Financial Strategy
2013-2017

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1. Foreword

Our revised Financial Strategy for 2013/17 has been developed to help navigate the Council through this incredibly challenging time for all of local government. There has never been a more challenging time for the sector; our resource base is reducing and will continue to reduce as the government tackles the national deficit. The way of funding local government is significantly changing, the policy environment is fundamentally changing whilst at the same time we are experiencing unprecedented additional demands on our services. The time is therefore right to review our financial strategy.

Funding levels for Local Government are falling rapidly. Since 2010/11 alone, London local government has seen a reduction in core funding of £0.6billion (10%) and this trend is set to continue. Once locally raised income such as council tax is taken into account, total income for London local government could fall from £9.4 billion in 2010/11 to £7.6 billion in 2019/20, a reduction of £1.7 billion or the equivalent of 18%.

The scale of this reduction is considerable and raises questions about how local authorities may seek to work with an ever decreasing capacity to spend. So far, most of the sectors response has been in the form of "efficiencies" and scaling back service levels. However Local Government will not be able to rely solely on its impressive track record for efficiency as we move forward. To meet the scale of the challenge ahead more difficult decisions are going to have to be made but an effective strategy should provide the space and time for these decisions to be considered and balanced decisions recognising the needs and priorities of the community we are here to serve.

Against the backdrop of significantly reduced resources, there is unequivocal evidence that upwards pressure is being applied to local authority expenditure. Despite building in provision for improved efficiencies within each service area, modelling shows that by 2020 total net expenditure in London will face an increased cost pressure of over £0.7billion (+8%). Within this there are particular pressure points, including projected increases in service areas such as Adult and Children's social care; housing; school places and homelessness.

This financial strategy sets out the framework for how we will approach these challenges by ensuring we continue to put value for money at the heart of all we do and ensure that strong financial management remains a key foundation for the Council. We do however accept that choices will have to be made about where reductions in expenditure will fall and we will ensure that our focus we remain on our residents priorities and therefore at the heart of that decision making.

This strategy will guide our annual budget setting through to 2017 with our 2013/14 budget being the first to be set under our updated financial strategy.

