LONDON BOROUGH OF CROYDON

CAPITAL STRATEGY

2025-26

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1 FOREWORD

1.1.1. The Capital Strategy is a key strategic document providing a high-level overview of how capital expenditure, capital financing, investments, liabilities and treasury management activity contribute to the provision of services, together with an overview of how associated risk is managed.

1.1.2. The Capital Strategy recognises the complex and challenging financial and operational circumstances in which the Council continues to find itself. The Mayoral Business Plan Objective 1 is that the Council *'balances its books, listens to residents and delivers good, sustainable services*'. This 2025-26 Capital Strategy continues on from the 2024-25 Capital Programme in only including essential capital works, however, is larger in scale to include necessary investment such as waste vehicle replacements and improvements in IT infrastructure, and invest to save initiatives such as LED Street Lighting, transformation and increasing the provision of affordable housing.

1.1.3. With circa £1.4bn of General Fund debt and an environment of higher interest rates the delivery of an effective Asset Management Plan and an ambitious Asset Disposal Strategy, including reducing the number of buildings used by the Council, is essential to mitigate rising cost pressures, minimise increases in the overall debt burden and help the Council balance its books.

1.1.4. The Capital Strategy presented here and associated capital framework will continue to be improved over coming months and years.

2 INTRODUCTION

2.1.1 Local Authorities are required by regulation to have regard for the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code 2021 which sets out a framework to ensure that the capital expenditure plans of Local Authorities are affordable, prudent and sustainable. The 2018 revision of the Prudential Code introduced the requirement for local authorities to produce a Capital Strategy representing their approach to financial planning. The 2021 revision of the Prudential Code further amended the requirements for a Capital Strategy including the need to address environmental sustainability consistent with the Council's corporate policies and setting and revising prudential indicators with regards to decision making on capital investment.

2.1.2 Capital expenditure referred to in the strategy is consistent with the definition within CIPFA Accounting Code of Practice as:

> *"...Expenditure that results in the acquisition, construction, or the enhancement of non-current assets (tangible or intangible) in accordance with proper practices... All other expenditure must be accounted for as revenue expenditure unless specifically directed by the Secretary of State."*

2.1.3 A Capital Strategy is defined as a key strategic document that provides a high level overview of how capital expenditure, capital financing, investments, liabilities and treasury management activity contribute to the provision of services, together with an overview of how associated risk is managed and the implications for future financial sustainability.

2.1.4 A Capital Programme is defined as an internal working document for elected councillors and officers that identifies agreed capital projects, showing the total cost of capital projects and the projected phasing of those capital projects over current and future financial years.

2.1.5 This document sets out how the Council takes capital expenditure and investment decisions in line with service objectives and overall organisational strategy. Its aim is to ensure decisions are being made with sufficient regard to the long-term financing implications and potential risks to the authority.

2.1.6 This Capital Strategy provides the foundation for the Council's long-term management and delivery of its Capital Programme. It sets the policy framework for the Capital Programme and shows how capital expenditure, capital financing and treasury management activities will be undertaken to drive the Council's ambition to achieve long-term financial sustainability.

2.1.7 The Capital Strategy forms a fundamental part of the ongoing strategic planning of the Council together with the Medium Term Financial Strategy, Treasury Management Strategy, Housing Revenue Account (HRA) Budget and HRA 30 Year Business Plan. Subject to Cabinet approval, it will be updated periodically and at least once a year to reflect new priorities, schemes and methods of finance introduced.

2.1.8 This document is a continuation of the improved Capital Strategy developed for 2024-25 with the Council recognising it is still on a journey towards developing a robust and effective Capital Framework. The document reflects the progress made to date by the Council to improve the governance and financial management of the Capital Programme following recommendations from the two Reports in the Public Interest (RIPI). The Council understands that the initial improvements put in place are the foundations of good practice and is focused on building upon these over the coming months and years.

3 CONTEXT

3.1.1 The Capital Strategy recognises the complex and challenging financial and operational circumstances in which the Council continues to find itself following two Reports in the Public Interest (RIPI) published by its external auditor (Grant Thornton UK LLP) in October 2020[1] and January 2022[2] and subsequent reviews into its financial management arrangements. The reports highlighted grave governance, operational and financial failures within the Council and made a series of recommendations in relation to capital that are considered throughout this document.

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[1] Report in the Public Interest (RIPI 1) concerning the Council's financial position and related governance arrangements

[2] Report in the Public Interest (RIPI 2) concerning the refurbishment of Fairfield Halls and related governance arrangements.

3.1.2 The review also highlighted concerns regarding value for money and investment decisions as the Council has incurred £300m of debt in investing in assets which have not retained their value and therefore the level of debt exceeds the value of the investment assets. In the three years between 2017-18 and 2019-20 the Council borrowed £545m with no focused debt management plan in place. The majority of this debt comprises short-term borrowings which has left the Council exposed to current higher interest rates. The debt is anticipated to be refinanced from 2024 onwards and therefore likely to drive significant increases in annual repayment levels.

3.1.3 The Council's current debt burden is circa £1.7bn and includes circa £0.366bn Housing Revenue Account debt. At present, an estimated £60m per annum is required to service this debt from the General Fund which represents around 16% of the Council's core spending power. The Council's borrowing and debt burden has, therefore, become critical to the non-sustainability of the Council's revenue budget.

3.1.4 The Council has concluded that the expenditure it is anticipated to incur in each year of the period 2025-29 is likely to exceed the financial resources available and that reaching financial and operational sustainability without further government assistance will not be possible. The Council's 2024-25 budget required capitalisation directions from government of £38m to balance and the Medium-Term Financial Strategy (MTFS) demonstrates an ongoing estimated budget gap of £38m per annum from 2025-26. Each additional £38m borrowed through capitalisation directions would add an estimated £3m per annum to future borrowing costs.

