



**CABINET  
AGENDA**  
for the meeting  
on  
30 November 2022  
at  
6.30 pm



**To: Croydon Cabinet Members:**

Mayor Jason Perry  
Councillor Jeet Bains  
Councillor Jason Cummings  
Councillor Maria Gatland  
Councillor Lynne Hale  
Councillor Yvette Hopley  
Councillor Ola Kolade  
Councillor Scott Roche  
Councillor Andy Stranack

Invited participants: All other Members of the Council

A meeting of the **CABINET** which you are hereby summoned to attend, will be held on **Wednesday, 30 November 2022 at 6.30 pm** in **Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX**

Katherine Kerswell  
London Borough of Croydon  
Bernard Weatherill House  
8 Mint Walk, Croydon CR0 1EA

Democratic Services  
democratic.services@croydon.gov.uk  
www.croydon.gov.uk/meetings  
22 November 2022

Residents are able to attend this meeting in person, however we recommend that you watch the meeting remotely via the following link:  
<https://webcasting.croydon.gov.uk/croydon/meetings/13407>

If you would like to attend in person please note that spaces are limited and are allocated on a first come first served basis. If you would like to attend in person please email [democratic.services@croydon.gov.uk](mailto:democratic.services@croydon.gov.uk) by 5.00pm the day prior to the meeting to register your interest.

If you would like to record the meeting, we ask that you read the guidance on the recording of public meetings here before attending. The agenda papers for all Council meetings are available on the Council website [www.croydon.gov.uk/meetings](http://www.croydon.gov.uk/meetings)

If you require any assistance, please contact Victoria Lower 020 8726 6000 x14773 as detailed above.

## AGENDA – PART A

### 1. **Apologies for Absence**

To receive any apologies for absence from Members.

### 2. **Disclosure of Interests**

Members and co-opted Members of the Council are reminded that, in accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, they are required to consider **in advance of each meeting** whether they have a disclosable pecuniary interest (DPI), an other registrable interest (ORI) or a non-registrable interest (NRI) in relation to any matter on the agenda. If advice is needed, Members should contact the Monitoring Officer **in good time before the meeting**.

If any Member or co-opted Member of the Council identifies a DPI or ORI which they have not already registered on the Council's register of interests or which requires updating, they should complete the disclosure form which can be obtained from Democratic Services at any time, copies of which will be available at the meeting for return to the Monitoring Officer.

Members and co-opted Members are required to disclose any DPIs and ORIs at the meeting.

- Where the matter relates to a DPI they may not participate in any discussion or vote on the matter and must not stay in the meeting unless granted a dispensation.
- Where the matter relates to an ORI they may not vote on the matter unless granted a dispensation.
- Where a Member or co-opted Member has an NRI which directly relates to their financial interest or wellbeing, or that of a relative or close associate, they must disclose the interest at the meeting, may not take part in any discussion or vote on the matter and must not stay in the meeting unless granted a dispensation. Where a matter affects the NRI of a Member or co-opted Member, section 9 of Appendix B of the Code of Conduct sets out the test which must be applied by the Member to decide whether disclosure is required.

The Chair will invite Members to make their disclosure orally at the commencement of Agenda item 3, to be recorded in the minutes.

### 3. **Urgent Business (If any)**

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

**4. Corporate Asset Management Plan (Pages 7 - 68)**

Cabinet is invited to consider the attached report, which recommends the adoption of a new Corporate Asset Management Plan and outline Property Strategy to provide clear guidance in the way that the Council's assets are managed within the Executive Mayor's priorities and the Executive Mayor's Business Plan.

**5. Brick-by-Brick Update (Pages 69 - 90)**

The attached report provides Cabinet with an update with regards to Brick by Brick Croydon Ltd (BBB), a wholly owned housing development company. Progress has been made by Directors and Management at the company since the reviews carried out in 2021.

**6. Period 6 Financial Performance Report (Pages 91 - 128)**

The attached report provides the Council's forecast outturn as at Month 6 (September 2022) for the General Fund (GF), Housing Revenue Account (HRA) and the Capital Programme (CP). The report forms part of the Council's financial management process for publicly reporting financial performance monthly.

**7. 2023-2024 Budget Update, Medium-Term Financial Strategy and Savings Proposals (Pages 129 - 192)**

**8. Exclusion of the Press and Public**

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

"That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended."

**PART B AGENDA**

**9. PART B - Brick-by-Brick Update (Pages 193 - 230)**

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<b>REPORT TO:</b>	<b>30 November 2022 Cabinet</b>
<b>SUBJECT:</b>	<b>Corporate Asset Management Plan</b>
<b>LEAD OFFICER:</b>	<b>Jane West Corporate Director Resources and s151 Officer</b> <b>Peter Mitchell Director Commercial Investment and Capital</b>
<b>CABINET MEMBER:</b>	<b>Councillor Jason Cummings (Cabinet Member for Finance)</b>
<b>WARDS:</b>	All

**SUMMARY OF REPORT:**

This report recommends the adoption of a new Corporate Asset Management Plan and outline Property Strategy to provide clear guidance in the way that the Council's assets are managed within the Mayor's priorities and Mayor's Business Plan. This will not only involve the delivering the required services but also to maximise the delivery of revenue opportunities and capital receipts wherever possible

The Council is currently financially unsustainable and needs to reduce its asset base considerably. It also needs to reconfigure its services to drive efficiency in essential delivery areas. This Plan will ensure that the right decisions are reached in relation to the Council deciding to sell, buy, rent or hold assets.

The Plan addresses the issues raised by the Improvement and Assurance Panel and builds on the Interim Disposal Strategy that was adopted in 2021 as the initial stage in addressing the concerns raised around governance and financial sustainability of the Council.

It is important that the plan remains dynamic to ensure that it can address changes to service delivery and corporate priorities and it is therefore recommended that it is reviewed annually to incorporate changes to delivery and financial priorities.

This Plan will deliver a more integrated approach to the use of the Council's assets from both service delivery and financial perspectives, by:

- provision of properties that will directly contribute to the delivery of essential services to our communities and other stakeholders;
- ensuring better fire, health and safety management
- securing good and sustainable income streams from non-operational and investment properties.
- helping plan and manage property utilisation in support of the Council's initiatives and service delivery;
- supporting the delivery of the Mayor and Council's corporate vision, aims and priorities;

- formalising systems, procedures and controls;
- a more robust understanding of the current condition of our key operational assets to enable a more effective budget and repairs programme moving forward.

The Strategy outlines the approach to enable revenue and capital benefits to be secured and the approach and governance around the disposal of property and a proposed list of asset disposals. The principles established within these documents will be used to identify and bring forward future proposals.

#### **FINANCIAL IMPACT:**

**The overall aim of the AMP and Property strategy will be to reduce costs of retained corporate assets used for the delivery of services. It will also look to maximise revenue generation from key assets non-operational assets that are retained to deliver income to support service delivery.**

**Through the development of the strategy around the current asset base, the identification of surplus assets will help to deliver further capital receipts to reduce the Council's capital financing costs and overall running costs.**

#### **KEY DECISION REFERENCE NO.: n/a**

The Executive Mayor has the power to make the decisions set out in the recommendations contained within this report:

#### **RECOMMENDATIONS**

The Executive Mayor in Cabinet is asked to:

1. Approve the Corporate Asset Management Plan attached at Appendix 1;
2. Approve the proposed Corporate Property and Disposal Strategy attached at Appendix 2; and
3. Note the list of proposed asset disposals attached at Appendix 3 which will be subject to relevant decision making in accordance with the Financial Regulations and any service provision decisions, including statutory consultation where required.

## **1. DETAIL**

### Background

- 1.1 It is essential that the Council is able to manage its assets effectively and strategically to reflect both corporate priorities and community demands within the Borough. It is recognised as good practice for local authorities to



produce an Asset Management Plan (AMP) setting out broad objectives for the management, development and rationalisation of their property assets over the medium term. This was recognised by the RIPI report in 2020 where it was identified that the current Asset Strategy expired in 2019 and therefore one of the recommended actions was to deliver a new Plan and Strategy to ensure the best use of the Council's assets and ensure more accurate planning and budgeting.

- 1.2 The Council is currently financially unsustainable and under unprecedented pressure to reduce expenditure. The better use of property assets can play a key part in delivering savings. The Pandemic demonstrated that service delivery can still be effectively provided through the adoption of alternative delivery methods and together with an increase in hybrid working it is key to adopt and develop these new ways of working and service delivery to help deliver the required savings.
- 1.3 The AMP sets out the clear direction and processes to ensure best use of the Council's assets to support both service requirements and the wider corporate objectives such as improving the Council's financial position through income generation. It will also enable better budgeting through the understanding of service requirements and the condition and use of buildings.
- 1.4 With the continued requirement to deliver both revenue savings and capital receipts the number of buildings that are used to deliver services will need to be reduced. This can be achieved through the better utilisation of space, the adoption of hybrid working and adoption of different methods of delivery to residents. In some cases the changes may lead to the stopping of some non-statutory services. The AMP process looks to challenge the use of property assets and may help drive some of these decisions but there will be many other factors that may lead to the release or alternative use of assets.
- 1.5 It must be recognised that the Plan sets out the ideal position regarding the use and management of the Council's assets. However, given the Council's current position, a realistic view will need to be taken and it should be recognised that not all the areas can be addressed immediately and a phased approach may be necessary when looking at some of the recommended actions. Furthermore, use or release of some assets may require public consultation or other processes and this will be considered, where relevant.

## 2. Proposal

- 2.1 The Corporate Asset Management Plan (AMP) will detail the principles, procedures and mechanisms to be adopted to effectively and efficiently manage the asset portfolio. These are set out within the AMP and are focused on the operational assets including:
  - Corporate Offices
  - Depots

## Cabinet & Executive Template

- Culture and Leisure buildings
  - Community Assets
  - Income producing Assets
  - Libraries
- 2.2 The Plan does not consider the Housing Revenue Account (HRA) assets or community schools in any detail as these are the subject of separate strategies
- 2.3 An important element of the overall AMP will be the delivery of a new condition survey programme for all the key assets over the next 18-24 months. This was one of the key issues highlighted by the Improvement and Assurance Panel as a formal programme for undertaking condition surveys was stopped in 2016. The previous 5 year rolling programme of surveys could mean that some buildings have not been surveyed in detail for 11 years.
- 2.4 The new programme of surveys is an integral part of the new AMP and is being separately procured. This will provide a more detailed understanding as to the current condition of the main Corporate assets. The work will also provide recommended budgets for necessary repairs and expenditure over the next 5-10 years to allow a more accurate basis for budgeting for both revenue and capital spend. It will also help to highlight those assets that need major investment and may no longer be cost effective to retain.
- 2.5 The key priority will be to build on the current asset review to consider all properties so that a better understanding of how buildings are used and what potential exists to further consolidate based on changes in service delivery. This will be supported by the adoption of better governance processes and collection and retention of data through the corporate property database.
- 2.6 As part of the governance process, the proper maintenance and compliance with health and safety requirements will be focused on to ensure that any retained assets provide a safe and pleasant working environment that allows fully flexible working opportunities to support the new hybrid working model. This will inevitably result in more flexible space that can be used for a variety of functions to allow key buildings to be used as true Hubs – delivering a variety of services to residents in convenient locations.
- 2.7 The property challenge will extend to the opportunity for the delivery of services not only from operational assets but also from partner organisations whether these are run from Council owned buildings, as is the case for many community partners, or from their own assets. Such shared use may then lead to external funding such as from One Public Estate becoming available to help carry out any necessary capital spend on buildings.

- 2.8 Although not a key element of the Plan, reference to and a better understanding of the Housing Strategy will help identify opportunities to support the wider property requirements within the Borough.
- 2.9 Corporate Asset Strategy will build on the “challenge” principles within the AMP to determine what properties can be released to help support the requirement to deliver capital receipts and reduce operational cost for the Council. Alternatively, some surplus assets may be retained and let to generate income where this is considered to be a better financial option.
- 2.10 The Strategy adopts a flexible approach so that it can support future corporate requirements. It will aim to identify properties for disposal in the short to medium (3 years) term but will be reviewed annually to reflect changes in the delivery of services.
- 2.11 The Strategy will initially consider a review of all corporate assets and consider them against current service delivery needs. The resultant proposal will include timelines to reflect known or anticipated service delivery changes and future opportunities. It will also consider the complexity around the relocation of services where this is necessary as well as opportunities that may arise through contract expiries and the release of assets currently used to deliver these functions.
- 2.12 As part of the AMP and Property Strategy documents, the Corporate acquisition and disposal strategies have been reviewed as these provide the key governance framework for the delivery of capital or revenue receipts from surplus properties
- 2.13 As part of the ongoing governance process an officer group will be set up to monitor the performance of assets looking at current occupation levels, running costs and opportunities for revenue/capital generation. This will then enable asset use and performance to be reviewed against the performance of other boroughs and available benchmark data.

### **3. CONSULTATION**

No external consultation has been undertaken regarding the Asset Management Plan but feedback from consultation regarding previous disposals has been included within the disposal strategy. Any required statutory consultation for particular disposals will be undertaken, where relevant.

### **4. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION**

- 4.1 The plan is required to provide more certainty and direction around the use of the Council’s properties and to improve the governance processes around property transactions. The cost of holding and running assets is second only to staffing costs and therefore it is important to ensure that they are used in the most cost effective manner. By adopting a clear Plan, this will help identify opportunities through challenge, allow better budgeting through a full

understanding of condition and use and ensure that they are safe and flexible in their use.

## **5. OPTIONS CONSIDERED AND REJECTED**

5.1 It is recognised good practice for local authorities to produce an Asset Management Plan setting out their broad objectives for the management, development, and rationalisation of their built and land asset base over a five-year period.

5.2 Asset management provides a structured process to ensure value for money from property in serving the needs of the organisation and local residents. Section 151 of the Local Government Act 1972 requires councils to make arrangements for the proper administration of their financial affairs. The proposed AMP seeks to support this requirement.

5.3 No alternative options have therefore been considered

## **6. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

### **6.1 The effect of the decision**

With around £1.3bn of debt for the General Fund brought forward at the start of 2022/23 and interest rates rising when that debt is scheduled for re-financing, the development and implementation of a sound asset management plan is essential to mitigate rising cost pressures and reduce the overall cost to the Council.

Where the Asset Management Plan recognises the need to retain assets for service delivery or produces a positive net return on the investment made (taking into account income yield risk) the Asset Management Plan will ensure the cost of holding such assets is minimised or net revenue income maximised.

**Approved by Matt Davis, Interim Director of Finance**

## **7. LEGAL CONSIDERATIONS**

7.1 The Head of Commercial Property and Law comments on behalf of the Director of Legal Services & Monitoring Officer that:

7.2 Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs. The proposed Asset Management Plan (AMP) seeks to support this duty.

7.3 The Executive Mayor has the power to exercise executive functions pursuant to s9E of the Local Government Act 2000.

7.4 There are various powers the Council may rely upon to dispose of its assets and the Council must comply with legal framework, including established

public law principles, in relation to disposal of land and property. Under Section 123 of the Local Government Act 1972, it has a statutory duty to sell land at the best price reasonably obtainable (“best consideration”), unless it has the consent of the Secretary of State.

- 7.5 Where land or property is used to deliver services, the Council must take a decision on changing or maintaining its existing service provision before disposing of assets that are used to provide these services. This could engage the public law duty to consult service users and other affected stakeholders.
- 7.6 The potential disposals will require decisions to be taken in accordance with the Financial Regulations and will require legal consideration as part of those decisions, including any prior consultation requirements or other restrictions relevant to the particular asset.

Approved by Kiri Bailey, Head of Commercial & Property and Law on behalf of the Director of Legal Services & Monitoring Officer.

## **8. HUMAN RESOURCES IMPACT**

- 8.1 There are no Human Resources considerations directly arising out of this report. The disposal of any assets and the potential impact will be considered in individual reports recommending the asset sales.
- 8.2 (Approved by Gillian Bevan Head of HR Resources on behalf of the Director of Human Resources)

## **9. EQUALITIES IMPACT**

- 9.1 The delivery of Council services requires assets both for staffing and customer service. However, there are no direct equality implications arising from this report.

Denise McCausland Equality Programme Manager

## **10. ENVIRONMENTAL IMPACT**

- 10.1 There are no significant implications or risks to consider. The Council has taken significant consideration in encouraging work from home where possible reducing the need to travel and usage of cars, diesel or petrol and consequences of CO2 emissions.
- 10.2 There will be an obligation to support the Council’s commitment to make the borough more sustainable and Carbon neutral by 2030. The AMP will help to identify inefficient buildings and improvements necessary to comply with current regulations for tenanted properties will help deliver more efficient buildings

Approved by: Bob Fiddik on behalf of the Director of Commercial Investment

**11. CRIME AND DISORDER REDUCTION IMPACT**

11.1 There are no significant implications or risks to consider at this stage. The impact of individual disposals, acquisitions or significant changes will be considered at the time and included within separate reports.

**12. DATA PROTECTION IMPLICATIONS**

12.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

**NO**

12.2 **HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?**

**NO**

(Approved by: Steve Wingrave on behalf of the Director of Commercial Investment and Capital)"

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**CONTACT OFFICER:** Steve Wingrave, *Interim Head of Assets, FM and Estate Management*

**APPENDICES TO THIS REPORT:**

**Appendix 1 Draft Corporate Asset Management Plan**

**Appendix 2 Corporate Property and Disposal Strategy**

**Appendix 3 Proposed asset disposals**

**BACKGROUND DOCUMENTS – LOCAL GOVERNMENT ACT 1972**

# CORPORATE ASSET MANAGEMENT PLAN

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# 1 INTRODUCTION

## 1.1 Purpose of Document

### 1.1.1 Overall Scope & Aim

The Council's property portfolio is made of circa 900 property assets and has a net book value of around £900million. This valuation is undertaken in line with CIPFA requirements and for many of the properties this does not represent the realisable value of the assets if they were to be sold in the open market.

It is recognised good practice for local authorities to produce an Asset Management Plan setting out their broad objectives for the management, development, and rationalisation of their built and land asset base over a five-year period. Asset management provides a structured process to ensure value for money from property in serving the needs of the organisation and local residents. Section 151 of the Local Government Act 1972 requires councils to put in place processes for the management of their finances, including their assets. This Corporate Asset Management Plan demonstrates the Council's commitment to meeting these requirements in a structured and considered manner.

Property assets can be used proactively to initiate and support service-related outcomes, and to benefit the Borough, its communities and residents, but are also expensive, in terms of both their capital value and annual maintenance and running costs. They need to be carefully managed over their lives to ensure best value through their use, maintenance, and generation of income.

The Council, like many other public sector organisations, is under unprecedented and increasing pressure to reduce expenditure whilst improving services. LBC must continue to demonstrate "Value for Money" in every aspect of service delivery and must ensure that the services they deliver to residents are cost effective and efficient. It is therefore important that this remains a dynamic plan with annual reviews and challenges as to how services use corporate accommodation, active management of let space and develop a longer term plan for income producing assets to ensure that income levels can be secured and increased wherever possible. The Council's assets not only have to be able to support the demands of the Council and residents but also help support the delivery of services through income generation or realisation of capital receipts.

The last Asset Strategy effectively expired in 2019 but the Council have continued to make significant progress in the management, consolidation and improvement of assets by improving the effectiveness, sustainability, and efficiency of the Council's property portfolio. This Corporate Asset Management Plan will develop this work further and will inform the Council's governance process, set out a strategy to support best practice asset management, enable post-COVID changes to working practices such as flexible and hybrid working space and inform the development of a targeted capital investment strategy.

Following the recent election of the Executive Mayor the commitments made in his campaign will form the basis of priorities for the Council over the next four years. The Council's strategic objectives and plan have not yet been agreed but will set out the programme of action for implementing those commitments to help achieve the priorities. Many of the Executive Mayor's priorities will be reflected in the way the Council treats its assets and the processes adopted for future changes to the portfolio.

In particular, the areas that could impact the use of our assets:

- **Listening to Croydon** – any changes to the portfolio will need to involve more consultation and involvement with local resident groups as well as councillors and service areas for any key decisions.

- **Clean Up Croydon** – a more proactive decision route around surplus properties will reduce the opportunity for fly-tipping and antisocial behaviour so it will be necessary to improve forward planning for any likely closures to ensure decisions are made early to allow re-use or disposal of assets in a timely manner. This will also help minimise costs incurred in holding assets.
- **Crime Safety and Community** – look to improve the general environment around assets and minimise void periods. Look at opportunities to redevelop areas that attract antisocial behaviour.
- **Finance** – key to the better use of assets to reduces operating costs, allow consolidation, sharing properties with partners and making sure any tenanted assets are properly managed to maximise income opportunities. There will be a careful balance between maximising financial benefits from assets and meeting some of the other priorities and this will need to be reviewed for each individual property to try and achieve the most balanced result.
- **Housing** – although not a direct responsibility, the assets team can support Housing through the purchase and development of new housing, identify sites for development and review vacant stock to sell or refurbish.
- **Planning** – identify opportunities that help support the proposed changes whilst still trying to get the best value or use for the asset.
- **Town and District Regeneration** – the use of our assets within key centres can be used to try and improve facilities and regeneration opportunities. This can often require re-appraisal of earlier schemes which may require simplification of projects to ensure delivery becomes possible.
- **Climate Change and Carbon Reduction** – a key element of building maintenance will be to look at more sustainable ways to heat and cool buildings and to improve energy performance for our tenanted properties. Opportunities within the wider estate for electric vehicle charging for both Council vehicles and residents' cars will be considered where possible.

## 2 VISION

### 2.1 Vision

#### 2.1.1 Overarching Vision

The Council's property assets should support service delivery, enable regeneration and development, or generate income. The property portfolio will be reviewed over the next 4 years in line with the corporate priorities so that the Council has a property estate that is: -

- **Fit for purpose, cost effective and well utilised.**

Assets function effectively and enable staff and the public to use them and value for money is achieved by creating flexible buildings that support high utilisation and multiple uses

- **Sustainable and efficient.**

Assets are well maintained and are efficient in their uses of power, resources, and new technology to support carbon zero target.

- **Commercially Managed.**

Assets that are held for investment purposes will be commercially managed and driven to generate income to support frontline services or sold if not supporting these objectives.

- **Easily accessible and multi-functional.**

Assets will be located close to good transport links. Where possible, the Council will share facilities with other public bodies and not for profit agencies to ensure that residents have access to all the facilities and support they need.

- **Treats all assets strategically and corporately.**

Ensure assets are managed strategically to support corporate priorities and supplement service delivery aspirations

- Live within our means

Look to maximise the use of operational asset through developing hubs/shared space to allow a more streamlined delivery approach whilst reducing operational costs

## 3 CURRENT ESTATE, OBJECTIVES & PRIORITIES

### 3.1 Current Estate

The Council owns and leases around 400 corporate and commercial property assets within the Authority boundary. Over the last 10 years there has been a focus on releasing expensive leasehold properties and therefore most of property assets are now held freehold, but there are a small number of leasehold properties retained in the portfolio. The Council has disposed of a significant number of assets over the last 25 years and therefore the majority of properties are held directly for the delivery of services or community use. Approximately 25% of the estate is either held for investment purposes and to generate a financial return or for the delivery of services to local residents through community organisations using council properties.

London Borough of Croydon has four principal property portfolios:

- **Operational Property** – land and buildings that are utilised directly by the organisation for the delivery of corporate function and to deliver services to residents and businesses
- **Investment Property** – land and buildings held to receive income to support the Council has a limited commercial investment asset portfolio and therefore it is essential that what is available is effectively managed.
- **Community Properties** – land and buildings utilised by third sector to support community initiatives and for use by causes that LB of Croydon seeks to support. Some of these uses, should they not be performed, might create a statutory or moral obligation to revert to the Council
- **Housing Property – primarily in Housing Revenue Account**, however there are some other Croydon specific structures, not least Croydon Affordable Homes / Croydon Affordable Tenures, and those properties / initiatives to support Emergency Accommodation and Temporary Accommodation (EA/TA) held outside of the HRA.

In addition there are a large number of heritage assets which include both listed buildings such as the Town Hall, Purley Library, Davidson Lodge, Ramsey Court, Shirley Windmill, the Park Hill Water Tower, Heathfield House and Norwood Grove as well as war memorials. These are an important part of the Boroughs history and proposals to ensure their maintenance and suitability for continued beneficial use need to be developed and included within the overall asset maintenance and management plans

The table below details the Council's property estate within the four principal property portfolios.

Property Portfolio	Site Type	Number
<b>Operational</b>		
	Adult Education	1
	Adult Care Homes/ Facilities	14
	Civic	1
	Compound / Depots	8
	Electrical Substation	11
	Household Recycling Centres	3
	Leisure	5
	Library	13
	Offices	6
	Public Toilet	8

	Schools - community incl. SEN/PRU	36
	Schools and nurseries – Academy/Foundation	67
	Storage	2
	Youth Centres/Buildings	6
<b>Operational Total</b>		<b>181</b>
<b>Investment</b> (used to generate income to support net budget requirements)		
	Asset held for sale	14
	Allotment Sites	17
	Car Park	27
	<ul style="list-style-type: none"> <li>• Colonnades</li> <li>• 60 Vulcan Way</li> <li>• 37-39 Imperial Way</li> <li>• Davis House</li> </ul>	4
	Commercial	11
	Light Industrial	2
	Other Buildings	5
	Retail	1
<b>Investment Total</b>		<b>81</b>
<b>Community</b>		
	Buildings let to Community Groups	78
	Nursery	1
	Parks and Playing Fields	107
<b>Community Total</b>		<b>186</b>
<b>Housing</b>		
	Residential	35
	Residential Homes Children	1
	Traveller Site	1
<b>Housing Total</b>		<b>37</b>
<b>Surplus or Development Assets</b>		
	Surplus or Development Sites	3
<b>Surplus or Development Assets Total</b>		<b>3</b>

The key assets are identified on the attached Borough plan to help identify the geographic spread of the assets by type

### 3.2 Corporate Asset Management Plan Objectives

The Council, like many other public sector organisations, is under unprecedented and increasing pressure to reduce expenditure whilst improving services. LBC must continue to demonstrate “Value for Money” in every aspect of service delivery and must ensure that the services they deliver to residents are cost effective and efficient.

The last Asset Strategy effectively expired in 2019 but the Council have continued to make significant progress in managing, consolidation and improvement of assets. The new Corporate Asset Management Plan will develop this work further and will inform the Council’s governance

process, set out a strategy to support best practice asset management, prioritise post COVID activities such as flexible working space and inform the development of a targeted capital investment strategy.

This Plan will deliver a more integrated approach to the use of the Council's assets from both service delivery and financial perspectives, by:

- provision of properties that will directly contribute to the delivery of good quality services to our communities and other stakeholders;
- securing sustainable income streams from non-operational and investment properties.
- helping plan and manage property utilisation in support of the Council's initiatives and service delivery;
- supporting the delivery of the Council's corporate vision, aims and priorities;
- formalising systems, procedures and controls;
- ensuring fire, health and safety management;
- a more robust understanding of the current condition of our key operational assets to enable a more reliable budgeting and repairs programme moving forward.

With a view to consolidating the existing assets currently held and a strengthening of the governance processes, the Council will be in a better position to deliver the best returns and long-term income security. This in turn may identify the need, in some cases, for capital investment to retain and help improve income streams.

This CAMP and the supporting proposed Corporate Property and Disposal Strategy (see Appendix1) will complement the Council's priorities for 2022-25 as set out in the Updated Capital Programme and the Medium Term Financial Strategy and will also align with the Executive Mayors and Corporate priorities and the Croydon Renewal Improvement Plan for new priorities and ways of working.

The CAMP will include reference to the existing property related strategies and policies including the acquisition, disposal and investment strategies in line with the requirements of the Report in the Public Interest.

### 3.2.1 Priorities

To support the Plan objectives, the following key priorities have been identified: -

- I. **Maximise the use of Council Assets** – this will include:
  - a. **Asset Review and Challenge Programme** - Implement a property review programme to assess how operational buildings are used and to assess the performance of the investment estate. This is already underway as part of the current MTFs challenge process
  - b. **Property Management Governance Framework** - Implement a property management governance structure to support asset review, challenge and decision making including best value use of assets and a review of software systems and data collection processes to improve and consolidate how property data is collected and used to produce management information.

- c. **Release of surplus assets** –building on the interim disposal strategy, the new Corporate Property and Disposal Strategy will help secure the most efficient way to release properties to ensure best consideration is achieved for any letting or disposal of assets and set out a clear governance process

II. **Review of Operational Asset Management** – this will include:

- Condition Surveys for all key assets,
- Maintenance Programme, to be reviewed annually
- More focused Corporate H&S Policy to include a review of schools and third-party data,
- Corporate Risk Register - how to escalate to & manage,
- Budgeting & Compliance,
- More integrated approach with FM especially around potential closures and tenanted assets
- Better understanding of the Housing Strategy to help deliver new social housing opportunities.

III. **Housing and Regeneration** – Working together with housing and regeneration schemes to deliver new housing, workplaces, and job opportunities through the identification, release and development of surplus sites. This will include a full review of former Brick by Brick sites as well as the wider Council portfolio and will look at delivery options.

IV. **Future Property Approach** – Develop and adopt a property approach to reflect the evolving societal impacts of the Covid-19 pandemic over the coming years, from enabling changing working practices such as flexible working space, to stimulating a positive environment for inward investment.

V. **Sustainable Estate** - Develop a carbon re-fit, plant replacement and maintenance program to support carbon neutral target and improve energy efficiency

### 3.2.2 Management of the Asset Portfolio

Now that the Council have moved to a mayoral model, the governance process has been amended and all key decisions will now be made by the Elected Mayor unless delegated to Cabinet or the Corporate Management Team.

The Cabinet member for Finance is the portfolio holder for Assets together with a wider remit including Capital Programme and budget delivery and development, both of which will form an integral part of the CAMP. The Corporate Director for Resources and s151 officer is accountable for asset management within the Council demonstrating the importance and recognition of making the best use of the Council's property assets and the part they can play to support the wider objectives.

The Council operate a corporate landlord model whereby for the majority of assets, the ownership and responsibility for their management and maintenance is transferred from the service area to the corporate centre. This enables teams to focus on service delivery and for the property teams to ensure the services are adequately accommodated and the buildings are safe, well maintained and managed. Separate arrangements are made in connection with Housing Revenue Account (HRA) assets and for some elements of Highways Assets where a separate Asset Management Strategy is in place due to their more specialist nature.

The Assets and FM teams manage the following key areas:

- Property maintenance and management

- Statutory testing and compliance
- Cleaning
- Security
- Rates payments
- Health and Safety compliance
- Utilities supply and payment
- Estate management for non-service delivery areas
- All acquisitions and disposals of property assets
- Annual asset revaluation for all corporate assets including HRA
- All Right to Buy, enfranchisement and lease extension work for the HRA



## **4 PROPERTY RELATED STRATEGIES AND POLICIES**

The acquisition, disposal and investment strategies in line with the requirements of the Report in the Public Interest are:

### **4.1 Corporate Property and Disposal Strategy 2022-27**

The Interim Asset Disposal Strategy has been revised to reflect the current governance process and lessons learned from the first round of disposals

### **4.2 Community Strategy**

The Community Strategy is the overarching strategy for the borough, setting out our overall strategic direction, the priorities and outcomes we will focus on. It is produced by the Local Strategic Partnership (LSP), which is made up of businesses, voluntary groups, private and public sector organisations to identify, prioritise & find answers to Croydon's challenges. The last Community Strategy expired in 2021 and is to be reviewed shortly.

In its last iteration, the Community Strategy identified the need to meet a rising demand for new jobs, new homes and school places & ensure services meet the needs of local people. The Council's property assets can certainly be used proactively to initiate and support service-related outcomes, and to benefit the Borough, its communities and residents, by working with the LSP partnership but their use must also be approached carefully to ensure best value whilst achieving a balance of their use, maintenance, and generation of income.

### **4.3 Education Estate Strategy**

### **4.4 Community Asset Transfer Policy**

## **5 FUTURE PROPERTY APPROACH**

### **5.1 Post COVID-19 Impacts**

The COVID-19 pandemic has changed how our communities, residents and staff live their lives. The effect of the pandemic has and will continue to change how people work, educate, socialise, spend leisure time, and access public services. The impact on life in the UK is yet to be fully understood, but it is accepted that the pandemic is likely to take decades to recover from. Local Authorities will play a critical role in supporting the recovery.

The Council's property estate will need to change, adapt, and flex to reflect the evolving societal impacts of the pandemic over the coming years.

It is important that the Council continue to use our assets for the benefit of residents, businesses, staff and communities, stimulating a positive environment for inward investment. This may require use of some of our income producing assets being used to support and stimulate local markets or communities through subsidised rents, community asset transfers or other concessionary agreements where there is a clear social, economic or environmental basis.

The future property approach will consider the following:

- a. Council – especially future office strategy around flexible working and opportunities to release more space
- b. Corporate users – changes to service delivery through alternative delivery platforms
- c. Commercial tenants – adjustment to reflect current commercial demand/agreements
- d. Demand for both services and property
- e. Rent levels – adopting a more flexible approach
- f. Potential disposals – to support wider council demands and change in service delivery

### **5.2 Recovery & Investment Programme**

In response to the Improvement Panels' focus around Asset Management, the following key deliverables were identified: -

- Presentation of a new Asset Management Plan
- Undertaking condition surveys for all corporate assets to provide better medium-term budgeting
- Disposal of assets to deliver capital receipts and reduced operational costs
- Better reporting for Investment assets

All of these deliverables are being addressed and will be delivered during 2022/23 as part of the overall property focus.

### **5.3 Future Office Strategy**

The Council will change how and where it operates by using the lessons learnt from the organisation's experience during the COVID-19 pandemic to shape future ways of working. This will include supporting the reduction of office and service delivery space, reduce costs and deliver revenue savings to support the organisation's financial challenges.

The principles are:

- Enable better use of our assets - focus will be on multi use of space to maximise asset potential and provide a more comprehensive service offer from a single building.
- Reduce the estate footprint – through better space utilisation and focus on statutory services, more space will be released.
- Redesign face-to-face service delivery - review delivery of services on a more “hub” based approach to bring services together to deliver from a single site.
- Enable flexible and hybrid working - through the work that the property, IT and HR teams are doing to develop a more flexible working model, additional space can be released as well as accommodating a wider variety of delivery methods for residents and maximising online options where possible.

## 5.4 Investment Estate

The Council implemented an investment strategy in 2018 to deliver income producing assets to help support front line services. This resulted in the purchase of four investment assets with the view to deliver a longer-term income stream to add to existing income producing properties.

With the uncertainties caused as a result of the pandemic and a change to the Public Works Loan Board (PWLB) guidance in August 2020, the purchase of investment assets has been placed on hold. One of the assets has subsequently been sold as it no longer supported the requirements of the investment strategy.

The remaining properties continue to deliver positive financial returns but will require capital investment and careful asset management in order to maintain the required income streams. It is important that these assets, are continually reviewed and regular reporting on their performance is provided on a six-month basis to CMT and annual report to Cabinet.

A formal review of each of the main income producing assets will be undertaken to provide a report to include:

- Recommendations to retain or dispose of the asset
- Current income generation and return against the operational/holding costs
- Opportunities for further income growth
- Essential capital expenditure required to maintain the income levels
- Capital expenditure to help grow future income

It is proposed that this review and report will be carried out and reported to CMT and Cabinet on an annual basis. Any proposed capital expenditure will need to be reported through the Capital Board.

The minimum return required after all investment and holding costs was originally set at 2.5% for the investments purchased under the recent Investment Strategy. Due to the impact of Covid, for some of the assets the income has been reduced either through prolonged voids, deferred payment agreements or reduced rents. Through adopting a more structured approach, opportunities to steadily improve returns or identify disposal routes can be recommended on a more pro-active basis.

## 6 SUSTAINABLE ESTATE

### 6.1 Croydon Climate Crisis

**6.1.1** The Council declared a climate change and ecological emergency in July 2019 and Cabinet agreed that the Council would become carbon neutral by 2030. A wide range of actions have already been undertaken in Croydon to combat climate change

**6.1.2** Compared to the other London boroughs, Croydon's emissions are above the median. The Council is committed to deliver as many of the Commission's recommendations as possible and these recommendations form the basis of the Action Plan.

**6.1.3** The Council has already taken steps to tackle the Climate Emergency as part of existing plans for service delivery and details of these existing work streams, programmes and projects are included within the draft action plan, Appendix 2. Some of the headline work streams include:

- a) An emission-based parking policy was launched in 2019.
- b) Officers will publish an updated Air Quality Action Plan in 2022.
- c) 3,500 trees will be planted by end of 2022.
- d) 124 properties in council housing benefiting from ground source heat pumps.
- e) During 20/21, £729k was spent on campaigns for healthy school neighbourhoods and healthy neighbourhoods.
- f) Since 2016, over 38km of cycle lanes have been installed.
- g) There are 42 cycle hangers across the borough.
- h) Between 2018-20, 828 home visits to fuel impoverished residents were carried out, delivering 5,600 small energy savings measures.
- i) 400 electric vehicle charge points are to be installed by end of 2022.

**6.1.4** The Councils key priorities to help progress and move towards the Carbon neutral target by 2030 are:

- **Governance and engagement** – It is proposed that there will be two governance mechanisms in place: internal and political and an external engagement forum.
- **Financial resourcing** - achieving carbon neutrality by 2030 will require significant financial investment. The financial investment will need to be funded from a variety of sources, including council driven expenditure as well as external allocations from the business sector and available grant-funding streams.
- **Embedding carbon neutral principles across the council** - There are many teams across the council that are delivering services which impact on our carbon emissions and it is imperative that we embed sustainable practices across all of them. This will require a mandate from corporate management to ensure buy-in and implementation at a service delivery level.
- **Communication and public engagement** - The council can take a leadership role to help drive action through the creation and delivery of a carbon neutral communications and engagement campaign to inform all parties to demonstrate how they can contribute to reducing their carbon footprint, as well as the progress that we are all making towards our carbon neutral target of 2030.

## 6.2 Non-Operational Buildings

6.2.1 One of the key elements from a building perspective in addressing the Climate Emergency will be through better building performance. This will become more focused over the next few years with the changes the Energy Performance requirements for buildings that are being let or disposed of

### 6.2.2 The current position

- **Since 1 April 2018** the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (the PRS Regulations) sets a minimum energy efficiency standard (MEES) of EPC E for private rented properties subject to a few minor exemptions.
- **From 1 April 2023**, this will be extended to include existing leases making it unlawful for a landlord to **continue to let** commercial property (unless an exemption applies and is validly registered).

### 6.2.3 The Future

#### *First Compliance Window: EPC C (2025-2027)*

- **1 April 2025:** Landlords of all commercial rented buildings in scope of MEES must present a valid EPC. This will trigger a clear time period within which landlords will be expected to undertake improvements if they have not done so already
- **1 April 2027:** All commercial rented buildings must have improved the building to an EPC  $\geq$  C, or register a valid exemption.

