For general release

REPORT TO:	**CABINET 15 JULY 2013**
AGENDA ITEM:	**15**
SUBJECT:	**JULY FINANCIAL REVIEW**
LEAD OFFICER:	**RICHARD SIMPSON** **DIRECTOR OF FINANCE AND ASSETS AND S151 OFFICER**
CABINET MEMBER:	**COUNCILLOR MIKE FISHER** **THE LEADER** **COUNCILLOR STEVE O'CONNELL** **CABINET MEMBER FOR FINANCE AND PERFORMANCE MANAGEMENT** **COUNCILLOR DUDLEY MEAD** **DEPUTY LEADER (STATUTORY) (CAPITAL BUDGET AND ASSET MANAGEMENT) AND CABINET MEMBER FOR HOUSING**
WARDS:	**ALL**
CORPORATE PRIORITY/POLICY CONTEXT: The review of the Financial Strategy as part of the budget setting process enables a balanced budget target to be established with a focus on an affordable level of council tax, delivery of the corporate priorities and policies of the Council and the continued enhancement of value for money and satisfaction with services for the residents of our borough.	
FINANCIAL SUMMARY: This report sets out the Council's review of its Financial Strategy for the period 2013/17 to establish the context for the Council's budget and medium term financial planning scenarios and assumptions.	

FORWARD PLAN KEY DECISION REFERENCE NO.:

1. Draft RECOMMENDATIONS

It is recommended that Cabinet approves:

1.1 The strategic financial planning assumptions for the Financial Strategy as set out in table 2.

1.2 An increase in the Capital budget for Highways from £5.5m to £7.5m

1.3 The carry forward of £52.3m slippage to the 2013/14 Capital Programme as set out in Appendix 1.

1.4 A change to the capital programme in relation to the HRA as set out in Para 11.4

And that it endorses the

1.5 Outcomes of the London Finance Commission as set out in 5.27

2. EXECUTIVE SUMMARY

2.1 The Council's Financial Strategy 2013/17 was recommended by Cabinet on the 26th February 2013 and approved by Full Council on the 26th February 2013 as part of the annual budget setting cycle of the Council. This report summarises the review of the Council's Financial Strategy 2013/17 as part of the budget setting process for the medium term and takes into account:

i. The Council's overall financial position;
ii. Key financial changes which impact on Croydon's local and wider financial 'environment'; and
iii. The Councils readiness in delivering the 2013/14 budget and any resultant impact of this on future years.

2.2 This review ensures that the 2014/15 Budget and resultant council tax level will be set within the context of the financial strategy in order to deliver a balanced budget, updated for the latest information and knowledge available to the Council.

3. Financial Strategy Objectives

3.1 The Financial Strategy's Objectives Framework is set out in Diagram 1 below with the five financial strategy objectives outlined in Table 1.

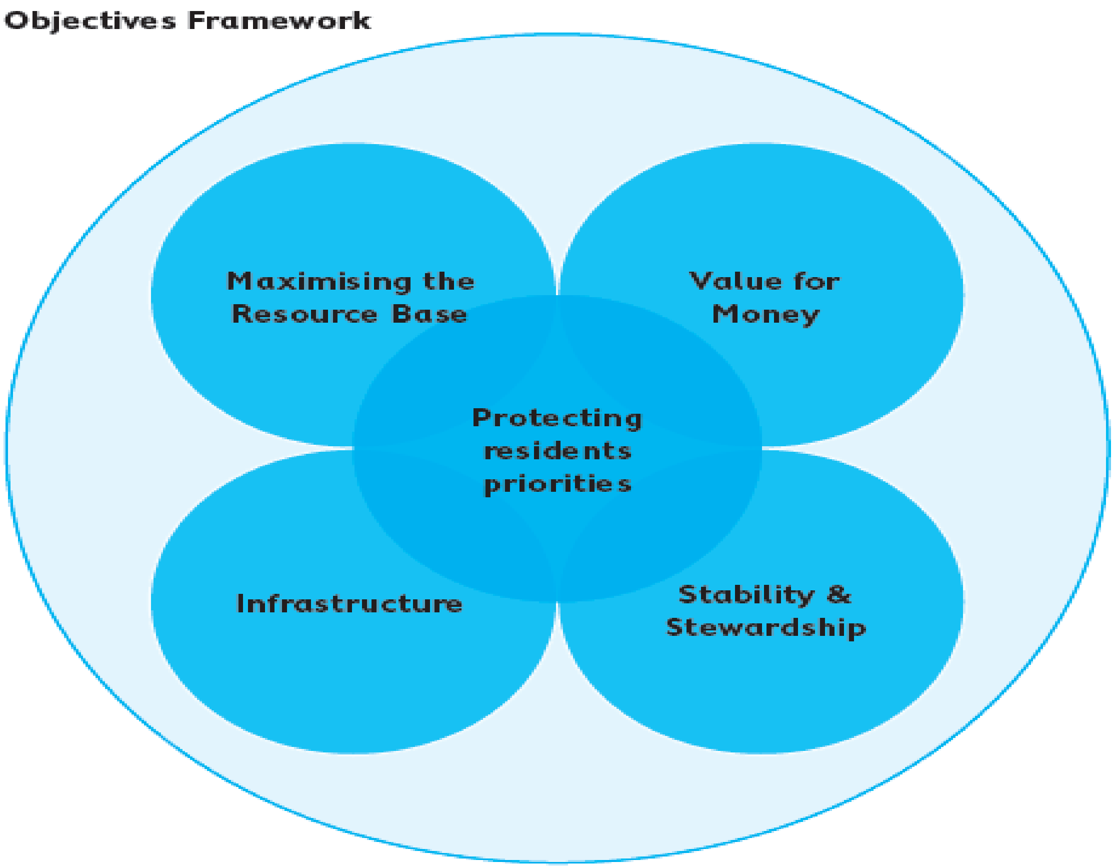


Table 1 – The Council's Financial Strategy Objectives

	Financial Strategy Objectives
1	To ensure that we seek to protect the services on which our residents place most priority
2	To maintain financial stability over changing economic cycles to give our community continued confidence in the financial stewardship of the council
3	To ensure that the council continues to systematically challenge, secure and deliver Value for Money
4	To ensure that the council's infrastructure is fit for purpose
5	To maximise the councils resource base

4. Budget Planning Assumptions

4.1 The Financial Strategy 2013/17 contains 12 assumptions that support the annual budget setting process within the 2014/15 financial planning timeframe for both the general fund and the Housing Revenue Account. Give the Financial Strategy was only recently approved the assumptions remain broadly as they were but they have been reviewed and the original assumptions and any updates are set out in table 2 below.

