

<b>REPORT TO:</b>	<b>CABINET 26<sup>th</sup> FEBRUARY 2013</b>
<b>AGENDA ITEM:</b>	<b>6</b>
<b>SUBJECT:</b>	<b>FINANCIAL STRATEGY 2013/17 GENERAL FUND &amp; HRA BUDGET FOR 2013/14</b>
<b>LEAD OFFICER:</b>	<b>NATHAN ELVERY DEPUTY CHIEF EXECUTIVE &amp; EXECUTIVE DIRECTOR OF CORPORATE RESOURCES AND CUSTOMER SERVICES</b>
<b>CABINET MEMBER:</b>	<b>COUNCILLOR MIKE FISHER, THE LEADER COUNCILLOR STEVE O'CONNELL, CABINET MEMBER FOR FINANCE AND PERFORMANCE MANAGEMENT COUNCILLOR DUDLEY MEAD, DEPUTY LEADER (STATUTORY) AND CABINET MEMBER FOR HOUSING, FINANCE AND ASSET MANAGEMENT</b>
<b>WARDS:</b>	<b>ALL</b>

**CORPORATE PRIORITY/POLICY CONTEXT:**

The Council's Financial Strategy underpins the resource allocation for all corporate priorities and policies and in particular, the corporate priority for the delivery of value for money for the residents of the borough of Croydon. This report sets out the detailed proposals for the financial year 2013/14 and the progress in achieving the objectives of the Council's Financial Strategy 2010/14. The report also sets out a new Financial Strategy for 2013/17

The 20 year Capital Strategy 2010/30 sets out how the Council will finance, allocate and manage investment in assets efficiently to achieve the Vision as set out in "We Are Croydon."

The report sets out the capital programme 2013/17.

**FINANCIAL SUMMARY:** This report sets out progress in achieving the objectives of the Council's Financial Strategy 2010/14 and the budgeting plans for 2013/14 which will continue to progress the delivery of the strategy and introduces the new financial strategy for the period 2013/17.

The report details the revenue and capital budgets for the General Fund for 2013/14, the priorities of our financial investments based on a recommended 1.85% increase in the Croydon element of council tax and Housing Revenue Account (HRA) budget regarding the setting of rents, service charges and the Housing Improvement Programme for 2013/14 based on a recommendation 4.36% change to rent levels for 2013/14.

**FORWARD PLAN KEY DECISION REFERENCE**

This is not an executive key decision – the final decision is recommended to the Full Council at the meeting scheduled for **26<sup>th</sup> February 2013**.

## 1.0 RECOMMENDATIONS

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below:

- 1.1 The Cabinet recommend to full Council that, having considered the statement of the Chief Finance Officer at para.19 of the report and the Initial Equalities Impact Assessment at Appendix Q approve the Financial Strategy for 2013/17 and for the **financial year 2013/14 a 1.85% change to Council Tax for 2013/14** for Croydon and a 1.21% decrease to the Greater London Authority (GLA) precept, on behalf of the GLA, and therefore in support of the following:-
- i) All budget planning assumptions as detailed in the report;
  - ii) The programme of revenue investment as set out in Appendix A;
  - iii) The programme of efficiencies and cuts, as set out in Appendix B and C as previously approved by Cabinet on the 10<sup>th</sup> December 2012;
  - iv) The capital programme for 2013/14 and capital strategy for 2013/17 as set out in Appendices D & E and the release of the annual highways programme;
  - v) The Council's detailed budget book as set out in Appendix F;
  - vi) The overall revenue budgets and council tax levels as set out in Appendices G, H and I;
  - vii) The statement on reserves and balances and robustness of estimates from the statutory Section 151 Officer;
  - viii) That with reference to the principles for 2013-2014 determined by the Secretary of State under s.s.52ZC(1) of the Local Government Finance Act 1992 (as amended) confirm that in accordance with s.52ZB (1) the Council Tax and GLA precept referred to above are **not excessive** and as such to note that no referendum is required;
  - ix) Rent increases for all Council tenants for 2013/14, in line with the National formula for social housing rents with the average rent increases from this national formula being **4.36%**;
  - x) That the full cost of services provided to those tenants who receive caretaking, grounds maintenance and bulk refuse collection services are recovered via tenants service charges, this being achieved with a **3.1%** increase for 2013/14;
  - xi) Charges to tenants for garage and parking space rents increase by **4.36%** for 2013/14;
  - xii) Heating charges for Council tenants to remain unchanged as per Appendix L;

- xiii) To recommend to the Council the approval of the budget for the Housing Revenue and Capital Accounts for 2013/14 (Appendix K);
  - xiv) To recommend to the Council approval of the proposed housing investment programme of **£34.621m** (summarised at Appendix 3a with the detailed council housing repair and improvement element of the programme at Appendix M);
  - xv) To recommend to the Council approval of a capital allowance of **£10.000m** as detailed in Section 6 of this report.
  - xvi) To recommend to the Council the adoption of the Pay Policy statement at Appendix P;
- 1.2 Note that in respect of the Council's public sector equalities duties where the setting of the capital, revenue and HRA budget result in new policies or policy change the relevant service department will carry out an equality impact assessment to secure delivery of that duty including such consultation as may be required.
- 1.3 That Cabinet note the progress being made towards balancing the Council's financial position for 2012/13 as at 31st December 2012 and the current projected outturn forecast of £1.314m before the allocation of corporate contingency of £2.340m, as set out in Table 19 of this report and therefore to note a balanced budget position for 2012/13.
- 1.4 To note that no recommendations were made to the Cabinet from the Scrutiny & Overview Committee meeting of 15<sup>th</sup> January 2013 in relation to the budget for 2013/14.
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## **2.0 EXECUTIVE SUMMARY**

- 2.1 This report sets out the 2013/14 budget for the residents of the borough of Croydon in the context of the Council's Medium Term Financial Strategy 2010/14. This is the final year of the current strategy period. The budget proposed for 2013/14 is balanced and prudent and continues to build upon the principles of sound financial management and for the longer term strategic financial planning of the Council which was first outlined in the Financial Strategy 2010/14. The budget has been set within the context of the Government's deficit recovery programme which has resulted in significant reductions in local government funding during the current comprehensive spending review period. The Autumn Statement indicates that a continued and sustained level of funding reduction will be targeted at the public sector.
- 2.2 Information on the proposed rent increase for Council housing tenants for the financial year 2013/14 is set out within this report. It also seeks approval to increase the unpooled tenant service charges by 3.1% in line with the rent restructuring guidelines and increases in garage and parking space rents by 4.36%. In addition, it is proposed that heating charges are not increased for council tenants. Tenants must be notified four weeks prior to the proposed dwelling rent increase that will take effect from 1st April 2013.
- 2.3 The report also seeks approval for the Housing Revenue Account (HRA) budget for the financial year 2013/14.
- 2.4 The Public Sector continues to face unprecedented challenges following the global economic crisis and has been in a period of public sector funding austerity since mid 2010. Local Government faces a significant challenge as central government resources lessen, demands for efficiency become ever higher and demands for services that much greater. It is inevitable that tougher choices, than have already been made, will have to be made over the future medium term period. On 20<sup>th</sup> October 2010 the Chancellor of the Exchequer presented the Coalition Government's Spending Review 2010, covering the four years to 2014/15. The review established that the Local Government Resource DEL (Departmental Expenditure Limit) will reduce by 28% over the spending review period. The 2012 Autumn Statement saw this reduction increased by a further 2%, falling mainly in 2014/15, due to the Government's deficit reduction target being delayed as a result of sluggish growth experienced by the economy. Therefore Government support will have reduced by 30% since 2011 by 2014/15, the current Spending Review period.
- 2.5 The 2013/14 provisional Local Government Finance Settlement, announced on 19th December 2012, established the Business Rates Retention (BRR) scheme as the principle form of local government funding. In previous years, the provisional settlement announcement provided local authorities with their expected general revenue allocations for the following financial year. For 2013/14, the provisional settlement provides authorities with a combination of provisional grant allocations and their respective starting points within the BRR scheme. It also included the draft 2014/15 Local Government Finance Settlement.
- 2.6 Under the BRR scheme, the level of Formula Grant Funding has been replaced by the Start-up Funding Assessment (SUFA) as a measure for comparability in government funding between financial years. The provisional 2013/14 and the draft 2014/15 Settlements have resulted in reductions in Croydon's Start-up Funding Assessment of

2.9% (£4.9m) and 8.6% (£13.9m) respectively. This follows reductions in Croydon's Formula Grant Funding of 11.2% in 2011/12 and 8.3% in 2012/13.

2.7 For comparison purposes Croydon's Formula Grant for 2012/13 of £116.006m has been converted to a 2012/13 Start-up Funding Assessment of £166.792m. This adjustment reflects the rolling-in of the previously referred to 'Core Grants' (some as a nominal amount). Table 1 below shows the reductions in SUFA for the remainder of the current CSR within declining public sector funding control totals.

**Table 1 – Reductions in Start-up Funding Assessments**

<b>LOCAL AUTHORITY</b>	<b>Start-up Funding Assessment - Adjusted 2012/13 £m</b>	<b>Provisional Start-up Funding Assessment 2013/14 £m</b>	<b>Draft Start-up Funding Assessment 2014/15 £m</b>
<b>England</b> <i>annual change %</i>	27,139.527	26,073.951 -3.9%	23,845.603 -8.5%
<b>Outside London</b> <i>annual change %</i>	20,118.120	19,280.853 -4.2%	17,558.460 -8.9%
<b>London Boroughs</b> <i>annual change %</i>	4,984.134	4,834.656 -3.0%	4,376.918 -9.5%
<b>Croydon</b> <i>annual change %</i>	166.792	161.913 -2.9%	148.034 -8.6%

2.8 Based on the revised economic forecasts of the recent Autumn Statement the Chancellor set the Public Expenditure control totals for the first two years of the 2014 Spending Review period (i.e. for 2015/16 and 2016/17) in line with the spending reductions over the previous 2010 Spending Review, that is it will fall during those years by 0.9% a year in real terms "*These are large savings and we will set out in future how resources will be allocated between different areas of government*". However if the next Comprehensive Spending Review (CSR) reflects the differential distributions between government departments as contained within the CSR2010 protecting Education and Health spend, or is extended to include Defence spend then it is likely that Local Government's funding support will continue to reduce. This is estimated to be a further reduction of 7.5% per year. **Therefore the total reduction in funding support from Central Government for Local Government over the period 2011/17 is estimated at 45%.**

2.9 Given the changing landscape of local government funding it is appropriate and indeed practical that the Council review and revisit the existing Financial Strategy. The revised Financial Strategy for Croydon has been developed to help the Council navigate through an incredibly challenging time for all of Local Government. The Council is seeing income reduce as the government tackles the national deficit and at the same time are seeing significant demands on our services. The strategy is contained in Appendix O (printed separately).

2.10 The key financial aims for the Council in the revised Financial Strategy are:

- To ensure that the Council protects the services on which its residents place most priority;
- To maintain financial stability over changing economic cycles to give the community continued confidence in the financial stewardship of the Council;

- To ensure that the Council continues to systematically challenge, secure and deliver Value for Money;
- To ensure that the Council's infrastructure is fit for purpose; and
- To maximise the Councils resource base.

2.11 The Financial Strategy informs the key principles of the budget based upon the following underlying financial assumptions:-

- A continued decrease in Government Grant support of 7.5% per year in cash terms;
- Any changes in central government grant funding will, in the first instance, impact directly on the service supported by the grant;
- Local taxation increases will be kept to a minimum;
- Inflation will be estimated in line with 'sector' specific forecast increases;
- Efficiency targets for the Council will be set at 5% per annum as a minimum;
- A minimum of 20% of New Homes Bonus and any increase in Business rates yield above budget assumptions will be earmarked for economic development and organisational transformation.
- The Housing Revenue Account (HRA) does not cross subsidise or vice versa the General Fund Revenue account up to the point where the HRA continues to exist;
- All asset rationalisation savings will be used to contribute to the cost of Bernard Weatherill House;
- Rent restructuring will follow guidelines which will achieve rent convergence (equalisation of council rents with housing associations) in 2015/16. Up to 2015/16 rents will increase at RPI + 0.5% + a further amount towards convergence.
- Investment in major repairs and improvements in the HRA will rise at RPI+2% per annum;
- Decent Homes standards will be maintained for HRA stock;
- New council house building will be funded at £6m per annum for the next six years.

2.12 The Cabinet received the 'July Financial Review' report on the 9th July 2012 (Min A92/12) as part of overall budget strategy preparation and baseline financial assumptions which set out a budgetary financial gap for 2013/14 of **£10.480m** and a gap for the next four years (2013/17) of **£52.578m**. Table 2 shows the movement since the July Review in closing the budget gap.

**Table 2 – Budget Gap Movement**

<b>BUDGET GAP</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2013/17</b>
	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>
<b>Budget Gap - July Review</b>	<b>10.480</b>	<b>6.192</b>	<b>17.995</b>	<b>18.062</b>	<b>52.728</b>
<b>Budget Gap - Current</b>	<b>0.000</b>	<b>7.170</b>	<b>24.217</b>	<b>22.331</b>	<b>53.718</b>

2.13 In December the Cabinet approved the draft efficiency programme; cuts programme; step change programme; income programme; and the revenue investment programme (Min A134/11). On the 15<sup>th</sup> January 2013 Scrutiny and Strategic Overview Committee met and received an update from the Executive Director of Corporate Resources and Customer Services. No recommendations were made for Cabinet.

