

REPORT TO:	Cabinet 6th December 2021
SUBJECT:	2022/23 Budget and Three-Year Medium Term Financial Strategy
LEAD OFFICER:	Richard Ennis, Corporate Director of Resources (S151 Officer)

SUMMARY OF REPORT:

This report sets out the Council's three year Medium Term Financial Strategy [MTFS] and is the first of a series of reports prior to the budget setting Council on 21st February. This report focusses on the General Fund on which there will be further reports at the January and February Cabinets. The Housing Revenue Account [HRA] will be reported to February Cabinet and the capital budgets will be reported in detail as part of the January and/or February Cabinet agendas as well.

The proposals set out in this report aim to support the Council's ambition for our borough and priorities as outlined below:

- We will live within our means, balance the books and provide value for money for our residents.
- We will focus on tackling ingrained inequality and poverty in the borough. We will follow the evidence to tackle the underlying causes of inequality and hardship, like structural racism, environmental injustice and economic injustice.
- We will focus on providing the best quality core service we can afford. First and foremost, providing social care services that keep our most vulnerable residents safe and healthy. And to keep our streets clean and safe. To ensure we get full benefit from every pound we spend, other services in these areas will only be provided where they can be shown to have a direct benefit in keeping people safe and reducing demand.

This report sets out the current MTFS gap for 2022/23 and 2023/24 as was approved by Full Council in March 2021 and the progress in identifying savings proposals to bridge that gap. From an original gap of £38m for 2022/23, savings proposals and growth requests (including a contingency for delivery risk) has so far identified options that would reduce that gap to £13m. This is net of the Council also dealing with further growth pressures but does include some areas that are still under negotiation that will be confirmed in the January and February reports. This further work is needed to provide greater delivery certainty against a number of identified savings options, and in particular the announcement of the Local Government Finance Settlement not being expected until late December.

With General Reserves being rebuilt earlier than originally envisaged the need to build adequate levels of earmarked reserves becomes a priority. In-year and future Base Budget contributions to General Reserves are instead more expected to be used to provide resilience through contributions to earmarked reserves. A risk assessment will be undertaken to assess and quantify the level of general un-earmarked and earmarked

reserves and the period over which the latter may need building as appropriate. A recommendation will be given in a future Cabinet report in this respect.

Any adverse change to the budget gap – either by new pressures emerging or savings proposals from this report or the previous March 2021 Council approved budget and MTFs not being continued with, would need to be offset by the identification of other compensating savings to ensure a robust sustainable budget for the coming and future years.

FINANCIAL IMPACT

The setting of a budget and the Council Tax requirement is a legal obligation on the Council. This report sets out the progress made in addressing the £38m net budget gap as approved for 2022/23 in March 2021. This report identifies savings and growth pressures that to date reduce that gap to £13m. Savings that are ongoing help to reduce the budget savings target for future years. Officers continue to work on options to recommend to Cabinet and subsequently Council to close this gap.

The Council is currently undertaking a transformation process to re-base its budgets and service delivery model to one that allows itself to manage within its available income streams and relies on tapering capitalisation direction approvals over this and the future two years as it progresses toward that position. The setting of a robust and balanced budget as it works toward that target is essential to demonstrate progress is being made and enable future capitalisation directions to be approved.

1. RECOMMENDATIONS

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

- 1.1 Note the significant progress towards delivering a balanced budget for 2022/23 and future years and the current budget gaps still to close;
- 1.2 Consider the contents of paragraph 3.24 in respect of the identified risks to the budget process and make any recommendations in respect of the risks to the budget process;
- 1.3 Request that Cabinet request the Corporate Director of Housing to bring a report to the February 7th Cabinet setting out how a reduction to the in-year and future year pressures against the existing Temporary Accommodation budget will be managed and achieved;
- 1.4 Request officers to continue to work on reducing growth pressures and report back any changes to the February 7th Cabinet;
- 1.5 Support the growth and savings schedules included at appendix 1, and
- 1.6 in principle, to recommend these to Full Council as part of the budget approval process. To note that officers will commence planning for the implementation from

April 2022 where appropriate where appropriate, but that any such proposals are subject to approval at February Council;

- 1.7 Ask the Corporate Management Team to continue work to identify further invest-to-save opportunities that improve the efficiency and effectiveness of the Authority, and minimise any service reductions;
- 1.8 Request the Corporate Management Team to ensure that there are sufficient resources to deliver the MTFS and report back in this respect in the January and February Cabinet reports;
- 1.9 Make any recommendations and comments that will further the ability for the Improvement Panel to make a positive recommendation to the Secretary of State for the Department of Levelling Up, Housing and Communities [DLUHC] in respect of the Council's progress and specifically confirming this year's £50m capitalisation direction and also next year's £25m (2022/23) capitalisation respectively in order to give financial certainty to the Council (a further £5m capitalisation is budgeted for in 2023/24);
- 1.10 Note the Council is undertaking further work in respect of the potential to maximise its capital receipts and the potential use of these to reduce its borrowing requirements subject to Cabinet and Council agreement;
- 1.11 Note that the scrutiny sub committees will have had initial discussions prior to this December Cabinet meeting and they and the Scrutiny and Overview Committee will undertake their scrutiny and overview work on the budget proposals and feed recommendations and comments for consideration into the January and February Cabinets;
- 1.12 Note the intention to take a report to the General Purposes and Audit Committee [GPAC] about the reserves strategy and its relationship to the MTFS prior to Cabinet taking a decision to recommend a budget to Full Council
- 1.13 Note the significant financial implications, approved in the March 2021 Budget at Full Council, from any policy changes and operational enforcement and income modelling changes, in respect of Healthy Neighbourhoods (formally referred to as Low Traffic Neighbourhoods), that will require the Council to find alternative savings in this respect;
- 1.14 Note that at this report's dispatch prior to the consideration of the Pensions Committee on 3rd December of a report recommending an actuary supported reduction in employer contributions that are part of the savings in 2022/23 preceding a further triennial pension review that will consider employer contributions for 2023/24 onwards. The savings in this respect are £3.400m in 2021/22 and £2.760m in 2022/23 (reducing as a part saving was already included in existing proposals for 2022/23) should the Pensions Committee scheduled on 3rd December agree to recommend these to Cabinet. An update will be provided at the actual Cabinet meeting;

- 1.15 Welcomes the additional 'one off' funding from the Home Office in 2021/22 and the temporary mandate of the national Transfer Scheme and request the Improvement Panel to support the cross party view of the Council in making further recommendations to the Secretary of State to fully fund the estimated circa. £4.5m of additional costs of Unaccompanied Asylum Seekers [UASC] that continue to fall disproportionately on the Croydon Council Tax payer; and
- 1.16 Note that officers continue to work on the closure of the draft accounts for 2019/20 and 2020/21 in response to dealing with the external auditors findings as reported to the General Purposes and Audit Committee [GPAC] and that this could have significant implications for the medium Term Financial Strategy and request officers to complete this work as soon as possible and at the latest ahead of the final February Cabinet.