#### *Second Compliance Window: EPC B (2028 – 2030)*

- **1 April 2028:** Landlords of all commercial rented buildings in scope of MEES must present a valid EPC.
- **1 April 2030:** All commercial rented buildings must have improved the building to an EPC  $\geq$  B, or register a valid exemption.

6.2.4 To comply with the requirements will require an early assessment and capital expenditure on many of the non-operational buildings as much of the Council stock, especially for the community assets, are unlikely to meet the required EPC C without further work.

# 7 OPERATIONAL ESTATE MANAGEMENT

The key driver for the Asset Management Strategy is to ensure that the Council make best use of its available assets and drive down operational costs through more intensive use of assets. This will create opportunities to deliver substantial savings and release assets for wider development and regeneration opportunities.

Whilst the Council have always adopted a challenging asset management process to ensure that opportunities are captured to reduce costs, the impact of new working styles and different service delivery methods adopted as a result of the pandemic have now generated additional opportunities to adopt a more challenge focused approach to looking at the requirements for the delivery of services to residents.

Consideration of the Operational Estate can be focused in four main areas:

1. The utilisation of existing properties and how services can best be provided in the most cost-effective way.
2. The maintenance and management of buildings so that they are fully compliant, safe and comfortable for staff to work from.
3. Accurate budgeting and cost-effective operation.
4. Energy efficient use

## 7.1 Property Utilisation

**7.1.1** A number of initiatives have been undertaken to try and reduce the number of operational properties through better use of existing buildings and a move away, where appropriate, from single use assets to encouraging more shared use of key facilities. Following the service led asset review a model was developed to work with service areas to challenge their space requirements. This led to a number of proposed projects which allowed key delivery areas such as the Autism service being relocated into assets that allowed a new way of delivering services at a reduced cost.

**7.1.2** A model has been developed to help form the basis of future challenge to service areas to allow a full understanding of their current use of properties and future requirements to assess whether these could be improved both from a service delivery but also cost perspective.

This approach could be utilised with a number of wider service areas such as CALAT, libraries and Youth Services but also in connection with various individual sites.

**7.1.3** All non-operational and surplus assets will be reviewed to identify opportunities to create or increase revenue income, provide investment opportunities or deliver capital receipts. Considerable work has already been undertaken in this area.

**7.1.4** The impact of the community strategy with the removal of the rent and discretionary rate relief subsidies will also impact community assets. This may deliver new opportunities as well as challenges and will require close working with the communities team to deliver the best outcomes for residents

## 7.2 Maintenance and Management

**7.2.1** In order to accurately budget for the maintenance and repairs for the corporate estate it is essential that a programme of condition surveys is undertaken with a 5- and 10-year cost plan for works required. This will allow for a more robust plan to invest properly in all retained assets to ensure that they are fit for future service delivery. It will also allow for accurate revenue and capital budgeting and to identify any future pressures and need for additional funding.

**7.2.2** This will also allow officers to take a more considered approach for the long-term suitability or retention of assets where large amounts of work are identified.

**7.2.3** This more structured approach will also help identify the best times to undertake major repairs to minimise impact on services delivery such as for educational assets where the longer school holiday periods can be targeted.

### 7.2.3 Fire, Health and Safety Policy for Tenants

An important element of ensuring buildings are fit for purpose is ensuring better Health and Safety compliance. This is a key area that is now being reviewed at a corporate level with individual Directorate boards being set up to review matters to pick up service specific areas.

From a property perspective, there are several key areas that are being progressed:

- Occupied Estate

Increase in the number of building audits and risk assessments undertaken. This is particularly important in response to the new ways of operating from assets post covid-19.

- Tenanted Estate

At present there is a range of responsibilities within leases for statutory and fire safety duties in respect of leased properties. This is in part due to historic arrangements where Council staff may have been present. A Review is underway to assess tenants liabilities under the terms of their occupation agreement and the following process adopted:

Tenants have been contacted in respect of requests for their Fire Risk Assessments (FRA) and where these have not been carried out support has been offered to help them undertake compliant assessments. Going forward, Tenants will be contacted every two years asking for confirmation regarding FRA

A similar approach is being adopted for statutory testing. A review of all current leases will be undertaken to assess the contractual responsibility and the Estates Team will work with the tenants to ensure that all necessary testing has been undertaken and the buildings compliant. Where the tenant is not able to arrange for such work to be carried out the Council will arrange for the testing to take place and where the occupational agreements allow, will agree and recover the costs.

## **7.3 Budgeting**

### **7.3.1 Rent Collection Strategy**

As part of our overall management of our let estate it is essential that we have a clear policy regarding rent collection. Over the Pandemic a policy was put in place to help support tenants through rent deferment but now that businesses are beginning to re-establish themselves, a review of existing processes will be undertaken and a new process put forward. By inclusion within the Asset Management Plan and through informing our tenants we can adopt a clear policy that is both fair and reasonable to the tenants and Council alike.

The proposed process will be:

- Rent demands to be issued 4 weeks prior to payment date.
- Debtors Report to be issued at 15, 30, 60 and 90 days plus.
- Tenants contacted after 15days of the rent being due, requesting payment.
- Second letter to be sent by Estates team stating that unless payment made within 10 working days the matter will be referred to solicitor.
- Solicitors' letter to be sent after 60 days of the rent due date requesting payment within 10 working days.
- Second solicitors' letter if no payment made to state that bailiffs will be instructed.

## **7.4 Energy Efficiency**

With the ever increasing cost of energy and a requirement to be more fuel efficient, a full review will need to be undertaken of the corporate assets to establish

- Baseline data for current energy use
- Identify ways to reduce consumption through
  1. Reduced operating hours
  2. Reduced cooling/heating temperatures for buildings whilst retaining a comfortable and compliant environment
  3. Use of different technologies to support lower energy use
- Any supplies made to third parties to be carefully reviewed and fully recovered



## 8 ASSET REVIEW AND CHALLENGE PROGRAMME

### 8.1 Improving How We Work

Key areas are already incorporated within a central model with Statutory testing, repairs, maintenance, cleaning, security and the payment of utilities and rates all controlled centrally to ensure good quality services. This could, however, be further developed to help deliver cost savings and better service delivery.

Whilst certain key areas are corporately controlled, there are still examples of local management of buildings with services making decisions on some minor alterations using their own budgets. There are other examples where responsibility for certain activities remains unclear as to budget or decision responsibility, which can result in delay or works being done in an un-structured way.

A decision to clearly identify responsibility across all areas and aligning budgets on a central basis would help streamline this process. For example, unadopted sections of roadway and paths are currently the responsibility of the Assets team who do not have the specialist knowledge to suitably manage such areas. By incorporating these within the Highways team, regular inspections could be undertaken in line with adopted highways to minimise risk and ensure the correct repairs are carried out. This process should also extend to lighting within parks etc., that are not currently within the main contract.

Similarly, ground maintenance work could be extended with suitable budget provision to include non-public green spaces such as common areas within estates rather than paying for third parties to carry out work.

A clearer definition of responsibilities within central rather than service area control will allow better decision making and challenge on all property matters. It will also help deliver cost savings and better Health and Safety through the utilisation of properly procured and managed contracts.

Centralisation of these property functions will help remove delays and confusion over areas of responsibility and allow the necessary works to be completed in a more timely and cost effective manner. This should help reduce levels of complaints from residents.

This approach has already been adopted in terms of business rates, insurance and utility payments but does require an open book approach to allow budgets to be transferred across correctly.

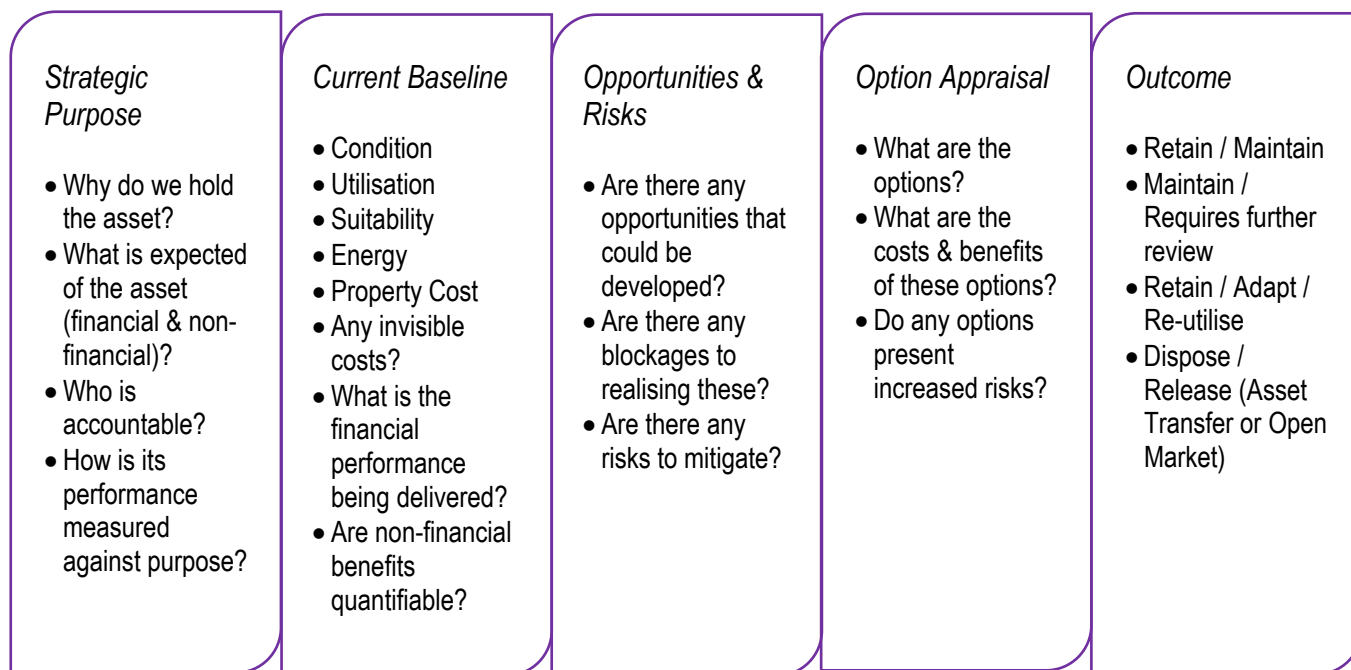
### 8.2 Asset Challenge & Review

The Asset Challenge is a process to continually review our Asset portfolio on a continuous rolling programme, ensuring that only those Assets needed or performing to acceptable levels are retained.

The Council occupies and delivers core services from circa 120 The buildings. To meet the Council's Carbon targets & energy efficiencies, contribute to cost reductions & financial efficiencies to best support residents in a flexible and increasingly digital world, the Asset Challenge aims to identify assets to be retained for use and/or invested in and those that can be disposed of.

Each asset will be assessed periodically using the Asset Challenge criteria for determining the future options. Assets can then be broadly categorised into those that will form part of the long-term estate,

those that present potential opportunity to deliver and / or support change and finally those that do not support service and are poor performing and therefore can be considered for disposal or alternative use.



The Asset Challenge Process

### 8.3 Review of Investment Estate

The council have four key investment assets and a number of other properties that generate income and are not primarily held to support service delivery.

Whilst these assets are regularly reviewed and managed, there is currently no formal process in place for reporting asset performance. The following actions will therefore be adopted to allow clear review and decision making around these important assets

An Asset Management Plan will be developed for each site to include:

1. Simple lease renewal options – retain existing tenants with minimal change/investment
2. Lease regears and redevelopment/refurbishment options – look at whether lease expiries offer opportunities to update the asset, alter layout of units to meet current demands and change nature of occupiers/offer
3. Disposal – is it the right time to sell based on Council’s need for capital or revenue, market conditions, special purchasers etc
4. Capital investment – what is required under the two options
5. Financial appraisal – to reflect the returns under option 1, 2 and 3 and fully reflecting rental interruptions for redevelopments, lease renewal incentives and longer-term rental income as well as improved capital values or benefit of capital receipt
6. Recommendations

For some assets that are single let this will be straightforward but for multi-let larger investment assets this will require external consultants to provide some input to ensure that the current market position is fully understood and reflected in any recommendations.

It is proposed that a full consideration is made on an annual basis with a refresh undertaken after 6 months or more frequently in a volatile market to ensure that opportunities are not lost.

Any future investment in property is currently not being pursued by the Council and therefore the investment strategy has not been included at this stage

#### **8.4 Improving Utilisation across Public Sector**

With increasing financial pressure across all public services it is essential that councils work more closely with other government departments to maximise use of their assets and available grant funding. This will help ensure that key services can continue to be delivered to local residents. The Council already works closely with a number of partners and in particular the NHS/out of hospital services. Regular strategic meetings have been established which has led to the delivery of a number of successful projects for the provision of new school sites, medical facilities and shared service opportunities. This continues to be a key focus with at least 3 more key sites being brought forward. This approach now needs to be widened across other delivery partners.

The Council is also fully engaged with the Government Property Agency (GPA) in respect of letting surplus office accommodation and has already secured a number of teams such as DWP and the Home Office

The utilisation of external funding sources will also be key and work with One Public Estate will need to be undertaken in a more structured way with a clearly defined approach to ensure the best chance of securing funding. Whilst the Council have been successful in a number of earlier rounds, following team restructures there is no clear resource now allocated to securing future funding. With opportunities around housing regeneration this will become more important given the current funding opportunities through the Brownfield Land Release Funding.

## 9 PROPERTY MANAGEMENT GOVERNANCE FRAMEWORK

Implementing a property management governance structure will support asset review, challenge and decision making including best value use of assets and improved property data collection to produce management information.

### 9.1 Property Management Governance

Property assets are a major Council resource and robust management processes, and procedures need to be in place to ensure that they are high performing and serving their purpose in supporting service delivery, generating a return or supporting development and regeneration.

The Royal Institution of Chartered Surveyors (RICS) – Public Sector Asset Management Guidelines states "Strategic asset management for land and buildings ensures that property assets are optimally structured in the best corporate interest by aligning the asset base with the organisations goals and objectives".

#### 9.1.1 Management Structure & Processes

The Corporate Asset Management Plan (CAMP) sets out the structure for the delivery of the Council's Property Asset Management activities as follows:

##### A. Structure

The Property Services Team leads on strategic asset management of the Council's property portfolio and the development and implementation of the CAMP. A key output from this is to identify areas where financial efficiencies and rationalisation opportunities can be derived from the property portfolio.

##### B. Roles and Responsibilities

The roles & responsibilities relating to the Asset Management processes are as follows:

- **Corporate Management Team (CMT)**

The CMT provides oversight and direction to the CAMP to ensure management of the Council's assets is considered corporately. Directors are responsible for ensuring that the Strategy is embedded in Service and Resource Plans. Regular updates are provided to CMT on progress and the delivery of Corporate priorities. The Corporate Director of Resources has lead responsibility for the overall strategic asset management at CMT.

Assets are a corporate resource and the Council, through its Resources Directorate has responsibility for obtaining the approval and subsequent monitoring of the CAMP, its constituent priorities and any related decision-making and resource allocation regarding Council assets. Reports on progress are provided to the corporate director and lead member on asset related issues.

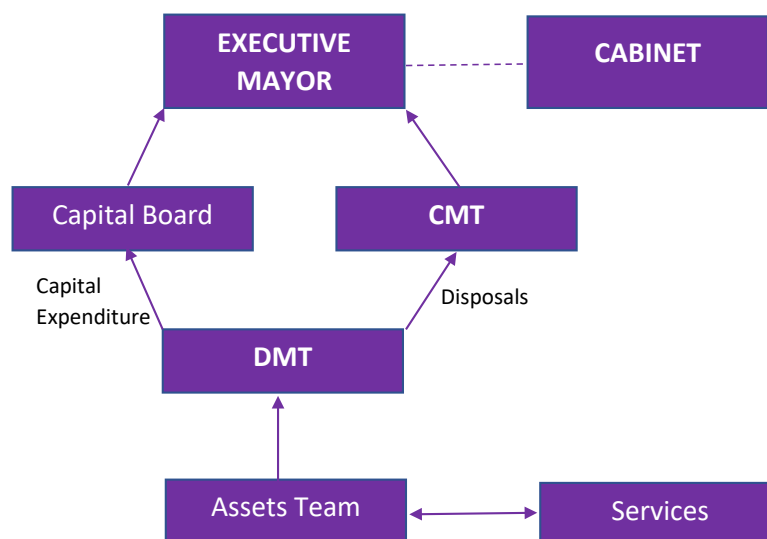
- **Capital Board**

The Capital Board brings together key Service contacts with lead responsibility for the asset issues relating to their Service. The Group is responsible for decisions around capital investment within the Council including any corporate assets. Group members have a responsibility to embed the strategy in Service Plans and operational decision-making within each Service. The Group is chaired by the Director for Commercial Investment and Capital.

• **Service Responsibilities**

The responsibility of each Service is to support the management and maintenance of its property assets in compliance with the Council's strategy, to ensure these assets are fit for purpose and meet the relevant legislative and other standards for use. The performance of property assets will be reviewed on a regular basis by Asset and Facilities Management Teams. Services will promote asset management through:

- decision-making for operational service delivery,
- adhering to corporate guidelines relating to capital investment,
- premises Management,
- carbon, and energy management planning and practice.



– Property Management Governance Structure

**9.1.2 Best value use of assets**

Ensuring that processes and practices are in place to enable decisions for the better use of our assets to maximise best value. This will include:

- Balancing Capital vs Revenue conflicts – enabling informed decisions, about whether to sell for immediate capital gain or keep income driving assets, with robust financial modelling & assessment of whether rental income is greater than the asset’s capital value.

**9.1.3 Property Information and Data Management**

Good decision making relies on accurate and current data. The collation of quality, accurate data is a key priority for the Council and will support an Asset Review and present immediate opportunities to identify poorly performing and costly property stock. Over the next 24 months the Council will focus on collating and commissioning with the help of third party companies where necessary to support the following activities: -

- Implementation of an initial condition survey programme
- Collation of running costs for all corporate buildings (utilities, rates, maintenance)
- Collecting utilisation information
- Development of corporate maintenance strategy that is linked to retention

Initially a 2-year condition survey programme will be developed and will target 50% of the key assets per annum. This will then be further developed to include all assets over the following years and a regular refresh will be adopted, at least for the key assets over a 5-year cycle. It is considered good practice by the RICS to conduct regular condition surveys of property assets. This enables early identification of issues, cost avoidance in treating fabric defects early and regular monitoring of major plant items to inform maintenance programmes and strategies and better planning to minimise any impact on service delivery. The data and information that is collected will be stored in the Council's Property Asset Management system.

The Condition Surveys will identify backlog maintenance of property assets to inform and develop a 5-10 year planned capital investment strategy. The condition surveys will also identify opportunities to contribute to carbon zero target by replacing M&E kit such as boilers with ground/air source heat pumps and the installation of energy efficient materials and plant such as solar panels.

The Asset Management and Facilities team will work with corporate finance and other departments to collate the running costs for all properties that form the corporate estate. This will include the collection of utilities spend and consumption, business rates charges and revenue-based maintenance costs (such as boiler servicing and repairs). The collection of this information, over a period of approximately 2 years will provide property staff with a reasonably accurate running cost to support decision making and the development of options appraisals and business cases.

At the present time the Council does not have a corporate planned maintenance regime that is linked to a retention strategy or a defined condition survey programme. It is incredibly difficult to ascertain future repair and maintenance liabilities and there is no link between future liabilities, the Councils medium term financial strategy or future service demands. The use of revenue and capital funds is almost entirely reactive, and this often leads to an increase in costs and major repairs being undertaken to buildings that do not necessarily fit into the Councils medium- or long-term plans.

As part of the data collection programme, and Asset challenge process the Council will develop a medium-term maintenance strategy whereby Assets that will be retained long term will be prioritised for capital replacement and short-term properties will receive a basic maintenance programme and non-critical plant items will be run to fail. The maintenance strategy will also align and form part of the Carbon Neutral programme and ensure – where appropriate – that sustainable plant items are used, and carbon neutral practises adopted.

# 10 HOUSING, SCHOOLS AND COMMUNITY ASSETS

## 10.1 Housing Estate Strategy and Regeneration

The Council is in the process of updating their Housing Asset Management Plan. The Council has a significant number of families and individuals on the waiting list that are in need of various forms of housing. The Council's waiting list is comparable with most London Boroughs and the length of time in temporary housing is a continuing challenge. To help address this the Council have undertaken a number of schemes over the past few years to acquire both temporary and permanent housing. In 2021/22 the Council delivered 197 new properties for social housing and they continue . . . to work with developers and the GLA to secure funding and bring forward Housing developments. As part of this process the Asset Management Service continues to identify potential sites within the portfolio that may support future housing development.

The Asset Management service are responsible for supporting the Housing team to identify future sites for development, acquisitions and disposals and the valuation of properties for Right to Buy, lease extensions and cases of Leasehold Enfranchisement. They also undertake the role of lead team to deliver projects on behalf of the Housing team where the acquisition of sites is involved. This would include both the use of Compulsory Purchase Order powers for land assembly / regeneration and other one off schemes such as "buy backs" where the Council secured funding to buy ex-Council stock and private housing for use as temporary accommodation.

## 10.2 Schools and Education

The Council owns 34 community schools within the borough boundary and a further 67 Academies and Foundation schools. The Council has opened 13 new schools within the past 5 years to meet increasing demand, of which 6 are Primary Schools, 3 SEN and 4 Senior Schools. In addition a number of school expansions have been undertaken to provide permanent facilities. The backlog maintenance programme is managed by the Capital Delivery team for Schools and Housing team and there is an annual programme of work to support the improvement of building fabric and upgrade plant systems.

The Council's Education Service is responsible for producing an annual School Education needs strategy that is developed from demographic data to model the requirement for School places in the future. The model predicts school place needs up to 5 years in the future and is an accepted model supported by the DFE and is adopted by the majority of Local Authorities in England and Wales. For the period 2022-2025 the future school modelling suggests that the Council has an overprovision of both Primary and Senior School places. The Education team will continue to review the provision across the borough and as appropriate any School sites or buildings that may be surplus to requirements will follow the appropriate Education and then Asset Management governance policy and process.

The Council's Asset Management service, on instruction from Education, are responsible for sourcing sites for development / conversion for new Schools. As part of the process for sourcing new sites the Asset Management service will establish the requirements, review the existing estate first and if required enter the market to purchase a new site. When acquiring land or buildings from the market the Asset Management service will follow the Council's Acquisition Policy).

## 10.3 Community Estate / Community Asset Transfer

As part of the Council's budget review, the current rent subsidy and discretionary rate relief schemes will come to an end on 31<sup>st</sup> March 2023.

The Rent subsidy budget for 2022/23 is £235,000 and supports up to 100% of the rent for qualifying community partners in 21 Council owned properties. With a further £152,000 funding for discretionary rate relief supporting 28 partners in both council and non-council owned properties. The Assets team have been working closely with the Communities team to mitigate the impact of these changes and are encouraging groups to increase shared use of their space and seek other forms of funding. To help facilitate this, current occupation agreements are being reviewed to improve longer term certainty for funding opportunities or increased flexibility to allow wider uses and hiring opportunities.

### **Community Asset Transfer**

One of the areas being developed is through the Council's policy to consider Community Asset Transfer (CAT): [Community asset transfers | Croydon Council](#)

We fully expect an increase in organisations expressing an interest in CAT as a result of the ending of support schemes which will build on the 5 successful CATs that have been agreed since the policy first came into place in 2012. These include community arts centres, sports facilities and community halls.

A current review of all community assets is taking place and involves meetings with community partners. This review will look at the spread of facilities within the 16 designated "Places" to fully understand local community provision and local need within the borough. It will also be looking at the agreements in place to ensure they are fit for purpose under the new model and that both the buildings and their occupiers supports Council priorities.

This review will take place over a 12 month period on an area basis. Typically the reviews will be undertaken jointly with councillors and local community groups to understand the needs and expectations of the local community.



## APPENDIX 2

### Corporate Property and Asset Disposal Strategy 2022-2027

#### 1. General Overview

This Strategy provides the governance process for the consideration for the retention or disposal of any Council owned assets. This strategy, in combination with the **Corporate Asset Management Plan** will complement the Capital Plan and Medium Term Financial Strategy [MTFS].

It is clear that the Council is in a need of a formal approach to the management of assets and in particular their disposal where they have been identified as either surplus or no longer key to the delivery of services. This must be done in a structured and controlled manner to ensure that any disposal does not cause longer term operational difficulties or fail to achieve the best return for the Council.

#### 2. Wider considerations

Given the significant financial challenges faced by Councils it is important to ensure that the best outcome is achieved from any disposal and this will need to consider:

- Holding cost of any surplus assets if to be retained for longer term use or sale. This will include longer term replacement, repairs and improvements to ensure that it remains fit for purpose and fully compliant
- Running costs for under-utilised assets and how these can be reduced
- Service requirements across the Council to ensure an asset is not being sold off if it could provide a cost effective solution for another service area including as development sites for new housing
- Achieving “Best Consideration” – would delaying a disposal be more beneficial given the wider economic market conditions considered against alternative short term uses/holding costs
- Loss of revenue from any income producing assets if sold – does the capital receipt and associated saving against borrowing outweigh the loss of income. This is a key consideration and a medium to long term view will need to be taken given the current volatility with the markets.
- Impact on the local area from holding assets empty for prolonged periods or benefit from regeneration
- Reputational and safety issues around having vacant assets which can be a magnet for antisocial behaviour and encourage fly tipping
- Meanwhile or temporary uses such as guardians at an early stage to minimise any security costs and deliver benefits from vacant properties where disposal is expected to be over a prolonged period

#### 3. Governance requirements of this strategy

The Council recognises that good governance is a key component of this strategy, so it is essential that all decisions to dispose of an asset must be subject to a full **business case report** that will include a minimum set of requirements, including:

- a. A business case summary template
- b. The financial case for a disposal - this must show holding costs and potential savings through reduced borrowing and any loss in rental income
- c. Proposed timing of the disposal - to include vacation by service, likely marketing and due diligence/legal work prior to exchange. Any conditional sales should include estimated timelines and longstop dates for planning etc
- d. Method of disposal – this will be chosen to reflect the nature of the property and consider the best way to maximise value and minimise holding costs.
- e. Impact[s] risks of the disposal – financial, reputational, political, operational, etc.
- f. Evidence of an independent valuation to show that **best consideration** is guaranteed. This must be obtained from an RICS qualified Registered Valuer. On occasion this may be provided by a suitably qualified internal surveyor but will normally be provided
- g. A market assessment by a suitably qualified agent
- h. Disposal options - these will largely be centred on sale or letting
- i. Sign off by the relevant Corporate director (for the service area that has vacated the asset) where the asset was formerly operational for the disposal of the asset, where there is no longer a service requirement.
- j. Estimated cost of sales and any budgetary approval required. This will include any legal, agents and cost of specialist reports, marketing material etc
- k. Confirmation of deliverability of sale – where required. For example, if staff, public or other consultations are required, and the likely timescales.

#### 4. Key points to note about business case reports

- CMT will reject reports that are not fully prepared and backed by the requirements set out above
- Key supporting documents must be attached to the reports seeking approval to include as a minimum the external valuation

All decisions to a disposal must be made in the following sequence:

1. If operational, the asset must be declared as surplus to requirement – this will be done by writing to all directors. Any proposed alternative uses will be considered against the benefits of disposing of the asset
2. Initial agents opinion (not a formal report) to be obtained to assess marketability and any likely additional work required
3. Valuation undertaken by RICS qualified Valuer Business case report to be prepared by the Property Services team
4. Final version of Business Case report to CMT
5. CMT approval
6. Mayoral/Cabinet approval, where required in line with section 9 of the Financial Regulations

7. On occasion it may be necessary for commercial property reasons to adopt an accelerated process using Urgency provisions. In such cases any disposals will be reported to Cabinet at the next available opportunity
8. Sale progress to be reported to CMT as part of a quarterly update by the Property team

The Council will **not assume** that capital, interest and other financial savings from a potential disposal have been confirmed until the asset has been sold and the net proceeds have been realised.

## 5. Methods of Disposal

Disposals cannot be progressed until a CMT/Mayoral approval has been made.

Once determined that a property is surplus to the Councils requirements, all land and property assets which are released for disposal will be fully marketed with the exception of disposals to nominated and special purchasers (see below), which will be sold by private treaty negotiation.

Disposal of land and property can be undertaken in a number of ways and it is for the Council to determine the most appropriate sales mechanism for their asset, but potential approaches include:

- **Formal Tender** – where the sale is publicly advertised and tenders submitted by a given date.
- **Informal or Negotiated Tender** – where informal tenders are invited by a given date subject to contract. Negotiations may continue after tenders are received, with the possibility that different bidders may compete to offer the most advantageous terms. This approach enables the seller to continue to negotiate after the closing date for tenders to ensure the best possible terms and outcomes.
- **Public Auction** – where land is sold through an open auction, available to anyone. Sales will be publicly advertised in advance. Auctions have the advantage of being open, competitive and allow for transactions to be completed quickly.
- **Private sale** – where the sale of land is negotiated with one or a small number of potential buyers at a price agreed between the parties. Private sale has the advantage of being straightforward, but is likely to be appropriate only in certain circumstances (for example for smaller lots of land, where sitting tenants have rights to purchase and also farm tenants, etc.).

## 6. Disposals to Special Purchasers

The Council may dispose to purchasers to whom a particular asset has special value because of advantages arising from its ownership that would not be available to general purchasers in the open market. Such 'special purchasers' will include

adjoining owners and parties with an interest in the property where a disposal will release additional, or marriage value, to be shared with the Council. In some cases it could also include existing tenants.

If the asset has been registered as an Asset of Community Value, the relevant parties will be contacted as part of the disposal process and any offer received considered against the market valuation. There will be no obligation on the Council to sell the asset at below market value.

In such off market disposals will be subject to an independent valuation to demonstrate that offers received are in line or better than the best value

## **7. Best Consideration – definition**

The disposal of any Council owned asset is subject to achieving “Best Consideration” either in line with s123 of the Local Government Act 1972 or s233 of the Town and Country Planning Act 1990 where land has previously been appropriated for planning purposes. The consent of the Secretary of State is required for disposals at less than best consideration and there are some general consents e.g. where the variance does not exceed £2m, it can be permitted if there are clear economic, social or environmental benefit in line with the terms of the General Disposal Consent (England) 2003.

## **8. Subsidy Control Rules**

It must be noted that disposals by any public body need to comply with subsidy control rules – legal advice may be required to determine the subsidy implications of disposals and it will be the responsibility of the Property Services team having obtained any necessary legal advice to ensure subsidy control rules are complied with.

## **9. Implementing this strategy Asset Strategy Resource Requirements**

Any closure and disposal programme will require a separate budget and resource to be set up to allow the correct process to be followed and undertaken in a timely manner. In line with the CIPFA Code of practice guidance notes for practitioners Reasonable disposal costs (up to 4%) can be capitalised against sales receipts .

### **Costs of Disposal**

“Costs of disposal are incremental costs directly attributable to the disposal of an asset. The statutory arrangements for capital receipts in England and Wales permit costs of disposals to be financed from the receipts generated (although there is a cap of 4% of the capital receipt for costs incurred in relation to non-housing disposals)”

, Therefore the cost to allow works to be carried out, specialist advice and if appropriate, planning consent to be obtained plus all fees will initially be from one of the Property Services budgets and then recharged up to the allowable maximum,

against the capital receipt for the sale. All properties should ideally be externally valued as part of the “best consideration” approach but in certain circumstances an internal valuation undertaken by a suitably qualified RICS registered valuer may be acceptable.

It should be recognised that capital expenditure to allow relocation of staff, both for the physical move and any new facilities, may be required and a suitable budget should be established for asset rationalisation work as part of the strategy if this is likely to exceed the allowable 4% of the sale proceeds.

Given the likely number of assets identified and the complexity of some of the closures moving forward, a specific resource should be identified to project manage the process internally to ensure that it can be progressed and monitored properly with the necessary governance being followed.

## **10. Types of Corporate Assets**

The Council’s Corporate property portfolio is made up of a range of property assets that support the Council’s delivery of services and key objectives. The property portfolio can be broadly broken down into the following categories:-

- Operational – held to support service delivery
- Investment – held for financial return
- Community – support residents or provide recreation and increasingly to support delivery of services
- Education – Schools and other learning facilities
- Surplus – awaiting disposal, re-development or alternative use

The Corporate Property and Asset Disposal Strategy will not just focus on the surplus properties but will also consider the Council’s wider property requirements so that all opportunities for consolidation and disposal or for a more viable alternative use can be considered.

It is important to recognise that any assets that become surplus may provide a viable operational solution to another element of the Council. Therefore when considering the disposal of any corporate buildings that have become surplus for the current operational requirement, details are forwarded to all directors (including plans and planning details) so that they have an opportunity to consider their suitability for alternative service requirements. These assets are only declared surplus and ready for disposal once they have been through this process. Any interest that is raised by service areas will be considered for suitability/viability and budget availability before a decision is taken.

## **11. HRA Surplus land**

In addition to the corporate assets this Strategy also applies to release of all surplus assets, including those in the HRA (subject to any requirements of the relevant Housing Strategy).

Due to the ongoing review of the former Brick by Brick sites, the Council may decide to dispose of some of these sites rather than retain for housing development. Such disposals will be subject to the same approval process and full business case as outlined above.

## **12. Public Open Space, Highways and Common Land**

The disposal of land which is, or forms part of an area of Public Open Space, Highways Land or Common Land, is subject to special rules and procedures. Before disposing of such areas, the Council is obliged to publish the intention to dispose and consider any representations which are subsequently received and in the case of Highways Land additional consents or Notices may need to be issued. The provisions regarding the disposal of Common Land require consent from the Secretary of State and replacement land to be made available where the area of land to be sold exceeds 200m<sup>2</sup>.

## **13. Corporate Assets – definitions**

The disposals will fall within seven main categories:

- Surplus vacant sites to include properties in disrepair and surplus tenanted properties – Quick wins
- Surplus assets released by service areas or tenants
- Corporate offices
- Sites currently used for delivery of services but under utilised
- Sites requiring public consultation
- Income producing assets
- Housing Sites
  - Sites where Brick By Brick have already obtained planning consent
  - Pipeline sites/subject to planning application

## **14. Corporate sites – potential disposals**

### **14.1 Surplus vacant Sites**

The Council has some sites where the previous use has been ceased and the buildings vacated and either demolished or boarded up as there are no suitable uses. They are therefore generally vacant land or have buildings that are in need of major refurbishment or structural works which means that they are best suited for redevelopment. Whilst some may have previously been considered for Council led redevelopment projects these have not come forward as viable schemes and most of the sites have now been vacant for many years.

Whilst holding costs in many cases are fairly modest, keeping these sites vacant can offer a security risk or be a source for anti-social behaviour and therefore a reputational issue. Disposal and redevelopment would provide a much more positive outcome for the local area and help generate new homes in many cases.

Consideration should be given to whether the Council should initially seek a planning consent for the site. This may help achieve a higher value but will inevitably delay the

disposal and incur considerable up front cost. In many cases this is not seen as a viable option and rather than adopting this approach for all sites, each disposal will be considered on its own merits to reflect the nature of the site, holding costs and need for disposal. If planning is not secured consideration will be given to securing any significant uplift in value through the inclusion of an overage provision.

Consideration has been given to the immediate sites that have been identified for potential disposal and it is recommended that the following sites are disposed of as quickly as possible. The method of the disposals will usually be through auction or using local agents to ensure the best value is achieved. Where appropriate, discussions with the Planning Authority have taken place to inform likely future uses.

#### **14.2 Surplus Assets Released by a Council Service or Commercial Tenants**

As service requirements change over time, some buildings will be released as they are no longer fit for purpose or required for the original service use. These are generally in reasonable order and have recently been vacated. They may be suitable for re-use, conversion or redevelopment. Prior to consideration for disposal, alternative service uses will be considered through the process outlined above.

For tenanted assets that have been vacated, consideration will first be given to the possibility of re-letting them to generate income which may help maximise asset value if they are considered for disposal. However, where the sites are likely to generate low rental returns and capital values for vacant sites are considered to be higher than let sites, these should be considered in the first instance for sale.

#### **14.3 Corporate Offices**

The Council's corporate office strategy is to consolidate the number of offices that are used as a head office type function. Over the last 8 years around 15 sites have been vacated and the Council's corporate office function centred around Bernard Weatherall House (BWH). Changes in working styles to adopt a 3:2 desk ration has allowed some surplus space to be created and this has been absorbed through letting space within the building to partner organisations and private companies to generate additional income.

With the increase in home working opportunities and the adoption of the Council's hybrid working policy together with delivery of services using different methods and media, further consolidation of office space has become possible. Whilst there are few outlying offices remaining, where these exist consideration has been given to their closure and relocation of staff to BWH or provision of face to face services from other hub buildings.

Whilst the impact of the Covid-Safe building requirements may still limit some of these relocations, once these restrictions have been lifted, opportunities will arise for further relocations into BWH and the proposed office strategy builds on this and the more flexible working and service provision styles.

#### **14.4 Underutilised Assets**

Due to changing service delivery and demands, there are a number of assets will become under utilised and buildings could be released and those retained invested in and more intensively used.

#### **14.5 Sites Requiring Public Consultation**

With a requirement to deliver more services for less the Council also needs to look at some of its assets currently used to deliver services to see whether an acceptable service can be delivered from less locations. One of the key areas for consideration is focused around libraries. Whilst the Council have a statutory duty to provide a suitable library provision, the nature of delivery (including the possibility of different delivery methods) and shared use as hubs may be required moving forward to deliver further savings. Depending on the nature of these changes, further consultation could be necessary and this would need to be factored into any delivery timescales.

#### **14.6 Income Producing Assets**

The Council have adopted an Investment Strategy to acquire and hold properties specifically to produce income to support wider service delivery. However there are also a number of historic assets that the Council have acquired that produce income. If capital receipts rather than revenue income is considered to be more important, it may be appropriate for some of the assets with lower income levels or those that need considerable future investment, to be considered for disposal. In such cases the business case will need to clearly identify the benefits of a capital receipt against the loss of income.

Consideration could be given to the sale of the recently acquired investment assets. Although these assets were purchased with a long term view to value but it is now important to consider possible early disposal where this makes commercial sense.

#### **14.7 Housing sites**

These sites form part of the ongoing review of Brick by Brick (BBB), but could offer disposal opportunities, subject to any relevant Housing Strategy. The previous Asset Strategy identified a large number of surplus or underutilised sites that could potentially be used for housing development. These were investigated and brought forward through Brick by Brick and many have now been successfully developed or planning permissions obtained. The sites that have not yet been developed will now be reviewed and where appropriate either considered for development to provide more social housing or potentially sold to third parties or developed in partnership with registered providers to deliver new housing..

Further work should be carried out to assess the potential of all of these sites and bring forward those that do not offer benefits for wider estate improvement works within the HRA and on a commercial basis are likely to provide a capital receipt. Any sites that are likely to be marginal or too controversial should not be taken forward and considered for sale at this point.



For the larger sites the development options need to be carefully considered as to whether an outright sale is preferred or a possible Joint Venture option to potentially secure a higher capital sum albeit at a later date. It is recommended that for the larger sites further specialist advice is obtained from a tier 1 specialist firm.

