

REPORT TO:	Cabinet 12th July 2021
SUBJECT:	Croydon's General Fund Medium Term Financial Strategy (MTFS) Update
LEAD OFFICER:	Chris Buss, Interim Director of Finance , Investment and Risk
CABINET MEMBER:	Leader Hamida Ali – Leader of Croydon Council Councillor Stuart King – Cabinet Member for Croydon Renewal Councillor Callton Young – Cabinet Member for Resources and Financial Governance
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT:	
<p>The Council's budget underpins the resource allocation for all corporate priorities and policies and in particular, the corporate priority for the delivery of value for money for the residents of the borough of Croydon. This report sets out the initial update of 2021/22 for the new three MTFS from 2022/23 to 2024/25</p>	
FINANCIAL SUMMARY:	
<p>The report builds on the 8th March 2021 Council Budget Report that requested approval of the 21/22 budget and also detailed the financial position over the next two following years. This report adds an extra year now that the 21/22 budget has been set and therefore presents the budget position for 2022/23 to 2024/25</p>	
FORWARD PLAN KEY DECISION REFERENCE	
<p>No Key Decisions.</p>	
<p>The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below</p>	
1.0 RECOMMENDATIONS	
<p>It is recommended that Cabinet:</p>	
1.1.	Note the unaudited closing reserve balance for 2020/21 being brought forward to 2021/22.
1.2.	Notes that this report now includes a projection for Budget Position in 2024/25 and also notes Budget Gap for Financial Years 2022/23 to 2024/25.
1.3.	Notes that the Council will not receive any confirmation from MHCLG on its £25m request for Capitalisation Direction for 2022/23 until later in this financial year. The budget gap

without any capitalisation direction stands at £63.27m for 2022/23 assuming that proposed savings agreed in March 2021 are agreed of £24million

- 1.4. To note that the Budget for 2022/23 to 2024/25 is projected based on Council Tax growth being 1.99% for general increase and 2% growth in the Council Tax Base. No increases in Business Rate growth assumed.
- 1.5. To note that a further Budget Update report will be brought to Cabinet in November 2021.

2.0 Executive Summary

- 2.1 This report provides for an indicative position for the next 3 years of the Medium Term Financial Plan. As indicated within the March 2021 Budget Report to Council, Croydon's Budget for 2021/22 had been set on the backdrop of local challenges making its successful financial management one of the most difficult tasks in local government. This report expands on challenges faced by the Council in managing the budget for the financial year 2021/22, and gives an update on projections for 2022/23 to 2024/25
- 2.2 2020/21 was a very challenging financial year during which the council was placed under two Section 114 notices by the former Section 151 officer until MHCLG confirmed a £70m capitalisation direction for 2021/22 and further £50m for 2021/22. The Capitalisation Direction allowed the Council to borrow to fund the financial gaps for both years and ensure it can continue to deliver the services to its community and meant that the Section 114 notice lapsed. However, the Council has continued to operate the rigour of spending control processes to instil a new rigour in its financial management practice.
- 2.3 The Capitalisation Direction will need to be paid back over a 20 year period and will incur interest charge at 1% above Public Works Loan Board (PWL) rates.

3.0 2020/21 Outturn

- 3.1 This section provides a summary on the Council's 2020/21 outturn position and a summary on the progress of the 2021/22 Budget as reported within the Financial Performance report.
- 3.2 The Cabinet Agenda for 12th July 2021 includes detailed reports on the 2020/21 Outturn
- 3.3 The Council is still working with the external auditor on finalising the 2019/20 audit of accounts and is in the process of completing the 2020/21 draft statement of accounts.
- 3.4 The outturn for the General Fund is showing a £65.8m variance to budget – a £1.5m improvement on the forecast reported for Period 11 – and within the approved £70m Capitalisation Direction request to the Ministry for Housing, Communities and Local Government (MHCLG). The Council will therefore be capitalising the net £65.8m under that direction. The 2021/22 Budget

accounted for capitalisation at £70m and therefore as the Council now needs less it will create a benefit as the Council will incur slightly lower interest and Minimum Revenue Provision costs. The outturn is subject to audit.