2. EXECUTIVE SUMMARY

- 2.1. This report is the first in a series of budget reports on route to producing a balanced budget for the Council for 2022/23 through to 2024/25.
- 2.2. This report focusses on the General Fund with further General Fund budget reports, the capital budget report and the Housing Revenue Account being brought to the January and February Cabinet meetings in the new-year.
- 2.3. The Council has made significant progress to deliver a balanced budget but there are still further significant savings to make of £13m; £16m; and £2m in the financial years 2022/23 to 2024/25 respectively.
- 2.4. In addition, the Council has built its general (un-earmarked) reserves to a more appropriate level and an assessment that takes account of the risks inherent in an organisation that is in recovery will be included in the February Cabinet report. Earmarked reserves need rebuilding having been drawn on as a result of the significant financial challenges the Council faced. A chart of reserves is shown against a number of other London boroughs in Table 8. As already mentioned further work in this respect is being undertaken and will form part of the Cabinet reports in the new-year.
- 2.5. The Council is making progress and needs to ensure that this is sustainable through continuing to ensure it has sufficient skills and capacity to deliver what will be a significant improvement and savings programme. Being able to both attract and retain existing and new excellent officers is of paramount importance as part of this recovery.
- 2.6. Discussions and negotiations continue with the NHS to ensure the Council receives increased allocation of resources supported by evidence from the Council on the substantial costs resulting from the increased needs of the population being met through the discharge to assess process and the need that is causing pressure through sustained high hospital occupancy. The total hospital occupancy remains at static high levels, however, due to increased acuity of people, the numbers requiring support with discharge, predominantly

through social care are substantially higher, as well as the size of packages people need.

- 2.7 The Social Care budget pressure for ongoing care package costs (post 6 weeks) is also arising from this increased activity. This is from during the pandemic and into winter, projected to continue due to the backlog in health care and increased frailty of people leaving hospital and higher need and sickness in the population. Funding is required to continue to both drive and support the NHS and our residents in delivering good flow through the system and quality services to those in need in a cost effective and outcomes driven way. System partner led programmes can be progressed to minimise ongoing costs to all parties and maintain quality.
- 2.8 The Council has identified significant contract and other spend-related savings of £5m (in addition to £14m of such savings already approved for 2022/23 in the March MTFS) through a member and officer group that continues to look for further savings in addition to delivering those identified already.
- 2.9 Work continues to identify ways to de-risk the Balance Sheet through, for example, taking a stronger approach to dealing with outstanding loans and debtors to the Council. This includes loans made to business that are now operating again post Covid.

3 GENERAL FUND REVENUE BUDGET

- 3.1 The Approved 2021/22 Budget and Medium Term Financial Strategy
- 3.2 Cabinet and Full Council considered and approved the 2021/22 revenue and capital budgets for 2021/22 and a three-year Medium Term Financial Strategy [MTFS] on 8th March 2021 (*Agenda Item 18/21 of Full Council Meeting*). The General Fund revenue budget for 2021/22, being predicated on the final approval by the Department of Levelling Up, Communities and Housing [DLUCH - previously MHCLG] of a £50m capitalisation direction, was a balanced budget allowing for a further £10m contribution to General (*un-earmarked*) reserves to enable the Council to deal with the uncertainty of the current economy, the continuing challenges of the Covid pandemic, and to strengthen the Council's overall financial resilience. Whilst a number of budget change approvals for the years 2022/23 and 2023/24 were also approved at that meeting, a gap between revenue spend and income sources of £38m and a further £22m respectively identified in the latter two years (2022/23 and 2023/24) of the MTFS as the reliance on capitalisation direction requests reduced to £25m and £5m respectively.
- 3.3 If the Secretary of State decides to give a direction, he expected to confirm the final amount of capitalisation support and any conditions that would be applied in summer 2021. His consideration would include taking account of the following:
 - a) Evidence that the conditions set out in any capitalisation direction in respect of 2020/21 have been complied with;

- b) Evidence from the Improvement Panel of the Authority's progress against its Improvement Plan, as reflected in forthcoming progress reports from the Panel;
- c) Evidence from the Improvement Panel of the Authority's financial position and its ability to meet any or all of the identified budget gap without additional borrowing;
- d) Evidence from the Improvement Panel of the Authority's progress in developing and delivering against an asset disposal plan;
- e) Evidence of progress against the other areas of improvement that were identified in the Panel's February update to the Department: progress in resolving challenges in property ventures; a credible 2021/22 budget including a deliverable savings plan; progress in developing a plan to transform front line services; progress made to change the culture of the organisation;
- f) Evidence and recommendations from the Improvement Panel on the steps that the Authority may need to take to, for example, improve its governance arrangements, financial management, operational delivery and to reduce risk.

3.4 With this in mind, the Secretary of State also reserved the right to attach additional bespoke conditions to a direction in respect of 2021/22 depending on the Council's individual circumstances.

3.5 In the event of a failure by the Council to demonstrate progress in its recovery, the Secretary of State will consider whether it is appropriate to use the Best Value powers available, including the appointment of Commissioners.

3.6 At the time of writing this report the Secretary of State has not confirmed the 2021/22 capitalisation, having only referred to being "minded to approve" in their March 2021 letter to the Council, although discussions with officials at DLUHC have included statements that there is no indication of non-approval subject to the requirements above. The Improvement Panel have stated that their next letter to the Secretary of State will be after this 6th December Cabinet so the importance of this report is paramount.

