LONDON BOROUGH OF CROYDON

REPORT:		**Cabinet**
DATE OF DECISION:		**4 December 2024**
REPORT TITLE:		**Capital Programme and Capital Strategy 2024-30**
CORPORATE DIRECTOR:		**Jane West** **Corporate Director of Resources (Section 151 Officer)**
LEAD OFFICER:		**Allister Bannin, Director of Finance (Deputy S151)**
LEAD MEMBER:		**Cllr Jason Cummings, Cabinet Member for Finance**
KEY DECISION? **KD 1224CAB**	**Yes**	**REASON:** 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 and Key Decision – Decision significantly impacts on communities living or working in an area comprising two or more Wards
CONTAINS EXEMPT INFORMATION?	**No**	**Public** **Grounds for the exemption: N/A**
WARDS AFFECTED:		**All**

1 SUMMARY OF REPORT

1.1 This report sets out the draft updated Capital Programme for 2024-30 for the Council's General Fund and the Housing Revenue Account (HRA) with a forecast of resources available over that period.

1.2 The Capital Programme sets out the strategic direction for Croydon's capital management and investment plans, as detailed in Appendix A, and is an integral part of the medium to long term financial and service planning and budget setting process. Capital investment impacts the prudential indicators which are required under the 2020 Prudential Code and they will be included in the Treasury Management Strategy report to Cabinet in February.

1.3 The Council's historic legacy of service failings, poor financial management, weak decision making and poor governance of major investments resulted in a debt burden that cannot be sustained without government support. The most recently available financial sustainability indicators for 2021-22 Outturn, provided by the Office for Local Government (OFLOG), demonstrate that

Croydon's debt servicing cost (16% of core spending power), is far higher than the median figure for both England (8%) and the Council's nearest statistical neighbours (9%).

1.4 Given the Council's financial challenges, every effort has been made to minimise the requirement for additional General Fund borrowing. The need for borrowing in 2025-26 includes the assumed requirement for annual capitalisation directions to achieve a balanced General Fund revenue position. This is unsustainable in the longer term and the Council is working with the Improvement and Assurance Panel (IAP) and the Ministry of Housing, Communities and Local Government (MHCLG) to resolve this position.

2 RECOMMENDATIONS

For the reasons set out in the report and its appendices, the Executive Mayor and Cabinet are recommended to agree to recommend to Full Council for consideration and approval:

2.1 The Council's 2024-30 General Fund Capital Programme which includes planned expenditure of £554.3m (including capitalisation directions) across the six year period. This includes expenditure financed through borrowing of £250.7m over the six years, during which time the Minimum Revenue Provision (MRP) "paying down" of the capital financing requirement would be £186.7m. The MRP annual borrowing cost would increase incrementally by an average £2.1m each year over the six years. The cost of this future borrowing will be factored into the Council's Medium Term Financial Strategy.

2.2 The transformation projects set out in the table at paragraph 4.33 of this report to be included into the 2024-30 General Fund Capital Programme.

2.3 The 2024-30 Housing Revenue Account (HRA) Capital Programme which includes planned expenditure of £394.7m with borrowing of £153.4m.

2.4 The Council's Capital Strategy, as detailed within Appendix A of this report.

2.5 Note the Council's historic legacy borrowing and debt burden continues to be critical to the non-sustainability of the Council's revenue budget. Dialogue with MHCLG continues, and the Council is seeking further financial support from Government in regard to its level of indebtedness to ensure it can deliver sustainable local government services.

3 REASONS FOR RECOMMENDATIONS

3.1 Both the Executive Mayor & Cabinet and Full Council are required to approve the Council's Capital Programme under the Council's Constitution and all expenditure of £1m and above requires Cabinet approval for capital spend under the Council's Scheme of Delegation.

4 BACKGROUND AND DETAILS

4.1 The General Fund Capital Programme has spent £245.89m in the two years 2022-24 (including £99.2m for Capitalisation Directions) of which over £23.7m has required borrowing to finance the spend.

4.2 The Council's key objectives are set out in the Mayor's Business Plan 2022-26 which can be found on the Council's website under the following link:

https://democracy.croydon.gov.uk/documents/s41649/6a%20Appendix%20-%20Executive%20Mayors%20Business%20Plan%20FINAL.pdf

These key objectives comprise:

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. Children and young people in Croydon have the chance to thrive, learn and fulfil their potential.
4. Croydon is a cleaner, safer, and healthier place, a borough we're proud to call home.
5. People can lead healthier and independent lives for longer.

