

Council Supplementary Agenda



6. Council Tax and Budget (Pages 3 - 6)

In addition to previously circulated report and supplementary papers, attached is a new appendix 1J to the report, namely the letter from the Minister of State for Equalities and Levelling Up Communities to the Leader of the Council with regard to the Capitalisation Direction.

Council will also be asked to consider the following additional recommendation:

21. To note the letter from the Minister of State to the Leader of the Council with regard to the capitalisation direction as set out in Appendix 1J.

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Department for Levelling Up,
Housing & Communities

Councillor Hamida Ali
Leader, London Borough of Croydon

By email

Kemi Badenoch MP
*Minister of State for Equalities and Levelling
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4 March 2022

Dear Councillor Ali,

EXCEPTIONAL FINANCIAL SUPPORT FOR LONDON BOROUGH OF CROYDON

I am writing in relation to your Council's request for exceptional financial support in respect of 2021/22 and 2022/23. I appreciate your continued co-operation with my Department throughout this process, and that of your officers.

In March 2021, we wrote to you to confirm that the then Secretary of State was minded to approve a capitalisation direction of a total not exceeding £50 million for 2021/22. This was subject to the consideration of a number of factors, including evidence from the Improvement and Assurance Panel reflecting: progress against the Council's Improvement Plan; the financial position; and the ability to meet any or all of the identified budget gap without additional borrowing. I have also considered areas where the Council needed to go further such as resolving challenges in the Council's property ventures and development of an asset disposal plan.

Ministers have fully considered your capitalisation request for 2021/22 and 2022/23 and although this letter does not constitute a capitalisation direction, this letter sets out the current position.

With respect to the financial year of 2021/22, the Secretary of State is content to approve a total capitalisation direction to fund revenue expenditure not exceeding £50 million, subject to the conditions attached to this letter. I would like to draw your attention to condition E in particular. I am aware that there is an issue relating to the historic accounting treatment of transactions between the Council and Croydon Affordable Homes. I understand that this issue may result in a further significant request for capitalisation to enable the Council to close the 2019/20 accounts. As such, I would like you to provide an update on this matter and a timetable for its resolution by the end of March 2022.

With respect to the financial year of 2022/23, the Secretary of State is minded to approve a capitalisation direction of a total not exceeding £25 million. Again, such a direction may be subject to conditions, which would be set out in the capitalisation direction when issued. If the Secretary of State decides to give a direction for the 2022/23 financial year, he expects to confirm the final amount of capitalisation support and any conditions that would be applied in autumn 2022. His consideration will include taking into account the following:

- i. Evidence that the conditions set out in any capitalisation direction in respect of 2021/22 have been complied with;
- ii. Evidence from the Improvement and Assurance Panel of the Council's progress against its Improvement Plan, as reflected in forthcoming progress reports from the Panel;
- iii. Evidence from the Improvement and Assurance Panel of the Council's financial position and its ability to meet any or all of the identified budget gap without additional borrowing;
- iv. Evidence from the Improvement and Assurance Panel of the Council's progress in developing and delivering against an asset disposal strategy;
- v. Evidence of progress against other areas of improvement that were included in the fourth progress report from the Improvement and Assurance Panel: resolving challenges in property ventures; addressing identified issues within the Council's housing stock as outlined in the Housing Improvement Plan; a credible 2022/23 budget including a deliverable savings plan; progress in delivering against the plan to transform front line services; and progress made to change the culture of the organisation;
- vi. Evidence and recommendations from the Improvement and Assurance Panel on the steps the Council may need to take to, for example, improve its governance arrangements, financial management, operational delivery and to reduce risk;
- vii. Evidence from the Improvement and Assurance Panel that the Council is taking the required steps to move from crisis management to adopting a strategy that plans for the medium to long term sustainability of the Council.

I anticipate the evidence to demonstrate progress will be provided through the Improvement and Assurance Panel reports, as well as through on-going engagement with my officials throughout the year. With this in mind, subject to the evidence provided, the Secretary of State reserves the right to attach additional bespoke conditions to a direction in respect of 2022/23.

As you are already aware, 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 to him, including the appointment of Commissioners, in order to secure the improvements that are necessary.

I would be grateful if the Council could consider the Department's position with respect to your request for exceptional financial support and confirm to me in writing by 10 March that you wish to proceed in accordance with the conditions outlined in this letter. Subject to your confirmation, my officials will write to you to provide the capitalisation direction.

Yours sincerely,



KEMI BADENOCH MP

**Minister of State for Equalities
and Levelling Up Communities**

Conditions attached to 2021/22 capitalisation direction

- A. The Council may only capitalise expenditure when it is incurred.
- B. Where the Council's capital financing requirement is increased as a result of the capitalisation of expenditure under this direction:
 - i. Any further borrowing from the date of the capitalisation letter up to and including, but not exceeding, the increase in the financing requirement must be obtained from the PWLB (Public Works Loan Board) and must be subject to an additional 1 percentage point premium on the interest rate above the rate the loan would otherwise be subject to. This requirement does not apply to borrowing in relation to your Housing Revenue Account. Where any borrowing to which these conditions initially apply is refinanced, the conditions must continue to apply to the resulting borrowing.
 - ii. The Council shall charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years, in accordance with the Department's Statutory Guidance on Minimum Revenue Provision issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003.
- C. That within three months of this capitalisation direction, the Council develops and shares with the Department a plan for the generation of additional capital receipts (either through asset disposals or changes to its capital programme). To help reduce the Council's future borrowing requirement the plan should, as far as possible, aim to reduce the Council's capital financing requirement by an amount at least equal to the total revenue expenditure treated as capital under this direction (in addition to revenue capitalised under the Council's 2020/21 direction).
- D. The Council continues to make good progress towards completing the actions outlined in its Improvement and Financial Recovery Plan, as well as the plan required by condition C, as assessed by the Improvement and Assurance Panel in their reports to the Secretary of State.
- E. That within six months of a capitalisation direction, working with the auditor, the Council resolves the outstanding issues preventing the closure of its 2019/20 accounts and makes good progress towards the closure of its 2019/20 and 2020/21 accounts.

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