

	<p>Please note this Report has been updated from that reported to Cabinet on 14 February 2024 with the following:</p> <ul style="list-style-type: none"> • It incorporates a departmental and subjective analysis of the 2024-25 Budget in Appendix B (which was marked to follow at Cabinet). • Appendix L (Financial Risks) is updated following the request by Scrutiny and Overview Committee on 12th February for more information. • Paragraph 3.13 has been amended to more fully explain the further legacy Capitalisation Direction request of £9.4m for 2019-20 as requested by Scrutiny and Overview Committee.
REPORT:	Cabinet
DATE OF DECISION	14 February 2024
REPORT TITLE:	Revenue Budget and Council Tax Levels 2024-25
CORPORATE DIRECTOR / DIRECTOR:	Katherine Kerswell, Chief Executive Jane West, Corporate Director of Resources (Section 151 Officer)
LEAD OFFICER:	Jane West, Corporate Director of Resources (Section 151 Officer)
LEAD MEMBER:	Councillor Jason Cummings, Cabinet Member for Finance
KEY DECISION?	<p>Yes REASON:</p> <p>Key Decision – Decision incurs expenditure, or makes savings, of more than £1,000,000 or such smaller sum which the decision-taker considers is significant having regard to the Council’s budget for the service or function to which the decision relates</p> <p>and</p> <p>Key Decision – Decision significantly impacts on communities living or working in an area comprising two or more Wards</p>
CONTAINS EXEMPT INFORMATION?	<p>No Public</p> <p>Grounds for the exemption: N/A</p>
WARDS AFFECTED:	All

1 SUMMARY OF REPORT:

- 1.1 In Autumn 2020 Croydon Council was issued with a Report in the Public Interest (RIPI) identifying wide-ranging and significant failures in leadership, governance and financial management. The report brought to light significant financial concerns, including serious weaknesses in Croydon's strategy for commercial investment and residential development.
- 1.2 In November 2020, the Council issued its first S114 notice, flagging that it was in a position whereby it could not continue to operate without exceptional financial support from government. In December 2020, the Council requested exceptional financial support of over £150m over four years from 2020-21. The government provided an in-year Capitalisation Direction of £70m for 2020-21 designed to address outstanding deficits and commitments, with further Capitalisation Directions of £50m for 2021-22, £25m for 2022-23 and £5m for 2023-24.
- 1.3 Further budget issues emerged during the 'Opening the Books' exercise launched by the Executive Mayor in June 2022. This ultimately led to budget corrections of £49m for 2023-24 and prior year adjustments of £161.6m. The financial magnitude of such changes required the Council's Section 151 Officer to issue Croydon's third Section 114 report on 22 November 2022. This made it clear to all Councillors that Croydon faced a financial situation of an extremely serious nature with significant estimated unfunded financial deficits forecast from 2023-24 onwards.
- 1.4 A package of measures was subsequently agreed with central government that enabled the Council to set a balanced budget for 2023-24. These included:
 - An increase in the 2023-24 referendum cap for council tax increases from 4.99% to 14.99% for Croydon. This resulted in the Council generating additional income of £21m in 2023-24. It also meant that Croydon had the largest council tax increase in the country. The Executive Mayor made clear that this was a one-off decision to increase above the national cap and he would not support doing so again should government propose a higher referendum cap for Croydon.
 - Central government making available exceptional financial support, in the form of permission for additional borrowing to fund revenue (a Capitalisation Direction) of £63m in 2023-24 (£58m in addition to the £5m previously agreed for 2023-24).
 - A further Capitalisation Direction of £161.6m to cover the prior year legacy finance issues that were revealed through the Opening the Books programme.
- 1.5 These measures, along with the Council agreeing to make 2023-24 savings of £36m, enabled Croydon to set a balanced budget for 2023-24. The Council is therefore not currently subject to the S114(3) report issued on 22 November 2022.
- 1.6 This Report sets out a balanced 2024-25 budget and council tax charge for Croydon in accordance with the Local Government Finance Act 1992. A net budget requirement of £361.3m is proposed for 2024-25 with a 2.99% (£53.98 per year Band D) council tax

increase (for the Council element excluding the GLA precept) and 2% (£36.11 per year Band D) increase regarding the adult social care precept.

- 1.7 A forward financial forecast was last presented to Cabinet on 25th October 2023. A gross budget deficit of £75m, before allowance for savings and any exceptional government financial support, was modelled for 2024-25, increasing to an annual deficit of £137m by 2027-28.
- 1.8 The October Cabinet Report set out proposed 2024-25 savings of £30.9m that could contribute towards closing the forecast deficit. It was also noted that dialogue was on-going with the Department for Levelling-Up, Housing and Communities (DLUHC) regarding the need for a further package of exceptional government financial support. This was modelled at £38m per annum for 2024-25 and future years and reduced the forecast 2024-25 budget deficit to £6m. A period of public engagement, incorporating the statutory consultation with businesses, was approved on the proposals set out in the Report including those for savings and growth.
- 1.9 The budget assumptions that underpin the 2024-28 financial forecast have now been refreshed and take account of the Final Local Government Finance Settlement (LGFS) announced on 5th February 2024. The savings and growth proposals have been reviewed and due regard has been had to the response to the public engagement.
- 1.10 Croydon's finances, like those of the wider local government sector, continue to be under strain from inflationary pressures and increasing demand for essential social care, housing and welfare services. An allowance of £18.1m is made within the 2024-25 budget for inflationary pressures and £11.5m to meet demand and legacy budget pressures. Overall new inflation and growth pressures of £109m are modelled by 2027-28.
- 1.11 The Council's historic legacy of service failings, poor financial management, weak decision making and poor governance of major investments has resulted in a debt burden that is not sustainable without government support. The most recent financial sustainability indicators¹, provided by the Office for Local Government (OFLOG), demonstrate that Croydon's debt level, and debt servicing cost, is far higher than the median figure for both England and the Council's nearest statistical neighbours (the 15 London boroughs that CIPFA consider are most like Croydon).

Table 1 – OFLOG Financial Sustainability Data – 2021-22 Outturn

¹ The OFLOG data measures debt servicing costs and debt levels as a percentage of core spending power. Core spending power is a government calculated indicator that is published annually within the local government finance settlement. It indicates the core revenue funding available to a local authority, including council tax, locally retained business rates, adult social care grants and revenue support grant.

	Croydon	Nearest neighbour median	England median
Debt servicing costs as a percentage of core spending power	16.0%	9.0%	8.0%
Total debt as a percentage of core spending power	478.6%	275.6%	226.7%

- 1.12 For 2024-25 debt servicing costs for Croydon, after allowance for the Council's asset disposal programme, are estimated at 15% of core spending power.
- 1.13 The current expectation is that a further Capitalisation Direction of £38m will be approved by government for 2024-25 (and for subsequent years to 2027-28) with an additional legacy capitalisation direction of £9.4m for 2019-20. The Council is concerned that the continued use of Capitalisation Directions does not provide a financially sustainable solution to the Council's future budget. Dialogue will continue with the government on identifying alternative forms of financial support such as a £540m debt write off or equivalent support that would deliver estimated annual revenue budget savings of £38m. This would enable the Council to set balanced budgets that do not rely on future exceptional government financial support and do not put additional pressure on Croydon's taxpayers.
- 1.14 In January 2021 the Secretary of State for DLUHC (formerly MHCLG) appointed an Improvement and Assurance Panel (IAP) to advise, support and challenge the Council on a non-statutory basis to help deliver the Croydon Renewal Plan and address the well documented governance and financial failures across the Council. Despite the progress made in delivering the Croydon Renewal Plan, the Secretary of State concluded in July 2023 that, the reliance on Capitalisation Directions resulting from high historic debt levels meant the Council was not meeting its best value duty. The IAP was moved onto a statutory footing with a power to direct the council if they felt it was acting in a way not designed to meet its duty of best value. This power of direction has not been used and is a power of last resort. The Council has not had any powers or functions removed from it. Unlike other councils under intervention, the Secretary of State has not deemed it necessary to appoint Commissioners to Croydon Council.
- 1.15 The IAP have led the development of the Croydon Exit Strategy and have chosen to work with the Council in its production, reflecting the very close working relationship that exists. The Exit Strategy was reported to the 25 October 2023 Cabinet meeting. A crucial part of this Exit Strategy is the resolution of the Council's independent financial sustainability. Without this, the Council cannot demonstrate that it is meeting its duty of best value.
- 1.16 This Report sets out the Council's proposals for a balanced 2024-25 revenue budget which include:
- A council tax increase of 2.99% and a 2% increase in the adult social care precept levy. These do not exceed the national referendum cap limit.
 - Proposed savings, demand pressures, and inflation.
 - Legacy financial issues and budget corrections
 - Debt, borrowing costs and financial sustainability.
 - Budget risks, reserves and balances.

- An update on discussions with government and the duty of best value
- A statement of assurance (as required by Section 25 of the Local Government Act 2003) from the Corporate Director of Resources and Section 151 Officer that the proposed budget is robust and that the Council is holding sufficient reserves against its risks.

1.17 Finally, the report proposes that the Council be recommended to introduce new additional council tax charges in relation to empty properties and second homes as detailed more fully in the report to Cabinet of 22 November 2023. The Levelling-up and Regeneration Act 2023 has enabled local authorities to change the timeframe for applying empty property council tax premiums and to introduce council tax premiums on second homes. The changes are designed to bring more empty homes into productive use and to generate greater income earlier on those properties where the owner wishes them to remain empty. The changes will enable councils to raise and retain additional revenue to support local services and keep Council Tax down for residents. A report was considered by Cabinet on 22 November 2023 (Appendix H) on these changes and it is now recommended that approval is sought from Full Council to enable the necessary determinations to be made and put in place prior to the commencement of the financial year to which this budget report relates.