3.7 A summary of the three-year growth and savings approved at the March 2021 Cabinet and Full Council meeting is set out in the table below:

Table 1 – Approved 2021/22 Budget and Medium Term Financial Strategy

	<----- Incremental Changes ----->				<----- Cumulative 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)
Children's, Families & Education	11,000	(4,609)	(2,219)	-	11,000	6,391	4,172	4,172
Health, Wellbeing & Adults	11,757	(3,825)	(2,625)	-	11,757	7,932	5,307	5,307
Place	(2,657)	(6,578)	(2,513)	-	(2,657)	(9,235)	(11,748)	(11,748)
Resources	8,603	(2,413)	(2,140)	-	8,603	6,190	4,050	4,050
Corporate & Cross-Cutting	21,297	30,803	11,630	-	21,297	52,100	63,730	63,730
Net Changes (Excl Capitalisation)	50,000	13,378	2,133	-	50,000	63,378	65,511	65,511
Less Capitalisation Direction	(50,000)	25,000	20,000	-	(50,000)	(25,000)	(5,000)	(5,000)
	-	38,378	22,133	-	-	38,378	60,511	60,511
Total Growth Changes	132,563	15,514	30,363	-	132,563	148,077	178,440	178,440
Total Savings Changes	(82,563)	(2,136)	(28,230)	-	(82,563)	(84,699)	(112,929)	(112,929)
Capitalisation Direction	(50,000)	25,000	20,000	-	(50,000)	(25,000)	(5,000)	(5,000)
Net Changes (Excl Capitalisation)	-	38,378	22,133	-	-	38,378	60,511	60,511

- 3.8 Applying the above approved budget changes for 2021/22 to the Base Budget brought forward from 2020/21, and reflecting approved budget virements (*transfers*) to reflect the change in departmental responsibilities following the corporate restructure, the approved 2021/22 departmental budgets are summarised in the table below:

Table 2 – 2021/22 General Fund Revenue Budget

	Income (£,000's)	Expenditure (£,000's)	Net Budget (£,000's)
Sustainable Communities, Regeneration & Economic Dvlpt	(74,033)	126,578	52,545
Children, Young People & Education	(224,967)	332,355	107,388
Housing	(40,634)	54,953	14,319
Adult Social Care & Health	(40,035)	167,218	127,183
Assistant Chief Executive	(57,129)	77,962	20,833
Resources	(225,458)	260,533	35,075
Corporate & Cross-Cutting	(90,659)	67,378	(23,281)
Net Budget Requirement	(752,915)	1,086,978	334,063
Funded From:			
Revenue Support Grant	(14,205)		(14,205)
Locally Retained Business Rates (Incl Top-Up Grant)	(71,764)		(71,764)
Council Tax	(198,094)		(198,094)
	(1,036,978)	1,086,978	50,000
Less Capitalisation Direction	-	(50,000)	(50,000)
Total Budget	(1,036,978)	1,036,978	-

3.9 Current Year Financial Performance Monitoring

- 3.10 Budget monitoring has been strengthened and is now reported to Corporate Management Team [CMT] and Cabinet on a monthly basis in line with the recommendations set out in the Finance Improvement Plan. The most recent report being to the end of October. As well as a forecast to year-end, identified further potential risks or opportunities which may impact on that forecast are also reported to provide an indication of how that forecast could change.

- 3.11 Departmental forecasts predict a net overspend across three portfolios (after mitigations enacted within those portfolios) as summarised below:
- a) The Sustainable Communities, Regeneration and Economic Recovery [SCRER] portfolio is reporting a £5.122m adverse variance relating principally to the Secretary of State not approving the requested Selective Licensing Scheme and secondly levels of parking income caused by continuing Covid-related downturn in traffic numbers and delays in member decisions to roll-out Healthy Neighbourhoods (formerly Local Traffic Neighbourhood [LTM]) schemes in respect of the policy which has significant financial implications for the budget that was approved in March 2021;
 - b) Healthy Neighbourhoods has an existing approved net income budget of £5.025m in 2021/22, £8.205m and £11.606m in 2022/23 and 2023/24. In total on a cumulative cash basis the Heathier Neighbourhoods budgets total nearly £25m of income over the three years of the MTFs as approved in the March 2021 budget. For 2021 there is already a £3m income shortfall forecast as a result of delays in decision making and ongoing impact of Covid;
 - c) The Housing service portfolio is forecasting a £1.881m overspend predominantly the result of increased pressures within the emergency and temporary accommodation services; and
 - d) Whilst having received additional exceptional and one-off funding from the Home Office to manage cost pressures in relation to Unaccompanied Asylum Seeker Children [UASC], this continues to be below the level to meet the particular numbers for which Croydon has become responsible, and net of the grant still represents a £1.615m adverse variance. This Government along with previous Governments have failed to deliver a fully funded UASC in particular to authorities such as Croydon, Hillingdon and Westminster where UASC cost impact is disproportionate.
- 3.12 Offsetting these projected portfolio overspends are other net underspends across other service areas that further mitigate the overall forecast to a net £3.030m adverse variance.
- 3.13 Some of the pressures contained in the current service forecast relate to expenditure or shortfalls in income resulting from the ongoing Covid pandemic. Accordingly from the start of the year, £3.451m of an overall £11.250m one-off DLUHC Covid pressures grant, held as a specific reserve, has been released to mitigate the overall net position. Taken collectively, the latest net General Fund revenue forecast predicts a £0.421m underspend position. The table below summarises the above:

Table 3 – Latest General Fund Revenue Forecast

	Period 6 Forecast (£,000's)	Period 7 Forecast (£,000's)	Change in Month (£,000's)
Children, Young People & Education	(3,148)	(3,742)	(594)
UASC Expenditure	1,615	1,615	-
Adult Social Care & Health	(869)	(1,088)	(219)
Housing	1,838	1,881	43
Sustainable Communities, Regen & Economic Recovery	5,672	5,122	(550)
Assistant Chief Executive	(848)	(636)	212
Resources	(210)	(121)	89
Service Forecasts	4,050	3,030	(1,020)
Release of Covid Funding	(3,451)	(3,451)	-
Net General Fund Forecast	599	(421)	(1,020)