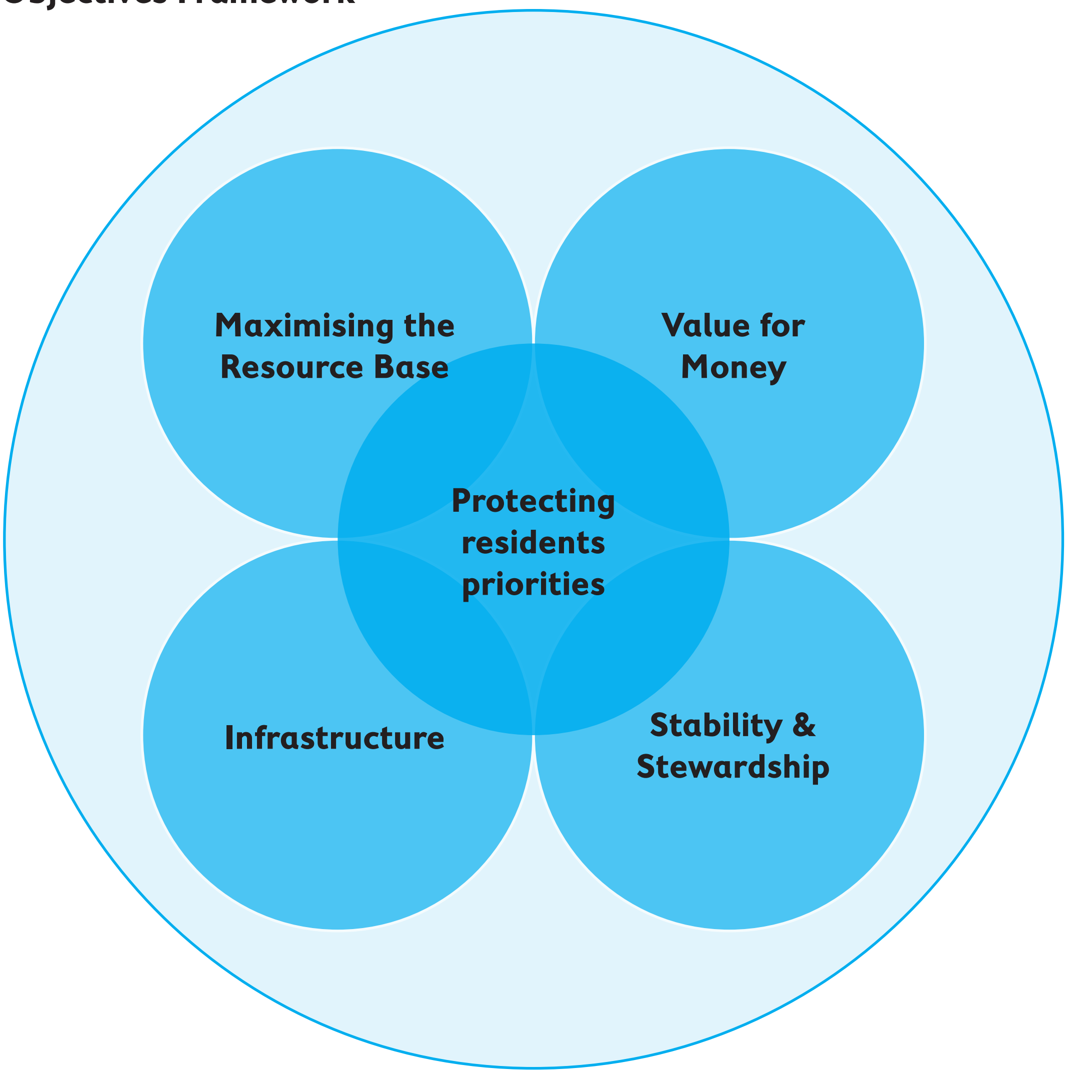
Mike Fisher

Cllr Mike Fisher
Leader of Croydon Council

"With cuts to local government funding set to continue until 2017, and pressure mounting in costly service areas such as adult social care, children's safeguarding and road maintenance, councils have to make tough decisions on how they prioritise spending on the 800 services they provide to residents. That includes deciding whether or not to shield some services from budget cuts by increasing council tax revenue. These decisions must be based on local priorities and councillors know they will be judged solely by the people they represent when the votes are cast in local elections."

Sir Merrick Cockell, LGA Chairman
21 March 2012 (In response to the 2012 Budget)

Objectives Framework



2. The wider context

"The recovery and rebalancing of our economy will be a long, slow process"

Mervyn King
Governor of the Bank of England
(August 2012)

Croydon is the largest London borough. With 363,400[1] residents from a wide range of ethnic origins and cultures, Croydon has a very young age profile, with the biggest population of children and young people (0-19) in London. Whilst this makes Croydon the "youngest" borough in south London our population is also ageing – over 61,000 people are aged 60 or above.

Since the 2001 census our population has grown by 9.9%. This is greater than the 4.4% growth projected by population estimates based on the 2001 census. The population in Croydon was found to be 13,400 (3.8%) larger than estimated by projections based on the 2001 census which expected the population to reach 350,000 in 2011. On this basis, government funding in recent years has been below appropriate levels. Furthermore, between 2011 and 2021 the 65+ population in Croydon is estimated to rise by 24.4%, compared with the London average of 18.7%.

The financial challenge for the public sector and thus local government will continue over the timescale of the next two financial strategy periods as a minimum. There are a number of financial pressures that collectively pose a challenge to local government over this period, demands on our services, loss of revenue streams and increased costs.

The recession has had dire consequences for the UK's public finances as a whole. The economic outlook remains predictably bleak with:

- Public sector net debt forecast to rise to £1,186bn[2] by the end of 2012/13, equivalent to 74.7% of gross domestic product (GDP);
- GDP growth continuing to undershoot CSR expectations;
- Tax revenues reflecting the lack of growth in the economy;
- Unemployment remaining relatively stable but with an increased proportion of part-time employees;
- Inflation remains above the 2% target and is forecast to do so in the foreseeable future;
- Forecasts suggest increasing long-term interest rates;
- Businesses continue to struggle and credit conditions to remain difficult for the foreseeable future;
- Deficit reduction, and hence public expenditure policies, lasting until 2017/18.