2. RECOMMENDATIONS

The Executive Mayor in Cabinet is recommended to:

- 2.1 Consider the responses to the budget engagement with residents and statutory consultation with businesses (set out in Section 10 of this report and detailed more fully in Appendix J).
- 2.2 Consider and have due regard to the equalities impact assessment undertaken on the budget proposals as set out in Appendix N.
- 2.3 Approve the responses to the Scrutiny and Overview Committee recommendations (to follow after publication of this report) on the budget proposals as set out in Section 20.
- 2.4 Approve that (subject to Full Council approving the budget and any further decisions required of the Executive) that Corporate Directors be authorised to implement their respective growth and savings proposals for 2024-25 in accordance with the recommendations within this report, the Council's Constitution, Financial Regulations, relevant Schemes of Delegation and undertake any further consultation required, including regarding the Equalities Impacts of specific decisions within the Budget envelope as approved by Full Council.
- 2.5 Propose to Full Council for approval an increase in the Croydon element of the 2024-25 council tax charge by 2.99% (Band D £53.98).
- 2.6 Propose to Full Council for approval a 2% increase (Band D £36.11) in the 2024-25 Adult Social Care precept levy.
- 2.7 Note, based on the Mayor of London's draft consolidated budget, a proposed 8.58% (Band D £37.26) increase regarding the Greater London Authority precept.
- 2.8 Propose to Full Council for approval, the calculation of budget requirement and council tax as set out in Appendix I and note that the inclusion of the GLA precept will result in a total increase of 5.69% (Band D £127.35) in the overall Croydon council tax bill.

- 2.9 Propose to Full Council for approval the setting of the Council's own total net expenditure budget for 2024-25 at £361.267m.
- 2.10 Propose to Full Council for approval the detailed programme of revenue savings, income, demand pressures and legacy budget corrections, by directorate, as set out in Appendix C.
- 2.11 Propose to Full Council the proposed £5m budget in 2024-25 to support delivery of the transformation programme.
- 2.12 Propose to Full Council the Reserves Policy set out in Appendix M.
- 2.13 Propose to Full Council for approval that the Corporate Director of Resources be authorised to collect and recover National Non-Domestic Rate and council tax in accordance with the Local Government Finance Act 1988 (as amended) and the Local Government Finance Act 1992.
- 2.14 Note the revenue budget assumptions detailed in the report and budget projections to 2027-28 made by the Corporate Director of Resources in agreement with the Chief Executive and with the Corporate Management Team.
- 2.15 Note the Council's request for a Capitalisation Direction from the Department of Levelling Up, Housing and Communities [DLUHC] of up to £38m for 2024-25, £9.439m relating to 2019-20 and current assumption that up to a further £38m per annum in exceptional financial support will be required for future years.
- 2.16 Note that all Directors will be required to report on their projected financial position compared to their revenue estimates in accordance with the 2024-25 monthly financial performance reporting timetable.
- 2.17 Note the statement (Appendix K of the Report) of the Corporate Director of Resources and S151 Officer, under Section 25 of the Local Government Act 2003, regarding the adequacy of reserves and robustness of estimates.
- 2.18 Note that the provisional Dedicated Schools Grant allocation for 2024-25 will increase by £28.583m to £466.825m (section 12 of the Report).
- 2.19 Propose to Full Council that the necessary determinations are made as billing authority under Section 11B of the Local Government Finance Act 1992 for financial year 2024-2025 to the effect that where permitted, for dwellings that have been unoccupied and substantially unfurnished for a period of at least one year the amount of Council Tax will be increased by 100% where the period is less than 5 years, by 200% where the period is at least 5 years but less than 10 years, and by 300% where the period is at least 10 years, and that the discount under Section 11(2)(a) shall not apply.
- 2.20 Propose to Full Council that the necessary determinations are made under Section 11C of the Local government Finance Act 1992 as billing authority for financial year 2025-2026 to the effect that where permitted, for dwellings where there is no resident of the dwelling and

the dwelling is substantially furnished, the amount of Council Tax will be increased by 100%, and the discount under Section 11(2)(a) shall not apply.

- 2.21 Propose to Full Council that the Council Tax Support scheme (statutory local council tax reduction scheme) under Section 13A(2) of the Local Government Finance Act 1992 is not changed from that agreed by Full Council resolution on 1st March 2023.

3. BACKGROUND

- 3.1 Local government finances are under strain from inflation, the impact of cost-of-living pressures on local communities and an increase in demand for essential social care, housing and welfare services. The financial challenge for Croydon is compounded by significant, and independently well documented, local legacy (governance, financial, service delivery and structural) issues.

National Background

- 3.2 The Chancellor of the Exchequer gave an update on the state of the public finances and the performance of the economy in the Autumn Statement² 2023. The economic and fiscal outlook set out in the Statement included:
- The economy has proved to be more resilient to the shocks of the pandemic and energy crisis than anticipated. Compared to the March 2023 National Budget there is a forecast £27 billion fiscal windfall. The Autumn Statement set out that virtually all of this will fund a 2p cut in employee National Insurance Contributions, permanent tax relief for business investment, and further welfare reforms. Previously announced public spending plans were largely unchanged.
 - Inflation has been more persistent and domestically fuelled than anticipated. Consumer Price Index (CPI) inflation is now forecast to reduce from a 11% peak in October 2022 to 3% in 2024-25 before returning to the Government's 2% target in the first half of 2025.
 - The 2023-24 funding allocation for local government is less generous than planned. It assumed underlying inflation (GDP deflator) of 2.5% as compared to the latest estimate of 6.1%. There has been no grant top-up to reflect this shortfall with local government absorbing the extra cost.
 - 2023-24 interest rates have reached levels not seen since the 2008 financial crisis.
 - Unemployment is estimated to rise to 1.6 million people (4.6 per cent of the labour force) in the second quarter of 2025.
 - Beyond 2024-25 day-to-day public spending is set to increase by 0.9% in real terms on average each year from 2025-26 to 2028-29. This includes existing commitments on health, schools and childcare and implies, according to the Institute for Fiscal Studies³, a real terms funding cut of 3.4%

² Autumn Statement - HM Treasury 22 November 2023

³ Institute for Fiscal Studies – The impact of the Autumn Statement on public services, council funding and devolution deals – 24 November 2023.

per annum for 'unprotected' departments, such as local government, in England.

- 3.3 The continuation of inflationary pressures, and the rise in the cost of living, has contributed towards an increase in demand for Croydon services, such as homelessness prevention, and higher pay and supplier costs. These impacts are embedded within the 2024-25 Croydon budget proposals with £18.1m set aside as an inflation provision and a provision of £11.5m for additional demand and legacy budget pressures.
- 3.4 The Autumn Statement 2023, other than a welcome unfreezing of Local Housing Allowances to covering 30% of local housing rents and an additional £120m for homelessness prevention, broadly stuck to previously announced public spending plans. The Local Government Association expressed disappointment that the growing evidence of the financial strain facing councils has not been more fully recognised.
- 3.5 The Secretary of State for Levelling up Housing & Communities subsequently announced, on January 24th, additional funding measures worth £600m for local authorities. This includes £500 million of new funding for councils with responsibility for adults and children's social care, distributed through the Social Care Grant. This new funding is intended to improve service performance and local authorities will be asked to produce productivity plans setting out how they will improve service performance. The final Local Government Finance Settlement (LGFS), confirming individual local authority allocations, was announced on 5th February 2024.
- 3.6 The depth of the financial stress emerging across local government is evidenced by three local authorities issuing s114 notices, arising from their inability to set balanced budgets between June and November 2023. This compares to three authorities (including Croydon) in the previous five years. In addition, several other councils have publicly indicated that they might need to make the same announcement in the next few months.

Local Legacy and Structural Issues

- 3.7 In Autumn 2020 Croydon Council was issued with a Report in the Public Interest identifying significant failures in leadership, governance and financial management. The Report brought to light serious financial concerns which centred on the Council's strategy of commercial investment and residential development.
- 3.8 In November 2020, the Council issued its first S114 notice, flagging that it was in a position whereby it could not continue to operate without exceptional financial support. In December 2020, the Council requested exceptional financial support, which was agreed by government through the provision of capitalisation directions, of £150m over four years from 2020-21.