The proposal for the potential wider site disposal will look at options around straight disposal, enter into a development partnership with a private developer or housing association or not look to bring the sites forward.

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## **Appendix E - Potential Disposals**

Reducton in libraries	
Ramsey Court	
Family Justice Centre following service relocation	
Samuel Coleridge-Taylor Centre	
Winterbourne Youth hub	
89 Whitehorse Road	
Car park sites	
Review of depots and car pound	
Review of invstment properties:-	
Davis House	
Colonnades	
Vulcan Way	
Imperial Way	
Enterprise Close	
Existing disposal sites previously identified:-	
11 Heather Way	
Boulogne Road	
Cemetery Lodge	
Purley Way Pavilions	
Norwood Grove Mess Room	
<b>Total estimated capital receipts</b>	<b>£100m</b>

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# 1. Introduction

## 1.1 Purpose of Equality Analysis

The council has an important role in creating a fair society through the services we provide, the people we employ and the money we spend. Equality is integral to everything the council does. We are committed to making Croydon a stronger, fairer borough where no community or individual is held back.

Undertaking an Equality Analysis helps to determine whether a proposed change will have a positive, negative, or no impact on groups that share a protected characteristic. Conclusions drawn from Equality Analyses helps us to better understand the needs of all our communities, enable us to target services and budgets more effectively and also helps us to comply with the Equality Act 2010.

An equality analysis must be completed as early as possible during the planning stages of any proposed change to ensure information gained from the process is incorporated in any decisions made.

In practice, the term ‘**proposed change**’ broadly covers the following:-

- Policies, strategies and plans;
- Projects and programmes;
- Commissioning (including re-commissioning and de-commissioning);
- Service review;
- Budget allocation/analysis;
- Staff restructures (including outsourcing);
- Business transformation programmes;
- Organisational change programmes;
- Processes (for example thresholds, eligibility, entitlements, and access criteria).

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# 2. Proposed change

<b>Directorate</b>	<b>Resources</b>
<b>Title of proposed change</b>	<b>Adoption of new Corporate Asset Management Plan and Property and Asset Disposal Strategy</b>

## 2.1 Purpose of proposed change (see 1.1 above for examples of proposed changes)

This report recommends the adoption of a new Corporate Asset Management Plan (AMP) and outline Property strategy to provide clear guidance in the way that the Council's assets can help to deliver relevant areas within the Mayors priorities and Corporate Plan. This will not only involve having the right to deliver the required services but also to maximise the deliver of revenue opportunities and capital receipts wherever possible.

The Plan addresses the issues raised by the Improvement Panel and builds on the Interim Disposal Strategy that was adopted in 2021 as the initial stage in addressing the concerns raised around governance and financial budgeting.

## 3. Impact of the proposed change

**Important Note:** It is necessary to determine how each of the protected groups could be impacted by the proposed change. If there is insufficient information or evidence to reach a decision you will need to gather appropriate quantitative and qualitative information from a range of sources e.g. Croydon Observatory a useful source of information such as Borough Strategies and Plans, Borough and Ward Profiles, Joint Strategic Health Needs Assessments <http://www.croydonobservatory.org/> Other sources include performance monitoring reports, complaints, survey data, audit reports, inspection reports, national research and feedback gained through engagement with service users, voluntary and community organisations and contractors.

### 3.1 Additional information needed to determine impact of proposed change

**Table 1 – Additional information needed to determine impact of proposed change**

If you need to undertake further research and data gathering to help determine the likely impact of the proposed change, outline the information needed in this table.		
Additional information needed	Information source	Date for completion
The proposed AMP will deliver a more integrated approach to the use of the Council's assets from both service delivery and financial perspectives, by:	Asset Management/ELT	June 2021

- provision of properties that will directly contribute to the delivery of good quality services to our communities and other stakeholders;
- securing sustainable income streams from non-operational and investment properties.
- helping plan and manage property utilisation in support of the Council's initiatives and service delivery;
- supporting the delivery of the Mayors and Council's corporate vision, aims and priorities;
- formalising systems, procedures and controls;
- ensuring better fire, health and safety management;
- a more robust understanding of the current condition of our key operational assets to enable a more reliable budgeting and repairs programme moving forward.

The Strategy outlines the approach to enable revenue and capital benefits to be secured and the approach and governance around the disposal of property but does not include details of the assets at this stage. However, the principles established within these documents will be used to identify and bring forward future proposals.

The Plan and Strategy do not identify individual properties only a recommended approach to their management and governance around disposal and therefore it is very difficult to comment on the impact on any of the protected characteristic groups. Any properties that are identified for further changes or disposal as a result of the processes outlined in the report will be considered as separate cases and, as with previous disposals, will be considered at that stage for any impact on such groups.

### 3.2 Deciding whether the potential impact is positive or negative

**Table 2 – Positive/Negative impact**

For each protected characteristic group show whether the impact of the proposed change on service users and/or staff is positive or negative by briefly outlining the nature of the impact in the appropriate column. . If it is decided that analysis is not relevant to some groups, this should be recorded and explained. In all circumstances you should list the source of the evidence used to make this judgement where possible.			
Protected characteristic group(s)	Positive impact	Negative impact	Source of evidence
Age	The adoption of the AMP will not directly impact any protected characteristic group. Any specific properties that are identified for disposal or significant change will be considered under a separate	None	Asset Management Team Please see Appendix 1 for Protected characteristic population data
Disability	The adoption of the AMP will not directly impact any protected characteristic group. Any specific properties that are identified for disposal or significant change will be considered under a separate	None	As above
Gender	The adoption of the AMP will not directly impact any protected characteristic group. Any specific properties that are identified for disposal or significant change will be considered under a separate	None	As above.



Gender Reassignment	The adoption of the AMP will not directly impact any protected characteristic group. Any specific properties that are identified for disposal or significant change will be considered under a separate	None	As above.
Marriage or Civil Partnership	The adoption of the AMP will not directly impact any protected characteristic group. Any specific properties that are identified for disposal or significant change will be considered under a separate	None	As above.
Religion or belief	The adoption of the AMP will not directly impact any protected characteristic group. Any specific properties that are identified for disposal or significant change will be considered under a separate	None	As above.
Race	The adoption of the AMP will not directly impact any protected characteristic group. Any specific properties that are identified for disposal or significant change will be considered under a separate	None	As above.
Sexual Orientation	The adoption of the AMP will not directly impact any protected characteristic group. Any specific properties that are identified for disposal or significant change will be considered under a separate	None	As above.
Pregnancy or Maternity	The adoption of the AMP will not directly impact any protected characteristic group. Any specific properties that are identified for disposal or significant change will be considered under a separate	None	As above.

**Important note:** You must act to eliminate any potential negative impact which, if it occurred would breach the Equality Act 2010. In some situations this could mean abandoning your proposed change as you may not be able to take action to mitigate all negative impacts.

When you act to reduce any negative impact or maximise any positive impact, you must ensure that this does not create a negative impact on service users and/or staff belonging to groups that share protected characteristics.

### 3.3 Impact scores

#### Example

If we are going to reduce parking provision in a particular location, officers will need to assess the equality impact as follows;

1. Determine the Likelihood of impact. You can do this by using the key in table 5 as a guide, for the purpose of this example, the likelihood of impact score is 2 (likely to impact)
2. Determine the Severity of impact. You can do this by using the key in table 5 as a guide, for the purpose of this example, the Severity of impact score is also 2 (likely to impact )
3. Calculate the equality impact score using table 4 below and the formula **Likelihood x Severity** and record it in table 5, for the purpose of this example - **Likelihood (2) x Severity (2) = 4**

Table 4 - Equality Impact Score

Severity of Impact	3	3	6	9
	2	2	4	6
	1	1	2	3

		1	2	3
<b>Likelihood of Impact</b>				

**Key**

Risk Index	Risk Magnitude
6 – 9	High
3 – 5	Medium
1 – 3	Low

# Equality Analysis

**Table 5 – Impact scores**

<b>Column 1</b>  <b>PROTECTED GROUP</b>	<b>Column 2</b>  <b>LIKELIHOOD OF IMPACT SCORE</b>  Use the key below to <b>score</b> the <b>likelihood</b> of the proposed change impacting each of the protected groups, by inserting either 1, 2, or 3 against each protected group.  <b>1 = Unlikely to impact</b> <b>2 = Likely to impact</b> <b>3 = Certain to impact</b>	<b>Column 3</b>  <b>SEVERITY OF IMPACT SCORE</b>  Use the key below to <b>score</b> the <b>severity</b> of impact of the proposed change on each of the protected groups, by inserting either 1, 2, or 3 against each protected group.  <b>1 = Unlikely to impact</b> <b>2 = Likely to impact</b> <b>3 = Certain to impact</b>	<b>Column 4</b>  <b>EQUALITY IMPACT SCORE</b>  Calculate the <b>equality impact score</b> for each protected group by multiplying scores in column 2 by scores in column 3. Enter the results below against each protected group.  <b>Equality impact score = likelihood of impact score x severity of impact score.</b>
Age	1	1	1
Disability	1	1	1
Gender	1	1	1
Gender reassignment	1	1	1
Marriage / Civil Partnership	1	1	1
Race	1	1	1
Religion or belief	1	1	1
Sexual Orientation	1	1	1
Pregnancy or Maternity	1	1	1

# Equality Analysis

## 4. Statutory duties

### 4.1 Public Sector Duties

Tick the relevant box(es) to indicate whether the proposed change will adversely impact the Council's ability to meet any of the Public Sector Duties in the Equality Act 2010 set out below.

Advancing equality of opportunity between people who belong to protected groups

Eliminating unlawful discrimination, harassment and victimisation

Fostering good relations between people who belong to protected characteristic groups

**Important note:** If the proposed change adversely impacts the Council's ability to meet any of the Public Sector Duties set out above, mitigating actions must be outlined in the Action Plan in section 5 below.

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## 5. Action Plan to mitigate negative impacts of proposed change

**Table 5 – Action Plan to mitigate negative impacts**

Complete this table to show any negative impacts identified for service users and/or staff from protected groups, and planned actions mitigate them.				
Protected characteristic	Negative impact	Mitigating action(s)	Action owner	Date for completion
Disability	No Negative Impact			
Race	No Negative Impact			
Sex (gender)	No Negative Impact			
Gender reassignment	No Negative Impact			
Sexual orientation	No Negative Impact			
Age	No Negative Impact			
Religion or belief	No Negative Impact			
Pregnancy or maternity	No Negative Impact			

## Equality Analysis

Marriage/civil partnership	<b>No Negative Impact</b>		
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### 6. Decision on the proposed change

Based on the information outlined in this Equality Analysis enter <b>X</b> in column 3 ( <b>Conclusion</b> ) alongside the relevant statement to show your conclusion.			
Decision	Definition		Conclusion - Mark 'X' below
No major change	Our analysis demonstrates that the policy is robust. The evidence shows no potential for discrimination and we have taken all opportunities to advance equality and foster good relations, subject to continuing monitoring and review. <b>If you reach this conclusion, state your reasons and briefly outline the evidence used to support your decision.</b> The AMP will help develop on earlier proposals to ensure that corporate properties continue to support the key Mayoral and Corporate strategies and identify opportunities to re-align service delivery to provide the best opportunities for all residents given the Council's available resources		x
Adjust the proposed change	We will take steps to lessen the impact of the proposed change should it adversely impact the Council's ability to meet any of the Public Sector Duties set out under section 4 above, remove barriers or better promote equality. We are going to take action to ensure these opportunities are realised. <b>If you reach this conclusion, you must outline the actions you will take in Action Plan in section 5 of the Equality Analysis form</b>		
Continue the proposed change	We will adopt or continue with the change, despite potential for adverse impact or opportunities to lessen the impact of discrimination, harassment or victimisation and better advance equality and foster good relations between groups through the change. However, we are not planning to implement them as we are satisfied that our project will not lead to unlawful discrimination and there are justifiable reasons to continue as planned. <b>If you reach this conclusion, you should clearly set out the justifications for doing this and it must be in line with the duty to have due regard and how you reached this decision.</b>		
Stop or amend the proposed change	Our change would have adverse effects on one or more protected groups that are not justified and cannot be mitigated. Our proposed change must be stopped or amended.		
Will this decision be considered at a scheduled meeting? e.g. Contracts and Commissioning Board (CCB) / Cabinet <b>Yes.</b>		Meeting title: Cabinet Date: <b>16 November 2022</b>	

## Equality Analysis

### 7. Sign-Off

<b>Officers that must approve this decision</b>		
<b>Equality lead</b>	<b>Name: Denise McCausland</b>	<b>Date: 13 October 2022</b>
	<b>Position: Equalities Manager</b>	
<b>Director</b>	<b>Name: Peter Mitchell</b>	<b>Date: 18 October 2022</b>
	<b>Position: Director of Commercial Investment and Capital</b>	

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Appendix One: data broken down by Protected Characteristics The information below is taken from the 2011 census unless otherwise indicated.

#### Age groups Number of people Percentage

0-4 years 27,972 7.7%  
 5-7 years 14,388 4.0%  
 8-9 years 8,708 2.4%  
 10-14 years 23,130 6.4%  
 15 years 4,912 1.4%  
 16-17 years 9,934 2.7%  
 18-19 years 8,720 2.4%  
 20-24 years 23,591 6.4%  
 25 -29 years 27,692 7.6%  
 30-44 years 82,439 22.7%  
 45-59 years 70,488 19.4%  
 60-64 years 17,029 4.7%

## Equality Analysis

65-74 years 23,155 6.4%  
75-84 years 15,318 4.2%  
85-89 years 3,881 1.1%  
Over 90 years 2,021 0.6%

### **People with long term illnesses or disabilities 363,378**

Blind or visually impaired These categories were not recorded as such in the 2011 census. However, this did record that there were 24,380 people (6.7%) whose day to day activities were limited a lot by long term Deaf or hearing impaired Other communication impairment Mobility impairment Learning difficulty or disability Mental health condition 21 HIV, multiple sclerosis or cancer illness or disability and 28,733 (7.9%) whose day to day activities were limited a little (Office of National Statistics) Other (please specify)

### **Gender**

Male 176,224 48.5%  
Female 187,154 51.5%

### **Ethnicity**

Number of people Percentage White British 171,740 47.3%  
White Irish 5,369 1.5%  
White Gypsy or Irish Traveller 234 0.1%  
Other White background 22,852 6.3%  
Black African 28,981 8.0%  
Black Caribbean 31,320 8.6%  
Other Black background 12,955 3.6%  
Bangladeshi 2,570 0.7%  
Chinese 3,925 1.1%  
Indian 24,660 6.8%  
Pakistani 10,865 3.0%  
Other Asian background 17,607 4.8%  
Mixed White and Black Caribbean 9,650 2.7%  
Mixed White and Black African 3,279 0.9%



## Equality Analysis

Mixed White and Asian 5,140 1.4%  
Other Mixed background 5,826 1.6%  
Arab 1,701 0.5%  
Other ethnic group (please specify) 4,704 1.3%

### **Religion**

Number of people Percentage Buddhist 2,381 0.70%  
Christian 205,022 56.40%  
Hindu 21,739 6.00%  
Jewish 709 0.20% 22  
Muslim 29,513 8.10%  
Sikh 1,450 0.40%  
No religion/faith 72,654 20.00%  
Other (please specify) 2,153 0.60%

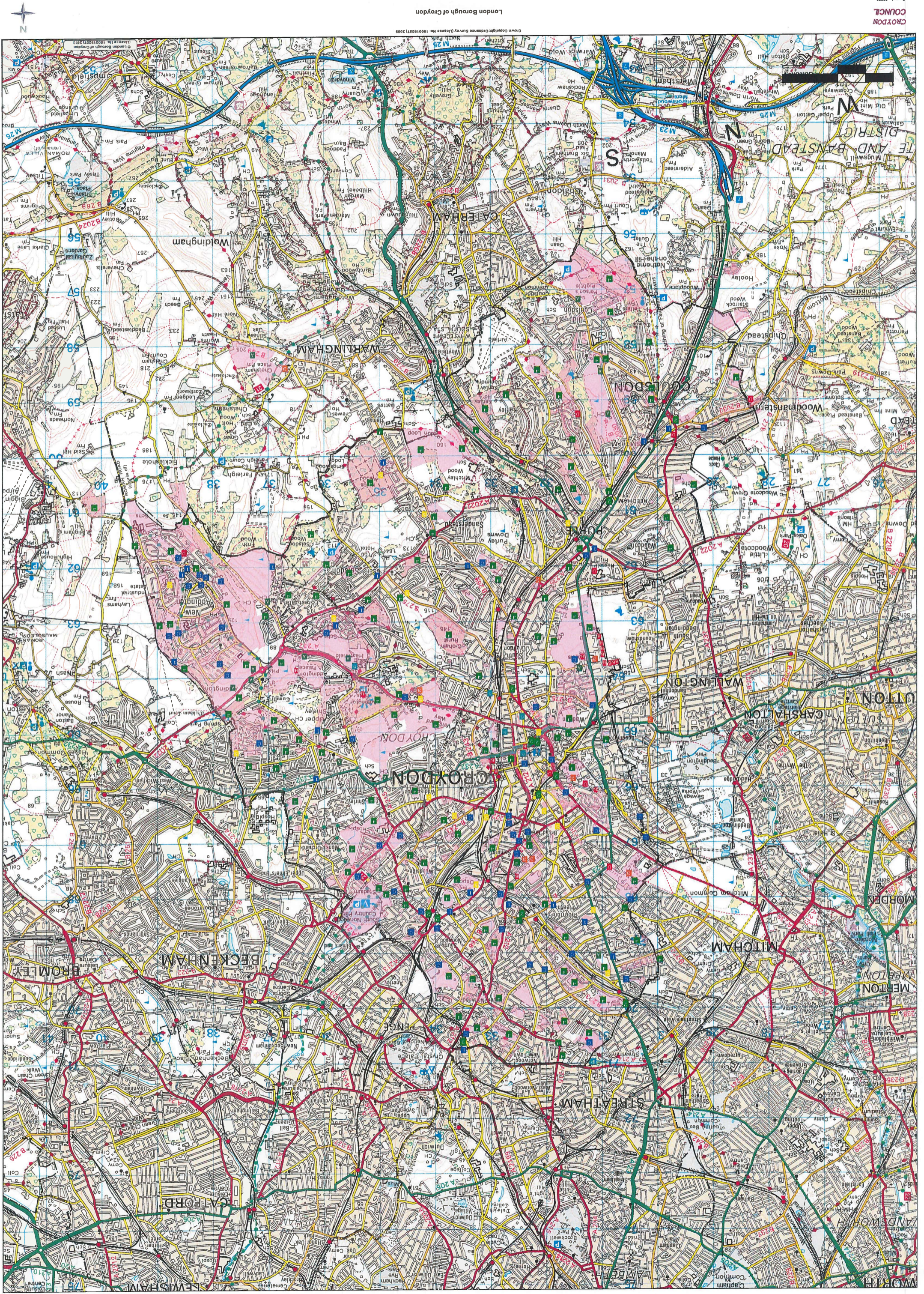
### **Sexual orientation**

Lesbian There are no figures from the 2011 census. However, it is estimated that there were 20,370 lesbians, gay men, bisexual and transgender people living in Croydon in 2001. (London LGBT)  
Gay Bisexual Transgender Transgender See above

### **Pregnancy or maternity Pregnant**

These categories were not recorded as such in the 2011 census. However, there were 5,720 live births in 2011 (Office of National Statistics) On compulsory maternity leave Marriage or civil partnership Married 122,013 42.9% In civil partnership 796 0.3%

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<b>REPORT TO:</b>	<b>Cabinet 30<sup>th</sup> November 2022</b>
<b>SUBJECT:</b>	<b>Brick by Brick Croydon Ltd Update Report</b>
<b>LEAD OFFICER:</b>	<b>Jane West - Corporate Director and Section 151 Officer  Nish Popat - Interim Head of Corporate Finance</b>
<b>CABINET MEMBER:</b>	<b>Mayor Jason Perry – Executive Mayor Cllr Jason Cummings – Cabinet Member for Finance Cllr Lynne Hale – Cabinet Member for Homes and Statutory Deputy Mayor</b>
<b>WARDS:</b>	<b>All</b>

**SUMMARY OF REPORT:**

The report provides Cabinet with an update with regards to Brick by Brick Croydon Ltd (BBB), a wholly owned housing development company. Progress has been made by Directors and Management at the company since the reviews carried out in 2021. The Company has reached Practical Completion on all their development sites except Lion Green Road and Kindred House and BBB continues to make good progress with disposing of the developments in the open market and to the Council.

The Council holds Option Agreements on 6 undeveloped sites of which the Council is considering exercising its buy back option for the Regina Road site and the others, subject to further due diligence of the sites for Council use.

Brick by Brick have also repaid to the Council £30.04m of the principal loans with a net balance of £142.5m outstanding as at end of October 2022.

**FINANCIAL IMPACT:**

The Council is the sole lender to Brick by Brick and had lent a total of £145m by end of March 2021 (excluding Fairfield Halls) and BBB had accrued £18.051m in interest. During 2021/22 BBB incurred further interest costs of £9.8m and the Company paid back £30.04m to the Council in March 2022. This covered all accrued interest and contributed £2.19m towards repayment of the loan. Interest continues to be charged on the outstanding loan and as at end of October 2022 a total of £147.5m (loan principal and interest) was outstanding to be paid.

Any loan balance not paid by Brick by Brick will result in an impairment of the loan by the Council which will need to be paid for through the Council's Minimum Revenue Provision. Additional write off will not result in additional costs to the Council as the MRP for BBB loans is already provided in current financial plans. However, any non-repayment of the loan by BBB will result in continued provision of MRP as alternatively the loan repayments could have been used to pay down the Council's own debt balance.

The Council has not directly provided any further funding to BBB since those agreed in 2020/21.

**KEY DECISION REFERENCE NO.: YES 7922EM**

The Executive Mayor in Cabinet is Recommended to:

**RECOMMENDATIONS:**

1. Note the progress on delivery of key developments by Brick by Brick Croydon Ltd.
2. Note the progress on BBB finances as provided within Part B of the report. This has been included as Part B to ensure management financial information remains commercially confidential.
3. Delegate authority to the Corporate Director of Resources and Section 151 Officer, in consultation with the Monitoring Officer and the Cabinet Member of Finance, to enter into a Letter of Comfort to be provided to Brick by Brick Croydon Ltd, under the Council's shareholder function. Information has been included within the Part B report.
4. Consider the PwC review, including recommendations, within the Part B report, agree to proceed with the option set out in Part B.
5. Note that under delegated authority the Corporate Director of Resources and Section 151 Officer, in accordance with paragraph 9 of the Financial Regulations, has approved to vary the Option Agreements on Regina Road, Malton House and Belgrave & Grosvenor Road to include an option for the Council to purchase those sites instead of setting off against the loan agreement and to extend the buy back option period for Regina Road and Malton House. The Council is currently working with BBB to varying the Option Agreements. This is further detailed within Section 2 of this report.
6. Delegate authority to the Corporate Director of Resources and Section 151 Officer, in consultation with the Monitoring Officer and the Cabinet Member for Finance, to exercise buy-back option(s) under the relevant option agreement(s) for the undeveloped sites earmarked by BBB for disposal, should these be required. The value of any such buy backs shall either be paid to BBB or be set off against the Loan agreement, as varied within the option agreement(s).
7. Delegate to the Corporate Director of Resources and Section 151 Officer, acting as lender, in consultation with the Monitoring Officer to vary the Loan agreement with BBB to permit set off values under recommendations 5 and 6 above if required.
8. Delegate authority to the Corporate Director of Resources and Section 151 Officer, acting as shareholder, in consultation with the Monitoring Officer

and Cabinet Member for Finance to instruct BBB not to dispose of the undeveloped 5 sites on the open market if the Council decides to consider exercising its buy back option(s) in accordance with recommendation 6 above.

9. Delegate authority to the Corporate Director of Resources and Section 151 Officer, in consultation with the Monitoring Officer, Executive Mayor and the Cabinet Member for Finance, to approve that BBB may dispose of developed properties in the open market at less than 95% of red book value (including where this a key decision and above Corporate Director delegations within the Financial Regulations) on the request of BBB as in accordance with the Loan Facility Agreement.
10. Delegate authority to the Corporate Director of Resources and Section 151 Officer in consultation with Cabinet Member for Finance and Corporate Director of Housing and subject to any final due diligence, whether to purchase 12 new properties at the Trellis Mews development as detailed in Section 6 of this report with a further recommendation within Part B.
11. Approve updated amendments to the Terms of Reference of the Brick By Brick Shareholder Mayor's Advisory Board (formerly Brick by Brick Shareholder Cabinet Advisory Board) as set out at Appendix C to reflect changes to appointments and to confirm the governance model as set out in the November 2021 Cabinet report (attached as a background paper), including delegations as follows:
  - a. Delegate to the members of the Brick by Brick Shareholder Mayor's Advisory Board the authority to exercise limited shareholder functions on behalf of the Council when making recommendations to Brick By Brick relating to risk in accordance with Section 5 of this report (recognising, however, that Brick By Brick shall make its own independent decisions).
12. Approve the process for appointment and removal of directors from the Brick By Brick board of Directors in accordance with Section 5 of this report; and delegate authority to the Corporate Director of Resources & S151 Officer in consultation with the Executive Mayor, Cabinet Member for Finance and Chief Executive on appointments and removals of Directors of the board of Brick by Brick Croydon Ltd, who shall have authority to exercise shareholder functions on behalf of the Council to approve such appointments and removals (any such appointments or removals shall be notified as part of the next scheduled report to the Executive Mayor in Cabinet).

## **1. BACKGROUND**

- 1.1 This report updates Cabinet on the progress of Brick by Brick Croydon Ltd since the start of this financial year and follows on from the update that was provided to the March 2022 Cabinet.

- 1.2 Brick by Brick continues to pose significant challenge for the Council due to legacy matters previously identified in various reports to Cabinet. The recent change in housing market conditions have further complicated delivery however careful engagement and management by the BBB Directors is helping to manage difficulties.
- 1.3 Other key areas of update include:
- i) Progress on Disposal of the six sites that have not entered into development contracts as agreed within the July 2021 Cabinet report.
  - ii) Progress on delivery of the 23 sites the Council had requested BBB to complete as detailed within March 22 Cabinet Update report.
  - iii) Update on the amount of Capital Receipts generated by the Company and the amount that has been recycled since the start of the financial year.
  - iv) Update on the drawdown of the additional working capital facility that was awarded as part of the May 2021 Cabinet report.
  - v) Updating governance arrangements to reflect changes to appointments and to confirm the governance model as set out in the November 2021 report
- 1.4 Part B of this report also provides Cabinet with an update on the company's finances and attaches draft unaudited accounts within Appendix A. Further details are provided in Part B of the report to protect the commercial position of BBB. The Part B report contains exempt information as defined in paragraph(s) 3 and 5 of Schedule 12a to the Local Government Act 1972 (as amended): "Information relating to the financial or business affairs of any particular person (including the authority holding that information)"; and "Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings". In all the circumstances, the public interest in maintaining the exemptions outweigh the public interest in disclosing the information.

## **2. DISPOSAL OF SIX SITES**

- 2.1 The February 2021 Cabinet agreed that Brick by Brick would be funded by the Council to build out 29 sites, the majority of which were expected at that time to be completed by October 2021. At that time, it was assumed that works would commence on all sites. However, as indicated within the July 2021 update report there were six sites where work had not commenced on site. These sites are: Academy Gardens, Belgrave and Grosvenor, Coombe Road, Eagle Hill, Malton House and Regina Road. It was therefore agreed that the six sites should not progress to development.
- 2.2 Of the six sites indicated in paragraph 2.1, Belgrave and Grosvenor, is the largest and is likely to generate a significant value. However, this is still under consideration by the Council for its own use so has not yet been marketed for potential sale by BBB.
- 2.3 All 6 sites are bound by Option agreements that the Council and BBB previously entered into. Those agreements include an option for the Council to buy back



undeveloped sites within a certain amount of time. Since the decisions were made with regards to the disposal of the six sites, as a result of wider regeneration proposals at the Regina Road Housing Estate the Council is considering these sites.

- 2.4 At the time of writing the report these agreements are being reviewed and the Regina Road and Malton House Option Agreements are in the process of being varied and extended. The Option agreements for Regina Road, Malton House and Belgrave & Grosvenor Road are also being considered to vary to include the option of purchasing the site instead of setting off against the loan agreement, to allow the Council to have greater flexibility regarding how it may buy back those sites for future development and regeneration opportunity, if required.
- 2.5 Brick by Brick have made progress with regards to the disposal of the other sites and currently have an offer for some sites and are currently being reviewed for best consideration.
- 2.6 It is important that decisions in respect of these undeveloped sites are made quickly. This is because BBB have offers on some sites and the Council will need to consider this alongside any support these sites could offer for wider proposals in relation to the Regina Road Housing Estate. As such the Executive Mayor is recommended to delegate authority to the Corporate Director of Resources & S151 Officer, in consultation with the Monitoring Officer and Cabinet Member for Finance, the ability to direct BBB not to market those sites and for the Council to exercise its buy back option under its option agreements.

### **3. PROGRESS UPDATE ON DELIVERY OF 23 SITES**

- 3.1 Brick by Brick continue their work on delivering their schemes with 21 of the 23 sites have reached practical completion.
- 3.2 The company remains projected to deliver 778 residential units, 339 are affordable homes. The table below provides details for the 23 sites along with their practical completion dates (PC) and type of tenures each development has delivered
- 3.3 BBB are in conversations with potential buyers looking to bulk buy Lion Green Road and Kindred House developments but at the time of writing this report the agreements have not fully been confirmed. The Council in its Shareholder and Lender capacity is working closely with the BBB team to ensure that best consideration is achieved.
- 3.4 Since the start of the new financial year, Brick by Brick have progressed well and improved their delivery particularly with their construction and sales plan and have not experienced significant issues going to market with their completed units. This has provided the company with consistent cash flow, which has resulted in not needing extra Council funding.

### **4. CAPITAL RECEIPTS GENERATED BY THE COMPANY**

- 4.1 As part of the May 2021 Cabinet report on Brick by Brick, the Council under its Lender role, approved that BBB can recycle the receipts the company generates from the disposal of residential units from the 23 sites. These receipts would then support the completion of the remaining sites and would not require the Council to provide further funding.
- 4.2 Since May 2021 BBB has recycled £89.1m in receipts into completion of the agreed developments. £85.2m of these have been directly applied to complete the developments and the rest has been applied to overheads such as staff costs, ICT, general legal costs and office running costs.
- 4.3 In July 2021 the Council agreed to extend a further £10m loan to BBB to support ongoing working capital needs at the time it was identified that further funding may be required. This funding has not been needed and has not been lent to BBB. Continued improvement within the company with regards to operations and disposals has meant BBB have been able to deliver their operations within recycled receipts.

## **5. COMPANY GOVERNANCE**

- 5.1 The Council continues to hold regular Brick by Brick Shareholder Advisory Board (Advisory Board) meetings as advised to Cabinet in November 2021 under the report titled Governance of Brick by Brick Croydon Ltd. The Council is updated on progress with regards to each of BBB's developments and key financial and commercial considerations are presented and reviewed by the Board.
- 5.2 The Terms of Reference for the Brick By Brick Shareholder Mayor's Advisory Board (formerly Brick by Brick Shareholder Cabinet Advisory Board) and delegations within the November 2021 Cabinet report require updating due to changes to appointments. The proposed amendments to the Advisory Board's Terms of Reference are set out at Appendix C of this report and the updating delegations are set out below.

### **Decision making and shareholder functions:**

- 5.3 The Advisory Board is not intended to exercise shareholder reserved matters (as defined in the Articles of Association of Brick By Brick), it is recommended that, where appropriate, the Advisory Board (in the Council's capacity as Shareholder) should have the ability to highlight issues to Brick By Brick where doing so will promote the values of Brick By Brick and does not interfere with the legitimate rights of the Directors of Brick By Brick to exercise their general authority. Therefore, a specific delegation to the Members of the Advisory Board is recommended in order to carry out this function (recommendation 11a). In exercising this function the Members shall recognise that Brick By Brick will make its own independent decisions.

**Director appointments and removals:**

- 5.4 At present, there are three non-executive Directors of Brick By Brick and one executive Director. In accordance with the Articles of Association of Brick By Brick (as amended), this is the maximum number of Directors and there can be a minimum of two Directors (though this can be changed by ordinary resolution). The Board of Directors may comprise of an Executive Director (if appointed), Finance Director (if appointed) and Non-Executive Director(s).
- 5.5 It is likely that Director appointments will need to be considered in future. As such, it is recommended that the Executive Mayor approve a process to appoint Directors; and delegate authority to the Corporate Director of Resources & S151 Officer in consultation with the Executive Mayor, Cabinet Member for Finance and Chief Executive on appointments and removals of Directors. Any such appointments or removals shall be notified as part of the next scheduled report to the Executive Mayor in Cabinet.
- 5.6 The process for the appointment of Directors is recommended to be:
- Brick By Brick Directors and the Director of Commercial Investment & Capital, consult to consider what expertise and skills are required;
  - Brick By Brick draft a role description, to be approved by the Director of Commercial Investment & Capital;
  - The Director of Commercial Investment & Capital shall approve any proposed remuneration (in a shareholder representative capacity);
  - Brick By Brick advertise the role and run a recruitment process;
  - Brick By Brick consult the Director of Commercial Investment & Capital regarding candidates and shortlisting;
  - The Director of Commercial Investment & Capital shall be included on interview panels on behalf of the Council (in a shareholder representative capacity);
  - Brick By Brick and the Director of Commercial Investment & Capital agree any offer;
  - Appointment of Director following articles of association (by ordinary resolution of the shareholder) and the Executive Mayor's delegation (as set out in this report, if approved)
  - Outcome reported to the Executive Mayor in Cabinet as part of the next scheduled Brick By Brick quarterly report
- 5.7 This recommended process ensures that there is a rigorous selection procedure and that both the Council and Brick by Brick collaborate. As part of this process, the Director of Commercial Investment & Capital and Corporate Director of Resources & S151 Officer may, where relevant, exercise shareholder functions on behalf of the Council.

**6. TRELLIS MEWS**

- 6.1 Trellis Mews is a new residential development comprising of 12 homes over three floors located close to South Norwood station and the existing Regina Road and Belgrave and Grosvenor housing estates.

- 6.2 The properties being considered for purchase have been built by BBB and formed part of the original tranche of developments. The scheme comprises of a single block containing 12 homes. Ten are one bed properties (one of which is wheelchair accessible) and two are two bed homes. The ground floor units all have private gardens to the rear. The properties have been constructed to meet modern energy efficient requirements with air source heat pumps and solar panels.
- 6.3 The intention is that the properties will be purchased within the Housing Revenue Account (HRA) and held as social housing. As with other council accommodation, they will be managed by the Housing team for allocations and tenancies as well as responsive repairs as necessary.
- 6.4 The Council have purchased a number of properties from BBB under earlier decision, the most recent having been the purchase of 104 properties approved by Cabinet in May 2021. This development was not included within the latest purchases as it was not as financially beneficial compared to the other acquisitions and the mix of predominantly 1 bed properties did not compliment the overall portfolio being considered at the time. These properties are now being considered specifically to help support the wider Regina Road estate regeneration proposals due to their geographic location and the size of the units within Regina Road blocks.
- 6.5 The Council have secured grant funding (£100k per unit) for the purchase of these units under a wider bid to the GLA following their application under the Building Council Homes for London Programme submitted on 31 August 2019. The Council entered into a Grant Agreement with the GLA in 2019 in relation to this programme and will comply with the terms of this agreement in relation to this proposed purchase.
- 6.6 This funding can only be used by registered providers for the provision of affordable social housing. The GLA have approved the inclusion of these properties as being in line with their funding requirements and were included within the Council's successful grant application. This funding has been taken into account when assessing the valuation for the units as the other registered providers would have also considered such funding when submitting their bids albeit that their funding would have been at a lower level up to a maximum of £67,500 per affordable unit.
- 6.7 As the Council is still considering whether the purchase these properties, this report recommends that authority is delegated to the Corporate Director of Resources and Section 151 Officer in consultation with Cabinet Member for Finance and Corporate Director of Housing to decide whether to purchase the Trellis Mews properties, with a further recommendation within Part B.

## **7. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 7.1 The Council has an exposure of £142.5m in principal loans outstanding with BBB as at end of October 2022 and is the sole lender to company. The loans were provided to fund the development activity within the company and support the delivery of residential properties in the borough. In addition to the loans a

total interest of £5.04m has been accrued in 2022/23 as at end of October 2022. Previous interest charged to BBB has been repaid in 2021/22.

7.2 The Council charges a commercial interest rate on these loans and a revised consolidated loan agreement was entered into in May 2021. The Council's budget has an income target for interest income in 2022/23 of £6.908m and it is expected that BBB will be able to meet this income target and cover its interest costs in 2022/23.

7.3 Costs to deliver the work so far including the advisory support from PwC and Browne Jacobson has been paid from a contingency earmarked reserve.

Approved by Jane West Corporate Director of Resources

## 8. LEGAL CONSIDERATIONS

8.1 The Council has taken legal advice from Browne Jacobson LLP in relation to the matters addressed under, and recommendations made in, this report. Legal implications are addressed under the following headings.

### **Powers**

8.2 Section 1 of the Localism Act 2011 states that a local authority "*has power to do anything that individuals generally may do*". This enables a local authority to act as though an individual with full capacity, unless otherwise expressly prevented or restricted by some other statutory provision. This power, in conjunction with the powers and duties of the Council in relation to the provision of housing, have underpinned prior decisions to establish and support BBB. Where the general power is relied on to carry out a commercial purpose of a local authority, that must be pursued through a limited company.

8.3 Therefore, under this general power the Council:

- may exercise its rights as Lender to BBB under the consolidated Facility Agreement to take the steps identified in this report; and
- may exercise its rights as the sole shareholder in BBB to take the steps identified in this report.

8.4 In doing so, the Council must be mindful of the Council's financial position, its fiduciary duty (see below) and the requirement to have regard to all relevant factors and to disregard irrelevant ones. In short, the Council must act in accordance with the principles of Wednesbury reasonableness, meaning to make decisions that a rational person might make, having regard to all relevant considerations. The Council, as Lender and Shareholder in BBB, should also have full regard to its fiduciary duties and act prudently.

8.5 The fiduciary duty of a council, exercised by its elected members, derives from case law (e.g. *Credit Suisse v Allerdale Borough Council*) such that 'fundamental to a public body's accountability is the care it exercises in handling public monies'. In a local authority context, this 'takes legal shape in the principle

of their fiduciary duty to local taxpayers'. This is not a statutory requirement but an important principle of common law and one that is especially pertinent in this context.

