

For general release

REPORT TO:	CABINET 13 JULY 2015
AGENDA ITEM:	13
SUBJECT:	JULY FINANCIAL REVIEW
LEAD OFFICER:	RICHARD SIMPSON Assistant Chief Executive Corporate Resources and Section 151 Officer
CABINET MEMBER:	COUNCILLOR TONY NEWMAN THE LEADER COUNCILLOR SIMON HALL CABINET MEMBER FOR FINANCE AND TREASURY
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 2015/19 to establish the context for the Council's budget and medium term financial planning scenarios and assumptions.	

FORWARD PLAN KEY DECISION REFERENCE NO.: This is not a key decision.

1. RECOMMENDATIONS

It is recommended that Cabinet approves:

- 1.1 The carry forward of £73.0m slippage to the 2015/16 General Fund and HRA Capital Programmes as set out in Appendix 1.

And that it notes the overall changes to the capital programme over the 2016/19 period

- 1.2 The approach to ensuring the financial challenge of the period 2015/19 continues to be managed through the 'Croydon Challenge Programme' and a continued review of the approach taken by the administration to financial resource prioritisation.
- 1.3 Approve the 2015/16 virements over £1m as detailed in section 9.7

2. EXECUTIVE SUMMARY

- 2.1 The Council's budget for 2015/16 was approved by Full Council on the 23rd February 2015 (Minute A21/15), as part of the annual budget setting cycle of the Council. This report provides an update of progress towards ensuring the financial challenges for 2015/19 are managed in the most effective way possible and provides an update on the:

- i. The Council's overall financial position including the 2014/15 outturn position;
- ii. Key financial changes which impact on Croydon's local and wider financial 'environment'; and
- iii. The Council's readiness in delivering the 2015/16 budget and any resultant impact of this on future years.

- 2.2 This review is part of the ongoing process of implementing the Financial Strategy that will inform the setting of a balanced budget for 2016/17, taking into account the latest information and knowledge available to the Council.

3. Financial Strategy Objectives

- 3.1 The Council approved a new Financial Strategy 2015/19 (the Strategy) in February 2015 as part of the budget setting process. The Strategy has been prepared in the context of the massive cuts made to local

government funding since 2010, which are currently forecast to continue and possibly accelerate over the period of the financial strategy (2015-2019).

3.2 The Strategy focuses on three areas that are considered to be essential if the Council is to deliver services to the residents of the borough, whilst ensuring solid financial management.

3.3 The three areas within the Strategy are :-

- To maximise economic growth locally;
- To realign resources to protect front line resources as much as possible;
- To ensure the Council retain a strong financial management framework and systems.

4. Budget Planning Assumptions

4.1 The Financial Strategy 2015/19 also contains 9 key principles that support the annual budget setting process. The key principles and any commentary are set out in table 1 below.

Table 1: Financial Strategy Principles

	Key Principles	Position Statement	Commentary
1	Government grant reductions between 2016 and 2019 in line with overall government spending projections for local government in line with 2010–14.	A more flexible assumption is now set out in the budget 2016/19 position.	The Council has already delivered over £100m, in efficiency savings. The current budget gap (i.e. after allowing for programmes already in place) for the period 2016-17 to 2018-19 is estimated at £50m. The Council will need to assume that future funding reductions will continue at this level and following the emergency budget on the 8 th July 2015 there may need to changes to the assumptions.
2	Local taxation increases will be kept at or below inflation.	No change.	-----
3	General Fund balances will be targeted at 5% of our budget requirement		For 2015/16 this equals £13.4m. The Financial strategy made it clear that although 5% remains a target there are no plans to actively move towards the target in cash terms over the medium term as the council’s budget is expected to reduce by in the region of £50m over this period. This would see the 5% target

	Key Principles	Position Statement	Commentary
			reduce by £2.5m, making it £10.677m by the end of 2018. The Council remains committed to ensuring the unallocated General Fund balance (excluding all other reserves and provisions, which at 31.03.15 totalled £10.677m) does not fall below 3%.
4	Earmarked reserves will be set up for specific purposes beyond the general fund balance which is there to mitigate against demand risk on service budgets.	No Change	-----
5	Inflation will be estimated in line with sector specific forecast increases	No Change	Negotiations with providers will continue with the aim of minimising inflation increases.
6	Investment in development delivered from the RIF will be ring fenced from the capital programme		The first investment from the RIF has been made and it will continue to be used to support the delivery of our Growth Plan based on business plans coming forward for individual sites.
7	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.	-----
8	Rents will be assumed to rise at CPI + 1% in line with social rent guidance	No change.	-----
9	Decent Homes standards will be maintained for HRA stock	No change.	-----

4.2 The July Financial Review 2015 has concluded that although the Planning Assumptions of the Financial Strategy remain robust, the financial environment is not yet stable, notably given the uncertainties around

- future years government funding
- impact of welfare and social care integration
- indirect impact of government policy
- demographic pressures
- wider economic recovery.

5.0 Funding Issues

Local Government Funding Announcements

5.1 The Chancellor announced a reduction in funding in 2015/16 for government departments of £3.1bn ahead of the Emergency Budget Statement on 8 July 2015. The Department for Communities and Local Government have confirmed that it will not open the 2015/16 local government finance settlement in order to meet its share of the reduction of £230m.

5.2 However, for 2015/16, there will be a £200m reduction in Public Health Grant funding which is expected to be passed on to local authorities. The government plan to consult on the methodology for this reduction. As a guide only, if it were to be calculated on a pro rata basis, Croydon would see a £1.3m reduction (from £18.8m to £17.5m). At the time of writing the report there is still no consultation on the methodology and therefore it is very difficult to plan Public Health spend as we are already three months in to the year and uncertain on the exact level of resources available. It is not clear whether some of the other decisions on how individual government departments will implement their in-year cuts, could affect other funding for Croydon Council or put in-year pressure on services.