2.14 Table 3 below shows the investment, efficiencies and cuts that are required to balance the budget for 2013/14

**Table 3 – Budget Investment and Savings 2013/14**

Description	£m	% of Budget Requirement
Investment	9.557	3.26%
Efficiencies	-10.891	-3.72%
Cuts	-2.958	-1.01%
Step Change Savings	-6.246	-2.13%
Income Generation	-0.884	-0.30%
<b>TOTAL</b>	<b>-11.422</b>	<b>-3.90%</b>

- 2.15 The Council has a duty under the Local Government Finance Act 2003 to set a balanced budget before 14<sup>th</sup> March 2013. This report supports the enablement of that duty to be fulfilled, subject to agreement of the recommendations in this report by Full Council on the 26<sup>th</sup> February 2013.
- 2.16 There is a recommended increase in council tax of 1.85% for Croydon to support the 2013/14 budget and associated strategic priorities, objectives and strategies. The overall headline increase is 1.21%. The effect of this increase and details of all banding changes are shown in Table 4.

**Table 4 – Local Taxation & GLA Taxation increase (Band D comparison)**

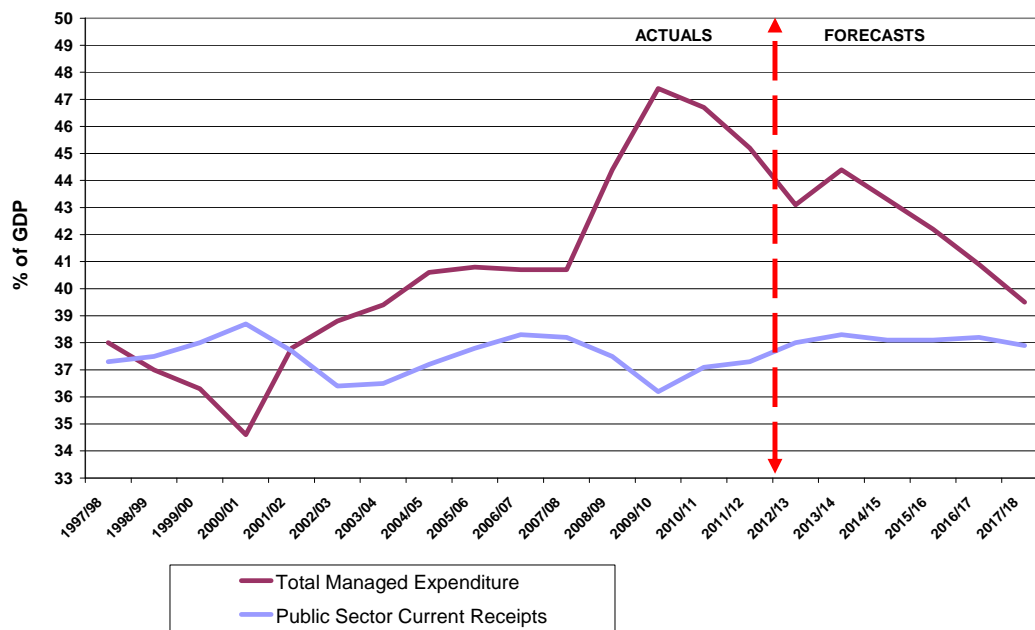
Local Taxation	2013/14 £	Increase/ (Decrease) %	Annual Increase £	Weekly Increase £
Croydon	1,171.39	1.85%	21.28	0.41
GLA	303.00	-1.21%	-3.72	-0.07
<b>Total Council Tax</b>	<b>1,474.39</b>	<b>1.21%</b>	<b>17.56</b>	<b>0.34</b>

### 3.0 External Financial Environment

- 3.1 The challenge on public sector funding and thus local government will continue at least for the next two financial strategy periods and beyond the current comprehensive spending review period. These are going to be extremely tough and demanding times for local government, the services we provide and the relationships we have forged with our residents. The Council has already identified the strategic pressures that collectively pose a challenge to Local Government and therefore the issues it will have to respond to during this time.
- 3.2 The Government has resolved to reduce the fiscal deficit over the coming 5 years. The Government also set the target that 80% of the consolidation measures set out in the Government's 2010 Budget are planned to be delivered through spending restraint and 20% by increases in taxation by 2014/15. However in his Autumn Statement the Chancellor of the Exchequer put back that target to 2015/16. The latest figures from HM Treasury illustrate the fiscal challenge facing the country by showing the gap between revenues and expenditure widening since 2001/02 and its planned reduction during the lifetime of the current parliament. Graph 1 shows that as a result of the plans set out in the Autumn Statement, public spending is projected, by the OBR, to fall from around

47% of GDP in 2010/11 to 39.5% of GDP by 2017/18, around the same level as 2003/04. Public sector current receipts are projected to only rise from around 37.1% of GDP to around 37.9% of GDP over the same period.

**Graph 1 - PUBLIC FINANCES - RECEIPTS and EXPENDITURE AS % OF GDP**



*Actual figures from ONS and forecasts from OBR*

- 3.3 Over the last year the GDP annual rate of growth has slowed from 0.8% in 2011 to 0.1% in 2012. The Public Sector Net Debt (PSND) has risen, as a percentage of GDP, from 65.7% to 70.7%. Figures for December 2012 show that, after exceeding £1trillion in December 2011, PSND now stands at £1.11tn.
- 3.4 In his Autumn Statement the Chancellor forecast that GDP annual growth would reach 1.2% by the end of 2013 before rising to 2.8% in 2017 and that PSND would continue to rise to a peak of 79.9% of GDP in 2015/16.
- 3.5 This provides the backdrop to the budget for which this report and the economic environment that the revised financial strategy will need to guide the organisation through over the coming years.

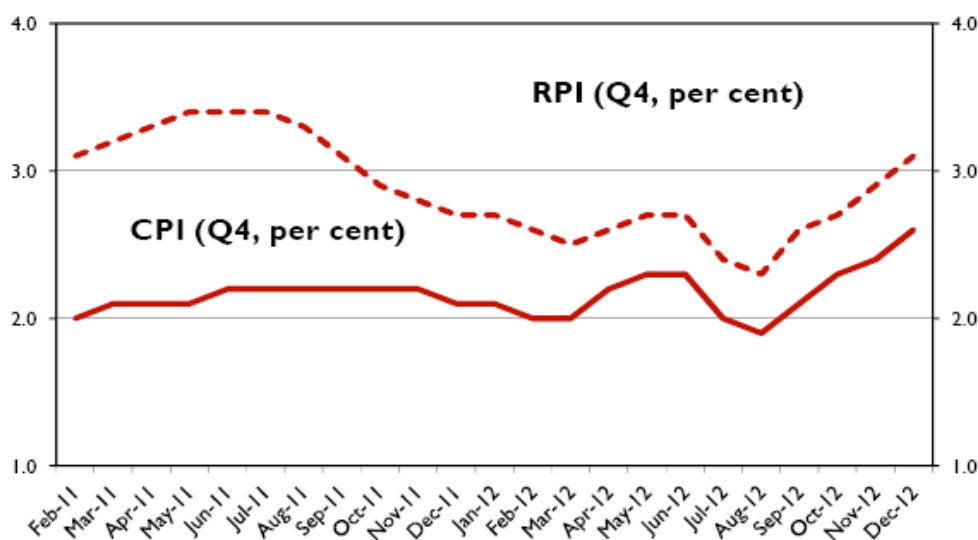
#### 4.0 Inflation

- 4.1 Inflation figures for December were 2.7% for CPI and 3.1% for RPI. The Government's inflation measure, CPI, exceeded the Government's target of 2.0% in every month in 2012 and averaged 2.7% for the year. Local Government will continue to face pressures on inflation mainly through pay pressures and existing contracts. The management of these inflationary pressures will be a crucial factor in balancing the future budgets of the Council.
- 4.2 Future projections of Local Government pay are difficult to make, as although the Chancellor of the Exchequer, in the 2010 Spending Review, assumed a freeze on public sector pay for two years from 2011/12 this has yet to reach an agreed position with the unions who represent the public sector staff interests. In his Autumn Statement the Chancellor stated his intention to cap public sector pay increases at 1.0% for the two years after the current freeze period.



- 4.3 In the Autumn Statement inflation is not expected to meet the 2.0% target until 2015. The main upward pressures continuing to be from fuel and food prices.
- 4.4 The Treasury publishes a monthly summary of published material reflecting the views of independent forecasting organisations (mainly banks). Over the last year there has been an increasing expectation that both CPI and RPI will fall during 2012 (Graph 2) and their forecasts for Quarter 4 of 2012 and later years are shown in Table 5.

**Graph 2 - Average of Independent Forecasts for Quarter 4 2013 – CPI and RPI inflation**



The months refer to the month in which the forecast was made

Source: 'Forecast for the UK economy: A comparison of independent forecasts (December 2011)' - HM Treasury

**Table 5 – Q4 Inflation Forecasts 2013 to 2015**

Independent Forecasts (HMT)	2013		2014		2015	
	CPI	RPI	CPI	RPI	CPI	RPI
Highest	3.0%	3.4%				
Lowest	2.1%	2.3%				
<b>Median</b>	<b>2.7%</b>	<b>3.1%</b>				
<b>OBR (Autumn Statement 2012)</b>	<b>2.5%</b>	<b>3.0%</b>	<b>2.2%</b>	<b>2.6%</b>	<b>2.0%</b>	<b>3.1%</b>

## 5.0 Central Government Funding – a new funding regime

- 5.1 Previously, all Business Rates (also known as non-domestic rates or NNDR) collected by billing authorities (such as Croydon) were paid into a central government pool, and then redistributed to individual authorities through the Formula Grant system. From 2013/14 onwards local government is able to retain a proportion of their locally raised Business Rates, with the remainder being passed to central government. The Government believes this will provide a financial incentive for Councils to undertake economic development and so grow their Business Rate income at a local level.
- 5.2 The proportion retained by local government, the local share, has been set at 50% which

is then shared between billing and precepting councils. For councils in London billing authorities retain 60% of that 50% with the remaining 40% being passed to the GLA.

5.3 The proportion of the local share from 2015/16 onwards may be reviewed in the course of the next Spending Review, brought forward from 2014 to 2013. However the Government has stated that it intends to more closely align local authority functions and responsibilities with income from Business Rates, although it is unclear what this would mean in practice.

#### 5.4 **Calculating individual authority start-up funding assessments**

Local Government's spending control total is now referred to as its aggregate start-up funding assessment (SUFA) and, for 2013/14, was allocated to individual local authorities in two parts;-

- Formula funding - This refers to the element of the SUFA that used to be funded through formula grant and which is distributed according to a mathematical formula to individual local authorities.
- Existing Specific and Core Grants that were transferred in to the SUFA from April 2013.

5.5 **Formula funding** - has been allocated to local authorities by the same mathematical formulae that were used to calculate the Formula grant. The Government decided to base the calculation of formula funding on the 2012/13 formula grant methodology in order to provide stability. These changes are mainly in;-

- **Data used in calculating formula funding** - The Government has updated all existing datasets where that is possible so that formula funding is calculated using the most up-to-date, most reliable and nationally consistent data available. These data sets now include, for example, interim 2011 Census population projections and council tax base projections.
- **Technical changes to calculating formula funding**- The Government decided that, to ensure stability in the transition to the new scheme, it would make only limited changes to the formulae used to calculate the individual authority start-up funding assessment. The technical changes are include;-
  - changing the Relative Needs Formula for concessionary travel
  - increasing the weight of sparsity in the Relative Needs Formula to support rural authorities
  - restoring the level of the Relative Resource Amount to its 2010/11 level.

Changes between the years in the funding that local authorities receive are limited by floor damping. This is a method by which stability in funding is maintained through limiting the effect of reductions in grant. A floor guarantees a lower limit to year-on-year reductions in grant for each authority. The grant changes of authorities whose grants are above the floor are scaled back by a fixed proportion to help pay for the floor.

5.6 **Distributing grants transferred into the aggregate start-up funding assessment in 2013/14** - In May 2012 the Government announced that a number of previously unringfenced Specific or Core grants would be transferred into the aggregate SUFA to increase the size of the local share. The grants transferring into the aggregate SUFA in 2013/14 are included after floor damping and according to each one's previously announced distribution arrangements, according to the grant's own spending control total profiles. Each grant is, currently, separately identifiable in the local government finance settlement.

5.7 In 2014/15, with the exception of council tax support, the grants being rolled in will again

be scaled back according to their own profiles. The amount of council tax funding will be added to the 2013/14 formula funding with the total scaled back taking account of the different profiles for each of the three tiers of service (upper-tier, lower-tier and fire) agreed in the 2010 Spending Review.

## 6.0 Central Government Funding – The impact on Croydon

Despite the introduction of a new funding regime Local Government's expenditure control totals reflect those determined in CSR2010 and as subsequently amended. The funding for English Local Authorities confirmed as part of the National Local Government Finance Settlement is contained in Table 6 below;-

**Table 6 – Changes for Local Government Funding 2013/15 – Final Settlement**

	Total AEF £m	Specific and General Grants £m	Net External Finance (AEF)* £m	Previous Year Adjusted ~ £m	Change £m	Change %
2013/14	68,693	42,592	26,101	27,169	(1,068)	-3.93%
2014/15			23,883	26,101	(2,218)	-8.50%

\* Aggregate External Finance (AEF) is made up of specific and special grants, NNDR distributable amount, Revenue Support Grant (RSG) and police grant. Net AEF excludes specific and special grants.