### **BBB Articles of Association**

8.6 Notwithstanding the fact that the day to day management of BBB is vested in the Board of Directors under BBB's articles of association, that function is subject to matters reserved to the Council for decision under the company's articles of association. It is reserved to the Council to decide on the disposal of a BBB asset unless catered for in the Business Plan of BBB. Although the disposal of the remaining 5 sites may be covered by the Business Plan, it is nonetheless open to the Council (as sole shareholder) to make the direction contemplated by recommendations 6 & 8, and to reference and rely on its buy-back rights under the Option Agreements. That decision would be subject to the general decision-making factors referred to in this section of the Report, in particular to be based on consideration of relevant factors, and made with the Council's fiduciary duty in mind.

### **8.7 Subsidy Control**

8.8 The Council needs to have regard to its obligations under the subsidy control regime when deciding on the recommendations in this Report.

8.9 The Subsidy Control Act 2022 (the **Act**) will provide a new framework for the provision of subsidies within the UK and Government has recently announced that the majority of the Act will come into force on the 4 January 2023. Until this date, the subsidy control regime in the UK is governed by the UK's international obligations in relation to subsidies, and in particular the EU-UK Trade and Co-operation Agreement (**TCA**), which was incorporated into UK law through s.29 of the European Union (Future Relationship) Act 2020.

8.10 Under the TCA, a subsidy:

- is financial assistance which may include the forgoing of revenue that is otherwise due;
- that confers an economic advantage on one or more economic actors (in this case BBB);
- is specific, insofar as it benefits, as a matter of law or fact, certain economic actors over others in relation to the production of certain goods or services; and
- has, or could have, an effect on trade or investment between the parties (meaning the UK and the EU).

8.11 However, the Market Economy Operator Principle (MEOP) (referred to as the Commercial Market Operator Principle under the Act) is the principle that where a public authority does something on the same terms as a comparable

economic actor would, then no subsidy arises because there is no specific 'economic advantage' to any other economic actor as a result.

- 8.12 Therefore, the potential buy-back of the undeveloped sites by the Council, will not represent a subsidy to BBB provided that the Council is only writing off a proportion of the loan outstanding under the Facility Agreement which is no more than the market value of the relevant site. No subsidy control risk will be present in relation to BBB selling sites to third parties provided it can demonstrate that the sale prices obtained reflect a market value and the sales are enacted on market terms. If sites are disposed of in bulk and, therefore, are sold at slightly below the total open market value of the individual units, this will not give rise to a subsidy provided the pricing is still within the range of prices that a private seller in BBB's position might accept to dispose of the properties in bulk. The market price for a bulk sale may well be lower than the sum of the market value of the individual properties.
- 8.13 Further legal implications are detailed in Part B of this report to protect the commercial position of BBB, the Council and to maintain legal professional privilege (please see section 4 of the Report).
- 8.14 This report also includes recommended delegations and, if approved, any subsequent decisions will require consideration of any legal implications.

Approved by Kiri Bailey, Head of Commercial & Property Law on behalf of the Director of Legal Services & Monitoring Officer

## **9. HUMAN RESOURCES IMPACT**

- 9.1 There are no immediate human resources impacts arising from the recommendations in this report for Croydon Council employees or staff. Should any impacts arise, these will be managed in accordance with the Council's HR policies and procedures.

Approved by: *Gillian Bevan, Head of HR Resources and Assistant Chief Executives* on behalf of the Chief People Officer

## **10. EQUALITIES IMPACT**

- 10.1 There are no specific equalities issues set out in this report.
- 10.2 The Council has a statutory duty to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must therefore have due regard to:
- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

(Approved by: Denise McCausland – Equality Programme Manager)

## **11. ENVIRONMENTAL IMPACT**

11.1 None

## **12. CRIME AND DISORDER REDUCTION IMPACT**

12.1 None

## **13. DATA PROTECTION IMPLICATIONS**

**13.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

**NO**

**13.2 HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?**

**NO**

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**CONTACT OFFICER:** *Nish Popat – Interim Head of Corporate Finance*

**APPENDICES TO THIS REPORT:**

*Appendix C – Updated Brick By Brick Shareholder Advisory Board ToR*



1. Overview
2. Membership
3. Purpose
4. Operation of the Board

### 1. Overview

- 1.1 The Brick By Brick Shareholder Mayor's Advisory Board (the Board) is constituted as a Member group to help enable the Council to actively supervise and monitor its investment and relationship with its wholly owned company Brick by Brick Croydon Limited ('BBB'), including all financial and other transactions it has with BBB, particularly lending arrangements.
- 1.2 The Board is not a decision making body and decisions shall continue to be recommended to the Executive Mayor by the Chief Executive or decided under specific delegated authority from the Executive Mayor where relevant. This includes recommendations in relation to those matters set out at Schedule 1 (the Shareholder Reserved Matters) of these Terms of Reference and all other residual rights that the Council has as shareholder under the Articles of Association of BBB or as a matter of law.
- 1.3 These Terms of Reference shall be adopted following the Executive Mayor's approval.

### 2. Membership

- 2.1 The Board is constituted of the following Members:-

- Executive Mayor (Chair)
- Cabinet Member for Finance
- Deputy Mayor and Cabinet Member for Homes

The following officers, or their deputies where necessary, will attend the Board in an advisory capacity but are not members:

- Chief Executive
- Corporate Director Resources & S151 Officer
- Director of Finance (Deputy S151)
- Director of Commercial Investment & Capital (the BBB Client representative)
- Director of Legal Services & Monitoring Officer

- 2.2 The Board will also be supported by advisors representing the following disciplines within the Council: Finance, Legal, Housing & Assets. The Board will also receive regular update reports from the Council's Brick By Brick Client Supervision & Monitoring Panel alongside monthly reports from BBB. The Board will also call on external expertise as and when required.
- 2.3 BBB will be invited to report to the Board as and when required but is not a member of the Board. To enable full and frank discussion and advice between elected Members, officers of the Council and advisors, BBB may be excluded from attendance and taking part in certain discussions. The Agenda will indicate where this is likely to be required and any exclusion will be reflected in the minutes of that meeting.
- 2.4 The Board's business is part of the private business of the Council and it is envisaged that commercially sensitive information will be discussed. However in the spirit of openness and transparency (but subject to any overriding legislative requirements, confidentiality or commercial sensitivity) the minutes of the Board shall be made available in the public domain as part of the quarterly Cabinet reports by the Chief Executive. Any external advisors to the Board are to be reminded of this prior to attendance at the Board.
- 2.5 Where a Board Member or other attendee has an actual or potential conflict of interest arising in relation to the business to be conducted at the Board, that Board Member or attendee will make nature and extent of the conflict known to the Board in advance of any planned meeting and prior to any business being conducted at a meeting. The Chair, taking advice from the Director of Legal Services & Monitoring Officer, will decide whether the conflict is prejudicial (so as to preclude that individual from taking part in the meeting or discussion of the relevant item). This does not override the obligation on Members to have full regard to the Council's Code of Conduct and exercise their own judgement as to whether they have a disclosable pecuniary interest or other interest that should prevent them from taking part in discussions. Details of conflicts, related advice and considerations shall be recorded within the minutes of the relevant meeting. In the event that the Chair is unable to take part in a discussion or meeting due to a conflict of interest, the meeting will be Chaired by one of the two remaining Cabinet Members.

### **3. Purpose of the BBB Supervision & Monitoring Board**

#### **Shareholder Reserved Matters**

- 3.1 The Board has been established to provide a formal mechanism and structure to facilitate discussions concerning BBB, its performance and delivery. The Board assists with recommendations being presented to the Executive Mayor to make such decisions as are required or appropriate to make in its capacity as sole shareholder of BBB. The Board also facilitates consultation requirements of any specific delegated authority from the Executive Mayor to make decisions regarding BBB where relevant. Decisions in respect of the Shareholder Reserved Matters at Schedule 1 of these Terms of Reference are for recommendation from the Chief Executive to the Executive Mayor or under specific delegated authority from the Executive Mayor where relevant.

- 3.2 Any residual matters not specifically captured by Schedule 1 (Shareholder Reserved Matters) but considered to be a matter for the Shareholder to decide, either within the Articles of Association of BBB, as a matter of good governance or as a matter of law, will also be for recommendation from the Chief Executive to the Executive Mayor (unless otherwise specifically delegated by the Executive Mayor).

### **Appointment and Removal of Directors**

- 3.3 In addition to the above, and not specifically referred to under Shareholder Reserved Matters but covered under Article 19 of the Company's Articles of Association, the Council as shareholder has the power to remove Directors from BBB and appoint Directors to BBB (subject to the proviso that there can be no fewer than 2 Directors and no more than 4 Directors under the Articles of Association as presently constituted). The Corporate Director of Resources & S151 Officer in consultation with the Executive Mayor of the Council, Cabinet Member for Finance and Chief Executive, has delegated authority (including authority to exercise shareholder functions on behalf of the Council) to appoint or remove Directors of BBB in accordance with the Executive Mayor's approved process, where relevant (decision of 30th November 2022). Any such appointments or removals being notified as part of the next scheduled quarterly report to the Executive Mayor in Cabinet.

### **Monitoring the Council's Investment**

- 3.4 Whilst acknowledging the operational and commercial independence of BBB from the Council, the Council nevertheless has an interest and a duty to monitor the performance and success of its investment as Shareholder of BBB and as lender. The Board will therefore carry out that function, and assist with reporting to the Executive Mayor in Cabinet on a quarterly basis. In particular, the Board will monitor the development and implementation of BBB's Business Plan and will consider any proposed variations to the Business Plan put forward by BBB. The Board will also monitor any risks associated with the operations and performance of BBB. In that regard, the Board will not only review BBB's Annual Report but will also receive reports from the Council itself in the Council's role as lender, purchaser of properties and seller of land.
- 3.5 Where appropriate, and again whilst acknowledging the operational and commercial independence of BBB, the Board shall ensure that any recommendations to the Executive Mayor (or decisions under delegated authority) have evaluated the return and the benefits of its investment against the values of the Council and intended outcomes of their investment and any wider impact on the Council and its residents. Where appropriate, the Board (in the Council's capacity as Shareholder) may highlight issues to BBB where doing so will promote the values of BBB and does not interfere in the legitimate rights of the Directors of BBB to exercise their general authority. The Board may make any recommendations it considers appropriate in that regard, however, the Board recognises BBB shall make its own independent decisions.

### **Governance**

3.6 The Board shall seek to uphold the principles of good governance set out at Schedule 2 (Good Governance Principles) when conducting meetings and assisting with recommendations to the Executive Mayor.

#### **4. Operation of the Board**

4.1 The Board shall meet on a six week rotation or as otherwise required (to align with quarterly Cabinet meetings). Meetings shall be convened and administered by the Mayor's office and shall be chaired by the Mayor.

4.2 The quorum of the meeting shall be a minimum of two Board members and one of whom must be the Chair or in the Chair's absence a deputy appointed by the Chair.

4.3 The Board will consider any of the matters under its purview as set out elsewhere in this paper and recommendations shall be made by the Chief Executive to the Executive Mayor (or under specific delegated authority, where relevant). Where the Board is unable to reach consensus on a proposed recommendation to be made, a summary of the differing views shall be presented to the Executive Mayor.

4.4 Any recommendations, if specifically requested by the Board, be reported to a General Meeting of BBB by any person authorised by the Board to attend the General Meeting on behalf of the Board and to represent the Council as Shareholder but such person will normally be the Chair of the Board.

4.5 The Board will invite a report from the Director of Commercial Investment & Capital (the BBB Client representative), prepared in consultation with relevant Council officers as part of the Brick By Brick Client Supervision & Monitoring Panel, which shall typically cover each of the following subjects at each meeting:-

- a. Finance: The status of loans made to BBB including outstanding loan amounts, accrued interest, draw down requests (and their status), breaches of covenants, recycled sales receipts, payments received in the last quarter and any loan agreement modifications
- b. Assets: Progress of sales of land, progress with the Council's purchase of units from BBB and updates on the Option Agreements
- c. Housing: Progress with regards to the delivery of HRA housing
- d. Law & Governance: Highlighting any legal issues with particular regard to any decision making & general compliance issues including completion of any necessary legal documentation arising out of the relationship with BBB.

4.6 In addition the Board will receive for information and consider at each of its meetings the monthly reports providing updates on BBB's financial position, progress with development of sites, sales, any key contractual issues and any other relevant matter (as needed), which shall further be presented to the Executive Mayor in Cabinet on a quarterly basis. Such reports may include any relevant BBB board papers, minutes and reports as well as any other reports required by the Board to enable it to carry out its function of considering shareholder related matters.

4.7 A flowchart setting out the overall reporting lines and various meetings is included at Schedule 3 (BBB Meetings & Reporting Flowchart).

- 4.8 The Board will also invite BBB to present regular updates on the implementation of its Business Plan and to submit to the Board for review and comment the proposed final Annual Report, the draft Annual Business Plan and any proposed amendments to the existing Business Plan. BBB will also report on any other matters directly relevant to the Shareholder Reserved Matters in respect of which the Council needs to make a decision.
- 4.9 The Chair will approve the agenda for each meeting. The agenda and papers for each meeting will be circulated at least 5 working days prior to the meeting. The meeting will be minuted by an Executive Officer or Executive Support Officer and the Executive Mayor will oversee the convening of the meeting.
- 4.10 In the event of urgency, a meeting may be convened at short notice on the recommendation of the Executive Mayor or, if an urgent recommendation is required to be made by the Chief Executive, this can be done by means of email communication. Where these urgency provisions are required to be used, the Executive Mayor's office shall seek to make any arrangements necessary to either convene the meeting or obtain email approvals to a proposed recommendation.
- 4.11 The Terms of Reference of this Board shall be reviewed annually or when required. It is envisaged that when BBB begins the process of winding up, these Terms of Reference for this Board shall be reviewed. Any changes to these Terms of Reference shall be unanimously approved by the Members of the Board and notified as part of the next scheduled report to the Executive Mayor in Cabinet.

## **SCHEDULE 1 - SHAREHOLDER RESERVED MATTERS**

- 1 Approval and adoption of each Business Plan (and any amendments/variations).
- 2 Alteration in the nature/scope of the Business, closing down/commencing any new business which is not ancillary or otherwise incidental to the business of the Company.
- 3 Declaring or paying any distribution in respect of profits, assets or reserves of the Company or in any other way reducing the reserves of the Company.
- 4 Forming any Company subsidiary or associated undertaking, acquiring shares in any other company or entity (subscription or transfer) such that the Company becomes a Subsidiary, entering into joint ventures or partnerships.
- 5 Alteration of authorised or issued partnership capital, or classification thereof, allotment of partnership capital or securities, granting options or rights to subscribe to the Company; issuing loan capital of the Company.
- 6 Waiving or delaying the rights of the Company and/or those of the Company to be exercised by the Company under any agreement to which the Company is a party.
- 7 Making any petition or passing any resolution to wind up the Company or making any application for an administration or winding up order or any order having similar effect in relation to the Company or giving notice of intention to appoint an administrator or file a notice of appointment of an administrator.
- 8 Changing the name of the Company.
- 9 Change in status of the Company.
- 10 The admission of a new Shareholder to the Company or the expulsion of any then existing Shareholder.
- 11 Entering into (or agreeing to enter into) any borrowing arrangement on behalf of the Company and giving any security in respect of any such borrowing (including creating any encumbrance over the whole or any part of the undertaking or assets of the Company or over any capital of the Company.<sup>1</sup>
- 12 Taking any action outside the parameters of the Business Plans including but not limited to contract expenditure or increasing any indebtedness of the Company outside the parameters of the Business Plan.

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<sup>1</sup> No Shareholder Board approval is needed in respect of such arrangements where they have already been the subject of a Council governance process and been formally approved by the Executive Mayor.

- 13 Taking any action which constitutes a variation to the costs set out in the budget section of the Business Plan.
- 14 Acquiring, disposing or agreeing to acquire or dispose of any Company asset, any interest in any Company asset (including the exercise of an option) or any other land or buildings outside of the Business Plan.
- 15 Granting or entering into any license agreement or arrangement concerning the trading names of the Company and goodwill attached thereto.
- 16 Entry by the Company into any partnership or other profit share arrangement outside of the Business Plan
- 17 Contracting and/or entering into a commitment to contract expenditure outside the parameters of activity (as set out in the budget) contemplated by the Business Plans.
- 18 Giving a guarantee, suretyship or indemnity to secure the liabilities of any person or assume the obligations of any person.
- 19 Any other matters not covered within the Company's usual day-to-day business and within the scope of the Business Plans.

## **SCHEDULE 2 - Principles of Good Governance**

- ❖ BBB will be provided with the freedoms to achieve its commercial and operational objectives.
- ❖ The Council will retain controls which enable it to protect its investment and ensure that its objectives are met.
- ❖ Appropriate business ethics will be enforced so that decisions are taken for the benefit of BBB and the Council, taking into account the Council's group of company entities, with directors acting for BBB, and the Board acting for the Council. Any interests (including competing interests between the Council and BBB, or between other Council companies) will be formally recognised and controlled
- ❖ Information will flow between the Council and BBB to ensure that mutual understanding and shareholder / company objectives are maintained. In particular the Council should:
  - set out its objectives and priorities at the outset and keep these under review – any changes will be timely, proportionate, commercially realistic and part of the annual review;
  - define and communicate clear roles for its representatives who meet with BBB and these meetings will have an agenda and be minuted;
  - engage with BBB to understand, record and analyse the unit costs of the entity's deliverables as key performance indicators (KPIs) and its effect on Council and other Council companies' KPIs (incorporating factors such as interest payments, tax savings, business rates, savings/contributions on connected council activities and effect on the economy), companies will be reviewed annually – these reviews together with triennial reviews will be a mechanism for considering change in investment and funding;
  - engage with the other Council company entities to understand and support it in relation to resourcing, including staffing, working capital, the investment cycle, cashflow, and retained profits;
  - maintain a joint risk register to ensure risks are managed across the Council companies, and engage with the entity to plan assurance requirements.
  - set out clear and consistent processes with commercial timescales for key decisions such as loans;
  - ensure that commercial confidentiality of sensitive information is maintained and agree a non-disclosure agreement where appropriate.

BBB shall be required to:

- engage with the Council in a timely fashion, keeping it well informed, where it requires funding or other support from the Council
  - communicate any commercial timescales and sensitivities
  - provide the information required in its agreements with the Council as part of its normal reporting cycle
  - engage effectively with the Council's assurance providers
- 
- ❖ Directors of BBB must act for the entity, declaring and avoiding any actual or apparent conflict of interest. BBB should have skills appropriate to the sector and roles. To ensure this is achieved the Board of Directors should have mandatory training including induction, an annual training programme and guidance notes. An



annual skills audit and triennial independent review should be used to support the BBB Board of Directors and identify appropriate external expertise

- ❖ Council nominated directors and member representatives to receive mandatory training on an annual basis and appropriate indemnity arrangements to be ensured

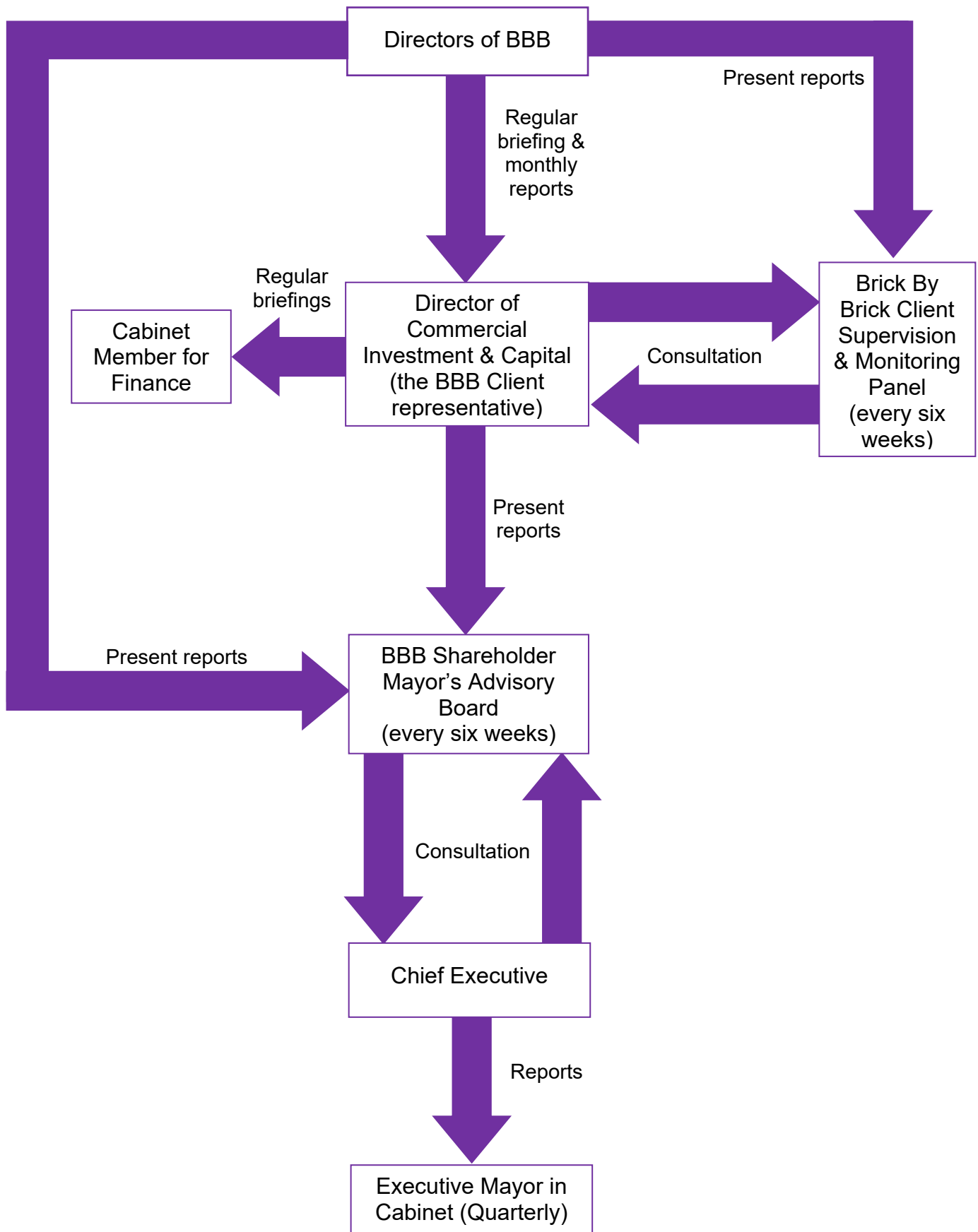
### When Financing a Company

The Council, when financing a company, will set in place controls to enable it to protect its investment and achieve its objectives.

Initially:

- The Council is required to consider a business case and risk analysis in deciding whether the entity should proceed to trade.
- The Council has the right to appoint board members.
- Participation in any legal entity will require approval by the Executive Mayor
- A shareholder's or member's agreement can be used to set out decisions which the company directors can only make with approval or oversight of the Council. These might include:
  - the right to approve substantial changes in the company's business plan;
  - monitoring and evaluation of company reporting (there is a need to ensure that that 'advice' does not extend to any form of management of the company);
  - Access to information, financial reporting and monitoring provision is required eg to ensure that commercial agreements such as loans and service contracts are adhered to.

### SCHEDULE 3 – BBB MEETINGS & REPORTING FLOWCHART



# Agenda Item 6

<b>REPORT TO:</b>	<b>Cabinet 30th November 2022</b>
<b>SUBJECT:</b>	<b>Financial Performance Report – Month 6 (September 2022)</b>
<b>LEAD OFFICER:</b>	<b>Jane West, Corporate Director of Resources (Section 151)</b>
<b>CABINET MEMBER:</b>	<b>Councillor Jason Cummings Cabinet Member for Finance</b>

## SUMMARY OF REPORT:

This report provides the Council's forecast outturn as at Month 6 (September 2022) for the General Fund (GF), Housing Revenue Account (HRA) and the Capital Programme (CP). The report forms part of the Council's financial management process for publicly reporting financial performance monthly.

## FINANCIAL IMPACT

	<b>Forecast Variance Month 6</b>	<b>Forecast Variance Month 5</b>	<b>Movement</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>General Fund over/(underspend)</b>	<b>0.0</b>	<b>10.5</b>	<b>(10.5)</b>

The General Fund forecast at Month 6 now shows a balanced budget which is an improvement of **£10.5m** compared to the forecast at Month 5. This is mainly due to the ongoing review of inflation requirements which has resulted in the draw-down of funding from the corporate inflation budget to cover the increased cost of utilities within the Resources department (£4.2m) and a reduction in the planned contribution to General Fund Balances (£5.1m). This, supported by the previously reported Deficit Recovery Plan, allows a forecast balanced budget. There remains £6.6m in the corporate inflation contingency budget unallocated which is being held as a hedge against further pressures impacting budgets in the remainder of the year.

This report sets out further risks and opportunities. This indicates a net risk of **£4.1m** (risks **£10.0m** and opportunities of **£5.9m**).

	<b>Forecast Variance Month 6</b>	<b>Forecast Variance Month 5</b>	<b>Movement</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Housing Revenue Account over/(underspend)</b>	<b>4.4</b>	<b>3.2</b>	<b>1.2</b>

The Housing Revenue Account is forecasting a **£4.4m** overspend variance against budget at the end of the year, an adverse movement by **£1.2m** mainly due to increases in legal disrepair costs and void rents.

	<b>Original Approved Budget 2022/2023</b>	<b>Actual to Date as at 31/09/22</b>	<b>Forecast for year end 2022/2023</b>	<b>Forecast Variance for year end 2022/2023</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Total General Fund and HRA Capital Programme</b>	<b>134.152</b>	<b>14.599</b>	<b>116.974</b>	<b>(17.178)</b>

The Capital Programme has spent **£14.599m** against a **£134.152m** budget at Month 6. The end of year position is forecast to be an underspend of **£17.178m**.

**The Executive Mayor in Cabinet is recommended to:**

- 1.1 Note the General Fund is now forecast to be balanced at Month 6. Service directorates are indicating a £19.895m overspend. This is offset by £5.795m corporate underspend, £4m use of earmarked inflation reserves, £5m use of the general contingency budget and a £5.1m reduced contribution to General Fund Balances.
- 1.2 Note the reduction in the planned contribution to General Fund Reserves from £6.9m to £1.8m and the forecast General Fund Reserve of £29.3m at 31 March 2023.
- 1.3 Note that a further number of risks and compensating opportunities may materialise which would see the forecast change.

- 1.4 Note the actions being taken through the Deficit Recovery plan. Further details are in paragraph 2.16.
- 1.5 To approve the non-delivery of the MTFS savings as indicated within Table 5 and detailed in Appendix 3.
- 1.6 Note the Housing Revenue Account (HRA) is projecting an end of year position of a £4.424m overspend, due to inflation, disrepair costs and void rents.
- 1.7 Note the Capital Programme spend to date for the General Fund of £14.019m (against a budget of £112.069m) with a projected forecast underspend of £14.793m for the end of the year.
- 1.8 Note the Housing Revenue Account Capital Programme spend to date of £0.580m (against a budget of £22.083m), with a projected forecast underspend of £2.385m for the end of the year.
- 1.9 Note, the above figures are predicated on forecasts from Month 6 to the year end and therefore could be subject to change as forecasts are made based on the best available information at this time.
- 1.10 Note, the Council continues to operate a Spend Control Panel to ensure that tight financial control and assurance oversight are maintained. A new financial management culture is being implemented across the organisation through increased scrutiny, such as the monthly assurance meetings, improved communication and budget manager training from CIPFA.

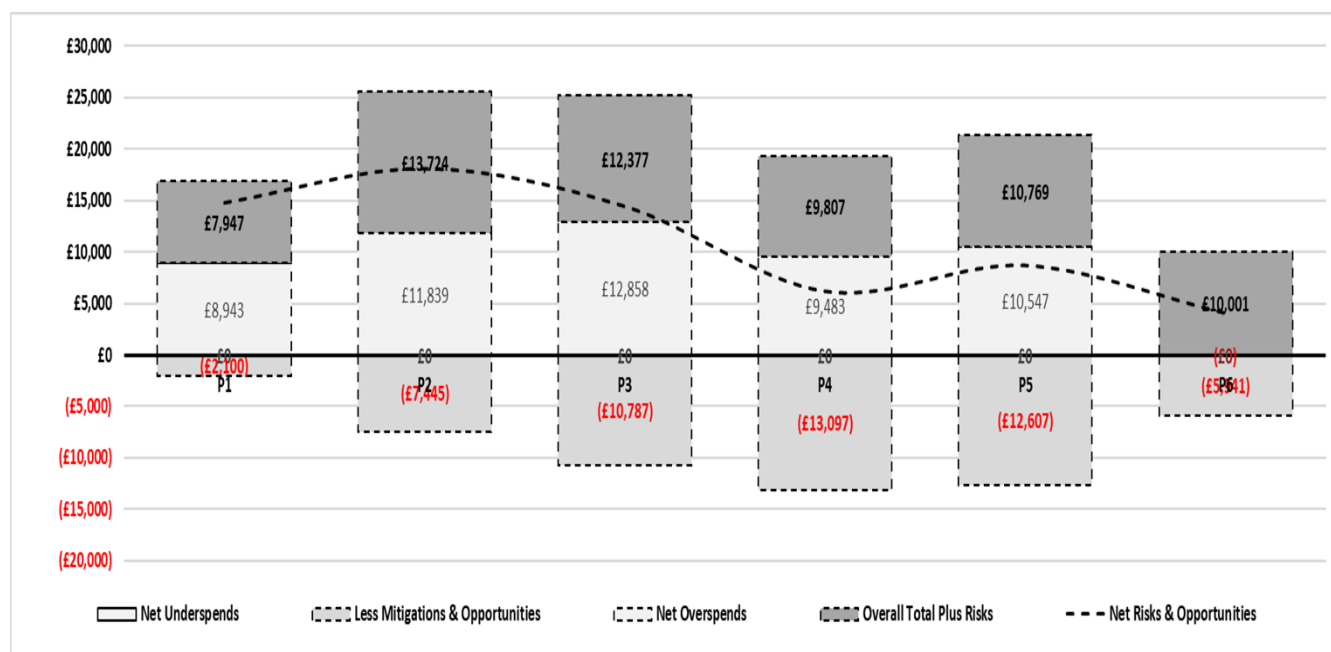
## **2. EXECUTIVE SUMMARY**

- 2.1. The Financial Performance Report (FPR) is presented to each Cabinet meeting and provides a detailed breakdown of the Council's financial position and the in-year challenges it faces. It covers the General Fund, Housing Revenue Account and Capital Programme. The Financial Performance Report ensures there is transparency in the financial position, and enables scrutiny by the Executive Mayor, Cabinet, Scrutiny, and the public. It offers reassurance regarding the commitment by Chief Officers to more effective financial management and discipline.
- 2.2. The General Fund revenue forecast outturn for Month 6 is showing a balanced position. This decrease of £10.5m from Month 5 is mainly as a result of funding known inflation pressures of £4.2m and by reducing the contribution planned to General Fund Balances by £5.1m.
- 2.3. There are a further set of risks and opportunities, which indicate a net risk of £4.1m (risks £10m and opportunities of £5.9m). The risks are not yet sufficiently developed to be included in the outturn forecast. Depending on how the risks

and opportunities materialise, they may have a further negative impact on the projected outturn forecast. Should all the risks materialise, and none of the mitigations be effective, the Council is forecast to overspend by £10.001m. Key drivers of the projected overspend are non-delivery of savings agreed at Full Council in March 2022 and other new pressures previously not anticipated. However, if none of the risks materialise and all the opportunities are delivered, the Council will underspend by £5.941m. The risks and opportunities are detailed in Appendix 3-6 of the report and summarise in Table 5 by directorate.

2.4. The chart below illustrates the trend in the monthly monitoring reports for this financial year and shows both the forecast as well as the quantum of risks and opportunities, together with the impact should all risks and opportunities fully materialise (dashed line).

**Chart 1 – Monthly financial movements on Monthly Forecast, Risk & Opportunity**



2.5. Work continues to bring the pressures down and find mitigations so that the Council ensures that it stays within budget. The impact of the in-year position is also being considered as part of the planning for 2023/24.

2.6. The Housing Revenue Account is forecasting an overspend of £4.424m (an increase of £1.125m on the Month 5 forecast).

2.7. The Capital Programme for both the General Fund and Housing Revenue Account is reporting a total expenditure to date of £14.599m of which £14.019m is General Fund and £0.580m is Housing Revenue Account. The overall capital spend is projected to be £116.974m against a budget of £134.152m. This will result in a £17.178m underspend to budget.

- 2.8. The 2022/23 General Fund budget includes the use of a £25m agreed capitalisation direction. This follows the use of a £50m capitalisation direction in 2021/22. The capitalisation direction was approved (minded to) by the Department of Levelling Up, Housing and Communities (DLUHC) in March 2022 subject to regular positive reports from the Improvement and Assurance Panel and the Budget was approved at Full Council on 7<sup>th</sup> March 2022. It should be noted that capitalisation directions provide one-off support for a financial year and do not resolve the underlying financial pressures that require their use. The financial report elsewhere on the Cabinet agenda addresses the Council's fundamental financial position.
- 2.9. This report forms part of the reporting framework on the delivery of the Croydon Renewal Plan by ensuring the delivery of the Council's budget is reported monthly and transparently.
- 2.10. The format of this report will continue to evolve and expand as it will be important for the Council to be able to identify the additional pressures that the global economic crisis is causing in inflation and the impact on supplies and services the Council provides.
- 2.11. The Council continues to build on the improvements in financial management that were made over the past year however there is a considerable amount yet to do, which is fully recognised within the organisation. The Council's financial recovery is outlined within the current three-year MTFS.
- 2.12. The Opening the Books Project is underway to provide further clarity on the Council's financial position, the full results of which will be available by January 2023. The project is examining the last three years of the Council's accounts as potential errors have been identified in areas such as the accounting for Croydon Affordable Homes, the calculation of capital charges and the allocation of charges between capital, the Housing Revenue Account and the General Fund. These findings are delaying the completion of the Council's outturn position for 2021/22. The project is also examining the accuracy of budgets and the methodology and process for setting them. As an example, overspends totalling £19m have arisen from mistakes in setting three specific budgets:
- Parking income – the reduction in demand for parking in the borough following the pandemic should have been better reflected in the assumptions for projected activity in 2022/23
  - New traffic income projections were included with insufficient contingency built in to reflect the operational challenges of implementing new traffic schemes
  - A deficit in the Housing Benefit budget for 2021/22 should have been recognised earlier. It was only picked up at the very end of the year and therefore has not been built into the 2022/23 budget.
- 2.13. In addition, and as this report identifies, the Council continues to face significant financial pressures. The delivery of Year 1 of the MTFS / financial recovery plan

(2021/22) was aided by covid depressed demand for Council services that enabled the monthly expenditure to be reported as an underspend in many areas. Demand has begun to pick up for some Council services which is removing that underspend. There are also early signs of demand increasing for some services due to the cost-of-living pressures. In addition, some resident behaviour has changed since covid and this is having an impact on revenue.

- 2.14. This report flags a number of other risks that could be realised and be declared in the outturn forecast during the year which could impact the forecast position.
- 2.15. Over the last financial year, a monthly budget assurance process and independent challenge of expenditure by the Improvement and Assurance Panel took place. This is in addition to Cabinet, and Scrutiny and Overview review. The monthly budget assurance process has been reviewed and strengthened based on the learning from last year. The aim of the officer assurance meetings is to provide the Corporate Director of Resources (Section 151 Officer) and the Chief Executive with an opportunity to scrutinise and challenge the forecast outturn, review risks and opportunities to mitigate, challenge the use of accruals and provisions, ensure savings are delivered and income targets are met. Overall, the meetings ensure the Council is doing all it can to reduce overspends and deliver a balanced budget.

#### **Deficit Recovery Plan**

- 2.16. Each Directorate has been asked to identify mitigations and in year cost reductions to ensure that the Council brings its expenditure within budget. Table 1 sets out the mitigations proposed to date. Where the proposals are confirmed, their impact is already included in the projected outturn for the year. Where there is further work to be done to confirm them, they are included in this report as opportunities.

**Table 1 – Deficit Recovery Plan**

	£m	
<b>Delivery Plans in Forecast</b>		
Duplication of interest costs budget in Resources	2.400	Included within Resources forecast.
Increased Court Costs Income	0.700	Included within Resources forecast.
Council Tax Support Scheme	1.100	Included within Resources forecast.
Reduction in loan non-repayment provision	1.400	The Council plans to release a £1.4m provision previously set aside to support potential risks to commercial loans. The loan is now likely to be repaid in full.
Election Account	0.241	Included within Assistant Chief Executive forecast



	<b>£m</b>	
<b>Forecast Total</b>	<b>5.840</b>	
<b>Delivery Plans as Opportunities</b>		
Public Health	1,000	Cross directorate reallocations of budgets, detailed in opportunities.
Housing Benefits	0.850	Included within Resources opportunities
Staff changes	0.100	Included within Resources opportunities
Children's Services Legal Costs	0.285	Included within Children's opportunities
CIL substitution for General Fund expenditure	0.500	Included within SCRER's Opportunities
Delays in the capital programme	0.605	Reduced amount of £605k included within Corporate as opportunities
<b>Opportunities Total</b>	<b>3.340</b>	
<b>Grand Total</b>	<b>9.180</b>	

2.17. Work will continue to ensure the Deficit Recovery Plan supports the Council's financial position. The macroeconomic climate is causing further pressure on the Council particularly from a very tight labour market and significant inflationary pressures. Energy expenditure will increase considerably as the UK sees significant increases in wholesale costs. The Council is mindful of the Chancellor's announcement with regards to Energy Bill Relief Scheme which will help towards some of these costs. Further review will need to be done on this however, this proposal will allow the Council to apply for discounts on its energy bills, which will be provided by the energy supplier. The energy supplier will then be able to claim the funds from Government. The key calculation in regard to usage the current rates paid will need to be made and assessed against the support criteria.

### **Reserves**

2.18. When the 2022/23 budget was set £6.887m was set aside to add to General Fund Balances. The current financial position of the Council means that it is not essential to top up the balances by the full amount in 2022/23. This was reflected as an opportunity in Month 5. In Month 6 a £5.1m reduced contribution to balances to balance the budget is reflected in the forecast outturn. The position is set out in Table 2 below:

**Table 2 – General Fund Balances**

<b>General Fund Balances</b>	<b>Budget 2022/2</b>	<b>Forecast Outturn</b>
	<b>£m</b>	<b>£m</b>
<b>Balance at 1st April 2022</b>	<b>27.5</b>	<b>27.5</b>

Planned Contributions to/(from) Reserves	6.9	1.8
<b>Balance at 31st March 2023</b>	<b>34.4</b>	<b>29.3</b>

### **Unresolved Issues**

- 2.19. The Council's overall financial position is still subject to a number of unresolved issues. The Opening the Books project is currently underway reviewing many aspects of the Council's accounts, the results of which will be reported by January 2023. The Council is continuing to work closely with the external auditors on finalising the 2019/2020 and 2020/2021 audit of accounts and is in the process of completing the accounts for 2021/22. The 2019/20 accounts require a resolution in relation to the accounting treatment of Croydon Affordable Homes and Croydon Affordable Tenures which, as previously reported, may have a c£70m impact on the Council's available reserves. Work is ongoing in this area in collaboration with Grant Thornton, the Council's External Auditors. All these areas of work may have implications for this year's budget along with past years accounts.