5.3 The next Spending Round will be in autumn 2015 (i.e. in October / November). The Spending Round is expected to provide greater detail on the funding announcements made by the Chancellor during the Emergency Budget on 8 July 2015. As is normally the case only national level figures will be published at the Spending Round, with individual authority allocations being announced at the provisional local government finance settlement (expected in December).

5.4 The Comprehensive Spending Review in 2010 saw a 32% absolute reduction in local government funding over 2011/12 to 2014/15, with the Spending Round 2013 seeing a further 10% reduction. It is expected that the Spending Round 2015 will see further reductions in local government funding over the next parliament. Budget 2014 and subsequent announcements confirmed that Government funding will

continue to fall in 2016/17 and 2017/18 at the same rate as over the current Parliament However, recent announcements suggest that there may be a greater reduction.

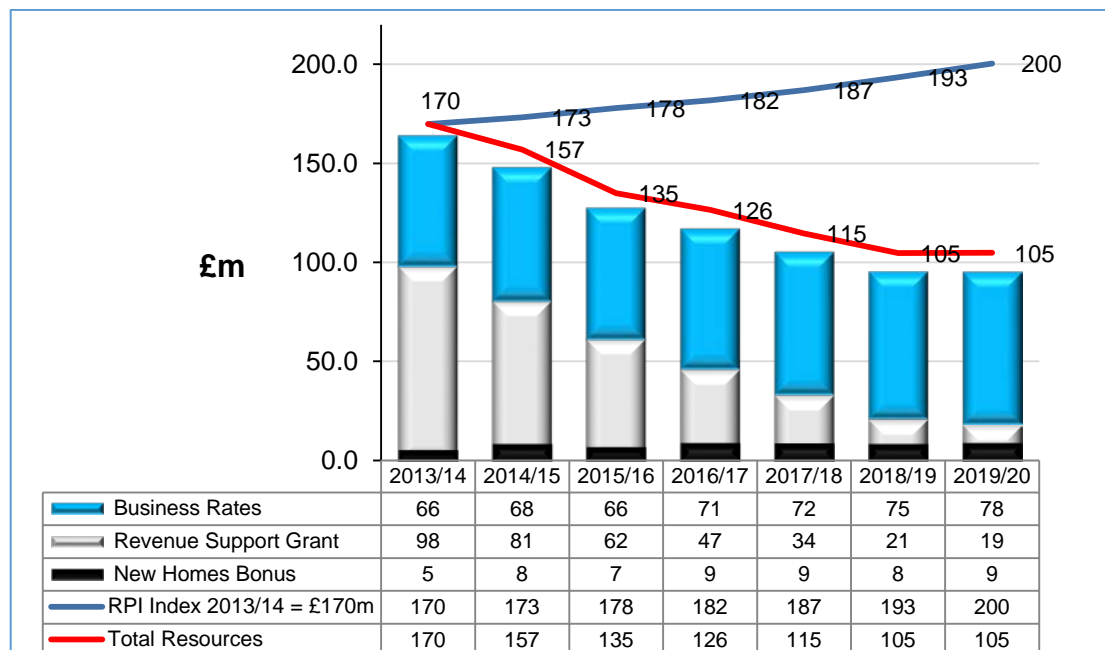
- 5.5 In 2015/16, Croydon should receive £128m in funding from Central Government for Business Rates and Revenue Support Grant. Without considering how the funding reduction would be made (i.e. specific grants, Revenue Support Grant or New Homes Bonus), 9% per annum reduction in anticipated total funding in 2016/17 and 2017/18 equates to £30.5m reduction overall as shown in table 2 below.

Table 2 Potential impact of 9% p.a. reduction in Government funding

	2015/16	2016/17	2017/18
	£m	£m	£m
Business Rates	66.0		
Revenue Support Grant	62.0		
Total	128.0	112.0	97.5
9% p.a. reduction		16.0	14.5

- 5.6 The December 2015 provisional settlement, based on previous years' announcements, should announce individual allocations for 2016/17 and indicative figures for 2017/18.
- 5.7 Graph 1 below shows the Council's grant reductions since 2013 and the localisation of business rates. The reduction in the grants in the previous two years was also significant at 11.2% in 2011/12 and 8.3% in 2012/13. Alongside these reductions the Council has incurred significant increases in demographic growth as detailed in section 7 of this report

Graph 1 - Croydon's Grant reductions 2013/20



The section below considers the future of each of the major local government funding streams over the next 5 years.

Council Tax

5.8 The Coalition Government offered Council Tax Freeze Grant to authorities for each of the council tax setting years within the last parliament (2011/12 to 2015/16). It is therefore possible that this offer will continue under the new Government under similar requirements (the equivalent of a 1% increase in council tax paid as grant for authorities not increasing council tax and increases in Council Tax above 2% requiring a referendum).

- A 2% Council Tax increase is worth £2.7m per annum to Croydon. In 2015/16 Croydon received £1.6m in Council Tax Freeze Grant.