Table 2 : Financial Strategy Planning assumptions

	Strategic Assumption	Position Statement	Commentary
1	A continued decrease in Government Grant support of 7.5% per year in cash terms	The Council recognises that this needs reviewing.	CSR2013 resulted in a 10% reduction in government funding for 2015/16 and the council will need to assume future funding reductions at this level.
2	Any changes in central government grant funding will, in the first instance, impact directly on the service supported by the grant.	No change.	In 2012/13 this strategic assumption was followed as a default position. This assumption is still recommended as our position to ensure a direct relationship between grant and service provision. .
3	Local taxation increases will be kept to a minimum	No change.	------
4	Inflation will be estimated in line with 'sector' specific forecast increases.	No change.	Inflation continues to be an issue for the UK economy and this will be kept under review with a view to capping the inflation increase in certain areas. The inflation assumption is 2.5%
5	Efficiency targets for the Council will be set at 5% per annum as a minimum	The Council will have to maximise the opportunity to deliver efficiencies to avoid service cuts.	------
6	A minimum of 20% of New Homes Bonus and any increase in business rates yield above budget assumptions will be earmarked for organisational transformation and economic development	No change.	------
7	All asset rationalisation savings will be used to contribute to Bernard Weatherill House	No change.	------
8	The Housing Revenue Account does not cross subsidise or vice versa the General Fund Revenue account up to the point where the HRA continues to exist	No change.	------
9	Rent restructuring guidelines will follow guidelines which will achieve rent convergence in 2015/16	No change.	------
10	Decent Homes standards will be maintained for HRA	No change.	------

	Strategic Assumption	Position Statement	Commentary
	stock		
11	New council house building will be funded at £6m per annum for the next six years	No change.	------
12	New funding for the delivery of a Public Health service will remain ring fenced to the funding allocated	No change.	------

4.2 The July Review 2013 has concluded that although the Planning Assumptions of the Financial Strategy remain robust, the financial environment is still far from stable with uncertainties around the wider economic recovery, the detail of the June 2013 Spending Review (CSR2013) and the long term impact of welfare reform**.**

5.0 Funding Issues

The Outcome of CSR2013

5.1 The Council's total Formula Grant reduction, over the four year period of CSR2010, is now expected to reach 31%. Alongside this, CSR 2010 also reduced Croydon's Specific Revenue and Capital Grants. CSR2013 will cover only one year 2015/16, the first year of the next parliament and it is currently intended that 2015 will see the next full (4 year) CSR. The main impacts of CSR2013 on Local Government, announced by the Chancellor of the Exchequer on 26 June 2013 were;-

- **Local government funding -** a 10% reduction in government funding to local government in 2015/16.

- **Council Tax Freeze Grant -** is to be continued in both 2014/15 and 2015/16 and local authorities that freeze or reduce their Band D Council Tax in either or both years will receive a grant equivalent to a 1% increase on their 2013/14 Band D Council Tax levels

- **Council Tax referenda -** confirmation of the intention to hold the Council Tax referendum threshold to 2% for the next 2 years.

- **Education Services Grant -** to be reduced by £200 million nationally in 2015/16.

- **Health and Social Care Integration -** £3.8bn nationally will be put into a pooled budget for health and social care services shared between the NHS and local authorities.

- **Social Care and Support -** £335m will be provided to local authorities in 2015/16 to prepare for delivery of the reformed Social Care funding system including the introduction of both capped costs from April 2016 and of universal deferred payment agreements from April 2015.

- **Public sector pay reform –** There are a further planned 144,000 public sector job losses, a confirmation of 1% public sector pay increase and an announcement to end incremental pay progression in central government by 2015/16

Business Rates Retention

5.2 The new Local Government Financing regime introduced in 2013/14, changing from a system based on Formula Grant to one based on Business Rates Retention, resulted in a significant shift in central/local responsibilities. In 2012/13, the last year of the Formula Grant system, locally raised and retained taxes represented 49.1% of Croydon's Budget Requirement. Locally raised and retained taxes rose to 57.1% of Croydon's Budget Requirement in 2013/14, the first year of Business Rates Retention and is expected to rise to 60.0% in 2014/15, based on the 2014/15 draft Local Government Finance Settlement. This reduction in "guaranteed" income to be replaced by an increased reliance on locally generated income represents a new risk for the Council.

5.3 Business Rates Retention, in reducing the Councils' reliance on a funding system based, via Formula Grant, on authorities' relative need, with a reliance increasingly based on the economic prosperity of the business and residential communities. This will rise over the years due to both the automatic inflation increases in Business Rates (set nationally and based on RPI increases) and to the reductions to Revenue Support Grant (due to both CSR funding cuts and to the government's desire to offset Business Rates increases).

5.4 Other risks of the scheme include: -

- There is a 7.5% safety net for authorities with declining Business Rates income. As Croydon only receives a lower proportion of its income from Business Rates (relative to other local authorities) its unlikely that it would qualify for the safety net, as in effect it would need a 14% reduction in Business Rates income to qualify for the safety net.
- The cost of Business Rate valuation appeals and reductions in income due to changes in reliefs (e.g. schools becoming academies) will have a direct impact on Croydon's level of Business Rates income.

Ringfencing

5.5 The Government has stated it will phase out the ringfencing of grants to local government. The only significant grants where ringfencing remains are the Dedicated Schools Grant (DSG) and the Public Health Grant which was introduced in 2013/14.

New Homes Bonus Scheme

5.6 The scheme's intention is to incentivise local authorities to increase housing supply by rewarding them with a New Homes Bonus paid for the following six years as an unringfenced grant (through section 31 of the Local Government Act 2003). There are three elements to the scheme;-

1. Net additional new homes;
2. Empty homes brought back into use; and
3. Affordable Housing

5.7 Initially additional central Government funding funded the full cost of the grant. However funding for the years from 2013/14 will come from top-slicing Formula Funding. This redistributive mechanism of the New Homes Bonus means that the scheme will create financial winners and losers, for any authority to gain financially (relative to their formula funding allocation before the bonus), one or more authorities must lose. The implications for Croydon are currently being modelled for inclusion in the future Financial Strategy.

5.8 Croydon's 2013/14 New Homes Bonus Grant was confirmed at £5.440m resulting from;-

Table 3 – New Homes Bonus

Grant Element	2011/12 allocation £m	2012/13 allocation £m	2013/14 allocation £m	Total 2013/14 Grant £m
Additional New Homes	1.981	1.528	1.081	4.589
Empty homes brought back into use	0.221	0.231	(0.067)	0.385
Affordable Housing	-	0.264	0.202	0.466
Total	**2.202**	**2.023**	**1.215**	**5.440**

5.9 In CSR 2013 the Government committed to creating a Single Local Growth Fund under the strategic direction of LEPs with a £2bn becoming available in 2015/16. However as part of that funding package, the Government is proposing that £400 million will come from New Homes Bonus as a top-sliced contribution from local government. Although the scheme will continue to operate as a financial reward scheme for local government, there will be a new requirement for this proportion of this funding to be pooled by local authorities as part of the Single Local Growth Fund. It is then expected that LEP and member local authorities will then agree how to spend this funding. The government has confirmed its intention to consult on the mechanism for this and the implications for council are therefore unclear, at present.