4.0 Croydon Renewal Plan

- 4.1 The Council's submission for the original Capitalisation Direction, contained the Croydon Renewal Improvement Plan, to fundamentally transform how the council operated and governed itself Council Operations and deliver on the many recommendations set out by various key stakeholders in public reports.
- 4.2 The 'Croydon Renewal and Improvement Plan - Performance Reporting Framework & Measures Report' presented to Cabinet in June 2021 provided an initial progress update on the delivery of the Renewal Plan.
- 4.3 Whilst the Renewal Plan is a holistic corporate change programme for the Council, it plays a critical role in delivering the key activities that will strengthen the Council's finances. One key programme within the Renewal Plan is the delivery of the MTFs with the focus on delivery of the agreed savings being an absolute priority and to ensure the Council delivers a balanced MTFs.
- 4.4 This report provides the update under this MTFs banner within the Renewal Plan. It should be noted that this report is being provided within 3 months of the Council's budget therefore a preliminary MTFs as more details will come to light during the year.

5.0 Local Government Economic Impacts

- 5.1 The 2021/22 local government finance settlement was for one year only and was based on the Spending Review 2020 (SR20) funding levels. As the funding settlements are for one year it makes longer term financial planning difficult due to uncertainty over government support. The Medium Term Financial Plan presented to Council in March 2021 makes prudent assumptions on the Council's funding streams. This includes no increases in Government RSG funding, 2% growth in Council Tax rate, 2% increase in Council Tax base and no increase in Business Rates income. These assumptions will be refined at the next MTFs Budget Report to be presented to Cabinet in November 2021.
- 5.2 Whilst the Council makes prudent assumptions on its core income sources, there are considerable concerns about the impact Covid will have on the economy going forward, which will impact on the Council's finances. There are likely to be demand side and supply side pressures that the Council will face over the medium to longer term.
- 5.3 The Queen's Speech delivered on 11th May 2021 provided an indication of Government priorities for the new parliamentary session. Some of the highlights within the speech included the following:
- **Recovery from pandemic** – focusing on health and the economy, and further referencing the government's intention to 'level up'. The

intention is to return the public finances to a sustainable path once recovery is secure

- **Health and social care** – legislating to allow NHS to innovate and use technology, and to improve health and wellbeing with a focus of obesity and mental health. Social care reform proposals to be brought forward.
- **Investment in science, infrastructure and technology** – the government intends to lead in life sciences, jobs, and research and development investment, including via the proposed new Advanced Research and Invention Agency (ARIA). In addition, infrastructure investments will be made to improve ties across union, including through bus and rail, and 5G.
- **Environmental and planning issues** – intending to modernise the planning system, and end ground rents for new leasehold properties, whilst introducing a new building safety regulator. The intention to reach net zero by 2050 with legislation planned to set binding targets, as well as hosting the COP26 summit. The background briefing confirms a continued intention to standardise the approach to recycling across English local authorities.
- **Constitutional issues** – intending to ensure the integrity of elections, protect freedom of speech, and “restore” balance of power between executive, legislature, and courts. There would also be a strengthening of devolved government in Northern Ireland.
- **Security, foreign affairs and policing** – intentions to increase safety and security of citizens through sentencing bill, ensure timely administration of justice, and take measures for victims, including seeking to reduce violence. The speech also noted plans for increased spending for armed services, and the future of aid spending with a focus on effectiveness and soft power internationally.

5.4 Quite a few of these proposals will have a direct impact on Local Authorities and all will have an indirect impact. The MTFs currently does not plan for any impact from these proposals due to a lack of detail at this stage however it provides some considerations the Council will need to monitor and assess for financial implications over the coming months.

5.5 Currently various economic analyses are pointing towards inflationary pressures within the economy. The Council’s 2021/22 Budget has provided for 1.5% for pay inflation and 2% for contract inflation. However, if prices rises are considerably more than this, it could have an impact on Council’s finances. The Council’s approach to Adult Social Care and Children Social Care placements is prone to risk to inflationary pressures as the Council currently operates on a call off basis. This is under active review as part of the Renewal Plan actions.

5.6 Furthermore, recent reports within the hospitality sector are indicating severe staffing shortages and this is leading to wage inflation. Whilst these pressures are currently focused on the restaurant and travel industries the same pressures are likely to occur within the social care services. This will require regular monitoring for the current year. If prices rise above the projected inflationary increases this will add to future years financial pressures as the base at which prices increase will rise.

5.7 With the opening of the economy, more activity in local communities is generating some uplift in the Council's income sources, particularly around parking and planning income.