3.1.5 In response to its financial situation the Council is considering a range of actions including flexible use of Growth Zone business rates, asset disposals and a range of transformation proposals. Dialogue with MHCLG continues, and the Council is seeking further financial support from Government in regard to its level of historic legacy indebtedness to ensure it can deliver sustainable local government services.

3.1.6 It must be noted that annual capitalisation directions (transferring revenue cost into capital cost which must be funded over 20 years) increases the Council's debt burden. Also 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").

3.1.7 Therefore, debt write-off 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 dialogue is continuing.

3.1.8 Against this financial backdrop the Council's Capital Programme is significantly impacted. The Council's high level of short-term borrowing and cost pressures from increased interest rates means the programme has been reduced to comprise only core programmes and schemes that i) the Council are committed to commercially, ii) meet statutory obligations, iii) deliver savings in management and maintenance costs, and iv) avoid future cost increases.

3.1.9 The Council's property and other assets are also being reviewed to inform the approach to raise finance through sales in order to minimise borrowing costs, although the Council anticipates that the capital receipts will not reduce debt levels sufficiently to make the Council financially sustainable.

3.1.10 Several external macroeconomic factors may impact the delivery of the Capital Programme and its financing decisions. Recent high inflation has caused the Bank of England to increase interest rates, hence potentially putting additional cost pressures on the Council for loan repayments. Current levels of inflation as well as some challenges in the supply chain may also impact the delivery of the Capital Programme both from a cost and skill perspective. Furthermore, high debt levels incurred by the government during the Covid-19 pandemic may put additional pressure on local government funding.

4 MAYORAL BUSINESS PLAN 2022-2026

4.1 OVERVIEW

4.1.1 The Mayoral Business Plan (MBP) 2022-26 provides the framework within which the Capital Strategy has been developed and sets out the Council's objectives and priorities to strengthen governance and management systems, achieve financial and operational sustainability and complete the transformation of the Council over the next four years.

4.1.2 The MBP sets out a vision for Croydon consisting of five outcomes to be achieved and priority aims and high-level actions required to deliver these outcomes as summarised below.

4.2 THE FIVE OUTCOMES

- The Council balances its book, listens to residents and delivers good, sustainable services
- Croydon is a place of opportunity for business, earning and learning
- Children and young people in Croydon have the chance to thrive, learn and fulfil their potential
- Croydon is a cleaner, safer and healthier place, a borough we're proud to call home
- People can lead healthier and independent lives for longer

4.2.2 The supporting priorities for each outcome are:

- ***Outcome 1: The Council balances its book, listens to residents and delivers good, sustainable services***
    - Get a grip on the finances and make the Council financially sustainable
    - Become a Council which listens to, respects and works in partnership with Croydon's diverse communities and businesses
    - Strengthen collaboration and joint working with partner organisations and the voluntary, community and faith sectors (VCFS)
    - Ensure good governance is embedded and adopt best practice
    - Develop our workforce to deliver in a manner that respects the diversity of our communities
- ***Outcome 2: Croydon is a place of opportunity for business, earning and learning***
    - Support the regeneration of Croydon's town and district centres, seeking inward investment and grants
    - Deliver a vibrant London Borough of Culture which showcases local talent and supports Croydon's recovery
    - Support the local economy and enable residents to upskill and access job opportunities
- ***Outcome 3: Children and young people in Croydon have the chance to thrive, learn and fulfil their potential***
    - Ensure children and young people have opportunities to learn, develop and fulfil their potential
    - Make Croydon safer for young people
    - Work closely with health services, Police and the VCFS to keep vulnerable children and young people safe from harm
- ***Outcome 4: Croydon is a cleaner, safer and healthier place, a borough we're proud to call home***
    - Make our streets and open spaces cleaner so that Croydon is a place that residents and businesses can feel proud to call home
    - Tackle anti-social behaviour, knife crime and violence against women and girls so that Croydon feels safer
    - Invest in council homes to drive up standards and develop a more responsive and effective housing service

    - Ensure new homes are safe, well-designed and in keeping with the local area

    - Lead action to reduce carbon emissions in Croydon

- ***Outcome 5: People can lead healthier and independent lives for longer***

    - Work with partners and the VCFS to promote independence, health and wellbeing and keep vulnerable adults safe

    - Work closely with health services and the VCFS to improve resident health and reduce health inequalities

    - Foster a sense of community and civic life

4.2.3 Capital programme expenditure is a key tool in achieving the MBP outcomes and priorities. Targeted investment can provide the Council with the assets it needs to deliver high quality, value for money services. However, the Council's limited financial resources and capacity constraints place significant emphasis on the need to prioritise capital investment decisions to meet outcomes and priorities. In the near term this will mean the continuation of reduced spending, a wholesale transformation of working practices and embedding a strong governance structure across the authority to ensure value for money from the Capital Programme expenditure.

4.2.4 Delivering the outcomes and priorities of the MBP will have direct implications on the development of the Capital Strategy and the Capital Programme. The capital framework articulated within this document will therefore prioritise the following:

- Capital investment being targeted towards supporting the Council's corporate objectives.

- Capital investment being prudent, sustainable, affordable and providing value for money.

- Capital projects being delivered on time and within budget.

- Council staff having a common understanding of the long-term context in which capital investment decisions are made and all the financial risks to which the Council is exposed.

- Improved transparency at Capital Programme level along with a clear process for Council staff engagement.

- Improvement in approving and amending the Capital Programme and for scrutinising decisions relating to capital expenditure.

- Commitment to ensure Council staff have the skills, and expertise needed to effectively manage and deliver the Capital Programme.

- Strengthening the Capital Programme management function by streamlining governance, monitoring and reporting processes.

- Ensuring a sound financial position is maintained through sustainable deployment of resources.

- The Council is appropriately responding to the recommendations raised in the Reports in the Public Interest and Croydon Financial Review.