- 3.9 Croydon put in place the 'Croydon Renewal Plan' in response to the financial crisis and made significant progress by delivering cumulative savings of £90m over 2021-22 and 2022-23. However, the requirement upon Croydon, following external audit review and the outcome of the 'Opening the Books' exercise launched by the Executive Mayor in 2022, identified that the full scale of the financial challenges was far greater than had been originally envisaged. On-going legacy budget corrections of £49m were required for 2023-24 with prior year adjustments of £161.6m identified.
- 3.10 The seriousness of the Council's financial position resulted in the Corporate Director of Resources and S151 Officer deciding that Croydon Council's budget was not financially sustainable and issuing a Section 114 Notice from 2023-24 onwards. The section 114 Notice was issued on 22 November 2022 and reported to Cabinet on 30 November 2022. The Report concluded that the Council cannot solve its financial issues on its own and set out a range of requests of government for exceptional financial and other support.
- 3.11 A package of measures was subsequently agreed with central government that enabled the Council to set a balanced budget for 2023-24. These included:
- An increase in the 2023-24 Referendum Cap for council tax increases from 4.99% to 14.99% for Croydon.
 - Central government making available exceptional financial support, in the form of permission for additional borrowing to fund revenue (a Capitalisation Direction) of £63m in 2023-24 (£58m on top of the £5m previously agreed by government in 2021 for 2023-24).
 - A further Capitalisation Direction of £161.6m to cover the new prior year legacy finance issues that were revealed through the Opening the Books programme.
- 3.12 These measures, along with the Council agreeing to make savings of £36m in 2023-24, enabled Croydon to set a balanced budget for 2023-24. The Council is therefore currently not subject to the S114(3) report issued on 22 November 2022.
- 3.13 The 'Opening the Books' exercise more clearly established the Council's underlying financial position. But there is still a risk that further legacy issues will emerge. Just recently an issue has arisen in relation to an historic contractual issue for highway works and improvements. Although the Council was aware that the contractor's final account, pre-dating 2019-20, had not been resolved and that the contractor was claiming a much higher sum than the Council deemed was owing, the level of risk in relation to the claim ultimately being successful was until recently deemed to be low, a view supported by Counsel advice and by relative inaction by the contractor who did not actively pursue the claim between 2021 and summer 2023. In the autumn 2023, based on a re-invigorated approach taken by the contractor, the risk of the claim being successful was escalated from a low risk to a

medium risk in the risk register. The scale of the claim from the contractor also increased. The contractor was eventually successful in a binding adjudication decision at the top end of the claim and the Council eventually had to pay the contractor £9.439m in January 2024. The adjudication decision is potentially the subject of an appeal through Arbitration proceedings. As the 2019-20 accounts are still open, the Council has had to charge the payment back into that year. With no funding available in reserves for 2019-20, the Council has requested a further legacy Capitalisation Direction of £9.439m for 2019-20 to cover this payment.

- 3.14 The use of Capitalisation Directions, which allow additional local authority borrowing, is the Government's only solution at this stage for councils in financial distress. A key structural problem already facing Croydon is that the Council has a high level of debt. As at the end of 2021-22 OFLOG data confirmed that the cost of servicing Croydon's debt, at 16% of core spending power, is double that for the median English authority. The subsequent further use of Capitalisation Directions has added to Croydon's debt burden. As mitigation against this debt increase the council has put in place an asset disposal programme that aims to deliver £200m of receipts over the 2022-23 to 2025-26 period. After allowance for the disposals programme the net cost of servicing Croydon's 2024-25 debt is estimated at 15% of core spending power.
- 3.15 The on-going impact of the legacy issues facing Croydon means that extraordinary government support is still necessary unless a resolution to the high cost of servicing the Council's General Fund debt of £1.4bn is found. Such support is budgeted at £38m for 2024-25 and modelled to be required at the same level for future years.
- 3.16 Dialogue has continued with government regarding the level and type of future government support. The Council's preferred option for future government support would be for a £540m debt write off or an equivalent level of revenue grant support to be provided. This would deliver estimated revenue budget savings of £38m p.a. and enable the Council to set balanced budgets that neither relied on future government support nor placed additional and avoidable pressure on Croydon's taxpayers.
- 3.17 For 2024-25 the Government have notified Croydon that there will be no change in how exceptional support is made available. The use of a Capitalisation Direction of £38m is now budgeted for 2024-25 and a request has been submitted for a further £9.439m relating to 2019-20. Further exceptional financial support will be required from government for future years and £38m is modelled into the MTFS on an ongoing basis.

4. THE 2024-25 BUDGET AND COUNCIL TAX REQUIREMENT

- 4.1 The determination of Croydon's 2024-25 net budget requirement of £361.3m and council tax requirement of £259.8m is set out in Table 2. The medium-term forecast, to 2027-28, is set out in Appendix A with a departmental and subjective budget summary for 2024-25 provided in Appendix B.

Table 2 – 2024-25 Budget and Council Tax Requirement

	£'m
Directorate & Corporate Base Budget	383.702
Provision for pay and contract inflation (includes £0.749m b/fwd)	18.183
Demand pressures and correction of legacy issues	11.523
Net cost of borrowing (overall cost)	65.766
Saving from the asset disposal programme	-6.684
Savings and change proposals	-23.731
Transformation programme (reduction from £10m in 2023-24)	5.000
Contingency funding (unchanged from 2023-24)	5.000
Council tax – hardship support	0.500
Gross Budget Requirement	459.259
Core Grants	-43.929
Section 31 grant for under indexing the business rates multiplier	-16.063
Government capitalisation directive	-38.000
Net Budget Requirement (as per the budget book)	361.267
Prior year collection fund Surplus	-1.798
Revenue Support Grant	-17.818
Business rates (local income and top-up Grant)	-81.890
Council Tax Requirement (including the adult social care precept)	259.761

5 BUDGET ASSUMPTIONS

- 5.1 Budget estimates are exactly that, estimates of spending and income at a point in time. The key assumptions that underpin the 2024-25 budget estimate are set out below.

Inflation and Economic Demand Pressures.

- 5.2 Inflationary pressures have decreased markedly over the past year. The Consumer Price Index (CPI), the measure targeted by the Bank of England, stood at 4.0% in December 2023 compared to 10.5% in December 2022.
- 5.3 The drivers behind the downturn in inflation are varied but include a faster than expected decline in energy costs and downwards pressure on prices from rising interest rates. Although inflation has decreased the OBR⁴ noted that inflationary pressures are more persistent than previously thought. They expect it to be below 5% by the end of this year and reach 2% in the first half of 2025.
- 5.4 There is a risk that some of this year's higher inflation will feed through to council costs with a lag. For example, the 2024-25 increase in the London Living Wage (LLW) is 10.04%, up from £11.95 per hour to £13.15 per hour. This followed the government's increase to the National Living Wage, set

⁴ OBR – November 2023 Economic and fiscal outlook Report to accompany the Autumn Statement.

when 2023-24 inflationary pressures were peaking. The Council is committed, as part of the Ethical Care Charter, to ensure that relevant social care provision takes this increase into account.

- 5.5 For Croydon an inflation provision of £32.9m was made in 2023-24 of which:
- £1.2m was required to meet catch-up pressures from 2022-23.
 - £20.7m has been allocated in 2023-24 to meet contract and price pressures. This is based on review of detailed directorate requests.
 - £10.3m was allocated to fund the 2023-24 pay award (equivalent to a 6.5% pay award)
 - A balance of £0.75m remains unallocated.
- 5.6 For 2024-25 the MTFS Update report to October Cabinet allowed for an inflation provision of £17m based on the expected easing in inflationary pressures. Whilst inflation is still forecast to reduce significantly it is now proposed to top-up the £17m with the unallocated 2023-24 provision of £0.75m and an additional £0.389m. An overall 2024-25 provision of £18.183m will provide additional financial cover should, as the OBR suggest, inflation prove to be more persistent than previously anticipated. £18.183m could be seen to fund an estimated 2024-25 4% pay award of £6.4m with £11.783m of funding for non-pay inflation.
- 5.7 For years beyond 2024-25 the forecast budget allows for a further easing in inflationary pressures with a provision of £12m. This could be seen to fund a 2% pay award of £3.2m with £8.8m funding for non-pay inflation.
- 5.8 The use of the 2024-25 inflation provision will be controlled corporately and drawn down in accordance with the national pay award and agreement of specific directorate pressures. The latest report⁵ of the Bank of England Monetary Policy Committee highlighted downside and upside risks to their latest inflation forecast, for example the downside impact if geopolitical tensions and supply disruption ease more quickly, or upside risk if the external cost shocks on inflation take longer to unwind than they did to emerge. For Croydon the risk that actual inflationary pressures will be significantly more, or less, than budgeted will be closely monitored with updates provided within the monthly Cabinet financial performance reports.
- 5.9 The 2023-24 budget also included a £5.5m provision (economic demands and pressures) that allowed for the broader impact of the increase in the cost of living on the Council. As at month 8 (November 2023) £4.6m of the 2023-24 budget has been allocated to fund on-going pressures regarding homelessness (£2.2m), housing benefit subsidy shortfalls (£1.7m) and an increase in caseloads for children's social care workers (£0.7m). The unallocated balance will not be carried forward in 2024-25 and is released to fund other pressures. For financial modelling purposes, the medium term

forecast allows for an additional £5m per annum to be set aside from 2025-26 onwards.

- 5.10 A budget of £2m was set aside in 2023-24 as a Council Tax Hardship Fund to protect low-income households that find themselves in financial difficulty due to the increase in the Croydon Council Tax. Actual spend from the Hardship Fund is not forecast to exceed £0.5m in 2023-24 and the 2024-25 budget is rebased at this lower level. As set out in Appendix G there has been a significant increase in the local council tax support caseload over the past year which equates to a forecast reduction in the 2024-25 council tax base of 1,052 Band D equivalent properties – an income loss of £2m. The reduction in the Hardship Fund partially mitigates this impact.
- 5.11 A contingency of £5m is retained within the 2024-25 budget against emergent financial risks. As at month 8 (November) none of the 2023-24 risk contingency of £5m is forecast to be used.

Demand Pressures and Legacy Budget Corrections

- 5.12 The 2024-25 budget includes £11.5m, as summarised in Table 3 and detailed in Appendix C, to meet necessary demand pressures, such as those arising from demographic growth, and to correct legacy issues.
- 5.13 The Opening the Books exercise launched by the Executive Mayor in July 2022 required budget corrections of £49m for 2023-24 with prior year adjustments of £161.6m. This better established the Council's true underlying financial position and there is less risk of further historic legacy issues emerging. Legacy budget corrections of £0.8m are included within the 2024-25 budget.