~Adjusted figures allow for changes in delivering grant and changes in function to allow like-for-like comparisons

## 6.1 Croydon's Start-up Funding Assessment

6.1.1 The provisional 2013/14 and draft 2014/15 Local Government Finance Settlements were announced on 19th December 2012, later than the budget planning cycle normally sets out. This was confirmed, with minor adjustments, in the Final Settlement announced on 4<sup>th</sup> February 2013. Croydon's Start-up Funding Assessment (SUFA) will be £161.913m in 2013/14 against a comparable 2012/13 figure of £166.792m, a reduction of £4.879m. The draft SUFA for 2014/15 is £148.034m, a further reduction of £13.879m. Table 7 below shows the funding variations within London;-

**Table 7 - Central Government Funding variations in London**

	% change 2012/13 to 2013/14			% change 2013/14 to 2014/15			% change 2012/13 to 2014/15
	SUFA	Formula funding	Rolled-in grants	SUFA	RSG	Baseline Funding	SUFA
England	-3.9%	-4.6%	-2.3%	-8.5%	-16.8%	3.1%	-12.1%
London Boroughs	-3.0%	-3.1%	-2.8%	-9.5%	-17.8%	3.1%	-12.2%
Inner London	-3.0%	-2.8%	-3.8%	-9.8%	-18.4%	3.1%	-12.5%
Outer London	-3.0%	-3.4%	-2.2%	-9.1%	-17.2%	3.1%	-11.9%
Croydon	-2.9%	-3.4%	-1.5%	-8.6%	-16.3%	3.1%	-11.1%

Source; London Councils' Settlement Analysis

## 6.2 Croydon's Formula funding Damping

6.2.1 There continues to be four bands for floor damping set for education and social services authorities based on what are judged to be their level of dependency on grant. **Croydon is in Band 3** which assumes the second least dependent authority group based on a calculation of Formula Funding as a proportion of budget requirement (council tax yield

plus formula grant). The multiple flooring system introduced in 2011/12 was a major new variant on the methodology of damping which previously treated each authority within a class or group of classes (e.g. education and social services authorities) as the same in terms of a common set of rules based on the change in grant.

6.2.2 The Government sets a “floor” to any authority’s change in their Formula Grant allocation on a year-on-year basis to ensure stability in the amounts received to finance local government services. The floor works by taking the last year’s Formula Grant, and then adjusting it for changes in funding and function, so that it can be compared on a like-for-like basis with this year. A percentage change to the last year’s adjusted figure is then applied to establish what this year’s floor is. The undamped Formula Grant figure is then calculated. If this figure is above the floor it is scaled back; if the figure is below the floor it is increased to the floor level. The system is self-financing whereby the amount of reductions through scaling back (using a pre-determined scaling factor) for all councils in a group (e.g. authorities with education and social service responsibilities) equals the increases to bring councils up to the minimum floor level of grant.

6.2.3 Croydon’s undamped formula funding is £121.17m; the amount of damped formula funding it actually receives is £110.52m. It therefore loses £10.65m through the flooring system. This makes it the fourth highest contributor to the flooring system in London.

6.2.4 Almost all the gains from damping are experienced by Inner London Boroughs (including the City of London) amounting to £278.9m, and the contributions above the floor of £94.96m coming almost entirely from Outer London Boroughs. A significant factor in why so many London boroughs are below the floor is changes in the past formulas that drive Formula Grant, particularly in respect of social services. The long-standing position of local government is that floors are necessary, but should be funded from the government rather than local authorities that are above the floor.

**Table 8: Floor bandings for authorities with education and social service responsibilities**

Floor band	2013/14
Band 1 (most dependent)	-2.7%
Band 2	-4.7%
Band 3 (Croydon is classed within Band 3)	-6.7%
Band 4 (least dependent)	-8.7%

## 7.0 Government Grants

7.1 As a result of the introduction of Business Rates Retention in 2013/14, there has been a re-categorisation of existing government funding streams. ‘Formula’ and ‘Core’ Grants have been replaced by a new regime of ‘Baseline Funding Levels’, ‘RSG’ and ‘Start-up Funding Assessments’ as the principle funding streams. Previous Core Grants were either rolled into RSG or continued as Specific Grants.

7.2 Croydon’s Start-up Funding Assessment (SUFA) for 2013/14 is **£161.913m** which represents a reduction of **2.9%** on the 2012/13 SUFA of £166.792m. However the government’s comparable basis includes nominal amounts for some grants eg. Council Tax Benefit and Early Intervention Grants and if actual grant allocation were used rather than those nominal amounts then Croydon’s 2012/13 SUFA would have been £183.070m. Table 9 shows an overall grant loss of 5.9% after taking into account; the

actual grant reductions; the introduction of the Public Health grant; and Formula Grant adjustments.

**Table 9 – Government Grants for Croydon (excluding Schools funding)**

Grant	2012/13 £m	2013/14 £m	Variation £m
Formula Grant	112.328	-	(112.328)
2011/12 Council Tax Freeze+	3.678	-	(3.678)
Business Rates Income	-	32.962	32.962
Top Up	-	31.722	31.722
<b>Adjusted Formula Grant / Baseline Funding Level</b>	<b>116.006</b>	<b>64.684</b>	<b>(51.322)</b>
Preventing Homelessness	1.125	0.945	(0.180)
2011/12 Council Tax Freeze+	-	3.678	3.678
2012/13 Council Tax Freeze	3.697	-	(3.697)
Learning Disability & Health Reform	15.253	15.653	0.400
Early Intervention Grant	17.131	12.742	(4.389)
Lead Local Flood Authorities*	-	0.142	0.142
Council Tax Support (ex.-benefits)	29.858	25.796	(4.062)
Other RSG	-	38.274	38.274
<b>RSG</b>	<b>67.064</b>	<b>97.229</b>	<b>30.166</b>
<b>Start-Up Funding Assessment</b>	<b>183.070</b>	<b>161.913</b>	
<b>Other Grants;-</b>			
New Homes Bonus	4.225	5.440	1.215
Housing & CTax Benefit Subsidy Admin	3.540	3.216	(0.324)
Lead Local Flood Authorities*	0.112	0.112	-
Social Care Funding	3.558	5.016	1.458
Extended Rights to Free Travel (Schools)	0.043	-	(0.043)
Social Fund Programme	-	1.152	1.152
Social Fund Admin	-	0.243	0.243
Community Right to Bid	-	0.008	0.008
Community Right to Challenge	-	0.009	0.009
Council Tax Support - New Burdens	-	0.253	0.253
Local Reform and Community Voices	-	0.245	0.245
Public Health #	-	18.312	18.312
	11.478	34.006	22.528
<b>Total Government Funding</b>	<b>194.548</b>	<b>195.919</b>	<b>1.372</b>

+ Grant re-categorised for Local Government Finance Settlement purposes

\* Defra Grant split for Local Government Finance Settlement purposes

# New grant following transfer of responsibilities to local government from '13/14

## 8.0 Dedicated Schools Grant (DSG)

8.1 The Dedicated Schools Grant (DSG) is a grant that funds all aspects of education that relates directly to children. This is split into 3 blocks, a schools block, a High Needs Block and an Early Years Block.

8.2 DSG does not fund the statutory functions of the Local Authority which were contained within the Local Education Authority Central Functions sub-block of the Children's Services Block within Formula Grant but, from 2013/14, will be funded by the new Education Services Grant. The latest estimate of the DSG allocation for Croydon for 2013/14 is **£278.544m** (£266.470m is the latest allocation for 2012/13). The DSG allocation will be reduced by recouplement for academy funding. This is currently estimated to be £61.7m but will be subject to change throughout the financial year if schools convert to academies. The increase in allocation for 2013/14 is mainly due to an increase in pupil numbers.

8.2 Details of how the grant is planned to be spent in 2013/14 are contained in Appendix J.

## 9.0 Public Health

9.1 From 1 April 2013 the Council will be responsible for the management of Public Health (PH) services in the borough. This will bring about a range of new responsibilities including providing PH advice to Croydon CCG, tackling smoking, alcohol misuse and obesity, sexual health services, health inequalities and substance misuse including in-patient care. To enable this the Government has allocated ring-fenced funding of £18.312m in 2013/14 and this rises to £18.825m in 2014/15. Leading up to this transfer significant work has been undertaken with colleagues from the NHS, from where the service is transferring, in an attempt to ensure that funds transferred will as far as possible cover the cost of providing this service.

9.2 There are a series of risks associated with these new responsibilities; it is not yet clear that the portfolio of contracts and in house activity will deliver the outcomes and quality of care that are expected by Public Health England. In addition there are a number of services provided by Public Health that are demand led such as sexual health services and in-patient drugs treatments hence it is necessary to ensure that sufficient headroom exists within the budget presented for Member approval to cover these potential eventualities.

## 10.0 Specific External Financial Influences

### Council Tax Benefit Localisation

10.1 As part of the Spending Review 2010, the Government announced that it intended to abolish Council Tax Benefit from 2013/14 (1st April) and replace it with a Council Tax Support Scheme which would be administered locally. The Government also announced that the present subsidy system which allowed Council's to recover 100% of Council Tax Benefit paid would be replaced with a grant which would include a 10% reduction in funding nationally. The impact of the reduction is much higher in Croydon currently identified as 16%; due to our growth in customers forecasted for the current and following year.

10.2 These proposed changes represent a significant potential cost to the Council of **£4.84m per annum** with an additional increased cost each financial year as a consequence of the continuing increase in demand for council tax benefit from within our community.

10.3 The Council Tax Support Scheme agreed by Council on the 28<sup>th</sup> January 2013 will generate **£2.02m** to offset against the pressure from the loss of funding.

- 10.4 Legislation for council tax discounts and exemptions has changed and due to this change this will enable a further **£1.96m** to off set the identified pressure. This leaves a net impact of **£0.860m** which has been included as part of the 2013/14 budget.

### **Homelessness**

- 10.5 The council is currently facing significant pressures in relation to homelessness. There are currently around 500 households in bed and breakfast accommodation, of which about half are shared. Between June 2011 and June 2012, Croydon's increase in families in temporary accommodation increased by 32%, compared to an increase of only 7% for outer London and 6% nationally. There is limited capacity within the Borough in terms of private sector emergency accommodation, with increased rental values impacting upon affordability.
- 10.6 In addition to existing recessionary pressures, a further 900 households are expected to be affected by the benefit cap which will come into place from April 2013, with there potentially being further pressure from outward migration from other central London boroughs, as a result of the benefit cap, in addition to the impact of localising support for council tax.
- 10.7 A report was approved by Cabinet on 21<sup>st</sup> January 2013 which agreed a series of measures aimed at reducing the pressure of homelessness on Croydon, this investment of £2.1m forms part of the revenue investments shown in Appendix A.

### **Pupil place planning and school expansions**

- 10.8 Croydon is currently facing a number of pressures in relation to pupil place planning. A review of pupil place planning has identified that the most significant factors influencing pupil projections include changes in birth rates, inward migration, immigration and also school organisation, including the short-term and long-term impact of capacity issues in the primary sector, in particular.
- 10.9 For primary pupils, the review of available data e.g. births; population projections; child benefit; early years; national insurance number registrations has produced three different potential scenarios for primary forecasts, which demonstrate different short and medium growth in demand.
- 10.10 For the maximum growth scenario, for example, the number of primary pupils is predicted to increase by approximately 10,000 over the next five years. For the minimum growth scenario, the increase is approximately 8,000. The borough is currently considering the detailed implications of the pupil place planning review and the potential effect on costs; in particular, decisions on investment in numbers, location and type of accommodation at primary and secondary level.
- 10.11 The proposed capital programme in 2013/14 has £48.187m for the Primary capital programme and £15.000m for the Secondary capital programme to enable the Council to meet its statutory obligations regarding the predicted increases in the school population.

## **11.0 HOUSING REVENUE ACCOUNT**

- 11.1 The HRA is the main business account for the housing service. It remains a ring-fenced account, funded primarily from tenants' rents. The services provided to tenants, for

example responsive repairs, management services and caretaking, are resourced from this account.

- 11.2 Long term financial planning is based on the HRA 30 year business plan which is updated annually to reflect actual expenditure, changes in allowances and financial projections.

### **HRA Self Financing**

- 11.3 The Localism Act received Royal Assent in November 2011 and included the replacement of the national HRA subsidy system with a system of self financing from 1 April 2012
- 11.4 Croydon's Housing Revenue Account (HRA) took on an additional debt of **£223.126m** which will be scheduled to be repaid over 30 years by the HRA.
- 11.5 The 'valuation' was based on 30 year subsidy calculations for Croydon, discounted to a current value. The Council borrowed money to make a one off payment to Government. This loan is being financed and repaid from the HRA.

### **12.0 HRA Budget – 2013/14**

- 12.1 The attached Appendix K provides a draft budget for the HRA for 2014/15.
- 12.2 The main changes proposed to the HRA for 2013/14 are identified below. The budget will ensure that existing services are maintained and allows for an increased level of investment in the repair and improvement of homes.
- 12.3 Following the principles across the whole council, as part of the Transformation agenda, efficiencies of £0.5m have been identified and generated within the HRA as schemes are implemented. These savings have been accounted for within the HRA draft budget. It should be noted that savings that are identified as a result will be reinvested within the HRA where appropriate.