### **3. COST OF LIVING CONSIDERATIONS**

- 3.1. This report focuses on the Council's budget forecast. It highlights that there are a number of inflationary pressures that the Council, like all local authorities, is managing. The inflation level is at the highest level for 40 years. This impact goes beyond the Council – cost of living is affecting all households and businesses.
- 3.2. These macro-economic factors are impacted by international events, and therefore well beyond the controls of Croydon Council. Despite the limitations, the Council is seeking to support households wherever possible.
- 3.3. A dedicated cost of living information hub has been established on the Council's website. This provides a single source of information, informing residents of the financial support available and signposting to further support, advice and guidance. This information is continually reviewed, updated and improved.
- 3.4. At a national level, household support has been announced in the form of a revised energy price guarantee, designed to limit the inflation on household energy bills. Households with a domestic energy connection are eligible for a £400 discount this winter. Residents on means-tested benefits will receive a £650 cost of living payment from Government.
- 3.5. The Council provides a wide range of support for residents that may be struggling due to the cost of living pressures. These include:
- Discretionary support fund for residents in financial hardship
  - Council Tax support – For residents on a low income or in receipt of benefits, Council Tax bills could be reduced by up to 100%

- Benefits calculator, to ensure residents receive all the support they are entitled to
- Energy advice, including heating and money saving options, through our Croydon Healthy Homes service
- Free holiday activity clubs with healthy meals for children
- Croydon Works to help residents into employment or get training to get them in to work

3.6. The cost of living information hub also signposts residents to a range of support provided by other organisations in Croydon, including:

- NHS Healthy start vouchers for families
- Free school meals
- Support from voluntary, community and faith sector organisations
- Support for businesses through the London Business Hub and the British Business Bank
- CroydonPlus credit union offers affordable ways to manage money, including savings accounts and loans

#### 4. DETAILED FINANCIAL POSITION

4.1. The Month 6 financial forecast is driven by £14.713m described as the non-delivery of savings but arguably more a reflection of the issues around the accuracy of budgets previously mentioned, £5.182m of departmental pressures offset by a £5.795m corporate underspend, £4.000m use of earmarked reserves, £5.000m use of the general contingency budget and a £5.100m reduced contribution to General Fund Balances.

4.2. The detailed forecast outturn per Directorate for the General Fund is shown below in Table 3.

**Table 3 – Month 6 Forecast per Directorate**

	Forecast Variance as at Current Month 6	Forecast Variance as at Prior Month 5	Change From Month 5 To 6	Savings Non-Delivery as at Month 6	Other Pressures as at Month 6
	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)
Children, Young People and Education	(1,265)	(408)	(857)	1,090	(2,355)
Adult Social Care and Health	(1,064)	(505)	(559)	5,295	(6,359)
Housing	3,589	2,582	1,008	2,001	1,588
Sustainable Communities Regen & Economic Recovery	14,894	15,641	(747)	5,743	9,151

	Forecast Variance as at Current Month 6	Forecast Variance as at Prior Month 5	Change From Month 5 To 6	Savings Non-Delivery as at Month 6	Other Pressures as at Month 6
	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)
Resources	4,714	9,210	(4,496)	172	4,542
Assistant Chief Executive	(974)	(1,204)	230	412	(1,386)
<b>Departmental Total</b>	<b>19,895</b>	<b>25,316</b>	<b>(5,421)</b>	<b>14,713</b>	<b>5,182</b>
Corporate Items & Funding	(19,895)	(14,769)	(5,126)	-	(19,895)
<b>Total General Fund</b>	<b>(0)</b>	<b>10,547</b>	<b>(10,547)</b>	<b>14,713</b>	<b>(14,713)</b>

4.3. Net overspends and underspends within the service budgets are presented as a forecast variance (as per Table 3) and are additionally classified as either non-delivery of agreed in year savings or other pressures which were not foreseen or quantifiable at the time of setting the budget.

#### **Risks and Risk mitigations**

4.4. The outturn forecast has been reported excluding further potential risks and risk mitigations which are summarised in Table 5 and detailed out in Appendix 5. Risks are split in to MTFS savings risks and other risks. Savings risks relate to savings proposals that were approved at Full Council in March 2022 to deliver a balanced budget. Other risks are risks that have risen from other operational challenges but not related to the delivery of savings. Risk mitigations are proposals that the services have identified that would mitigate their risks and help bring spend back within budget.

#### **MTFS Savings**

4.5. Savings are at various stages in their delivery, and it is important that the Council transparently reports the progress on these. Savings which are not deliverable are included within the forecast as overspends. Table 4 below provides a summary of progress per directorate on delivery of their savings targets. Both savings not delivered and those at risk of non-delivery are detailed in Appendix 3 and 4 of this report.

**Table 4 – Progress on MTFS Savings**

Division	Target Value £'000s	Balance Not Delivered (In Forecast) £'000s	On Track Value £'000s	Delivered Value £'000s	Current Month At Risk Value £'000s	Prior Month At Risk £'000s	Change from Prior Month At Risk £'000s
Children, Young People and Education	(9,564)	1,090	7,046	1,077	351	1,141	(790)
Adult Social Care and Health	(16,500)	5,295	2,868	7,333	1,004	519	485
Housing	(2,841)	2,001	840	0	0	262	(262)
Sustainable Communities Regen & Economic Recovery	(12,396)	5,743	2,969	967	2,718	2,718	0
Resources	(3,029)	172	2,857	0	0	0	0
Assistant Chief Executive	(9,543)	412	8,281	250	600	600	0
<b>TOTAL FOR MTFS</b>	<b>(53,873)</b>	<b>14,713</b>	<b>24,861</b>	<b>9,627</b>	<b>4,673</b>	<b>5,239</b>	<b>(567)</b>

4.6. Details of the reasons for the variances and movements from the previous month are identified below together with details of risks and opportunities. The detail of each opportunity and risk both those that are quantifiable and non-quantifiable can be seen in detail in appendix 5 and 6 to this report. Table 5 below gives a summary of the risks and opportunities by department.

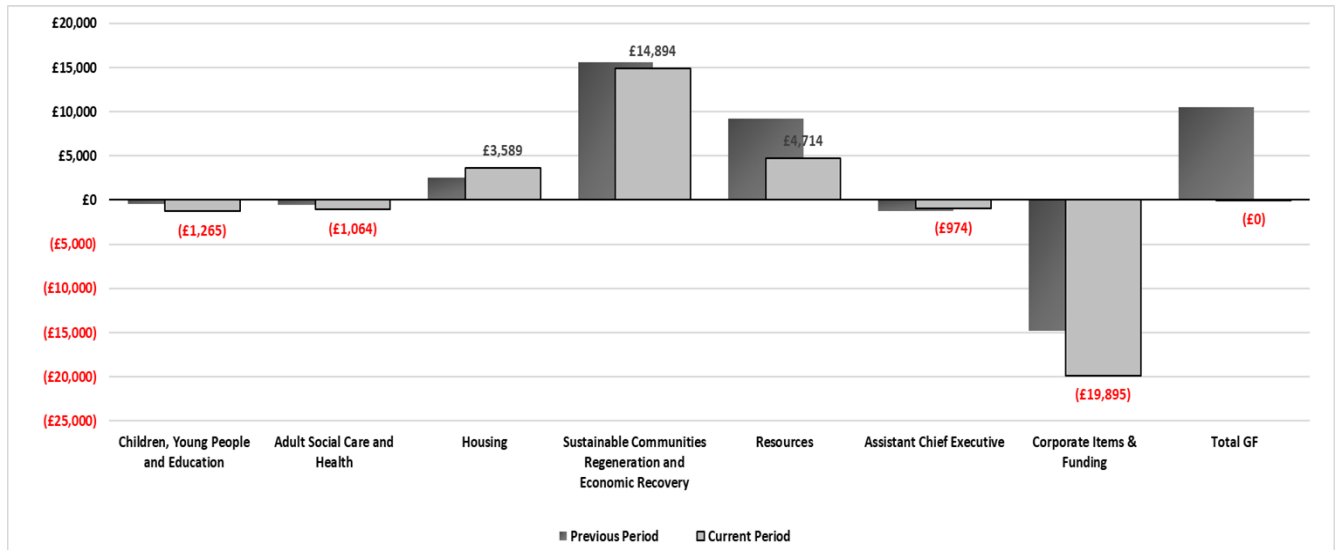
**Table 5 – Summary of Risks and Opportunities**

	MTFS Savings - At Risk	Other Quantifiable Risks	Quantifiable Opportunities	TOTAL
	£'000	£'000	£'000	£'000
Children, Young People and Education	351	2,932	(2,017)	1,266
Adult Social Care and Health	1,004	-	(380)	624
Housing	-	1,750	-	1,750
Sustainable Communities Regen & Economic Recovery	2,718	646	(1,029)	2,335
Resources	-	-	(950)	(950)
Assistant Chief Executive	600	-	(360)	240
Corporate Items & Funding	-	-	(1,205)	(1,205)
<b>Total Month 6</b>	<b>4,673</b>	<b>5,328</b>	<b>(5,941)</b>	<b>4,060</b>
Total Month 5	5,239	5,530	(12,607)	(1,838)
<b>Variance</b>	<b>(567)</b>	<b>(202)</b>	<b>6,666</b>	<b>5,898</b>

## DIRECTORATE VARIANCES

4.7. The chart below shows the forecast by Directorate for both the current and previous month:

**Chart 2: Forecast per Directorate as at Month 6**



### 4.8 Children, Young People and Education (CYPE)

At Month 6 a **£1.265m underspend** has been forecast alongside £0.351m of MTFs savings at risk of non-delivery together with £2.932m of other risks against £2.017m of opportunities. This is a favourable movement from Month 5 of £0.857m.

The £0.454m underspend is the net position of a £0.300m incorrect public health income budget which will be corrected offset with a net benefit of £0.754m through underspends in Children's Social Care of £0.605m and £0.149m in non-DSG Education services.

The Directorate has also identified £2.932m of other risks which if realised could have a material impact on the CYPE forecast. These relate to cost pressures such as inflationary pressures above and beyond Council budgets and loss of income or contribution from the Council's partners.

However, the Directorate has identified potential opportunities of £2.017m from re-purposing grants and reducing legal costs substantially due to a reduction in age related assessment challenges.

### 4.9 Adult Social Care and Health (ASCH)

At month 6 an underspend of £1.064m is forecast with £1.004m MTFs savings at risk of non-delivery. The risk of savings non-delivery has increased by £485k,

and an increase of £4.082 of savings not being achievable is now reflected in the outturn forecast. Quantified opportunities remain the same as period 5.

The forecast underspend of £1.064m is a net position, the key items being:

- £2.177m Underspend in staffing which, in return, is a barrier to achieving savings. There is a national shortage of both social workers and occupational therapists.
- £0.668m Underspend following the detailed of 21/22 accruals for planned care cost. It is usual that care is delivered at a lower level than planned for many reasons including delayed hospital discharge, temporarily staying with family etc. However, this year is slightly higher than normal which is believed to be Covid related.
- £5.295 Non delivery of savings which had previously been shown as at risk, £3.215 in 18-65 Disabilities, £1.195m in Over 65 Localities and a £0.380 incorrect Public Health income budget which will be corrected. This is being mitigated by managing demand for care and other underspends (£3.283m).
- £0.725m Overspend in care for 18–25 year-old Transitions clients which remains the same as Month 5 monitoring.

Unquantified Risks present continued concerns as to impact upon the Directorate budget over the remainder of the financial year:

- Potential post COVID-19 latent demand working through the population resulting in additional care package placements and community equipment.
- Inflation, rising fuel costs will result in significant expenditure for ASC Providers – may result in claims for increased fees and/or financial instability with potential for ‘handing back’ contracts.
- Hospital discharge pressure as current system risk is running at winter activity levels due to COVID-19.
- High vacancy rate is caused by significant challenges in recruitment across the Directorate. This means staff are focussed on statutory delivery, rather than transformation. This is a national issue.

Continued detailed analysis of demand and cost will take place each month to the end of the financial year to enable, where possible, an estimate of the value of these current Unquantified Risks as listed.

Finance continues to work closely with the service providing deep dive analysis of the budgets in Transitions, Disability Services, Older Peoples Services and Mental Health to support additional quality assurance.

#### 4.10. Housing

At Month 6, Housing is forecasting a **£3.589m overspend** in relation to temporary accommodation activity in particular overnight paid accommodation, with key risks related to non-delivery of £0.262m of savings, and £1m of other quantifiable risks having been identified that relate to emergency accommodation activity levels and the provisions for bad debts. However, the Directorate is looking to draw down £0.790m of housing reserves to support in year pressures and have identified this as an opportunity subject to further review. This will only be released once all other in-year mitigations have been exhausted.

The service is seeing an increase in demand for temporary accommodation and is also facing rising rental costs as the Council struggles to find viable accommodation.

#### **4.11. Sustainable Communities, Regeneration & Economic Recovery (SCRER)**

In Month 6, SCRER is forecasting a net **overspend of £14.894m**.

The main area of overspend relates to £13.6m shortfall in parking income, £0.839m relating to streetlighting energy costs and £0.5m SEN transport costs. This position has moved favourably from Month 5 by £0.747m.

There are also £0.646m other risks identified and £2.668m of MTFs savings at risk. However, the service has identified £1.029m of opportunities which will need to be worked through to confirm their achievability.

The service areas that are experiencing these overspends are within the Sustainable Communities division and particularly in the parking teams. Demand for parking services has not returned to pre-pandemic levels and this is affecting all areas of parking which includes, ANPR, pay and display and on-street parking. The division is also expecting delays in obtaining a license from government to run the Selective Licensing scheme which is further adding pressure of £1.580m.

The Council applied to renew its Landlord Licensing scheme in 2021/22 to the Department of Levelling Up, Housing and Communities (DLUHC). The Council budgeted for £1.5m of income that would be achievable from the scheme in this financial year. However, the scheme was rejected by the Secretary of State for DLUHC due to the lack of a Housing Strategy, one of the requirements for the scheme. The development of the Housing Strategy is being progressed but has not yet been completed due to the many other pressures on the Housing Service and the focus on the delivery of the Housing Improvement Plan. It also requires a review of the Council's policy for Landlord Licensing. It is expected that this will not be completed within the next 12 months and therefore for prudence the service is forecasting the non-delivery of the £1.5m income target.

Further pressures are experienced within Planning and Sustainable Regeneration Services particularly in relation to Building Control income and income from Planning.



#### 4.12. Resources

At Month 6, there is a **£4.714m overspend** projected which is a favourable movement from Month 5 of £4.497m. This movement primarily relates to a draw-down of funding from the corporate inflation budget to cover the increased cost of utilities. This was previously reported as a pressure. There has also been an increase in income following rent reviews and one-off use of income maximisation grant in the Business Support Team, along with increased cost of agency within the Legal Team.

The overspend is largely related to loss in housing benefit (HB). A predicted £7.685m overspend on HB is due to the difference between the value of HB expenditure and funding received from DWP on support exempt and temporary accommodation. A cross council working group is currently working to mitigate this over the next few years.

The pressures on Estates, Asset Management & Facilities are being netted off against a net saving of £1.550m. This relates to an historic budget for interest costs which is already covered within a corporate budget, offset by MTFs savings targets that are unachievable. Currently there is a predicted overspend of £0.279m in Corporate Finance & Treasury. This relates to higher than budgeted spend on specialist finance work and agency costs pending a restructure of the department.

There are no additional savings at risk and no further risks are reported at this point. Opportunities of £0.950m have been identified to try and mitigate the HB subsidy loss in year and reduce staffing costs.

#### 4.13. Assistant Chief Executive

At Month 6, a **£0.974m underspend** is being projected, which is an adverse movement of £0.230m from month 5. A review of salaries funded from capital within Croydon Digital & Resident Access and a tightening of the capitalisation policy has led to an increase in salaries funded from the general fund £0.193m, along with the withdrawal of some non-revenue funding for projects £0.297m. This has been mitigated by a more favourable forecast for salaries in the Policy, Programme and Performance Team as officers continue to manage vacancy savings and approved draw down of transformation funding, as additional project staff have been recruited to support the change programmes across the organisation £0.192m. Further planned staffing reviews and holding of vacancies have achieved savings of approximately £0.990m across the Directorate. A review of the Learning & Development budget has led to a saving of £0.100m.

At this early stage, work is still being carried out to review fees and charges which were devolved to the service without consideration of demand. The council wide exercise that is taking place will enable the services within ACE to more accurately forecast income and until such time that this is completed, the pressure of £0.205m is factored within the forecast. The rationalisation of

software applications project has identified £0.450m of mitigations, which have been included within the forecast. Whilst the remaining £0.300m cannot be met, this is being mitigated down by in year savings. This is not sustainable for 2023/24 onwards.

#### 4.14. Corporate

At Month 6, the corporate position is projecting an **underspend of £19.895m**. The corporate budget holds funding and financing streams such as Council Tax, Business Rates income share and General Revenue Support Grant income. The corporate budget also allocates Council wide risk contingency, inflation growth budgets and budgets to fund corporate debt and interest charges.

The corporate projection includes £20m corporate contingency provision for inflation. This will cover the pressure previously reported in Resources relating to utilities, and current known pressures identified by Directorates. Further inflation pressures are likely to impact the Council's budget during the remainder of the year. The current uncommitted balance of the corporate inflation provision will be held as a hedge against further pressures. The corporate projection also reflects underspends against contingency budgets and risk provisions. A provision of £1.400m has been released and relates to risks to a key commercial loan which is now expected to be fully paid back in full.

A one-off £4.0m of reserve drawdown will support the in-year inflationary pressures that the Council is facing. An opportunity has been identified due to the reversal of the 1.25% National insurance increase.

A risk of £0.6m has been identified relating to the of the National Joint Council (NJC) employers staff pay award offer for 2022/23. The budget held corporately may not be sufficient to cover the pay award just agreed of £2,229 per employee.

As set out in paragraph 2.18 the Month 6 forecast reflects a reduced contribution to General Fund balances.

- 4.15. The report identifies savings at risk and mitigations for both the current and future years. Where risks are quantified currently, these are based on high level information and directorate experience of the service.

## 5 Housing Revenue Account (HRA)

- 5.1 The forecast overspend across the Housing Revenue Account is £4.4m as at Month 6. This is made up of an additional £1.8m of inflationary pressure on the utilities billings and disrepair costs of £0.8m. The impact of the cost of living increase is reflected through the inclusion of £0.8m pressure on the rents. Other variances include increased costs of managing the estates, £0.5m, and underspends on running costs across the service £0.2m. There is an ongoing review of all budgets and recharges across the Housing Revenue Account to mitigate the existing pressures.

**Table 5 – Housing Revenue Month 6 forecast**

SERVICES	Projected Variance For Month	Variance For Previous Month	Change From Previous Month	Explanation of Variations
	£'000	£'000	£'000	
Responsive Repairs and Safety	1,392	904	487	Legal Disrepairs compensation forecast has been increased by £752k. Responsive Repairs pressure of £700k has now being absorbed by capitalisation of other Responsive Repair costs. Other savings have been moved to balance the Responsive Repair re-procurement activity.
Asset Planning and Capital Delivery	(74)	(158)	84	There remain a number of staff vacancies within this service area. These vacancies have reduced from Month 5.
Allocations Lettings and Income Collection	1,248	432	817	The potential risk due to cost of living has now been factored into the forecast as pressure. The projected void losses are based on Month 6 performance. A programme is in place to address this. This pressure also includes garage rental voids
Allocations Lettings and Income Collection	(96)	(25)	(71)	Reduction in forecast for Safety Equipment
Tenancy and Resident Engagement	2,454	2,557	(103)	Reduction in forecast for Grounds Maintenance & Legal. The forecast overspend is made up of an additional £1.8m pressure on utilities. Additional grounds maintenance costs; legal fees and legacy water charges are also included in the pressure.
Directorate & Centralised costs	(501)	(500)	(0)	There are vacancies within the centralised budgets. There is also a review underway to ensure charges have been correctly posted to other service areas within the HRA
	<b>4,424</b>	<b>3,210</b>	<b>1,215</b>	

## 6 Capital Programme

5.1 The General Fund and Housing Revenue Account capital programmes have currently **spent £14.599m** to the end of Month 6 against approved budgets of £134.152m. **Forecast spend** for the year is **£116.974m** resulting in a forecast underspend of £17.178m.

5.2 Table 6 below summarises the capital spend to date by directorate with further details of individual schemes provided in Appendix 2. Table 7 gives details of how the capital programme is financed.

**Table 6 – Capital Programme as at Month 6**

Department	Original Approved Budget 2022/2023 £'000	Actual to Date as at 31/08/22 £'000	Forecast for year end 2022/2023 £'000	Variance to Date 2022/2023 £'000
	£'000	£'000	£'000	£'000
CHILDREN, YOUNG PEOPLE AND EDUCATION	15,964	2,680	7,052	(8,912)
ADULT SOCIAL CARE AND HEALTH	1,707	30	30	(1,677)
HOUSING	3,493	789	3,555	62
SUSTAINABLE COMMUNITIES REGEN & ECONOMIC RECOVERY	36,971	7,053	31,572	(5,399)
RESOURCES	11,430	1,660	11,993	563
ASSISTANT CHIEF EXECUTIVE	13,455	1,807	14,025	570
CORPORATE ITEMS & FUNDING	29,049	0	29,049	0
<b>General Fund Total</b>	<b>112,069</b>	<b>14,019</b>	<b>97,276</b>	<b>(14,793)</b>
HOUSING REVENUE ACCOUNT	22,083	580	19,698	(2,385)
<b>LBC CAPITAL PROGRAMME TOTAL</b>	<b>134,152</b>	<b>14,599</b>	<b>116,974</b>	<b>(17,178)</b>

**Table 7 – Capital Programme Financing as at Month 6**

Department	Original Approved Budget 2022/2023 £'000	Forecast for year end 2022/2023 £'000	Variance to Date 2022/2023 £'000
	£'000	£'000	£'000
<b>General Fund Capital Financing</b>			
CIL	7,427	8,952	1,525
s106	2,461	2,441	(20)
Grants & Other Contributions	33,447	18,672	(14,775)
Capital Receipts	4,049	4,049	0
Reserves	70	0	(70)
Borrowing	64,614	63,162	(1,452)
CORPORATE ITEMS & FUNDING	0	0	0
<b>General Fund Total</b>	<b>112,069</b>	<b>97,276</b>	<b>(14,793)</b>
<b>Housing Revenue Account Capital Financing</b>			
Major Repairs Reserve	12,336	12,336	0

Reserves	9,747	7,362	(2,385)
<b>Total Financing - HRA</b>	<b>22,083</b>	<b>19,698</b>	<b>(2,385)</b>
<b>TOTAL PROGRAMME FINANCING</b>	<b>134,152</b>	<b>116,974</b>	<b>(17,178)</b>

5.3 The Month 6 forecast financing indicates a reduction of £1.4m of borrowing required this financial year for the General Fund and a £2.3m reduction in the use of reserves for the Housing Revenue Account.

## 7 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

7.1 Finance comments have been provided throughout this report.

7.2 The Council continues to operate with internal spending controls to ensure that tight financial control and assurance oversight are maintained, and a new financial management culture is being implemented across the organisation through increased communication on financial issues and training for budget managers.

7.3 In-year savings are being sought across the Council to mitigate the projected overspend. Early actions are reported in the opportunities contained within this report. The impact of the in-year position is also being considered as part of the early planning for 2023/24.

7.4 The Council currently has a General Fund Reserve of £27.50m which serves as a further cushion should not all the overspend be eliminated by the end of 2022/23. However, any use of these reserves would have to be reinstated in later financial years as it's a one-off support and not a permanent solution.

(To be Approved: Jane West – Corporate Director of Resources & S151 Officer)

## 8 LEGAL CONSIDERATIONS

8.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Council is under a statutory duty to ensure that it maintains a balanced budget and to take any remedial action as required in year.

8.2 Section 28 of the Local Government Act 2003 provides that the Council is under a statutory duty to periodically conduct a budget monitoring exercise of its expenditure and income against the budget calculations during the financial year. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such remedial action as it considers necessary to deal with any projected overspends. This could include action to reduce spending, income generation or other measures to bring budget pressures under control for the rest of the year. The Council must act reasonably and in accordance with its statutory duties and responsibilities when taking the necessary action to reduce the overspend.

- 8.3 In addition, the Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council's Chief Finance Officer has established financial procedures to ensure the Council's proper financial administration. These include procedures for budgetary control. It is consistent with these arrangements for Cabinet to receive information about the revenue and capital budgets as set out in this report.
- 8.4 The monitoring of financial information is also a significant contributor to meeting the Council's Best Value legal duty and therefore this report also demonstrates compliance with that legal duty.

(Approved by: Sandra Herbert, Head of Litigation and Corporate Law and Deputy Monitoring Officer on behalf of the Director of Legal Services and Monitoring Officer)

## **9 HUMAN RESOURCES IMPACT**

- 9.1 There are no immediate workforce implications as a result of the content of this report, albeit there is potential for a number of the proposals to have an impact on staffing. Any mitigation on budget implications that may have direct effect on staffing will be managed in accordance with relevant human resources policies and where necessary consultation with recognised trade unions.
- 9.2 The Council is aware that many staff may also be impacted by the increase in cost of living. Many staff are also Croydon residents and may seek support from the Council including via the cost of living hub on the intranet. The Council offers support through the Employee Assistant Programme (EAP) and staff may seek help via and be signposted to the EAP and other appropriate sources of assistance and advice on the Council's intranet.

Approved by Dean Shoesmith, Chief People Officer)

## **10 EQUALITIES IMPACT**

- 10.1 The Council has a statutory duty to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must therefore have due regard to:
- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
  - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 10.2 In setting the Council's budget for 2022/2023, all savings proposals must complete an Equality Impact Assessment. As Officers deliver against the

approved budget, including the savings within it, they will continue to monitor for any unanticipated equality impacts. If any impacts arise, officers will offer mitigation to minimise any unintended impact.

- 10.3 The core priority of the Equality Strategy 2020-2024 is to tackle ingrained inequality and poverty and tackling the underlying causes of inequality and hardship, like structural racism, environmental injustice and economic injustice. The budget should take due regard to this objective in relation to each protected characteristic. The Borough's responsibility to asylum seekers, young people, disabled people and their families along with adults utilising social care provision is key to this regard. Though families and single parents are not classed as a protected characteristic under Equality Act 2010, the impact may still be considered locally.
- 10.4 The cost-of-living increase has impacted heavily on the most economically vulnerable in society. Energy increases have led to some vulnerable groups having to make a choice between heating and eating. The support provided to some families by the government will go some way to supporting residents and families in need. Despite proposed increases in fees and charges being below the rate of inflation they may still have a detrimental impact on residents from our most vulnerable groups. This could potentially have an adverse impact on poverty and inequality which may potentially impact on some characteristics more than others. Research identifies the impact on some Disabled groups, communities from the Global Majority, African, Asian, African Caribbean households and other communities, young people. Research also indicates that there is an intersectional impact on young people from racialised communities and both Disabled and pregnant women. Deprivation in borough is largely focused in the north and the east where most ethnic residents from the African, African Caribbean and Asian communities reside.
- 10.5 In setting this budget the Council has sought to mitigate the impact on all residents who may be economically affected at this time. Research states that the protected characteristics that are likely to be most impacted by fee rises and the cost-of-living increase are: young people, African, African Caribbean and Asian communities, Disabled people and some pregnant women. There is also an intersectional aspect to the impact on equality, such as a higher impact on female dual heritage Disabled individuals and young people from Asian and African/African Caribbean communities have been more affected.
- 10.6 The Council have undertaken a wide range of initiatives to mitigate the effects for those in most need. Details of mitigation for residents is in paragraphs 3.5. Mitigation through support to residents delivered by other local organisations is detailed in paragraph 3.6. The measures include: a cost-of-living hub, a range of financial support and advice including discretionary support and additional support payments, Council tax support, energy advice and a benefit calculator. Residents are also signposted to support from community partners in the delivery of initiatives to support residents such as healthy Schools Clubs. These packages are available to all eligible residents irrespective of equality characteristics and are targeted at those residents who are in the most need.

10.7 The full impacts of Covid 19 and long Covid on the Adult Social Care Service are suggested to have an impact on potential spend. This will be exasperated throughout the winter months which see increases in both Covid 19 and flu.

10.8 The impact on poverty and inequality may be increased for those residents who were economically affected by Covid 19 and are currently in rent arrears, have debt to energy companies or elsewhere.

(Approved By: Denise McCausland, Equalities Programme Manager, Policy Programmes and Performance)

## **11 ENVIRONMENTAL IMPACT**

11.1 There are no specific environmental impacts set out in this report

## **12 CRIME AND DISORDER REDUCTION IMPACT**

12.1 There are no specific crime and disorder impacts set out in this report

## **13 DATA PROTECTION IMPLICATIONS**

13.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

13.2 HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

NO, as the report contains no sensitive/personal data

Approved by Nish Popat – Interim Head of Corporate Finance

### **List of Appendices**

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## Appendix 1 – Service Budgets and Forecasts Month 6

	Approved Budget	Current Actuals	Full-Yr Forecast	Projected Variance
	(£,000's)	(£,000's)	(£,000's)	(£,000's)
C1410E : ADULT SOCIAL CARE OPERATIONS	107,902	58,306	106,617	(1,285)
C1405E : TOTAL ADULT SOCIAL CARE AND HEALTH DIRECTORATE SUMMARY	1,175	(1,233)	1,555	380
C1420E : ADULT SOCIAL CARE POLICY AND IMPROVEMENT	14,748	10,098	14,589	(159)
<b>TOTAL ADULTS</b>	<b>123,825</b>	<b>67,171</b>	<b>122,761</b>	<b>(1,064)</b>
C1305E : RESIDENT ENGAGEMENT AND ALLOCATIONS	8,175	2,033	11,807	3,632
C1310E : ESTATES AND IMPROVEMENT	82	185	39	(43)
<b>TOTAL HOUSING</b>	<b>8,257</b>	<b>2,218</b>	<b>11,846</b>	<b>3,589</b>
C1110E : SUSTAINABLE COMMUNITIES REGEN & ECONOMIC RECOVERY DIRECTORATE SUMMARY	(262)	384	(1,241)	(979)
C1120E : SUSTAINABLE COMMUNITIES	22,479	(417)	36,845	14,366
C1130E : CULTURE AND COMMUNITY SAFETY DIVISION	4,543	2,677	4,801	258
C1140E : PLANNING AND SUSTAINABLE REGENERATION DIVISION	696	2,748	1,945	1,249
<b>TOTAL SUSTAINABLE COMMUNITIES REGEN &amp; ECONOMIC RECOVERY</b>	<b>27,456</b>	<b>5,393</b>	<b>42,350</b>	<b>14,894</b>
C1605E : RESOURCES DIRECTORATE SUMMARY	(6,901)	224	(6,894)	7
C1610E : DIRECTOR OF FINANCE	9,114	84,029	15,682	6,568
C1620E : PENSIONS DIVISION	343	667	284	(59)
C1625E : MONITORING OFFICER	2,094	1,023	2,079	(15)
C1630E : INSURANCE, ANTI-FRAUD AND RISK	1,018	1,455	831	(187)
C1640E : LEGAL SERVICES DIVISION	(1,644)	125	(1,148)	496
C1650E : INTERNAL AUDIT SERVICE	597	577	848	251
C1690E : COMMERCIAL INVESTMENT AND CAPITAL DIVISION	11,707	5,566	9,360	(2,347)
<b>TOTAL RESOURCES</b>	<b>16,328</b>	<b>93,666</b>	<b>21,043</b>	<b>4,714</b>
C1205E : CHILDREN, YOUNG PEOPLE AND EDUCATION	584	249	584	-
C1210E : CHILDREN'S SOCIAL CARE	72,417	29,176	71,501	(916)
UNACCOMPANIED ASYLUM SEEKING CHILDREN (UASC) AND CARE LEAVERS	(4,630)	1,737	(4,630)	-
C1220E : EDUCATION DIVISION - exc DSG	7,425	18,535	7,576	151
C1230E : QUALITY, POLICY AND PERFORMANCE IMPROVEMENT	5,978	1,403	5,478	(500)
<b>TOTAL CHILDRENS, FAMILIES AND EDUCATION</b>	<b>81,774</b>	<b>51,100</b>	<b>80,509</b>	<b>(1,265)</b>

	Approved Budget	Current Actuals	Full-Yr Forecast	Projected Variance
	(£,000's)	(£,000's)	(£,000's)	(£,000's)
C1505E : ASSISTANT CHIEF EXECUTIVE DIRECTORATE SUMMARY	(90)	422	19	109
C1510E : CROYDON DIGITAL AND RESIDENT ACCESS	23,149	13,182	23,151	2
C1520E : CHIEF PEOPLE OFFICER DIVISION	3,192	1,796	2,910	(282)
C1530E : POLICY, PROGRAMMES AND PERFORMANCE	6,111	5,896	5,309	(802)
C1540E : PUBLIC HEALTH	-	(7,686)	(0)	(0)
C1550E : SERVICE QUALITY, IMPROVEMENT AND INCLUSION	-	(1,818)	-	-
<b>TOTAL ASSISTANT CHIEF EXECUTIVE</b>	<b>32,362</b>	<b>11,794</b>	<b>31,388</b>	<b>(974)</b>
<b>TOTAL</b>	<b>290,002</b>	<b>231,340</b>	<b>309,897</b>	<b>19,895</b>

## Appendix 2 – Capital Programme Month 6

Scheme Name	Original Approved Budget 2022/2023 £'000	Actual to Date as at 30/09/22 £'000	Forecast for year end 2022/2023 £'000	Variance to Date 2022/2023 £'000
Disabled Facilities Grant	2,993	712	2,993	0
Empty Homes Grants	500	15	500	0
Unsuitable Housing Fund	-	62	62	62
<b>HOUSING</b>	<b>3,493</b>	<b>789</b>	<b>3,555</b>	<b>62</b>
Adults ICT	110		-	(110)
Adult Social Care Provision		30	30	30
Provider Services - Extra Care	500	-	-	(500)
Sheltered Housing	938		-	(938)
Capital investment in Garden Centre	159		-	(159)
<b>ADULT SOCIAL CARE AND HEALTH</b>	<b>1,707</b>	<b>30</b>	<b>30</b>	<b>(1,677)</b>
Bereavement Services	1,000	884	1,686	686
Finance and HR system	500	1	593	93
ICT	8,955	469	6,955	(2,000)
People ICT	3,000	453	4,661	1,661
Uniform ICT Upgrade	-		130	130
<b>ASSISTANT CHIEF EXECUTIVE</b>	<b>13,455</b>	<b>1,807</b>	<b>14,025</b>	<b>570</b>
Education – Fire Safety Works	902		928	26
Education - Fixed Term Expansions	3,243	49	550	(2,693)
Education - Major Maintenance	9,549	2,122	4,049	(5,500)
Education - Miscellaneous	-	139	139	139
Education - Permanent Expansion	44	22	319	275
Education - Secondary Estate	-	41	41	41
Education - SEN	2,226	307	1,026	(1,200)
<b>CHILDREN, YOUNG PEOPLE AND EDUCATION</b>	<b>15,964</b>	<b>2,680</b>	<b>7,052</b>	<b>(8,912)</b>
Allotments	200	177	200	0
Fairfield Halls-Council Fixtures & Fittings FFH		571	571	571
Capitalised Feasibility Fund	330		-	(330)
Growth Zone	4,000	7	5,000	1,000
Grounds Maintenance Insourced Equipment	200		-	(200)
Highways	8,618	3,739	8,618	0
Highways - maintenance programme (staff recharges)	-		-	0
Highways - flood water management	435	332	895	460
Highways - bridges and highways structures	3,403	1,698	3,403	0
Highways - Tree works	56	35	56	0
Mitigate unauthorised access to parks and open spaces	73		-	(73)
Leisure Equipment Upgrade	70	276	306	236
Libraries Investment - General	1,614	109	300	(1,314)
Libraries investment – South Norwood library	412		-	(412)
Museum Archives	75		75	0
Parking	2,141	80	3,862	1,721
Play Equipment	380	64	150	(230)

Scheme Name	Original Approved Budget 2022/2023 £'000	Actual to Date as at 30/09/22 £'000	Forecast for year end 2022/2023 £'000	Variance to Date 2022/2023 £'000
Safety - digital upgrade of CCTV	1,539		1,539	0
Section 106 Schemes	-	4	4	4
Signage	137		274	137
South Norwood Good Growth	1,032	(329)	1,208	176
Kenley Good Growth	425	295	760	335
Sustainability Programme	565		25	(540)
TFL - LIP	9,266	(12)	4,326	(4,940)
Walking and cycling strategy	-		-	0
Waste and Recycling Investment	1,000		-	(1,000)
Waste and Recycling - Don't Mess with Croydon	1,000	7		(1,000)
<b>SUSTAINABLE COMMUNITIES REGEN &amp; ECONOMIC RECOVERY</b>	<b>36,971</b>	<b>7,053</b>	<b>31,572</b>	<b>(5,399)</b>
Asset Strategy - Stubbs Mead	700		300	(400)
Asset Strategy Programme	225		225	0
Asset Acquisition Fund	390		250	(140)
Clocktower Chillers	412		412	0
Corporate Property Maintenance Programme	2,500	385	2,960	460
Brick by Brick programme	6,203		4,150	(2,053)
Fairfield Halls - Council	1,000	1,275	3,448	2,448
Fieldway Cluster (Timebridge Community Centre)	-		248	248
Croydon Healthy Homes				0
<b>RESOURCES</b>	<b>11,430</b>	<b>1,660</b>	<b>11,993</b>	<b>563</b>
Capitalisation Direction	25,000		25,000	0
Transformation Spend (Flexible Capital Receipts)	4,049		4,049	0
<b>CORPORATE ITEMS &amp; FUNDING</b>	<b>29,049</b>	<b>-</b>	<b>29,049</b>	<b>0</b>
<b>NET GENERAL FUND TOTAL</b>	<b>112,069</b>	<b>14,019</b>	<b>97,276</b>	<b>(14,793)</b>
Asset management ICT database			155	155
Fire safety programme		87	396	396
Larger Homes		493		0
Major Repairs and Improvements Programme	22,083	-	19,147	(2,936)
Affordable Housing				0
BBB Properties part funded by GLA and HRA RTB 141				0
Special Transfer Payments				0
<b>HOUSING REVENUE ACCOUNT</b>	<b>22,083</b>	<b>580</b>	<b>19,698</b>	<b>(2,385)</b>
<b>OVERALL CAPITAL PROGRAMME (GF and HRA)</b>	<b>132,603</b>	<b>14,599</b>	<b>116,974</b>	<b>(17,178)</b>