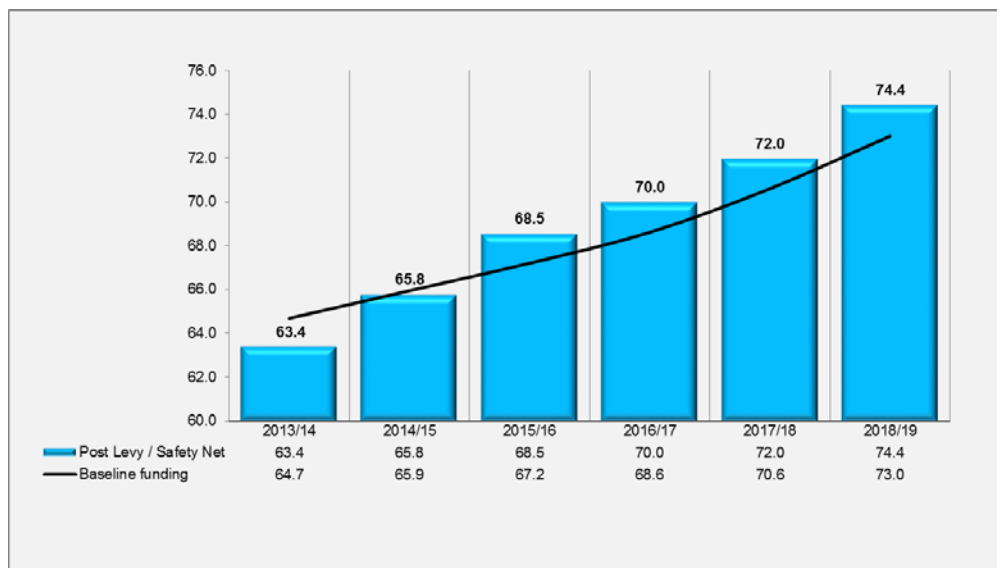
Business Rates Retention

5.9 The Business Rates Retention scheme was introduced in 2013/14. The scheme replaced part of an authority's guaranteed Revenue Support Grant with a variable element, based on the amount of Business Rates collected. Each local authority has a target level of Business Rates to collect (based on historic amounts collected). For Croydon, it retains 30% of the additional income above this target. However, if it collects below the target, it bears 30% of the loss.

5.10 To date, the resources received by Croydon through the scheme have been lower than the amount that would have been received under the

previous fixed grant system. Graph 2 below shows in 2013/14, Croydon received £63.4m compared to the initial allocation (Baseline Need) of £64.7m and in 2014/15 £65.8m was received compared to the initial allocation of £65.9m. However, for 2015/16, Croydon is forecasting to receive £68.5m compared to the initial allocation of £67.2m (this trend is then assumed to continue in future years within the graph).

Graph 2 Actual and Forecast resources received through Business Rates Retention



5.11 Within the next 5 years the following could have an impact on the Business Rates Retention scheme:

- Review of Business Rates** - The Government stated within the terms of reference for the current review of Business Rates (consultation closed in June 2015 – to report by Budget 2016) that the outcomes of this review will be fiscally neutral and consistent with the government’s agreed financing of local authorities. However, whilst changes may be neutral at a national level, history suggests (e.g. allowance for appeals with the system design) that at a local authority level, there is the potential for winners and losers.
- Revaluation** – the next revaluation is planned for 2017. Whilst this should be fiscally neutral nationally, it is highly probable that there will be winners and losers locally. Revaluation will see changes to the rating value for business across the country, with increases and decreases to business rate bills as a consequence. Whilst these cancel out nationally, local authorities could see net changes to the amount they are expected to collect in order to meet their target. For authorities that see net increases, it is possible they will experience greater difficulty in meeting their target due to (i) higher appeal levels

and (ii) business experiencing greater difficulty paying higher amounts.

- **Business Rates Retention Reset** – the next reset of the Business Rates Retention Scheme is planned for 2020. At this stage it is not known what a reset entails i.e. to what extent will future targets reflect growth / the decline in business rates locally since 2013/14. However, with authorities with large gains / losses planned from the scheme up to 2020, the impact of the reset will be of particular importance.

5.12 For Croydon it is not possible to factor in the impact of these three possible changes at this point, as there is insufficient information but there are clearly risks that have been passed to the local authority without it having a say on many of those issues. However, over the medium term, as more is known, the authority will need to be mindful of how the resources from the scheme could change.

New Homes Bonus Scheme

5.13 The New Homes Bonus Grant incentivises local authorities for promoting house-building locally by rewarding the council with a grant for:

- Each additional housing unit built;
- Each empty home brought back into use; and
- Each affordable housing unit delivered.

5.14 From 2015/16 onwards the first £70m of New Homes Bonus received by London boroughs is top sliced and received by the London Enterprise Partnership. This equates to a 28.2% top slice in 2015/16. The percentage top sliced in future years falls (to 23%) based on future years' allocations being consistent with actual allocations to date and the scheme remaining unaltered.

5.15 The majority of the New Homes Bonus funding (all but the first £250m nationally) is top-sliced from the Revenue Support Grant. Therefore, the New Homes Bonus is part of a shift from a needs-based formula of funding for local government to one that places more emphasis on local economic growth.

5.16 Table 3 below show the details of Croydon's allocations since the start of the scheme. The future of the scheme remains subject to debate i.e. will it continue in its current form, will the amounts be reduced, will it be phased out (i.e. no new allocations after a certain year) or will it be stopped as part of local government funding reductions.

Table 3 New Homes Bonus Funding allocations to date

	2013/14	2014/15	2015/16
	£m	£m	£m
2011/12 actual allocation	2.202	2.202	2.202
2012/13 actual allocation	2.023	2.023	2.023
2013/14 actual allocation	1.215	1.215	1.215
2014/15 actual allocation		2.873	2.873
2015/16 actual allocation			1.338
Equals Gross Retained New Homes Bonus (£m)	5.440	8.312	9.650
Less London Top-Slice (£m)	0.000	0.000	(2.729)
Equals Net Retained New Homes Bonus (£m)	5.440	8.312	6.921

5.18 Table 4 below shows the forecast level of resources received by Croydon from the scheme, if the scheme were to remain unaltered and Croydon's future allocations were consistent with previous years.