### **12.4 Increases in Rent**

The rents for existing HRA properties are based on social rents policy and are calculated according to government guidelines. The original intention was to establish a common basis for social rents (councils and housing associations) throughout England by linking rents to both the value and size of the property and to earnings in the area. The linking of rents to local earnings was to ensure that the new rents would remain at a reasonable level. Social rents in Croydon are currently approximately 45-50% of the private sector equivalent. New build council properties are now let at an affordable rent which is based on the GLA guidance for London at 65% of the comparable private sector market rent. Average market rents for Croydon have increased by an average of over 6% in the past year and therefore council rents remain an affordable option as shown in table 10 below:-

**Table 10 – Comparison of rents in Croydon**

<b>Property Type</b>	<b>Average weekly Council rent 2013/14</b>	<b>Current average private sector weekly rent</b>	<b>Council rent as % of private sector</b>
<b>1 bed</b>	<b>£85</b>	<b>£173</b>	<b>49%</b>
<b>2 bed</b>	<b>£100</b>	<b>£217</b>	<b>46%</b>
<b>3 bed</b>	<b>£120</b>	<b>£258</b>	<b>46%</b>



12.5 If trends in historic private sector rent increases were to continue, the average private sector rents would be between £180 per week for a 1 bed and £273 per week for a 3 bed property for 2013/14.

12.6 As in previous years the rent increase for Council Tenants has been set in accordance with:-

- the National Social Rents policy (Government's Rent Restructuring guidelines). The self financing settlement assumed that the Rent Restructuring guidelines are followed.
- Under current legislation, rents are being increased towards the Formula Rent, with convergence due to take place in 2015/16. Where tenants are eligible for receipt of Housing Benefit, they would receive increased benefits in relation to both rent and service charges increases.
- The rent increase for 2013/14 has therefore been applied according to Rent Restructuring Guidelines. Under these guidelines rent and service charge increases are limited to the retail price index (RPI) at September 2012 + 0.5% + up to £2. The September 2012 RPI was 2.6%.

### 12.7 **Service Charges**

The unpooled service charge for caretaking, grounds maintenance and bulk refuse collection will increase in line with the rent restructuring guidelines. The charges for 2013/14 will therefore be:

- Caretaking £7.48 pw
- Grounds maintenance and refuse collection £1.94 pw

### 12.8 **Heating Charges**

Only a small number of tenants use communal heating systems and are charged a fixed weekly amount for the gas they use. Apart from the Handcroft Road Estate all other schemes are sheltered schemes for elderly people. The way in which Croydon purchases energy changed in 2009 and as a result heating charges will not be changed from the 2012/13 level. See Appendix L for details on weekly heating charges.

### 12.9 **Garages and Parking Spaces**

The rents for garages and parking spaces in 2013/14 will increase in line with dwellings rents by **4.36%**.

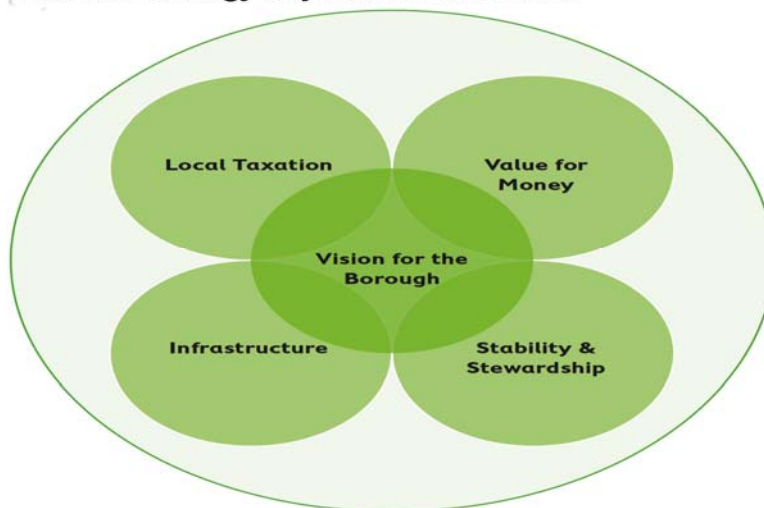
## 13.0 **PROGRESS AGAINST THE CURRENT MEDIUM TERM FINANCIAL STRATEGY**

13.1 The Financial Strategy that was approved on a recommendation of Cabinet to full Council (Minute 6, Council Meeting 1<sup>st</sup> March 2010), established the overriding financial objectives of the Council for the medium term. These core objectives ensure alignment of the Council's overall strategic priorities and resources. The new Medium Term Financial Strategy supersedes this. However, the Council should review the progress towards meeting the 2010/14 strategy.

13.2 The objectives framework of the Financial Strategy is set out in Diagram 1 below with the ten financial strategy objectives outlined in Table 11.

**Diagram 1**

**Financial Strategy Objectives Framework**



**Table 11 – Current Financial Strategy Objectives**

Financial Strategy Objectives	
1	To work with our partners to enable the achievement of the Vision for the borough
2	To ensure all resource allocation is policy led, based on the best evidence and strongly influenced by our residents' priorities
3	To keep local taxation increases to a minimum
4	To deliver a minimum of 20% efficiencies over the life of the strategy
5	To optimise income opportunities
6	To increase general fund balances to 5% of net operating expenditure, maintaining a minimum of 3%, over the life of the strategy
7	To maintain an appropriate level of reserves and provisions
8	To provide strong financial services, systems and processes to deliver and support a balanced budget
9	To remain within prudential borrowing limits at all times
10	To prioritise future capital investment within the borough to deliver our infrastructure needs

- 13.3 The progress made against the Council’s Financial Strategy is demonstrated below against each of the strategy objectives. The last strategy enabled the Council to rebuild the foundation of financial standing and strengthened its ability to cope with the financial risk which local government is daily and readily exposed to. Balances and Reserves were restored to a position where they can resource our future strategies and in-year financial management has successfully ensured a balanced budget delivery each and every year over the period of the strategy.
- 13.4 The strength in financial standing has ensured the Council could take a longer term and more strategic approach to the future needs of the borough, the aspirations of our residents and in managing the financial challenges that have been presented through the large reduction in Government funding.
- 13.5 The new Financial Strategy will enable the Council to manage the economic environment and the reductions in Council funding.

## **Objective 1 – To work with our partners to enable the achievement of the Vision for the borough**

13.6 Detailed below are a number of initiatives and plans that are already in place with a number of partners in the borough that seek to ensure that together we can achieve the Vision for the borough:

### **13.7.1 Enterprising City**

#### **A place renowned for its enterprise and innovation with a highly adaptable and skilled workforce and diverse and responsive economy**

Achievements include:

- the continued development of the core strategy which sets out the spatial vision for Croydon over the next 20 years;
- the progression of regeneration proposals for New Addington, including plans for a new swimming pool and community hall;
- the development of the Croydon Business Offer for potential investors and businesses looking for relocation;
- the creation of a capital delivery hub to handle the functions, systems and processes required to ensure high quality delivery of capital projects;
- the establishment of a local employment, training and procurement strategy to optimise opportunities for local people to benefit from the regeneration programme;
- increased opportunities for apprenticeships and local labour through the retendering of contracts; and
- the sale of the Cane Hill site to Barratts as part of the regeneration plans for Coulsdon: master planning is underway.

### **13.7.2 Learning City**

#### **A place that unleashes and nurtures local talent, is recognised for its culture of lifelong learning and ambitions for children and young people**

Achievements include:

- Attainment at GCSE continued a seven-year upward trend with further significant improvement. The provisional figure for the percentage of pupils achieving 5 or more A\*-C grades at GCSE including English and Maths shows a year on year increase from 54.4% in August 2010 to 61.6% 2012;
- The percentage of our primary schools judged good or better by Ofsted has continued to show good improvement to 71% at the end of December 2012, despite assessment frameworks becoming more challenging;
- The opening of a new primary school in September 2012 – Robert Fitzroy Academy – to help meet the increasing demand for primary school places;
- The number of Croydon's young people entering the criminal justice system has continued to reduce as a result of Youth Offending Service Triage work and close joint work with the police. An increasing proportion of the young people triaged do not re-offend.

### **13.7.3 Creative City**

**A place noted for its culture and creativity - one of the best incubators of new artistic and sporting talent in the country**

Achievements include:

- Delivery of the £3.75million Parks to be Proud of scheme is nearing completion, with support from the Heritage Lottery Fund. The scheme has included the reinstatement of the River Wandle, better benches and pathways, planting of spring bulbs and improvements to play facilities;
- The £27m refurbishment of Fairfield Halls is beginning, with spend on improvements to the entrance and foyer area as well as essential works to the infrastructure of the building;
- Plans for a comprehensive redevelopment of the surrounding College Green area are well underway;
- Croydon's BRIT school continues to go from strength to strength, playing a major role in the cultural and artistic landscape of the borough, with Ofsted renewing its "outstanding" rating in the early part of the year.

### **13.7.4 Caring City**

**A place noted for its safety, openness and community spirit where all people are welcome to live and work and where individuals and communities are supported to fulfil their potential and deliver solutions for themselves**

Achievements include:

- Development of the adult re-ablement programme in partnership with Croydon University Hospital to reduce the need for intensive care and long hospital stays;
- Over 300 major adaptations carried out to homes of older and disabled people;
- 80% of people leaving supported housing achieved independent living;
- Doubling the number of adult social care clients receiving a personal budget;
- Introducing personal travel budgets for school children with special educational needs leading to a reduction in the number of families relying on council commissioned transport;
- Holding Cabinet roadshows to make it easier for local people to engage with the council's decision makers and hold them to account;
- The launching of a volunteering and community action programme;
- Establishing a commissioning strategy which helps local providers compete to run services; and
- Preparation for the transfer of responsibility for public health to the Council in April 2013, including the development of a shadow Health and Wellbeing Board and the introduction of the Social value Commissioning Tool Kit.
- The Council's Adoption Service was inspected by Ofsted in 2012 and judged to provide a good service.

### **13.7.5 Sustainable City**

**A place that sets the pace amongst London boroughs on promoting environmental sustainability and where the natural environment forms the arteries and veins of the city**

Achievements include:-

- Over 300 solar powered pay and display parking machines installed;
- Nine charging points for electric vehicles installed;
- The commissioning of a new combined highways maintenance contract achieving savings of £0.48m;
- The successful introduction of a food waste recycling service to all homes in the borough has propelled Croydon's recycling rate to its highest ever level at over 45%.
- Croydon (along with Kingston) has been awarded £450,000 by the Mayor of London to improve facilities for cycling. The cash will support a range of initiatives, including improved cycle parking at East Croydon station; a three-year programme of community-led cycle rides to help get more people cycling; and advice on safe cycling near heavy goods vehicles.
- Q2 saw the launch of the second phase of the Council's RE: NEW programme and a borough-wide loft and cavity wall insulation promotion as well as ongoing works to improve the efficiency of the Council's housing stock. This has helped the Council to save money and improve the borough's environmental performance; and
- The latest data released on carbon emissions within the borough shows that the overall trend since 2005 remains downward, with a 13.2% decrease over a 6 year period.

### **13.7.6 Connected City**

**A place defined by its connectivity and permeability; with one of the best digital, communications and transport networks in the country**

Achievements include:-

- the introduction of street signs across the borough through the Legible London signage scheme;
- Bridge construction works to improve East Croydon station are well advanced – the bridge is in place and will be fully open in April, dramatically improving the flow of commuters and visitors into key parts of the town centre and revitalising local businesses;
- West Croydon public realm works have received funding approval from the Mayor's Regeneration Investment Group;
- The masterplans for East, Mid and West Croydon, which set ambitious plans for development, have been adopted as interim planning guidance and are shaping the very significant investment in improving these key parts of the town centre. The masterplan for College Green, encompassing the area between Croydon College and the Fairfield Hall, is nearing completion; and
- a bid to Transport for London for funding in 2013/14 to support the Local Implementation Plan programme was completed.

## **Objective 2 – To ensure all resource allocation is policy led based on the best evidence and strongly influenced by our residents’ priorities**

- 13.8 It is important for the Council to understand the priorities of its community and shape those services it provides to meet residents’ priorities. Without communication and consultation with the community, service priorities for the Council could not be established.
- 13.9 Since 2010/11 the Council introduced new mechanisms to improve our overall understanding of resident satisfaction and service priorities in every area of our community. This has been fed into the council’s overall performance monitoring arrangements to ensure the organisation’s priorities are aligned to our residents’ needs. The Council has also used customer feedback and insight to inform specific projects such as the redesign of customer access and a review of street based services.
- 13.10 Our approach to the 2013/14 budget engagement was based on that taken last year for the 2012/13 budget consultation. We used an online questionnaire (Survey Monkey) to ask customers to tell us their budget priorities. Paper surveys were also made available for people without internet access. The Council received 447 responses in the latest engagement.
- 13.11 Over 77% of responses agreed positively with the budget proposals across all departments (more than 50% support for a proposal). A number of these were linked to: efficiencies; changing the way we do things; renegotiating contracts; increasing income streams and; reducing staffing.
- 13.12 The services that respondents wanted to protect (less than 50% support for a proposal) were; youth services; school improvement; community safety; adult social care; reductions to voluntary sector and; learning and development. It should be noted that these came to 23% of the proposals.
- 13.13 Throughout the budget setting period these priorities help to influence and guide the decisions and options which then form the final budget setting. Whilst it is not always possible to fully protect any service area from budget reductions in the current financial climate, the priorities of our residents inform the final decision making.
- 13.14 A number of the budget options contained within the appendices will be subject to the appropriate statutory or other consultation requirements and undertaken in such a way so as to ensure the requirements of the Equalities Act 2010 are met.

## **Objective 3 – To keep local taxation increases to a minimum**

- 13.15 The local taxation policy aims to ensure that increases in council tax are kept to a minimum so that local taxation can be kept at an affordable level taking into account the spending priorities the needs of the borough and the reduction in the level of Government funding support during the current and future comprehensive spending review periods.
- 13.16 Table 12 below compares the increases in Croydon to the national average and also to RPI.