Table 3 – 2024-25 Demand Pressures and Budget Corrections

Directorate	Demand Pressures £'000s	Legacy Budget Corrections £'000s	Total £'000s
Children, Young People and Education	0	0	0
Adult Social Care and Health	4,530	0	4,530
Housing	0	0	0
Sustainable Communities Regeneration and Economic Recovery	722	306	1,028
Assistant Chief Executive	3,708	500	4,208

Resources	1,686	0	1,686
Corporate	71	0	71
Total	10,717	806	11,523

5.14 New demand and demographic pressures will emerge beyond 2024-25 and an overall allowance of £14m per annum is modelled for future years. This is in line with the growth provided over the past 2 years.

5.15 The 2024-25 Final Local Government Finance Settlement (LGFS) confirmed a £3.8m grant increase for the adult social care discharge fund and market sustainability and improvement fund. The 2024-25 Croydon budget directly allocates this funding for use by Adult Social Care. It supplements the £4.5m set aside within the 2024-25 Croydon budget to meet demand and demographic pressures.

Savings and Transformation

5.16 Given Croydon's financial challenges, the Council must reduce its expenditure significantly over the medium-term. This does mean difficult decisions on the services the Council provides and ultimately, as set out in the Executive Mayor's Business Plan, the Council will need to do less and spend less in the future.

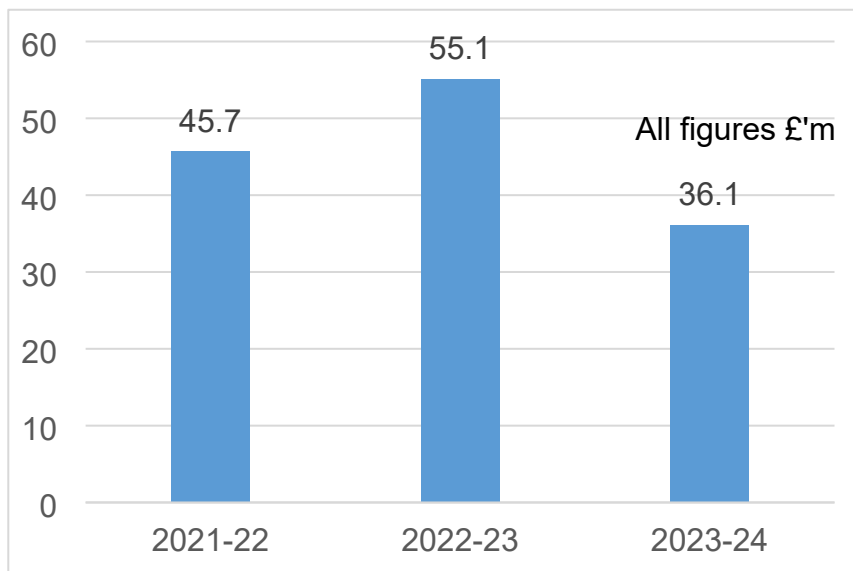
5.17 As set out in Table 4 overall savings of £30.4m are proposed for 2024-25. The savings have been developed in accordance with guidance from the Corporate Director of Resources and have been through a robust process of development and challenge with the Executive Mayor, Cabinet Members, the Chief Executive, the Corporate Management Team, service directors and managers. They have also been subject to review by the Scrutiny and Overview Committee and formed part of the public engagement process regarding the 2024-25 budget.

Table 4 – 2024-25 Savings and Change proposals by Directorate.

Directorate	£000s
Children, Young People and Education	2,972
Adult Social Care and Health	5,000
Housing	1,989
Sustainable Communities Regeneration and Economic Recovery	1,353
Assistant Chief Executive	4,245
Resources	6,672
Corporate	1,500
Total (Appendix C)	23,731
Debt servicing saving from asset disposals	6,684
Overall	30,415

- 5.18 Directorate savings of £23.7m are proposed for 2024-25 and are summarised in Appendix C. These include incremental savings of £6m that were originally put forward within the 2023 budget process. The asset disposal programme will deliver an estimated 2024-25 saving of £6.7m in debt servicing costs.
- 5.19 The savings programme is focused on the Council's 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.
- 5.20 The scale of savings required by the Council cannot be met through 'salami-slicing' or just stopping some services. Croydon is committed to service transformation that delivers both financial and service benefits. The Council set aside £10m to fund transformation work in 2023-24 and a further £5m per annum is budgeted for 2024-28. An update on the transformation projects is provided in Appendix D. Given the magnitude of Croydon's financial challenge the level of the transformation budget will be regularly reviewed so that the transformation plans can be delivered safely and sustainably.
- 5.21 Beyond 2024-25, the MTFs models savings of £20m per annum. Given the financial pressures the Council faces, it will strive to go further than this as long as it is safe to do so. As set out in Chart 1 the Council has identified an average of £45m+ per year in savings from 2021-22 to 2023-24. These annual savings are significantly higher than other London boroughs and our statistical neighbours. This is not sustainable for the future and would risk hollowing out the services received by residents.

Chart 1- Budget Savings 2021-22 to 2023-24



Net Cost of Borrowing

- 5.22 Given the Council's high debt burden the 2024-28 capital programme only covers essential work on assets such as operational buildings, roads, parks and ICT infrastructure so that future debt charges are minimised.
- 5.23 The Council's asset base is under continual review to identify surplus assets that can be sold. This will generate capital receipts that can avoid further borrowing and/or repay debt. Two tranches of assets have already been approved by the Executive Mayor in Cabinet for immediate sale. The asset disposal programme aims to generate capital receipts of £200m over the 2022-23 to 2025-26 period of which £148m is forecast to be receivable by the end of 2023-24.
- 5.24 The 2024-25 budget for the net cost of borrowing is £65.8m prior to forecast savings of £6.7m from asset sales. The net budget of £59.1m provides for debt servicing costs of £61.7m (interest payable on borrowing and the annual charge to revenue for debt repayment – the minimum revenue provision) that is partially offset by investment income of £2.6m. The debt servicing cost is forecast to be 15% of 2024-25 core spending power.
- 5.25 The 2024-25 budget for the net cost of borrowing, and future forecast, aligns with the proposed 2024-28 capital programme and Treasury Management Strategy. It includes the use of capitalisation directions as set out in Table 5. The forecast assumes that further capitalisation directions of £38m per annum are required from 2025-26 onwards. The estimated additional annual debt servicing cost for each £38m tranche is £2.5m per annum.

Table 5 – Budgeted Capitalisation Directions

	£'m
Prior to 2023-24	145.0

Legacy issues to 2022-23 (agreed for 2023-24 Budget)	161.6
2023-24 – Existing	5.0
2023-24 – New	58.0
2024-25 – New	38.0
2025-26 – assumed	38.0
2026-27 – assumed	38.0
2027-28 – assumed	38.0
Total government support	£521.6m
Additional legacy request in relation to a highways contractual matter.	£9.4m

5.26 As exemplified in Table 5 the agreed capitalisation direction for 2023-24 of £63m and assumed requirement of £38m per annum for the next 4 years will increase borrowing need by £215m. This compares to the potential generation of £200m in receipts from the asset disposal programme. The asset disposal programme will mitigate the impact of further capitalisation directives but will not enable in-roads to be made into Croydon’s historic debt burden.

Government Grant and Business Rates Funding

5.27 The Final Local Government Finance Settlement (LGFS) was announced by a written Ministerial statement on 5th February 2024. The core grant and revenue support grant funding receivable by Croydon in 2024-25 is set out in in Appendix E. There is a net increase of £5.8m from 2023-24 in general grants. This includes an additional allocation of Social Care Grant of £2.9m following the announcement by the Secretary of State for Levelling up Housing & Communities, on January 24th, of additional funding measures worth £600m for local authorities.

5.28 The 2024 Final LGFS is for one year only. The assumptions that underpin the Council’s forecast beyond 2024-25 are set out in Appendix E and will be updated as part of the 2025-26 budget strategy.

5.29 For business rates the small business rate multiplier will be frozen for a fourth year at 49.9p, while the standard multiplier will be uprated by September CPI to 54.6p. The current 75% relief for eligible Retail, Hospital and Leisure (RHL) properties is being extended for 2024-25. Local authorities will be fully compensated for the loss of income arising from these measures.

5.30 The current business rate forecast is set out in Appendix F and takes account of the uplift in the business rate multiplier. The forecast has been updated in line with the annual NNDR1 return submitted to government. For future years an annual 2% inflationary uplift is modelled. There is no underlying growth in the tax base with the impact of appeals, empty buildings and deletions expected to offset the addition of new hereditaments.

5.31 The final entries have been completed regarding 2022-23 business rates and an update provided on the 2023-24 position. As set out in Appendix F prior

year deficits of £1.8m are now modelled which form part of a proposed drawdown of £3.5m from the business rates and collection fund smoothing reserve of £8.4m.