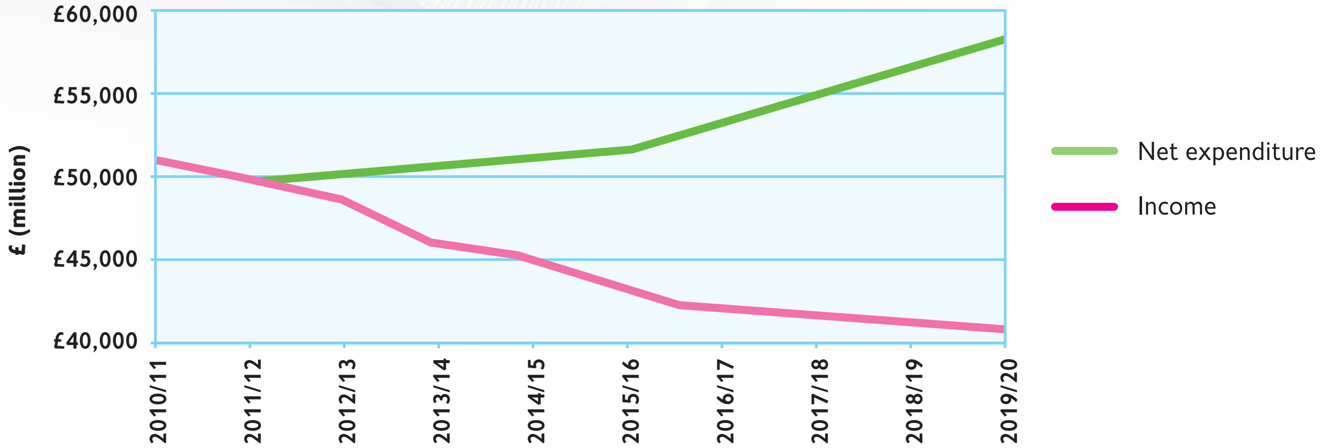
As a consequence those dealing with public finances will again need to make hard decisions balancing cuts in spending with taxation increases or indeed both. Cuts in investment are likely to be significant and in overall terms it could take a decade or more to return the public debt back to the previous prudential target levels.

Financial Projections to 2019/20

Our success in meeting this challenge will be largely dependent on our continued transformation success. In recent years over 80% of our resource reduction has been met by this efficiency track record. This of course becomes more and more challenging to achieve and therefore means we need to think, plan and deliver further and further forward. Projecting our financial planning assumptions forward over the medium term is essential to ensuring our success. To assist the sector the LGA has developed a longer term forecasting model which identifies projections of income and expenditure for local government (see chart 1 below). The model provides income and expenditure forecasts to 2019/20 for individual authorities, projecting forward expenditure based on current expenditure, although the general assumptions relating to service income and expenditure have been undertaken at national level. Although the model includes a single set of assumptions regarding inflation, demographics, taxbase (both Business Rates and Council Tax) and service-related drivers, through using alternative assumptions (based on more pessimistic and optimistic scenarios), a forecast range has also been produced for income and expenditure to 2019/20.

[1] ONS 2011 Census.
[2] OBR forecast for the Chancellor's 2012 Autumn Statement.