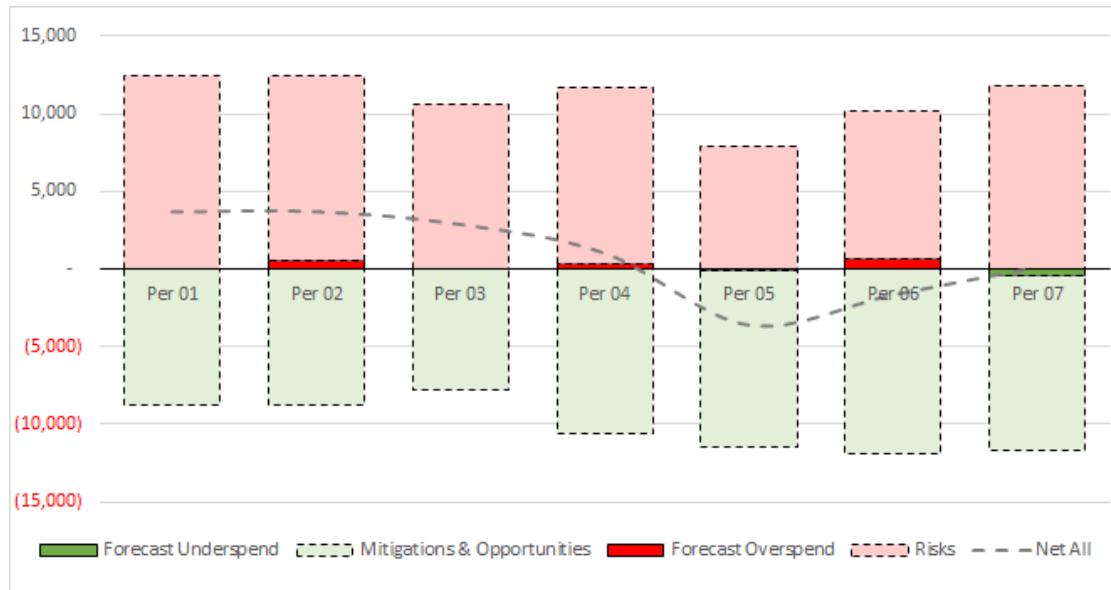
- 3.14 As referred to above, in addition to the forecast outturn previously set out, risks and opportunities that may materialise and impact on that forecast are also monitored and reported. Risks have been identified across service areas relating to both delivery of agreed savings proposals as well as other emerging pressures and in total represent £11.777m of risks and £11.259m of potential opportunities – net £0.518m risk. Whilst full details of these are set out in the Financial Performance Report separately reported to Cabinet, a summary of these risks and opportunities and their potential impact on the forecast outturn position is given in the table below:

Table 4 – Risks and Opportunities – Potential Impact on Forecast

	Savings Risks (£,000's)	Other Risks (£,000's)	Oppor- tunities (£,000's)	Net Risk Opps (£,000's)	Period 7 Forecast (£,000's)	Total (£,000's)
Children, Young People & Education	247	160	(1,307)	(900)	(3,742)	(4,642)
UASC Expenditure	-	-	-	-	1,615	1,615
Adult Social Care & Health	-	3,050	(1,307)	1,743	(1,088)	655
Housing	-	396	(396)	-	1,881	1,881
Sustainable Communities, Regen & Economic Recovery	4,025	2,899	-	6,924	5,122	12,046
Assistant Chief Executive	-	-	(250)	(250)	(636)	(886)
Resources	-	-	(200)	(200)	(121)	(321)
Service Forecasts	4,272	6,505	(3,460)	7,317	3,030	10,348
Corporate & Cross-Cutting	1,000	-	(7,799)	(6,799)	(3,451)	(10,250)
Net General Fund Forecast	5,272	6,505	(11,259)	518	(421)	98

- 3.15 As for all councils, the forecast outturn position has the potential to move further in either direction as the year progresses, however activity continues to mitigate the impact of forecast overspends and potential pressures whilst delivering the benefit of potential opportunities to maintain the revenue position in line with approved budgets. Tracking of monthly reported forecasts has shown a relatively stable position during the course of the year to date

Table 5 – Revenue Forecasting Trend



3.16 The 2022/23 Budget and Medium Term Financial Strategy

3.17 Following the recommendation set out in the Finance Improvement Plan, the Council returned to setting out and approving a Medium Term Financial Strategy over a three-year planning horizon rather than just a one year budget and was approved by Full Council in March 2021. With an identified budgetary gap over the years 2022/23 and 2023/24 remaining at that time, work immediately began on a process to identify further options (or additionally arising pressures) that would be needed to set a balanced budget for 2022/23 and reduce any future year gap.

3.18 Development of the budget building process has been running throughout the late spring, summer and into the autumn to identify budget options to members that enable the Council to set a balanced budget for 2022/23 and extend the MTFS planning horizon over a further year.

3.19 The process has involved service departments reviewing their budgets and delivery models to identify potential savings opportunities for 2022/23 or beyond and reviewing their already agreed further savings and growth already approved in March 2021. All proposals have been reviewed through a series of Budget Development, Challenge and Star Chamber sessions involving departmental managers, Corporate Management Team and Cabinet portfolio holders, both individually and collectively. Delivery risk has been considered against individual proposals and has been used to inform the quantum potentially required for a necessary risk and contingency provision.

3.20 Based on those submissions, as modified through the Challenge and Star Chamber sessions, the current proposals (as set out in detail in Appendix 1) would see the original £38m gap for 2022/23 reduce to a net £13m.

- 3.21 In total, further savings opportunities of £58m are being put forward for consideration in this Cabinet report, but are offset by £10m being discounted in accordance with individual proposals assessed delivery risk weightings. Whilst this net position would notionally over-deliver against the original 2022/23 £38m gap by £10m, additional growth pressures have been identified amounting to £23m from that envisaged in setting the budget and MTFs in March 2021 which when taken into consideration leaves a remaining gap at this stage of £13m. The risk weightings continue to be reviewed.
- 3.22 The table below summarises this latest position (and which full detail is set out in Appendix 1):

Table 6 – Latest MTFs Position

	<----- Incremental Changes ----->				<----- Cumulative 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)
Original Gap (March 2021)	-	38,378	22,133	-	-	38,378	60,511	60,511
Savings Proposals:								
Children, Young People & Education	(2,000)	(2,611)	(1,479)	(330)	(2,000)	(4,611)	(6,090)	(6,420)
Adults Social Care & Health	-	(3,788)	-	740	-	(3,788)	(3,788)	(3,048)
Housing	-	(2,502)	(1,789)	-	-	(2,502)	(4,291)	(4,291)
Sustainable Communities, Regen & Econ Recovery	(175)	(3,918)	(1,005)	5	(175)	(4,093)	(5,098)	(5,093)
Assistant Chief Executive	(518)	(2,644)	(1,223)	(2,250)	(518)	(3,162)	(4,385)	(6,635)
Resources	(3,400)	(1,225)	(1,378)	(885)	(3,400)	(4,625)	(6,003)	(6,888)
Corporate & Cross-Cutting	-	(34,551)	(3,966)	(15,206)	-	(34,551)	(38,517)	(53,723)
	(6,093)	(51,239)	(10,840)	(17,926)	(6,093)	(57,332)	(68,172)	(86,098)
Less Delivery Risk Weighting	1,219	7,602	2,168	3,585	1,219	8,821	10,989	14,574
	(4,874)	(43,637)	(8,672)	(14,341)	(4,874)	(48,511)	(57,183)	(71,524)
Growth Requests:								
Children, Young People & Education	-	200	(100)	(100)	-	200	100	-
Adults Social Care & Health	-	500	-	-	-	500	500	500
Housing	-	2,000	-	-	-	2,000	2,000	2,000
Sustainable Communities, Regen & Econ Recovery	-	6,974	(119)	-	-	6,974	6,855	6,855
Assistant Chief Executive	51	1,513	175	-	51	1,564	1,739	1,739
Resources	-	325	-	400	-	325	325	725
Corporate & Cross-Cutting	-	11,721	2,239	11,487	-	11,721	13,960	25,447
	51	23,233	2,195	11,787	51	23,284	25,479	37,266
Changes to Use of Capitalisation Direction	-	-	-	5,000	-	-	-	5,000
Overall Net Remaining Gap	(4,823)	17,974	15,656	2,446	(4,823)	13,151	28,807	31,253