5 CAPITAL PROGRAMME

5.1 OVERVIEW

5.1.1 The Capital Programme will support the Council to achieve long term financial sustainability whilst enabling the Mayoral Business Plan over future years. It is expected that as the Council moves towards a position of financial sustainability it will become better placed to deliver on the ambition of the Business Plan. All capital projects will need to demonstrate how they will meet the Business Plan's priorities and outcomes before inclusion in the Capital Programme. The Capital Strategy and Capital Programme will therefore need to develop accordingly.

5.1.2 The 2025-26 Capital Programme sets out planned capital expenditure over the five year period to 2029-30. The adoption of a five years timeframe is to ensure capital expenditure is profiled to mirror the delivery of the capital projects, allow longer term planning, show how each project is linked to the Council's priorities and summarises planned expenditure and funding.

5.1.3 The 2025-26 Capital Programme continues to reflect a reduction in scale and cost compared to years prior to 2024-25 and includes only core programmes and schemes, which have been assessed on the basis of:

- Requirement to meet health and safety
- Supports invest to save
- Mandatory or statutory requirement
- Significant contribution to Council Plan and Mayor's objectives
- Projects that have secured external funding
- Any overspends for projects already in the Capital Programme
- Minimum level of repairs and maintenance to retain existing asset values

5.2 CAPITAL PROGRAMME EXPENDITURE

5.2.1 Capital Programme expenditure is provided for within the General Fund and Housing Revenue Account budgets. The annual budget is the formal resource allocation process that enables the delivery of the Council's policies and priorities. Under statutory responsibility, the Council is required to reinvest in maintaining housing stock at decent standards which is a fundamental aim of the Housing Revenue Account.

5.2.2 The General Fund is the core account which summarises the cost of all services (except those related to Social Housing) provided by the Council's directorates including Housing, Assistant Chief Executive, Children, Young People and Education, Sustainable Communities, Regeneration and Economic Development, Resources and Corporate.

5.2.3 The Housing Revenue Account is a ring-fenced account used to manage income and costs associated with managing the Council's owned housing stock and related assets, which includes shops and garages on Council housing estates. It comprises 21,296 housing and related asset types with 13,443 General Rent dwelling stock[3]. The HRA is funded primarily from tenants' rents and service charges.

5.3 GENERAL FUND CAPITAL PROGRAMME

5.3.1 Table 1 provides a summary of Capital Programme expenditure from the General Fund by future years including the current Capital Programme year of 2024-25 per Council Directorate.

Table 1 - General Fund Capital Programme Expenditure (£000's)

Directorate	2024-25 Budget	2025-26 Budget	2026-27 Budget	2027-28 Budget	2028-29 Budget	2029-30 Budget
ASSISTANT CHIEF EXECUTIVE	6,544	1,399	250	-	-	-
ADULTS SOCIAL CARE & HEALTH	4,386	5,348	-	-	-	-
CHILDREN, YOUNG PEOPLE AND EDUCATION	2,640	1,532	1,415	-	-	-
HOUSING	40,927	3,335	3,335	3,335	3,335	3,335
RESOURCES	21,272	14,412	5,564	3,000	3,000	3,000
SUSTAINABLE COMMUNITIES, REGEN & ECONOMIC RECOVERY	34,884	53,573	34,622	35,559	17,890	18,455
CORPORATE	38,000	38,000	38,000	38,000	38,000	38,000
Total General Fund Capital Programme	**148,653**	**117,599**	**83,186**	**79,894**	**62,225**	**62,790**

Please note that the Education capital delivery team is in the Commercial Investment and Capital Division in the Resources Directorate, so the Education capital schemes are shown in Resources rather than the Children, Young People and Education Directorate.

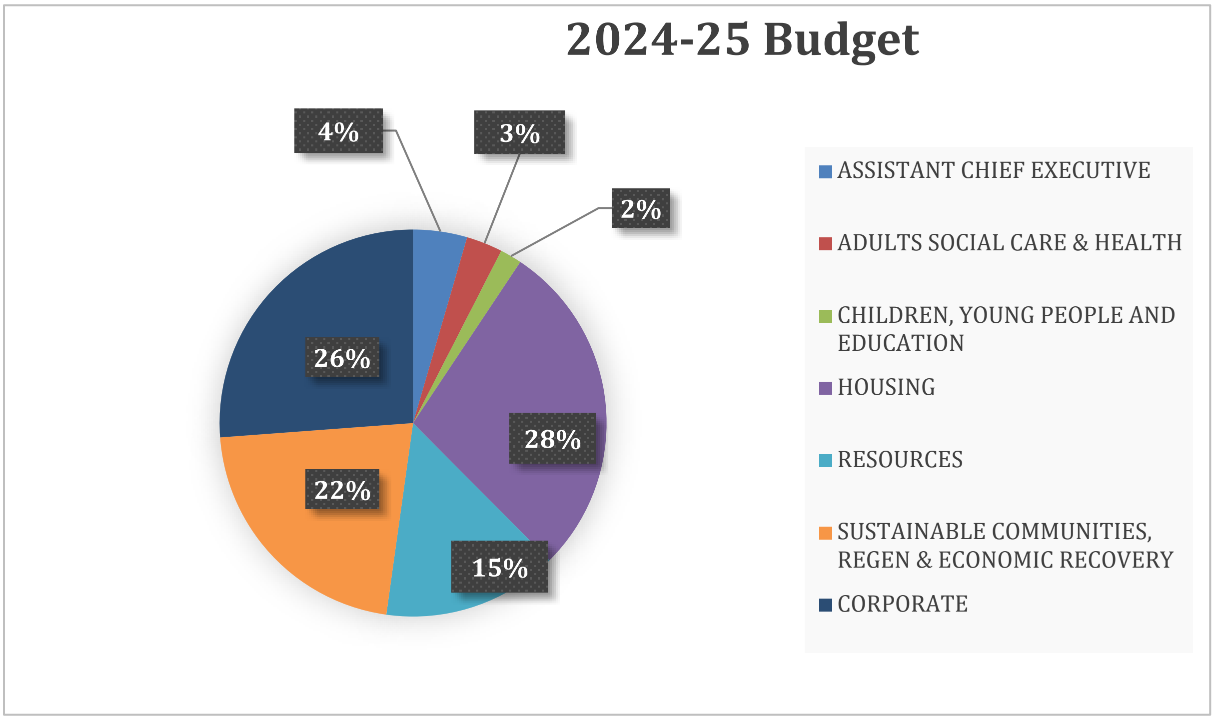
[3] Housing Revenue Account (HRA) 30 Year Business Plan 2021- 2051 and HRA Capital Programme 22/23, Appendix 2 Details of HRA Tenant Type