Table 4 Forecast New Homes Bonus Funding allocations

	2016/17	2017/18	2018/19
	£m	£m	£m
2012/13 actual allocation	2.023	2.023	
2013/14 actual allocation	1.215	1.215	1.215
2014/15 actual allocation	2.873	2.873	2.873
2015/16 actual allocation	1.338	1.338	1.338
2016/17 forecast allocation	1.808	1.808	1.808
2017/18 forecast allocation		2.006	2.006
2018/19 forecast allocation			1.717
Equals Gross Retained New Homes Bonus (£m)	11.458	11.263	10.958
Less London Top-Slice (£m)	(2.667)	(2.586)	(2.515)
Equals Net Retained New Homes Bonus (£m)	8.791	8.677	8.442

6 Fair Funding

6.1 As reported to Cabinet when the budget was agreed in February 2015 the method by which the grant for Croydon is calculated continues to place huge amounts of stress on services in Croydon. The fixing of the formula in 2013 at a time of huge change in need and demographic in London has made the task within the Financial Strategy even more challenging. In addition, as pointed out in that report, there are

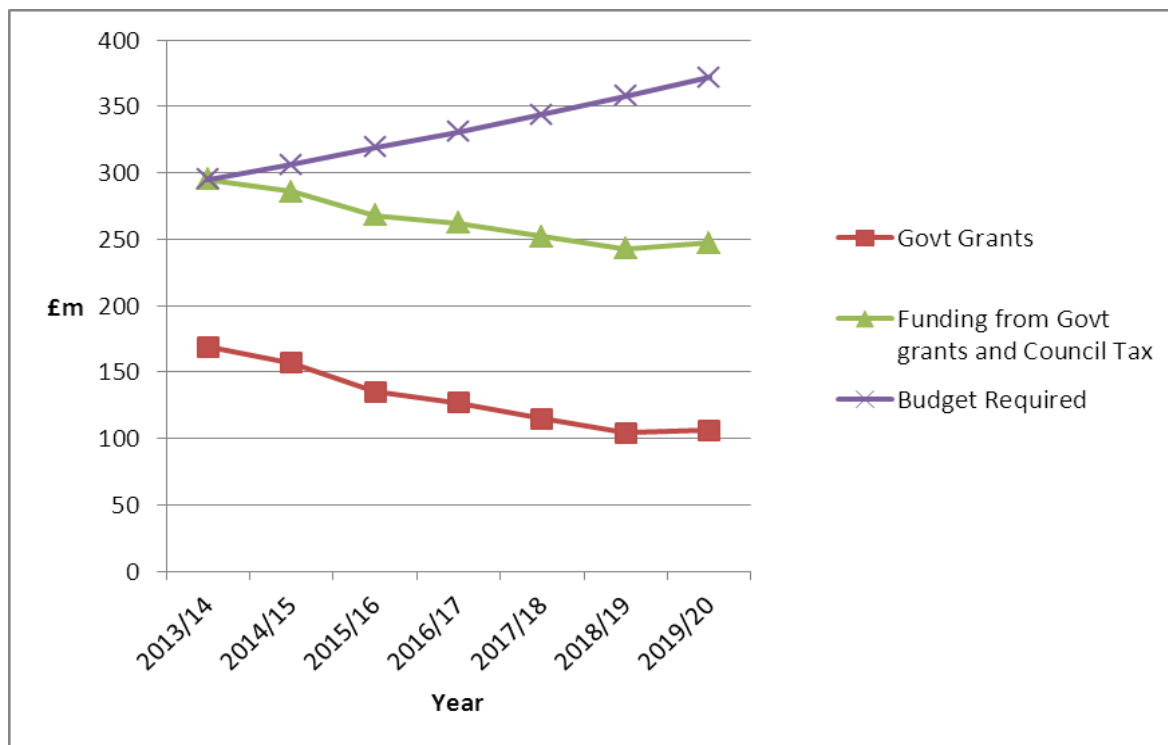
substantial funding shortfalls in other parts of the public sector, notably health, which also penalises Croydon residents directly and puts additional strains on Council services (e.g. Adult Social Care).

6.2 We have continued to make our voice heard on this issue through meetings with Ministers over the past 6 months and also as part of the LGA and London Councils. The key issues raised include :-

- School Place Funding – see paragraph 7.27 to 7.30
- No Recourse to Public Funds – see paragraph 7.20
- Temporary Housing – see paragraph 7.25 to 7.26
- The Damping Formula – see paragraph 7.8
- Public Health Grant cut – see paragraph 5.2
- Population Growth – see paragraph 7.10 to 7.14

The impact of these issues on the expenditure line is shown in graph 3 below.

Graph 3 Funding Changes 2013- 2020



6.3 As well as fairness in any continued needs formula the greater retention for local taxation to support growth is hugely important to Croydon. These issues were first set out in the London Finance Commission last year and still remain relevant, these include a greater local retention of business rates and also the retention of other property taxes.

- 6.4 Croydon received in principle agreement to the establishment of a Growth Zone by the previous coalition government. The principle was to retain business rate uplift within the Croydon Opportunity Area as an income stream to fund debt taken out to deliver essential infrastructure. We continue to work on the detailed business case with the GLA.