- 3.23 Included in the above summary of savings options and growth requests (full details of which can be referred to in Appendix 1) are the following worthy of particular note in this report:
- Children, Young People and Education savings proposals include a cumulative £3.000m saving for 2022/23 as a reduction to the £20.518 growth approved in March 2021;
 - Adult Social Care and Health savings proposals include a cumulative £1.387m saving as a reduction to the previously approved growth of £35.859m;
 - Housing proposals include £2.000m growth pressures for ongoing costs of emergency and temporary accommodation where work is ongoing to reduce this pressure;
 - Sustainable Communities, Regeneration and Economic Recovery

[SCRER] proposals include £0.950m (rising to £1.100m in future years) for the Neighbourhood Operations (NSO) activity;

- e) Within the SCRER savings proposals agreed in March 2021, was included the roll-out of Healthy Neighbourhoods and Automatic Number Plate Recognition [ANPR] camera enforcement. Healthy Neighbourhood's has an existing approved income budget of £5.025m in 2021/22, and £8.205m, £11.606m in 2022/23 and 2023/24. In total on a cumulative cash basis the Heathier Neighbourhoods budgets total nearly £25m over the three years of the MTFS as approved in the March 2021 budget. The November Traffic Management Advisory Committee voted 3-2 in favour of continuing the roll out of the policy objectives. Whilst the Council must not have income as the objective it must be aware of the significant financial implications of a full or partial change to the policy and specifically as regards enforcement. This is particularly important in demonstrably showing the Council can deliver both the primary policy objective and secondary financial plan given it is only nine months since March 2021 when approval was given at full Council. For 2021/22 there is already a £3m shortfall forecast as a result of delays in decision making. This budget proposal remains in full in the MTFS and has not been reduced in subsequent proposals – any change in this assumption would further impact on the remaining gap and require significant alternative savings to be approved by full Council in order to maintain a direction of travel towards a robust budget;
- e) Growth requests within the SCRER portfolio include £1.313m to reflect Special Education Needs [SEM] transport cost pressures as well as £3.062m for the reduced income previously expected from the Selective Landlord Licencing Scheme which were refused by the Secretary of State. Both of these pressures form part of the current forecast variance in current year monitoring;
- f) Within the Assistant Chief Executive portfolio are two growth requests as a result of the referendum for a locally elected mayor - £0.330m for the costs of a mayor and support, plus an additional £0.240m cost in 2022/23 for the additional costs of holding the mayoral election alongside the borough-wide election;
- g) Corporate and Cross-Cutting savings proposals include an assumed increase in the average Band D Council Tax charge of 2.99% - being 1.99% general increase plus 1.00% Social Care Premium in line with indications set out in the Chancellor's Autumn Budget Statement and assumed to be taken in its assessment of Core Spending Power available to local authorities – this is currently below forecast inflation levels;
- h) Additionally, £5.700m additional income is assumed, pending the result of current consultation, with regard to proposed changes to the Local Council Tax Support Scheme (noting that a one off hardship fund of

£818k is in place to help claimants in particularly difficult circumstances and will be subject of a further report to Cabinet before a final decision on this proposal is made;

- i) Within the Corporate and Cross-Cutting savings proposals is £11.000m assumed to be delivered from negotiation with the NHS to reflect a contribution by them to support non-statutory activity or response timeframes in working with them to deliver better and speedier health outcomes; and
- j) Based on individual assessment of delivery risk on a line-by-line basis for each proposal, a net risk and contingency deflator is applied to the total quantum of proposed new savings amounting to £8.821m – representing an average 17% allowance for risk and optimum bias and potential non-delivery or delay in proposed savings being delivered.

3.24 A number of risks or uncertainties remain to be clarified which may further impact on the headline £13m gap, as set out above and summarised in Table 6. These include:

- i. The announcement of the Provisional Local Government Finance Settlement – whilst the Autumn Budget gave clarity over the allowable increase to Council Tax levels, it left much else to be announced at a local level, the distribution of which may not see an equal pro-rata benefit for Croydon itself. This includes remaining clarification over the future of the New Homes Bonus scheme;
- ii. Provision for inflation was included in the budget approved for March of 2% increases for both contract and employee costs for 2022/23. Whilst growth proposals have increased the provision for contract inflation to 3%, current forecasts suggest higher rates over the MTF5 period and further provision would need to be made if costs cannot be maintained within existing provision. The January and February Cabinet budget reports will include further work on inflationary pressures and additional budget is likely to be needed in this respect ;
- iii. The ongoing impact of the COVID pandemic has the potential to cause further impacts to the Council's budget position and may result in further unbudgeted costs or decline in income – both within service areas and impact on Council Tax / Business Rates taxbase and collection levels;
- iv. Negotiations with the NHS continue to agree a more realistic cost sharing for the costs of discharging people with higher needs from hospital as quickly and safely as possible. The Council will be unable to continue to provide the current discharge to assess services at the level it currently does in the absence of adults funding up to the £10.265m demonstrated cost of this on an ongoing basis from 2022/23. The breakdown of funding to be agreed to maintain over the statutory minimum and maintain the flow of the hospital is as follows:

Council Costs arising from Discharge to Assess (D2A) / Home First	2022/23 Annual Cost Estimates	Council Costs Chargeable to NHS National Discharge Fund (per 21/22 Rules)	Council Costs to be sought from local NHS resource re-prioritisation
Extended Discharge and Assessment Team	£0.5m - £1.0m	£0.5m - £1.0m	TBC
Care and Equipment costs during Discharge to Assess process for Adults in Croydon (up to 5 weeks fully funded D2A care for all discharges)	£5.0m - £6.2m	£1.9m - £3.1m	TBC
Ongoing Package Costs for previous D2A discharges from 20/21 & 21/22	£1.5m - £3.1m	Not Covered by the National Discharge Fund	TBC
Funding for Children's Education, Health and Care Plans and Continuing Care	£867k	Not Covered by the National Discharge Fund	TBC
Adult Continuing Healthcare	individual funding tbc	Not Covered by the National Discharge Fund	TBC
TOTAL	£7.0m - £11.2m	£2.4m - £4.1m	TBC

Continued joint advocating for National NHS Discharge Funding will be required. The levels that may flow through to Places is likely to be below the costs incurred by the Council/local system and requires ongoing work as partners to assess and re-prioritise local NHS funding allocations.