6. REQUEST FOR GOVERNMENT SUPPORT

- 6.1 The magnitude of the financial challenge facing Croydon means that it cannot become financially and operationally sustainable without significant central government assistance.
- 6.2 The current budget modelling identifies a requirement of £38m per annum from 2024-25 to 2027-28. This is a reduction from the requirement for a capitalisation direction of £63m in 2023-24.
- 6.3 As set out in Table 5 it is currently assumed that future government support of £38m per annum will be provided through the use of capitalisation directions. This replicates how central government has previously supported the Council and will in 2024-25. The Council is concerned that the continued use of capitalisation directions, which add to Croydon's debt burden and negate the benefits from the asset disposal programme, will not provide a financially sustainable solution to the Council's future budget. A disproportionately high level of savings is already required to fund the annual cost of debt repayment.
- 6.5 A debt reduction, or equivalent grant support, would recognise both the unique 'toxic' debt burden faced by Croydon but also the burdens it has taken on without sufficient funding capacity to service the debt.
- 6.6 Further to the announcement of the 2024-25 Provisional LGFS it is expected that exceptional government financial support will continue to be facilitated through use of a Capitalisation Direction of £38m in 2024-25. An additional legacy request, relating to 2019-20, of £9.439m has also been submitted concerning the highway works and improvements contract. This is modelled within the Croydon budget proposals.

7. COUNCIL TAX BASE AND CHARGE

- 7.1 The determination of the tax base is delegated to the Corporate Director of Resources (S151) Officer and is 137,040.4 Band D equivalents for 2024-25. This is a decrease of 190 Band D equivalent households from 2023-24 to 2024-25. The report agreed by the Corporate Director of Resources (S151) Officer is attached as Appendix G.
- 7.2 Although the number of dwellings has increased in line with the trend growth seen over the past 5 years the 2024-25 tax base has decreased due to an upturn in the level of discounts offered through the local council tax support scheme and number of students qualifying for council tax exemptions.

- 7.3 The Levelling-up and Regeneration Act 2023 achieved Royal Assent on 26 October 2023. It allows councils to apply a Council Tax premium of up to 100% on homes which have been empty for longer than one year (rather than the two years currently in place). Full Council will be recommended to approve this and other Council tax changes in respect of empty dwellings as detailed in full in the 22 November 2023 Cabinet report, Appendix H to this report. The tax base forecast includes a net uplift of 141 dwellings based on adoption of these changes. Full Council are required to consider whether to approve this change, and to charge a premium on second homes from 2025-26.
- 7.4 From 1 April 2022 the Council changed the Council Tax Support Scheme to an income band scheme. This means that weekly household income is used to determine the percentage of Council Tax support provided.
- 7.5 At the Council budget meeting on 1 March 2023, it was resolved to “Change the rate at which the income bands are increased annually from the level of Consumer Price Index (CPI) 10.1% to the amount Council Tax is increased for that year which could be up to 15% cap.” The income band levels increase being in line with Council Tax increase was only for 2023-24 and therefore the Council Tax Support Scheme will revert from 1 April 2024 to increase the income bands in line with consumer price index (CPI) year on year inflation as at September in the prior year.
- 7.6 The forecast council tax collection rate of 97.5% is unchanged from 2023-24.
- 7.7 The Band D council tax charge for Croydon is calculated by dividing the council tax requirement by the council tax base. The figures for 2024-25 are:

A	Croydon Council Tax Requirement	£259,761,449
B	Tax Base (Band D equivalent)	137,040.40
A / B	Band D Charge	£1,895.51

- 7.8 This represents an increase in the Croydon element of the council tax charge of 2.99% and a 2% levy for the adult social care precept. The weekly increase in the Band D charge for the Croydon element of council tax is £1.73 (annual £90.09 and daily £0.25)
- 7.9 As part of the Localism Act 2011, the Government replaced the power to cap excessive budgets and council tax increases with a statutory duty to undertake a referendum on proposed council tax increases above limits it sets. For 2024-25 the relevant basic amount of council tax of Croydon London Borough Council has been determined by government as being excessive only ‘if the authority’s relevant basic amount of council tax for 2024-25 is 5% (comprising 2% for expenditure on adult social care, and 3% for other expenditure), or more than 5%, greater than its relevant basic amount of council tax for 2023-24’. The 2024-25 Croydon Council tax

increase is below 5% and will not require a referendum.

8 PRECEPTOR'S COUNCIL TAX REQUIREMENTS

8.1 The Greater London Authority's (GLA) precept is also funded from council tax. The following table analyses the total amount to be funded and the resulting proposed overall Band D council tax level.

A	GLA Council Tax Requirement	64,600,845
B	Tax Base (Band D equivalent)	137,040.40
A / B	Band D Charge	471.40

8.2 The Mayor for London has proposed a Band D charge of £471.40 This is subject to formal approval by the Mayor for London following the London Assembly meeting of 22 February 2024. The proposed GLA charge represents an increase of £37.26, or 8.58%, compared to 2023-24.

9 TOTAL 2024-25 COUNCIL TAX REQUIREMENT

9.1 The overall amount to be met from the council tax, subject to confirmation of the GLA precept, is £324.4m.

A	Croydon Council Tax Requirement	£259,761,449
B	GLA Council Tax Requirement	£64,600,845
C	Total Council Tax Requirement	£324,362,294

9.2 In accordance with the Local Government Finance Act 1992, the Council is required to calculate and approve a council tax requirement for its own budgetary purposes (section 9) and then add the separate council tax requirements for each of the preceptors (section 10). The requisite calculation is set out in Appendix I.

9.3 The Council must then set the overall council tax for the Borough. These calculations must be carried out for each of the valuation bands, A to H. The amount per Band D equivalent property is calculated as follows:

A	Total Council Tax Requirement	£324,362,294
B	Tax Base (Band D equivalent)	137,040.40
A/B	Band D Charge	£2,366.91

Prior year Collection Fund adjustments

- 9.4 The Local Government and Finance Act 1988 requires that all council tax and non-domestic rates income is paid into a Collection Fund, along with payments out regarding the Greater London Authority precept, the business rates retention scheme and a contribution towards a Council's own General Fund. Adjustments are made to future years for the difference between the actual, and budgeted income collected.
- 9.5 For Croydon a net council tax collection fund surplus of £2.230m is estimated for 2023-24, which relates to the finalisation of amounts for 2022-23, of which the Croydon share is estimated at £1.798m.

10. BUDGET ENGAGEMENT

- 10.1 An update on the Medium-Term Financial Strategy 2024-25 to 2027-28 was considered by Cabinet on 25th October 2023. It was agreed, in line with the Executive Mayor's commitment to listen to Croydon's residents, that a public engagement programme be launched to allow residents, partners, the voluntary, community and faith sector and other interested parties to provide their views and feedback on the revenue budget proposals set out in the Report. The public engagement programme would also cover the annual statutory budget consultation with local businesses.
- 10.2 The budget engagement subsequently ran on the Council's online platform from 6th November 2023 for six weeks. It gave residents and businesses the opportunity to provide their views on the services and areas of spending which are most important for them and offer the opportunity to comment on how specific savings proposals may impact them and what mitigations the Council may wish to consider.
- 10.3 The Budget engagement was publicised across all Council communications channels including social media, shared with local voluntary, community and faith sector organisations, resident associations, local businesses and other partners, and publicised in the Council's libraries and children's centres with staff briefed to support residents and print copies of the information and survey if needed.
- 10.4 Separate individual service consultations with service users, staff and trade unions will also be undertaken ahead of implementation of individual savings proposals where required.
- 10.5 The feedback from the consultation (public engagement) is summarised in Appendix J. 939 responses were received with respondents giving greatest priority to support for elderly and vulnerable residents, services for children,

young people, families and education and rubbish and recycling collections. The lowest ranked service areas, according to respondents, were libraries, culture and leisure and sports facilities.

10.6 In answering how the budget proposals will affect them, the key themes of concern were (number of responses are shown in brackets):

- Increase in council tax (248)
- Cost of living (50)
- Service cuts and reductions (38).

10.7 This report recommends that the Executive Mayor in Cabinet consider the responses to the budget engagement with residents and statutory consultation with businesses as set out in Appendix J. Officers have reviewed the feedback and are content that the proposals in the report are not inconsistent.

11 VIEWS OF THE DIRECTOR OF FINANCE UNDER SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003

11.1 Under Section 25 of the Local Government Act 2003, the Corporate Director of Resources (Section 151 Chief Finance Officer) is required to include, in the budget report, her view of:

- the robustness of the 2024-25 estimates.
- the adequacy of the balances and reserves the budget provides for in light of the medium-term risks facing the authority.

11.2 As set out in Appendix K the Corporate Director of Resources is satisfied with the accuracy and robustness of the estimates included in this report. It should be noted that budget estimates are exactly that, estimates of spending and income at a point in time. This statement about the robustness of estimates cannot give a guaranteed assurance about the budget but gives Members reasonable assurances that the budget has been based on the best available information and assumptions.

11.3 Reserves play a crucial role in good public financial management. As well as providing resilience against unexpected events or emergent needs they enable investment in service transformation and council priorities. An update on the key medium term financial risks facing Croydon is set out in Appendix K with key directorate risks detailed in Appendix L.

11.4 The Council has a well-documented history of the imprudent use of reserves to balance its budget and has taken robust action over the past four years to restore reserves from a negative base. This action will be strengthened by putting in place, as set out in Appendix M, a reserves policy for 2024-25.

11.5 The current estimate of reserves that will carry forward to 2023-24 are summarised in Table 6. The current estimate is still subject to review

through the closedown of the accounts process for 2019-20 to 2022-23. The estimated general fund balance was £27.5m at the start of 2023-24 and is not anticipated to change prior to the start of 2024-25. The Corporate Director of Resources is of the view that this should be the minimum level of general fund balance that the Council holds given its scale, complexity as a unitary council and historically high-risk profile.