5.3.2 The Council is projecting to spend £148.7m in 2024-25 and planned expenditure of £405.7m from 2025-26 across the five years of the Capital Programme (including capitalisation directions).

5.3.3 Capitalisation directions contribute significantly to the Capital Programme. These have been included as assumptions in the MTFS 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.

5.3.4 **Chart 1** demonstrates the current 2024-25 Capital Programme expenditure by Directorate. The Corporate expenditure element that comprises 26% of the total budget for the year relates to the use of the £38m Capitalisation Direction approved in principle by the Department of Levelling Up, Housing and Communities (DLUHC).

Chart 1 - General Fund Capital Programme Expenditure



5.3.5 The 2025-26 Capital Programme is future looking and comprises key projects and assets continuing to incur expenditure from previous Capital Programme years and includes additional new projects that have obtained approval.

5.3.6 Table 2 summarises the key project areas within each of the Council's Directorates and includes corporate items which comprise the Capitalisation Direction from MHCLG.

Table 2 - General Fund Capital Programme Composition

Directorates	Key Project Areas
Assistant Chief Executive	• Laptop Refresh • IT Infrastructure
Adult Social Care & Health	• Strategic Operating Model for Adult Social Care & Health
Children, Young People & Education	• Strategic Operating Model for Children, Young People and Education
Housing	• Discharge Temporary Accommodation • Disabled Facilities Grant
Resources	• Education – SEND and school expansion • Oracle Improvement Programme • Target Operating Model Transformation • Corporate Property Maintenance Programme
Sustainable Communities, Regeneration and Economic Recovery	• Reconnecting Croydon • Highways and Transport • Waste and Street Cleansing Fleet Vehicles • Growth Zone • Street Lighting LED Replacement • Park Asset Management • Parking Cameras Replacements
Corporate	• Capitalisation Direction

5.4 HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

5.4.1 Table 3 provides a summary of Capital Programme expenditure from the Housing Revenue Account by future years including the current Capital Programme year of 2024-25.

Table 3 - Housing Revenue Account (HRA) Capital Programme Expenditure

HRA Capital Expenditure	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 and Improvements Programme	20,535	35,177	28,899	31,165	31,165	
Chertsey Crescent	1,243					
Dartmouth House	2,252					
NEC Housing System	330					
Acquisitions and Developments		23,000				
Regina Road	12,477	17,941	19,105	20,105	18,105	15,267
Building Safety Works	10,500	40,300	20,000	8,515		
Repairs Referrals	8,600	7,500	7,500	7,500	7,500	
Total HRA Capital Expenditure	**55,937**	**123,918**	**75,504**	**67,285**	**56,770**	**15,267**

5.4.2 The estimated Capital Programme Expenditure for the Housing Revenue Account is £55.9m for 2024-25 and a total expenditure of £394.7m between 2024-25 and 2029-30.

5.4.3 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 planned on older buildings along with a whole new rebuild of Regina Road Estate is planned as key engagement has already taken place with the residents.

Housing Revenue Account 30 Years Business Plan

5.4.4 The Council has re-appointed Savills to support the development of the HRA 30 years Business Plan with their report expected to be an appendix to the HRA Business Plan report to Cabinet in February 2025. The 30-years Business Plan provides consideration to both capital and revenue investments required for the management and maintenance of the Council’s housing stock. The key focus of the Housing Revenue Account Business Plan is on the medium-term (first five years) as there is more certainty on costs, demands, resources and pressures, to enable the prioritisation of housing investment. The Plan will be used as a tool to assess the impact of decision making around stock acquisition and maintenance and will align with the HRA Asset Management Plan.

5.4.5 The Housing Revenue Account 30-years Business Plan addresses the outcomes and priorities within the Mayoral Business Plan by investing in housing stock to ensure all residents' homes are safe, warm, and dry, and aims to improve the Council's housing stock and invest in significantly reducing its carbon footprint over the life of the Plan. This will help the Council to live within its means, balance the books and provide value for money for residents, along with tackling ingrained inequality and poverty within the borough and providing the best quality core services.

6 ASSET MANAGEMENT PLAN

6.1 OVERVIEW

6.1.1 To ensure that capital assets continue to provide maximum value for the Council and contribute to its long-term vision, a new Corporate Asset Management Plan (AMP) and outline Property strategy was approved in November 2022. An update on the Assets Disposal Plan was presented to Cabinet in May 2023.

6.1.2 The AMP provides clear guidance on the way that the Council will manage its assets[4] effectively and strategically to reflect both corporate priorities and community demands within the Borough as articulated within the Mayor's Business Plan. The AMP is also aligned to the Council's priorities for 2024-28 as set out in the Medium-Term Financial Strategy (MTFS).

6.1.3 Assets are a corporate resource and the Council, through its Resources Directorate, has responsibility for obtaining the approval and subsequent monitoring of the AMP, its constituent priorities and any related decision-making and resource allocation regarding Council assets.

6.1.4 The Corporate Management Team (CMT) provides oversight and direction to the Asset Management Plan to ensure management of the Council's assets is considered corporately, including decisions in relation to the Council deciding to sell, buy, rent or hold assets.