The impact of reduced service levels by social care due to lack of shared funding for Department of Health and Social Care legislated processes from 1/4/22 is assessed to be significant, including the potential for Croydon University Hospital to enter into code black within 2.5 days which means there the hospital is at full capacity. The cost to the NHS of opening additional hospital wards to meet need (escalation capacity) is projected to be £2m per year and there would be a significant increase in patient length of stay in the hospital without this escalation capacity and other high costs associated with length of stay and impact on elective surgery performance for example. Staffing this escalation capacity is also a significant challenge to the system. The NHS would be required to commission a much higher proportion of therapy services and intermediate care beds, for people to move to while they are rehabilitated to the appropriate level for statutory care packages.

The council would continue to meet its statutory duty and keep people safe through its social care duty, however, this would not optimise the flow of hospital as well as the formal discharge to assess process required by the new legislation, given the current sustained hospital occupancy.

There continues to be a need for the Council and the NHS to work together to ensure the correct funding and agree appropriate tripartite funding agreements for children's education health and care plans and continuing health needs expected to be in the region of £870k per annum. Appropriate continuing healthcare funding for adults with ongoing primary health needs is needed which has reduced significantly from the NHS to individual Croydon residents over the last three years.

The NHS are unlikely to be able to give certainty to the Council in this respect until February Cabinet and subsequently full Council in February. The NHS decision making process is required at national and integrated care system level. As stated, there will be a need for local re-prioritisation of NHS resources to ensure the timely discharge of Croydon residents to meet the high acuity levels currently, and there is commitment to continue to collaborate to secure plans to optimise the health of Croydon residents/patients in 2022/23. Should the NHS not be able to agree sufficient funding, the Council will meet its statutory duty but will not be able to deliver the higher cost discharge to assess process and the size and cost of packages generated by operating this model. The assumed additional contribution in NHS funding is currently being discussed with the NHS and cannot in full be relied upon, and is subject to uncertainty as to the outcome of those negotiations as well as funding available to the local NHS itself;

- v. Net capital financing costs are predicated on future interest rate movements and on assumed levels of capital receipts (both asset disposals and loan repayments from the Council's Brick by Brick property company – quantum or timing delays in these assumptions has the potential to impact on overall forecast borrowing costs);
- vi. The delivery of savings and growth proposals approved in March 2021 are assumed to be delivered in full, and in particular assume the roll-out of Local Traffic Neighbourhood / ANPR proposals continue as approved;
- vii. Ongoing work continues to address queries raised by the Council's external auditors with regard to the 2017/18 accounting treatment of capital receipts and assets transferred to the Croydon Affordable Homes charity. Whilst a worst case outcome has the potential to significantly impact on historic reserves levels and thus have an effect on reserves levels carried forward it is unlikely to have significant impact on the current in-year position;
- viii. The 2021/22 Budget assumes a Capitalisation Direction approval of £50m with £25m and £5m for the following two years as the Council implements changes to its operating model to spend within its funding resources. The 2021/22 Capitalisation Direction remains only "approved in principle" whilst those for future years remained

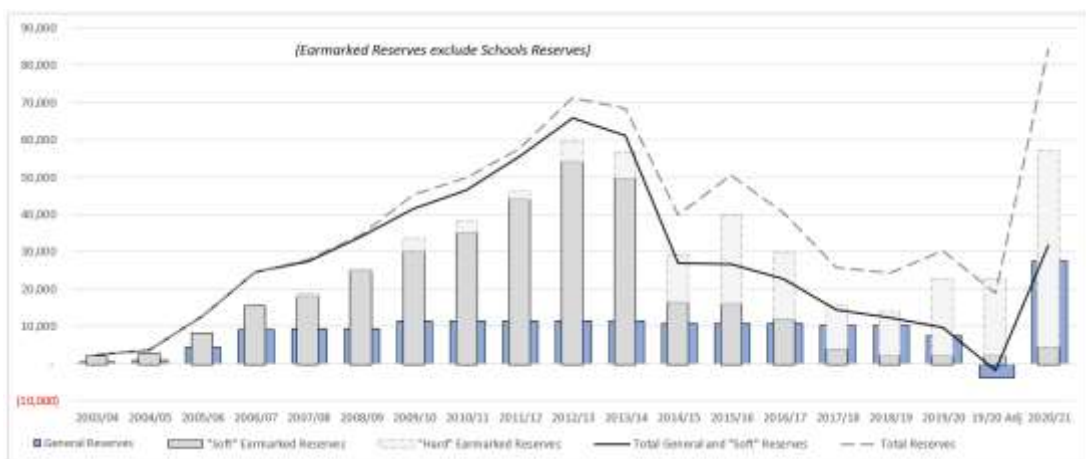
for DLUHC to consider after the Spending Review. Should these not be approved or approved at lower levels this would significantly impact on the remaining gap. They are needed to balance this budget.

- ix. The Governments levelling up agenda will inevitably mean the removal of resources away from London and put further pressure on London Local Authorities.
- x. The Greater London Authority are facing reductions in income from Transport for London and must look at ways to reduce costs and this could include reductions in support to London Boroughs.
- xi. The Council continues to want to deliver the Borough of Culture scheme and the costs associated with this. Currently the assumption in the budget is a net cost of nil after use of GLA grant funding and one-off repurposing of existing budgets, but which would not cover any overspend.

3.25 Subject to the above remaining uncertainties being appropriately dealt with , the current budget position taking into account all proposals so far identified, a gap of £13m remains for 2022/23 (with a further £16m in the following year).