Table 6 – Reserves Carried Forward to 2023-24

	Balance 1st April 2023 £'m
Earmarked Reserves	60.4
Restricted Reserves	76.8
Balances held by Schools	6.7
General Fund Balances	27.5
Total	171.4

11.6 As set out in Appendix K it is the view of the Corporate Director of Resources that the 2024-25 budget provides for an adequate level of balances and reserves considering the medium-term risks facing the authority.

11.7 Over the longer-term the Council faces a significant challenge to identify further savings that balance the budget. The current Budget modelling identifies a target for new savings of £20m per annum beyond 2025-26. However, there is an annual £38m shortfall driven by the cost of debt in the Council's ongoing annual budget which is currently assumed to be funded from annual Capitalisation Directions, which in turn will generate more cost pressures from their associated debt charges. This is not a sustainable financial position and will need to be resolved.

12. DEDICATED SCHOOLS GRANT

12.1 Dedicated Schools Grant (DSG) is paid to the Council by the Secretary of State under Section 14 of the Education Act 2003. DSG is provided outside of the LGFS and must be allocated, in line with the associated conditions of the School and Early Years Finance Regulations, to the schools' budget in the year in which it is paid.

12.2 As shown in Table 7 Croydon's provisional DSG allocation for 2024-25 will increase by £28.583m to £466.825m. The key growth areas are the High Needs, Early Years and Schools Block. The growth allocated to the School's Block was £5.701m representing an 2024-25 increase of 1.82%.

Table 7 – Croydon DSG Allocations

Financial Year	Schools Block	Central Services Block	High Needs Block	Early Years Block	Total DSG
	(£'m)	(£'m)	(£'m)	(£m)	(£m)
2023-24	313.433	4.728	89.704	30.377	438.242
2024-25	319.134	4.696	92.227	50.768	466.825
Change	5.701	-0.032	2.523	20.391	28.583

12.3 **Schools Block** - The Schools Block of £319.134m funds mainstream schools from reception class to Year 11 (nursery and sixth-form funding are excluded). Croydon has 109 schools with 50,578 pupils according to the most recent Department for Education (DfE) data. This is a net increase of 101 from last year.

12.4 Whilst local authorities allocate the school's block budget the DfE is moving towards implementing a National Funding Formula (NFF). For 2024-25 local authorities must move their local formula factor values at least 10% closer to the NFF, except where their local factor is already mirroring the NFF.

12.5 Croydon local factors largely mirror the NFF and the current changes are unlikely to have a significant impact. There may be a small benefit for secondary schools.

12.6 Table 8 sets out the funding breakdown of the Schools Block across primary and secondary schools and the percentage grant change from 2023-24.

Table 8 – Schools Block

	2023-24 (A)	2024-25 (B)	Total Change (C) = (B) - (A)	Value change	Percentage Change
	(A)	(B)	(C)		
Primary School Rate of Funding (£'s)	5,383.68	5,477.01	93.33	£2,919,409	1.73%
Primary School Pupil Numbers (no)	31,280.50	31,278.50	-2.00	-£10,954	-0.01
Primary Block Funding (£'s)	168,404,202	171,312,657	2,908,455	£2,908,455	1.73%
Secondary school Rate of Funding (£'s)	7,278.90	7,391.76	112.86	£2,166,404	1.55%
Secondary school Pupil Numbers (No)	19,195.50	19,299.33	103.83	£767,486	0.54%
Secondary Block Funding	139,722,125	142,656,016	2,933,891	2,933,891	2.09%
Premises (£; s)	3,243,546	3,446,676	203,130	203,130	6.26%
Growth (£'s)	2,063,504	1,718,503	-345,001	-345,001	-16.72%
Overall Total	313,433,377	319,133,852	5,700,475	5,700,475	1.82%

- 12.7 Primary school numbers have fallen by two pupils (31,279 – 31,281), whilst secondary school numbers have increased by 103 (19,299 – 19,196). Several primary schools are facing financial challenges due to a reduction in their pupil numbers over recent years and the low percentage increase in 2024-25 funding.
- 12.8 The funding formula factors used to determine each individual school budget allocation are set by the DfE. The funding rates and local factors were reviewed and thereafter recommended by Croydon Schools Forum on 6th November 2023 with Cabinet approval on 31st January 2024.
- 12.9 **High Needs Block (HNB)** – This grant supports all special education needs (SEN) provision including, maintained special schools, independent special schools and SEN support in mainstream schools. The HNB national funding factors are largely based upon historical factors.
- 12.10 As set out in Table 9 there is a 2.8% increase in 2024-25 HNB funding. The percentage increase in the basic allocation is 7.19% but the DfE are no longer providing the additional high-needs allocation received in 2023-24. The HNB includes the minimum funding requirements for special schools highlighted in the 2023-24 DfE operational guide.

Table 9 – High Needs Block

Financial Year	Basic Allocation	Other elements	Import / Export	Hospital education, AP, Teachers pay/pension and supplementary funding factor	Additional high needs allocation (£s)	Total
	(£'s)	(£'s)	(£'s)	(£'s)	(£'s)	(3's)
2023-24	80,165,501	7,199,777	-2,775,000	1,433,437	3,680,676	89,704,391
2024-25	85,933,273	7,635,729	-2,790,000	1,447,663	0	92,226,665
Change	5,767,772	435,952	-15,000	14,226	-3,680,676	2,522,274

12.11 The High Needs funding pressures have become more acute since the introduction of the Children and Families Act 2014 and the requirement to meet the needs of 18 to 25 year-old students. For Croydon there was a budget gap of £1.8m last year.

12.12 Many local authorities have a HNB deficit due to the demands referred to above. If an authority has an overall DSG deficit of one per cent or more at the end of the previous financial year it is required to submit a deficit recovery plan. At the close of 2022-23 the cumulative Croydon deficit was £15.4m. The Council signed a “Safety Valve” agreement with the DfE last year which is designed to assist local authorities that have the highest cumulative percentage DSG deficits on their balance sheet.

12.13 The rationale is to inject cash in the form of both capital and revenue to fund the provision of more school places for children with special educational needs and disabilities (SEND) as well as clear the agreed historical deficits. Croydon signed a Safety Valve agreement for a £27.4m cash intervention, through which Croydon received £10.96m in March 2023 and is expecting another £3.29m in 2023-24 provided that the financial targets signed under the agreement are met.

12.14 The government recently confirmed the extension of the Statutory Override for the DSG deficit for the years, from 2023-24 to 2025-26. This means that the DSG deficit is not an immediate financial risk to the local authority.

12.15 **Early Years Block** – This block covers funding for pupil’s free entitlement across all early year’s settings. There is a universal free entitlement of 15 hours per week, but some pupils are eligible for 30 hours. The funding allocations for 2024-25, compared to 2023-24 are shown in Table 10.

12.16 The reason for the significant increase is that the government introduced 15 hours entitlement for eligible working parents of children from 9 months to 2 years old (new entitlement from 1 September 2024) and 15 hours entitlement for eligible working parents of 2-year-old children from 1 April 2024. From September 2025, eligible working parents of children aged nine months and above will be able to access 30 hours (over 38 weeks a year) from the term following their child turning nine months to when they start school.

Table 10 – Early Years Block

	2023-24	Change	2024-25
3&4 Year Old Funding Rate (£'s)	5.78	0.98	6.76
3&4 Year Old (units)	7,919.62	201.19	8,120.81
15 hrs * 38weeks	570.00	0	570
3&4 Year Old Funding (£'s)	26,091,980	5,199,125	31,291,105
2 Year Old Funding Rate (£'s)	6.63	3.49	10.12
2 Year Old Funding Rate (units)	849.16	1,366.75	2,215.91
15 hrs * 38weeks	570	0	570
2 Year Old Funding (£'s)	3,209,060	9,573,195	12,782,255
under 2 years Old Funding Rate (£'s)	0	13.79	13.79
under 2 years old early years (units)	0	675.10	675.10
15 hrs * 38weeks	0	570	570
Under 2 Year Old Funding (£'s)	0	5,306,489	5,306,489
Early years pupil premium	168,855	118,176	287,031
Disability access fund	134,136	115,204	249,340
Initial supplementary funding allocation	773,262	78,364	851,626
Total Funding	30,377,293	20,390,553	50,767,846

12.17 An Early Years National Funding Formula was introduced in April 2017. It aims to ensure that all early year settings are funded at the same rates within each local authority. The main risk with this block is the challenges faced by the Maintained Nursery schools due to funding shortfalls and existing deficits. The service is working with these schools on their three-year deficit recovery plan.

12.18 **Central Services Schools Block** - The Central Services Schools Block (CSSB) consists of two parts – on-going functions and historic commitments.

12.19 The 2024-2524 CSSB allocations are set out in Table 11. This includes protection for historic prudential borrowing costs and historical teacher pension costs.

Table 11 – Central Services Schools Block

	CSSB Unit of Funding	CSSB Pupil Count	On-going Commitments	Funding for Historic Commitments	Total Central School Services Block
	(£'s)		(£'s)	(£'s)	(£'s)
Year 2023-24	52.93	50,476.00	2,671,694	2,056,320	4,728,014
Year 2024-25	52.20	50,577.83	2,640,163	2,056,320	4,696,482
Change	-0.73	101.83	-£31,521	0.00	-31,531.27

12.20 On-Going Commitments.

The main expenditure type under on-going responsibilities includes:

- a) licences negotiated centrally by the Secretary of State for all publicly funded schools
- b) Schools Admissions Remission of boarding fees at maintained schools and academies and Servicing of school's forums.
- c) Finance, Internal Audit cost and management salaries related to education functions.