Community Infrastructure Levy (CIL)

5.10 The Community Infrastructure Levy (CIL) is a new levy that local authorities can choose to charge on new developments in their area. The income can be used to support development, by funding infrastructure that the council, local community and neighbourhoods need. This includes new or safer road schemes, flood defences, schools, hospitals and other health and social care facilities, park improvements, green spaces and leisure centres.

5.11 On 1st April 2013, the Croydon Community Infrastructure Levy came into force. All developments may be liable to pay CIL if:-

- They involve a new build; and
- They result in one or more new dwellings or they have a net additional floor area of over 100 square metres

CIL may be payable even if the development does not require planning permission (provided it meets the above criteria).

5.12 CIL is payable per square metreage of the area being developed with the first £20 per square metre going to the Mayor for London and the remainder being retained by the Council. The amount charged per square metre varies according to the Planning Use categorisation (i.e. development type) and the location of the development within the borough. If the location is within the Croydon Metropolitan Centre a different rate will be used to a development located in the rest of the borough.

5.13 There are various exemptions to pay CIL which are principally regarding developments by registered charities or where at least part of the development will be used to provide social housing.

5.14 The government believes that CIL has the potential to raise, nationally, an additional £1bn a year of funding for local infrastructure by 2016, and CIL is expected to make an important contribution to the Council's Capital Financing.

The Dedicated Schools Grant (DSG)

5.15 In 2013/14 there were changes to the DSG funding which will meant the DfE are now well placed to introduce the national funding formula during the next spending review period.

5.16 The changes were the introduction of three notional blocks :-

i. Schools, this has resulted in more funding being delegated to schools.
ii. Early years, this results in the early years funding from the Education Funding Agency (EFA) more accurately reflecting the pupils. And
iii. High needs, this block now covers funding for pupils and

students from birth to 25 years (in line with the proposals in the Green Paper on SEN and Disability) and has introduced an integrated and coherent approach to assessment and provision.

Also the DSG is being calculated earlier using October census data rather than the January data that was previously used. It is anticipated that there will be further changes to the funding formula in the future but at this stage these are unknown.

5.17 The DSG allocation for 2013/14 and the previous two years (before academy recoupment) are shown in table 4

Table 4: Dedicated Schools Grant allocations

	Guaranteed per pupil unit of funding £	DSG allocation £m
2011/12 (final)	5,345	260.211
2012/13 (final)	5,345	266.470
2013/14 *	5,616**	279.763

**Final allocations are subject to pupil numbers and academy recoupment*
***The change to the 3 block model of DSG funding from 2013/14 has resulted in a different guaranteed per pupil unit of funding for early years and the schools block. The figure shown in table 4 is the average rate.*

5.18 ***Pupil premium*** - Pupil premium was introduced in April 2011 as a means of providing schools with additional funding for deprived children. The total 2013/14 Pupil Premium grant for Croydon is £15.059m and is made up of three elements:-

i. Deprivation as defined by pupil eligibility for free school meals over the last 6 years, for those pupils in years Reception to Year 11 as at the preceding census. The 2013/14 grant per pupil is £900, an increase of £300 per pupil from the 2012/13 grant.

ii. Deprivation as defined by pupil eligibility by being a looked after child, for those in years Reception to Year 11. The eligibility is based on being looked after for the previous 6 months. The 2013/14 grant per pupil is £900, an increase of £300 per pupil from the 2012/13 grant.

iii. Service children (children whose parents are in the armed forces) as at the preceding census. The 2013/14 grant per pupil is £300, an increase of £50 per pupil from the 2012/13 grant.

5.19 ***Academy Funding* -** Academies will continue to be funded by the EFA on the basis of the formula set by the local authority. This will ensure that both Academies and local maintained schools continue to be funded on a fair and comparable basis.

Education Services Grant

5.20 From 2013/14 LACSEG (Local Authority Central Spend Equivalent Grant) has been replaced by the Education services grant, as by delegating the maximum amount of the schools block straight to maintained schools and academies there was no longer the need for LACSEG. The Education Services Grant is based on a national per pupil rate and is paid to Local Authorities to be used to fund its statutory duties over both schools and pupils. The 2013/14 national rates are;-

Table 5: ESG national rates

ESG Element per pupil	£
General Funding Rate for mainstream schools	116.46
General Funding Rate for special schools	494.96
General Funding Rate for PRUs	436.73
Retained Duties Funding Rate*	15.00

*This includes funding the statutory duties that the local authority has retained for those pupils in academies

5.21 This grant has been established by transferring back to government money from the local government formula funding schools block who then reimburses local authorities and academies on a per pupil basis. The 2013/14 Education Services Grant for Croydon is £5.404m however this will reduce depending on the number of pupils attending locally maintained schools that subsequently attain academy status.

London Finance Commission

5.22 The London Finance Commission was established by the Mayor after his election in May 2012 to help improve the tax and public spending arrangements for London in order to promote jobs and growth.

5.23 In May 2013 The London Finance Commission released a new report *'Raising the Capital'* calling for greater financial freedoms for the capital, giving London government the autonomy to invest in its own vital infrastructure as its population and economy grow, and to bring London in line with competitor global cities.

5.24 The London Finance Commission's report outlines a comprehensive package of devolution measures to give Londoners a more direct say over a greater proportion of taxes raised in their city. It concludes that London government could better promote its own economic development by devolving financial and fiscal control rather than relying on the current formula of majority Government grant. The Commission has established there is a broad consensus amongst the capital's key organisations in support of reform.

5.25 'Raising the Capital' found that only 7% of tax paid by London residents and businesses is redistributed directly by locally elected bodies (the Mayor and borough councils). This contrasts with other world cities; for example, 74% of London's funding comes from centralised grants, compared to 31% in New York, 25% in Berlin, 17% in Paris and 8% in

Tokyo. London is also a ‘tax exporter’, home to 13% of the population but generating 18.5% of the national tax take.

5.26 The report concludes that current funding mechanisms are inadequate to cope with London’s predicted population growth of one million over the next decade. It sets out recommendations to better provide investment in the infrastructure needed to prepare the city for this growth.

5.27 The key findings and recommendations were;-

- Existing funding models for basic infrastructure are inadequate to cope with predicted growth – London needs fewer constraints and greater devolved powers making it more accountable to its residents and businesses;
- A failure to invest in London will hamper forecast demographic and economic growth – sustained investment is needed into transport, schools, housing, energy supply and technology;
- The report proposes devolving the full suite of property tax revenues streams - this includes council tax, stamp duty land tax and business rates – with the ability to reform those taxes while retaining prudential rules for borrowing for strategic capital investment. This will provide stable and continuous funding for prudent investment, moving away from ad hoc financing for specific projects;
- A recommendation that London could introduce smaller new taxes, a power now being introduced in Scotland;
- The Mayor, London Councils and London Enterprise Panel develop and maintain a long term, high level capital investment plan for the city;
- With enhanced fiscal autonomy, London could re-invest additional tax yield directly back into the city. The report’s proposals are revenue neutral at the point of devolution, no additional money is being sought beyond that which London already receives;
- The report finds this is a formula applicable not only to support the growth of London but other large cities across the UK.