7 Factors Impacting the 2016/19 Budgets

- 7.1 There are a number of issues that are likely to have an impact on the council's financial planning for 2016/19. At this stage of the planning process a provision has been made for additional demand pressures on the revenue budget of £5m per annum. The range of issues we are currently aware of based on policy decisions already made are set out in more detail in the paragraphs below:

- 7.2 It is also likely the emergency budget will bring about more changes along with other options being considered by government which we will need to build in to our budget.

Welfare Reform

- 7.3 In 2013/14, the government transferred Council Tax Support to local authorities, with local authorities designing their own Council Tax support schemes. The government only provided 90% of the funding required, with local authorities needing to either reduce the level of support offered or find the remaining funding locally.
- 7.4 The funding for Council Tax Support was included within the Settlement Funding Assessment amount and therefore is part of the amount reduced by government in 2014/15 and 2015/16 and expected to be reduced in future years.
- 7.5 The government announced in the 2015 Queen's Speech that as part of the Full Employment and Welfare Benefits Bill that it intends to reduce the benefit cap from £26,000 to £23,000. The government also announced a £12 billion reduction in welfare benefits. There is a real risk that these changes place a significant strain on services, both directly (e.g. increased homelessness, increased need for social care intervention) and indirectly (e.g. demographic shift from Inner London).

Demographic changes

Local Government Funding System

- 7.6 Under the Business Rates Retention funding system, a settlement funding assessment (SFA) is determined for each local authority. This was determined in 2013/14 in the same way that Formula Grant was determined previously i.e. using the four block model to determine a level of need and then take into account changes in responsibility

(specific grants moving in and out of general grant).

- 7.7 From 2014/15 onwards authorities' SFA amounts will not be revised to reflect changes to key variables/elements that were previously updated annually through Formula Funding, including:
- Specific indicators within the Relative Needs Formulae (including population)
 - Council Taxbase
 - Floors and Scaling
- 7.8 This means that changes to the relative need of local authorities will no longer be reflected in the grant they receive (relative need is effectively frozen at 2013/14 levels). The next assessment of relative need is expected in line with the Business Rates Retention reset in 2020.
- 7.9 For authorities with relative need increasing, this freeze on relative need changes will create a spending pressure (as demand increases for services but no additional resources are received). Population change is a key driver in the relative need formulae.

Croydon's Population

- 7.10 The Office for National Statistics (ONS) projected a 2011 population for Croydon of 350,100 people, compared to a 2011 Census population of 363,400. This equates to a total under-estimation of 13,300 people (3.8%). This compares to an underestimate across London of 1.3% and nationally of 0.7%, with Croydon therefore being disadvantaged by a factor of over 5 times, compared to the average national position.
- 7.11 Based on an estimate that each person is 'worth' approximately £1,025 in local government funding terms, prior to 2013/14 (when the 2011 Census figures were introduced), an under-enumerated population of 13,300 people would be equivalent to £13.6m in lost funding per annum for the Council alone.
- 7.12 If the distribution of funding was 'rebalanced' to account for different rates of population growth, it is estimated that Croydon Council's funding levels would increase by a total of £2.2m between 2014/15 and 2020/21 (and would rise by a further £0.8m per year by 2020/21). The decision to freeze the funding distribution from 2014/15 has therefore penalised Croydon, relative to authorities other parts of England.
- 7.13 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.
- 7.14 Additionally, as detailed below, there is demographic shift as part of that population growth which is no longer reflected in government

funding, so places additional strains in resources.

Adult Social Care

- 7.15 In addition to the ongoing under estimate of Croydon's population that is now frozen within the funding system, the system will also fail to capture Croydon's projected higher than average growth in Adult Social Care numbers (and therefore cost pressures).
- 7.16 From 2014, Croydon's population aged 65 and over is expected to grow at an average annual rate of 2.2%. By 2021, there are projected to be 7,968 additional residents in this age band. The average rate of growth of Croydon's over-65 population is higher than the England average (1.9%), and higher than the Nearest Neighbour average (2.0%).
- 7.17 Similarly, from 2014, Croydon's population aged between 18 and 64 is projected to grow at an average rate of 0.8% per year. By 2021, there are projected to be 13,482 additional residents in this age band. Croydon's average annual growth rate is higher than the England average (0.3%), but lower than the Nearest Neighbour average (1.0%).
- 7.18 Based on these population projections for Croydon, adult social care cost pressures are projected to increase at an average rate of 1.3% per year from 2014/15. By 2021/22, this translates to a cumulative increase in spending pressure of 8.8%, or £8.5m.

Deprivation

- 7.19 Croydon is becoming relatively more deprived in comparison to other London boroughs and the England average. There has been a recent trend for more deprived people to move out from inner London into outer London boroughs, such as Croydon; known as the "suburbanisation of deprivation".
- 7.20 Croydon also has particularly significant pressures from migration. Partly, this is due to the location in Croydon of the Border Agency's only non-port based screening centre in the country. As a result, the borough has become a long-term base for many asylum seekers. This means that Croydon is facing associated challenges on a scale that no other authority in the country is required to face.

Challenge for Croydon

- 7.21 This increasing demand (both in terms of population overall and clients) will present a significant challenge to Croydon as due to the freezing of the need based elements in formula funding, population changes either in terms of the total population or the changes in relative size of the various population groups, elderly, children and working age, will not result in any change in government funding to meet the specific needs

of those age groups. ONS projections show that by 2020, the time of the next 'reset' of business rates retention, Croydon's population is expected to grow by a further 25,000.