The reduction in grant by £0.032m will be met by savings within the service.

12.21 Historic Commitments. The DfE policy team agreed on the protection of funding for historic commitments following a submission to the DfE by the Council. The protection covers the prudential borrowing and historical teachers' Pension costs. Without such protection the grant funding would have reduced by 20%. There is a future risk that such protection may not continue.

13 FINANCIAL IMPLICATIONS

13.1 As set out throughout this report.

14 LEGAL IMPLICATIONS

Setting the Council Tax

14.1 The Local Government Finance Act 1992 ("The Act") sets out the statutory framework for the setting of Council Tax. Section 1 ('Council tax in respect of dwellings') provides for the Council, as a billing authority, each financial year, to levy and collect Council Tax in respect of dwellings within its areas.

14.2 Section 30 ('Amounts for different categories of dwelling') sets out how the Council should calculate the amount of Council Tax by taking the aggregate of-

- a) the amount which, in relation to the year and the category of dwellings, has been calculated (or last calculated) by the authority in accordance with sections 31A, 31B and 34 to 36
- (b) any amounts which, in relation to the year and the category of dwellings have been calculated in accordance with sections 42A, 42B and 45 to 47 below and have been stated (or last stated) in accordance with section 40 in precepts issued to the authority by major precepting authorities.

14.3 Section 31A ('Calculation of council tax requirements by authorities in England') provides that the Council must calculate in the year the aggregate of—

- “a) the expenditure which the authority estimates it will incur ... in performing its functions and will charge to a revenue account...,
- b) such allowance as the authority estimates will be appropriate for contingencies in relation to amounts to be charged or credited to a revenue account ..,
- c) the financial reserves which the authority estimates it will be appropriate to raise ..for meeting its estimated future expenditure,
- d) such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for,
- da) any amounts which it estimates will be transferred ...from its general fund to its collection fund in accordance with regulations under section 97(2B) of the 1988 Act,
- e) any amounts which it estimates will be transferred ...from its general fund to its collection fund in accordance with section 97(4) of the 1988 Act, and
- f) any amounts which it estimates will be transferred from its general fund to its collection fund pursuant to a direction under section 98(5) of the 1988 Act and charged to a revenue account ...” (Section 31A(2))

14.4 In addition, the Council must calculate in the year the aggregate of—

- “a) the income which it estimates will accrue to it... and which it will credit to a revenue account.....,
- a) any amounts which it estimates will be transferred .. from its collection fund to its general fund in accordance with regulations under section 97(2A) of the 1988 Act,
- b) any amounts which it estimates will be transferred.... from its collection fund to its general fund in accordance with section 97(3) of the 1988 Act,
- c) any amounts which it estimates will be transferred from its collection fund to its general fund pursuant to a direction under section 98(4) of the 1988 Act and will be credited to a revenue account....., and
- d) the amount of the financial reserves which the authority estimates it will use in order to provide for the items mentioned in subsection (2)(a), (b), (e) and (f) above.” (Section 31A(3))

14.5 Section 31A(4) provides that if the aggregate calculated under subsection (2) above exceeds that calculated under Section 31A(3) above, the authority must calculate the amount equal to the difference; and the amount so calculated is to be its council tax requirement for the year. This is in effect the duty to set a balanced budget.

14.6 When estimating under Section 31A(2)(a) referenced above, the authority must take into account—

a) the amount of any expenditure which it estimates it will incur in the year in making any repayments of grants or other sums paid to it by the Secretary of State, and

b) the amount of any precept issued to it for the year by a local precepting authority and the amount of any levy or special levy issued to it for the year. (section 31A(6))

However, except as provided by regulations under section 41 below or regulations under section 74 or 75 of the 1988 Act, the authority must not anticipate a precept, levy or special levy not issued. (Section 31A(7)) **The relevant council tax setting calculations for Croydon are set out in Appendix I.**

14.7 Section 30(7) provides that no amount may be set before the earlier of the following-

a) 1st March in the financial year preceding that for which the amount is set;

b) the date of the issue to the authority of the last precept capable of being issued to it (otherwise than by way of substitute) by a major precepting authority for the financial year for which the amount is set.

14.8 Furthermore, no amount may be set unless the Council has made in relation to the year the calculations required by the Act (Section 30(8)). Any purported setting of an amount, if done in contravention of subsection (7) or (8) above, shall be treated as not having occurred (Section 30(9)). Therefore, the statutory budget calculation set out in the 1992 Act must be adhered to. If not, the Council Tax resolution may be invalid and void.

14.9 Any amount to be set as Council Tax must be set before 11th March in the financial year preceding that for which it is set (i.e., before 11th March 2023), but is not invalid merely because it is set on or after that date (Section 30(6) and Section 31A (11)). The rider in Sections 30(6) and 31A(11) (“but they are not invalid merely because they are made on or after that date”) should not be seen as permission to make the calculations later, but merely as a means of limiting the scope of legal challenges to the budget if an authority breaches the duty to set the Council Tax before 11th March 2023. A delay to agreeing

the budget may also have significant financial, administrative, and legal implications.

- 14.10 Section 66 of the 1992 Act provides that the setting of the budget (and this includes the failure to set or delay in setting the budget) can be challenged by an application for judicial review, with either the Secretary of State or any other person with sufficient interest (which could include a council taxpayer) able to apply.
- 14.11 Section 52ZB ('Duty to determine whether council tax excessive') requires the Council to determine whether its relevant basic amount of council tax for a financial year is excessive. If it is excessive, then there is a duty under s.52ZF - s.52ZI to hold a referendum. Section 52ZC ('Determination of whether increase is excessive') provides that determining whether the Council Tax is excessive must be decided in accordance with a set of principles determined by the Secretary of State and approved by a resolution of the House of Commons. The Referendums Relating to Council Tax Increases (Principles)(England) Report 2024-25 sets out the principles for the financial year beginning on 1st April 2024, and for Croydon it provides that *"For 2024-25, the relevant basic amount of council tax of Croydon London Borough Council is excessive if the authority's relevant basic amount of council tax for 2024-25 is 5% (comprising 2% for expenditure on adult social care, and 3% for other expenditure), or more than 5%, greater than its relevant basic amount of council tax for 2023-24."*
- 14.12 Section 65 ('Duty to consult ratepayers') provides for the Council to consult with representatives of non-domestic ratepayers about the proposed revenue and capital expenditure before the budget requirement is calculated.
- 14.13 Section 67 ('Functions to be discharged only by authority') provides that the functions described above to set the Council Tax budget shall be discharged only by Full Council.
- 14.14** Section 25 of the Local Government Act 2003 ("LGA 2003") ('Budget calculations: report on robustness of estimates etc) provides that the Council's Chief Finance Officer must report to it on the following matters-(a) the robustness of the estimates made for the purposes of the calculations, and (b) the adequacy of the proposed financial reserves. The Council shall have regard to the report when making decisions about the budget calculations. **The views of the Director of Finance are set out in Appendix K.**
- 14.15 Section 26 LGA 2003 ('Minimum reserves') requires that when setting the budget requirement, the reserves include a minimum level for controlled reserves - this minimum level is determined by the Chief Finance Officer.
- 14.16 Section 27 LGA 2003 ('Budget calculations: report on adequacy of controlled reserve') requires that the Chief Finance Officer to report on the inadequacy

of controlled reserves - i.e., when it appears that the level of a controlled reserve is inadequate or likely to become inadequate and action required to prevent such a situation arising in the financial year under consideration. **The views of the Director of Finance on risk, revenue balances and earmarked reserves are set out in section 11 of this report.**

- 14.17 Members will be aware of the requirement to consider the Council's obligations under the Equality Act 2010 as detailed more fully in the Equalities Considerations, at Section 15 below.

Members' Common Law Duties

- 14.18 When considering the budget proposals, the Council (and its Members), as well as having a duty to ensure that the Council acts in accordance with its statutory duties, must act reasonably and must not act in breach of its fiduciary duty to its ratepayers and Council Tax payers.
- 14.19 In reaching decisions on these matters, Members are bound by the general principles of administrative law. Local authority decisions need to be rational, prudent, and made in accordance with recognised procedures. A local authority's discretion must not be abused or fettered, and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must be one which only a reasonable authority, properly directing itself, could have reached. The resources available to the Council must be deployed to their best advantage.
- 14.20 There is an overriding legal duty on Members to act prudently, responsibly, in a business-like manner and in the best interests of the general body of local taxpayers. In deciding upon expenditure, the Council must fairly hold a balance between recipients of the benefits of services provided by the Council and its local taxpayers. Members should note that their fiduciary duty includes consideration of future local taxpayers as well as present local taxpayers. Fiduciary duty is also likely to include acting in good faith with a view to complying with statutory duties and financial prudence in the short and long term.
- 14.21 The obligation to set a lawful balanced budget each year is shared equally by each individual Member. The budget must not include expenditure on items which would fall outside the Council's powers. Expenditure on lawful items must be prudent, and any forecasts or assumptions such as rates of interest or inflation must themselves be rational. Power to spend money must be exercised bona fide for the purpose for which they were conferred, and any ulterior motives risk a finding of illegality.
- 14.22 In determining the Council's overall budget requirement, Members are bound to have regard to the level of Council Tax necessary to sustain it. Essentially

the interests of the Council Taxpayer must be balanced against those of the various service recipients.