4.3 Capital investment should evidence how it will support the priorities and principles set out in the Mayor's Business Plan along with individual directorate service plans. New bids to the Capital Programme have been assessed against the Council's objectives and the other Capital Strategy drivers outlined within Appendix A as part of the Capital budget setting process.

Capital Governance Arrangements

4.4 The Council has an established governance arrangement embedded within its current Constitution in Part 4C - Budget and Policy Framework Procedure Rules. The Executive is responsible for the preparation of proposed plans, strategies or budgets that form part of the Budget and Policy Framework.

4.5 Just in the same manner as for the Revenue Budget, the Capital Budgets under Part 4C require Full Council approval. Part 4H – Financial Regulations provide the governance framework for managing the Council's financial affairs. They apply to all Members, Officers of the Council and anyone acting on its behalf. It is likely to be considered a disciplinary offence to breach these Financial Regulations and procedures.

4.6 The Regulations apply to capital budgets and the Chief Financial Officer is responsible for ensuring that a capital programme is set annually along with financial management process to enable capital budgets to be monitored effectively. The Council has reported the 2024-25 capital programme as part of the monthly Financial Performance reports to Cabinet.

4.7 To strengthen the scrutiny and review of Capital delivery and progress against budget, the Council established a Capital Internal Control Board (CICB) which meets monthly and consists of key officers from across the expert areas and services. The CICB acts as an internal control system and is a key part of the improvements that have been made to capital management within the Council.

4.8 The CICB provides the added review and scrutiny role on delivery of the capital programme along with submission of new bids. The Board acts as a key gateway to support the Corporate Management Team and the Executive Mayor in making informed decisions whilst ensuring risks are identified and managed.

Capital Spend Key Principles

4.9 Consideration should be given to the following key principles before submitting a capital bid:

- Spend included in business cases must conform to the definition of capital expenditure i.e., "the purchase or enhancement of assets where the benefits last longer than the year of expenditure". Croydon applies a de-minimis level of £10k meaning that anything below this value individually is classed and treated as revenue.

- Given the Council's structural indebtedness and challenging financial position, projects coming forward that require Croydon to borrow funding should be kept to a bare minimum.

- Feasibility/planning costs must be met from a revenue budget until approval to spend has been agreed through the relevant route, these should therefore be built into the revenue budget and be considered as part of the budget build process.

- Ongoing revenue implications must be included within business cases and identified as pressures in the revenue budget.

- Realistic profiling of budgets must be provided from the outset. Without this, the limited funding available could be assigned to a project which is delayed, preventing an alternative but more viable project from proceeding. In many cases grants and external funding are time limited and delays in the project could lead to losing precious external funds.

- Where the Council is required to provide match funding in order to receive external funding, consideration must be given to the Council's objectives. Is the project sufficiently aligned to meeting the Council's strategic outcomes to warrant the match funding? Has the Council identified sufficient resources to match fund these projects? Consideration must also be given to grant or external funding conditions and officer time and cost it will take to comply.

- It is important to maximise use of existing assets where it is cost effective to do so. Look for full occupancy of the asset in terms of space and length of time the asset is in use. This could mean looking for synergies with other organisations (for example, the One Public Estate programme with key partners).

- Longevity/flexibility of asset – consider how the asset will conform with longer term service delivery plans. Has flexibility of the use of the asset been considered?

- Officers and Members must not commit funds until projects have been through the correct governance procedure.

- Robust financial, legal, HR, equalities and other related impact assessments are needed for the Council's investment decisions.

- All schemes must pass through the Capital Board for necessary scrutiny and approval to the next stage. This ensures each project receives a review to assess wider Council implications and to test all relevant matters are discussed and best practice is shared.

<u>Capital Expenditure</u>

4.10 The Council will ensure that appropriate capital budget is allocated on a risk assessed approach, to meet statutory requirements, such as basic need, health and safety, disability discrimination act (DDA) and other legal requirements as directed by Government. Nonetheless, just because there is a statutory requirement, capital bids will still need to explore alternative options to satisfy the affordability requirement. This will need to include proactively seeking external funding, such as grants or alternative contributions to finance capital spend.

4.11 Slippage from 2023-24 into 2024-25 has been reviewed and approved by Cabinet through monthly financial performance reports. The review ensured that the Council only carries out schemes that are value for money and meet the Council's priorities in line with the Mayor's Business Plan.

4.12 The Council is projecting to spend £145.1m in 2024-25 and is expecting to spend £405.7m in 2025-30. Scheme detail, including profiling over financial years, is provided in Appendix B of this report.