6.2 VISION AND PRIORITIES

6.2.1 The Council's property assets should support service delivery, enable regeneration and development, or generate income. Property assets will be reviewed over the next four years in line with the corporate priorities of the AMP, which are listed below:

- **Maximise the use of council assets** - this will include:
    - **Asset Review and Challenge Programme** to assess how operational buildings are used and the performance of the investment estate
    - **Property Management Governance Framework** to support asset review, challenge and decision making

[4] The AMP does not consider the Housing Revenue Account (Housing Revenue Account) assets or community schools in any detail as these are the subject of separate strategies.

- **Disposal Strategy** to focus on the release of surplus assets

- **Review of Operational Asset Management** that focuses on a new programme of condition surveys to inform the maintenance programme, health & safety and risk
- **Housing and regeneration** focusing on delivering new housing, workplaces, and job opportunities through the identification, release and development of surplus sites
- **Future property approach** to reflect evolving service demands and resident expectations
- **Sustainable estate** to develop a carbon re-fit, plant replacement and maintenance program to support carbon neutral targets and improve energy efficiency

6.2.2 These priorities aim to contribute to the overall ambitions of the Capital Strategy by ensuring asset decisions are being made with sufficient regard to the long-term financial position of the Council and the requirement to become financially sustainable.

6.3 SUPPORTING FINANCIAL SUSTAINABILITY

6.3.1 With circa £1.4bn of General Fund debt and higher interest rates when that debt is scheduled for refinancing, the implementation of a robust Asset Management Plan, Corporate Property Strategy and Asset Disposal Strategy is essential to mitigate rising cost pressures and minimise the overall debt burden to the Council.

6.3.2 With the continued requirement to deliver both revenue savings and capital receipts, the number of buildings that are used by the Council to deliver services will need to be reduced. This can be achieved through the better utilisation of space, the adoption of hybrid working and adoption of different methods of delivery to residents. In some cases, changes may lead to the cessation of some non-statutory services altogether. The Asset Review and Challenge Programme will be used to review and challenge the use of property assets whilst the principles established within the Asset Disposal Strategy will be used to identify and bring forward future proposals (see below).

6.3.3 The Housing team is developing a full asset management strategy which forms part of the housing transformation plan and will detail the long-term plan for the management of the investment of Council housing assets over a 10 years' horizon.

6.4 ASSET DISPOSAL AND PROPERTY TRANSFORMATION

6.4.1 The Asset Disposal and Property Transformation Programme is a process to continually review the Council's portfolio on a rolling basis to ensure that only assets that are performing to acceptable levels are retained or invested in. The c.120 buildings the Council occupies and delivers core services from are included in this programme.

6.4.2 The programme is initially reviewing all corporate assets and considering them against current service delivery needs. The resultant proposal will include timelines to reflect known or anticipated service delivery changes and future opportunities. It will also consider the complexity around the relocation of services where this is necessary as well as opportunities that may arise through contract expiries and the release of assets currently used to deliver these functions.

6.4.3 As part of the ongoing governance process, officers monitor the utilisation and performance of assets which includes looking at current occupation levels, running costs and opportunities for revenue/capital generation. This will enable asset use and performance to be reviewed against the performance of other boroughs and available benchmark data.

6.4.4 The asset disposal programme has already identified non-essential assets that can be disposed of. The continuation of the asset review will further inform the Asset Disposal Strategy and programme by establishing which further assets are the most fundamental to the Council's service delivery and should be retained, and which assets are low-priority or surplus. The continuation of the programme and subsequent rationalisation and/or disposal of current assets will help to deliver further capital receipts to minimise the Council's capital financing costs, debt burden and overall running costs.

6.5 ASSET CONDITION

6.5.1 An important element of the overall Asset Management Plan (AMP) is the delivery of a new condition survey programme for the main corporate assets over the next 18-24 months. This was one of the key issues highlighted by the Improvement and Assurance Panel as a formal programme for undertaking condition surveys was stopped in 2016. The previous 5 year rolling programme of surveys could mean that some buildings have not been surveyed in detail for 12 years.

6.5.2 The new programme of surveys is an integral part of the new AMP and is being separately procured. This will provide a more detailed understanding as to the current condition of the main corporate assets. The work will also provide recommended budgets for necessary repairs and expenditure over the next 5 to 10 years to allow a more accurate basis for budgeting for both capital and revenue spend. It will also help to highlight those assets that need major investment and may no longer be cost effective to retain.

6.6 SUSTAINABLE ESTATE

6.6.1 The Council declared a climate change and ecological emergency in July 2019 and Cabinet agreed that the Council would become carbon neutral by 2030. A wide range of actions have already been undertaken in Croydon to combat climate change.

6.6.2 Achieving carbon neutrality by 2030 will require significant financial investment. The financial investment will need to be funded from a variety of sources, including Council driven expenditure as well as external allocations from the business sector and available grant-funding streams. The Council will primarily look at introducing sustainable interventions through replacing old assets that need replacement with sustainable alternatives.

6.6.3 One of the key elements from an asset perspective in addressing the Climate Emergency will be through better building performance. This will become more focused over the next few years with the changes to the Energy Performance requirements for buildings that are being let or disposed of. The energy performance of Council properties will be a key consideration of the Asset Review and Challenge Programme.

6.7 REGENERATION

6.7.1 The Council has wider ambitions for regeneration within the borough including the Growth Zone which is a partnership between the Central Government, the Council and the Greater London Authority. The Growth Zone will finance and deliver a 12 years' redevelopment programme, which is essential to facilitate growth in Croydon town centre. The Mayoral Business Plan intends to support the regeneration of the town centre and district centres by seeking inward investment and grants. The Council continues to work with private sector partners to develop its town centre and is enhancing its planning policies to facilitate greater regeneration investment.