**Table 12 – Croydon Council Tax**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
<b>Croydon</b>	3.99%	3.99%	3.84%	1.07%	0.00%	0.00%	1.85%
National Average	4.20%	3.90%	3.00%	1.80%	0.10%	0.30%	
RPI*	0.9%	2.4%	4.8%	4.8%	3.1%	3.0%	2.6%

\* ONS annual rate as at March

#### **Objective 4 – To deliver a minimum of 20% efficiencies over the life of the strategy**

13.17 The requirement to ensure the delivery of the efficiency and transformation agenda is critical moving forward. As a consequence of this the Council has developed the “Step Change Croydon” programme to enable it to balance the budget over the next financial strategy period aiming to achieve 15% in efficiency savings across council services. From 2013/14, a focus on departmental transformation and within that, service transformation led by individual Heads of Service will replace the Step Change programme.

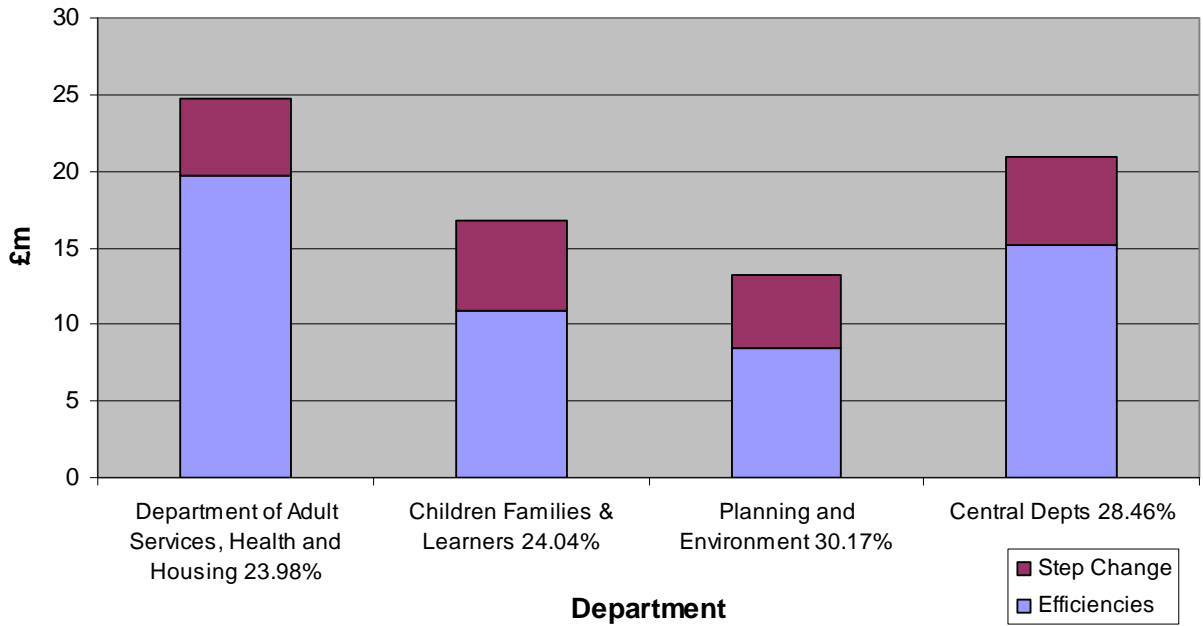
13.18 Table 13 below shows the efficiencies and Step Change savings to be delivered per department for 2013/14.

**Table 13 – Efficiencies per department**

Department	Departmental Efficiencies £m	Step Change £m	Total £m	% Base Budget
<b>DASHH</b>	-4.843	-1.040	-5.883	-2.01%
<b>CFL</b>	-2.361	-2.133	-4.494	-1.53%
<b>P&amp;E</b>	-0.909	-0.627	-1.536	-0.52%
<b>CENTRAL DEPTS</b>	-2.778	-1.883	-4.661	-1.59%
<b>CORPORATE</b>	0.000	-0.563	-0.563	-0.19%
<b>TOTAL</b>	<b>-10.891</b>	<b>-6.246</b>	<b>-17.137</b>	<b>-5.85%</b>

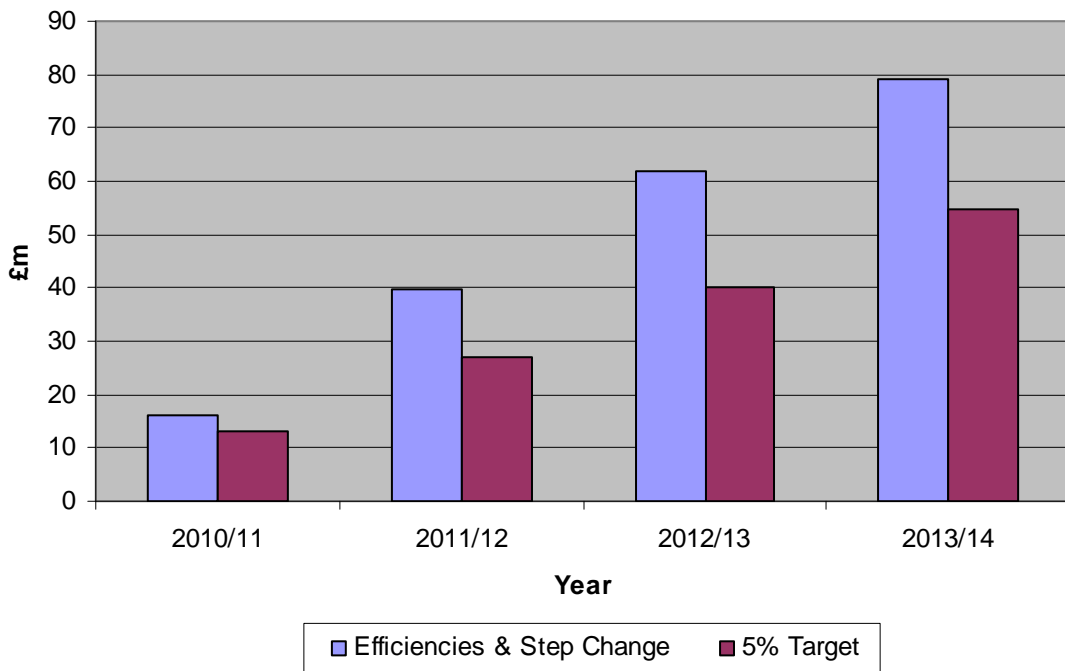
13.19 Graph 3 below gives the details of the efficiencies over 2010/14 by department. Had these efficiencies not been identified it would have resulted in significant increase in council tax over the financial strategy period.

**Graph 3 - Efficiencies by Department 2010/14**



13.20 Graph 4 below gives details of the Council’s cumulative achievements in this financial strategy period (2010/14) for each financial year

**Graph 4 - Total Efficiencies against 5% Target**



13.21 The Council will continue through the ‘Challenge’ process to identify areas in the business where there are inefficiencies highlighted by through the Value for Money model and a deep dive analysis. This will support the delivery of quick wins, service specific and departmental responses.

13.22 The success of the Council’s efficiency agenda will determine the level of service prioritisation decisions that will need to be taken over the period of the financial strategy. The Step Change Programme is targeting to achieve £6.246m in efficiencies in 2013/14, and £2.773m in 2014/15.



## **Objective 5 – To optimise income opportunities**

13.23 As part of the challenge process income optimising opportunities are reviewed to ensure that the Council is recovering its costs on those services that are chargeable, this is through:

- A deliberate move away from using historical prices to inform fees and charges;
- Understanding the true cost of providing services and to price accordingly recognising the service users for the services that are being charged;
- Developing a commercial/entrepreneurial culture within the Council; and
- Maximising funding from Regional, National and European bodies.

13.24 A review of fees and charges has been undertaken across the Council as part of the annual budget setting process. This has resulted in an increase in income generation in 2013/14 of **£0.884m**.

13.25 The detailed fees and charges will be available on the Council's web-site and in the Member library prior to the Council meeting.

## **Objective 6 – To increase general fund balances to 5% of net operating expenditure, maintaining a minimum of 3% over the lifetime of the strategy**

13.26 The level of general fund balances as at 31<sup>st</sup> March 2012 was £11.597m and is estimated to remain stable in the current financial year, 2012/13. A target of 5% minimum general fund balances is now proposed in response to the increased financial risks faced by the Council over the period of the next Financial Strategy. As is set out in Table 14 below General Fund Balances have not increased over the current Financial Strategy period.

**Table 14 - Movement in General Fund Balances**

<b>Balances and Reserves</b>	<b>2009/10 £m</b>	<b>2010/11 £m</b>	<b>2011/12 £m</b>	<b>2012/13 £m</b>
General Fund Balances	11.6	11.6	11.6	11.6

## **Objective 7 – To maintain an appropriate level of reserves and provisions**

13.27 Other reserves are forecast to reduce due to the calls on them from the step change programme, redundancies and other programmed earmarked uses. The current level of Earmarked reserves is £46.5m.

## **Objective 8 – To provide strong financial services, systems and processes to deliver a balanced budget**

13.28 The Audit Commission presented their Annual Governance Report to Corporate Services Committee in September 2012 (Min A85/12) with an unqualified audit opinion on the Council's Financial Statements.

13.29 The Council delivers a comprehensive internal audit plan through a contract with Deloitte & Touch Public Sector Internal Audit Ltd. The plan includes key financial systems, risk based audits from across the organisation as well as probity audits in schools and other

establishments. Based on progress to date and as reported to the Council's Audit Advisory Committee, it is anticipated that the internal audit plan will be delivered with all reports issued at least as draft reports by the end of March 2013. This will be the seventh successive year that the plan has been delivered in its entirety 'in year'.

13.30 From the audits finalised to date, 73% of audits have been given a satisfactory assurance level. After each audit is finalised there is a robust follow-up procedure to ensure that agreed recommendations are implemented. At this point in the year, 90% of recommendations made in audits for 2011/12 and 86% of recommendations made in the current year have been implemented. Internal audit will continue to follow-up on these until the vast majority have been implemented, including any high priority recommendations.

### **Objective 9 – To remain within the prudential borrowing limits at all times**

13.31 The Executive Director of Corporate Resources and Customer Services is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy.

13.32 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The Original 2001 Code was adopted on 12<sup>th</sup> March 2003 by Corporate Services Committee (Minute A28/03) and the Revised 2009 Code was adopted by Full Council on 1<sup>st</sup> March 2010 (Minute 6 Section 2 paragraph 1.1 to 1.9). The 2009 Code was updated in 2011 to allow for the use of derivatives in managing interest rate risk, as detailed in 2.2 of this report and Council is recommended to approve the adoption of this updated Code.

13.33 The Prudential Indicators set will continue to be monitored throughout the year and will be reported to Cabinet on a regular basis as part of the Quarterly Financial Performance Report.

13.34 The Government's Localism Act included the replacement of the national Housing Revenue Account (HRA) subsidy system with a system of self-financing from 1<sup>st</sup> April 2012. The new system gives local authorities the freedom to fund and run their council houses without annual government decisions on subsidy.

13.35 With the introduction of the new system from 1 April 2012, this Council was required to make a one off payment of **£223.126m** to the Communities and Local Government (CLG) Office on 28<sup>th</sup> March 2012. This removed the Council from the national HRA subsidy system and discharged all of the Council's future liabilities under the system. In the long term these HRA reforms are expected to have a beneficial effect on the Council's HRA finances and will provide the HRA with a stable basis for long term planning.

13.36 Up to the financial year 2010/11, the Council's overall external debt level and the interest payable on this debt had remained consistently below the average of all London boroughs.

13.37 The introduction of the HRA self-financing regime from 1 April 2012 meant that some authorities, like Croydon, had to borrow the self-financing settlement sum to repay the Government to exit the HRA subsidy system while other authorities had their PWLB debt redeemed by the Government to the full value of the settlement sum. This exercise was carried in March 2012 thereby affecting the national debt statistics from 2011/12

onwards. For those London councils that financed their HRA settlement sum by borrowing, an average of £112m of new debt was incurred whereas Croydon's borrowing increased by £223.126m. The effect of this is shown in the tables below:-

**Table 15 – Croydon comparison to London average debt rates**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
LB Croydon	6.06%	5.11%	5.10%	4.80%	4.70%	4.40%	4.30%
London Average	7.01%	6.73%	6.30%	5.90%	5.80%	5.65%	5.40%

The table below shows the long term debt position for the Authority over the same period.