4.13 Capitalisation directions form a significant part of the Capital Programme. These have been included as assumptions in the Medium Term Financial Strategy in case dialogue with MHCLG does not result in a sustainable financial solution to the historic legacy debt issues of the Council. However, it needs to be noted that capitalisation of revenue spend increases the cost of borrowing in following years and is not a solution that would support the Council in becoming financially sustainable.

4.14 The Capital Programme focuses on spend that ensures the Council's assets are maintained to decent standards in order that they continue to perform in the delivery of Council services to residents.

4.15 A Parks condition initial survey was carried out in 2024-25. A further more detailed condition survey is being commissioned. Growth above the current total capital budget of £3.3m for Park Asset Management may be required to meet requirements including health and safety. Financing for any growth would be sought first from s106 or CIL before consideration of borrowing.

4.16 Croydon Council was successful in securing £18.5m funding to transform the town centre and restore pride following a successful bid to the Levelling Up Fund, under round three. The Council applied to the Ministry of Housing, Communities and Local Government (MHCLG) for the Reconnecting Croydon scheme, which will see six infrastructure and public realm projects funded to reconnect and revitalise Croydon's streetscape.

4.17 Reconnecting Croydon was brought into the 2024-25 capital programme during 2024-25 and is now included showing the expected profiling of spend and funding across all years of the capital programme. Please note that this project will be fully funded by funding sources which do not include borrowing and, therefore, will have no impact on the borrowing for the capital programme.

4.18 Within the Capital Programme the Council is also committing significant monies towards investing in various information technology and property assets so that it leads to an improved service provision whilst ensuring a more cost-effective delivery of services.

4.19 The Oracle Improvement Programme was brought into the capital programme during 2024-25 and is now included showing the expected profiling of spend and funding across 2024-25 and 2025-26. The total spend is estimated at £7.8m.

4.20 Considerations are underway for options to move the Coroner's court service from Davis House to support the disposal of the building and to improve the facilities available to the Coroner. A capital proposal is expected to come forward in the February capital programme and capital strategy report. The Coroner's service is a statutory service provided on behalf of the South London Jurisdiction (which is independent) and serves the boroughs of Croydon, Sutton, Bromley and Bexley. Costs are divided by population served so the cost to Croydon will be circa 34% of the capital costs. The remaining capital costs will be met by the other three boroughs.

4.21 The Council may need to contribute towards improvements for mortuary services in the borough. This could include contributing towards a new building. Croydon public mortuary is used for the reception and storage of bodies of those who have died in the borough. The service is run under the jurisdiction of HM Coroner and deals with bodies that have been referred to the coroner or where a death certificate cannot be issued. The service is currently provided by Croydon University Hospital under a shared service but improvements are required.

4.22 The Council's aspiration to protect educational infrastructure and improve pupil attainment to support the local economy forms a large proportion of the capital programme. A total of £9.6m over 5 years is provided for upgrading and expanding schools' infrastructure. This includes the vital investment in Special Education Need schools to ensure children and their parents have Council support, a key pledge within the Mayor's Business Plan.

4.23 A total of £95m over 5 years is earmarked to be spent on the Borough's infrastructure ranging from highway maintenance to tree works and working with TfL to deliver the Local Implementation Plan. This investment is important to support Croydon becoming a cleaner, safer and healthier place.

4.24 There is also an addition into the capital programme for Waste and Street Cleansing Fleet Vehicles totalling £17.690m to renew the fleet owned by the Council. Please note that the replacement of vehicles would have been required whether or not the vehicles were owned by the Council (as planned) or were part of the external waste contract. The new vehicles will be ULEZ compliant and accordingly more fuel efficient further supporting the Council's priority of becoming a cleaner, safer and healthier place.

4.25 Due diligence is underway to consider the cost/benefit analysis of capital investment in Street Lighting LED replacement. The capital programme currently includes a budget allowance of £7.3m. The switchover to LED lightbulbs would improve environmental sustainability by reducing electricity usage and would also, therefore, generate revenue savings in electricity costs. Also the new LED lightbulbs are guaranteed for 10 years (can last up to 15 years) so would create maintenance revenue savings from the reduced number of replacements work required. The Council has a shared PFI contract for Street Lighting with Lewisham Council, so there would be economies of scale efficiencies to implement the full changeover in 2025-26 together with Lewisham Council.

4.26 The General Fund capital programme includes £523k in 2024-25 as previously agreed for the Public Switched Telephone Network Digital Migration Phase 1 project responding to the national analogue to digital telephone network switchover. Openreach has now extended the deadline to 2027 to phase out all copper analogue telephone lines in favour of optical fibre networks. This provides a longer timeframe for phone lines in buildings to be updated. The phase 1 work is underway to identify the full level of works involved and further General Fund capital budget is likely to be required. The requirement will be updated in the Capital Programme to be brought to Cabinet in February (no current allowance in the capital programme for the works).