The Care Act

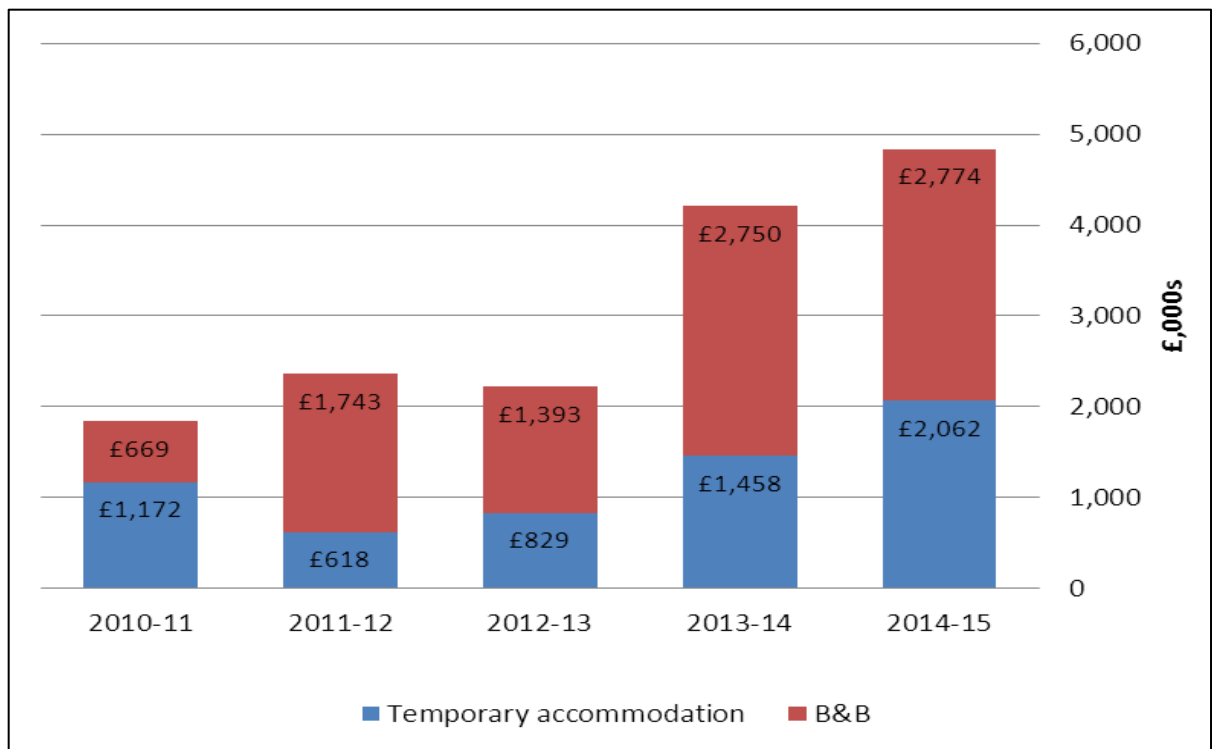
- 7.22 The Care Act 2014 came into force on 1 April 2015. The first stage of the reforms covered measures such as the introduction of national eligibility criteria, strengthened support for carers and more effective information and advice. The next stage of the reforms are due for implementation on 1 April 2016. These are the funding reforms and cover the introduction of the care cap and changes to the asset thresholds which determine the amount that people have to contribute to the cost of their care.
- 7.23 The Government's stated aim with the care cap is to avoid people facing "catastrophic" care costs. The cap has been set at £72,000 and is adjusted annually by reference to the Average Earnings Index. Daily living expenses of £12,000 per annum will not count towards the cap. The financial impact of the care cap is unlikely to affect the Council immediately because only care costs from 1 April 2016 will count and it will take a number of years for people to "meter" enough eligible costs to reach the cap.
- 7.24 The change in the asset thresholds will have an immediate financial impact for the Council. From 1 April 2016, anyone in residential care with assets below £118,000 will qualify for public funding. Currently the threshold is £23,250. For people receiving care at home the threshold changes to £27,000. This new regime, coupled with an increasingly older population, 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 Government has committed to fund the impact of the reforms but at this stage the formula for allocating funding has not been finalised. There is a real risk that, based on recent experience in other areas, this change is not fully funding.

Homelessness

- 7.25 In Croydon, the number of households approaching the Council for assistance with homelessness increased from 1680 in 2009/10 to 2520 in 2014/15. The number of households accepted as homeless increased over the same period from 425 households to 880, and the number living in temporary accommodation increased from 1267 to 2766. The spend relating to this is shown in graph 4 below.
- 7.26 It is likely that (in the immediate short term at least) that the number of households presenting as homeless, the number of households

accepted as homeless and the Council's use of temporary accommodation will continue to increase. Structural economic and housing market factors support this conclusion. While the economy is expected to continue to grow, which is positive for employment and homelessness; there are concerns that access to market housing will be affected by the rate at which household incomes are likely to rise in comparison to house prices and private rents. Affordability is an increasingly significant issue for households in Croydon, despite the fact that house prices and private sector rents are lower than London overall. Competition for market rented housing is pushing up rents, and local landlords are reluctant to let their homes to people on benefits¹ - the most common reason for homelessness is now the loss of a private rented tenancy.

Graph 4 :- Net expenditure on temporary accommodation 2010/11 to 2014/15



Pupil places

7.27 Croydon has the fastest-growing pupil population in England, with forecast growth in the number of planned pupil places being greater in Croydon than for places in any other local authority, an increase of 36.2% from 2012/13 to 2017/18, compared to a London increase of 17.8% and an England average increase of 8.8%.

7.28 In its current phase of building, the authority will have to provide a

further 33 primary and 21.5 secondary forms of entry for the period 2015-17. Seven new schools will need to be built, which requires the authority to fund the costs associated with the new land.