3.26 The Council’s level of General Reserves had been below normative levels for a number of years and placed it at risk of having insufficient resilience. This culminated in changes made as part of the ongoing audit of 2019/20 accounts falling from £10.4m to a negative £3.9m. With the use of the 2020/21 Capitalisation Direction, balances have been restored to £27.5m in the draft 2020/21 accounts.

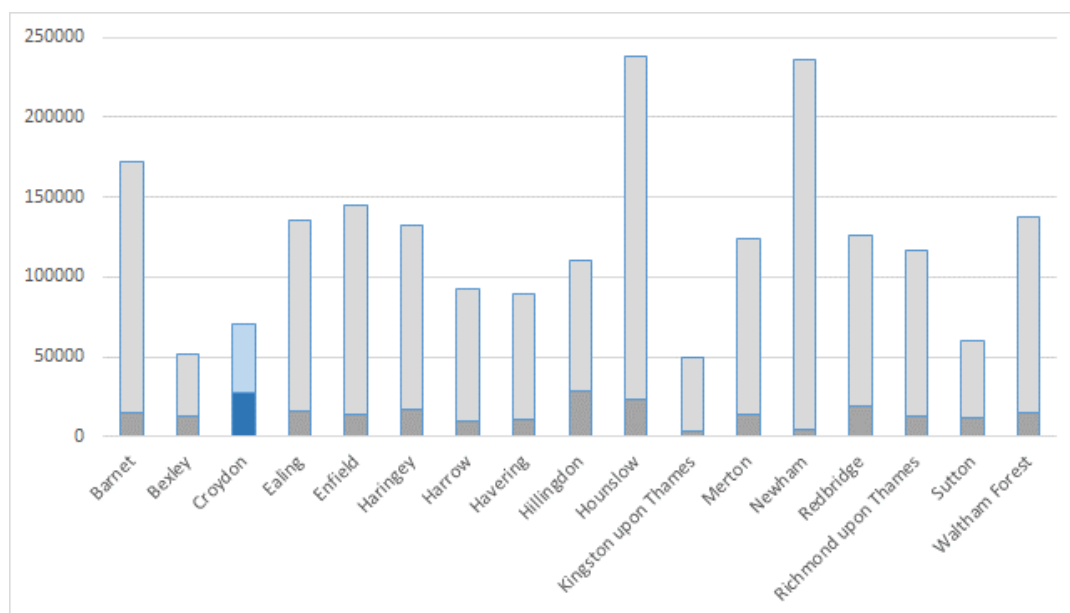
Table 7 – Croydon’s Historic Reserves Levels



3.27 Whilst General Reserves are now at levels that are considered to be adequate, the levels of earmarked reserves remain low when those balances that have specifically set aside to fund planned transfers out of the Collection Fund Adjustment Account are taken into consideration. The table below

illustrates levels of reserves at the end of 2020/21 when compared to other Outer London Boroughs:

Table 8 – Outer London Borough Reserves Levels



3.28 The approved 2021/22 Base Budget and MTFs allowed for General Reserves to be further bolstered by £10m in 2021/22 and then rising to £15m and £20m in 2022/23 and 2023/24 respectively. With General Reserves already replenished as part of the 2020/21 outturn, it is proposed that instead this budget provision would be used to create sufficient levels of earmarked reserves to mitigate against specific future requirements – earmarked reserves to be created will be recommended to Cabinet as part of the February Budget Setting, MTFs and Council Tax report for their consideration and is likely to include, amongst others, some or all of the following to be built over this existing and potentially subsequent years:

- a) Insurance Reserve;
- b) Inflation and Pay Pressures Reserve;
- c) Council Tax / Business Rates Economic Downturn Reserve;
- d) Savings Delivery Reserve;
- e) MRP Smoothing & Capital Receipt Delay Reserve;
- f) Demographic Changes Reserve;
- g) Redundancy Reserve;
- h) UASC & Refugee Cost Pressures Reserve;
- i) Homelessness Pressures Reserve;
- j) Council Tax Hardship Fund Reserve;
- k) Further Pandemic Impacts Reserve;
- l) Litigation & Tax Liability Reserve;
- m) Interest Rate Impact Reserve; and
- n) Adult Social Care – Minimum Income Guarantee and Norfolk Judgement Reserve

- 3.29 Of the £42m of earmarked reserves brought forward into 2021/22, a significant proportion relate to timing differences in grants required to fund Covid-related business rate and council tax reliefs; ring-fenced public health funding; PFI smoothing reserves; and Growth Zone balances. Excluding these elements required to meet future costs, other earmarked reserves remain low at around £4m. The importance of delivering services within budget in 2021/22 will enable the Council to rebuild its earmarked reserves. A quantitative risk assessment will accompany a future budget report.
- 3.30 Whilst the £10m one-off creation of earmarked reserves as referred to above will help to redress the need to bolster such reserves, further resilience will be required and may be impacted by the certainty in delivering existing approved and new budget change proposals.
- 3.31 The thinking in respect of reserves needed has to be considered against a robustness of the budget, risks to the Council both from the market and specifically for Croydon, and evidence of demonstrable delivery of the existing 3 year budget approved in March 2021. Non –delivery will impact any possible recommendations and the ability to demonstrably show the Council can deliver a challenging budget.
- 3.32 This ability to deliver is particularly important given the scale of savings and improvements that need to be delivered in this and future years. With that in mind the new-year budget proposals will include thinking in respect of programme management and any strengthening needed in this respect.
- 3.33 It is particularly important that the Council shows it is able to both produce and deliver a robust sustainable budget where it is able to ‘stand on its own feet’ and be able to deal with the inevitable uncertainties of the existing economy, managing increasing demand and uncertainties of funding.
- 3.34 Inflation pressures are increasing and likely to increase further over the short to medium term. The current inflation assumptions are shown in the summary below over the next 3 years. This needs to be further reviewed in the new year budget reports (each 1% on pay and contracts is £2m and £3m respectively with a clear focus to maintain cost pressures to these limits:
- Pay Inflation – 2% per annum over next three years
 - Contract Inflation – 3% 2022/23; 2.5% 2023/24; 2.0% 2024/25

4 HOUSING REVENUE ACCOUNT – REVENUE

- 4.1 The Housing Revenue Account [*HRA*] is a ring-fenced element of the General Fund that under statute requires the income and expenditure relating to the Council acting as a social landlord to be separately accounted for and prevents the net cost of social housing provision to not be funded from the Council Tax payer.

