practice System Efficiency	48	-	48
RES	Consolidate Debt Collection	23	(23)	-
	Consolidate Debt Collection	90	(90)	-
	Digital Billing by Default	82	(82)	-
	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
	Accelerate 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 appropriate 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 administrative 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 contri	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

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| 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