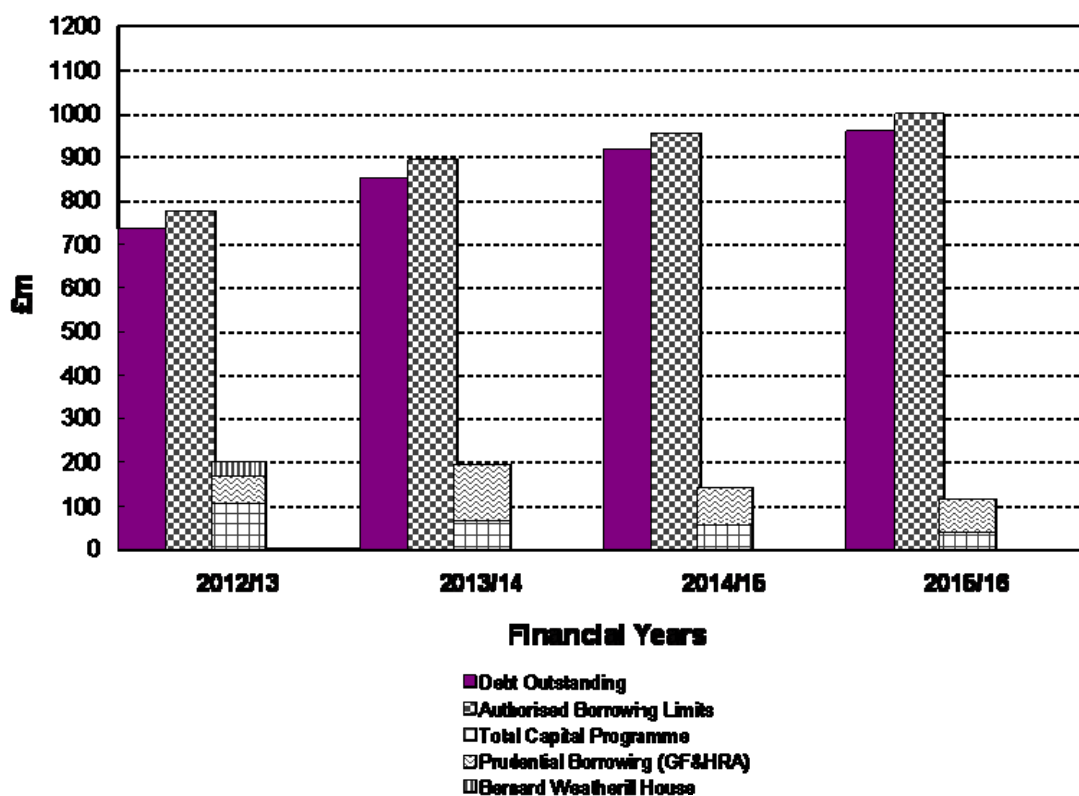
**Table 16 – Long term debt position**

	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
LB Croydon	£124	£169	£213	£217	£257	£279	£326
London Average	£243	£277	£310	£343	£399	£392	£426

- 13.38 The cash settlement amount of £223.126m was financed by loans borrowed from the PWLB at preferential rates over fixed periods to ensure that the requirements of the HRA business plan and the overall requirements of the Council were met. The Council's HRA debt ceiling has been set by the Government at £333.900m. At present the level of HRA borrowing, which includes the £223.126m settlement sum, stands at £310.100m leaving a borrowing capacity of £23.8m for future HRA borrowing.
- 13.39 The indicators break down into four blocks relating to capital expenditure, the affordability of that investment programme, debt and treasury management as follows:
1. The capital investment indicators reflect the Authority's future plans to undertake capital works, and the extent to which these will be funded through borrowing. Hence for 2013/14, £194.288m of investment is planned, £118.7m of which is to be financed from borrowing, resulting in a total level of debt of £856.225m that supports past investment in the infrastructure of the Borough (see Appendix D).
  2. Apart from borrowing that is directly supported by government grant funding, the cost of new prudential borrowing to the Authority will be £13.00 per Band D council taxpayer in 2013/14. This Prudential Indicator reflects the impact of funding decisions relating to capital investment in Croydon. The Prudential Code specifically indicates that it is not appropriate to compare this indicator with other authorities.
  3. The external debt indicators illustrate the calculation of the affordable borrowing limit.
  4. The treasury indicators show that the Authority will limit its exposure to variable rate debt to no more than 20% of total debt and will only invest up to 30% of the total investments for periods in excess of one year, for reasons of limiting exposure to risk and guaranteeing adequate liquidity. The final indicator sets a profile for the maturing of new debt.

These main indicators are featured in graph 5, below, as follows:

**Graph 5: Prudential Indicators for 2012/13 to 2015/16**



**Objective 10 – To prioritise future capital investment within the borough to deliver our infrastructure needs**

13.40 The 20 year Capital Strategy 2010-30 was approved by Cabinet on the 15<sup>th</sup> November 2010 (Min A135/10). The Strategy sets out how Croydon will finance, allocate and manage investment in assets efficiently to achieve the Vision set out in We Are Croydon.

13.41 The Strategy’s objectives are to:-

- i) Prioritise and coordinate funding to achieve the Council’s vision;
- ii) Invest in the most beneficial projects to meet Croydon’s long requirements; and
- iii) Manage investment efficiently and effectively.

13.42 This is now the third year of the capital strategy and the draft five year Capital Programme for 2012/13 to 2016/17 is detailed in Appendices D and E.

13.43 Inclusion in the capital programme does not automatically give authority for major projects to proceed. In accordance with the Financial Regulations all major projects require a full business case to be approved by Cabinet before they can commence.

**Capital Gateways**

13.44 The Council have introduced a set of Corporate Gateways, and a process, that will enable sound investment decisions to be made, based on a balanced evaluation of projects and programmes, prioritise and sequence projects and programmes and provide the authority to proceed between stages and confirm the release of funding where necessary.

13.45 Gateways will help to ensure:

- Money is well-invested;
- Proposals are thoroughly assessed, with strong risk management;
- Change is delivered to a high standard;
- Projects and Programmes are delivered on time, to budget and quality; and
- Benefits are clearly-defined from the outset, and achieved.

13.46 The Gateways are:

- **Gateway One** - Strategy Adoption
- **Gateway Two** - Capital Portfolio Approval
- **Gateway Three** - Single Option & Approach Approval
- **Gateway Four** - Commission Decision
- **Gateway Five** - Operational Readiness
- **Gateway Six** - Project Close & Benefits Realisation

### **Capital Delivery Hub**

13.47 The capital delivery hub (CDH) has been established which is a centralised team of skilled and experienced professionals with responsibility for delivering the council's physical capital programme (schools, housing, and public realm). To ensure that specific departmental needs are met, the hub includes a client team with responsibility for the relevant capital budget, and for maintaining good communication and relationships between the service department and CDH.

13.48 The CDH work closely with the Strategy, Commissioning, Procurement and Performance (SCPP) team to ensure that the right frameworks are in place to meet the needs of the organisation, provide value for money and enable successful delivery of the Capital Strategy. The CDH also works closely with the Corporate Programme Office to ensure that all projects and programmes are managed according to organisational requirements, including the corporate gateway process.

13.49 Prior to the approval of the 20 year Capital Strategy there had been insufficient capital investment to achieve Our Vision and from 2010/11 capital programme included an increase in the amount borrowed compared with the previous three years of the financial strategy recognising the strategic nature of our infrastructure requirements and our low level of capital gearing. This increased level of borrowing has been continued in the 2012/13 to 2016/17 Capital Programme which is detailed in Appendix E to this report.

The Capital Investment Programme focuses on three themes:-



Table 17 below shows the draft capital programme by investment categories

**Table 17 – Capital Programme by Investment Category**

Financial Year	Improving Our Assets £m	Transforming our Place £m	Transforming our Services £m	Total £m
2013/14	154.732	19.9	18.177	192.809
2014/15	112.164	18.051	5.672	135.887
2015/16	73.706	22.156	4.65	100.512
2016/17	42.521	23.25	3.65	69.421
<b>TOTAL</b>	<b>383.123</b>	<b>83.357</b>	<b>32.149</b>	<b>498.629</b>

**Table 18 – Funding for the Capital Programme**

	2013/14	2014/15	2015/16	2016/17	Total
	£m	£m	£m	£m	£m
<b>Unsupported General Fund Borrowing</b>	118.748	72.497	61.205	33.900	282.307
<b>Capital Receipts</b>	3.000	0.000	0.000	0.000	3.000
<b>Dept for Education</b>	16.919	13.192	0.000	0.000	30.111
<b>Partnership for Schools</b>	7.959	6.391	0.000	0.000	14.350
<b>Other General Fund Grants</b>	11.562	9.186	4.686	0.900	26.334
<b>HRA</b>	34.621	34.621	34.621	34.621	138.484
<b>Funding Total</b>	<b>192.809</b>	<b>135.887</b>	<b>100.512</b>	<b>69.421</b>	<b>498.629</b>

13.50 Schemes funded from external grants will only be undertaken once the funding is secure.

13.51 Some of the key projects supported in the 2013/14 programme are:

- Continued investment in the primary school estate to provide additional places to meet the growing demand. Including £48.147m on schools expansions.
- Investment in the Special Education Needs provision to provide additional places for pupils, reducing the need for attendance at schools outside of the Borough.
- Investment in Secondary school provision to provide an additional ten forms of entry. This is expected to meet the demand for additional places.
- Investment funded by Partnership for schools in a number of Academies, enabling

these schools to provide education in a fit-for-purpose environment.

- Completion of Waddon Regeneration Scheme. This scheme has created new community facilities in Waddon for the local community and surrounding area. The scheme includes a state of the art wet and dry leisure centre, affordable homes and private units including family housing in a master planned environment.
- Significant Investment in Public Realm and Highways Infrastructure. This scheme will enable investment in the public realm and highways to ensure that the infrastructure is fit-for-purpose and achieves our vision.
- Investment in the Council's ICT Strategy which supports the transformation agenda key programmes such as: home and mobile working; the Access Strategy and Information Management. This investment will ensure that our ICT Strategy is successful and enables the strategic development of the council.

Future Investment Commitments 2013-17 include:

- **£27.500m Investment in Highways**– The highways are currently in need of repair and replacement and it has been recognised that there is the need to invest additional resources to ensure that they are safely maintained and customer satisfaction does not fall. Capital investment will result in a corresponding reduction in revenue expenditure recognising the longer term focus of this programme of works;
- **£26.500m Investment in Fairfield Halls** – The Fairfield Halls is currently in need of modernisation if it is to remain a key operational asset within the Borough. This investment would be used to modernise and enhance the current facility ensuring it remains a key cultural offering for the borough;
- **£92.733m Investment in Primary Schools** – within the borough we have a growing demand for primary school places. A number of schools have already undergone expansion programmes in the last two years and this funding for the programme will continue to ensure the longer term needs of the residents of the borough are met;
- **£24.484m Investment in Special Education Needs provision** – there is currently not enough SEN provision within the borough to meet demand. The Education Estates strategy identified the need to provide additional places and this programme of works will be under taken over three financial years 2012/13 to 2014/15;
- **£48.955m Investment in Secondary Schools.** Investment is being made over three financial years 2013/14 to 2015/16 to create an additional 10 forms of entry to meet the growing number of pupils;
- **£16.733m Investment in the Public Realm.** There is significant investment being undertaken in the public realm of the borough. Funding has been successfully secured from the Greater London Authority and Transport for London. The total investment is £29.9m. Some of this investment has been undertaken in 2011/12 and will be continued to 2014/15;

13.52 The Council also continues to be successful in securing external funding to support investment in the Borough. This includes:

- **£5.662m** for investment in the Public Realm from TFL funding. This will enable us to deliver our Local Implementation Plan (LIP) and undertake some works on the East Croydon Interchange.

### **Croydon Housing Investment Programme – 2013/14**

13.53 The Council is able to invest capital resources from the following sources in 2013/14:

- receipts from the sale of council houses sold through the Right to Buy provisions and/or Social Home Buy schemes
- revenue contributions from within the HRA
- unsupported borrowing within the Council’s capital programme in line with the overall debt cap allowed for the HRA.

13.54 The proposed housing investment programme summarised below, and detailed in the appendices, reflects the priorities detailed in the Housing Strategy and aims to tackle two key housing investment needs for Croydon - generating new housing supply, and improving the condition of the existing housing stock. **Appendix N** provides a summary of the HRA investment programme.

#### **Housing supply**

13.55 In 2013/14 the housing supply programme will have four components: the new-build programme, the larger homes scheme (extensions and de-conversions), the Assisted Private Purchase Scheme and the Special Transfer Payments Scheme. The following table sets out the proposed allocations under each of these headings (subject to council approval). This programme will be funded through the housing revenue account.

**Table 19 – Funding for the Capital Programme**

<b>Housing supply programme</b>	<b>£’000</b>
New council homes	6,000
Assisted private purchase scheme	500
Special transfer payments scheme	250
Larger homes	100
<b>Total</b>	<b>6,850</b>

13.56 Provision has been made within the HRA business plan for a further £6m in 2013/14 with 38 homes planned to be completed by December 2013 at a total cost of £10.83m.

13.57 The assisted private purchase scheme (APPS) assists qualifying council tenants to purchase a home in the private sector. Resources for APPS have been decreased in the last few years in order to ensure that the council met the decent homes target. It is proposed to increase these now in order to free up much needed homes for homeless households and others in urgent need. Similarly, a proposed increase in the number of special transfer payments to under-occupying households would help to meet demand from larger families.



## **Repair and Improvement of council stock**

- 13.58 A key aim for the council has been the government target of bringing 100% of social homes up to the decent home standard, and this was achieved in the Council's own stock by 31 March 2011. Homes which are currently decent will fall below the standard, for example as facilities age and with wear and tear, and the council will wish to continue to invest in the stock to keep homes up to standard over time. Indeed, the social housing regulator has proposed a revised home standard which will reflect the government's direction that social landlords should comply with the decent home standard with ongoing effect. The council must also invest in other maintenance and improvement works in order to maximise the life of the assets.
- 13.59 The proposed repair and improvement programme for 2013/14 is attached at **Appendix N**. Altogether, available resources have increased from £23.271m in 2012/13 to £27.771m in 2013/14.
- 13.60 It should be noted that there is also a separate programme of responsive and cyclical repairs which are resourced through revenue funding totalling **£13.486m**.