6.8 INVESTMENT ASSETS

6.8.1 Given the Council's financial challenges the purchase of investment assets has ended.

6.8.2 These assets require capital investment in the form of maintenance and careful asset management in order to maintain the required income stream. As a result this portfolio places a demand on the Council's annual capital programme. The Council is currently selling its investment assets in order to raise the capital receipts it needs to repay debt and reduce the need for future borrowing.

6.9 DISPOSAL APPROACH AND GOVERNANCE

6.9.1 The Asset Disposal Strategy has a central role within the AMP. In order to minimise the debt burden on the Council, raising money through the disposal of assets will be essential. The Asset Disposal Strategy provides a formal approach to the management of assets and in particular their disposal where they have been identified as either surplus or no longer key to the delivery of services. This will be done in a structured and controlled manner to ensure that any disposal does not cause longer-term operational difficulties or fail to achieve the best return for the Council.

6.9.2 The Disposal Strategy adopts a flexible approach so that it can support future corporate requirements. It will aim to identify properties for disposal in the short to medium (3 years) term but will be reviewed annually to reflect changes in the delivery of services.

6.9.3 All decisions to dispose of an asset must be subject to a full business case report that will include a minimum set of requirements. The full process for disposal of property is set out in the Disposal Strategy and in summary is based on:

- If operational, the asset must be declared surplus to requirements by the relevant directors. Any proposed alternative uses will be considered against the benefits of disposing of the asset
- Obtaining supporting valuation and agency advice to inform the business case and disposal approach
- Final version of the business case approved by CMT, and then Mayoral/Cabinet approval where required

6.9.4 The Council has currently identified approximately £200m of potential disposal receipts based on existing sites previously identified, a review of investment assets and other potential opportunities driven by anticipated service changes.

6.9.5 Any ability to achieve receipts in excess of £200m in future years will be dependent on difficult decisions in relation to the future of service delivery, with the overall value of receipts likely limited by previous programmes to rationalise the Council's property portfolio and the market value of potentially surplus assets at any point in time.

7. CAPITAL PROGRAMME FUNDING & FINANCING

7.1 OVERVIEW

7.1.1 All Capital Programme expenditure must be financed from external sources (government grants and external contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The Council is seeking to fund the Capital Programme expenditure from a combination of external contributions and capital receipts from disposal of Council owned assets. The funding of schemes through borrowing should only be a last resort when no other funding is available.

7.2 FUNDING SOURCES

7.2.1 There are a number of distinct sources of funding that can be utilised to finance capital expenditure. The Capital Strategy demonstrates that due consideration of funding will be made when capital projects are at the planning stage and no project will be put forward without funding having been identified to complete the delivery of the project.

7.2.2 The current Capital Programme comprises current and prospective means of funding and financing projects and the range of choices available are detailed below:

- **Community Infrastructure Levy (CIL)** - CIL is a standard charge on developments used to fund a wide range of infrastructure that is needed because of the development.

- **S106 Contributions** – some projects within the Capital Programme are funded by contributions from private sector developers.

- **Housing Revenue Account** - An account used to manage Income and costs associated with managing the Council's owned housing stock and related assets which is funded primarily from tenants' rents and service charges. Revenue contributions can be made from this account to fund HRA capital schemes.

- **Growth Zone** - The use of Growth Zone business rates from the town centre designated area.

- **External Grants for Specific Purposes** – these include grant allocations categorised for specific purposes to deliver specific schemes or outcomes.

- **External Grants for Non-Specific Purposes** – grant allocations for the delivery of the Council's capital plans (most often from government departments), that are categorised as non-specific.

- **Capital Receipts** – The Council can generate capital receipts through the sale of surplus assets such as land and buildings. The Council seeks to maximise the level of these resources, which will be available to support the Council's plans. This funding source will be prioritised to fund assets with the shortest useful life, such as IT equipment, to reduce the requirement to borrow for assets that attract a greater annual Minimum Revenue Provision cost.

- **Prudential Borrowing** – The introduction of the Prudential Code in 2004 allows the Council to undertake unsupported borrowing itself. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. This has revenue implications for the Council in the form of financing costs, including Minimum Revenue Provision. The Council aims to minimise the use of prudential borrowing, only applying it to essential capital spend that cannot be funded from elsewhere.

- **General Fund** – Revenue from the General Fund can potentially be utilised to provide contributions to the financing of the capital programme's current and prospective projects. At the current time the Council is not intending to make contributions to the programme from the General Fund due to a lack of available funding from this revenue source.

7.2.3 Table 4 summarises how the General Fund Capital Programme will be funded and provides a breakdown of the different funding sources.

Table 4: Funding Sources for General Fund

Funding Source	2024-25 Budget	2025-26	2026-27	2027-28	2028-29	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.

7.2.4 Table 5 summarises the funding sources for the HRA that have been earmarked to apply to the delivery programme which includes a projection of £153.4m of new borrowing, the cost of which will be financed from the revenue account.

Table 5: Funding Sources for Housing Revenue Account

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)**

7.3 FINANCING

7.3.1 The Council's capital expenditure plans are the key driver of treasury management activity. The primary function of the treasury management operation is to ensure the cash flow is adequately planned, with cash being available when needed to fund the Council's capital plans. These plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects.

Affordability Prudential Indicators

7.3.2 The Treasury Management Strategy covers the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

7.3.3 This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs, net of investment income), against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the budget report.

Table 6: Ratio of financing costs to net revenue stream

	2023-24 Actual %	2024-25 Estimate %	2025-26 Estimate %	2026-27 Estimate %	2027-28 Estimate %
Non-HRA	17.0	17.3	20.0	19.9	19.0
HRA	9.5	9.9	11.6	12.3	13.0

7.3.4 The Council estimates that the non-HRA financing costs will rise from 17.0% to 20.0% of net revenue as the Council will need to externalise some of its internal borrowing and then come down assuming the Council's reliance on capitalisation directions is removed.