4.27 Similarly the phase 1 work will identify the requirement for the HRA capital programme, with a high level of works expected for digital migration of elevator alarms. As part of the Remote Alarm on Passenger and Goods Passenger Lifts Standards EN 81-28 (2003), all lifts in the UK are required to have an emergency alarm that was traditionally connected to a rescue service via telephone. With the analogue to digital switchover, lift owners must now manage the transition of their emergency alarms from analogue phone lines to other digital alternatives.

4.28 The capital programme includes investment for the Executive Mayor’s priority to increase the provision of accommodation in the borough to further meet homelessness responsibilities and reduce temporary accommodation revenue costs. This includes a Discharge Temporary Accommodation investment allowance of £16m to support future opportunities to acquire properties and an allowance of £21m relating to the potential purchase of the freehold of 73 residential units being currently considered. This freehold acquisition cost of £21m is expected to be funded by £11.4m Right to Buy capital receipts, £5.8m Local Authority Housing Fund (LAHF) Round 3 grant funding and £3.8m from borrowing.

4.29 There are accommodation-based service needs identified for adult and children’s social care, including care experienced young people, whereby it would be more cost efficient for the Council to own the property and an external provider to provide required care support. The service directorates are checking with the property team to see if any existing Council owned buildings could be re-purposed to meet accommodation needs. It may be that after this review, that further properties are required for acquisition, so a bid for capital funding (which would create revenue savings in care placements) may come forward as part of the February capital report.

Transformation

4.30 This report requests for approval to adopt the following Transformation projects (totalling £17.193m over three years) into the capital programme and fund these through the use of flexible capital receipts (£17.013m) and the re-allocation of existing borrowing in the programme (£0.180m). This is being recommended in order to reduce pressure on earmarked reserves, given the demand and market price pressures being experienced across several of the Council's services (and experienced across London and the country). However, it must be noted that this will use some capital receipts from asset disposals which would otherwise be available to finance capitalisation directions and other capital projects requiring borrowing. This will, therefore, increase future borrowing costs for the Council. The investment in the transformation projects will provide a significant level of the MTFS savings required from 2025-26 onwards.

Table showing Transformation Projects to be adopted into General Fund Capital Programme:

Project	**2024-25**			**2025-26**			**2026-27**		
	Partner Costs (£m)	**Internal Costs (£m)**	**Total Budget (£m)**	**Partner Costs (£m)**	**Internal Costs (£m)**	**Total Budget (£m)**	**Partner Costs (£m)**	**Internal Costs (£m)**	**Total Budget (£m)**
Strategic Operating Model for ASCH	3.308	1.078	**4.386**	4.324	1.024	**5.348**	-	-	**-**
Strategic Operating Model for CYPE	1.000	1.266	**2.266**	1.300	0.232	**1.532**	1.300	0.115	**1.415**
Target Operating Model	1.980	0.266	**2.246**	-	-	-	-	-	-
Total	**6.288**	**2.610**	**8.898**	**5.624**	**1.256**	**6.880**	**1.300**	**0.115**	**1.415**

4.31 The table above provides the currently agreed transformation projects relating to the Target Operating Model (Boston Consulting Group), adult social care (Newton) and children's services (Impower). The Council is considering wider ongoing transformation work relating to implementing the new Target Operating Model (TOM) across the Council and new capital bids may come forward in the February capital report. These new capital bids would be related to investment to save transformation to deliver new revenue savings over the medium term.

Capitalisation Direction

4.32 The Council's Medium Term Financial Strategy includes the provision of capitalisation direction in future years from government to support the budget gap within the General Fund Revenue Account. This is included as an assumption while the Council continues dialogue with MHCLG to find a sustainable solution to resolve the prohibitive cost of borrowing relating to historic legacy debt.

4.33 Capitalisation direction allows local authorities to charge its revenue expenditure to the capital programme and hence pay for revenue costs using capital funds. Capital funds that can be applied include capital receipts and borrowing and it will be up to the Council to identify the best financing source at year end.

4.34 The capitalisation direction is a relaxation of the accounting convention that usually requires revenue costs to be met from revenue resources only. Councils should not usually "borrow" or use capital funds to fund revenue expenditure. This does mean that if the Council chooses to borrow to fund its direction, relevant interest costs will be charged to the Council's revenue account along with additional minimum revenue provision (MRP) charges which will need to be set aside from revenue to pay back the principal repayments for the borrowing. Therefore, capitalisation direction is not a financially sustainable solution for the Council's revenue budget as the cost of borrowing increases for future years.

