

<b>REPORT TO:</b>	<b>17 May 2021 CABINET</b>
<b>SUBJECT:</b>	<b>FINANCIAL PERFORMANCE REPORT – PERIOD 11 4<sup>th</sup> May 2021</b>
<b>LEAD OFFICER:</b>	<b>Chris Buss, Interim Director of Finance, Investment And Risk (Section 151 Officer)</b>
<b>CABINET MEMBER:</b>	<b>Councillor Stuart King – Cabinet Member for Croydon Renewal  Councillor Callton Young – Cabinet Member for Resources and Financial Governance</b>
<b>WARDS:</b>	<b>ALL</b>

**CORPORATE PRIORITY/POLICY CONTEXT:**

The information in the report make elected members aware of the financial position of the council and give elected members information to help ensure effective management, governance and delivery of the Council's medium term financial strategy and ensure a sound financial delivery of the 2020/21 in-year budget. This will enable the ambitions for the borough for the remainder of this financial year to be developed, programmed and achieved for the residents of our borough.

**AMBITIONS FOR CROYDON & WHY WE ARE DOING THIS:**

Strong financial governance and stewardship ensures that the Council's resources are aligned to enable the priorities, as set out in the Corporate Plan, to be achieved for the residents of our borough and further enables medium to long term strategic planning considerations based on this strong financial foundation and stewardship.

**FINANCIAL IMPACT**

This report summaries the current draft financial position of the council's general fund and the impact on the outturn as a result of the continuing demand for services, loss of income and unachieved savings. The report also summaries details of the funding from MHCLG in respect of the pandemic. Period 11 has seen a favourable movement of £1.9m from Period 10 and we are now projecting an overspend of £67.2m.

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below

**1. RECOMMENDATIONS**

- 1.1 Cabinet are asked to note the net projected general fund financial overspend of **£67.2m** for the full year as at the end of Month 11, February 2021 which includes all projected COVID-19 related expenditure and income of **£40.9m**, a net decrease of **£1.9m** from Period 10, see section 3.

- 1.2 Note that a number of risks may materialise which have been previously reported which would see the variance increase. These include dividends and interest receivable from Brick By Brick (both historic accrued and in-year expectations) of **£20.6m**, and pending external audit verification of assumptions around 2019/20 accounting treatment of MRP and Transformation funding that could impact by **£6.0m**. Should all these risks which total **£26.6m** materialise, which is unlikely, the impact on the current forecast overspend of **£67.2m** is an increased overspend to **£93.8m**, with draft general fund reserves of just **£7.4m**.
- 1.3 Note, the above figures are predicated on forecasts from Month 10 to the year end and therefore could be subject to change. Forecasts are made based on the best available information at the time.
- 1.4 Note that the Spending Control Panel which was set up at the beginning of November 2020 continues to meet on a daily basis. Further details on the outputs of the SCP is provided within section 5.
- 1.5 Note that ELT are to continue to take further immediate action to mitigate spend during the remainder of the financial year, and work with their departments to ensure forecast figures are thoroughly reviewed.

## **2. EXECUTIVE SUMMARY**

- 2.1 This reports sets out the council's current revenue budget projected outturn as at Month 11, February 2021.

## **3. BACKGROUND**

- 3.1 Due to the current Covid-19 pandemic and other underlying financial pressures the council is facing severe financial pressures as a result of additional costs, lost income and unachieved savings. A S114 Notice was issued on the 11 November 2020 as the Council could not deliver a balanced budget this year and a further S114 notice was issued on the 2 December as the budget remained unbalanced. This notice is still in place, however when the Secretary of state confirms the issuing of the capitalization direction the S114 notice will no longer apply, but similar controls on spending will still apply.
- 3.2 This current financial forecast is based on the known position at the time of writing this report. It is still indicative at this time and may alter given the significant uncertainty about the pandemic including the impact of the third Covid lockdown. Along with the continued bad practice in the organisation where purchase orders continue to be raised after goods or services have been received. It is also expected that the economic recovery and continuing associated impact on residents will require significant Council response going forwards, even after the virus has been contained.
- 3.3 MHCLG have been continuing to collate data from Councils on a monthly basis since April to gain a national understanding of the financial impact of COVID-19 on the sector. In the last submission, made at the end of March 2021, the