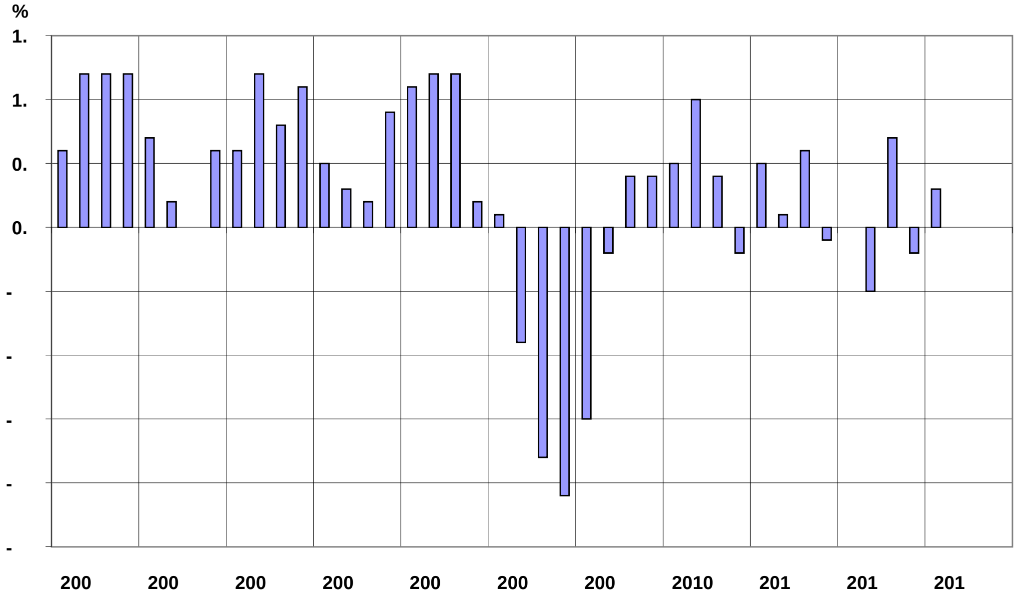
6.0 The Economic Picture

6.1 The national and global economic climate, with low growth and unsustainable levels of public debt, is essentially unchanged since the 2012 July Financial Review.

Growth

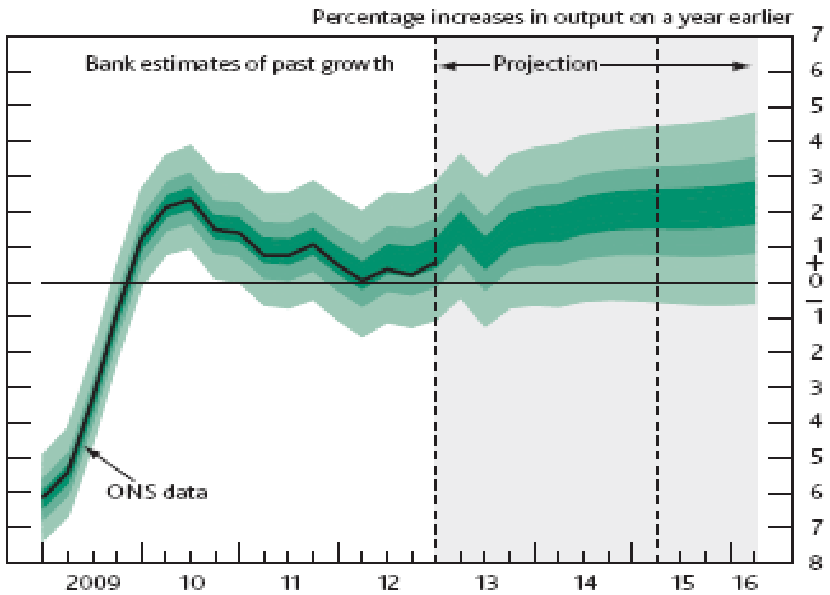
6.2 Although there has been some volatility between quarters the UK economy has experienced overall slow to flat growth over the last two years, as Graph 1 below shows.

Graph 1 - Quarterly Change in GDP 2003 - 2013



6.3 The Government, in its 2013 Budget Report, forecast that the economy will grow by 0.6% in 2013, increasing to 1.8% in 2014. Graph 2 illustrates a range of alternative growth scenarios from the Bank of England's May 2012 Inflation Report.

Graph 2 – Alternative GDP growth scenarios



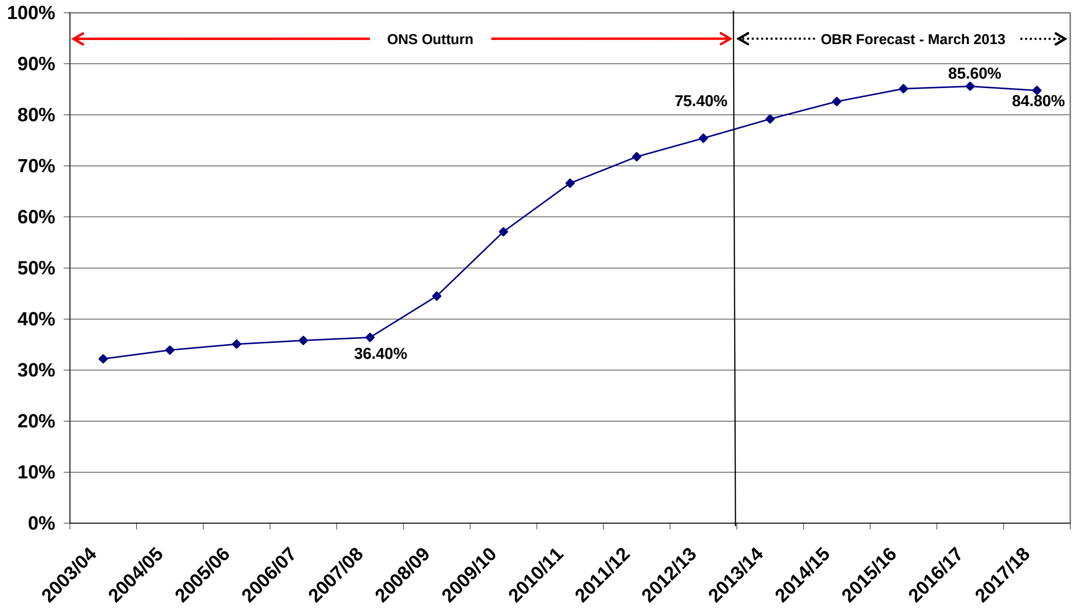
GDP projection based on market interest rates expectations and £325bn asset purchases

6.4 The implications on future funding arising from Government plans for financing its fiscal stimulus are discussed further below. Setting a budget with only a slow increase in GDP and amidst the Government's Deficit Reduction Strategy will present a real challenge to the Council.