4.35 MRP must be charged on any capitalisation direction applied to balance the general fund whether or not we actually externally borrow it or not. Therefore, even if we internally borrow to fund Exceptional Financial Support (EFS), the Capitalisation Direction will still be added to our Capital Financing Requirement, and this is the value that must be MRP'd each year (over 20 years for EFS).

4.36 Capital receipts from the Asset Disposal Strategy are being used to fund the ongoing capitalisation directions and, therefore, the Council is not able to reduce its existing historic debt (a situation of "treading water"). Therefore, debt write-off treatment is the Council's preferred option and a request was made to MHCLG in January 2023 for government funding to write-off £540m of the Council's General Fund debt. MHCLG subsequently asked the Council to propose a wider range of options and provide detailed feedback and analysis. These discussions are ongoing.

4.37 There is a risk that if the Council has to continue with capitalisation directions that further reductions in the capital programme would need to be considered. The capital programme has already been significantly reduced over the last three years through detailed value for money review of projects and further reductions to investment in necessary infrastructure could prevent the Council from meeting its Best Value duty. Borrowing for long term infrastructure (such as highways) is normal practice for local authorities and reductions could create cost pressures in revenue budgets (e.g. reactive short-term repairs and maintenance, and legal claims) and result in the Council not meeting statutory requirements.

4.38 Croydon has been supported by capitalisation directions to date as shown in the table below:

Year	Status	Previously agreed Directions £000's	In-Principle Directions – secured Mar 2023 and Feb 2024 £000's	Potential need for further Capitalisation Directions £000's	Total Capitalisation Directions £000's
2019-20	Draft		135,439		135,439
2020-21	Draft	70,000	10,000		80,000
2021-22	Draft	50,000	14,400		64,400
2022-23	Draft	25,000	11,200		36,200
2023-24	Draft	5,000	58,000		63,000
2024-25	Planned		38,000		38,000
2025-26	Potential			38,000	38,000
2026-27	Potential			38,000	38,000
2027-28	Potential			38,000	38,000
2028-29	Potential			38,000	38,000
Total		**150,000**	**267,039**	**152,000**	**569,039**

Key:

- Draft indicates the agreed and in-principle Capitalisation Directions have been applied in full to the Council's draft accounts, but that the audit of the accounts has not yet concluded.
- Planned indicates the intention to use the in-principle Capitalisation Direction in year.
- Potential indicates the need for potential further borrowing.

4.39 These directions came with specific requirements from Government which include:

- The Council shall charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years and;

- Any further borrowing from the date of the capitalisation up to and including, but not exceeding, the increase in the financing requirement must be obtained from the PWLB (Public Works Loan Board) and must be subject to an additional 1 percentage point premium on the interest rate above the rate the loan would otherwise be subject to. However, this additional 1% has now been removed through the Autumn Statement 2024 for all councils receiving exceptional financial support.

Capital Financing

4.40 The table below provides a summary of the key funding sources the Council expects to use to pay for the proposed General Fund capital programme.

Table showing capital financing of the General Fund capital programme

Funding Source	**Budget 2024-25**	**Budget 2025-26**	**Budget 2026-27**	**Budget 2027-28**	**Budget 2028-29**	**Budget 2029-30**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000’s**
CIL	(6,600)	(6,600)	(6,600)	(6,600)	(6,600)	(6,600)
LMP CIL	(2,155)	(500)				
s106	(2,536)	(5,640)	(6,490)	(11,990)		
HRA Contribution	(330)					
Reserves	(3,889)	(3,355)				
Reserves - Growth Zone	(3,562)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
Grants	(27,895)	(24,835)	(6,335)	(3,771)	(3,717)	(3,717)
RTB Monies	(11,400)					
Transformation	(530)					
Capital Receipts	(74,830)	(43,760)	(2,830)			
Borrowing	(14,926)	(28,909)	(56,931)	(53,533)	(47,908)	(48,473)
Total GF Capital Funding	**(148,653)**	**(117,599)**	**(83,186)**	**(79,894)**	**(62,225)**	**(62,790)**

Note: The level of Community Infrastructure Levy (CIL) funding received by the Council has decreased and, therefore, future years’ funding will need to be monitored closely in future years.

4.41 The capital programme is required to have its own funding sources and revenue resources can be used to fund capital spend, even though capital funds cannot usually be used to fund revenue spend (except under capitalisation directions).

