



Ministry of Housing,
Communities &
Local Government

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**Ministry of Housing, Communities and
Local Government**

Fry Building
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16 March 2021

Dear Chris,

CAPITALISATION DIRECTION – CROYDON LONDON BOROUGH COUNCIL

I am writing in relation to your authority's request for exceptional financial support in respect of 2020/21. I appreciate your continued co-operation with the Department throughout this process.

On 5 March 2021 Minister Hall wrote to the leader of Croydon London Borough Council, Councillor Hamida Ali, to set out the Department's proposed package of support. On 8 March, Councillor Ali wrote to formally accept the Department's proposals, and confirmed that the Authority would like to proceed with the approach outlined by Minister Hall. In parallel to this letter, the Ministry of Housing, Communities and Local Government (MHCLG) has issued a capitalisation direction of a total not exceeding £70.0m in respect of the financial year 2020/21, subject to the conditions outlined in the direction.

Charging Minimum Revenue Provision and Other Accounting Standards

Government expects all local authorities to abide by robust financial management practices. Where local authorities have been issued with a capitalisation direction, it is particularly important to demonstrate robust financial management and internal controls to ensure that public money is safeguarded, properly accounted for and used with due regard to value for money. Government expects that the Authority will produce financial reporting of the highest quality and propriety, in accordance with proper accounting practices and relevant guidance, to ensure transparency and accuracy. In undertaking borrowing and investment activities, government expects Authorities should fully comply with the intent of the Prudential Framework and the four statutory codes. The external assurance review outlined in paragraph 4(iii) of the direction will examine the Authority's current financial management practices, and may make recommendations based on their findings for 2021/22 and beyond.

In relation to your charging for Minimum Revenue Provision, the condition outlined in paragraph 4(ii) of the direction states that where expenditure is capitalised under this direction, the Authority must charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years, as set out in the Department's Statutory Guidance on Minimum Revenue Provision issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

Paragraph 3 of the direction outlines the Secretary of State's instructions on the definition and treatment of expenditure in the scope of the direction, which must not exceed the total set out in paragraph 3(iii). Paragraph 4(i) specifies as a condition of the direction that you may only capitalise costs as they incur. It is an expectation of the Department that you will therefore capitalise costs commensurate with the pressures or income losses specified in your application for support. I.e. if the expenditure, income losses, or budget gap specified in your application does not fully materialise, we expect that you will not capitalise expenditure in excess of your realised pressures.

External Assurance

The condition outlined in point 4(iii) of the direction states that the Authority must continue to make good progress against its Improvement Plan. I expect the Improvement Panel to provide evidence of this progress in their regular reports to the Secretary of State. The Panel have outlined that they expect to provide their next report to the Secretary of State in April 2021.

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

Borrowing

As outlined in the direction, there will also be additional conditions applied in relation to any borrowing that results from the capitalisation, which will require that this borrowing is from the PWLB (Public Works Loan Board), and must be subject to a 1 percentage point additional interest rate premium. You can make arrangements to undertake this borrowing directly with the United Kingdom Debt Management Office who operate the PWLB lending facility.

Request for financial support in the financial year 2021/22

As outlined in the letter from Minister Hall on 5 March, with respect to the financial year 2021/22, the Secretary of State is minded to approve a capitalisation direction of a total not exceeding £50.0 million. This letter does not constitute a direction in relation to the financial year 2021/22. Such a direction may be subject to conditions, which would be set out in a capitalisation direction when issued.

If the Secretary of State decides to give a direction for 2021/22, he expects to confirm the final amount of capitalisation support and any conditions that would be applied by summer 2021. His consideration will include taking account of the following:

- i. Evidence that the conditions set out in any capitalisation direction in respect of 2020/21 have been complied with;
- ii. Evidence from the Improvement Panel of the Authority's progress against its Improvement Plan, as reflected in forthcoming progress reports from the Panel;
- iii. Evidence from the Improvement Panel of the Authority's financial position and its ability to meet any or all of the identified budget gap without additional borrowing;
- iv. Evidence from the Improvement Panel of the Authority's progress in developing and delivering against an asset disposal plan;
- v. Evidence of progress against the other areas of improvement that were identified in the Panel's February update to the Department: progress in resolving challenges in property ventures; a credible 2021/22 budget including a

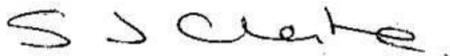
- deliverable savings plan; progress in developing a plan to transform front line services; progress made to change the culture of the organisation;
- vi. Evidence and recommendations from the Improvement Panel on the steps that the Authority may need to take to, for example, improve its governance arrangements, financial management, operational delivery and to reduce risk.
 - vii. Officials' understanding of the approach you have taken to capitalising expenditure in 2020/21, which may include assurance that you have not capitalised expenditure beyond your materialised pressures.

The Secretary of State also reserves the right to attach additional bespoke conditions to a direction in respect of 2021/22 depending on the Authority's individual circumstances.

As you will be aware, the Secretary of State has attached certain conditions to your 2020/21 capitalisation direction. We expect that there will be ongoing engagement between the Authority and MHCLG officials going forward to evaluate the progress against or fulfillment of these conditions.

If you have any queries in connection with the above, please do not hesitate to contact me: suzanne.clarke@communities.gov.uk.

Yours sincerely,



Suzanne Clarke
Deputy Director, Local Government Finance Stewardship