Public Sector Debt

6.5 Graph 3 below illustrates the increase in sovereign debt since the start of the recession in Quarter 2, 2008 with a forecast that it will peak in 2016/17 and that a reduction is not expected until 2017/18.

Graph 3 - Public Sector Net Debt as % GDP

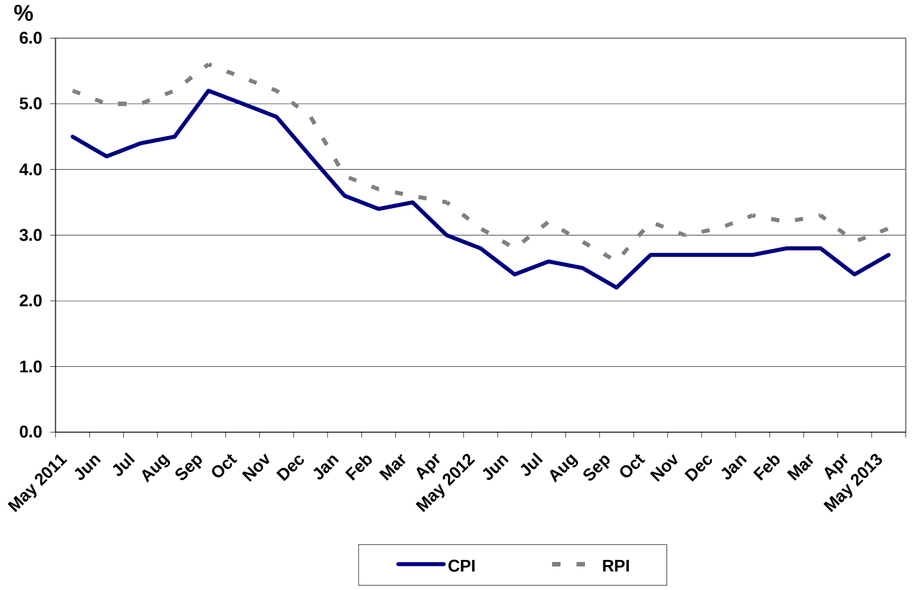


Inflation

6.6 There has been some progress over the past two years, in achieving the Government's target CPI inflation rate of 2.0%, with reductions in both RPI and CPI. However progress has slowed since the July 2012 Review.

6.7 Inflation May 2013: CPI 2.7%; RPI 3.1%

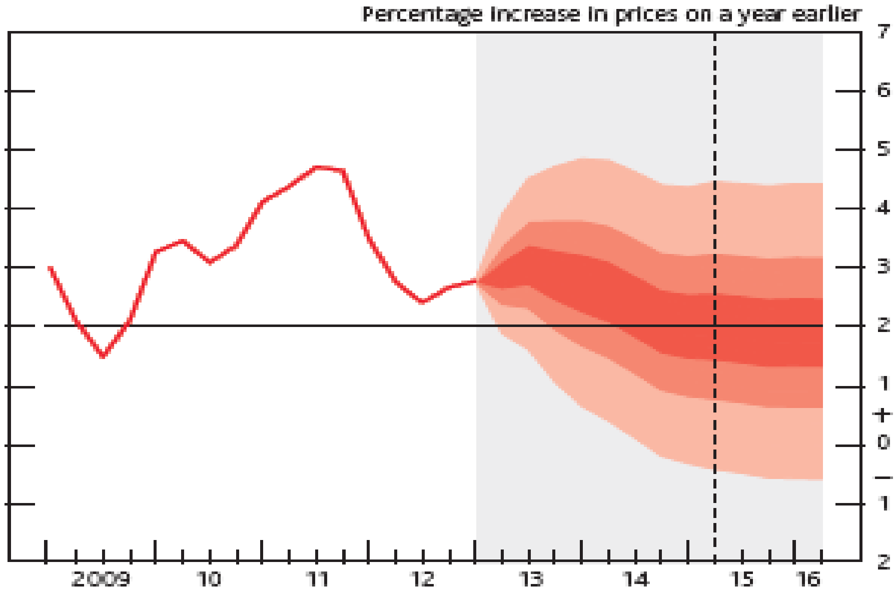
Graph 4 – Annual CPI AND RPI



6.8 RPI inflation was 3.1% in May, up from 2.9% in April. CPI inflation which is the Government's target measure was 2.7% in May, up from 2.4% in April. May's CPI figure was the forty-second consecutive month of inflation being above the Government's 2% target rate (since December 2009) but has now been under 3.0% since May 2012.

6.9 The Bank of England's May 2013 Inflation Report, however, suggests CPI will not hit the 2.0% target until early 2015, as shown in Graph 4 (from the May inflation report).

Graph 5 – Bank of England Inflation Forecast 2013 – 2016



6.10 The Local Government employers have offered a pay increase of 1.00% on all spinal column points to be effective from 1st April 2013 although this approach was not unanimous between all the parties. The joint unions' claim was for a substantial flat rate increase on all scale points.

7 Factors Impacting the 2014/17 Budgets

7.1 There are a number of issues that are likely to have an impact on the council's financial planning for 2014/17. These are set out below.

Welfare Reform

7.2 In April 2013, a range of changes to the welfare system were implemented including;

i. Benefit cap in 4 London boroughs (Bromley, Croydon, Enfield and Haringey).
ii. Social Sector Size Criteria implemented.
iii. Local Housing Allowance rates up-rated by Consumer Prices Index.
iv. Most working age benefit rates up-rated by 1%.
v. Universal Credit pathfinder began in Greater Manchester.

7.3 The five schemes above relate to changes to national benefit schemes however they may well impact locally by increasing demand for local intervention with resulting financial pressures. London Councils are monitoring the position with a view to carrying out a full assessment of any new financial burdens on borough finances.

7.4 Two benefit changes have impacted on local government following the transfer of responsibilities and funding to councils.

i. Council Tax Support schemes replacing Council Tax Benefit, a national scheme, with locally determined schemes.
ii. Social Fund schemes replacing Crisis Loans and Community Care Grants, a national scheme with locally determined welfare provision schemes.

7.5 The impact of the Welfare Reforms on Croydon may be in the form of increased demand for services. The key areas that will be monitored closely are collection rates on council tax and housing rents and also homelessness.

Demographic changes

7.6 Croydon's population has grown by 10% over the last ten years making it the biggest borough in London with 363,400 residents. This is one of the highest increases across the London boroughs. Croydon has the largest population of 0-16 year olds in London (at 84,027 residents) which makes up 23.1% of the population. Life expectancy is increasing with expectancy for men and women now at 79.6 and 83.3 years with consequences for social care. Overall, Croydon has become more deprived between 2004 and 2010 and all electoral wards have become more deprived relative to England. The impacts of these changes will have to be factored into the expected demand for our services over the medium term.