### **Capital Allowance (HRA)**

- 13.61 In April 2004 the Government revised the system of capital finance for local authorities. As part of these changes a new provision in the regulations was made for Housing Revenue Account, non Right to Buy disposals. This change means that local authorities can use 100% of the receipt if the money is reinvested in affordable housing. In practice this could be through grants to housing associations and/or investment in Council homes to meet the Decent Homes Standard.
- 13.62 To take advantage of this new provision the regulations require that the local authority establishes a 'Capital Allowance'. This is a notional amount set by the Council. The main considerations in setting the allowance are to ensure that it will exceed the anticipated receipts during the year and that total investment in affordable housing needed within the borough exceeds the allowance. This is in order to justify 100% use of the receipts.
- 13.63 The Capital Allowance for 2012/13 was set at £10m. It is recommended that the Capital Allowance for 2013/14 is set again at £10m. This will enable the Council to keep 100% of the receipts of any HRA disposals of land or property during the year for housing investment purposes. The Capital Allowance will continue to be reviewed annually as part of the process for approval of the Council's Housing Investment Programme and will include a report back on the previous year's activity.

## **14.0 BUDGET PLANNING ASSUMPTIONS REVIEW – DETAILED ASSESSMENT**

### **Budget Planning Assumptions**

- 14.1 The 'new' Financial Strategy for Croydon has been developed to help us navigate through an incredibly challenging time for all of local government. The Council is seeing its income reduce as the government tackles the national deficit and at the same time it is seeing significant demands on its services.
- 14.2 The Financial Strategy informs the key principles of the budget based upon the following updated assumptions:-

- A decrease in Central Government Grant of 7.5% per year in cash terms;
- Any changes in central government grant funding will, in the first instance, impact directly on the service supported by the grant;
- Local taxation increases will be a maximum of 2.5% over the duration of the strategy and 75% of this increase will be used to fund the capital strategy;
- Inflation will be estimated in line with 'sector' specific forecast increases;
- Efficiency targets for the Council will be set at 5% as a minimum;
- 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;
- 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;
- All asset rationalisation savings are used to contribute to the cost of Bernard Weatherill House;
- Croydon is currently following national rent restructuring guidelines which will achieve rent convergence (equalisation of council rents with housing associations) in 2015/16. Up to 2015/16 rents will increase at RPI + 0.5% + a further amount towards convergence. Once formula rent levels have been reached, rents will continue to increase at RPI plus 0.5%
- Investment in major repairs and improvements in the HRA will rise at RPI+2% per annum;
- Decent Homes standards will be maintained;
- New council house building will be funded at £6m per annum for the next six years. It is estimated that this programme will deliver approximately 200 new properties over this period.

## **15 Financial Projection 2014/17**

- 15.1 Members should note that the Council's budget setting will remain challenging over the medium term given the financial climate. Continuing grant loss and further risk following the introduction of both the localisation of Council Tax Support and the NNDR Retention funding regime will put additional pressures on the budget along with the proposed changes to council tax benefit, which will need to come from efficiencies and step change initiatives.
- 15.2 The estimated effect of this constraint can be seen in Table 21, which shows investment and efficiency proposals. The draft budget forecast for 2014/17 is summarised in Appendix I.

	2014/15	2015/16	2016/17	Total
	£m	£m	£m	£m
<b>Starting point for Budget</b>	292.716	274.235	267.500	834.451
Inflation	7.723	9.059	9.519	26.301
Corporate Investment	-6.533	6.411	4.010	3.888
Departmental Investment	5.000	5.000	5.000	15.000
Efficiencies (identified to date)	-10.417	-2.088	0.000	-12.505
Cuts Identified (identified to date)	-0.798	0.000	0.000	-0.798
Income options (identified to date)	-0.513	-0.900	-0.900	-2.313
Step Change Programme	-5.773	0.000	0.000	-5.773
<b>Net Budget</b>	281.405	291.717	285.129	858.251
Revenue Support Grant	-148.173	-138.076	-129.376	-415.625
Council Tax	-126.062	-129.424	-133.422	-388.908
Council Tax Freeze Grant	0.000	0.000	0.000	0.000
<b>Budget Requirement</b>	-274.235	-267.500	-262.798	-804.533
<b>Revised Gap</b>	7.170	24.217	22.331	53.718

## 16.0 Local Taxation Change for 2013/14

- 16.1 The council tax change for 2013/14 is recommended to be **1.85%** in accordance with Appendix G of the report.
- 16.2 The effect of this increase is contained in Appendix H, with the Band D effect shown in Table 21 below.

**Table 21 – Local Taxation for 2013/14**

	2013/14 £	Increase £
Band D per year	1,171.39	21.28

**Table 22 – Croydon Council Tax Bandings for 2013/14**

Band	2013/14 Croydon Council Tax £	Annual increase Croydon Council Tax £	Weekly increase Croydon Council Tax £
A	780.92	14.18	0.27
B	911.08	16.55	0.32
C	1,041.22	18.91	0.36
D	<b>1,171.39</b>	<b>21.28</b>	<b>0.41</b>
E	1,431.70	26.01	0.50
F	1,692.00	30.73	0.59
G	1,952.31	35.46	0.68
H	2,342.77	42.55	0.82

## 17.0 Greater London Authority Precept 2013/14

17.1 On 31<sup>st</sup> January 2013 the Mayor published his final draft budget and announced his intention to reduce the Band D council tax by £3.72 to £303.00. This results in a decrease of **1.21%** in the precept. The Mayor presented his final budget to the London Assembly on 25<sup>th</sup> February 2013.

17.2 This overall resultant council tax increase is set out in Tables 23 and 24 below.

**Table 23 – Local Taxation increase and the GLA Tax increase**

Band D	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Croydon	3.99%	3.84%	1.07%	0.00%	0.00%	1.85%
Greater London Authority	1.95%	0.00%	0.00%	0.00%	(1.00)%	(1.21)%
<b>Total</b>	<b>3.53%</b>	<b>2.99%</b>	<b>0.80%</b>	<b>0.00%</b>	<b>(0.21)%</b>	<b>1.21%</b>

**Table 24– Local Taxation increase and the GLA Tax increase**

Band D	2013/14 £	Increase/ (Decrease) £	Increase per week £
Croydon	1,171.39	21.28	0.41
Greater London Authority	303.00	-3.72	-0.07
<b>Total</b>	<b>1,474.39</b>	<b>17.56</b>	<b>0.34</b>

17.3 As a result of the 1.85% increase for Croydon and the 1.21% decrease in the GLA element, there is an overall **1.21%** increase for the residents of Croydon.

## 18.0 2012/13 Outturn Forecast

18.1 The Council's latest estimates of the Departmental outturn for 2012/13 are contained in Table 25 below.

**Table 25 – Departmental Outturn forecast as at 31<sup>st</sup> December 2012**

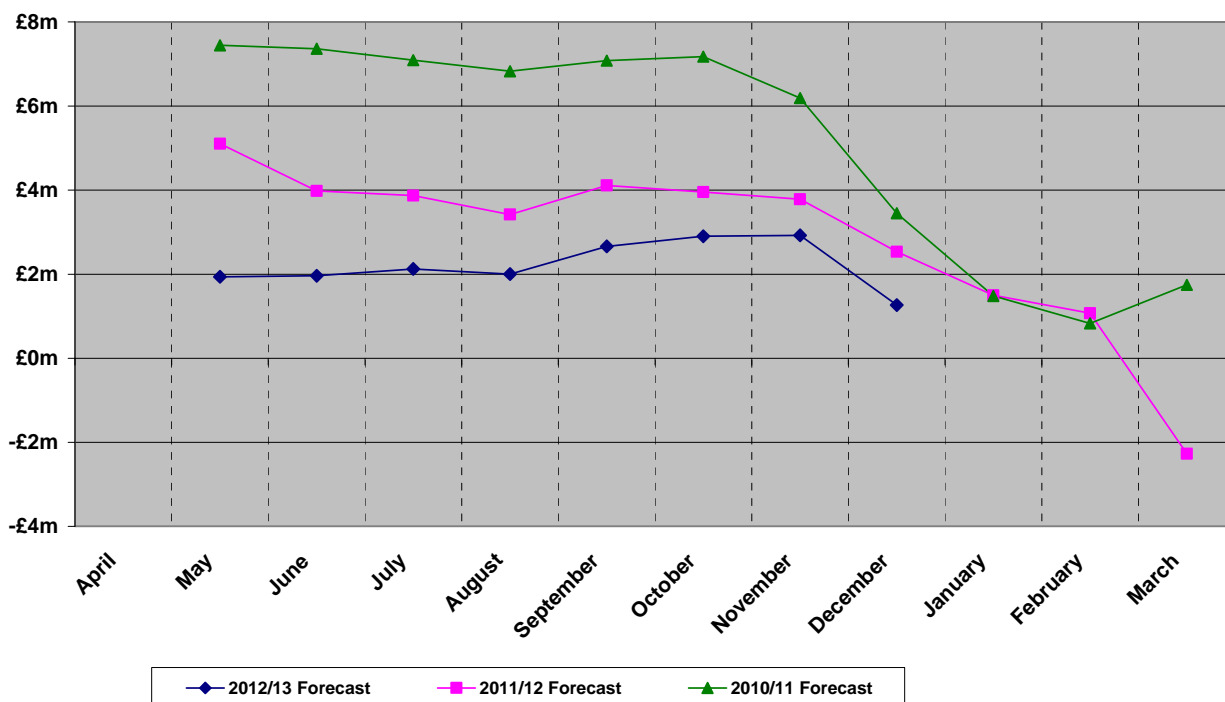
November variance	DEPARTMENT	Revised budget	Forecast outturn	December Forecast variance
£m		£m	£m	£m
2.595	Adult Services, Health and Housing	117.357	118.842	1.485
0.575	Children, Families & Learning	110.629	110.743	0.114
0.949	Planning & Environment	74.352	75.244	0.892
(0.040)	Chief Executive's Office	4.659	4.694	(0.040)
(0.508)	Corporate Resources & Customer Services	31.066	31.175	(0.487)
<b>3.571</b>	<b>Departmental Total</b>	<b>338.063</b>	<b>340.698</b>	<b>1.964</b>
-	Contingency (General)	2.340	2.340	-
0.150	Layers and Spans	(0.300)	(0.150)	0.150
0.400	Business Support	(0.400)	-	0.400
-	Carbon Credits	0.190	0.190	-
-	Investment Income	(2.031)	(2.031)	-
(0.550)	Interest Payable	11.389	10.839	(0.550)
-	Capital Financing	(17.974)	(17.974)	-
-	Minimum Revenue Provision	(27.526)	(27.526)	-
-	Core Grants	(41.038)	(41.038)	-
-	Levies	1.574	1.574	-
(0.400)	Fairfield Car Park Lease	-	(0.400)	(0.400)
(0.250)	Agency staff contract	-	(0.250)	(0.250)
-	Reserves & Provisions	3.420	3.420	-
(0.650)	<b>Non Departmental Total</b>	<b>(70.356)</b>	<b>(71.006)</b>	<b>(0.650)</b>
<b>2.921</b>	<b>Total</b>	<b>267.707</b>	<b>269.692</b>	<b>1.314</b>
-	<b>Use of Contingency</b>			<b>2.340</b>
<b>2.921</b>	<b>Over/(Underspend)</b>			<b>(1.026)</b>

18.2 As in previous years the movement in outturn forecast continues towards a balanced position. It is expected that a balanced position will be achieved for 2012/13 by using an allocation from the corporate contingency to cover the forecast overspend of £1.314m and robust controls to ensure the balanced position.

18.3 The major variances are the projected overspend on Homelessness of £1.296m and the shortfall in planning income £0.486m. Both of these areas are addressed in the allocation of growth in the 2013/14 budget.

18.4 The monthly movement in forecasts plotting the estimated outturn since the beginning of 2012/13 are contained in Graph 6 below.

**Graph 6 - Comparison of Council Forecast Outturn 2010/11 to 2012/13**



**19.0 Statement of the Section 151 Officer on reserves and balances and robustness of estimates for purposes of the Local Government Act 2003**

19.1 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (CFO) to report on the robustness of the budget estimates and adequacy of the planned reserves when the council tax decision is being made by the Council, this forms part of the statutory advice from the Section 151 officer to the Council in addition to his advice throughout the year in the preparation of the budget for 2012/13. The Chief Financial Officer and Section 151 Officer statutory responsibility resides with the Executive Director of Corporate Resources & Customer Services. This is his statement which meets the Section 25 requirement of the Act.

19.2 All Members of the Council have been advised of the financial challenges the Council faces over the medium and longer term indicated clearly to the Council through the comprehensive spending review reductions for the Council and more recently in the Autumn Statement from the Chancellor of the Exchequer. This clearly forecasts further and deeper reductions to Local Government and to the Council's funding until at least 2016/17. These further reductions are going to require a fundamental review of local government, the services it provides and the way in which services continue to be provided. In taking decisions on any budget all Members must first and foremost understand the underlying funding changes which the Council faces and set these associated decisions within the context of the overall financial environment the Council faces. These considerations are clearly set out in the Council's Financial Strategy 2010/14 and in the detail of this report.

19.3 These are very challenging times for local government and therefore it is certain that further difficult choices will be required over the coming budget cycles if the Council is to maintain a continued solid financial foundation and achieve a balanced budget position in future years. Continuous improvements have been made in the Council's overall financial standing demonstrated through progress towards targeted levels of general fund balances and the Council's ability to manage the significant in-year risks in a

corporate and planned way. The revised financial strategy has been written to help us navigate through these difficult times and Members will need to fully support this strategy if the Council is to maintain a solid financial foundation. In forming my statement of the robustness of the budget estimates and adequacy of planned reserves I have reviewed this position in detail and have reported my conclusions and assumptions to the Cabinet on a continued on-going basis as part of the Council's overall governance and financial stewardship arrangements.