Chart 1 - Income vs. Expenditure



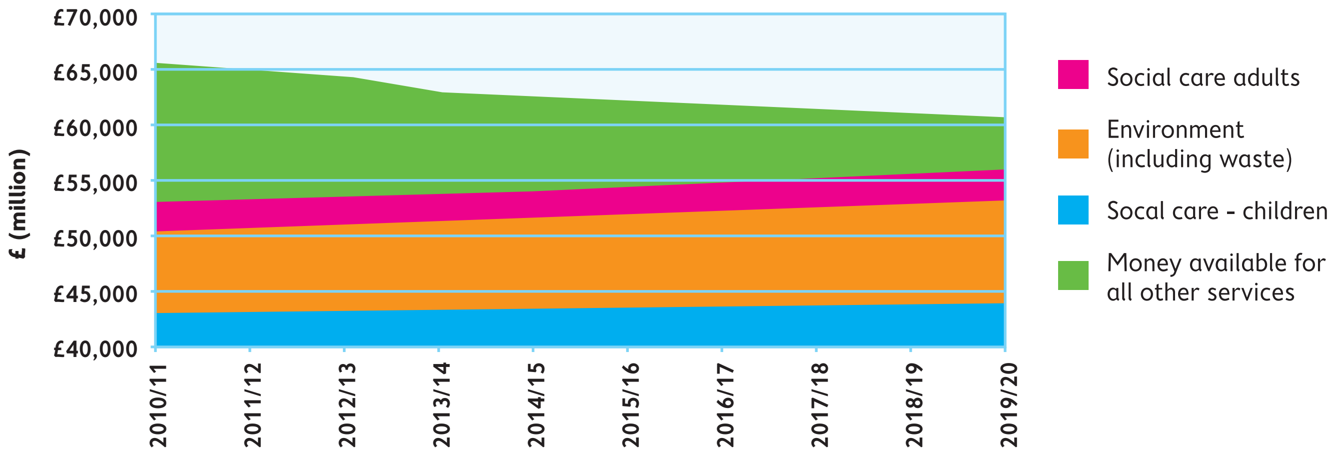
LGA's study concluded;-

"Our analysis then balanced projected spending against projected revenue to 2019/20. A gap opens out in 2012/13 and then continues to widen every year through to 2019/20. The overall funding gap starts at about £1.4 billion in 2013/14 in cash and amounts to over £16.5 billion in 2019/20.

In former times, such an analysis would have begun a conversation with central government about an increased path for grant income. The Government has, however, already made its broad intentions for public expenditure beyond 2015 clear. The question, therefore, is what those intentions mean for services. With social care and waste spending absorbing a rising proportion of the resources available to councils, funding for other council spending drops by 66 per cent in cash by the end of the decade, from £24.5 billion in 2010/11 to £8.4 billion in 2019/20. This is the equivalent of an 80 per cent real terms cut."

This impact on funding for other council services is illustrated in chart 2 below:-

Chart 2 - Social care and waste spending within the overall funding envelope



From these projections it is clear that the next spending review period will be very challenging for this Council and therefore shows how important 2013/15 is in terms of putting in place plans to achieve a balanced budget for these years so we can focus on the medium term position facing our Council.

Facing the expenditure pressures

Welfare Reform

The Coalition Government is radically overhauling welfare policy to improve incentives to return to work, improve fairness and save £18bn in expenditure on benefits. There are major changes in the way the local housing allowance (LHA) is calculated. The LHA determines the level of rental support (Housing Benefit - HB) paid to tenants, whether in work or on benefits. The basis for setting LHA rates has changed from the median (average) to the 30th percentile of market rents. This restricts HB claimants to the bottom third of the market. Housing Benefit is now capped at a national maximum of £400 per week, and the rate for 5 bedrooms is no longer available. The single room Housing Benefit rent restriction applies to under 35s, rather than just under 25s, so single 25 to 34 year olds in self-contained flats must now share.

Other changes include freezing Working Tax Credits, increasing the number of hours that must be worked, reducing child support and taking more earnings into account when calculating the rate. There are 34,500 recipients of Child and Working Tax Credits in Croydon[3]. In addition, new work capability assessments for Employment Support Allowance are finding 65% of Incapacity Benefit claimants 'fit for work', but 40% of appeals succeed. There are 12,960 recipients in Croydon[4], of whom 5,000 are likely to be affected after appeals.

These changes are directly impacting on the Council's responsibilities and services and there is an immediate impact on the Council's homelessness responsibility.

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. The borough has limited capacity in terms of private sector emergency accommodation, with increased rental values impacting upon affordability.

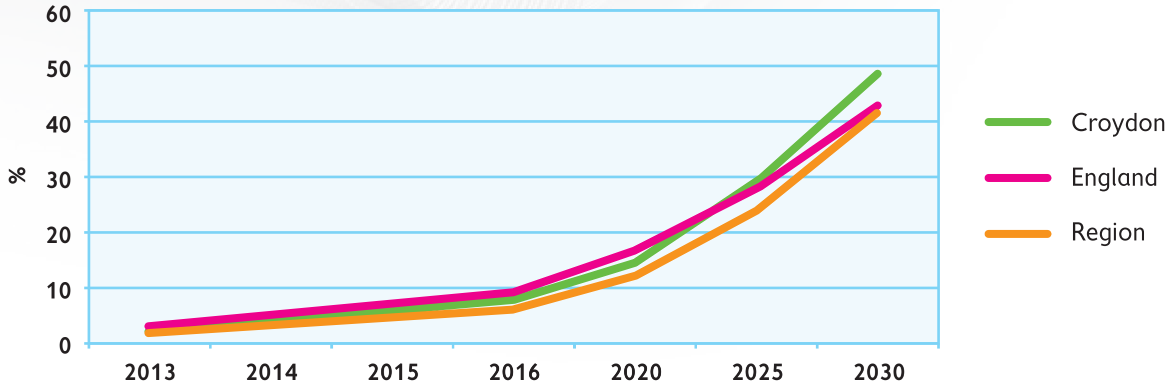
In addition to existing recessionary pressures, a further 900 households are expected to be affected by the benefit cap which will come into place from April 2013, with there potentially being further pressure from outward migration from other central London boroughs, as a result of the benefit cap, in addition to the impact of localising support for council tax.