### Appendix 3 – MTFFS savings not delivered

MTFS Savings Ref	MTFS Savings Description	Total Target	Savings Non-Delivery as at Month 6
		(£,000's)	(£,000's)
22/23 CYPE 09	Refocusing Public Health funding - New Youth & Wellbeing Offer	(300)	300
22/23 CYPE 07a/07b	NHS funding	(790)	790
22/23 ASCH 07	Refocusing Public Health funding	(380)	380
21/22 ASCH 01	Baseline Savings - Disabilities Operational Budget	(4,371)	0
21/22 ASCH 01	Baseline Savings - Disabilities Operational Budget	(4,371)	2,002
21/22 ASCH 02	Stretch Savings - Disabilities Operational Budget	(1,213)	1,213
21/22 ASCH 08	Baseline Savings - Older People Operational Budget	(3,195)	1,195
22/23 ASCH 02	Review of Older Adults Packages of Care	(505)	505
22/23 HOUS 01	Impact of maximising homelessness prevention	(578)	578
22/23 HOUS 02	Impact of increasing speed of homelessness decisions	(101)	101
22/23 HOUS 03	Increase use of LA Stock for EA/TA	(163)	163
22/23 HOUS 07	Ending EA/TA where the council has no duty	(193)	193
22/23 HOUS 10	Housing supply pipeline maximisation	(80)	80
22/23 HOUS 11	Contract Reviews	(250)	250
22/23 HOUS 13	Income Maximisation - Rent Collection	(240)	240
22/23 HOUS 14	Resident Engagement & Tenancy Services £100,000 saving in 22/23	(100)	100
22/23 HOUS 04	Repurpose under-utilised sheltered housing stock	(158)	158

MTFS Savings Ref	MTFS Savings Description	Total Target	Savings Non-Delivery as at Month 6
		(£,000's)	(£,000's)
22/23 HOUS 09	Incentivising temporary accommodation leasing schemes	(138)	138
21/22 SCRER 11	ANPR camera enforcement	(3,180)	2,040
21/22 SCRER 16	Revised Landlord Licensing scheme	(2,300)	2,300
22/23 SCRER 06	Review and reduction of the Neighbourhood Operations (NSO team)	(950)	450
22/23 SCRER 08	Introduction of a variable lighting policy	(417)	417
22/23 SCRER 15	Bus Re-Tender Contract Savings	(120)	40
22/23 SCRER 16	Private Sector Environmental Enforcement	(250)	125
22/23 SCRER 17	Parking charges increase	(650)	285
22/23 SCRER 18	Independent travel optimisation	(20)	20
22/23 SCRER 21	Increase in Pre-Planning Applications	(66)	66
21/22 RES 03d	Fees And Charges	(28)	28
22/23 RES 20d	Increase in fees and charges	(142)	142
22/23 RES 20e	Increase in fees and charges	(2)	2
21/22 ACE 05	Fees And Charges	(19)	19
22/23 ACE 12	Increase in fees and charges	(93)	93
22/23 ACE 09	Rationalisation of software applications and contracts	(750)	300
<b>Total Savings not delivered</b>			<b>14,713</b>

#### Appendix 4 – MTFs Savings at Risk

MTFS Savings Ref	MTFS Savings Description	Savings at risk as at Month 6	Savings at risk as at Month 5	Change From Prior Month 6 To Month 5
		(£,000's)	(£,000's)	(£,000's)
21/22 CYPE 05	Review Support for Young People where Appeal Rights Exhausted	61	61	0
21/22 CYPE 06	Improve Practice System Efficiency	290	290	0
22/23 CYPE 07a	NHS Funding	0	490	(490)
22/23 CYPE 07b	NHS Funding	0	300	(300)
<b>Children, Young People and Education Total</b>		<b>351</b>	<b>1,141</b>	<b>(790)</b>
21/22 ASCH 01	Baseline Savings - Disabilities Operational Budget	850	0	850
21/22 ASCH 05	Baseline Savings - Mental Health Operational Budget	0	83	(83)
21/22 ASCH 08	Baseline Savings - Older People Operational Budget	0	194	(194)
21/22 ASCH 04	Review of Contracts - OBC Commissioning, Working Age Adults Commissioning and Public Health commissioning	36	132	(96)
21/22 RES 06	HWA contract savings	35	110	(75)
21/22 ASCH 06	Stretch Savings - Mental Health Operational Budget	33	0	33
22/23 ASCH 03	Review of Mental Health Packages of Care	50	0	50
<b>Adult Social Care and Health Total</b>		<b>1,004</b>	<b>519</b>	<b>485</b>
22/23 HOUS 04	Repurpose under-utilised sheltered housing stock	0	158	(158)
22/23 HOUS 09	Incentivising temporary accommodation leasing schemes	0	104	(104)
<b>Housing Total</b>		<b>0</b>	<b>262</b>	<b>(262)</b>

MTFS Savings Ref	MTFS Savings Description	Savings at risk as at Month 6	Savings at risk as at Month 5	Change From Prior Month 6 To Month 5
		(£,000's)	(£,000's)	(£,000's)
21/22 SCRER 14a	Fees And Charges	350	350	0
22/23 SCRER 06	Review and reduction of the Neighbourhood Operations (NSO team)	260	260	0
22/23 SCRER 12	Contract Savings - Pay and Display Machines	300	300	0
22/23 SCRER 16	Private Sector Environmental Enforcement	63	63	0
22/23 SCRER 19	New gym in Monks Hill Leisure Centre	90	90	0
22/23 SCRER 20	Non-capital and contract impact of Purley Leisure Centre closure	50	50	0
22/23 SCRER 28	Merger of Management Functions in Place	100	100	0
22/23 SCRER 17	Parking charges increase	365	365	0
21/22 SCRER 11	ANPR camera enforcement	1,140	1,140	0
<b>Sustainable Communities Regen &amp; Economic Recovery Total</b>		<b>2,718</b>	<b>2,718</b>	<b>0</b>
22/23 ACE 18	Contract Savings - Managed Service Provider for Temporary Agency Resources £600K saving in 22/23	600	600	0
<b>Assistant Chief Executive Total</b>		<b>600</b>	<b>600</b>	<b>0</b>
<b>Total Savings at Risk</b>		<b>4,673</b>	<b>5,239</b>	<b>566</b>



## Appendix 5 – Other quantifiable and unquantifiable risks

Quantified Risks	P6 £'000	P5 £'000	Details of Risk
Children, Young People and Education	2,932	2,284	<p><b>Pension shortfall pressure (£1.198m)</b> The increase in the pension contribution in 2020/21 from 16.1% to 26.2% has not been fully funded</p>
			<p><b>CLA Cost of Living (£1.5m)</b> There is an expectation that children in care providers will increase placement costs as cost of living rises</p>
			<p><b>Business support shortfall pressure (£0.234m)</b> The decentralisation of business support staff left some posts unfunded</p>
Adult Social Care and Health	-	-	None
Housing	1,750	2,000	<p><b>Emergency Accommodation Activity levels (£1.75m)</b> Targeted changes to service operation have been made to reduce the number of people supported by the EA service. These changes are embedded at August 2022 but the financial ledger and other reporting do not reflect lower numbers in the service but instead suggest that numbers are increasing. Investigatory work is about to commence to better understand the activity drivers and the links to the financial results and ensure a more accurate forecast can be brought in future months.</p>
Sustainable Communities Regen & Economic Recovery	646	646	<p><b>NSO (£125k)</b> The service is dependent on the closure of the NSO Team and any delays in implementation of the proposal will have an impact on delivery of the saving.</p>

			<p><b>Planning Income (£325k)</b>  There is a £352k risk to planning income between now and the end of the year down to two reasons.  A) Number of and income from major applications is down considerably from last year. 22/23 Period 5 £99k income as opposed to 21/22 Period 5 £300k income;  'B) Income at risk from planning applications exceeding the 8(minor)13 (major) week statutory timeframes which can result in reimbursement of fees if not met. This has started to increase and therefore there is a risk that more will be refunded and therefore increase the pressure on the service. It should be noted that the reason for increased expenditure on staff for Period 5 has been to try and mitigate this.</p> <p><b>Capital Staff Recharges (£169k)</b>  As there is no TfL capital funding thus far this year, this is creating a risk of not being able to recharge staff time to capital at the level anticipated in the budget.</p>
Resources	-	-	None
Assistant Chief Executive	-	-	None
Corporate Items & Funding	-	<b>600</b>	NJC pay Award for 2022/23 - the pay award recently announced of a flat rate of £2,229 per employee is now forecast to funded from available corporate inflation budgets.
<b>Total Quantified Risks</b>	<b>5,328</b>	<b>5,530</b>	

Un-Quantified Risks	P6 £'000	P5 £'000	Details of Risk
Children, Young People and Education			None
Adults, Health and Social Care			<b>Potential post Covid-19</b> pandemic latent demand working through the population resulting in additional care packages placements.
			<b>Inflation</b> , rising fuel and food costs significant expenditure for care providers - may result in claims for increased fees or face financial instability
			<b>High vacancy rate</b> is caused by significant challenges in recruitment across the Directorate. This means staff are focussed on statutory delivery, rather than transformation. This is a national issue.
			<b>There is Hospital discharge pressure</b> as the current system risk is running at winter levels due to Covid and backlog despite being summer. Work is being done on a deep dive, as the numbers of placements and equipment cost are rising.
Housing			<b>New Housing Structure (temporary)</b> There remains a temporary structure within Housing, including an Interim Director of Tenancy Services. A change programme is being developed and a bid for Transformation Funding to resource it has been submitted.
			<b>Fire at Sycamore House</b> The financial impact of the fire at Sycamore House, Thornton Heath is as yet unquantifiable.
Sustainable Communities Regen & Economic Recovery			<b>Risk To NSRWA Related Income Highways and Parking</b> Although unknown at this stage there is a potential risk to New Roads and Street Works Act Income due to delays and disputes with Utility Companies. Further work is being undertaken to quantify these risks and where possible mitigate the effect.
Resources			<b>Legal Trading Model</b> The legal trading services model is under review. Until this review is completed officers are flagging this area as a risk. Last year Legal Services were overspent by £306,000.

			Risk based upon the lack of available graves for sale until the cemetery extension opens
Assistant Chief Executive			Increased competition from neighbouring facilities, perceived increase in direct cremations, viewed as the cheaper option for families as inflation starts to take effect
Corporate Items & Funding			None
<b>Total Un-Quantified Risks</b>			

## Appendix 6 Quantifiable and unquantifiable opportunities

Quantified Opportunities	P6 £'000	P5 £'000	Details of Opportunities
Children, Young People and Education	(2,017)		<b>Children Service legal costs (£0.285m)</b> Review on operations to mitigate legal costs arising from challenges from service users. The aim is to improve the operations and process to ensure all aspects of support is carefully provided
			<b>Public Health (£0.300m)</b> Ongoing Internal Review of Public Health Funding towards related expenses
			<b>Vacancies pending permanent recruitment (£1.432m)</b> Ongoing delays in recruitment and onboarding of international social workers
Adult Social Care and Health	(380)	(380)	<b>Public Health (£0.380m)</b> Ongoing Internal Review of Public Health Funding towards related expenses
Housing	-	-	None
Sustainable Communities Regen & Economic Recovery	(1,029)	(730)	<b>Community Infrastructure Levy Review (£0.500m)</b> Further use of CIL monies to support revenue expenditure where the conditions met being reviewed.
			<b>Streetlighting review (£0.230m)</b> Current pilot is being evaluated.
			<b>Drawdown From Building Control Account (£0.299m)</b>
Resources	(950)	(915)	<b>Measures to reduce Housing Benefit subsidy loss (£0.815m)</b>
			<b>Staffing Review (£0.100m)</b> Staff reviews that may lead to further savings in salary costs
Assistant Chief Executive	(360)	(320)	<b>Public Health (£0.320m)</b> Ongoing Internal Review of Public Health Funding towards related expenses.

			<b>Bereavement Capitalisation Bid (£0.040m)</b> Bid to be submitted to capitalise the cost of two dumper trucks included as a cost in the revenue forecast
Corporate Items & Funding	(1,205)	(8,092)	<b>Reduced borrowing need (£0.605m)</b> Potential saving as a result of a review of borrowing costs to fund the capital programme. <b>Reversal of National Insurance Increase (£0.600m)</b> The government has announced that the National Insurance increase of 1.25% for employers and employees will be reversed from 6 November 2022
<b>Total Quantified Opportunities</b>	<b>(5,941)</b>	<b>(12,607)</b>	

<b>Un-Quantified Opportunities</b>	<b>P6 £'000</b>	<b>P5 £'000</b>	<b>Details of Opportunities</b>
Children, Young People and Education			None
Adult Social Care and Health			None
Housing			<b>New Housing Structure (temporary)</b> We have a temporary structure within Housing, including an Interim Director of Tenancy Services and three Change Managers, approx. £100k. We have bid for Transformation Funding to resources these additional positions.
			<b>Additional Income &amp; Recovered Income for BB recharges and Split rooms</b> Recharges to be recovered from Rough Sleepers Grant or NRTPF or Adults directorate. We can recover monies for split rooms.
			<b>Sycamore</b> Mitigation for the unquantifiable financial risk as a result of the Fire is the use of the insurance policy in place.
Sustainable Communities Regen & Economic Recovery			None

Resources			<b>Recovery of utilities debt from schools</b> still owed from when bills were paid by the council and recharged to schools rather than been billed direct
Assistant Chief Executive			None
Corporate Items & Funding			<b>Energy Bill Relief Scheme</b> – still unclear at this stage what we can apply for
<b>Total Un-Quantified Opportunities</b>			

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# Agenda Item 7

<b>REPORT TO:</b>	<b>CABINET 30 NOVEMBER 2022</b>
<b>SUBJECT:</b>	<b>Medium Term Financial Strategy 2023/24 to 2025/26 Update</b>
<b>LEAD OFFICER:</b>	Jane West Corporate Director of Resources and Section 151 Officer
<b>CABINET MEMBER:</b>	Executive Mayor Jason Perry Councillor Jason Cummings Cabinet Member for Finance
<b>WARDS:</b>	All
<b>SUMMARY OF REPORT:</b> <p>Croydon Council's budget is not financially sustainable and as such the Corporate Director of Resources and S151 Officer has taken the decision to issue a Section 114 Notice in relation to balancing the Council's budget from 2023/24 onwards.</p> <p>The "Opening the Books" programme initiated by the Executive Mayor has revealed further historic legacy issues that have undermined the ability of the Council to not only balance its budget but also to become financially and operationally sustainable over the current agreed medium term financial strategy. In particular, the level of non-asset backed debt the Council has to service means its general revenue budget is unable to be meet the needs of the people of Croydon.</p> <p>In October 2020, the Council's external auditor, Grant Thornton, issued the first of two reports in the public interest (RIPI) into Croydon Council which stated that for many years the Council had failed to pay due regard to the seriousness of its financial position and the urgency with which action needed to have been taken.</p> <p>In November 2020, the then Director of Finance, Risk and Assurance and S151 Officer published the first of two Section 114 notices. These notices made clear to all Members of Croydon Council as well as staff and residents that the Council faced an extremely serious financial situation in that financial year (2020/21). It was also made clear that the Council's expenditure was predicted to be significantly greater than its income resulting in a financial deficit being forecast, with insufficient reserves to fund this. The financial year ended with an overspend of £67m, thus confirming the conclusions of the external auditor in the RIPI of the seriousness of the Council's financial position.</p> <p>In December 2020, the Council submitted a formal request to the Government (then MHCLG) for £150m of extraordinary financial support otherwise known as a Capitalisation Direction. The Government appointed an Improvement and Assurance Panel (IAP) following the outcome of a non-statutory rapid review report and sought assurance from them on the £150m request. The Government agreed to the extraordinary financial support subject to continued positive assurance from the IAP.</p>	

The Council agreed the Croydon Renewal Plan to address the issues highlighted in the RIPI and the S114 notices to ensure the Council could move to becoming a sustainable local authority, in financial, governance and operational delivery terms. However, the early implementation of the Renewal Plan began to reveal further worrying aspects of the Council's operations and a lack of resilience that needed significant improvement.

Since then, the Council has made progress in delivering the Renewal Plan, as recognised by the Improvement and Assurance Panel and the Minister of State for Equalities and Levelling Up, Housing and Communities who noted the Council's "significant progress" and that the "foundations for a sustainable future were being established". The Council is in its third year of receiving extraordinary financial support and has benefitted from the opportunity to capitalise revenue expenditure of £145m so far.

The two RIPI's and the two S114 notices revealed truly significant deficiencies in the Council's capabilities in financial planning, financial management, risk assessment, governance and a serious deterioration in the Council's financial and operational resilience to withstand external challenges.

As such, and despite significant efforts to fully identify the risks and liabilities the Council faced for the December 2020 submission, it was very likely that further significant service and financial issues were likely to arise that it was not possible to account for in the original £150m request. The March 2021 Regina Road revelations and the deficiencies in the Housing repairs service are an example of this.

In March 2022 it was reported to Cabinet and Full Council that a significant issue in relation to Croydon Affordable Homes/Croydon Affordable Tenures (CAH/CAT) could mean that adjustments would be required to the accounts for 2019/20 and 2020/21 and that the adjustments could result in an in year (2022/23) charge to the Council's reserves of £73m.

The S25 comments of the Corporate Director of Resources and S151 Officer in that Council Tax setting report noted that such a significant adjustment to the Council's reserves could result in the Council facing another S114 notice needing to be published. Since then, significant work has been undertaken by officers, external partners and with the external auditor to ensure this historic legacy financial issue is correctly accounted for. This further work has identified that the legacy adjustment required in relation to CAH/CAT is likely to be a reduction to reserves of £9m which is still significant. This is not yet fully resolved and a further adjustment, reducing reserves by a further £61m, may still be necessary.

From both the delivery of the Council's Renewal Plan and the more recent Opening the Books project, initiated by the Mayor in July 2022, further historic legacy issues have been identified that the Council needs to resolve in order to close the three years of outstanding accounts.

As well as the CAH/CAT adjustment, further legacy adjustments have been identified for the 2019/20, 2020/21, 2021/22 and 2022/23 accounts arising from historic accounting errors. These total a reduction to reserves in those years of £74.6m.

Having three sets of accounts unaudited is in itself a significant risk as other historic errors may be discovered during the future external audits.

The RIPI outlined in some detail the significant level of the Council's debt and its borrowing, and highlighted that in three years (2017/18 – 2019/20) the Council borrowed some £545m. Despite this level of borrowing, no focused debt management plan was put in place. Much of the debt was in the form of short-term borrowings which, as a result of having to be replaced in a period of much higher interest rates, are estimated to be increasing the annual repayment burden by £10m.

The impact of the Council's borrowing, and the toxic debt burden the Council is having to service, has become critical to the sustainability of the Council's revenue budget. The Council owes £1.6bn (including £300m HRA debt) and this costs the Council at present £47m a year from the General Fund (16% of the Council's net budget) before the Council can spend any money on services for the people of Croydon. This could rise to over £60m a year (over 20% of net budget). The Council also has significant levels of negative equity on its assets.

Given the emergence of these further legacy issues, the significance of the impact of the toxic debt burden on the Council's budget and the lack of financial and operational resilience the Council has to withstand major shocks in the national and local economy, the original 2020/21 Croydon Renewal Plan and the accompanying transitional Capitalisation Direction are unable to cope with the now more fully understood financial position. This is despite significant savings of some £90m and £50m in asset sales being delivered over the past two years.

Many of the legacy issues identified also need to be adjusted in the Medium Term Financial Strategy on an ongoing basis, creating a gap of £47.9m every year moving forward.

The Financial Performance Reports for 2022/23 have set out some of these challenges from mistakes in the budget set for the year. For example three areas in particular have caused a £19m overspend in the current year:-

- Parking income – the reduction in demand for parking in the borough following the pandemic should have been better assessed in the assumptions for projected activity in 2022/23
- New traffic income projections were included with insufficient contingency built in to reflect the operational challenges of implementing new traffic schemes
- A deficit in the Housing Benefit budget for 2021/22 should have been recognised earlier. It was only picked up at the very end of the year and therefore was not built into the 2022/23 budget.

Despite these mistakes, the Council had set aside sufficient contingencies and has carefully managed its resources during 2022/23 to deliver a position which is projected to be within budget at the end of the financial year. Details of this position are set out elsewhere on this agenda.

Finally, looking forward, the global and national economic situation has also deteriorated significantly leaving all councils significantly financially challenged as a sector. However, the Chancellor's Autumn Statement has provided some relief to local government by increasing its funding as a sector for 2023/24 and 2024/25. It is estimated that this additional funding may benefit Croydon by £12m next year and a further £4m the year after, although these are very early estimates. The provisional figures for Croydon specifically will not be known until 21 December 2022, with final figures in January 2023.

The combination of these historic legacy, national and global issues have all undermined the progress being made on the financial recovery and has necessitated the Council's S151 Officer to take the decision to issue a S114 Notice.

The S151 Officer has concluded that the expenditure the authority is projected to incur in each year of the period 2023/24-2026/27 is likely to exceed resources (including sums borrowed) available to the Council to meet that expenditure.

This report sets out the reasons why the S151 Officer has reached this conclusion.

The report describes the immediate measures that are required under the S114 Notice. Although the Council is exploring where savings could be possible in the short to medium term, this report sets out the reasons why these alone will be insufficient to return the Council to financial and operational sustainability. It concludes that the Council cannot solve its financial issues on its own and sets out a range of requests of government for extraordinary financial and other support.

To address the financial situation set out, the report details a range of cost savings, asset disposals and transformation proposals for agreement and recommends that the Council commence formal dialogue with the Department for Levelling Up, Housing and Communities on a potential further Capitalisation Direction and other additional support in regard to the Council's unsustainable indebtedness in order to balance the Council's budget and ensure it can deliver sustainable local government services.

The report also recommends commencing both an internal consultation with councillors and staff and an external public consultation with central government, local health organisations, residents, local businesses and other organisations and interested parties in relation to the potential solutions to the financial and operational challenges the Council faces.

## **FINANCIAL IMPACT**

There are a number of financial impacts as a result of this report:-

- The S114 Notice requires the Council to cease all non-essential expenditure and reduce operational and service delivery costs immediately. The Corporate Management Team must build upon the already tight spending controls in place to ensure effective plans are in place to deliver the required reductions.
- Given the additional financial issues that have come to light since the Opening the Books Project was launched in July 2022 and the Council's projected financial position in the future, the S151 Officer requests a further allocation of £250k from the Council's contingency reserve to add to the £500k allocation already agreed in order to extend the Opening the Books project.
- Given the essential need to identify savings to return the Council to financial and operational sustainability, the Cabinet are requested to note the Transformation Programme set out in Appendix C from the existing 2022/23 capital programme allocation under the government's Flexible Use of Capital Receipts programme of £4.622m. The funding for the Transformation Programme totals £5.934m but only £4.604m is required in 2022/23. The remainder of the programme will most likely be funded from Transformation Funding proposed in the revenue budget projections for 2023/24.
- It is proposed to transfer the costs of the Corporate Programme Management Office to revenue, funded through a £798k virement from the corporate contingency.

## **KEY DECISION REFERENCE NO.: 7722EM**

### **1. RECOMMENDATIONS**

The Executive Mayor in Cabinet is recommended to:

- 1.1 Note the interim outcomes of the Opening the Books exercise including the financial adjustments resulting from Croydon Affordable Homes/Croydon Affordable Tenures and other historic legacy errors (as set out in paragraph 3.5).
- 1.2 Approve a further allocation of £250k from the Council's contingency reserve for the Opening the Books project.
- 1.3 Approve a virement of £798k from the Council's contingency reserve to the Assistant Chief Executive's budget for the Corporate Programme Management Office.
- 1.4 Note the negotiations with DLUHC in relation to the evidence needed to agree a further package of support in relation to both the legacy financial issues that have come to light, the level of indebtedness and for the future years 2023/24, 2024/25, 2025/26 and 2026/27.
- 1.5 Agree a period of public consultation and engagement on the proposals for returning the Council to financial and operational sustainability that includes
  - a. The savings options set out in Appendix B;
  - b. Transformation Programme in Appendix C;
  - c. The list of assets for disposal set out in Appendix E;
  - d. The closure of Whitehorse Day Centre; and
  - e. The closure of Cherry Orchard Garden Centre.

These proposals shall form part of the 2023/24 budget consultation process.

The outcome of the public consultation shall be reported back to Cabinet for a decision as part of the budget and council tax setting.

### **2. BACKGROUND**

- 2.1 In late 2020, the Council approved the Croydon Renewal Plan. This comprehensive plan drew together a wide range of improvement actions and projects which had been identified through external and internal reviews, with a particular focus on improving the Council's governance systems, structures and processes and a savings programme to address the serious financial challenges.

- 2.2 The plan was developed at a time when the Council was subject to a S114 notice, where expenditure far exceeded the available budget. The External Auditors had also issued the first of two Reports in the Public Interest, identifying a range of truly significant failings in the Council's governance and operational and financial practice.
- 2.3 The Croydon Renewal Plan enabled the Council to secure Government support in the form of a Capitalisation Direction. This allowed the Council to utilise up to £150m of capital funding to support revenue costs over a period of four years. The Government appointed an Improvement and Assurance Panel (IAP) to provide external advice, challenge and expertise to the Council, along with assurance to the Secretary of State that the Council was delivering against the Renewal Plan. The IAP assessed the £150m request to government and the Renewal Plan proposals and gave assurance to the government on the approach taken.
- 2.4 But the Renewal Plan was not only about fixing the budget. It was also about restoring the overall sustainability of the Council, fixing its governance arrangements and turning around previously failing services. Over the last two years the Council has worked hard to strengthen its core services of Adult Social Care, the Children, Young People and Education service, Housing and Customer Access. Independent Improvement Boards have been established with external participation from experts in the field but also residents, tenants, leaseholders, children and young people. Great strides have been made in the two former services, and Housing has more recently gained traction in its improvement programme.
- 2.5 Over the last two years the improvements in the way the Council has been managed and the new level of corporate working and transparency has meant that the depth of the dysfunction across the Council has become increasingly visible and better understood. The Council has actively sought external advice on its budgets and liabilities. This has revealed how broken our systems are, that data is missing or not reliable and the culture has needed significant support to rebuild trust from staff that we can uphold the Council's values of One Team, Proud to Serve, Honest and Open, Taking Responsibility and Valuing Diversity. The Council's collapse had taken many years. Its transformation cannot be rebuilt overnight.
- 2.6 More importantly though, the dire financial position of the Council has become clearer and better understood. A range of legacy financial issues have emerged since December 2020 that require historic accounts to be adjusted eg for Croydon Affordable Homes/Croydon Affordable Tenures, the calculation of capital financing charges and the alignment of General Fund/Housing Revenue Account and Capital Programme spend. It has become increasingly clear that the Council will need to request further government support.
- 2.7 The Executive Mayor has made clear that his number one priority is to balance the books and make Croydon a financially and operationally sustainable council which listens to residents and provides good quality services. One of Mayor Perry's first acts was to launch an 'Opening the Books' review to assess the Council's financial assumptions and deal with any outstanding historic accounting

issues. The 'Opening the Books' review has identified substantial accounting corrections that have one off and ongoing implications for the Council's budget and has revealed how fragile the Council's level of resilience is to withstand any changes to its planning assumptions over the MTFs. It has also highlighted how structural issues in the Council's finances, such as its level of non-asset backed debt (or negative equity), are holding the Council's recovery back. Those local issues are compounded by the current global and national economic crises which are having an enormous adverse impact on local government as a sector.

- 2.8 Therefore, despite "significant progress" having been made and "the foundations for a sustainable future being established" and significant savings of some £90m over the past two years having already been delivered, the legacy issues which have continued to be revealed and the lack of financial and operational resilience the Council has, all means the scale of the financial challenge facing Croydon is overwhelming.
- 2.9 The Council will not be able to reach financial and operational sustainability without further government assistance over a longer period.

### **3. LEGACY FINANCE ISSUES**

- 3.1 Over the past two years the Council has delivered numerous improvements in its governance practice, operational service delivery and financial management including making over £90m in savings in 2021/22 and 2022/23 and generating £50m in asset sales, including the sale of Croydon Park Hotel. The Council has also installed a new management team at Brick by Brick to minimise any further losses.
- 3.2 These improvements have been overseen by the Improvement and Assurance Panel, appointed by government, and verified by a DLUHC sponsored independent non-statutory rapid review report undertaken in November 2021 which found the Council had made "significant progress" and noting "on matters of finance there are encouraging signs with pressures being managed in a much better way."
- 3.3 Despite these changes, the scale of the financial challenge facing Croydon should not be underestimated. New legacy issues have continued to be uncovered since the initial Capitalisation Direction was agreed with Government in 2020. The Council is unable to withstand any significant changes in the economy which affect the planning assumptions made in the MTFs such as the global economic crisis and the impact of up to double-digit inflation on pay, supplies and services.
- 3.4 Recent work by the Corporate Management Team, complemented by the Executive Mayor's 'Opening the Book's' initiative, has identified significant unresolved financial challenges. Historic financial mismanagement issues continue to impact the Council as set out in the following table.

### **Croydon Affordable Homes/Croydon Affordable Tenures (CAH/CAT)**

It has been concluded that monies received by the Council in relation to Croydon Affordable Homes was incorrectly treated and needs to be reversed in the 2019/20 accounts. It is assumed in this paper that the impact is a £9m charge to the Council's reserves but discussions are not yet concluded with the External Auditor, Grant Thornton, and the total charge could be £70m.

### **Minimum Revenue Provision (principal debt repayments)**

It is recognised as prudent practice for a Council's MRP to be at least 2% of its Capital Financing Requirement (CFR). In order to satisfy this threshold, additional costs totalling £5.6m are to be reflected in the historic accounts and an additional £2.6m is to be built in annually on an ongoing basis.

### **Brick by Brick Write Off**

There will need to be a write-off of unrepayable loans to the Council's housing company, Brick by Brick. This has arisen because the costs of building the BBB property portfolio have exceeded the sales value of the assets. The property portfolio is nearing completion and is currently in the process of being sold. This is enabling a good estimate to be made of the value of the assets and the costs of the past and ongoing liabilities. The net shortfall will be written off over 40 years. Due to earlier foresight by the then interim Director of Finance, Insurance and Risk and S151 Officer a budget for the annual capital charge is already built into the Council's Medium Term Financial Strategy (MTFS) so there is no additional pressure on the MTFS from this action.

### **Housing Revenue Account (HRA), Capital Programme and the General Fund cost allocations**

The Opening the Books exercise has identified a number of issues with the accounting for charges between the Housing Revenue Account (HRA), Capital Programme and the General Fund which could amount to circa an extra £10m a year in General Fund costs. Work is still underway but broadly the following are wrongly budgeted for in the current year:-

- An overcharge from central services because the recharge budget was set in 2017/18 at £6.7m but a more realistic level is estimated as £2.4m, an overcharge of £4.3m
- Erroneous recharges to the HRA from other departments estimated at £3.9m
- Housing staff salaries charged to the HRA which are for General Fund activity in relation to temporary and emergency accommodation – estimated at £1.3m
- Salaries of £1.3m have been capitalised within the ICT service and Children's, Young People and Education which should have been charged to revenue.



These adjustments may need to be made to the earlier years of 2019/20, 2020/21 and 2021/22 as well as the current year making an estimated additional legacy charge to the General Fund approximately £40m. An ongoing budget gap of approximately £10m will also need to be built into future year's budgets.

### **Other Adjustments**

Work is still being undertaken by the team working on Opening the Books. There is concern that the Bad Debt Provision may be understated. Further work is required but a legacy risk of £20m should be noted.

Having three sets of annual accounts still open and unaudited represents a major risk to the Council's financial position. Further issues may emerge as the external auditors work through the outstanding audits.

- 3.5 The latest estimate is that these historic financial failures will cost Croydon taxpayers a further £74.6m to set right. This could hypothetically be funded from the application of available earmarked reserves and provisions. The following table sets out the list of legacy adjustments to 31 March 2023.

	£m
Correction to Croydon Affordable Homes/Croydon Affordable Tenures	9.0
Corrections due to realignment of the HRA, General Fund and Capital Programme:-	
• 2019/20	10.0
• 2020/21	10.0
• 2021/22	10.0
• 2022/23	10.0
Corrections for Capital Charges (Minimum Revenue Provision):-	
• 2021/22	4.4
• 2022/23	1.2
Other adjustments:-	
• 2021/22 – Provision for Bad Debt shortfall	20.0
<b>Total impact of legacy financial issues on the General Fund reserve as at 31 March 2023</b>	<b>74.6</b>
Theoretically earmarked reserves and provisions on the balance sheet currently could be applied (see 3.6 below)	-60.0
Net impact of legacy financial issues on the General Fund reserve as at 31 March 2023	14.6
Level of General Fund reserve previously assumed as at 31 March 2023 per the 2021/22 Month 11 Financial Performance Report	-29.4
Predicted level of General Fund reserve as at 31 March 2023	-14.8

- 3.6 However, the Council does not wish to use its remaining available reserves and provisions to meet these historic costs as the reserves and provisions are required, as for all other councils, as a cushion against future issues that may emerge. There are still too many unknowns in relation to the Council's financial position to run down these existing reserves. The Council is proposing to request a Capitalisation Direction from DLUHC to finance the overall impact of £74.6m in order to protect existing reserves and provisions.
- 3.7 It can be seen in the table above that were the Council forced to use non-committed earmarked reserves and provisions, the General Fund reserve will fall from an expected value of £29.4m to £14.8m. This is the Council's 'rainy day' reserve which in normal circumstances should not be touched. It would therefore need to be built back up to £30m in line with the S151 Officer's recommended level as soon as possible. Any use of earmarked reserves and provisions prevents the Council from being able to invest in services for residents or being in any way resilient and able to face any new shocks in the economy.
- 3.8 In-year financial pressures remain for 2022/23. Both the monthly budget monitoring and the Opening the Books work have identified many examples of inaccurate budgeting across the Council. In particular, as set out in the Period 6 Monitoring Report, in hindsight it is clear mistakes were made in the setting of three specific budgets which alone created a budget pressure of £19m:-
- Parking income – the reduction in demand for parking in the borough following the pandemic should have been better reflected in the assumptions for projected activity in 2022/23
  - New traffic income projections were included with insufficient contingency built in to reflect the operational challenges of implementing new traffic schemes
  - A deficit in the Housing Benefit budget for 2021/22 should have been recognised earlier. It was only picked up at the very end of the year and therefore was not built into the 2022/23 budget.
- 3.9 The current Financial Performance Report as at Period 6 sets out a wide range of under and overspends across the Council's budget. It details where spend is being ceased or deferred in an attempt to balance the Council's books in year through the Deficit Recovery Plan. As a result of these stringent measures, the Financial Performance Report predicts that the Council is likely to be able to balance its in-year budget pressures.
- 3.10 The Council has worked hard to increase the General Reserve and earmarked reserves from a negative base and had assumed it had total reserves of £140m, of which £60m are not committed. Sadly, if further support from government is not forthcoming, the historic financial mismanagement and ongoing challenges would mean that these hard-won gains would be wiped out as the reserves would need to be used now.

#### **4 MEDIUM TERM FINANCIAL STRATEGY 2023/24-2026/27**

- 4.1 Work is well underway on the Council's projected financial position for 2023/24 and early projections have been made for 2024/25, 2025/26 and 2026/27. However, it has not been possible to develop a financial model that balances in any of the future years, it is impossible for the Council to deliver the scale of savings that would be required to meet the future years' budget gaps. The Council is financially unsustainable without the government providing a further Capitalisation Direction, and other additional support in regard to the Council's unsustainable indebtedness, in order to balance the Council's budget and ensure it can deliver sustainable local government services.
- 4.2 There are a myriad of economic and financial issues facing the whole country and the Council is not immune from these. As well as the legacy issues set out above, the Council is facing the same challenges as other councils, namely rising inflationary costs, the impact of the cost-of-living increases on its residents and businesses and more recently rapidly increasing interest rates. Croydon has been able to act more prudently than many other councils and set aside a £20m budget for additional pressures from inflation in 2022/23 but further growth will be required in the later years of the MTFS.
- 4.3 However, the Chancellor's Autumn Statement has provided some relief to local government by increasing its funding as a sector for 2023/24 and 2024/25. It is estimated that this additional funding may benefit Croydon by £12m next year and a further £4m the year after, although these are very early estimates. The provisional figures for Croydon specifically will not be known until 21 December 2022, with final figures in January 2023. It should be noted that there is no guarantee that all this funding will be available from 2025/26 onwards and this may cause a 'cliff edge' fall in funding after 2024/25 of approximately £13m.
- 4.4 Croydon also faces structural issues that have important implications for its annual budget. Croydon is home to many vulnerable children due to having the highest number of children and young people in any London borough and for many years being the main port of entry for unaccompanied asylum seeking children and young people. Croydon also has the highest number of residential and care homes of any London borough which creates a different intensity of demand for services to older adults. Croydon experiences a disproportionate level of emergency and temporary accommodation costs compared to other London boroughs and we are home to over 1,000 asylum seekers living in local hotels. The Council also has a disproportionately high level of outstanding borrowing, much of which is not asset backed ie it is toxic debt.
- 4.5 The costs arising from historic financial and operational mismanagement, structural challenges in the borough and the current national economic and financial uncertainties have been worked through. The conclusion is that, in order to balance its budget, Croydon needs to reduce its spending by £130m next financial year alone which is simply untenable out of a net budget of some £300m. The current financial projections for 2023/24 to 2026/27 are set out in Appendix D.

- 4.6 This reduction equates to 43% of the Council's net budget, a reduction the Council is not able to safely meet in 2023/24, 2024/25, 2025/26 or 2026/27 without significant financial support from central government. It is also likely that further cost pressures will arise in the latter years of the next MTFS period.
- 4.7 The ongoing legacy issues, including issues that have emerged from Opening the Books exercise, that need to be adjusted in the base budget are as follows.

	£m
Parking and Traffic income over-estimate	13.8
HRA/General Fund alignment correction	9.5
Housing Benefit budget error	9.0
One off benefit of NHS income built into the ongoing budget	5.0
Minimum Revenue Provision correction	2.6
Correction of private sector landlord licensing income wrongly credited to the general fund (covers the cost of the scheme once this is in place)	1.5
Capitalisation of salaries correction	1.3
Housing structural deficit	5.2
<b>Total additional cost of corrections</b>	<b>47.9</b>

- 4.8 On top of these legacy issues, the other components to the £130m required reduction in the Council's 2022/23 budget are: the inherited budget gap of £27m from the March 2022 budget setting; plus the £19m in savings and 3% council tax increase already planned for 2023/24; the impact of increased interest rates on the £300m in temporary borrowing that needs to be financed; and other new pressures facing all local government from increased inflation and demand pressures. These are set out in detail in Appendix D.
- 4.9 Given the scale of the continuing financial challenge, the Council will need to continue to reduce spending for years to come. To balance the books, the Council is going to need to reduce its expenditure significantly in each of the next three years. That will mean difficult decisions about the services that the Council is able to provide and ultimately, as set out in the Mayor's Business Plan, the Council will need to do less and spend less in the future.
- 4.10 Although unable to identify sufficient savings to meet the projected budget gap for 2023/24, a number of new savings proposals have been developed through a series of Star Chambers over the summer. These savings total over £16m (excluding new directorate budget corrections identified) and are in addition to

a further net £19m in savings that were identified in the March 2022 General Fund Budget Report 2022/23-2024/25 for the 2023/24 financial year. The new proposed savings are set out in Appendix B.