6.0 Medium Term Financial Planning

6.1 The Council set a 3 year MTFS in March 2021 and this was the first time it had done so in over 3 years. Best practice, set out in the CIPFA Financial Management Code, requires a three year MTFS to be prepared each year alongside the annual budget setting process to recognise future budget pressures and to allow planning to be made in sufficient time to meeting those identified pressures .

6.2 Due to the Council's particular financial situation, it has been felt prudent to produce this update to the MTFS early into the new financial year. It is important that members are fully aware in the context of the risks to the delivery of this year's budget and the agreed MTFS overall, that whilst there has been considerable initial indication of savings delivery and changes in the macroeconomic climate in 2021/22 so far, there are various other unknowns that will require constant monitoring.

6.3 The medium term (years 2022/23 and 2024/25) budget positions set out in this MTFS are predicated on central government support in relation to Revenue Support Grant and Localised Business Rates remaining broadly unchanged except for inflationary increases and anticipated movements in tax base. Deferred by Ministers due to the Covid-19 pandemic are proposals to review the operation of the local government funding regime and policy changes with regard to a Fair Funding Review, operation of the Localised Business Rates system; and a business property revaluation exercise. These are all expected over the following years. The MTFS recognises these potential changes but assumes that whilst such individual funding streams may vary, the overall level of core funding will remain broadly neutral.

6.4 The MTFS position set out in this report is a draft position and has been updated using various assumptions as detailed within section 7. Further detailed work around Budget Development is ongoing within the Council and it is too early at this stage to reflect any specific details as such plans have not been fully validated.

6.5 The purpose of this budget position is to provide an indication of the financial gap that the Council needs to meet for 22/23 and beyond to ensure it sets a balanced budget.

6.6 The revised budgetary position for the next 3 years is detailed in Table 1. The position presented within Table 1 includes the application of the capitalisation direction as requested as part of the Council's submission to MHCLG in December 2020. On the assumption that the full capitalisation direction requested (£150m) is awarded; the budget position shows that the 2022/23 budget gap is £38.27m and a further gap of £22.132m in 2023/24. This assumes that existing budget savings agreed in March of £ £82.461m in 2021/22, £2.137m in 22/23 and £28.230m in 23/24 are delivered. However, it is projected that by 2024/25 the Council could have a balanced budget, once

all the budget gaps have been met through additional savings being identified and delivered.

Table 1 – MTF5 2022/23 to 2024/25

Department	Budget 21/22	Budget 22/23	Budget 23/24	Budget 24/25
	£M	£M	£M	£M
Children, Families and Education	116.401	111.792	109.573	109.573
Health, Wellbeing and Adults	147.295	143.469	140.843	140.843
Place	61.548	54.970	52.457	52.457
Resources	22.532	20.119	17.979	17.979
Service Total	347.776	330.350	320.852	320.852
Capital Financing Costs	42.150	43.121	41.136	41.136
Other Corporate Items	(60.505)	(18.690)	3.795	(0.267)
Revenue Support Grant	(14.205)	(14.489)	(14.779)	(15.075)
Business Rates	(67.120)	(70.529)	(72.013)	(73.545)
Council Tax	(198.096)	(206.486)	(213.582)	(217.854)
Capitalisation Direction	(50.000)	(25.000)	(5.000)	-
Total Corporate Items	(347.776)	(292.073)	(260.443)	(259.606)
Cumulative Budget Gap	-	38.277	60.409	55.248

- 6.7 If the capitalisation direction is not awarded in full, this will then result in an increased gap of up to £63.27m in 2022/23 and a further £2.13m gap in 2023/24 and a possible balanced position in 2024/25.
- 6.8 In order to meet the budget gap for 2022/23 the Council will need to find significant additional savings (amounting to £38.277) to the ones already identified and agreed by members in the March 2021 report. Work has commenced on both a council-wide top down and bottom up approach to delivering savings which are expected to be presented to Cabinet at its October 2021 meeting. Bridging this budget gap in 2022/23 will be extremely challenging in the light of the already agreed savings level.
- 6.9 It should be noted that the current budget and MTF5 has no scope for growth, unless growth has already been included within the budget as part of the reset undertaken as part of the current MTF5, any service growth will therefore need to be mitigated by additional budget reductions.