- 7.29 The authority estimates that the actual cost of provision to meet this growth in demand will be £125m between 2015 and 2018, compared to funding from government of only £96m. The remaining funding will be required from capital borrowing, with the cost of financing the borrowing being financed through Council Tax, placing significant budgetary pressure on the authority.
- 7.30 The shortfall over three years is than £29m, and this is set to grow over future years as more places are required.

8. The Outturn for 2014/15

- 8.1 In summary 2014/15 was the fourth successive challenging financial year in the Government's Deficit Reduction Programme and the prevailing economic climate of low growth. The magnitude of government grant cuts resulting again in a high level of savings needing to be achieved to balance the budget, which was voted through by the previous administration. The Council's financial management and controls had identified potential pressures early in the year, notably in areas where there had been pressures in the previous year. Significant efforts were made to bring these under control during 2014/15, consistent with Ambitious For Croydon and without bringing in short term measures that could have adverse implications to service users or longer term ambitions. However, there remained an overall over spend at the end of the year, which has resulted in the Council's General Fund balances reducing from £11.597m to £10.677m. It should be noted that these areas have been given additional growth in the 2015/16 budget to recognise the issues.
- 8.2. The target set out in the Financial Strategy is to hold General Fund balances of 5% of the council's net budget requirement. For 2015/16 this equals £13.4m. The Financial strategy made clear that although 5% remains a target there are no plans to actively move towards the target in cash terms over the medium term as the council's budget is expected to reduce by in the region of £50m over this period. This would see the 5% target reduce by £2.5m, making it £10.9m by the end of 2018.
- 8.3 The Council's overall over spend of £0.920m was made up of Departmental over spends of £9.424m, offset by non-departmental underspends of £8.504m.

- 8.4 The Council's earmarked reserves have decreased by £27.62m to £29.54m. The main reason for the decrease is the full use of the CCURV reserve. This reserve was created to hold the interest received on the BWH loan. Cabinet agreed to exercise the council's option to buy out the equity from John Laing in one payment, this led to the ending of the loan arrangements and reversal of all entries and hence the reserve has now been removed. This was £19.6m. Locally Managed Schools' revenue reserves have decreased by £1.6m to £9.7m.
- 8.5 The Council's General Fund Provisions have increased from £33.469m to £33.513m as at 31st March 2015.
- 8.6 The Collection Fund has carried forward a £14.523m surplus in relation to Council Tax and a deficit of £11.338m in relation to NNDR, making a total surplus in the collection fund of £3.105m as at 31st March 2015.
- 8.7 The Council's Pension Fund increased in value in 2014/15 by £116m (15.7%) to a value of £858m.

Table 5 Revenue Outturn Summary for 2014/15

Quarter 3 forecast outturn variance £'000	Department	Revised Budget £'000	Outturn 2014/15 £'000	Variation from Revised Budget	
				£'000	%
7,669	People	258,344	266,123	7,779	3.01%
2,182	Place	80,612	83,079	2,467	3.06%
-1,698	Resources	31,339	30,517	-822	-2.62%
8,153	Departmental total	370,295	379,719	9,424	2.54%
-6,900	Non-Departmental Items	-370,295	-378,799	-8,504	2.30%
1,253	Net Expenditure	0	920	920	
	Total transfer to / (from) balances	0	-920		

9. The Budget for 2015/16

- 9.1 The 2015/16 budget was approved by Council on the 23rd February 2015. Given the loss of government funding the approved budget includes a significant amount of savings that total £25.602m 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 full financial management report to Cabinet on financial management for 2015/16 will be made in September 2015.
- 9.3 The total savings within the 2015/16 budget are £25.602m and detailed by Cabinet Portfolio in table 6 below :-

Table 6- 2015/16 savings

<u>Portfolio</u>	<u>No. of savings items</u>	<u>£m</u>
Transport and Environment	6	0.691
Home and Regeneration	9	1.764
Clean Green Croydon	1	0.575
Finance and Treasury	41	12.750
Economic Development	1	0.090
Safety and Justice	16	0.795
People and Communities	12	4.314
Children Families and Learning	12	4.213
Culture Leisure and Sport	4	0.410
		25.602

- 9.4 Each item of saving within the 2015/16 revenue budget has been reviewed by DLTs and those at significant risk of not being achieved are set out in table 7 below.

Table 7 - Items at risk of being achieved in the 2015/16 budget –

Portfolio	Description of saving	Amount of saving unachievable £m	Detail – why unachievable
Children Families and Learning	Looked After Children - Move to looking after the right children / move to more in house foster carers / drive costs down of IFAs	1.300	A combination of delays in the impact of reprocurement and a rise in the level of complexity of the needs of those in care.
Children Families and Learning	SEN Transport	0.258	With procurement only impacting for part of the year and increased growth, over and above that allowed for in the budget, there a risk that there will be an overrun in-year, although a number of initiatives are being looked at, some implemented, including more use of personal budgets, expanded independent travel training introduction of an in-house service, which should certainly allow an improved position in future years.
People and Communities	Adult - care placement costs	2.000	Demand has continued to rise and the cases are becoming more complex. This means that the growth put into the budget does not now appear sufficient.
Transport and Environment	Deregulation Bill CCTV and PCN enforcement	0.500	Changes to the Regulations, notably governing use of CCTV for parking enforcement, has resulted in loss of income.
Finance and Treasury	Digital & Enabling	2.360	Delay in the implementation of this project, in order to ensure that it is truly fit for purpose. These savings may well be exceeded will be achieved in 2016/17.
Total		6.421	

9.5 At an early stage there are **£6.421m** of clearly identifiable pressures with **£1m** of contingency held, and £1.5m of grant income in relation to Business rates not budgeted for, there is therefore a pressure of **£3.921m**.