- 4.11 As well as announcing additional funding for local government, the government also announced the Council Tax Referendum Limits for 2023/24 and 2024/25 in the Chancellor's Autumn Statement. These will be 3% for Council Tax and 2% for an additional Adult Social Care Levy, so an overall increase of 5%. The financial model in Appendix D assumes that the Council applies the maximum Council Tax increase which will raise £11m in additional funding in each financial year. The actual decision on Council Tax will be made by Full Council in either late February or early March 2023.
- 4.12 The Council will need to minimise the approach of previous years which has left important services hollowed-out and ineffective. Instead, the Council will have to stop some areas of discretionary spending entirely, in order to focus the Council's limited resources on the Executive Mayor's core priorities:
1. The Council balances its books, listens to residents and delivers good, sustainable services.
  2. Croydon is a place of opportunity for business, earning and learning.
  3. Every child and young person in Croydon has the chance to thrive, learn and fulfil their potential.
  4. Croydon is a cleaner, safer and healthier place, a borough to be proud of.
  5. People can lead healthier and independent lives for longer.
- 4.13 Other services will need to be transformed to make them more efficient and cost effective.
- 4.14 Actions being taken include:-
- Efforts are being redoubled to stop all unnecessary spending by tightening Spending and Recruitment Control processes – ensuring maximum value for money from every pound spent.
  - The capital programme is in the process of being reduced to reflect core programmes and schemes that are committed commercially, which deliver savings in running costs, which avoid future increases in costs or which are required due to Health and Safety. The approach for identifying new capital projects for next year for funding from Council resources has been limited in the same way.
  - Additional asset disposals are being proposed in Appendix E of this report. In future further asset disposals will be identified by co-locating services in community hubs.
  - Budgets are being reviewed and income targets will be rebased.
  - The Council will embrace new technology to make customer interactions easier while cutting down on back-office and administrative costs.
  - The Council has committed to work more closely with partners from the business, statutory and voluntary sectors to bring more resources to the borough and to support residents.

- Communities will be empowered to play their part in transforming the Council and the borough.
- 4.15 The Mayor has asked officers to draw up a further programme of cross-directorate transformation projects to drive the Council's financial recovery. The resulting Transformation Programme is still in development but a current version is set out in Appendix C. The programme will continue to be developed but it already consists of over 30 further projects, many of which require careful reform of the large budget services providing vital adult and children's social care support.
- 4.16 The Transformation Programme is going to require additional skills and capacity to be brought into the Council to deliver the individual projects. The estimated cost of each project is set out in Appendix C and totals £5.934m, although only £4.604m is required in 2022/23. Funding of £4.622m has already been made available within the 2022/23 Capital Programme under the government's Flexible Use of Capital Receipts programme.
- 4.17 Previously it was anticipated that £798k of the Transformation allocation within the 2022/23 capital programme would be allocated to the Corporate Programme Management Office. It is proposed that the costs of the Corporate PMO should not be funded from capital but should be transferred to revenue and be funded from a virement of £798k from the Council's corporate contingency.
- 4.18 So far savings of £8.475m have been identified for 2023/24 from the Transformation Programme.
- 4.19 It should not be underestimated quite how damaged some of the Council's financial and governance capabilities have been. Delivering the genuine operational and sustainable transformation needed will not happen overnight. While the 2020 Report in the Public Interest (RIPI) from the Council's external auditors, Grant Thornton, identified the root causes of the problems, the depth of the problems facing Croydon was not able to be fully understood at that time. Significant new issues have been uncovered since late 2020. It is clear that the original Croydon Renewal Plan and the accompanying transitional capitalisation directions were a response to the known issues at that time. Two years on, the Council has made significant progress but now needs to correct further legacy issues which have been identified as necessary to sustainably resolve Croydon's historic financial challenges.
- 4.20 It is estimated that given the scale of the historic financial, governance and operational mismanagement which needs resolving, it is unlikely the Council will be able to become sustainable without significant financial support from central government. That is why the Mayor has instructed officers to begin discussions with Government to request a funding package that assists the Council with its legacy financial issues and provides transitional financial support to safely smooth the necessary budget reductions over an appropriate period of time whilst providing capacity to deliver our transformation plans safely and sustainably.
- 4.21 Discussions have been held with the IAP and they have advised the Council to be prudent in its assumptions about the level of change and the pace of change

that can be sustainably delivered. In particular they have advised that a £10m transformation revenue budget should be established for at least 2023/24. This is included in the financial model, although it is reduced to an ongoing budget of £5m from 2024/25 onwards. They have also advised the Council that the target level of savings deliverable each year beyond 2024/25 should not exceed £20m as continuing to deliver over £40m in savings each year, in line with the last two years and plans for next year, is not sustainable for the Council.

## **5 SECTION 114 NOTICE**

- 5.1 The combination of the legacy, national and global issues facing the Council, as set out above, has undermined the progress being made on the financial recovery. Although the Council is exploring where savings could be possible in the short to medium term, this report sets out the reasons why these alone will be insufficient to return the Council to financial and operational sustainability. This position has necessitated the Council's S151 Officer to take the decision to issue a S114 Notice. The S151 Officer has concluded that it appears that the expenditure the authority is projected to incur in each year of the period 2023/24-2026/27 is likely to exceed resources (including sums borrowed) available to the Council to meet that expenditure.
- 5.2 The Section 114 Notice that has been issued is attached as Appendix A to this report. It has been issued in accordance with the statutory guidance to instigate formal immediate action to avoid a negative general fund balance within the next financial years of the budget cycle (2023/24-2026/27).
- 5.3 The purpose of a Section 114 Notice is to make clear to all Members of Croydon Council as well as staff, residents, local businesses and other local organisations that the Council faces an extremely serious financial situation which it is not currently able to balance from its own resources.
- 5.4 The Section 114 Notice instigates the following requirements of the Council:-
  - Section 115 (3) of the Local Government Finance Act 1988 states that the:  
Full Council must meet not later than the end of the period of 21 days beginning with the day on which copies of the report are sent to consider and respond to this notice.
  - During the next 21 days the authority must not incur any new expenditure unless the S151 Officer has specifically authorised the spend. In practice this means that all new spending is prohibited between now and when the Council meeting takes place. All new expenditure must stop with immediate effect, this includes, amongst other things, the appointment of new permanent or temporary staff, all avoidable spend for example on ICT, supplies and services, equipment, expenses and overtime payments. The use of Purchase Cards (P cards) is not allowed, except in emergency circumstances.
  - During this time the Council will continue to have financial commitments in relation to statutory responsibilities. Throughout this financial year the Council has been operating with a very stringent spending control process in place that allows proposals for urgent spending to be considered and if

appropriate approved. This is in the form of a daily Spend Control Panel chaired by the S151 Officer or another manager within the Council's Finance team.

- 5.5 Given the additional financial issues that have come to light since the Opening the Books Project was launched in July 2022 and the historic legacy issues which have crystallised resulting in an overall deterioration of the Council's financial position, the S151 Officer is requesting a further allocation of £250k from the Council's contingency reserve to add to the £500k allocation already agreed for the Opening the Books project in order to extend the project to review additional areas of concern that have come to light.
- 5.6 It should be noted that if the eventual position on Croydon Affordable Homes/Croydon Affordable Tenures is that an adjustment to reserves of £70m is required, not £9m, that the Council will be in a Section 114 position in 2022/23 as well with a projected deficit of £46.2m at 31 March 2023.

## **6 REQUEST FOR GOVERNMENT SUPPORT**

- 6.1 Following full discussion with the IAP, the Council has begun a dialogue with central government in relation to support that can be offered to the Council. The requests fall into two categories, national; that would be beneficial for all councils and those more specific to Croydon.

### **6.2 NATIONAL**

The national requests that have been submitted to government include:-

- Early announcement on Council Tax referendum cap – this was subsequently included in the Chancellor's Autumn Statement.
- Early statement on treatment of business rates - this was also subsequently included in the Chancellor's Autumn Statement.
- Reversal of proposed policy to revise the Homelessness Prevention Grant
- Review of Housing Benefit burdens on local government, particularly in relation to Supported Exempt Accommodation
- Delay in the Social Care Reforms - this was subsequently included in the Chancellor's Autumn Statement.
- Reform of local government funding to fully reflect need
- Inflation and interest pressures to be built into local government finance settlement.

### **6.3 LOCAL**

- 6.3.1 The local request relates specifically to the level of non-asset backed debt the Council has to service. The Council believes that the approach taken through the previous support package from government (Capitalisation Direction) is not appropriate to return the Council to financial sustainability in the light of the



level of this debt and the additional debt that would arise as a result of a new Capitalisation Direction.

6.3.2 The previous Capitalisation Direction involved the Council being allowed to charge revenue costs to capital. This meant in-year running costs in 2020/21, 2021/22, 2022/23 and 2023/24 of £70m, £50m, £25m and £5m respectively could be funded from either selling assets or through borrowing with the costs spread over 20 years (a total of £150m over four years). This approach reduced the Council's ability to use asset sales to repay debt and built-in additional borrowing costs for the next 20 years, a burden to future council taxpayers. The Council's current General Fund debt stands at £1.3bn, the annual General Fund cost of servicing this debt is £47m.

6.3.3 Due to the Council's over-ambitious and imprudent capital programme, particularly since 2017/18, the Council's outstanding debt on the General Fund is disproportionately high already compared to most councils (16% of net budget, rising potentially to over 20%, when most councils are in the range of 5-10%). The impact of the Capitalisation Direction approach is to continue to push up this debt into the future. One of the major reasons for the Council's financial unsustainability will continue to grow. The Council is facing an existential question, with the existing government model of extraordinary financial support for local councils, can it ever reach financial sustainability given its borrowing commitments and levels of negative equity now and in the future?

6.3.4 The Council has therefore proposed alternative approaches to central government, in order of priority:-

- The write off of Croydon's debt, preferably in its totality in line with the government's approach to the NHS debt at the start of the Covid pandemic. If this is not possible, then the request is to write off the Council's debt by the amount that will reduce Croydon's debt management costs to a 'proportion of net budget' more usual across local government. As a minimum, the Council is requesting that the government write off its negative equity debt, estimated at £320m, or defer its repayment over a long period (40-80 years). The negative equity has built up from capital spend that has failed to deliver any asset value. As a result there are not assets available to sell to clear the outstanding debt. The capitalisation directions have added to this burden. The current estimate of the negative equity where the Council has debt but no asset to sell can be broken down as follows:

	£m
Original Capitalisation Directions from 2020/21 to 2023/24 (net of application of £73m in capital receipts)	77
Capitalisation of Transformation Funding	73

Assets where investment has been higher than commercial value (estimate)	170
Total	320

NB There are also assets that cannot be sold such as roads, bridges and schools.

- Spreading any MRP (principal repayments) for the Capitalisation Directions over a longer period than the 20 years currently specified by government.
- Reducing the interest rate charged by the Public Works Loan Board on the capitalisation directions by at least the 1% surcharge but preferably further.
- Reallocation nationally of asylum seekers and ex-offenders currently housed in Croydon by government departments which are creating a disproportionate and unfunded strain to the Council's budgets.
- Permission to increase Council Tax beyond the national cap.
- Permission to use the Growth Zone business rates more flexibly within the designated area eg to cover clearing graffiti, all street cleaning and bin collection, all community safety.
- Capitalisation Directions to deal with legacy issues.
- Capitalisation Directions to smooth the transition to financial and operational sustainability.
- Reform of local government funding to fully reflect demographic demand in Croydon.

6.4 The levels of uncertainty and challenge faced nationally by local government currently is unprecedented. Attempting to set a medium term financial strategy for the Council as this point in time is impossible to achieve with any accuracy. However, it is clear that the Council's budget gap cannot be bridged for next year, and future years, without significant assistance from central government.

6.5 The Council has begun informal dialogue with central government but it has been made clear that government will not be able to make announcements in relation to future financial support to the Council until just before Christmas 2022 at the earliest, as part of the Local Government Financial Settlement process.

6.6 The only way for the Council to avoid running its balances down by £74.6m to just £14.8m to finance its legacy financial issues would be to ask DLUHC for a Capitalisation Direction of an equivalent amount to maintain both its General Fund reserve and its earmarked reserves.

6.7 Beyond the historic legacy issues, it is highly probable that even with the savings proposals set out in this report, the Council will require support through a new Capitalisation Direction if it is to balance 2023/24-2026/27. Appendix D sets out the current financial projections and the predicted budget gap each year which would require a Capitalisation Direction.

- 6.8 The table below sets out the full scope of the new Capitalisation Directions that may be required.

	£m
Legacy Capitalisation to 2022/23	74.6
2023/24	80.0
2024/25	60.0
2025/26	40.0
2026/27	15.0
<b>Total New Capitalisation Directions</b>	<b>269.6</b>

NB The legacy capitalisation will increase by £61m if an additional charge has to be made to reserves in respect of Croydon Affordable Homes/Tenures.

- 6.9 To only utilise the Capitalisation Direction approach, in the absence of other government support, would further reduce the Council's asset base and place further financial burdens on council tax payers over the next 20 years. The impact is cumulative and requires more and more budget to be built in each year to meet borrowing costs as assets are depleted through sales. This is a vicious cycle that cannot be broken, Croydon's budget will remain unsustainable into the future.
- 6.10 Given the enormity of the financial issues the Council's recently elected administration have inherited, the Mayor has recommended that central government create a Royal Commission into 'Commercialisation and the Use of the Prudential Code for Capital Finance', focusing on the problems experienced at councils such as Croydon, Slough and Thurrock. There are a significant number of councils now experiencing severe financial problems due to their commercial activities. The Council wishes to support a Commission to document the lessons that must be learned to prevent similar failures in the future.
- 6.11 A response will be required from government on the financial support it is prepared to offer Croydon prior to the Council setting its Council Tax well before the legal deadline of 11 March 2023 to enable Members to discuss and decide upon the council tax setting and budget report.

## **7 CAPITAL PROGRAMME REVIEW**

- 7.1 The Council has a high level of short-term borrowing in place currently, circa £300 million at an average rate of 1.7%, (current Public Works Loan Board rates are just under 5%). This will be a cost pressure in 2023/24 with interest rates having risen significantly since the budgets were set for the current year.

Repayment through capital receipts will be limited by the level of capitalisation required to fund legacy and future revenue gaps as set out earlier in this report.

- 7.2 All 2022/23 capital schemes, and all slippage from earlier years, have been reviewed and are in the process of being reduced to reflect core programmes and schemes that are committed commercially, which deliver savings in running costs, which avoid future increases in costs or which are required due to Health and Safety. The approach for identifying new capital projects for next year for funding from Council resources has been limited in the same way. The results of both these exercises will be reported to Cabinet in February and March 2023 as part of the council tax setting process.
- 7.3 In order to minimise borrowing, the Council's property and other assets have been reviewed to inform the Council's approach to potentially raising finance through sales. The resulting proposed Asset Management Strategy is included elsewhere on this agenda. Further work will be undertaken over the coming months to clarify which assets could be released and an initial list is attached as Appendix E.

## **8 BUDGET CONSULTATION AND ENGAGEMENT**

- 8.1 The Council's financial challenges mean that setting the 2023/24 Annual Budget, the resulting Council Tax and the Capital Programme will require tough decisions to be made. The broad areas of savings, the reduced areas for capital investment and the potential asset sales set out in this report will be controversial, particularly for individuals and organisations impacted. It is very important that there is an opportunity for Croydon's residents, businesses, partners, voluntary and community sector and other interested parties to ask questions of the Council and to feedback their views and concerns.
- 8.2 It is therefore proposed that a public consultation and engagement programme is launched with residents, businesses, partners, the voluntary and community sector and other interested parties on the revenue budget and capital programme proposals set out in this report.
- 8.3 Change of this degree will also be unsettling for the Council's staff on whom we rely to deliver the Council's services. It is vital that staff are fully communicated with about this situation and that staff and trade unions are formally consulted as required.
- 8.4 The Budget Consultation and Engagement is proposed to run from 1 December 2022 to 8 January 2023 on the Council's online platform. The results will inform the final proposals for Council Tax Setting to be presented to the Mayor in Cabinet and Full Council in February and March 2023. The savings proposals relating to the closure of Whitehorse Day Centre and Cherry Orchard Garden Centre shall be subject of a separate consultation timetable to be confirmed by the Corporate Director of Adult Social Care and Health.

- 8.5 The Council also intends to increase its public engagement in relation to individual projects it is delivering. The Transformation Programme project teams will be encouraged to engage with residents and partners as necessary in the development and delivery of their workstreams. This is a focus of the new Resident Voice Internal Control Board.

## **9 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 9.1 Finance comments have been provided throughout this report.

Approved by: Jane West, Corporate Director Resources and Section 151 Officer

## **10 LEGAL CONSIDERATIONS**

- 10.1 Under Section 151 Local Government Act, the Council must make arrangements for the proper administration of its financial affairs and the Council's Chief Finance Officer and Director of Corporate Resources has responsibility for the administration of those affairs.
- 10.3 The Council is under a statutory responsibility to set a balanced budget. Section 28 of the Local Government Act 2003 is required to periodically conduct a budget monitoring exercise of its expenditure and income against the budget calculations during the financial year. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such remedial action as it considers necessary to deal with any projected overspends. This could include action to reduce spending, income generation or other measures to bring budget pressures under control for the rest of the year. The Council must act reasonably and in accordance with its statutory duties and responsibilities when taking the necessary action to reduce the overspend.
- 10.5 Section 114 (3) of the Local Government Finance Act 1988 provides that the Chief Finance Officer shall make a report to the authority if it appears to him "that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed resources (including sums borrowed) available to it to meet that expenditure." In preparing the report, the Chief Finance Officer shall consult with the Head of Paid Service and the Monitoring Officer (sub-section 4). This function must be undertaken by the Chief Finance Officer personally (sub-section 5). Copies of the report are to be sent to each member of the authority and the auditor.
- 10.6 Section 115 provides that the authority shall consider the report at a meeting where it shall decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it (sub-section 2). The meeting must be held not later than the end of the period of 21 days beginning with the day on which copies of the report are sent (sub-section 3). Between the date of sending the report and the meeting of the authority to consider the report, there is a prohibition period during which the authority "shall

not enter into any new agreement which may involve the incurring of expenditure (at any time) by the authority [ unless the chief finance officer of the authority authorises it to do so] (sub-section 6)". "The chief finance officer may only give authority ...if he considers that the agreement concerned is likely to— (a) prevent the situation that led him to make the report from getting worse, (b) improve the situation, or (c) prevent the situation from recurring." (sub-section 6A). The Chief Finance Officer authority shall (a) be in writing, (b) identify the ground on which it is given, and (c) explain the chief finance officer's reasons for thinking that the ground applies (subsection 6B). If these requirements are not complied with, the authority shall be taken not to have had power to enter into the agreement (notwithstanding any option to do so under contract or otherwise) (sub-section 8).

- 10.7 The Section 114 (3) report and its consequences are in addition to other powers available to the Chief Finance Officer to issue a report under s114(2) or section 114A if it appears to him that the authority has made or is about to make a decision to incur unlawful expenditure, or has taken or is about to take unlawful action likely to cause a loss or deficiency, or is about to enter an unlawful item of account.
- 10.8 Although the Section 114 Report issued by the Chief Finance Officer compels the Council to take immediate action, the Council is must still obliged to meet its statutory responsibilities and make decisions in accordance with established public law principles.
- 10.8 Under Section 3 of the Local Government Act 1999, the Council, as a best value authority, must make arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This MTFs update includes initial proposals for service transformation and savings and is one of the ways in which the Council can secure best value within its budget envelop. Under Section 15 of the Act, the Secretary of State has the powers to intervene if satisfied that the Council is failing to meet its best value duty. This includes the power to issue direction that the function of the authority be exercised by the Secretary of State, or a person nominated by him for a specified period.
- 10.9 The Council must comply with legal framework including established public law principles in relation to disposal of land and property. Under Section 123 the Local Government Act 1972, it has a statutory duty to sell land at the best price reasonably obtainable, unless it has the express consent of the Secretary of State. A "disposal" includes the sale of the freehold, granting a lease, assigning a lease and/or granting an easement. Entering into option agreements or sale and leaseback contracts are also be deemed to be disposals. Where land or property is used to deliver services, the Council must take a decision on changing or maintaining its existing service provision before disposing of assets that are used to provide these services. This could engage the public law duty to consult service users and other affected stakeholders.
- 10.10 When considering the MTFs update, and any savings proposals , the Council must have due regard to the public sector equality duty (PSED) contained within section 149 of the Equality Act 2010 which requires the Council to have due regard in its decision-making processes to the need to: eliminate discrimination,

harassment, victimisation or other prohibited conduct, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. The protected characteristics include age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex and sexual orientation.

- 10.11 A proportionate equality analysis is required to inform the consideration of these proposals to meet the requirements of the public sector equality duty. The Council will need to finalise its equality analysis and out how equality impacts are addressed in relation to savings proposals.
- 10.12 Before exercising its duty of best value local authorities need to consult with representatives of council tax payers, business rates payers, persons likely to use services and persons appearing to have an interest in any area within which the Council carries out functions. There is a duty to consult representatives of non-domestic ratepayers on the Council's expenditure plans.
- 10.13 Any consultation carried out under the Council's best value duty, public sector equality duty and common law duty (in respect of the proposal to close the day Centre) will need to comply with the following requirements: a) it should be at a time when proposals are still at a formative stage; b) the Council must give sufficient reasons for any proposal to permit intelligent consideration and response; c) adequate time must be given for consideration and response; and d) the product of consultation must be conscientiously taken into account.

Approved by the Director of Law and Governance & Monitoring Officer.

## **11 HUMAN RESOURCES IMPACT**

- 11.1 As this report notes, a S114 Notice requires the Council to cease all non-essential expenditure and reduce operational and service delivery costs immediately. These measures will have a significant impact on workforce matters, including the recruitment of directly employed staff, as well as contingency workers, ie, agency staff, interims, and consultants. The current arrangements in place via the Spend Control Panel will require review and tightening to ensure robust expenditure vigilance.
- 11.2 Further consequences arising from this report, and the consequent actions, will be the impact upon the existing workforce, as the Council seeks to implement measures to reduce the cost overhead. The Council will need to ensure careful and consistent communications to all staff, especially staff who will be directly impacted upon. The Council should seek to retain as many vacant posts as possible to either review and delete (to contribute to cost savings) or to provide opportunities for staff redeployment. The Council should also ensure, where appropriate, staff at risk of redundancy are redeployed and retrained into new work. This approach has the benefit of avoiding redundancy costs, as well as the wider local economic impact of ensuring staff are employed, avoiding the local economic and community costs of worklessness.

- 11.3 All staff at potential risk of redundancy must be consulted, along with their trade union representatives, in accordance with the Council's restructure and redundancy policies and procedures. In the event that over 99 staff in any three-month period are at risk of redundancy the Council is required to observe a 45-day statutory redundancy consultation time frame. In the event of the number of staff at risk of redundancy being between 20 to 99 in any three-month period, the statutory redundancy consultation time frame is 30 days. The Council has a legal duty to find suitable alternative employment, where possible, and to take all reasonable measures to prevent compulsory redundancy. The Council should also seek voluntary redundancies through each planned staff restructure to reduce the impact of compulsory redundancies and selection for redundancy exercises
- 11.4 The Council will produce a standard set of briefing communications for directors, managers and staff to ensure consistency and clarity. Within the communications it will be important to provide all staff with good access to advice and support. The Council has established a comprehensive support network for staff including: an employee assistance programme, a Guardians' network, Staff Network groups for different protected characteristics, mental health first aiders and the trade unions.

## **12 EQUALITIES IMPACT**

- 12.1 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.
- 12.2 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.
- 12.3 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, templates and training 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 protected characteristics under Equality Act 2010.
- 12.4 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.
- 12.5 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 and national evidence to fully understand the impact of each savings proposal. This enables the Council to have proper regard to its statutory equality duties.

- 12.6 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.
- 12.7 We have a large number of vulnerable children and asylum seekers who are in need of our services. We have also been faced with the rise of costs of the provision of adult social care, which has been exasperated following the pandemic. Alongside this our residents have been hit with the cost-of-living crisis, we have supported residents by mitigated for changes where possible and signposting to other support organisations in the borough. We will continue to seek mitigation during the equality analysis process where possible. This includes the provision of emergency accommodation for a range of characteristics including disabled people who we have supported during 2022.
- 12.8 Our initial data suggests that residents across all equality characteristics may be affected by changes. National data highlights that this may have a greater impact on race, disabilities, sex and pregnancy and maternity. We will continue to assess the impact and strive to improve our evidence and data collection, to enable us to make informed decisions.
- 12.9 Where consultations take place, we will ensure that we make it accessible for all characteristics including those with disabilities including neurodiversity by ensuring that we adopt Disability standards in our consultation platform. Notwithstanding those residents who are digitally excluded. We will also consult using plain English to support our residents who do not have English as a first language.
- 12.10 With regard to potential staff redundancies, as a diverse borough we will undertake equality analysis and seek mitigation for staff by offering redeployment and employability support. We will also assess the impact of job losses on protected characteristics.

Approved by: Denise McCausland – Equality Programme Manager

### **13 ENVIRONMENTAL IMPACT**

None

### **14 CRIME AND DISORDER REDUCTION IMPACT**


None

### **15 DATA PROTECTION IMPLICATIONS**

**a. WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

**b. HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?**

 NO - not required

**CONTACT OFFICER:** Jane West, Corporate Director Resources and Section  
151 Officer

**BACKGROUND DOCUMENTS:** None

To: All Elected Members – Croydon Council  
From: Jane West, Corporate Director Resources and S151 Officer  
Date: 22/11/22  
Subject: **Report under Section 114(3) of the Local Government Finance Act 1988**

**Recommendations: -**

1. That the Elected Members of Croydon Council must consider this report from Jane West, Corporate Director of Resources and Section 151 Officer (Chief Financial Officer - CFO) issued under Section 114 (3) of the Local Government Finance Act 1988.
2. That this report must be considered at a Meeting of the Full Council which must be held no later than the end of the period of 21 days of issue of this report beginning with the date of issue of this report (date above) and
3. That the authority must decide whether it agrees or disagrees with the views contained within the report and what action (if any) it proposes to take in consequence of it.

**1 Purpose of the report**

1.1 This is a report written by and issued by myself, Jane West, Corporate Director Resources and S151 Officer (Chief Finance Officer or CFO), to meet both my statutory and professional responsibilities. Members of Croydon Council must consider this report and respond as required by the Local Government Finance Act 1988.

1.2 The Local Government Finance Act 1988, places certain responsibilities on the Chief Finance Officer. Section 114(3) states:-

*'The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed resources (including sums borrowed) available to it to meet that expenditure.'*

This is a mandatory duty placed upon the Chief Finance Officer in these circumstances.

1.3 The purpose of this Section 114(3) report is to make it clear to all Members of the Council that it faces a financial situation of an extremely serious nature with significant estimated unfunded financial deficits forecast from 2023/24 onwards. My conclusion as the S151 Officer is that Croydon currently has no prospects of returning to financial sustainability without significant and extraordinary

financial support from government above and beyond the usual mechanism of Capitalisation Directions.

- 1.4 This section 114(3) report has serious operational implications and puts in place a prohibition period regarding new expenditure beginning with the day this report is sent to you and ending on the first business day following consideration of this report by Full Council.
- 1.5 I have consulted with the Head of the Paid Service and the Monitoring Officer prior to issuing this report.
- 1.6 A copy of this report has been sent to the Council's auditors who will also be notified of the date, time and place of the Full Council meeting in due course.

## 2 **Details of the Report**

- 2.1 Since I joined the Council in March 2022, mindful of my statutory duty under Section 114, I have kept the need to issue a S114(3) notice under constant review. As a new S151 officer, I am required to make my own assessment of the Council's financial position. It should be noted that when the original S114(3) notices were issued in 2020 by the previous S151 officer, she would not have been aware of some of the current issues which are now being raised.
- 2.2 My professional judgement as the S151 Officer for Croydon Council continues to be that in the current financial year (2022/23) it is possible that the Council will be able to balance its budget. This is despite new issues emerging from the Opening the Books project around historic capital charges which are understated in the Council's accounts and of charges made to the capital programme and to the Housing Revenue Account that should have been charged to revenue. In my professional view, even if all these new charges to revenue are required, Croydon Council would technically be able to meet these costs within its current reserves and provisions. Whether it would wish to do so is something that needs to be further explored as this would leave the Council with no contingency for unforeseen challenges.
- 2.3 The Council has produced a monthly Financial Performance Report each month since May 2022. While its in-year financial position for 2022/23 is challenging, it is currently projected that the Council will be within its budget at the end of the financial year.
- 2.4 There is an unresolved issue in relation to the capital receipts from Croydon Affordable Homes/Croydon Affordable Tenures that have been applied to £70m in revenue transformation costs under the government's Flexible Use of Capital Receipts rules in the 2019/20 financial accounts. This issue was reported in the 7 March 2022 Budget report as having the potential to require a new Capitalisation Direction from government. If this matter is resolved in the Council's favour, there will be the need for a £9m charge to reserves which can be accommodated within the Council's current reserves and provisions. However, if the external auditors require the adjustment of £70m, the Council

will be in deficit in 2022/23. This would require a S114(3) Notice specifically for 2022/23.

- 2.5 The more significant problem for the Council is that the work which has been done in preparation for the 2023/24 Council Tax Setting in February or March 2023 has identified that expenditure the authority is projected to incur in each year of the period 2023/24-2026/27 will exceed resources (including sums borrowed) available to the Council to meet that expenditure. The combination of the ongoing budget requirements of these legacy budget adjustments, fundamental structural issues within the Council's finances such as the toxic debt burden of negative equity from historic uncontrolled borrowing and the national and global issues the local government sector is currently facing has undermined the progress being made on the financial recovery. The S151 Officer has concluded that this necessitates a S114(3) Notice to be issued.
- 2.6 It is clear that in order to balance the Council's budget in 2023/24, and later years, further assistance will be required beyond the Capitalisation Directions usually deployed by central government. Extraordinary support beyond Capitalisation Directions could include write off of all or part of the Council's outstanding debt, permission to repay debt over a longer period and/or at a lower rate of interest or permission to increase the Council Tax beyond the referendum cap.
- 2.7 The Council has begun a dialogue with the Department for Levelling Up, Housing and Communities (DLUHC) but it is unlikely that it will receive confirmation of potential solutions to the Council's unbalanced budget before February 2023, despite government officials working very closely with Council officers in a very supportive manner.
- 2.8 This S114(3) notice is being issued in accordance with the statutory guidance to instigate formal immediate action to avoid a negative general fund balance within the next financial years of the budget cycle based on current forecasts. The purpose is to make clear to all Members of Croydon Council as well as staff and residents that the Council faces an extremely serious financial situation which currently has no solution in sight. By 2023/24, expenditure is forecast to be significantly greater than income resulting in a financial deficit being forecast, with insufficient reserves available to fund this.
- 2.9 In reaching the conclusion to issue this S114(3) notice today, I have had to make a number of judgements. At the time of writing this report there is a forecast general fund deficit forecast for 2023/24 financial year in excess of £77m, assuming a council tax increase at the Council Tax Referendum Level of 5% set by government for 2023/24. There are also potential risks in the treatment of 2019/20, 2020/21 and 2021/22 costs arising from the ongoing external audit of the accounts. The Council does not currently have a fully deliverable robust action plan to avoid a negative general fund balance next financial year.

2.10 In reaching my professional judgement I have taken into account the continuing work on the Budget for 2023/24 and the Medium Term Financial Strategy and on the planned application to DLUHC for assistance. However I do not consider these measures are certain in delivering the funds the Council needs at this time to deliver a balanced budget next year. While positive conversations are continuing with DLUHC there continues to be no certainty that any application for assistance will actually be approved. Time to the end of the financial year is rapidly running out and I now consider that if I do not issue this S114(3) notice today I will not be undertaking my statutory duties as the Council's S151 Officer.

2.11 The remainder of this report sets out:-

- The s114 legal background
- The historical background to the Council's financial position
- Medium Term Financial Strategy Outlook
- Conclusions
- Next steps.

### 3 S114 Legal Background

3.1 Under the Local Government Finance Act 1992 local authorities are required by law to have a balanced budget. However, what is meant by balanced is not defined in law and the CFO is required to use their professional judgement to ensure the local authority's budget is robust and sustainable.

3.2 S114(3) requires the CFO to report to all the authorities' Members if there is, or is likely to be, an unbalanced budget. This is usually undertaken in consultation with the Head of the Paid Service and the Council's Monitoring Officer.

3.3 As the Chartered Institute of Public Finance and Accountancy (CIPFA) state in their publications, such a notice is only given in the gravest of circumstances and the issuing of a S114(3) notice should not be seen as a failure. I can assure all Members that the decision to issue this notice has been carefully considered in consultation with the Mayor, the Cabinet, the Chief Executive, the Council's Monitoring Officer and the Corporate Management Team all of whom support this step. It is being issued today as I am not being presented with the evidence that gives assurance that that a sufficient level of savings options and delivery of savings can be implemented during the remainder of this financial year or in next year to balance the 2023/24 budget.

3.4 A S114(3) notice has serious operational implications. Section 115 (3) of the Local Government Finance Act 1988 states that the:

*'Full Council must meet not later than the end of the period of 21 days beginning with the day on which copies of the report are sent to consider and respond to this notice.'*

3.5 The service of a copy of this report upon you starts the beginning of a 'prohibition period' regarding new expenditure which ends on the first business

day after the day upon which the Council considers the report. During this prohibition period the authority must not enter into any new agreement which may involve the incurring of expenditure (at any time) by the authority indeed any such contract entered into during this period would be deemed void under section 115(6) of the Act.

- 3.6 In practice this means that all new spending is prohibited (i.e. a spending freeze is imposed) between now and the first business day after the day of the full Council meeting. All new expenditure must stop with immediate effect, this includes, amongst other things, the appointment of new permanent or temporary staff, all avoidable spend for example on ICT, supplies and services, equipment, expenses and overtime payments. The use of Purchase Cards (Pcards) is not allowed, except in emergency circumstances.
- 3.7 Subsection (6B) requires that authority for the purposes of subsection (6) shall:
- (a) be in writing,
  - (b) identify the ground on which it is given, and
  - (c) explain the chief finance officer's reasons for thinking that the ground applies.
- 3.8 Subsection (8) states that if subsection (6) is not complied with, the Council shall be taken not to have had power to enter into the agreement (notwithstanding any option to do so under contract or otherwise). Therefore, the Council's actions will be deemed unlawful.
- 3.9 During this time the Council will continue to have financial commitments in relation to statutory responsibilities and the Council already has a process in place that allows proposals for urgent spending to be considered and if appropriate approved by me as CFO. This is in the form of a daily Spend Control Panel chaired by myself, or my deputy S151 Officer or another manager within the Council's Finance team. The CFO may only authorise expenditure which improves the Council's situation, prevents it from getting worse or prevents it from recurring.
- 3.10 S116 requires the Council to notify its external auditors of the report and the time, date and place of the full Council meeting. The external auditors also need to be informed of the outcome of the meeting as soon as practicable. The external auditors have been kept informed of the emerging financial position and the planned work. The external auditors will need to consider the implications of this report on their statutory functions and the implications for their opinion on the 2019/20, 2020/21 and 2021/22 accounts which remain unsigned.
- 3.11 CIPFA guidance recommends that informal contact is made with the Department for Levelling Up, Housing and Communities, lead Members and statutory officers in advance of issuing a S114 report, to undertake some scenario testing and to ensure a robust action plan to address the issues raised. The Mayor and the Cabinet have been kept up to date on the emerging

budget situation, as have the Corporate Management Team including the key statutory officers and there has been regular liaison with DLUHC officials.

- 4 The historical background to the Council's financial position
- 4.1 The “Opening the Books” programme initiated by the Executive Mayor has revealed further historic legacy issues that have undermined the ability of the Council to not only balance its budget but also become financially and operationally sustainable over the current agreed medium term financial strategy. In particular, the level of debt the Council has to service means its general revenue budget is unable to meet the needs of the people of Croydon.
- 4.2 In October 2020, the Council’s external auditor, Grant Thornton, issued the first of two reports in the public interest (RIPI) into Croydon Council which stated that for many years the Council had failed to pay due regard to the seriousness of its financial position and the urgency with which action needed to have been taken.
- 4.3 In November 2020, the then Director of Finance, Risk and Assurance and S151 Officer published the first of two Section 114 notices. These notices made clear to all Members of Croydon Council as well as staff and residents that the Council faced an extremely serious financial situation in that financial year (2020/21). It was also made clear that the Council’s expenditure was predicted to be significantly greater than its income resulting in a financial deficit being forecast, with insufficient reserves to fund this. The financial year ended with an overspend of £67m, thus confirming the conclusions of the external auditor in the RIPI of the seriousness of the Council’s financial position.
- 4.4 In December 2020, the Council submitted a formal request to the Government (then MHCLG) for £150m of extraordinary financial support otherwise known as a Capitalisation Direction. The Government appointed an Improvement and Assurance Panel (IAP) following the outcome of a non-statutory rapid review report and sought assurance from them on the £150m request. The Government agreed to the extraordinary financial support subject to continued positive assurance from the IAP.
- 4.5 The Council agreed the Croydon Renewal Plan to address the issues highlighted in the RIPI and the S114 notices to ensure the Council could move to becoming a sustainable local authority, in financial, governance and operational delivery terms. However, the early implementation of the Renewal Plan began to reveal further worrying aspects of the Council’s operations and a lack of resilience that needed significant improvement.
- 4.6 Since then, the Council has made progress in delivering the Renewal Plan, as recognised by the Improvement and Assurance Panel and the Minister of State for Equalities and Levelling Up, Housing and Communities who noted the Council’s “significant progress” and that the “foundations for a sustainable future were being established”. The Council is in its third year of receiving



extraordinary financial support and has benefitted from the opportunity to capitalise revenue expenditure of £145m so far.