- 6.10 It should also be noted that any non-delivery of savings or forecast overspends by directorates in the 2021/22 budget will be required to be funded by that directorate and there will be no carry forward of pressures into future financial years.

7.0 Budget Planning Assumptions

Grants

- 7.1 The MTFS continues to factor in the Revenue Support Grant at the current rate but uplifted by 2% to stay in line inflation target. All other grants have been assumed to be the same as per the 21/22 budget.

Inflation

- 7.2 The MTFS needs to take account of changes in the cost of living/inflation. A pay award of at least 2% for all staff has been assumed. Additionally a number of council contracts are subject to indexation each year. The MTFS has provided a further 2% uplift for contractual inflation and this needs to be managed within the Council's overall budget. The overall increase in the budget for inflation for both the pay award and inflation will be held corporately and will then be allocated out to directorates in each financial year. It is recognised that in the current climate the inflation is a greater risk than in recent years and each 1% increase in inflation adds £5.23m to the general fund cost base across both staff pay and contract expenses.

Council tax and Business Rates

- 7.3 The council tax change for the Croydon element of the charge for 2021/22 was **4.99%** which included a 3.0% increase for the Government's' adult social care precept and 1.99% general Croydon allowable increase. Table 2 below provides a reminder of the rates for Band D properties in Croydon.

Table 2 – Local Taxation for 2021/22

Band D	2021/22	Increase	Annual Increase	Weekly Increase
	£	%	£	£
Croydon	1,354.02	1.99%	28.9	0.56
Adult Social Care Precept	170.47	3.00%	43.56	0.84
Total	1,524.49	4.99%	72.46	1.39

- 7.4 The MTFS assumes a 2% increase in the Council Tax base and further 1.99% increase in the general increase allowable by Croydon. As a prudent measure the Council does not factor the Government's' adult social care precept increase as this scheme has not been announced for 2022/23 and beyond. The increase in council tax base is expected to result in £4.35m additional income and the 1.99% general increase is expected to result in an increase of £4.03m.
- 7.5 The 1.99% increase outlined in the paragraph above would see the annual charge on a Band D property increase by £26.94 per year for the General

Demand and equivalent to £0.52 per week for a Band D Council Tax payer. In addition, there will be the likely increase of GLA precept for its General and Metropolitan Police charges which will add to the overall Council Tax charge. However, the GLA increase will not impact on the Council's MTFS as the Council simply passports this across.

Table 3 - Change in Council Tax charge 2022/23

Band D	2022/23	Increase	Annual Increase	Weekly Increase
	£	%	£	£
Croydon	1,380.97	1.99%	26.94	0.52
Adult Social Care Precept	170.47	0%	0%	0%
Total	1,551.44	1.99%	26.94	0.52

- 7.6 The MTFS does not make any growth assumptions in regards to Business Rate Growth due the impact of the Covid pandemic and uncertainty as to the future of business rate pooling. Furthermore, the Council is still working through its 2020/21 year end accounts and depending on the surplus/deficit position of the Collection Fund, it will impact on the budgets for 2022/23 which will then also inform assumptions for the following two years of the MTFS.

Directorate Assumptions 2022/23 budget

- 7.7 Alongside the corporate assumptions that underpin the 2021/22 budget, work has been ongoing to ensure that directorate and service estimates are accurate. This is the key element of the budget where movement in resources between services can be identified. The savings and growth reflected are as a result of the budget saving work done during 20/21 which requested proposals for the MTFS cycle. Further work is ongoing to seek further savings proposals to plug the budget gaps for 2022/23 and 2024/25.
- 7.8 The working assumption is that there will not be a need for any further growth over the MTFS period as the Budget presented to Council in March 2021 provided for sufficient growth. The growth that is currently factored within the MTFS reflects both expected future pressures as well as historic budget correction requests. As part of the Budget Development sessions the current request for growth will also be reviewed and challenged and further opportunities will be sought to make savings.
- 7.9 The Council has set up a Programme Delivery Steering Board that will oversee the delivery of these savings over the course of 2021/22. Each saving options has a designated Project Manager (PM) and a Senior Responsible Officer (SRO) who will be held accountable to deliver the savings assigned to them. This approach is yielding a positive outcome as a large proportion of the savings set for 2021/22 are fully on track to be delivered. The savings identified with risks to their delivery are closely monitored.