4.42 It is always cost effective for the Council to utilise non-debt financing to fund the capital spend as this does not result in increased revenue costs which include Minimum Revenue Provision and interest charges. However, such alternative sources of funding are not always available to finance projects that are driven by the Council’s own priorities. If sufficient capital receipts or revenue are also not available, borrowing becomes a necessity.

4.43 In order to minimise future borrowing requirements, the Council is exploring options to generate further capital receipts and an update on the Assets Disposal Plan was presented to Cabinet in May 2023 which detailed the delivery plan along with a range of assets the Council is proposing to dispose.

Debt Financing

4.44 Croydon currently has a borrowing requirement (CFR) of c£1.35bn in the General Fund. This means that the Council is already considerably highly leveraged and the MTFS indicates that circa £60m is set aside to pay for Minimum Revenue Provision and interest costs. Any further borrowing for the Capital Programme adds to the level of debt and further increases costs to the revenue account.

4.45 In order to assess and manage this risk, the Council is required to have due regard for the Prudential Code and ensure that the Council's debt levels and borrowing levels do not exceed its own prudential limits. The Code requires councils to formulate plans that are affordable, prudent and sustainable. The MTFS report has made it clear that current debt levels are not sustainable, and the Council has sought extraordinary financial support from Government to ensure the Council's finances are put on a sustainable footing for the future.

4.46 The Council's 2024-30 General Fund Capital Programme has planned expenditure of £554.3m (including capitalisation directions) across the six years. This includes expenditure financed through borrowing of £250.7m over the six years, during which time the Minimum Revenue Provision (MRP) "paying down" of the capital financing requirement would be £186.7m. The MRP annual borrowing cost would increase incrementally by an average £2.1m each year over the six years. The cost of this future borrowing will be factored into the Council's Medium Term Financial Strategy.

Housing Revenue Account Capital Programme

4.47 The Housing Revenue Account (HRA) continues to make improvements to housing stock management and the Council appointed Savills to carry out a detailed review of the capital programme to continue the necessary investment within the Housing Stock. Stock condition surveys have informed the HRA business plan and the HRA capital programme contained in this report has been updated accordingly.

4.48 The stock conditions surveys inform the current housing service's asset management strategy, transformation and improvement plans, and the long-term plan for the management of the investment of Council housing assets. The 2024-25 capital programme was increased from 2023-24 owing to increased damp/mould works, fire safety works and dealing with the backlog of repairs and maintenance work.

4.49 The proposed capital programme for the HRA includes a £23m allocation to support acquisition and development to increase the provision of affordable accommodation and/or to provide necessary decanting options for updating of existing provision (e.g. for damp and mould and fire safety works).

4.50 The table below shows the 2024-25 forecast and the updated allocations for future years which have been reviewed to ensure that sufficient financial resources are set aside to support the development of the asset management strategy aim to turn around and to provide a housing service the Council can be proud of, in line with the Mayor's Business Plan.

Table showing HRA capital programme estimates

HRA Capital Expenditure	Revised Budget 2024-25	Forecast 2024-25	Variance 2024-25	Budget 2025-26	Budget 2026-27	Budget 2027-28	Budget 2028-29	Budget 2029-30
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Major Repairs and Improvements Programme	20,535	20,535	-	35,177	28,899	31,165	31,165	
Chertsey Crescent	1,243	1,243	-					
Dartmouth House	2,252	2,252	-					
NEC Housing System	330	330	-					
Acquisitions and Developments				23,000				
Regina Road	12,477	12,477	-	17,941	19,105	20,105	18,105	15,267
Building Safety Works	10,500	10,500	-	40,300	20,000	8,515		
Repairs Referrals	8,600	8,600	-	7,500	7,500	7,500	7,500	
Total HRA Capital Expenditure	**55,937**	**55,937**	**-**	**123,918**	**75,504**	**67,285**	**56,770**	**15,267**

4.51 The plan indicates a total investment of £394.7m between 2024-25 and 2029-30. The programme will deliver extensive repairs and improvement works to the existing housing stock which will improve the living conditions of all tenants. Extensive refurbishment works are planned on older buildings along with the whole new re-build of Regina Road Estate. The capital programme also includes allowance for acquisitions and developments to increase the level of social housing in the borough.

4.52 The HRA has capacity within its account to take on more debt and through work done with Savills a sustainable financing solution is being developed by the housing service to meet the capital expenditure plans. The table below details the key funding sources the HRA has earmarked to apply to the delivery programme which includes a projection of £153.4m of new borrowing for 2024-30, with the borrowing cost to be financed through HRA reserves and/or the revenue account.