7.3.5 The Council is highly leveraged and has set aside considerable money to pay for Minimum Revenue Provision and interest costs. Any further borrowing for the Capital Programme will only add to the debt pile and further increase costs to the revenue account. This poses considerable future risks particularly to the revenue account because of servicing the debt.

7.3.6 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.

7.3.7 **Housing Revenue Account ratios**

Table 7- Housing Revenue Account ratios

	2023-24 Actual	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate
HRA debt (£m)	334.3	350.0	395.0	431.0	461.0
HRA debt cap (£m)	365.7	365.7	410.7	446.7	476.7
HRA revenues (£m)	96.0	103.0	105.1	107.1	109.1
Ratio of debt to revenues	3.5	3.4	3.8	4.0	4.2

7.3.8 The Council estimates the Housing Revenue Account debt to revenue ratios to be between 3.4 to 4.2 over the next three years.

8. CAPITAL PROGRAMME GOVERNANCE

8.1 OVERVIEW

8.1.1 The Capital Internal Control Board (CICB) was established in 2022 in response to the recommendations within the RIPI 2 report. The CICB oversees the Capital Programme and acts as a programme board for the delivery of the overall capital programme, providing assurance on all the Council plans and strategies which impact the capital programme. The creation of the CICB has provided the basis for more strategic oversight of the Capital Programme than previously existed.

8.1.2 The CICB comprises cross-discipline members and representation from each directorate. It is chaired by the Director of Finance (Deputy s151 Officer) and includes the Director of Commercial Investment and Capital as a member. It can challenge and review capital bids before they are submitted to the Corporate Management Team (CMT), the Mayor and Cabinet for approval but does not itself currently have delegated authority as a governing entity to make decisions.

8.1.3 Oversight of the Capital Programme and the Asset Management Plan resides with CMT to ensure alignment of projects with strategic objectives and their contribution to financial sustainability prior to referral to the Mayor, Cabinet and Full Council for final approval. CMT comprises the Chief Executive and the Corporate Directors from the different directorates.

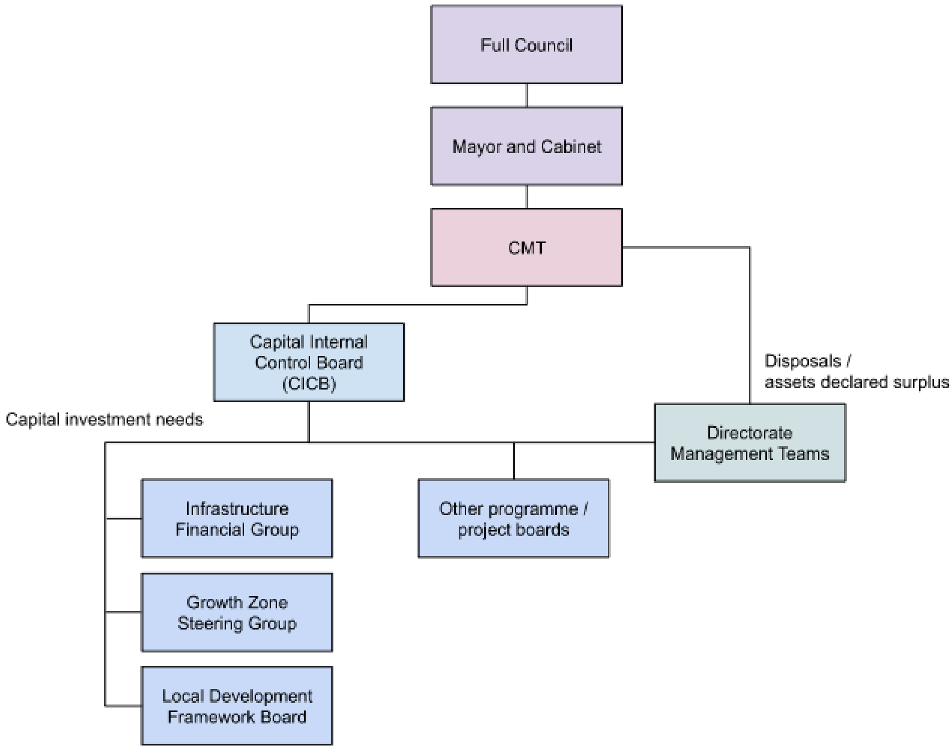
8.1.4 The Council has an established governance arrangement embedded within its current Constitution. Part 4H – Financial Regulations provide the governance framework for managing the Council's financial affairs. They apply to all Members, officers of the Council and anyone acting on its behalf. It is likely to be considered a disciplinary offence to breach these Financial Regulations and procedures.

8.1.5 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 GOVERNANCE SUMMARY

8.2.1 The governance arrangements in relation to the Capital Programme are summarised in the diagram in Figure 1.

Figure 1 - Capital Programme Governance Arrangements



8.3 ROLES AND RESPONSIBILITIES

8.3.1 The Capital Internal Control Board (CICB) role is to act as the programme board for the delivery of the overall capital programme. It challenges and reviews capital bids before they are submitted for Council approval. It provides oversight and assurance of all Council Plans and Strategies which impact on the capital programme. It assures strategic alignment of the allocation of funding including S106 and CIL income.

8.3.2 The main responsibilities of the CICB are to:

- Ensure that appropriate governance and assurance is in place for the management of all capital projects and programmes including processes for project initiation, benefits identification, resource and risk management, and programme planning;
- Provide direction for matters escalated to it;
- Review and ensure appropriate mitigation for significant risks to delivery of the capital programme;

- Review and monitor delivery of the capital programme plan, including additions to the programme and consideration of interdependencies and pressures;

- Agree allocation of resources for feasibility studies and development of new projects (subject to formal Cabinet process as required).