Capital programme

- 7.10 The MTFS assumes that all future capital expenditure not in the current General Fund capital programme will be funded from sources other than borrowing. The Council will therefore need to generate Capital Receipts from

asset sales to fund any new Capital schemes in order to avoid additional revenue pressures.

8.0 Reserves

- 8.1 The Council will, subject to the 2019/20 external audit, start 2021/22 with £27.48m reserves, the draft 19/20 accounts had a general reserve of £7.48million which after correction has been reduced. This provides a much stronger support for the Council to act on future risks and challenges.
- 8.2 Part of the approved capitalisation direction request in 2020/21 contained provision to bolster general reserves by a further £15.0m in order to provide sufficient resilience to meet future risks and challenges. The 2021/22 base budget has £10m of contributions to reserves and the MTFs provides for a further £5m of reserves contribution in 2022/23 and a further £5m in 2023/24. This will result in a total of additional £45m in reserves by the end of 2023/24 which should leave a General Fund Reserve balance of £72.5m.
- 8.3 Should no further drawdowns take place, the balance of £72.5m will provide sufficient balances to meet future risks and challenges. It is important that the Council ensures that reserve balances are used for emergency scenarios only and that if and when such drawdowns from the General Reserve do take place these are replenished immediately.

9.0 Summary and Conclusions

- 9.1 As all Members are aware, setting a MTFs that is robust, balanced and deliverable has been extremely challenging particularly as the Council has only recently come out of a S114 Notice and has had to deal with very significant historic financial management issues. This has involved a number of difficult decisions for the Council and a lot of work has gone into rebuilding the budget to deal with those historic issues. The Council faces increasingly challenging choices over the medium to longer term within the context of its own funding position, the national economy and the level of funding available to the public sector as a whole.
- 9.2 This budget report is based on the current financial outturn projections for the current year. If any of the projections change significantly, these will have to be reported to Cabinet as part of the monthly Financial Performance Reports and will be factored into the next MTFs update which will be provided later during the year.

10.0 Financial Considerations

- 10.1 The report provides an update on the Council's MTFs for years 2022/23 to 2024/25. Finance comments have been provided throughout the report.

Approved by Chris Buss, Interim Director of Finance, Investment and Risk & S151 Officer

11.0 Legal Considerations

- 11.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the recommendations within this report do not give rise to any direct legal implications as they are merely to note, however the Local Government Act 1972 (Section 151) requires that every local authority make arrangements for the proper administration of their financial affairs. In addition the Council must have a balanced and robust budget for the forthcoming financial year and also a 'medium term financial strategy (MTFS). This projects forward likely income and expenditure over at least three years. The MTFS ought to be consistent with the council's work plans and strategies.

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

12.0 Human Resources Impact

- 12.1 Any proposal to support MTFS savings targets that are related to staffing will be managed in accordance with council policy and in line with consultation requirements with our recognised trade unions and staff.

Approved by: Sue Moorman – Director of Human Resources

13.0 Equalities Considerations

- 13.1 Under the Public Sector Equality Duty of the Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others.

- 13.2 Section 149 of the Act requires public bodies to have due regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected characteristic and people who do not share it.

- 13.3 As a result, budget proposals will be subject to the Council's own equality impact analysis processes (EIA), as part of a risk-based approach to ascertain potential equalities impact of budget proposals. Budget holders will need to identify proposals that are likely to have a disproportionate impact on those with protected characteristics (i.e. race, sex, disability, religion or belief, sexual orientation, pregnancy and maternity, and age). In some instances budget holders have extended the equalities consideration to include analysis of non-statutory factors - such as language, socio-economic and health and social wellbeing. Where adverse impact has been identified mitigating actions have been specified.

Approved by Yvonne Okiyo, Equalities Manager

14.0 Environmental Impact

14.1 There are no direct environmental considerations arising from this report.

15.0 Crime and Disorder Reduction Impact

15.1 There are no savings which should impact upon this.

16.0 Reasons for Recommendations/Proposals

16.1 The council has a duty to set a balanced budget and therefore the proposals set out in the report achieve this duty.

17.0 Options Considered and Rejected

17.1 Various other options were considered in terms of council tax levels, investments and savings. These are ultimately decisions of policy and political choice.

REPORT AUTHOR AND CONTACT: Nish Popat, Interim Head of Corporate Finance

BACKGROUND DOCUMENTS: None