9.6 Work is being undertaken now to look at the areas listed in Table 8, to see what can be done to improve those areas and also look at other initiatives that can be taken to improve the position, so as to rebalance

the 2015/16 budget. More details will be provided as part of the report to Cabinet in September 2015 regarding Quarter 1.

- 9.7 One of the Croydon Challenge projects is to achieve savings of £2m in 2015/16 from a review of Commercial Contracts. To date £1.38m has been identified in department budgets associated with this savings option and approval to vire these savings from departments is sought through this report. This saving has arisen as contract inflation of 2% was allocated in the 2015/16 budget and we now anticipate that contract inflation will only increase by 0.5%. There is also a need to re-align the budget for the ICT refresh programme and £3m has been vired to interest payable to enable the capital investment to be financed.

10. Budget 2016/19

- 10.1 Table 8 below sets out the current forecasts in relation to the budget gap for 2016/19. The budget gap for 2016/17 is £17.861m. 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 £50.826m over the period 2016/19 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 although possible not until 2018+.
- 10.3 The key assumptions within the budget gap are, no increase in the level of council tax, and a 2% assumption on inflationary costs.

Table 8 – Budget Gap 2016/19

	2016/17	2017/18	2018/19	2016/19
	£m	£m	£m	£m
Cut in grant	20.950	14.600	7.385	42.935
Inflation	5.000	5.000	5.000	15.000
Debt Charges	3.000	3.000	3.000	9.000
Service Growth	5.000	5.000	5.000	15.000
Gross budget gap	33.950	27.600	20.385	81.935
Homes Growth	-2.500	-2.500	-2.500	-7.500
New Homes Bonus	-2.000	0.000	0.000	-2.000
Net Gap	29.450	25.100	17.885	72.435
Previously Identified savings (2015/18)	-11.589	-10.020	tbc	-21.609
GAP	17.861	15.080	17.885	50.826

- 10.4 It is clear from the remaining gaps over this period that the Croydon Challenge programme will need to continue to deliver savings over this period and the key programmes that were set out in last year's budget will continue. It is also clear that there will need to be some tough choices made on services we can no longer afford. The principle will be one of fairness and the outcomes from the fairness and opportunity commission will also be key in determining how we allocate our reducing resources.
- 10.5 This year will see the continuation of the refreshed approach to budget engagement with the budget options again going to Scrutiny and Overview Committee in December 2015.
- 10.6 The current key elements of the overall Croydon Challenge programme are set out below:
- **Digital and Enabling**
 - **Commercial Croydon**
 - **Procurement, Commissioning and Contract Management**
 - **Eyes and Ears**
 - **People 'Think Family' Integration**
 - **Health Integration**
 - **Asset Management**

The programme has continued to develop over the past year and many of the projects are now developed to deliver savings. In addition, there are some underpinning initiatives in terms of organisation, valuing our staff partnerships and support functions.

11 Capital Programme Investments and slippage

- 11.1 Slippage on capital spending from the 2014/15 financial outturn has been reviewed and it is recommended that the slippage on the General fund schemes set out in Appendix 1, totalling **£70.565m**, is approved to be carried forward to 2016/17.
- 11.2 The HRA is also requesting approval for slippage from 2014/15 of **£2.336m**.
- 11.3 The Capital Programme has been reviewed and re-profiled to reflect the timing of anticipated spend over the next three years from 2015/16 to 2017/18. This has resulted in a decrease in the programme of £75.562m in 2015/16, and subsequent increases of £51.968m and £23.272m over the following two years.
- 11.4 A review of the Education Strategy has taken place to ensure that budgets are correctly aligned between programmes. This has no net effect on the overall Capital Programme.
- 11.5 The programme has also been restated to include two additions to the programme agreed by cabinet in 2014/15. An increase to the TfL Local Implementation Programme of £802k agreed by Cabinet in September 2014 (**A83/14**), and an increase to the Public Realm programme of £2m agreed by Cabinet in February 2015 (**A21/15**).

12 General Fund (GF) Debt

- 12.1 The long term strategic planning assumption underpinning the current policy is that for the GF a further approx. £200m of debt is required to fund the capital programme. This is as set out in the Treasury Management Strategy approved by Full Council on 23 February 2015. The Council's overall long term debt as at 31 March 2015 was £760.839m. 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.

13. SUMMARY AND CONCLUSIONS

- 13.1 As all Members are aware, setting a budget for 2016/19 that is robust, balanced and deliverable is challenging, and will involve a number of difficult decisions in these challenging times.

14. FINANCIAL CONSIDERATIONS

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

(Approved by Richard Simpson, Assistant Chief Executive Corporate Resources and S151 Officer)

15. COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 15.1 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.)

16. HUMAN RESOURCES IMPACT

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

(Approved by: Heather Daley, Director of Human Resources)

17. EQUALITIES IMPACT

- 17.1 There are no specific issues arising from this report.

18. ENVIRONMENTAL IMPACT

- 18.1 There are no specific issues arising from this report.

19. CRIME AND DISORDER REDUCTION IMPACT

- 19.1 There are no specific issues arising from this report.

20. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 20.1 These are detailed within the report.

21. OPTIONS CONSIDERED AND REJECTED

- 21.1 The options considered are detailed in the report. The only option rejected was the one of do nothing as this is not viable.

Report Author: Richard Simpson, Assistant Chief Executive Corporate Resources and S151 Officer

Contact Person: Richard Simpson, Assistant Chief Executive Corporate Resources and S151 Officer

Background docs: Financial Strategy 2015/19

appendix K of appendix 2 to item 7 Council meeting 23/02/15

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