The Care Bill

7.7 In the 2013 Budget, the Chancellor announced that he was bringing forward the cap on social care costs to April 2016 and that the cap would be set at £72,000. Previously the cap was to have been introduced in April 2017 and set at £75,000. From 2016, individuals will be entitled to local authority support towards their care costs if their total assets were worth £118,000 or less (previously, this was to be £123,000 by 2017).

7.8 With the number of people requiring social care services expected to grow significantly over the next 15 years, this will place added financial pressures on councils. This is particularly the case in Croydon where the older population is forecast to increase from 2012 by 15% to 2020, by 29% to 2025 and by 48% to 2030. The council is assessing the impact of the bill, which also includes the requirement to assess all recipients of social care services (i.e. including those that previously independently arranged and funded their own care). The council will also be required to provide wider levels of advice on preventative options to ensure people have the most effective form of care when needed and that in terms of direct provision, there will be a standard national eligibility level for care.

National Pension Increases

7.9 In the 2013 Budget, the Chancellor announced that he was bringing forward the introduction of the new Single Tier State Pension, from April 2017 to April 2016. The introduction of the Single Tier State Pension will result in the abolition of the contracted-out National Insurance scheme and its lower employer contribution rate. The estimated cost to all public sector employers was estimated, by the Chancellor, to be £3.3bn per annum. The Chancellor stated that "public sector employers will have to absorb the burden", but added that "any spending review in the next Parliament will, of course, take the £3.3 billion cost into account".

7.10 There is therefore some uncertainty as to how future funding to councils in the next Parliament will take into account the cost to public sector employers, however it is unlikely to be on a pound-for-pound basis in every case.

8. The Outturn for 2012/13

8.1 Despite the significant level of savings that had to be delivered in the 2012/13 budget, the council's strong financial management has resulted in the achievement of a balanced position for the year. Table 6 below shows the departmental position which was an overspend being offset by non-departmental items, the main element of this was the contingency budget of £2.3m.

Table 6 - Revenue Outturn Summary for 2012/13

December 2012 forecast outturn variance* £'000	Department	Revised Budget £'000	Outturn 2012/13 £'000	Variation from Revised Budget £'000	%
1,485	Adult Services, Health and Housing	117,304	119,558	2,254	1.92%
114	Children, Families & Learning	110,629	111,060	431	0.39%
892	Planning & Environment	74,241	74,497	256	0.34%
(527)	Interim Chief Executive's	35,884	35,960	76	0.21%
1,964	**Departmental total**	**338,058**	**341,075**	**3,017**	**0.89%**
(650)	**Non-Departmental Items**	**(70,351)**	**(73,368)**	**(3,017)**	**(4.29%)**
1,314	**Total (transfer to GF Reserves)**	**267,707**	**267,707**	**0**	**0.00%**

* The December variance was reported to Cabinet in February 2013

8.2 This means that the Council has been able to maintain its General Fund balance of **£11.597m** against the minimum targeted sum of **£9.299m** (3% of net service expenditure) for 31st March 2012. This represents general fund balances of 3.7% against the 5% longer-term target established under the new financial strategy. The achievement and maintenance of a prudent level of general balances, provides assurance against the potential risks from the external environment and the significant challenges facing the public sector and has enabled the Council to manage the recent upheaval in the national economy from a position of relative financial strength. This has added importance given the future changes expected in local government funding particularly those in relation to the localisation of business rates and council tax benefit, which add potential risk to local authorities.

8.3 The 2013/17 Financial Strategy has an objective to increase general fund balances to maintain an appropriate level of reserves so that we can support the delivery of residents' priorities and protect services, where possible, against a backdrop of negative economic circumstances. It also reflects the significant shift of risk from central to local government in terms of the collection of Business Rates and Council Tax where residents receive benefit for less than 100% of their liability

8.4 The Collection Fund has carried forward a **£7.699m** surplus at 31st March 2013. This position will be kept under review given the nature and challenges of council tax collection.

8.5 The Council's Pension Fund increased in value in 2012/13 by **£70.489m**

(11.08%) to a value of **£706.172m**.

8.6 The original approved General Fund Services capital programme (excluding the Housing Investment Programme) totalled **£141.071m** and was increased during the year to **£170.991m** to reflect programme slippage from 2011/12 and additional government grants. Outturn capital spending was **£123.754m**. The detail of the programme is set out in Appendix 1. Cabinet are asked to approve the slippage of **£52.602m** to enable the completion of those schemes.

9. The Budget for 2013/14

9.1 The 2013/14 budget was approved by Council on the 26th February 2013. Given the loss of government funding the approved budget includes a significant amount of savings which were required to deliver a balanced budget and as such presents the council with a challenge in terms of delivery.

9.2 The first financial management report to Cabinet on financial management for 2013/14 will be made in September 2013. The performance of the budget is reported to the Corporate Leadership Team on a monthly basis.

9.3 Table 7 below sets out the departmental forecast outturn for 2013/14 based on month 2 analysis. At an early stage some pressures have been identified however all departments are working on recovery plans to ensure that spend is managed within the overall budget.

Table 7 - 2013/14 Revenue Monitoring – Period 2 Forecast

Outturn Forecast position As at May 2013				
DEPARTMENT	**Revised budget £m**	**Forecast outturn £m**	**Forecast variance before recovery plans £m**	**Variance after recovery plans £m**
Adult Services, Health and Housing	114.430	116.648	2.218	1.518
Children, Families & Learning	104.370	105.671	1.301	0.501
Planning & Environment	69.246	69.394	0.148	0.148
Interim Chief Executive's	41.850	42.013	0.163	0.163
Departmental Total	**329.895**	**333.725**	**3.830**	**2.330**
Corporate Items Total	**(37.179)**	**(37.529)**	**(0.350)**	**(0.350)**
Total	**292.716**	**296.196**	**3.480**	**1.980**

A budgeted contingency of £1m is available if necessary, as a contribution towards a balanced budget.

10. Budget 2014/17

10.1 Table 8 below sets out the current forecasts in relation to the budget gap for 2014/17. The net budget gap for 2014/15 is **£5.148m.** This is the gap including the identification of efficiencies and includes ongoing investment commitments that had been identified by departments during the previous budget setting process. .

10.2 The gap of **£62.080m** over the period 2014/17 is hugely challenging. Section 7 of this report set out some of the significant challenges faced by the council over this period. The increasing reduction of grant income alongside increasing demands on expenditure means significant cost reductions will continue to have to be made. The shift in focus on local government funding as set out in section 5 means there is much greater direct benefit to the councils funding from economic growth through New Homes Bonus, Business rates and CIL. The council's regeneration plans over the medium term will provide huge opportunity for this to have a significant impact in this regard.