forecast financial impact for Croydon was a net overspend of **£43.7m** for the General Fund, after receipt of £33.0m government funding which is currently held corporately and the element relating to lost Sales, Fees and Charges will be allocated to departments as part of the year-end closing process once the final submission is made. The £33.0m reflects the confirmed support the Council has received from Government, however the Council is projecting a further £8.9m of Covid Grant support monies within the Monitor.

**Table 1 – MHCLG Covid19 return**

	Feb 2020 (£,000's)	Mar 2021 (£,000's)	
Additional Expenditure	41,382	40,592	
Unachieved Savings	30,559	22,208	
Lost Income	10,872	13,848	(a)
<b>Gross Total</b>	<b>82,813</b>	<b>76,648</b>	
Grants Received	(32,998)	(32,998)	(b)
<b>Net After Grants</b>	<b>49,815</b>	<b>43,650</b>	

(a) Excludes £22.3m Collection Fund losses on Council Tax / NNDR

(b) Further receipt of Covid-Related Grant funding is expected and included in Table 1

- 3.4 The above MHCLG Covid19 return focuses purely on financial impacts resulting from the pandemic. It does not include other spending pressures that may be occurring which are not directly as a result of the pandemic nor reflects the impact of in-year savings measures approved to help mitigate the current financial forecasts.
- 3.5 The following table shows the latest overall financial forecast for the General Fund taking into account all currently known factors:

**Table 2 – Period 11 Projection per Directorate**

	Month 10 Forecast Variance (£,000's)	Month 11 Forecast Variance (£,000's)	Change in Month (£,000's)
Childrens's Families and Education	23,219	22,031	-1,188
Exceptional Item - Schools Deficit Closure	4,889	4,889	0
	<b>28,108</b>	<b>26,920</b>	<b>-1,188</b>
Health, Wellbeing and Adults Place	24,236	23,941	-295
Resources	16,683	15,820	-863
	4,806	5,283	477
<b>Departmental Total</b>	<b>73,833</b>	<b>71,965</b>	<b>-1,868</b>
Non-Departmental Items	38,847	38,847	0
<b>Total General Fund</b>	<b>112,680</b>	<b>110,812</b>	<b>-1,868</b>
Corporate Covid-Grants	-41,882	-41,882	0
<b>Net GF Position after Grants</b>	<b>70,798</b>	<b>68,930</b>	<b>-1,868</b>
Savings Programme	-1,700	-1,700	0
	<b>69,098</b>	<b>67,230</b>	<b>-1,868</b>

3.6 The Period 10 forecast had identified **£112.7m** of departmental and corporate service pressures but was offset by **£41.9m** of Covid grant funding and £1.7m of in-year savings initiatives held centrally, resulting in a forecast net General Fund projected overspend of **£69.1m**.

3.7 The latest forecast for Period 11 shows a net forecast overspend of **£67.2m**, a decrease of **£1.9m** on the prior month's forecast. Section 4 of this report sets out a more detailed analysis of the forecast variances by department.

#### 4 DETAIL

4.1 The departmental level forecast outturn position has improved by £1.9m. The most significant of these variances relate to the following:

- Childrens department – Children with Disabilities and Transition - (£1.2m) underspend as a result of a comprehensive review of care packages and payments.
- Place department - projecting additional PCN income of £0.4m, and a further reduction in SEN spend due to the current lockdown.
- Resources – £0.2m staffing pressures, £0.2m pressures in relation to Croydon affordable housing payments.

4.2 There are no movements to report on the Non-Departmental (Corporate) Items

forecasts.