Table showing capital financing of the HRA capital programme

HRA Capital Funding Source	Revised Budget 2024-25	Budget 2025-26	Budget 2026-27	Budget 2027-28	Budget 2028-29	Budget 2029-30
	£000's	£000's	£000's	£000's	£000's	£000's
Major Repairs Reserve	(14,729)	(15,094)	(15,394)	(15,699)	(16,011)	-
Revenue	(12,477)	(17,941)	(19,105)	(20,105)	(18,105)	(15,267)
RTB Receipts	(2,140)	(24,035)	-	-	-	-
Reserves	(26,591)	(2,166)	(2,187)	(2,136)	(2,101)	-
Borrowing	-	(64,682)	(38,818)	(29,345)	(20,553)	-
Total HRA Capital Financing	**(55,937)**	**(123,918)**	**(75,504)**	**(67,285)**	**(56,770)**	**(15,267)**

Next Steps and Ongoing Improvements

4.53 Over the course of 2022-23 significant issues with regards to capital were addressed. Oversight of the Capital Programme was brought into the corporate finance team where a holistic and Council wide approach was provided and which enabled an improved approach to the way capital monitoring and budget setting was consolidated. This has allowed the Council to better profile its budgets over the life of the projects and to present a 5 years' capital programme rather than a single year position.

4.54 The implementation of a Capital Internal Control Board in 2022 and the introduction of the post of Director of Commercial Investment and Capital has provided much needed structure and focus to managing delivery of the capital programme.

4.55 However, there is much more to be done and whilst key foundations have been set within the Council to manage the Capital Programme, there are a number of improvements still to implement. As indicated within the Capital Strategy (Appendix A) the Council has a number of key areas of improvement that continue to be addressed. The focus of the capital programme operational arrangements will be to ensure that whilst meeting the requirements as detailed within this report, the further recommendations advised by PwC are also delivered.

4.56 The Capital Internal Control Board is overseeing work to further improve capital governance arrangements and the preparation of business case templates in line with the Five Case Model. The Five Case Model is an approach for developing business cases recommended by HM Treasury and the UK Office of Government Commerce, and is widely used across central government departments and public sector organisations.

Contribution to Improvement and Assurance Panel (IAP) Exit Strategy

4.57 The IAP published its Exit Strategy in October 2023. Delivery of the Exit Strategy will provide confidence that the Council is able to drive its own continuous improvement and demonstrate Best Value without a need for external intervention by MHCLG.

4.58 The Capital Programme and Strategy demonstrates the delivery of Best Value and supports the following objectives of the Exit Strategy:

- Operation of Governance Structures – the setting of the 2025-26 budget following timely and well-engaged process for deliberation.
- Council's finances on a sustainable footing – a balanced budget achieved for 2025-26 (with exceptional financial government support).
- Robust finance governance procedures are in place – progress against the Annual Governance Statement Action Plan.
- Maximise asset sales to reduce debt – delivery of asset disposal plan.
- To deliver best value in respect to community assets including Libraries/Community Hubs.
- Parking Policy Review – Roll out and installation of new ANPR cameras.
- Croydon's housing stock is rendered safe and compliant, meeting consumer and home standards.
- The Council understands its stock, condition and the residents who live there. It has robust data assembled and uses this to inform service delivery and maximise income.
- The Council develops and implements a Housing Regeneration and Supply Strategy.
- Put in place robust systems and sound procedures including the Oracle Improvement Project.
- Contract management arrangements to be improved.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 None.

6 CONSULTATION

6.1 The development of the Capital Programme forms part of the Medium Term Financial Strategy (MTFS) for the Council. The 2025-26 budget engagement commenced in October.

7. CONTRIBUTION TO EXECUTIVE MAYOR'S BUSINESS PLAN

7.1 The capital programme and capital strategy 2024-30 supports the Mayor's Business Plan 2022-2026 objective one "The council balances its books, listens to residents and delivers good sustainable services".

8. IMPLICATIONS

8.1 FINANCIAL IMPLICATIONS

8.1.1 Financial implications have been provided throughout this report. The Capital Programme will be provided for within the Council's Medium Term Financial Strategy.

8.1.2 The Council has high costs of General Fund borrowing and, therefore, careful and prudent management of the capital budget is required to avoid unnecessary costs to the revenue budget.

Comments approved by Allister Bannin, Director of Finance (Deputy s151 Officer).

8.2 LEGAL IMPLICATIONS

8.2.1 Under Section 1 of the Local Government Act 2003 ("LGA") ("Power to borrow"), a local authority may borrow for any purpose relevant to its functions or for "the prudent management of its financial affairs".