Table 8 – Budget Gap – 2014/17

Budget Requirement and Resources	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**Total 2014/17 £m**
Base Budget	292.716	272.735	265.156	830.607
Inflation	6.121	9.059	9.519	24.699
Investment	1.873	12.736	10.182	24.791
Savings identified	(21.721)	(2.545)	(1.332)	(25.598)
Budget requirement	278.989	291.985	283.525	854.499
Business Rates Retention	(66.668)	(68.535)	(69.905)	(205.108)
Revenue Support Grant	(80.005)	(68.038)	(53.468)	(201.511)
Council Tax	(126.062)	(128.583)	(131.155)	(385.800)
Total Finance	(272.735)	(265.156)	(258.028)	(795.919)
Funding Gap	**6.254**	**26.829**	**28.997**	**62.080**

11.0 Capital Programme Investments and slippage

11.1 Slippage on capital spending from the 2012/13 financial outturn has been reviewed and it is recommended that the slippage on the schemes set out in Appendix 1, totalling **£52.371m**, is approved to be carried forward to 2013/14.

11.2 Given another very hard winter and the impact that has had on the road network in Croydon it is recommended that the Highways capital programme is increased by **£2m** bringing the total for 2013/14 to **£7.5m**. It should also be noted that Cabinet in June agreed an additional **£10.224m** over the period 2013/15 for the schools programme.

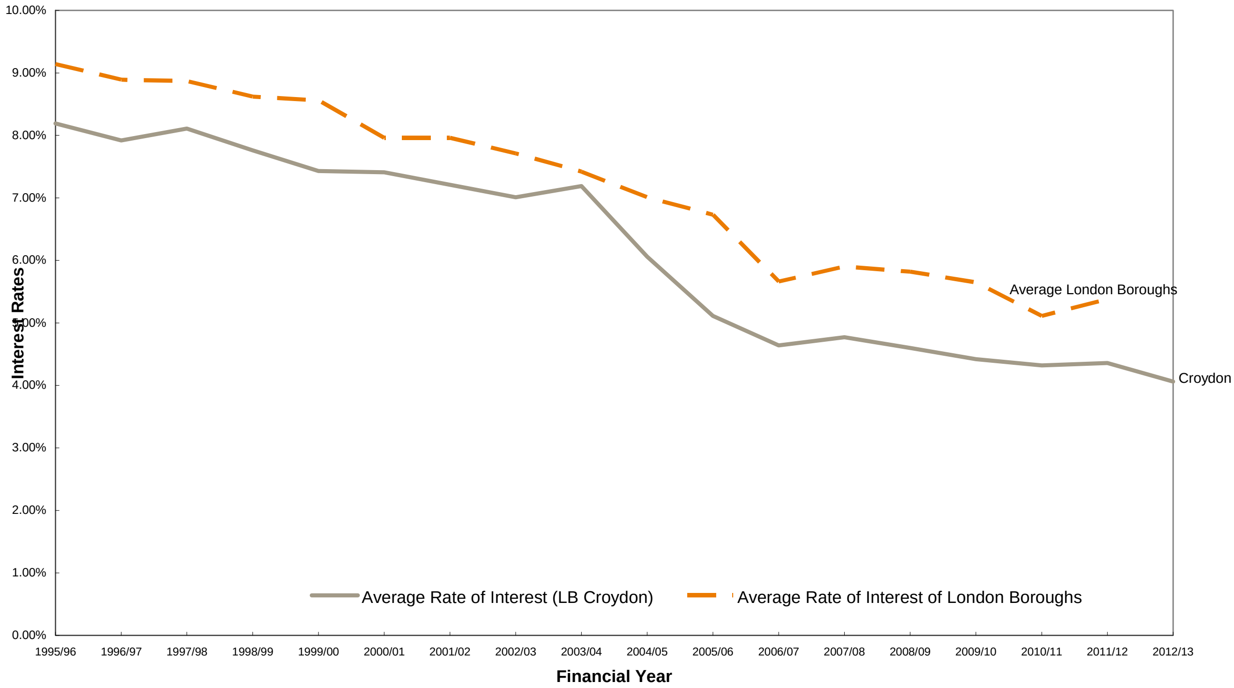
11.3 All these changes can be funded within the previously approved capital programme and funding as a result of the additional grant received from the Department of Education in relation to basic needs after the budget was agreed by Council

11.4 The HRA is also requesting approval for £0.450m for the purchase of Leaf house which is a former service tenancy property that is surplus to the General Fund (dependent upon final valuations). This will be funded from borrowing with the HRA.

General Fund (GF) Debt

11.5 The long term strategic planning assumption underpinning the current policy is that for the GF, Croydon needs to take up **£118.7m** of prudential borrowing in 2013/14, and thereafter **£72.5m** in 2014/15 and **£61.2m** in 2015/16. This is as set out in the Treasury Management Strategy approved by Full Council on 26 February 2013. The Council's overall debt as at 31 March 2013 was £690.264m. This debt included loans taken to fund past GF and Housing Revenue Account (HRA) capital schemes, the £223.126m borrowed on 28 March 2012 for the HRA Self Financing settlement sum and borrowing undertaken to finance Bernard Weatherill House.

Graph 6 - London Borough of Croydon - Average Rate of Long Term Debt 1995/96 – 2012/13



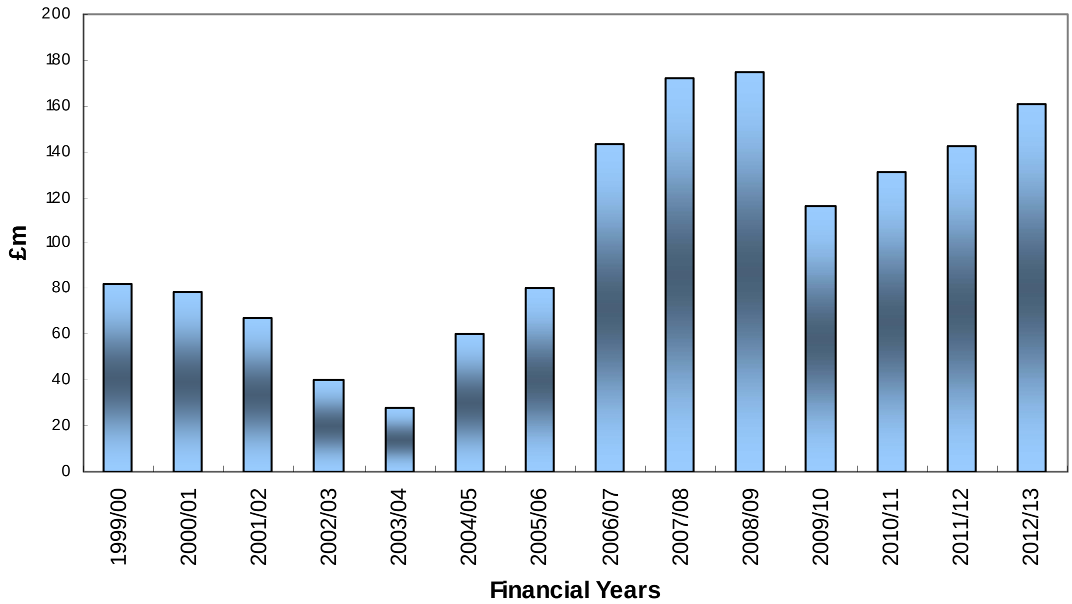
11.6 The average rate of long term debt, as set out in graph 7, continues to be below the average for London Boroughs. In 2012/13, £4m of long term PWLB debt matured and the Council took up £75m of new borrowing in the year. Of this, £20m was taken up from the PWLB as maturity loans on 7 June 2012 and £10m was taken up as a Lenders Option Borrowers Option (LOBO) loan from Siemens Financial Services on 28 September 2012. This LOBO loan was for a 15 year term with 2 option dates in Year 5 and in Year 10 when Siemens has the option to have the loan repaid. The interest rate achieved was 2.58% - a comparable 15 year maturity loan from the PWLB on 28 September 2012 was 3.34%.

