Appendix K

View of the Section 151 Chief Finance Officer on the Robustness of the Budget Estimates and Adequacy of Balances and Reserves

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 considering the medium-term risks facing the authority.

2. CIPFA have for the first time issued a public statement on how S151 Officers should approach the Section 25 statement. In setting the background, the statement says:- “It is a demanding time for local authorities as they grapple with immense resourcing challenges ranging from inflationary pressures to rising demand and recruitment constraints. The financial resilience of all local authorities is under strain: “Since 2010-11, local authority spending has fallen from 7.4 to 5.0 per cent of Gross Domestic Product (GDP), and it falls further in our forecast to 4.6 per cent of GDP in 2028-29. Given local authorities’ statutory duty to provide a range of services where demand is likely to continue to grow, for example adult and child social care, pressure on local authority finances and services will continue.” Economic and Fiscal Outlook – November 2023 (Office for Budget Responsibility, 2023).

3. In particular, for Croydon Council, its pre-2020 history of poor financial mismanagement means that it is acutely aware of the dangers associated with finding itself in a Section 114 situation (with S114 reports issued in November 2020, December 2020 and November 2023). The Council is still far from financially sustainable with an ongoing annual revenue budget gap of £38m which is currently capitalised each year through Capitalisation Directions granted by the Secretary of State for Levelling Up, Housing and Communities. This is despite working closely with the Department for Levelling Up, Housing and Communities (DLUHC) and the Improvement and Assurance Panel (IAP) to seek a solution. The process of using Capitalisation Directions increases the financial pressures on the Council’s revenue budget by increasing its annual debt charges into the future.

4. This Section 25 Statement reflects this national and local context.

The Robustness of the Budget Estimates

5. 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.

6. For the reasons set out below the Corporate Director of Resources is satisfied with the accuracy and robustness of the estimates included in the 2024-25 Budget Report:

- The budget proposals have been developed following guidance from the Corporate Director of Resources and have been through a robust process of development and challenge with the Executive Mayor, Scrutiny and Cabinet Members, the Chief Executive and the Corporate Management Team, service directors and managers.
- All proposals for new growth and savings have required the preparation of business cases and been subject to challenge at Star Chamber meetings.
- The 'Opening the Books' review identified substantial accounting corrections that had one-off and on-going implications for the Council's 2023-24 budget. These are recognized in the proposed 2024-25 Budget and Medium-Term Financial Strategy to 2027-28.
- Constructive dialogue has been undertaken with central government and it is expected that the Secretary of State for Levelling Up, Housing and Communities is minded to provide a Capitalisation Direction of up to £38m for 2024-25. Allowance is made for the debt financing costs that will arise from the potential use of the additional Capitalisation Direction.
- A provision of £18.2m is set aside for inflation and takes reasonable account of potential future pay awards and the government forecast[1] for continued inflationary pressures.
- A £5m provision is set aside for 2025-26 onwards regarding economic demand pressures.
- The revenue budget proposals provide for the Council to hold an unallocated contingency of £5m to meet unforeseen budget pressures.
- Service managers have made reasonable assumptions about growth pressures which, following corporate challenge were not manageable within current budgets, and have resulted in additional essential investment.
- Rigorous mechanisms are in place to monitor sensitive areas of expenditure with regular assurance meetings held to ensure that all proposals within the medium-term financial strategy are managed well and that budgets remained on track during the year.
- The use of budget monitoring in 2023-24 to re-align budgets where required with mitigating actions identified to meet budget pressures and growth provided when needed. As a result of the stringent approach to monitoring, the latest Month 8 Financial Performance Report predicts that the Council is likely to be able to balance its in-year budget pressures with no use of the £5m financial risk

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1 Autumn Statement 2023 – Inflation forecast to be 2% in the first half of 2025.

contingency.

- Key risks have been identified and considered.
- Prudent assumptions have been made about interest rates payable and the budget proposals comply with the requirements of the Prudential Code and Treasury Management Strategy. The revenue effects of the capital programme are reflected in the budget.
- Fees and charges are incorporated within the budget and charges for 2024-25 were approved by Cabinet on 6 December 2023.
- Corporate and Directorate Management Teams have been involved in the detailed development of the proposed savings and have confirmed their deliverability.
- A prudent approach has been adopted on the local share of business rates income and council tax income receivable with detailed financial modelling used to support the forecast.
- A Hardship Fund of £0.5m has been set aside to protect those low income households that find themselves in financial difficulty due to the increase in Council Tax.
- Regular benchmarking is undertaken against ‘statistical neighbour councils’ to ensure budgets are reasonable.