- Recommend allocation of capital resources (subject to formal Council process as required);

- Have oversight of the Council's Asset Management Strategy and associated significant disposals and acquisitions;

- Drive and monitor the delivery of schemes and projects to ensure that capital is deployed on time and in a controlled manner;

- In respect of major projects and programmes within its remit, CICB will assure itself that appropriate legal documentation, contracts and/or agreements are in place prior to making payments to third parties involved in the project or programme.

- The Board will monitor that contracts have been signed, that they are stored securely and that all legal requirements were met prior to the project proceeding.

- In respect of major projects and programmes within its remit, the Board will seek assurance that public procurement rules and UK obligations on subsidy control rules have been properly considered before entering into arrangements.

- CICB will identify opportunities to pause or remove capital expenditure from the Capital Programme.

- CICB will support the Council in assuring itself that an appropriate level of skills and knowledge is held across the Council to support capital delivery and monitoring, and support the identification and delivery of training as required.

8.4 DECISION-MAKING PROCESS

8.4.1 CICB will evaluate the compliance of the proposed capital projects in the Capital Programme including the capital resources available to the Council, the revenue implications of the proposed expenditure and other relevant information. It will focus on the expected costs and financial sources identified and consider any risk to either the delivery or costs forecasts which will be recorded in the Council's corporate risk system following the review.

8.4.2 CICB will report and escalate to the CMT if tolerances are breached or likely to be breached in the following areas:

- Overspend on project budgets;

- Timescale – where a project is going to exceed its agreed deadline;

- Where funding (external) is at risk;
- Scope, where significant change of scope or quality is proposed or agreed benefits are at risk of non-delivery; and
- Risks or issues that pose significant risk to delivery.

8.4.3 A business impact analysis of the breaches of tolerance or proposed changes and clear recommendations will be prepared by the relevant Director when escalating to CMT. The outcome of the approval with the decision required will be noted at the next available meeting. If a decision is urgent and required outside the timing of a Capital Board meeting, the Corporate Director of Resources (s151 Officer) in consultation with the Director of Finance (Deputy s151 Officer), as Chair, may take that decision outside of the meeting.

8.4.4 The CICB has the facility to draw upon external expertise where necessary and set up sub-groups and involve other officers as required to consider specific questions and/or undertake specific tasks and activities. Members of the CICB will be trained, as required, to provide the necessary knowledge and understanding to provide effective and constructive input to the meetings. In addition, the s106 and Community Infrastructure Levy (CIL) Tracker (from the Infrastructure Group) is reviewed on a quarterly basis.

8.4.5 The CICB undertakes ‘deep dives’ into aspects of the capital programme that are of particular interest/significance, due to the amount of expenditure involved or emerging risks to delivery.

8.5 RISK REGISTER

8.5.1 The CICB reviews the Risk Register on a quarterly basis. The Council has introduced the use of a project management system (Verto) and the CICB provides assurance that capital projects have been entered onto Verto and reviews the risks entered.

8.5.2 The risk register comprises different risk scenarios and their potential impact. A RAG (Red, Amber and Green) rating system is used to measure the level of risk. Each risk is identified with a scenario of its likelihood and impact and comprising details of the existing and future controls to manage risks which are regularly reviewed and updated to ensure management of the risk as the capital project progresses.

9. CAPITAL PROGRAMME MANAGEMENT AND MONITORING

9.1 OVERVIEW

9.1.1 The Capital Programme Management and Monitoring Framework supports the delivery of programmes by ensuring capital projects are delivered within budget and timescales. The Council has improved and developed the management and monitoring of the programme in response to recommendations from the RIPI reports and the current financial situation.

9.2 CURRENT ARRANGEMENTS

9.2.1 The present system comprises the submission of a capital bid outlining the business case and providing details of the project overview and justification, route on delivering the project, evaluation of the financial benefits, meeting key prioritisation criteria and potential risks identified. It also comprises a detailed financial breakdown of gross expenditure, itemised funding requirements and profiling of repayment over the course of the capital project.

9.2.2 There is a business case template for the final submission of capital bids that comprises a financial breakdown detailing the financial performance of the Capital Programme in the areas including approved budgets, capital savings, forecasts, borrowings, proposed and unapproved project slippage and variance. There is also a delivery plan setting out the capital projects proposed pricing and specification, procurement strategy, tender process, approvals, implementation and timescales.

9.2.3 The capital bids are sent to CICB for challenge and review of capital bids before they are submitted for CMT, Mayor/Cabinet and Full Council approval. The S151 Officer is responsible for ensuring that there is an effective system for capital monitoring. This will ensure that capital investment is delivered on time and within allocated resources, whilst meeting the objectives and outcomes.

9.2.4 The Council have made incremental improvements to management and monitoring of the programme in response to the recommendations within the RIPI 2 report. The quality and assurance of the management and monitoring processes has improved and comprises project managers providing increased details within business cases to support capital project proposals, increased scrutiny within the capital bid process with increased qualitative questions being asked to provide frequent checks and control on projects.

9.2.5 The Council now has a more standardised, consistent and automated programme and project monitoring framework based on EPPMS (Electronic Project Proposal Management System). The Council has implemented Verto as its preferred EPPMS during 2023 with accompanying communication and training for project managers and key decision-makers across the Council, a priority activity as the Council seeked to strengthen and improve its capital framework.

9.2.6 The system supports the management, planning and execution of capital projects. It is able to manage a portfolio of capital projects across a range of teams and departments. The solution helps to coordinate and enhance workflow capabilities during the project initiation stage and project life cycle. The solution also helps to streamline areas including project budgeting, information management, risk analysis, escalation and project delivery and drive a consistent and more automated reporting to CICB on the capital programme's status to inform strategic decision-making.

9.2.7 The Council is continuing to develop its programme management and project monitoring framework by implementing a more mature approach to business case development based on clear governance gateways for both new projects and those already in the Capital Programme and reporting up through governance forums as projects progress.

9.2.8 The CICB 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.