8.2.2 Under Section 3(1) and (8) of the LGA ("Duty to determine affordable borrowing limit") the Council must determine and keep under review how much money it can afford to borrow, and the function of determining and keeping these levels under review must be discharged by Full Council, rather than by the executive.

8.2.3 Sections 15 and 21 (1A) of the LGA requires the Council to have regard to any guidance issued by the Secretary of State and guidance about accounting practices to be followed in particular with respect to the charging of expenditure to a revenue account. Consequently, the Council is required to have regard to the "Statutory guidance on Local Government Investments (3rd Edition)" and the "Capital finance: guidance on minimum revenue provision (fourth edition)" issued under these provisions.

8.2.4 Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) requires the Council to have regard to the "Prudential Code for Capital Finance in Local Authorities" issued by CIPFA (the Code) when determining, under section 3 of the LGA, how much money they can afford to borrow.

8.2.5 Regulations 23 and 24 provide respectively that capital receipts may only be used for specified purposes and that in carrying out its capital finance functions, the Council must have regard to the code of practice in "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" issued by CIPFA.

8.2.6 The Council is required by these Codes to produce a Capital Strategy to ensure that capital investment plans for the Council is affordable, prudent and sustainable. The report at Appendix A has been produced in accordance with those requirements.

8.2.7 Regulations 25 and 26 provide for expenditure which is, and which is not, to be treated as capital expenditure for the purposes of the LGA 2003. Regulation 27 provides that local authorities must charge to a revenue account a minimum amount ("minimum revenue provision") and may charge to a revenue account an additional amount, in respect of the financing of capital expenditure. The minimum revenue provision is calculated in accordance with regulations 28 to 29.

8.2.8 All schemes within the Capital Programme will need to be approved in accordance with the governance process set out in the Capital Strategy and with the Council's Constitution. The legal implications for each scheme within the Capital Programme will be considered as part of the approval process.

8.2.9 Under the Council's Budget and Policy Framework Procedure Rules, the Executive is responsible for the preparation of proposed plans, strategies or budgets that form part of the Budget and Policy Framework, including plans or strategies for the control of the Council's borrowing or capital requirement. The proposals in this report will therefore form part of proposals for submission to full Council.

8.2.10 Under the Council's Financial Regulations, the Chief Financial Officer is responsible for ensuring that a balanced revenue budget and capital programme and budget, are prepared on an annual basis.

8.2.11 Under Directions dated 20 July 2023, issued by the Secretary of State under Section 15(5) of the Local Government Act 1999, the Council must, amongst other things "secure as soon as practicable that all the Authority's functions are exercised in conformity with the best value duty, thereby delivering improvements in services and outcomes for the people of Croydon".

Comments approved by Gina Clarke, Principal Lawyer, Corporate Law and Litigation on behalf of the Director of Legal Services and Monitoring Officer, 21.11.2024.

8.3 HUMAN RESOURCES IMPLICATIONS

8.3.1 There are no immediate Human Resources implications arising from this report.

Comment approved by: Dean Shoesmith, Chief People Officer, 18/11/2024.

8.4 EQUALITIES IMPLICATIONS

8.4.1 As a public body, the Council is required to comply with the Public Sector Equality Duty [PSED], as set out in the Equality Act 2010. The PSED requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out their activities. Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

8.4.2 The Council must, therefore, ensure that we have considered any equality implications in respect of the capital programme and Strategy. The Council has an established Equality Impact Assessment process, with clear guidance, templates and training for managers to use whenever new policies or service changes are being considered. This approach ensures that proposals are checked in relation to the impact on people with protected characteristics under the Equality Act 2010.

8.4.3 The objectives of the Mayor's Business Plan are focused on delivering good sustainable services and creating opportunities for all residents of Croydon including children and young people. The proposals in the capital programme are likely to impact on residents, the extent of which and the characteristics most affected can only be identified following further analysis once the proposals have been developed.

8.4.4 During the MTFS process, proposals which impact on people are subjected to equality analysis using a data driven approach and offer mitigation to people most affected.

8.4.5 We commit to ensuring that we meet our legal requirements under the Equality Act 2010 to our residents including disabled residents and the parents of disabled residents in respect of children and young people.

8.4.6 We have identified areas of improvement in relation to the collection of data across directorates and are committed to improving this to enable our decisions to be more evidence based and robust.

Comments approved by Ken Orlukwu, Senior Equalities Officer, on behalf of Helen Reeves, Head of Strategy & Policy, 21/11/2024.

9. APPENDICES

Appendix A - Capital Strategy 2024-25
Appendix B - 2024-25 to 2029-30 Capital Programme

10. BACKGROUND DOCUMENTS

10.1 None.