- 19.4 All Members must be aware that the calculation of the budget is, in its simplest form, dependent on three key factors, which are set in the context of the reducing level of support from central government.

These are:

- a) The structural investments, efficiencies and cuts proposals;
- b) The level of increase in local taxation (council tax); and
- c) The level of reserves and balances.

- 19.5 With regard to the Housing Revenue Account, It is important for Members to understand that any future decision to vary from the assumption over the level of rent increases (i.e. increase future rents at a lower rate than RPI plus 0.5%) would result in a significant reduction in income to the Housing Revenue Account and would make the 30 year business plan unsustainable.

### **Investments, Efficiencies and Cuts**

- 19.6 Proposals for investment, efficiencies and cuts are ultimately a matter of political judgment balancing the needs and priorities of the borough with the available resources from Government and that which can be raised locally through taxation and income. In balancing such decisions Members must have regard to the professional advice of officers in such matters as service need, statutory responsibility, changes to Government legislation, demographic factors (particularly in respect of demand-led services), unavoidable cost pressures and future levels of Government funding support. This report forms part of the advice.

### **Local Taxation**

- 19.7 The level of change in council tax is similarly a matter of political judgment, again having due regard to the professional advice of officers, and in particular to the advice of the s151 officer as regards the robustness of the budget, the level of reserves and balances, prudent financial management, the current and future financial risks the Council may face over the medium to longer term such as the localisation of business rates and council tax benefit support and the future forecast of Government funding support. All Members of the Council should be aware that my advice as the s151 officer regarding the proposed council tax change is based on a number of key factors; the underlying inflationary pressures, the Council's position with regard to current and future balances and reserves needs, the risks associated with all efficiencies and investment options within the budget, the medium to longer term local taxation opportunities (contained by capping and the influence of the council tax freeze grant) and the strategic financial risks which the Council is required to address, set within the context of the continued challenging financial climate for local government as we move forward.

## The Level of Reserves and Balances

- 19.8 The level of reserves and balances are principally the responsibility of the s151 officer. The Members of the Council are not automatically obliged to accept my advice in every particular, but must pay due regard to it and be satisfied that they have met their own public obligations if they are minded to depart from my advice.
- 19.9 In the context of the current financial climate and the financial risks which the Council faces my formal advice remains to all Member is that 5% should now be seen as an appropriate minimum level of General Fund balances for the medium term. In determining the minimum level of reserves and balances key factors include:
- The risks inherent in the budget;
  - The level of specific reserves and associated provisions;
  - The identified efficiencies to be achieved;
  - The future financial risks the Council maybe exposed to both quantifiable and unquantifiable; and
  - The Authority's history of delivering services within the budgetary provision set.
- 19.11 Despite budgets being calculated on most likely estimates, not the best estimates basis, the budget contains significant challenges in terms of efficiencies delivery as well as demand led pressures. The Council has set plans to deliver efficiencies of £17.137m for 2013/14. These efficiencies have a greater level of associated risk than the efficiencies approved for 2012/13 based on the nature and value of the programme. The economic climate has a significant impact on Croydon in 2012/13 and will continue to do so over the period of the next two financial strategies. Whilst the financial environment remains volatile I believe that the budget takes account of that environment and is therefore prudent for the 2013/14 financial period.
- 19.12 The Authority has now achieved an overall balanced budget for an established period of time and I believe that although it will be demanding on the organisation to achieve this again will be achieved in 2012/13. However, this remains challenging and this outcome is only achieved through the constant focus of the organisation's officers and the leadership of its Members.
- 19.13 In order to recognise that there will always remain a level of unidentifiable risk a £1.0m contingency budget will again be included in the budget. However this level of contingency will need to be reviewed over the period of the new financial strategy 2013/17.
- 19.14 The level of General Fund balances currently represent 3.49% and therefore are within the Financial Strategy requirements although closer to the minimum.



**Table 26– General Fund Balances**

	<b>Balance as at 31/3/12</b>	<b>Forecast Balance as at 31/3/13</b>	<b>Forecast At 31/3/13</b>	<b>Target at 5%</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>	<b>£m</b>
GF balances	11.597	11.597	3.49%	15.498
<b>Total</b>	<b>11.597</b>	<b>11.597</b>	<b>3.49%</b>	<b>15.498</b>

19.15 Table 27 shows the schools reserves position.

**Table 27 Reserves (Schools)**

<b>Reserves</b>	<b>Balances as at 31/3/12</b>	<b>Estimated 31/3/13</b>
	<b>£m</b>	<b>£m</b>
LMS balances	15.160	15.160
<b>Total</b>	<b>15.160</b>	<b>15.160</b>

- 19.16 The Council does not currently set or control balance levels for Schools although it is open to local authorities to amend these with the agreement of their Schools Forum. Croydon's Schools Forum has agreed a threshold level of balances for schools, which are 4% of annual expenditure for secondary schools and 6% for primary schools. If Schools have balances greater than these sums and do not have plans meeting approved criteria that explain the reasons for additional balances, the additional balances may be redistributed between Croydon's schools.
- 19.17 The Section 151 officer has a responsibility to ensure Croydon's schools have sound financial management. Where a school has set a deficit budget (one where anticipated expenditure will exceed anticipated income), or is heading towards a deficit position in year, the Section 151 officer requires the school to submit a pro forma, setting out their action plan to show how the deficit position will be managed. The pro forma is signed by the School Governors and submitted to the Section 151 officer for agreement.
- 19.18 From 1<sup>st</sup> April 2013 the Council will have the statutory responsibility for Public Health services for the borough and to support this has been allocated ring-fenced funding of £18.312m in 2013/14, rising to £18.825m in 2014/15. In partnership with colleagues from the NHS the Council has undertaken a due diligence programme to ensure that adequate financial provision is being made to support these new statutory responsibilities.
- 19.19 It is to be expected that any transfer of responsibility, especially one of such scale, will bring inherent risks. Through the due diligence programme a number of risks have been identified; the portfolio of contracts, staffing, operational requirement and perhaps more importantly the defined level of outcome and quality of care that are expected by Public Health England. In addition there are a number of services provided by Public Health that are demand led such as sexual health services and in-patient drugs treatments. At this stage although these risks have been identified it is not envisaged that they pose a significant financial risk to the Council given the resource allocation which has been identified.

## **20.0 SUMMARY AND CONCLUSIONS**

- 20.1 As all Members are aware, setting a budget for 2013/14 that is robust, balanced and deliverable has been challenging and has involved a number of difficult decisions for the Council. The Council faces increasingly challenging choices over the medium term period within the context of its own funding position, the national economy and the level of funding available to the public sector as a whole.
- 20.2 This budget report is based on the current financial outturn projections for 2012/13. If any of the projections change significantly, this will have to be taken account of in setting the budgets for future years.
- 20.3 **Appendix G contains the legally required recommendations to Council for setting the budget and Council Tax for 2013/14.**

## **21.0 FINANCIAL CONSIDERATIONS**

- 21.1 The report contains the financial implications of the options to deliver a balanced budget for 2013/14, the current position for the following financial years 2013/16 and the draft capital programme for 2013/14.

## **22.0 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

- 22.1 The Solicitor to the Council comments that the Council is under a statutory duty to set a balanced budget. The Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the estimates made for the purposes of calculating the Council Tax and the adequacy of reserves both of which are contained within this report. The Council is required to set the amount of the Council Tax before 11<sup>th</sup> March 2012 but it may not be set before the GLA has issued the precept or 1<sup>st</sup> March.
- 22.2 Amendments to the Local Government Finance Act 1992 introduced by the Localism Act 2011, require the Council as billing authority to determine whether its relevant basic amount of council tax for a financial year is excessive. If it is excessive then there is a duty under s.52ZF to 52ZI to hold a referendum.
- 22.3 Determining whether the council tax is excessive must be decided in accordance with a set of principles determined by the Secretary of State and approved by a resolution of the House of Commons.
- 22.4 For the coming financial year, and for which this Council Tax is being set, such principles have not yet been approved nor have the regulations in respect of the conduct of referendums been made. However, as noted in the recommendations, in accordance with the new statutory requirements, the council tax recommended is not considered excessive such that no recommendation is required.
- 22.5 The procedure followed in developing the budget proposals as detailed in the report meets the requirements of the Budget and Policy Framework Procedure Rules provided in Part 4.C of the Council's Constitution.
- 22.6 When considering the budget proposals the Cabinet and Council will be mindful of their fiduciary duty to ensure that the Council's resources are used in a prudent and

proportionate manner. Members are required to have regard to their statutory duties whilst bearing in mind the requirement to act reasonably when taking in to account the interests of the Council Tax payers and Croydon's communities.

- 22.7 To deliver some of the budget proposals action may be required which should be undertaken in accordance with statutory requirements including any legal requirements for consultation and equality impact assessments. Members will be aware of the requirement to consider the Council's obligations under the Equality Act 2010.

(Approved by: Julie Belvir, Council Solicitor & Monitoring Officer)

## 23.0 HUMAN RESOURCES IMPACT

- 23.1 The implementation of the efficiency and cuts programme will in a number of instances necessitate a change of structure and skill mix of staff and/or change of working practices. An assessment should be made in this respect when planning for future services, including devising departmental people plans as part of the service planning process for 2013/14. Where a redundancy is being 'contemplated' the unions and staff must be informed at the earliest opportunity. If subsequently a redundancy is actually 'proposed' then the employer is immediately obliged to consult with the unions and staff for a minimum statutory period before any decisions and formal notification of redundancy is issued. Departments should take these considerations into account in their planning; ensure they are adequately resourced to meet their obligations and seek support from HR Consultancy.
- 23.2 The table below indicates the indicative levels of staff/post reduction proposed by departments in the period February 2013 to March 2014 (excluding any TUPE transfer proposals where redundancies do not apply; and any dismissal and re-engagement to effect changes to terms and conditions). The majority of these proposals are still subject to consultation and the actual numbers of redundancies may therefore vary. Additionally, further redundancies may subsequently be proposed.

**Table 28 – Indicative Redundancies/post deletions per department**

INDICATIVE REDUNDANCY NUMBERS	FTE
Children, Families and Learning	6.00
Department of Adult Social Care, Health and Housing	3.00
Corporate Resources and Customer Services	32.00
Planning and Environment	23.00
Chief Executive's	1.00
<b>TOTAL</b>	<b>65.00</b>

### ***Pay Policy Statement***

- 23.3 The Council aims to ensure that its remuneration packages are fair, equitable and transparent and offer suitable reward for the employment of high quality staff with the necessary skills and experience to deliver high quality services.
- 23.4 Under section 112 of the Local Government Act 1972, the Council has the "power to appoint officers on such reasonable terms and conditions as the authority thinks fit". In accordance with Section 38 of the Localism Act, this Pay Policy Statement sets out the Council's policy for 2013-14 on:

- The remuneration of its chief officers
- The remuneration of its lowest paid employees
- The relationship between the remuneration of its chief officers and the remuneration of staff who are not chief officers

23.5 The pay policy statement is at **Appendix P**.

(Approved by: Pam Parkes, Director, Workforce and Community Relations)

## **24 EQUALITIES CONSIDERATIONS**

24.1 An equality impact assessment (EqIA) inclusive of an engagement exercise has been completed on the Budget. The equality impact assessment has involved a high level screening of the proposed budget options to determine the relevance of these options to the public sector equality duty<sup>1</sup> and any possible impact. This equality impact assessment and the information found in this document provides a summary of any related issues arising from specific needs analyses that have already taken place; as well as a summary of the high level screening exercise, and the outcome of the engagement exercise related to these budget proposals. The equality impact assessment presents information that relates to those budget options identified through the departmental screening exercise as having the most relevance to the public sector equality duty and that could have a potential negative impact requiring further analysis.

24.2 The proposed budget options could potentially impact on people from all protected characteristics however some proposals a greater negative impact than others on:

- Residents over the age of 65
- Residents between 0-19 year olds especially young Afro-Caribbean men regard to accessing youth services and mental health services
- People with disabilities specifically with physical, learning and mental health needs

24.3 Each service is expected to undertake equality analysis on these proposals before they are implemented to ensure opportunities to advance equality, promote good community relation and eliminate unlawful discrimination have not been missed.

### **Human Resources**

24.4 The equality impact assessment on the proposed budget options has identified changes that will impact on staff potentially from all protected characteristics. However more work needs to be undertaken by individual departments and divisions to understand the impact of these before implementation of any proposals.

## **25.0 ENVIRONMENTAL CONSIDERATIONS**

25.1 There are no direct environmental considerations arising from this report.

## **26.0 CRIME AND DISORDER REDUCTION CONSIDERATIONS**

26.1 There are no savings which should impact upon this Corporate Priority.

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<sup>1</sup> Equality Act 2010

## **27.0 HUMAN RIGHTS CONSIDERATIONS**

27.1 The potential impact on an individual's Human Rights will be a relevant consideration in relation to any savings proposal for a particular service.

## **28.0 FREEDOM OF INFORMATION AND DATA PROTECTION CONSIDERATIONS**

28.1 There is no direct freedom of information or data protection implications arising from this report.

Report Author:	Nathan Elvery
Contact Person:	Nathan Elvery
Background docs:	Financial Strategy 2010/14 Equality Impact Assessment - Screening