Balances, Reserves and Risks

7. Reserves play a crucial role in good public financial management. They enable investment in service transformation and provide resilience against unexpected events or emergent needs. As one-off resources they can only be spent once. Croydon has a well-documented history of the imprudent use of reserves to balance its budget. It is the view of the Corporate Director of Resources that the 2024-25 budget proposals only include prudent and appropriate use of reserves to meet one off costs and that they are adequate considering the medium term risks facing the council.

8. Croydon faces a range of substantial financial risks that may require the use of reserves. These include:
    - Key departmental financial risks as set out in Appendix L
    - The outcome of discussions with central government on the Council’s request for additional Capitalisation Directions / assistance of £38m per annum from 2025-26 onwards.
    - A further upturn in inflation and impact of the rising cost of living. Against this risk the Council has set aside an inflation provision of £18.1m.
    - Addressing pent-up demand/pressures as part of the Covid-19 recovery. This has particularly impacted on temporary accommodation budgets.
    - Hospital discharge delays and pressures in the adult social care sector regarding social care waiting times, fee rates and workforce capacity.

- There is a risk that the number of children in care or the number of homeless families in the borough increases beyond what can be accommodated within existing budgets.
- There is a risk that the number of children on ECHPs (Education Health & Care Plans) who require transport to school increases beyond what can be accommodated within existing budgets.
- The Council generates significant levels of income, particularly within the Sustainable Communities Regeneration and Economic Recovery directorate, across Planning, Building Control and Parking services. The socio-economic conditions, alongside inflationary pressures and the cost of living crisis have created a more uncertain environment on which these income levels are predicated with fewer major planning applications, declining town centres and high streets, reduction in commuting, and uncertainty in the construction sector following the introduction of the Building Safety Act and new Building Safety Regulator. There is a risk that this could lead to some budget pressures across income generating budgets during 2024-25.
- The risk of recession and impact on demand for Council services and income streams, such as business rates and council tax.
- Additional financial issues coming to light as part of the Opening the Books project and the continued external audit of the past 4 years of the Council's annual accounts.
- The impact of the wider economy on major Council development projects and future capital receipts.
- The future impact on London of the government's 'levelling-up' agenda and wider local government finance reform (including the government grant regime and business rates).
- A significant movement in interest rates. This would impact on both the core borrowing undertaken to finance the historic capital programme and future borrowing regarding the use of Capitalisation Directions.
- The impact of, and costs of, tackling climate change.
- The challenge of identifying further significant future savings that balance the budget over the longer-term. The current MTFS 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 needs to be resolved.

9. Over the past 4 years Croydon has taken robust action to restore reserves from a negative base. The current estimate of reserves that will carry forward to 2023-24 are summarised in Table 1. 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.

Table 1 – Reserves Carried Forward to 2023-24

	Balance 1st April 2023 £'m
Earmarked Reserves	60.4
Restricted Reserves	64.7
Sums set aside regarding business rate rebates	12.1
Balances held by Schools	6.7
General Fund Balances	27.5
Total	**171.4**

10. Croydon holds reserves for the following main purposes.
    - As a contingency to cushion the impact of unexpected events or emergencies – this forms part of general balances. The Council's 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.
    - To build up funds for known or predicted requirements; these specific reserves are known as earmarked reserves. The balance at the start of 2023-24 was estimated to be £64.7m but this figure is still subject to final external audit.
    - Restricted reserves are also earmarked but there are more constraints, such as grant terms and conditions, on how the council can use such funding. The largest restricted reserve is £28.5m relating to business rates income ringfenced for use in the Croydon Growth Zone.
    - Specific reserves relating to school balances and the funding of business rate rebates as part of the government's Covid measures. As set out in Appendix F the 2023-24 business rates income forecast includes a drawdown from the business rate relief reserve (which was funded from government grant) of £12.1m that offsets a prior year adjustment made for rate reliefs granted during the covid-19 pandemic.

11. As part of the actions taken by Croydon to ensure effective strategic oversight of the level and use of reserves Cabinet are requested to approve a reserves policy for 2024-25 as set out in Appendix M.

12. It is the view of the Section 151 Chief Financial Officer that the Council's Housing Revenue Account (HRA) reserves are currently in surplus and that the proposed drawdown from its reserves budgeted in the HRA Business Plan are affordable.

13. Finally, the Council currently holds a negative High Needs Dedicated Schools Grant Reserve, as permitted by a statutory override in place until at least April 2026. The negative reserve is being addressed through a Department for Education Safety Value agreement and is expected to be positive by the end of the financial year 2026-27. It is the view of the Section 151 Chief Financial Officer that these arrangements are robust and are being monitored regularly.