- 4.7 The two RIPI's and the two S114 notices revealed truly significant deficiencies in the Council's capabilities in financial planning, financial management, risk assessment, governance and a serious deterioration in the Council's financial and operational resilience to withstand external challenges.
- 4.8 As such, and despite significant efforts to fully identify the risks and liabilities the Council faced for the December 2020 submission, it was very likely that further issues were likely to arise that it was not possible to account for in the original £150m request. The March 2021 Regina Road revelations and the deficiencies in the Housing repairs service are an example of this.
- 4.9 Then in March 2022 it was reported to Cabinet and Full Council that a significant issue in relation to Croydon Affordable Homes/Croydon Affordable Tenures (CAH/CAT) had been identified that could mean that adjustments would be required to the accounts for both 2019/20 and 2020/21 and that the adjustments could result in an in year (2022/23) charge to the Council's reserves of £73m.
- 4.10 The S25 comments of the Corporate Director of Resources and S151 Officer in that Council Tax setting report noted that such a significant adjustment to the Council's reserves could result in the Council facing another S114 notice needing to be published. Since then, significant work has been undertaken by officers, external partners and with the external auditor to ensure this historic legacy financial issue is correctly accounted for. This further work has identified that the legacy adjustment required in relation to CAH/CAT is likely to be a reduction to reserves of £9m which is still significant. This is not yet fully resolved and a further adjustment, reducing reserves by a further £61m, may still be necessary.
- 4.11 From both the delivery of the Council's Renewal Plan and the more recent Opening the Books project, initiated by the Mayor in July 2022, further historic legacy issues have been identified that the Council needs to resolve in order to close the three years of outstanding accounts. As well as the CAH/CAT adjustment, further legacy adjustments have been identified for the 2019/20, 2020/21, 2021/22 and 2022/23 accounts arising from historic accounting errors. These total a reduction to reserves in those years of an estimated £74.6m.
- 4.12 The RIPI outlined in some detail the significant level of the Council's debt and its borrowing and highlighted that in three years (2017/18 – 2019/20) the Council borrowed some £545m. The impact of the Council's borrowing and the toxic debt burden the Council is having to service after historic uncontrolled borrowing has become critical to the sustainability of the Council's revenue budget. The Council owes £1.6bn (including £300m HRA debt) and this costs the Council at present £47m a year to service before the Council can spend any money on services for the people of Croydon. The Council also has significant levels of negative equity on its assets.

- 4.13 Given the emergence of these further historic legacy issues, the significance of the impact of the toxic debt burden on the Council's budget and the lack of financial and operational resilience the Council has to withstand major shocks in the national and local economy, the original 2020/21 Croydon Renewal Plan and the accompanying transitional Capitalisation Directions are unable to cope with the now more fully understood financial position. This is despite significant savings of some £90m and £50m in asset sales being delivered over the past two years.
- 4.14 Many of the legacy issues identified also need to be adjusted in the Medium Term Financial Strategy on an ongoing basis, creating a gap of £47.9m in every year moving forward before any future challenges are accommodated.
- 4.15 The Financial Performance Reports for 2022/23 have set out some of these challenges from mistakes in the budget set for the year. For example three areas in particular have caused a £19m overspend in the current year:-
- Parking income – the reduction in demand for parking in the borough following the pandemic should have been better assessed in the assumptions for projected activity in 2022/23
  - New traffic income projections were included with insufficient contingency built in to reflect the operational challenges of implementing new traffic schemes
  - A deficit in the Housing Benefit budget for 2021/22 should have been recognised earlier. It was only picked up at the very end of the year and therefore was not built into the 2022/23 budget.

## 5 Medium Term Financial Strategy Outlook

- 5.1 There are a myriad of economic and financial issues facing the whole country and the Council is not immune from these. As well as the legacy issues set out above, the Council is facing the same challenges as other councils, namely rising inflationary costs, the impact of the cost-of-living increases on its residents and businesses and more recently rapidly increasing interest rates. Croydon has been able to act more prudently than many other councils and set aside a £20m ongoing budget for additional pressures from inflation in 2022/23 but further growth will be required in the later years of the MTFS.
- 5.2 Croydon also faces structural issues that have important implications for its annual budget. Croydon is home to many vulnerable children due to having the highest number of children and young people in any London borough and for many years being the main port of entry for unaccompanied asylum seeking children and young people. Croydon also has the highest number of residential and care homes of any London borough which creates a different intensity of demand for services to older adults. Croydon experiences a disproportionate level of emergency and temporary accommodation costs compared to other London boroughs and we are home to over 1,000 asylum seekers living in local

hotels. The Council also has a disproportionately high level of outstanding borrowing, much of which is not asset backed ie it is toxic debt.

- 5.3 The costs arising from historic financial and operational mismanagement, structural challenges in the borough and the current national economic and financial uncertainties have been worked through. The conclusion is that, in order to balance its budget, Croydon needs to reduce its spending by £130m next financial year alone (before any council tax increase) which is simply untenable out of a net budget of some £300m. The current financial projections for 2023/24 to 2026/27 are set out in Appendix A.
- 5.4 This reduction equates to 43% of the Council's net budget, a reduction the Council is not able to safely meet in 2023/24, 2024/25 or 2025/26 without significant and extraordinary financial support from central government. It is also likely that further cost pressures will arise in the latter two years of the next MTFS period.
- 5.5 The estimated ongoing legacy issues that need to be adjusted for in the base budget are as follows.

	£m
Parking and Traffic income over-estimate	13.8
HRA/General Fund alignment correction	9.5
Housing Benefit budget error	9.0
One off benefit of NHS income built into the ongoing budget	5.0
Minimum Revenue Provision correction	2.6
Correction of private sector landlord licensing income wrongly credited to the general fund (covers the cost of the scheme once this is in place)	1.5
Capitalisation of salaries correction	1.3
Housing structural deficit	5.2
<b>Total additional cost of corrections</b>	<b>47.9</b>

- 5.6 On top of these legacy issues, the other components to the £130m required reduction in the Council's 2022/23 budget are: the inherited budget gap of £27m from the March 2022 budget setting; plus the £19m in savings and 3% council tax increase already planned for 2023/24; the impact of increased interest rates on the £300m in temporary borrowing that needs to be financed; and other new pressures facing all local government from increased inflation and demand pressures.

- 5.7 Given the scale of the continuing financial challenge, the Council will need to continue to reduce spending for years to come. To balance the books, the Council is going to need to reduce its expenditure significantly in each of the next three years. That will mean difficult decisions about the services we are able to provide and ultimately, as set out in the Mayor's Business Plan, the Council will need to do less and spend less in the future.
- 5.8 Although still far from identifying sufficient savings to meet the projected budget gap for 2023/24, a range of savings proposals have been developed through a series of Star Chambers over the summer. A Transformation Programme has also been developed. The proposed savings arising from this work are set out in the Medium Term Financial Strategy 2023/24 to 2025/26 Update report to be discussed at Cabinet on 30 November 2022.

## 6 Conclusions

- 6.1 The combination of these historic legacy, national and global issues have all undermined the progress being made on the financial recovery and has necessitated that, as the Council's S151 Officer, I must take the decision to issue this S114(3) Notice. I have concluded that the expenditure the authority is projected to incur in each year of the period 2023/24-2026/27 will exceed resources (including sums borrowed) available to the Council to meet that expenditure.
- 6.2 It should not be underestimated quite how damaged some of the Council's financial and governance capabilities have been. Delivering the genuine operational and sustainable transformation needed will not happen overnight. While the 2020 Report in the Public Interest (RIPI) from the Council's external auditors, Grant Thornton, identified the root causes of the problems, the depth of the problems facing Croydon was not able to be fully understood at that time.
- 6.3 Significant new issues have been uncovered since late 2020. It is clear that the original 2020/21 Croydon Renewal Plan and the accompanying transitional capitalisation directions were a response to the known issues at that time. Two years on, the Council has made significant progress but now needs to correct further legacy issues which have been identified as necessary to sustainably resolve Croydon's historic financial challenges.
- 6.4 It is estimated that given the scale of the historic financial, governance and operational mismanagement which needs resolving, it is unlikely the Council will be able to become sustainable without significant and extraordinary financial support from central government.
- 6.5 That is why the Mayor has instructed officers to begin discussions with Government to request a funding package that assists the Council with its legacy financial issues and provides extraordinary financial support to safely balance the Council's ongoing budget whilst providing capacity to deliver the Council's transformation plans safely and sustainably. Discussions have been held with the IAP and they have advised the Council to be prudent in its

assumptions about the level of change and the pace of change that can be sustainably delivered.

- 6.6 The Medium Term Financial Strategy 2023/24 to 2025/26 Update report for Cabinet on 30 November 2022 has been published alongside this S114(3) Notice that sets out in more detail the reasons why I have reached this conclusion. It describes the immediate measures that are required under the S114(3) Notice.

7 Next steps

- 7.1 The requirement of this S114(3) notice is that the Council must meet within 21 days of issue, in order to consider this report and decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it. At this stage I am unable to offer remedies to ensure the Council is able to set a balanced budget in 2023/24 and future years and elected Members must take responsibility to make choices and decisions to reduce costs immediately to ensure the Council is able to have measures in place to enable it to set a balanced budget in 2023/24 and future years. This will not be possible without significant and extraordinary support from central government.
- 7.2 Elected Members must by law agree to cease all non-essential expenditure and reduce the Council's operational and service delivery costs immediately. In practice, throughout this financial year the Council has been operating with a very stringent spending control process in place that allows proposals for urgent spending to be considered and if appropriate approved. This is in the form of a daily Spend Control Panel chaired by the S151 Officer or another manager within the Council's Finance team.
- 7.3 The timetable for activity over the coming months is as follows.

<b>Activity</b>	<b>Timescale</b>
Issue S114 Notice	22 November 2022
Medium Term Financial Strategy 2023/24 to 2025/26 Update to Cabinet	30 November 2022
Papers issued for Full Council	2 December 2022
Full Council Meeting	12 December 2022
Statutory deadline for Full Council to agree the 2023/24 Budget and Council Tax	11 March 2023

- 7.4 Negotiations will be ongoing with central government over the coming months in the lead up to Council Tax Setting in February or March 2023.

Jane West  
Corporate Director of Resources and S151 Officer  
22 November 2022

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## **Appendix B**

### **Proposed Directorate savings**

<b>Assistant Chief Executives</b>	£m	£m	£m
Delete Director of Service Quality, Improvement and Inclusion Post	-0.122		
New grave sites at Mitcham Road and Queen's Road to raise additional income	-0.091		
Visual Tribute system at Croydon Crematorium to raise additional income	-0.031		
Reinstatement of an elections canvass budget	+0.065		
Reduced support in the Mayor's Office	-0.040		
Corporate Learning and Development budget	-0.100		
<b>Adult Social Care and Health</b>			
Active Lives post deletion	-0.060		
Absorption of inflation within existing budgets	-0.500		
Fees and charges increase in line with DWP	-0.150		
Close Whitehorse Day Centre (Facilities Management cost only)	-0.038		
Closure of the Cherry Orchard Garden Centre	-0.180		
Transitions demographics growth bid	+0.463		
Transitions historic inflation growth bid	+0.278		

The managing demand programme will deliver a revised operating model for Adult Social Care & Health.	-0.150		
Staff vacancy factor of 5%	-1.000		
PPE growth hand-back and swap with COMF money.	-0.325		
<b>Sustainable Communities</b>			
Reduced Museum activity	-0.071		
Removal of a school crossing patrol budget that is no longer required	-0.100		
Further use of Community Infrastructure Levy instead of General Fund funding where appropriate	-0.250		
Reduce Highways investment for one year only	-1.000	+1.000	
Remove remaining budget that previously used to fund Adult Social Care Transport (discontinued in 2020)	-0.050		
Redesign leisure sports development service	-0.045	-0.045	
Fund the General Fund element of the Croydon Museum through the Growth Zone fund for a period of 2 years whilst transforming the service delivery model	-0.200		
<b>Children, Young People and Education</b>			
Restructure Youth Engagement Team	-0.202		
Reduced demand for legal services	-0.570		
Growth reduction	-0.800		
Service efficiencies through hybrid working	-0.500		
Staff vacancy factor of 5% across Quality, Commissioning and Performance Improvement	-0.253		
Non-staffing spend across Quality, Commissioning and Performance Improvement	-0.036		
Increase Health/Public Health contribution to integrated commissioning team	-0.057		
Complete the service redesign across the education division	-0.044		
Income generation in Systemic and Clinical Practice	-0.045		
Review children with disabilities care package budget	-0.200		



Growth reduction	-0.400		
Service efficiencies through hybrid working	-0.080		
Reduction in Council contribution to the Safeguarding Partnership	-0.020		
<b>Housing</b>			
Growth to fund base budget requirement	+3.286		
Reverse previous savings	+1.889		
Vacancy factor to be deducted from salary budget	-0.302		
Housing Needs restructure	-1.000		
Occupancy checks	-0.400	-0.300	
Discretionary placement review	-0.600	-0.450	
Income collection improvement		-0.200	
Income recovery / reduce split rooms net spend	-0.300		
Housing Association recharge and nominations	-0.078		
Repurpose general needs voids for emergency accommodation		-0.175	-0.175
Emergency accommodation dynamic purchasing systems implementation	-0.125	-0.125	
Demand management net reduction of placements		-0.239	-0.414
<b>Resources</b>			
Premier Supplier commission	-0.100		
Improvement costs met from reserves	-0.500		
Net saving from duplicated interest budget	-1.600		
Recovery of housing benefit overpayments	-0.663		
Council Tax Support Scheme	-1.200		
Reduction in running costs in Finance including Revenues, Benefits, Business Rates and the Debt Team	-0.100		
Additional Court Cost income	-0.500		
Additional HRA charge for insurances	-0.500		

Additional commercial rent income	-0.130		
Reduction in banking contract budget	-0.022		
Contribution from pensioners budget being underspent	-0.040		
Vacancy factor to be deducted from the General Fund salary budget	-0.355		
<b>Total</b>	<b>-10.319</b>	<b>-0.534</b>	<b>-0.572</b>

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# Appendix C

# Transformation Plan

# 1. Background

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In late 2020, the Council approved the Croydon Renewal Plan. This comprehensive plan drew together a wide range of improvement actions and projects which had been identified through external and internal reviews, with a particular focus on improving the Council's governance systems, structures and processes and a savings programme to address the serious financial challenges.

The plan was developed at a time when the Council was subject to a S114 notice, where expenditure far exceeded the available budget. The External Auditors had also issued a Report in the Public Interest, identifying a range of failings in the Council's governance and financial structures.

The Croydon Renewal Plan enabled the Council to secure Government support in the form of a capitalisation direction. This allowed the Council to utilise up to £120m of capital funding to support revenue costs over a period of three years. The Government appointed an Improvement and Assurance Panel to provide external advice, challenge and expertise to the council, along with assurance to the Secretary of State that the council was delivering against the renewal plan.

The new Executive Mayor has made clear that his number one priority is to balance the books and make Croydon a financially sustainable Council which listens to residents and provides good quality services. One of Mayor Perry's first acts was to launch an 'Opening the Books' review to assess the Council's financial assumptions and outstanding historic accounting issues. Despite progress being made across the renewal plan, the scale of the financial challenge facing Croydon should not be underestimated. The 'Opening the Books' review has identified substantial accounting corrections that have one off and ongoing implications for the Council's budget.

It is crucial that the Council begins to take a transformational approach rather than continuing to salami slice budgets; this Transformation Plan, with a programme of cross-directorate transformation projects, sets out this new approach to a more modern way of working, that is cost effective and responds to different needs from different residents. Ultimately Croydon Council will become smaller, doing less but – crucially – doing it well.

The programme is being developed but already consists of over 30 projects, many of which require careful reform of the large budget services providing vital adult and children's social care support

## 2. Progress on transformation to date

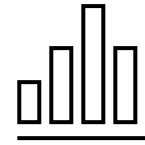
Over the past two years the Council has delivered numerous improvements in its governance and financial management. This has included making over £90m in savings in 2021/22 and 2022/23 and generating £50m in asset sales.



Implementation of a new telephony system, providing improved reliability, adaptability and data



The Housing Improvement Board has launched, which is overseeing the improvement programme for our tenants



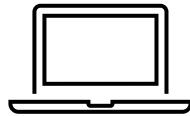
Launched improved financial reports alongside internal training



Implementing an Adults Improvement Plan



Establishing a Children's Improvement Board



Rationalising our ICT infrastructure, whilst improving use of digital opportunities in services



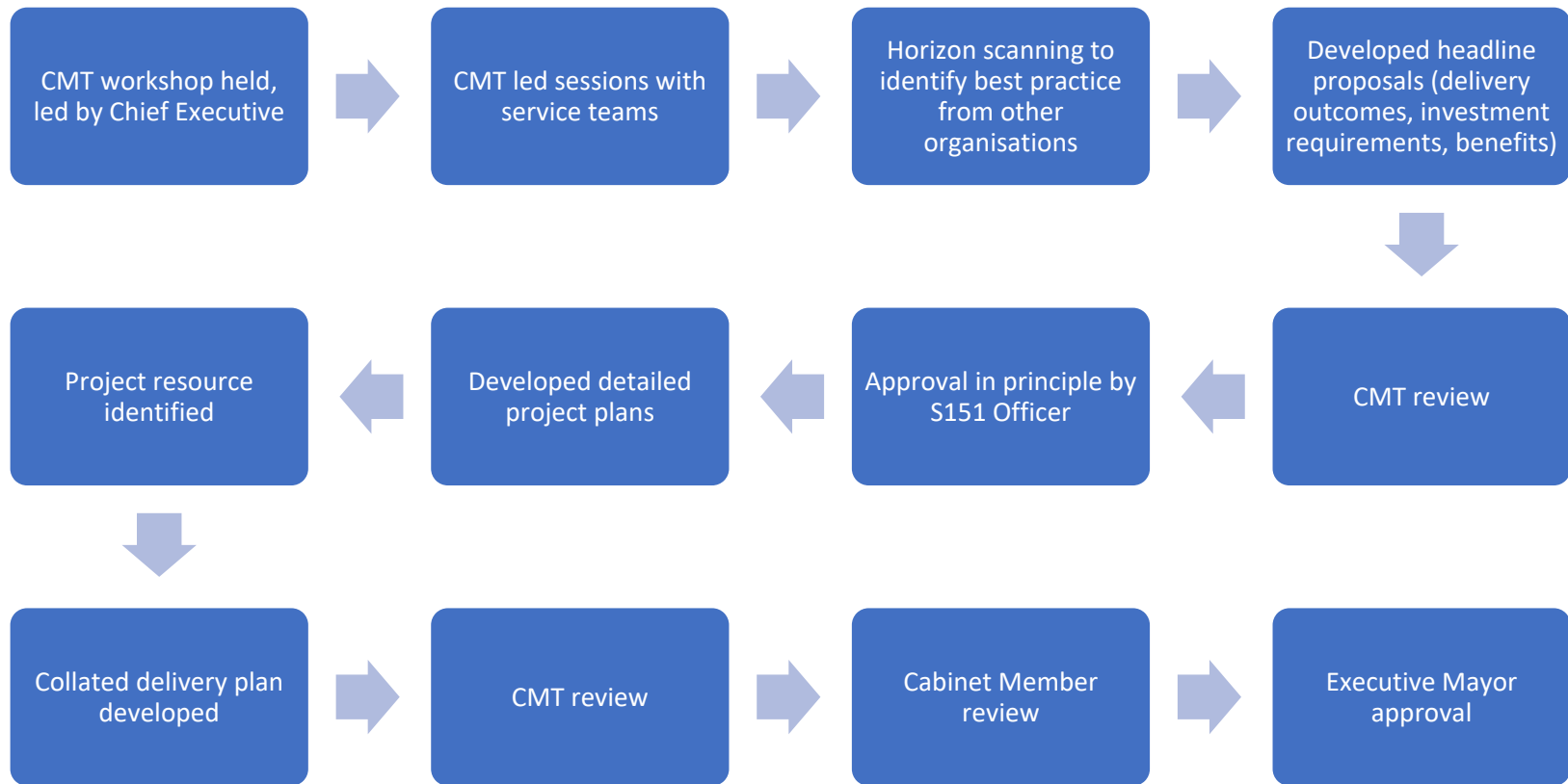
Implemented improved governance structures



£90m savings deliver over two years

### 3. The process for developing the transformation plan

This Transformation Plan is about taking a new approach to change in Croydon Council. Change needs to happen across service silos, looking at redesigning services, processes and structures to be more cost effective and to better respond to our residents different needs. Transforming Croydon Council will result in a smaller organisation that does less – but does it well for the benefits of our residents. This approach has to be owned across the organisation, delivered collectively and the plan has been developed in the same way.



## 4. Summary of projects

There are 39 individual programmes across 7 transformation portfolios. Further details of each programme are set out in the appendix.

Cross Cutting Projects		Housing	Sustainable Communities	Assistant Chief Executive
Community Equipment Services – Financial Viability and Options	Income and Debt Review - Fees, Charges & Debt Management Review	Temporary Accommodation Case Review	Building Control Transformation	Digital Workforce Review
Business Intelligence Review	Workforce Transformation – HR Transformation	Housing Occupancy Checks	Parking Policy 2022	
Family Justice Service review	Continuing Care Review	Housing Needs Restructure	Planning & CIL transformation	<b>Adults Social Care</b>
Croydon Campus	Customer Access Review	Rent Accounts & Data Cleanse		Transitions Commissioning
Commercial & Income Opportunities	Passenger / SEN Transport transformation	Dynamic Purchasing System - Emergency Accommodation	<b>Children, Young People &amp; Education</b>	Domiciliary Care Re-model
Resilient Communities and Community Hubs	Strategic Planning & Commissioning	Housing Association Recharges	Managing Demand at the Front Door	Reablement & Hospital Discharge
Voluntary Sector review		Supported Housing Review	Shared costs of care and education	Review Social Care Placements
			Reduction in spend on children and young people in care	Mental Health S117 project
			SEND review	
Resources				
Supported Exempt Accommodation Review	MTFS – PFMI Contract Manager			
Asset review	Housing Benefit review			

## 5. Governance

As set out in the appendix, each programme has the following in place to ensure successful delivery:

- Senior accountable officer
- Senior responsible officer
- Project manager

The **Senior Accountable Officer (SAO)**, is ultimately accountable and has a Yes/No say or, the right to veto

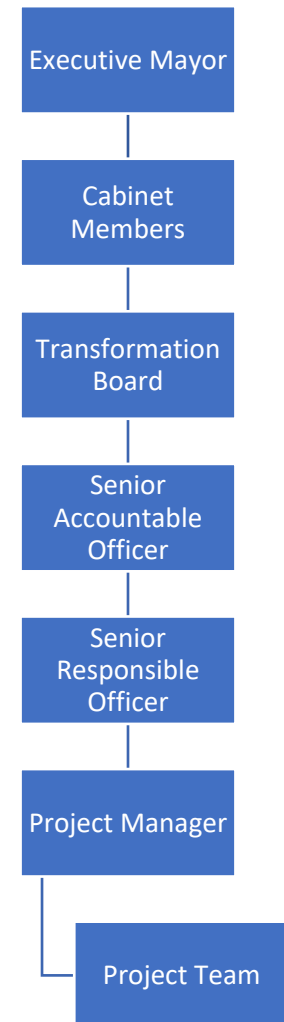
The **Senior Responsible Officer** is the individual responsible for ensuring that a programme or project meets its objectives and delivers the projected benefits. The **(SRO)**: is the visible owner of the overall business change and should be recognised throughout the organisation

**Project managers** plays the lead role in planning, executing, monitoring, controlling, and closing out the project. They are responsible for the entire project, the project team and resources, the project budget, and the success or failure of the project – in some instances the SRO and PM are one and the same.

In addition to the project roles, an organisation wide portfolio management resource is in place within the Assistant Chief Executive's directorate.

A new Transformation Board will be established to receive highlight reports for all projects and programmes. This will ensure that:

- Progress against key milestones are monitored
- Progress against agreed outcomes are monitored, with project teams accountable for delivery
- Resources requirements are understood and prioritised to the most important areas and to ensure that there is capacity to deliver transformation in additional to BAU activities
- Project risks are escalated where additional action is required





## Annex: Transformation Projects

Name of project	Description	Invest	Efficiency Target
<b>Cross Cutting</b>			
Community Equipment Services – Financial Viability and Options	Review Community Equipment Services to establish management model	Nil	TBC
Business Intelligence Review	Better use of in-house data to improve income	Nil	£1m
Family Justice Service review	To explore alternative funding models for domestic violence services	£100k	£350k per annum from 2024/25
Croydon Campus	To reconfigure Croydon Campus including Town Hall, BWH and Davis House introducing a Community Hub to improve customer experience	£250k  (only £125k required in 2022/23)	TBC
Commercial & Income Opportunities	To maximise income from a range of commercial and trading services. Look at income performance and opportunities for growth	TBC	TBC
Resilient Communities and Community Hubs	Use library buildings as multi-use community hubs to provide an improved service offer in one location and free up assets	£250k  (only £100k required in 2022/23)	£430k (deliverable from 24/25) capital of receipt target of £2m

Name of project	Description	Invest	Efficiency Target
Strategic Planning & Commissioning	Manage demand for statutory services by planning and commissioning new models of delivery	£290k over 2 years  (only £90k required in 2022/23)	Add detail here
Customer Access Review	Develop a customer service model that uses digital, voice and face to face in the most efficient way.	£200k	Delivers previous savings of £2.5m already built into the Medium Term Financial Strategy in March 2022.
Voluntary Sector review	Reshape the voluntary sector expenditure to commission locally where possible, provide support and reset relationships	Nil	£2m
Income and Debt Review - Fees, Charges & Debt Management Review	To correctly price fees and charges and improve management of demand	£50k	£500k
Workforce Transformation – HR Transformation	Review target operating model and support organisational change, reduce requirement on agency staff	£78k	TBC
Passenger/SEN Transport transformation	To review the approach to providing passenger transport to SEN children and adults - that includes consideration of personal travel plans and new commissioning approach	£100k	£600k per annum from 24/25 Cost avoidance only
<b>Assistant Chief Executive's</b>			
Digital Workforce	To establish future workforce model that reflects a smaller council delivering	£80k	£1m

Name of project	Description	Invest	Efficiency Target
Review	statutory services in the most cost-effective way & satisfies the need to deliver services to the council		
<b>Adult Social Care and Health</b>			
Transitions Commissioning	Develop pathway across Children's & Adults to commission enabling services	£82k	TBC
Domiciliary Care Re-model	Remodel end to end process for provision of Domiciliary Care	£110k	TBC
Reablement & Hospital Discharge	Establish community reablement service	£60k	TBC
Review Social Care Placements	Review all care packages	£605k (only £300k required in 2022/23)	TBC
Mental Health S117 project	Improved processes and procedures for meeting the Section 117 after-care needs, reviewing cases, with an expectation there will be saving opportunities linked to the disproportionate share of funding between the council and health.	178k	TBC
Adult Social Care Transformation	The final year of the ongoing Adult Social Care transformation programme.	£1,100k	Savings of £9,665k in 2023/24 per the March 2022 MTFS
Strategic Operating	TBC	TBC	TBC

Name of project	Description	Invest	Efficiency Target
Model Design Partner			
<b>Children, Young People and Education</b>			
CSC managing demand at the front door	Maintain reduction in demand for statutory services	£110k	£200k
Review joint funding arrangements across education, health and care	Review all joint funding arrangements across education, health and care	£110k	£250k from 2024/25
Fostering service transformation	Develop a new approach to in-house Foster Care	£92k	£225K
Transformation of Calleydown respite centre	TBC	TBC	TBC
Extend locality SEND support	More children with SEND attend local schools	£240k	TBC
<b>Housing</b>			
Temporary Accommodation Case Review	To review circumstances of households placed in temporary accommodation on a discretionary basis and to formulate an exit plan for those to whom the Council does not owe a main housing duty.	£291k	£1.05m

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Name of project	Description	Invest	Efficiency Target
Housing Occupancy Checks	Approximately 2000 statutory homeless households are in emergency and temporary accommodation. Currently, no regular checks are carried out in relation to occupancy or welfare. Conducting occupancy checks will enable LBC to end the homelessness duty to approximately 100 households.	£291k	£700k
Housing Needs Restructure	The Housing Needs service must be restructured to improve the Council's early intervention and demand management. To deliver the savings, a transformation lead must be recruited.	£60k	£300k
Rent Accounts & Data Cleanse	Recruitment of a data cleanse officer will ensure the Housing directorate has accurate information on the reasons for accommodating households in temporary accommodation. The officer will enable accurate reporting of temporary accommodation numbers to the government which will positively impact the Homelessness Prevention Grant (HPG).	£26k	£0k (N.B. GF data cleanse will facilitate the delivery of the Housing Occupancy Checks efficiencies below)
Dynamic Purchasing System - Emergency	An emergency accommodation DPS with a framework of providers will formalise arrangements, ensure best value and compliance, and make the	£92k	£250k

Name of project	Description	Invest	Efficiency Target
Accommodation (Requires further work, was re-submitted 13/09/22)	Council more effective.		
Housing Association Recharges (Approved)	Transformation request for a Housing Liaison officer who will be focused on the governance of all relevant contracts and nomination agreements to maximise properties the Council can use to move households out of emergency and temporary accommodation.	£59k	£78k
Supported Housing Review (Requires further work and has not been re- submitted)	A senior commissioning lead should be recruited to carry out the review of the Council's housing related contracts across the Housing and ASC&H directorates to formalise arrangements, ensure best value and compliance, and address areas of overlap in provision.	£80k	TBC
Supported Exempt	Review SEA and establish occupation and charging principles	TBC	TBC

Name of project	Description	Invest	Efficiency Target
Accommodation Review			
<b>Resources</b>			
Asset Review	Reprofile asset portfolio	TBC	TBC
MTFS – PFMI Contract Manager	Introducing & improving PFI Contract management	TBC	TBC
Housing Benefit Review	Reduction in Benefit payments	TBC	£1m
<b>Sustainable Communities</b>			
Building Control Transformation	Develop a new operating model to meet current and new statutory obligations	£350k in year one + (£100k capital investment for IT investment)  (only £100k is required in 2022/23)	£300k per annum once transformation programme delivered
Croydon Museum Transformation	To determine the best future and funding model for Croydon Museum to ensure its long-term stability and funding	TBC	TBC
Parking Policy 2022	Develop a new Parking & Enforcement Strategy	£200k	400k per annum
Planning & CIL	Transformation of Planning Service e.g. CIL & S106 Strategy, including	£200k	£250k per annum from 2024/25

Name of project	Description	Invest	Efficiency Target
Transformation	digital/ICT automation	£100k investment in ICT  (only £100k is required in 2022/23)	
<b>Total</b>		<b>£5.934m</b>  <b>(only £4.604m of funding is required in 2022/23)</b>	



**Appendix D - Medium Term Financial Strategy Financial Model**

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
<b>Net remaining budget gap quoted in March 2022</b>	<b>27.389</b>	<b>8.699</b>		
Add back the Council Tax included as a saving	6.600	6.600		
Add in Housing Benefit pressure	9.000	0.500	0.500	0.500
Add in SCRER Pressures				
- Parking and Traffic including £3.4m unachievable saving	13.800			
- Building Control	0.700			
- Selective Licensing	1.500			
- SEND pupil numbers	0.700			
Corporate Items risk budgets removed	-9.369			
Add in unachievable income saving	2.000			
Business rates pressure	1.000			
General Risk and Contingency		5.000	5.000	5.000
MRP	2.600			
Inflation – pay and other costs	10.000		17.000	17.000
World economy improves taking pressure off inflation			-5.000	-5.000
Cost of living demand pressures	10.000			
Refuse contract retender costs and ongoing increase	0.500		2.500	
Salaries wrongly capitalised	1.250			
Interest rates increase	10.000	5.000		
Loss of Homelessness Prevention Grant	3.000			
HRA/GF realignment	9.500			
NHS Funding	5.000			
<b>Revised gap</b>	<b>105.170</b>	<b>25.799</b>	<b>20.000</b>	<b>17.500</b>
<b>New Government Funding</b>				
Business Rates Freeze - S31 Grant Compensation	-3.000			
Better Care Fund	-2.800	-1.300	4.100	

**Appendix D - Medium Term Financial Strategy Financial Model**

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Funding made available through the delay in the Adult Social Care Reforms	-6.100	-2.900	9.000	
<b>Total</b>	<b>-11.900</b>	<b>-4.200</b>	<b>13.100</b>	<b>0.000</b>
<b>Savings</b>				
<b>Assistant Chief Executive's</b>				
Delete Director of Service Quality, Improvement and Inclusion Post	-0.122			
New grave sites at Mitcham Road and Queen's Road	-0.091			
Visual Tribute system at Croydon Crematorium	-0.031			
Reinstatement of an elections canvass budget	0.065			
Reduced support in the Mayor's Office	-0.040			
Corporate Learning and Development budget	-0.100			
<b>Adult Social Care and Health</b>				
Active Lives post deletion	-0.060			
Absorption of inflation within existing budgets	-0.500			
Fees and charges increase in line with DWP	-0.150			
Reduce by one day centre (Facilities Management cost only)	-0.038			
Closure of the Garden Centre	-0.180			
Transitions demographics growth bid	0.463			
Transitions historic inflation growth bid	0.278			
The managing demand programme will deliver a revised operating model for Adult Social Care & Health.	-0.150			
Staff vacancy factor of 5%	-1.000			
Personal Protective Equipment (PPE) previous budget growth reversed as it can be charged to the Contain Outbreak Management Fund grant.	-0.325			
<b>Sustainable Communities</b>				
Reduced Museum activity	-0.071			
Removal of a school crossing patrol budget that is no longer required	-0.060			

**Appendix D - Medium Term Financial Strategy Financial Model**

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Further use of Community Infrastructure Levy instead of General Fund funding where appropriate	-0.250			
Delay previously planned Highways growth for one year only	-1.000	1.000		
Remove remaining budget that previously used to fund Adult Social Care Transport (discontinued in 2020)	-0.050			
Redesign leisure sports development service	-0.045	-0.045		
Fund the General Fund element of the Croydon Museum through the Growth Zone fund for a period of 2 years whilst transforming the service delivery model	-0.200			
The charging of a percentage of salaries in Planning and Regeneration to income sources other than General Fund eg Growth Zone, Community Infrastructure Levy and external grants	-0.115		0.017	
<b>Children, Young People and Education</b>				
Restructure Youth Engagement Team	-0.202			
Reduced demand for legal services	-0.570			
Growth reduction	-0.800			
Service efficiencies through hybrid working	-0.500			
Staff vacancy factor of 5% across Quality, Commissioning and Performance Improvement	-0.253			
Non-staffing spend across Quality, Commissioning and Performance Improvement	-0.036			
Increase Health/Public Health contribution to integrated commissioning team	-0.057			
Complete the service redesign across the education division	-0.044			
Income generation in Systemic and Clinical Practice	-0.045			
Review children with disabilities care package budget	-0.200			
Growth reduction	-0.400			
Service efficiencies through hybrid working	-0.080			
Reduction in Council contribution to the Safeguarding Partnership	-0.020			

**Appendix D - Medium Term Financial Strategy Financial Model**

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
<b>Housing</b>				
Housing structural deficit	3.286			
Reverse previous savings from 2022/23 which are not deliverable	1.889			
Vacancy factor to be deducted from salary budget	-0.302			
Housing Needs restructure	-1.000			
Occupancy checks	-0.400	-0.300		
Discretionary placement review	-0.600	-0.450		
Income collection improvement		-0.200		
Income recovery / reduce split rooms net spend	-0.300			
Housing Association recharge and nominations	-0.078			
Repurpose general needs voids for emergency accommodation		-0.175	-0.175	
Emergency accommodation dynamic purchasing systems implementation	-0.125	-0.125		
Demand management net reduction of placements		-0.239	-0.414	
<b>Resources</b>				
Premier Supplier commission	-0.100			
Improvement costs met from reserves	-0.500			
Net saving from duplicated interest budget	-1.600			
Recovery of housing benefit overpayments	-0.663			
Council Tax Support Scheme	-1.200			
Reduction in running costs in Finance including Revenues, Benefits, Business Rates and the Debt Team	-0.100			
Additional Court Cost income	-0.500			
Additional HRA charge for insurances	-0.500			
Additional commercial rent income	-0.130			
Reduction in banking contract budget	-0.022			
Contribution from pensioners budget being underspent	-0.040			
Vacancy factor to be deducted from the General Fund salary budget	-0.355			
<b>Total savings net of growth</b>	<b>-10.319</b>	<b>-0.534</b>	<b>-0.572</b>	<b>0.000</b>

**Appendix D - Medium Term Financial Strategy Financial Model**

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
<b>Transformation</b>				
Income and Debt Review	-0.500			
Workforce Transformation – HR Transformation				
Business Intelligence	-1.000			
Housing Benefit Review	-1.000			
Family Justice Service Review		-0.350		
CSC managing demand at the front door	-0.200			
Voluntary and Community Sector Review	-2.000			
Community Equipment Service Transitions				
Temporary Accommodation Case Review	-1.050			
Digital Workforce Review	-1.000			
Customer Access Review (delivers £2.5m in savings previously included in the March 2022 MTFs, spread across 2023/24 and 2024/25)				
Resilient communities and community hubs		-0.430		
Review of adult social care placements				
Review joint funding children's placements and arrangements across education, health and care		-0.250		
Fostering service transformation	-0.225			
Domiciliary Care Re-model				
Reablement & Hospital Discharge				
Mental Health S117 project				
Strategic Planning & Commissioning				
Commercial & Income Opportunities				
Croydon Campus				
Building Control Transformation		-0.300		
Croydon Museum Transformation (cost avoidance)				
Parking Policy	-0.200	-0.200		

**Appendix D - Medium Term Financial Strategy Financial Model**

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Transformation of Planning Service e.g. CIL & S106 Strategy, including digital/ICT automation		-0.250		
Total Transformation	-8.475	-1.780	0.000	0.000
<b>Remaining gap</b>	<b>74.476</b>	<b>19.285</b>	<b>32.528</b>	<b>17.500</b>
Reverse capitalisation contribution		80.000	60.000	40.000
Previous year gap		-2.824	4.661	32.589
MRP on 2024/25-2026/27 Capitalisation (20 years straight line)		4.000	3.000	2.000
MRP on Legacy Capitalisation of £74.6m (20 years straight line)	3.700			
Additional interest	3.000	3.200	2.400	1.600
Application of capital receipts (£50m - 2022/23 onwards for four years)	-3.000	-3.000	-3.000	-3.000
Transformation Investment	10.000	-5.000		
<b>Remaining gap</b>	<b>88.176</b>	<b>95.661</b>	<b>99.589</b>	<b>90.689</b>
Less potential Council Tax at 5% for 2023/24 and 2024/25 then 3% thereafter	-11.000	-11.000	-7.000	-7.000
Less further savings deemed deliverable annually		-20.000	-20.000	-20.000
<b>Shortfall</b>	<b>77.176</b>	<b>64.661</b>	<b>72.589</b>	<b>63.689</b>
Capitalisation for illustration (but not preferred option)	-80.000	-60.000	-40.000	-15.000
-Surplus/+Shortfall	<b>-2.824</b>	<b>4.661</b>	<b>32.589</b>	<b>48.689</b>
Total of future years capitalisation direction modelled for illustration				195.0
Total of legacy capitalisation request (CAH assumed at £9m not the £70m full risk)				74.6
<b>Total capitalisation direction request</b>				<b>269.6</b>

## **Appendix E - Potential Disposals**

Reducton in libraries as part of the Community Hubs Transformation Project	
Ramsey Court	
Family Justice Centre following service relocation	
Samuel Coleridge-Taylor Centre	
89 Whitehorse Road	
Cherry Orchard Garden Centre	
Car park sites	
Review of depots and car pound	
Review of invstment properties:-	
Davis House	
Colonnades	
Vulcan Way	
Imperial Way	
Enterprise Close	
Existing disposal sites previously identified:-	
11 Heather Way	
Boulogne Road	
Cemetery Lodge	
Purley Way Pavilions	
Norwood Grove Mess Room	
<b>Total estimated capital receipts</b>	<b>£100m</b>

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