REPORT TO:	**CABINET 30 NOVEMBER 2022**
SUBJECT:	**Medium Term Financial Strategy 2023/24 to 2025/26 Update**
LEAD OFFICER:	Jane West Corporate Director of Resources and Section 151 Officer
CABINET MEMBER:	Executive Mayor Jason Perry Councillor Jason Cummings Cabinet Member for Finance
WARDS:	All

SUMMARY OF REPORT:

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.

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.

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.

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.

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.

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.
<u>Other Adjustments</u> 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 • 2020/21 • 2021/22 • 2022/23	 10.0 10.0 10.0 10.0
Corrections for Capital Charges (Minimum Revenue Provision):- • 2021/22 • 2022/23	 4.4 1.2
Other adjustments:- • 2021/22 – Provision for Bad Debt shortfall	 20.0
Total impact of legacy financial issues on the General Fund reserve as at 31 March 2023	**74.6**
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
Total additional cost of corrections	**47.9**

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 is 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 crystalised 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
Total New Capitalisation Directions	**269.6**

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 Office 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 that 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 characteriics 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