- 4.2 As at Period 7, the HRA is forecasting a revenue overspend against approved 2021/22 budget of £0.786m – this forecast overspend would be met from HRA balances (£27.6m brought forward as per the draft 2020/21 accounts). A summary of the forecast variance for the HRA is set out in the table below:

Table 9 – Housing Revenue Account – Forecast Variance

	Forecast Variance (£,000's)
Responsive Repairs	492
Asset Management & Involvement	(697)
Allocations, Letting & Income Collection	289
Tenancy & Resident Engagement	124
Homelessness & Assessments	250
Directorate & Centralised Costs	327
	<u>786</u>

- 4.3 An exercise to update and develop a long-term business model for the HRA is currently being completed to assess the capital and revenue requirements to invest in the housing stock as well as the income to be expected to meet running expenses and fund capital investment costs. A report will be presented as part of the ongoing budget setting process that provides full details of this in the coming months to 7th February and also set out the Council's rent policy for the forthcoming year.

5 FINANCIAL CONSIDERATIONS

- 5.1 As contained in this report.

6 LEGAL CONSIDERATIONS

- 6.1 The Head of Litigation and Commercial Law comments on behalf of the Acting Director of Legal Services that, 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.
- 6.2 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on among other things the robustness of the estimates made for the purposes of calculating the Council Tax and the adequacy of reserves the latter of which are addressed within this report in preparation for the budget reports in February 2022.

- 6.3 Section 28 of the Local Government Act 2003 imposes a duty on the Council to monitor its budgets throughout the financial year, using the same figures for reserves as were used in the original budget calculations. The Council must take necessary appropriate action to deal with any deterioration in the financial position revealed by the review.
- 6.4 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. 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. As with other decisions taken by Members, the general principles of administrative law must be adhered to: Lawful discretions must not be abused or fettered, and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must not be such that no reasonable authority, properly directing itself, could have reached it.
- 6.5 In considering the advice of officers, and the weight to be attached to that advice, members should have regard to the personal duties placed upon the Director of Corporate Resources and Section 151 Officer as Chief Financial Officer of the Authority. The Chief Financial Officer is required by Section 151 of the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council's budgeting, financial management, and accounting practices meet relevant statutory and professional requirements.
- 6.6 The procedure to be followed in developing the budget proposals are set out in the Budget and Policy Framework Procedure Rules provided in Part 4.C of the Council's Constitution.
- 6.7 No legal advice has been provided in relation to legal implications of the contents of the appendices to this report as part of the report approval process. Members need to be aware that in order to deliver some of the budget proposals, action may be required to comply with relevant statutory processes which apply to the area in question which may include compliance with legal pre-requisites and requirements for consultation, notification, publication, data protection impact assessments and assessment of equality impacts of proposals. In relation to the latter requirement, Members are directed to the Equalities Impact section of this report. In summary, those such as the Council are subject to the public sector equality duty and must, in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.

- Foster good relations between people who share a protected characteristic and those who do not.

6.8 As various work streams which form part of the proposals are approved by Full Council as part of the Budget and brought forward, legal consideration may be required on the progression and implementation thereof.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Acting Director of Legal Services

7 HUMAN RESOURCES IMPACT

7.1 The net total savings impact on staffing across the Council is 57.8 FTE posts to be deleted. The trade unions were informed on Friday 26 November 2021 of the savings proposals in accordance with the Council's restructuring and reorganisation procedure, and senior managers arranged local, in-person notification with affected staff groups, later the same day to ensure consistent and timely communications. In order to mitigate workforce impact, managers will delete vacant posts, where possible, and offer voluntary redundancy and/redeployment to affected staff supported by the HR team.

7.2 The change process will be delivered through separate, local restructures with lead managers, supported by HR, following the Council's restructuring and reorganisation procedure with meaningful consultation of staff and their trade union representatives, and following the statutory 30-day redundancy consultation required where between 20 and 99 staff are at risk of redundancy in a three-month period.

8 EQUALITIES IMPACT

8.1 This report sets out a number of proposals that will change the services and provisions we provide for residents across Croydon. These proposals are subject to further work and the decisions in relation to the budget are reserved for Full Council – scheduled for 28 February 2022.

8.2 As a public body, the Council is required to comply with the Public Sector Equality Duty [*PSED*], as set out in the Equality Act 2010. The PSED requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out their activities. Failure to meet these requirements may result in the Council being exposed to costly, time-consuming and reputation-damaging legal challenges.

8.3 The Council must, therefore, ensure that we have considered any equality implications for each of the budget proposals prior to the budget council meeting. The Council has an established Equality Impact Assessment [*EqIA*] process, with clear guidance and templates for managers to use whenever new policies or services changes are being considered. This approach

ensures that proposals are checked in relation to the impact on people with certain characteristics protected by the Equality Act.

- 8.4 Assessing the impact of proposed changes to policies, procedures, services and organisational change is not just something the law requires; it is a positive opportunity for the council to ensure it makes better decisions, based on robust evidence.
- 8.5 Our approach is to ensure the equality impact assessments are data led, using user information, demographic data and forecasts, as well as service specific data, to fully understand the impact of each savings proposal. This enables the Council to have proper regard to its statutory equality duties.
- 8.6 As an organisation we are committed to protecting the most vulnerable in our communities and to ensure that in making difficult decisions about funding we maintain an absolute commitment to tackling inequality and disadvantage and promoting equality for everyone who lives and works in the borough.
- 8.7 The initial stage of the EqIAs will screen for potential impacts on those with protected characteristics (race, sex, disability, religion or belief, sexual orientation, gender reassignment, pregnancy and maternity, and age), as well as non-statutory equalities considerations: language, socioeconomic and health and social wellbeing. Where it is identified that the proposal are expected to have an equality impact, a more detailed assessment is undertaken. This will then require services to identify mitigating actions to reduce the negative impact for any protected characteristic groups.
- 8.8 The impact of the proposals on staffing is addressed through Equality Analysis undertaken as part of the HR process.

9 ENVIRONMENTAL IMPACT

- 9.1 As contained in the body of the report

10 CRIME AND DISORDER REDUCTION IMPACT

- 10.1 As contained in the body of the report

11 DATA PROTECTION IMPLICATIONS

- 11.1 As contained in the body of the report

REPORT AUTHOR: Matthew Davis, Interim Director of Finance

APPENDICES: Appendix 1 – Detailed Budget Change Proposals

BACKGROUND DOCUMENTS: Approved 2021/22 Budget and Three Year MTFS
– Council 8th Mar 21 (Item 18/21)