- 14.23 In approving the respective budget envelope, Full Council is not making decisions as to the implementation, form, or detail of service delivery. These are by law matters for the Executive. In making subsequent decision on service provision changes to achieve savings or budget reduction, the Executive must comply with statutory requirements including consultation obligation and equalities duties.

Constitution (Budget and Policy Framework Procedure Rules)

- 14.24 Under Regulations 4 (Paragraphs 9 to 11) of The Local Authority (Functions and Responsibilities) (England) Regulations 2000 the Executive is responsible for preparing and submitting to Full Council estimates of the amounts to be aggregated for the purposes of Council Tax calculations, and to undertake any reconsideration of those estimates that Full Council require. As a consequence of Section 67 Local Government Finance Act 1992, the function of making or approving the required calculations – and, in that sense, approving the budget – remains one for the Full Council itself. That function is non-delegable.
- 14.25 The Budget and Policy Framework Procedure Rules in Part 4.C of the Constitution sets out the process to be followed in developing the budget proposals. The Procedure provides for the following: a) the responsibility of the Executive for the preparation of budget proposals; b) consideration of the responses from Scrutiny and Overview Committee by the Executive in drawing up budget proposals for submission to Full Council; c) the option available to political groups to prepare an alternative or amended budget proposals and the notice and Chief Finance Officer certification requirements on any motions to amend the Executive proposals; and d) the dispute resolution process in the event that Full Council objects to the Executive budget proposals.
- 14.26 The Procedure defines the budget as: The identification and allocation of financial resources for the following financial year(s) by the Full Council including:
- Revenue Budgets;
 - Capital Budgets;
 - The Council Tax base;
 - The Council Tax level;
 - Borrowing requirements;
 - Prudential indicators;
 - The Medium-Term Financial Strategy; and
 - The level of Uncommitted Reserves.

Arrears of Council Tax and Voting

14.27 In accordance with section 106 of the 1992 Act ('Council tax and community charges: restrictions on voting'), where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the Member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a meeting: (a) Any decision relating to the administration or enforcement of Council Tax. (b) Any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax. (c) Any recommendation, resolution or other decision which might affect the making of the Annual Budget calculation. The requirement applies to all committee meeting including the meeting of Full Council and the Executive. A breach is a criminal offence.

Council tax on empty homes premiums:

14.27As detailed in the report to Mayor in Cabinet on 22 November 2023, under Section 67 of the Local Government Finance Act 1992, the function of making a determination under Section 11B in relation to long-term empty dwellings as recommended in this report, or under the new Section 11C in relation to dwellings occupied periodically as recommended in this report, must be discharged only by Full Council.

14.28If Full Council makes the recommended determination under Section 11B, notice of it must be published in at least one local newspaper before the end of a 21 day period starting with the date of the determination. Likewise, a similar notice must be published if full Council makes the recommended determination under the new Section 11C. A billing authority's first determination under the new Section 11C must be made at least one year before the beginning of the financial year to which it relates.

14.29The increases recommended to Full Council are the maximum by which Council Tax can be increased under Section 11B and the new Section 11C. Billing authorities are required to have regard to any guidance issued by the Secretary of State in exercising their functions under Section 11B and Section 11C.

Approved by: Stephen Lawrence-Orumwense Director of Legal Services and Monitoring Officer – 6th February 2024

15 EQUALITIES IMPACT

15.1 Under the Public Sector Equality Duty of 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.

- 15.2 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.
- 15.3 Protected characteristics defined by law are race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, and religion or belief and marriage and Civil Partnership.
- 15.4 Having due regard means there is a requirement to consciously address the three tenets of the Equality Duty within decision-making processes. By law, assessments must contain sufficient information to enable the local authority to show it has paid 'due regard' to the equalities duties; and identified methods for mitigating or avoiding adverse impact on people sharing protected characteristics. Where a decision is likely to result in detrimental impact on any group with a protected characteristic it must be justified objectively. The Council will ensure that there is sufficient mitigation when a service has been changed so that there is no detrimental impact on service users as a result of the change.
- 15.5 The budget proposals have been assessed in line with the Council's equality impact analysis processes (EIA), as part of a risk-based approach to analyse potential equalities impact of budget proposals. Budget holders have identified where proposals are likely to have an impact on those with protected characteristics (i.e. race, sex, disability, religion or belief, sexual orientation, pregnancy and maternity, age, gender identity and marriage and civil partnership). Where necessary, the potential for mitigating measures is explored. The EIA process continues alongside the development of policy and operational changes and during their implementation.
- 15.6 The recent pressures caused by higher inflation have been considered in a number of the equality assessments. Nationally it is recognised that households have struggled with rising bills and more are reliant on support. Fuel inflation has had a particularly challenging impact over the last two years.
- 15.8 As a result, particular consideration has been given in the equality analysis to proposals which include increases in fees and charges, the proposed increase in Council Tax, and considering the responses from the budget engagement activity. Also a separate EQIA was completed in relation to fees and charges which were presented to Cabinet on 6 December 2023.
- 15.9 Intelligence from the Council Tax Support Scheme EQIA in 2023 provides the following data which highlights the equality characteristics most affected by increases:
- 31% of council tax claimants are disabled
 - in 28% of council tax claims either the claimant or partner are disabled and neither are in work
 - 85% of claimants are single
 - 16,260 of the claims made by single people are females, and

- 6,263 are from males
 - 38 active claims where the claimant or partner are in receipt of maternity pay.
- 15.10 The impact of any council tax changes will of course be mitigated either entirely or in part should a resident be eligible for an exemption from council tax or for a reduction in their council tax, e.g. from the Council's Council Tax Support Scheme. In addition, the Council is proposing through this budget to continue the additional Hardship Fund set up in 2023-24, at £0.5m in 2024-25, which has been available for households struggling to pay the extra council tax increase in 2023-24.
- 15.11 The Hardship Fund will continue to be administered in a manner that will leave flexibility for residents impacted by the council tax increase who are in extenuating circumstances including job losses, increased debts from utilities and debts in other areas such as housing costs. The eligibility for this fund is significantly different from the existing Council Tax Support Scheme and does not use the same income based criteria. This should provide support for residents affected by in work poverty.
- 15.12 Existing mitigation for residents will also remain in place (such as discounted rates for residents with disabilities, carers, as well as existing hardship schemes, such as in Housing).
- 15.13 The Council will continue to commission external independent information, advice & guidance service for residents, with a particular focus on debt management, increasing income and avoiding homelessness. Residents can also contact Croydon Council Money Advice Service for advice on paying your bills and debt worries. All advice is independent and confidential.
- 15.14 In delivering against the Executive Mayor's Business Plan, the Council will also seek to identify opportunities to improve services and work with partners and communities to minimise any adverse impacts of decisions, particularly in regard to groups that share protected characteristics. In doing so the Council will focus on another core priority to focus on providing the best quality core service we can afford, in particular social care for the most vulnerable people and providing opportunities for children and young people, along with opportunities to learn.
- 15.15 In respect of specific proposals, it is likely that some proposals may result in new policies or policy or service changes. Separate EQIAs have been prepared, where needed, and will inform the final proposal and its implementation, on a case by case basis. In addition, any decisions which need to be taken in furtherance of the budget proposals will be undertaken in accordance with the duty set out in Section 149 of the Equality Act 2010 and where appropriate further Equality Assessments will be undertaken and form part of the decision-making process.

Approved by: Helen Reeves, Interim Head of Strategy and Policy, 5/2/2024.

16 ENVIRONMENTAL IMPACT

16.1 None direct from the budget report specifically, but will be considered as part of the implementation of any of the proposals contained in this report.

17 CRIME AND DISORDER REDUCTION IMPACT

17.1 As set out in the body of the report and appendices.

18 DATA PROTECTION

18.1 None direct from the budget report specifically, but will be considered as part of implementation of any of the proposals contained in this report.

19 HUMAN RESOURCES IMPACT

19.1 The implementation of the savings proposals will, in a number of instances, have a staffing impact. The Council has a legal and policy obligation to seek to avoid compulsory redundancy, where possible. Where organisational change is proposed which impacts on structure, such as through restructures or transfers, this will be managed in accordance with the Council's policies and procedures, including consultation with those staff potentially impacted upon and their trade union representatives, and application of the Council's redeployment scheme, where appropriate.

Approved by: Dean Shoesmith, Chief People Officer, 31/1/2024.

20. SCRUTINY AND OVERVIEW COMMITTEE

20.1 The budget proposals are due to be considered by Scrutiny and Overview Committee on the 12th of February. An update on any recommendations made by the Committee will be provided to Cabinet and the Cabinet response noted.

LIST OF APPENDICES

- A Summary of the 2024 Medium-Term Financial Strategy forecast
- B General Fund Departmental and Subjective Budget summary (*now included, was marked to follow at 14 February Cabinet*)
- C General Fund growth and savings proposals
- D Transformation Programme
- E Government Grant
- F Business Rates Forecast
- G 2024-25 Croydon Tax Base
- H Empty Homes and Second Homes
- I Recommendations for Council Tax Requirement 2024-25 and Council Tax charge by Band.

- J Budget Proposals for 2024-25 – Feedback from the Public Engagement Process
- K Statement by the Director of Resources (section 151 Officer) on the robustness of the budget estimates and the adequacy of balances and reserves.
- L Directorate Financial Risks *(updated following the request by Scrutiny and Overview Committee on 12th February for more information)*
- M Reserves Policy
- N 2024-25 Budget EQIA

BACKGROUND DOCUMENTS

MTFS Update Cabinet Report - 25th October 2023