11.7 The Government's 2012 budget proposed the introduction of a 20 basis points discount on loans from the PWLB for those local authorities providing improved information and transparency on their locally determined long-term borrowing and associated capital spending plans. This special rate was termed the 'certainty rate'. This Council applied for this rate to finance its prudential borrowing and also to refinance maturing long-term debt over the next three financial years. The application was accepted by HM Treasury and came into force from 1 November 2012. To date, 4 maturity loans of £10m each have been taken up from the PWLB at this lower certainty rate.

Temporary Investments and Bank Risk.

11.8 The Council's Treasury Management Strategy Statement sets out the criteria that determine which counterparties are suitable for taking deposits. This list is reviewed on a daily basis and the team consider a range of factors when assessing whether to lend to these institutions. To address members' concerns about counterparty risk, treasury policy has been to adopt a very cautious approach and any negative indicator will be enough to warn the team away from lending to that body. Critical factors include the continued sovereign debt crises, the reconstruction of bank balance sheets and the continuing historically low interest rates. Across the Eurozone - Portugal, Ireland, Greece, Spain and Cyprus continue to experience significant issues with their domestic economies that effectively excludes their banking sectors from the Authority's authorised lending list. Within the global banking sector, Australian and Canadian banks have maintained their robust ratings and for some of the UK's part nationalised banks longer term deposits are attracting slightly higher rates. However for the remainder of 2013 the outlook looks like continuing low rates being offered by a select group of quality banks, augmented by lending to other local authorities and short-term deposits in AAA-rated vehicles. The focus will continue to be on diligent scrutiny to prioritise security of deposits over riskier rates of return.

Graph 7 - Temporary Investments Outstanding at Year End 1999/2000 to 2012/13



12. SUMMARY AND CONCLUSIONS

12.1 As all Members are aware, setting a budget for 2014/16 that is robust, balanced and deliverable is challenging, and will involve a number of difficult decisions in these challenging times.

13. FINANCIAL CONSIDERATIONS

13.1 This report deals with the Financial Strategy assumptions in planning a balanced budget over the medium term.

(Approved by Richard Simpson, Director of Finance and Assets and s151 Officer).

14. COMMENTS OF THE SOLICITOR TO THE COUNCIL

14.1 The Solicitor to the Council comments that the information in this report supports the Council's statutory duty to set a balanced budget.

(Approved by Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer.)

15. HUMAN RESOURCES IMPACT

15.1 There are no direct Human Resources implications arising from this report.

Approved by: Gloria Lau, on behalf of the Director, Workforce

16. EQUALITIES IMPACT

16.1 There are no specific issues arising from this report.

17. ENVIRONMENTAL IMPACT

17.1 There are no specific issues arising from this report.

18. CRIME AND DISORDER REDUCTION IMPACT

18.1 There are no specific issues arising from this report.

Report Author: Richard Simpson, Director of Finance and Assets
Contact Person: Richard Simpson, Director of Finance and Assets
Background docs: Financial Strategy

Capital slippage 2012/13 **Appendix 1**

Project Description	Budget 2012/13 £	Spend for 2012/13 £	Outturn Variance 2012/13 £	SLIPPAGE £	Project (under)/ overspend £
Asset Management System	384,609	355,649	-28,960	-28,960	0
Bereavement Services	159,154	0	-159,154	-159,154	0
Corporate Property Maintenance Programme	8,210,334	5,252,111	-2,958,223	-3,109,281	151,058
DASHH - Disabled Facilities Grant	2,748,297	1,493,546	-1,254,751	-1,254,751	0
DASHH - Misc	1,169,168	1,001,412	-167,756	-167,756	0
DASHH - Private Sector Renewal	121,222	125,087	3,865	0	3,865
DASHH - SWLHP	1,170,734	438,288	-732,446	-618,141	-114,305
Educ - Academies Programme	10,422,644	7,842,918	-2,579,726	-2,579,726	0
Educ - Disability Discrimination Act	500,000	533,685	33,685	0	33,685
Educ - Major Maintenance Programme	2,825,000	2,930,184	105,184	0	105,184
Educ - Misc Programme	552,232	161,372	-390,860	-144,854	-246,006
Educ - Perm Expansion Programme	36,211,964	26,873,461	-9,338,503	-9,142,416	-196,087
Educ - Secondary	6,700,000	6,286,774	-413,226	-413,226	0
Educ - SEN Programme	12,175,417	5,682,252	-6,493,165	-6,550,538	57,373
Educ - Fixed Term Expansion Programme	2,922,445	2,403,032	-519,413	-519,413	0
Fairfield Halls Programme	477,810	459,142	-18,668	-18,668	0
Feasibility Fund	500,000	324,586	-175,414	0	-175,414
GAF	0	147,028	147,028	0	147,028
Highways Programme	8,373,982	8,316,548	-57,434	0	-57,434
Home Energy Efficiency Programme	0	4,713	4,713	0	4,713
HRA Programme	30,753,709	25,481,741	-5,271,968	-4,730,430	-541,538
ICT Programme	7,496,334	5,176,723	-2,319,611	-2,319,611	0
Loan for Construction of Bernard Weatherill House	27,987,056	27,987,056	0	0	0
Miscellaneous Programme	61,600	97,116	35,516	-5,763	41,279
Parking Programme	346,000	-24,794	-370,794	-370,794	0
Parks to be Proud of/S106 Programme	920,685	534,469	-386,216	-423,636	37,420
Public Realm Programme	13,699,168	2,077,135	-11,622,033	-11,612,611	-9,422
Regeneration Programme	642,989	19,411	-623,578	-536,978	-86,600
Civil Unrest	17,281	17,281	0	0	0
TFL - LIP Programme	4,388,863	4,388,863	0	0	0
Transforming our Services Programme	3,678,121	3,008,024	-670,097	-670,097	0
Transport Programme	5,749,335	898	-5,748,437	-5,748,437	0
Waddon Wayland Project	7,569,247	7,551,302	-17,945	0	-17,945
Wandle Park	2,590,880	1,348,139	-1,242,741	-1,242,741	0
Waste / Recycling Programme	218,666	193,883	-24,783	-3,176	-21,607
TOTAL	**201,744,946**	**148,489,035**	**-53,255,911**	**-52,371,158**	**-884,753**