- 4.4 Further Covid grant claims have been submitted. The Council has so far received £33.0m in cash and is projecting a further **£8.9m** in new grant monies by the end of March 2021 which will result in a total Covid Grant income of **£41.9m** being received.

#### **Additional Risks**

- 4.9 The forecast General Fund position as set out above is forecasting a £69m overspend. Potential additional risks that could cause the overall position to worsen and are identified in the table below:

**Table 3 - Risks**

<b>Additional Risks</b>	<b>£'000</b>
BxB Accrued interest	11,380
BxB In-Year Interest	9,200
Minimum Revenue Provision	200
Possible Transformation Funding	5,800
<b>Total</b>	<b>26,580</b>

- 4.10 Should the potential risks identified in the above bullet points materialize, the forecast overspend of **£67.2m** would increase by £26.6m to **£93.8m**.
- 4.11 With unaudited General Fund reserves at £7.4m and having utilized the in-year contingency provision any in-year over-spend will need to be funded by a capitalisation direction from MHCLG. The request for the Capitalisation Direction was submitted to MHCLG on the 15 December 2020 and was received for 2020/21 and 2021/22 for £70m and £50m respectively. Such a capitalisation direction is not “*free money*” but allows the Council to charge the deficit to capital and then incur capital financing costs as part of future years’ revenue charges to finance. Based on current PWLB lending rates and statutory guidance as to the treatment of MRP costs each £10m of capitalisation would cost in the region of **£809k** per year (on a straight line MRP basis). Capital receipts from asset disposals and repayment of Brick by Brick loans will be used to minimise these borrowing costs.

## **5 Spend Control Panel**

- 5.1 The Council set up the Spend Control Panel (SCP) in early November when the first S114 was issued. The purpose of the Spend Control Panel is to administer on behalf of the S151 officer that the spend taking place within the Council continues to meet the S114 criteria as indicated within 4.13.
- 5.2 The Spend Control Panel provides final approval on all expenditure requests including for Recruitment. The Panel has provided exception to Children Social Care and Adult Social care and the S151 officer has delegated this spend to

two the Care Panels as they have a better knowledge of the needs of service users.

- 5.3 Table 4 below provides for details of total spend that has been sent to the SCP since the panel was set up. It also breakdown the total spend that has been approved and rejected as at the end of March 2021.

**Table 4 – Spend Control Panel Data**

Status	PO	Manual Ad hoc	OTP	MISC	Total
Approved	95,849,604	45,082,094	-	15,402,965	156,334,663
Pending Approval	8,662,144	392,959	-	20,147,007	29,202,110
Total Cancelled	1,877,318	-	350,740	-	2,228,058
Rejected	29,954,198	655,048	32,711	1,065,568	31,707,525
	<b>136,343,264</b>	<b>46,130,101</b>	<b>383,451</b>	<b>36,615,540</b>	<b>219,472,356</b>

- 5.4 Whilst table 4 indicates that the SCP has rejected £31.7m of requests this does not seem to be reflected within the forecasts that are being submitted by the departments. However, there are some genuine explanations for this and these are detailed below

- The table above includes all spend within the Council including Capital and HRA
- Whilst some request may have been rejected initially these could have been re-sent with further supporting evidence and subsequently approved, or indeed rejected a second time.

- 5.5 Had the Spending Control Panel not been in place the impact of some of the rejected items would have seen the projected forecast variance being higher than it is currently forecast.

## **6 MHCLG Covid Funding**

- 6.1 MHCLG have made a number of different funding streams available. A number of these grants are service specific which are not held corporately and accounted for within the services net forecast. These covid grants are in addition to the amounts indicated in Section 3 Table 2. Grants indicated within Table 2 are non-specific and are held corporately, and will be allocated.

- 6.2 The tables below give details of the service specific grants.

**Table 5 - Service specific additional Covid support**

<b>Service Specific Covid Grants</b>	<b>£'000</b>
Infection control fund for adult social care (tranche 1)	4,121,000
Infection control fund for adult social care (tranche 2)	3,954,000
Test and Trace	1,998,000
Welfare support grant	447,000
Next Steps Accommodation Programme	635,000
Test and trace support grants	338,000
LA compliance & Enforcement grant	218,000
Clinically Extremely Vulnerable Support Grant	195,000
Covid Winter Grant	1,199,000
Cold Weather Payment (housing)	50,000
Contain Outbreak Management Fund	3,094,000
COMF - December tier 2 funding	773,000
<b>Total</b>	<b>17,022,000</b>

**Table 6 – Covid Relief Business Grants**

<b>Covid Relief Business Grants</b>	<b>£'000</b>
Discretionary Business Grants Fund	3,029,400
Reopening High Streets Safely	341,995
Additional Restrictions Grant.	7,734,200
Local Restrictions Support Grant (Closed)	5,845,518
<b>Total</b>	<b>16,951,113</b>

## **7. NEXT STEPS**

- 7.1 Further grant claims and statistical returns to be collated and submitted as they become due (Covid Return monthly and Sales Fees and Charges claims four-monthly).
- 7.2 Now that the Council has received its confirmation for a Capitalisation Direction Finance will continue to monitor the overall outturn to ensure the overspend does not exceed the allocated amount. The Council has been allocated £70m for capitalisation direction for 2020/21. Finance will provide a detailed year end outturn report once all 20/21 position is closed and all transactions accurately accounted for.
- 7.3 The Spending Control Panel will remain in place as part of the financial control arrangements and details of the work of the panel will be included in the next monthly monitoring report.

## **8. PRE-DECISION SCRUTINY**

- 8.1 The budget has been an agenda item on two recent Scrutiny and Overview Committees. In July the Committee scrutinised the July Financial review and Responding to the Local Government Financial Challenge Cabinet papers and called them back in for further scrutiny in August.

## **9. LEGAL CONSIDERATIONS**

- 9.1 The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance 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.
- 9.2 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
- 9.3 The monitoring of financial information is also a significant contributor to meeting the Council's Best Value legal duty and therefore this report complies with that legal duty.

Approved by, Sandra Herbert, Head of Litigation and Corporate Law on behalf of the interim Director of Law and Governance & Deputy Monitoring Officer.

## **10. HUMAN RESOURCES IMPACT**

- 10.1 Any proposals on budget that may have any impact on the workforce would be consulted on in line with agreed formal consultation arrangements with the recognised trade unions and managed through the relevant HR policies and procedures.

Approved by: Sue Moorman, Director of HR

## **11. EQUALITIES IMPACT**

- 11.1 There are no specific issues arising from this report. Equality analysis will need to be undertaken to ascertain the potential impact on staff, service users, vulnerable groups and wider communities groups that share protected characteristics and take actions to mitigate any negative impact as each project is developed and implemented
- 11.2 This current forecast is based on the known position at the time of writing this report. It is indicative at this time and may alter given the significant uncertainty about the pandemic e.g. the risk of a second spike and the ongoing impact on Council services over the medium term. It is expected the economic recovery and continuing associated impact on residents will require significant Council response going forwards, even after the virus has been contained.
- 11.3 The Council will ensure that as part of the process of delivering current and future savings, it will protect the most vulnerable in our communities and ensure when making difficult decisions about funding it maintains an absolute commitment to promoting equality for everyone who lives and works in the Borough

Approved by Yvonne Okiyo, Equalities Manager

## **12. ENVIRONMENTAL IMPACT**

- 12.1 There are no specific issues arising from this report.

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

- 13.1 There are no specific issues arising from this report.

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

- 14.1 These are detailed within the report.
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**CONTACT OFFICER:** Matthew Davis (Deputy Section 151 Officer)

**BACKGROUND DOCUMENTS:** None