In the 2010 Spending Review, the Government announced plans to localise council tax benefit. From April 2013, these reforms will localise council tax support and give councils stronger incentives to support local firms, cut fraud, promote local enterprise and get people back into work. These reforms contribute to the Government's deficit reduction programme, delivering savings of 470million a year of taxpayers' money in Great Britain from 2013-14.

Croydon has estimated that the local impact is a reduction in funding of 13% (compared to 10% nationally). This equates to a £4.8m gross impact for Croydon in 2013/14, rising to £7.6m by 2016/17. It is therefore imperative that the local scheme is realistic, ensures protected groups are considered and that savings are derived from the local scheme to compensate for the reduction in grant from the localisation of this benefit.

[3] HMRC April 2012
[4] NOMIS (ONS) Employment Support Allowance and Incapacity Benefit claimants February 2012

Chart 3 – Cumulative Over 65 Population Changes



The rising costs of Social care

Croydon's population increased by 10% over the period 2001-2011, 2.9 percentage points higher than the national average, with another 8.1% increase expected by 2020, the greatest proportional increases in older age bands. Between 2011 and 2021 the 65+ population in Croydon is estimated to rise by 24.4%, compared with the London average of 18.7%. According to the 2011 census the population of Croydon is 13,600 higher than previously indicated by estimates for 2011 (based on the 2001 census). On this basis we would argue that Croydon has been under-funded for a number of years.

Demand for adult social care increases in numbers and complexity. Over 2006/12, assessments of adults and older people leading to provision of a service have increased by 38% and total number of people helped increased by 12%. Co-morbidity, physical and mental health demands are up. Demand pressures have the characteristics of inner urban areas associated with deprivation and the population age and ethnicity profile, but Croydon is having to meet them with resources proportionate to outer urban need, an unrealistic baseline position. According to research, increased numbers of young people (4,700 more 20-34 year olds – the group especially at risk) and of people from black and minority ethnic backgrounds (44.9% in 2011, compared with 29.8% in 2011) are associated with increases in psychosis. The number of people with mental ill health helped to remain at home through social care increased by 190% over 2006/12 from 470 to 1365.

The funding of long term care is one of the defining social issues of our age that needs a national sustainable solution, rather piecemeal local approaches. The Dilnot recommendations represent an opportunity to achieve this end, but would come with a cost to the public purse. Implementation would not address the identified funding gap in adult social care. A Case for Sustainable Funding for Adult Social Care (London Councils, 2013) is the latest report to highlight the fact that efficiencies alone will not bridge this funding gap, which it estimates to be at least £907m in London by 2017/18. This builds on the LGA report Funding outlook for councils from 2010/11 to 2019/20 (June 2012) which identifies a 19% shortfall between revenue and spending pressures for local authorities by 2020 and states that if adult social care and waste are fully funded, other services will face cuts of more than 66%.

The graph shows that, as a proportion of total population, the older population is expected to increase from 2012 by 8% to 2016, 15% to 2020, 29% to 2025, and 48% to 2030, higher than both the national and London average. This has significant implications for costs, with predicted cumulative increases in costs being summarised in Table 3.1 below, excluding inflation.

Table 1: Projected cumulative older people's social care increases in cost from 2012/13 base (excluding inflation)

	2013/14 £m	2014/15 £m	2015/16 £m	2020/21 £m	2025/26 £m	2030/31 £m
Projected cumulative increase (£m)	£1.5m	£2.2m	£2.8m	£5.4m	£10.6m	£17.8m
Projected cumulative increase (%)	4.0%	6.0%	7.6%	14.7%	28.9%	48.5%

Schools Places

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.

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.

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.

Risks to Croydon

Business Rates Retention

The 2013/14 local government finance settlement sees the launch of Business Rates Retention as the principal form of local government funding. Local government funding will change from guaranteed levels of Formula Grant, based on relative need, to a combination of Business Rates income and Revenue Support Grant. Although the scheme will initially be based on relative need, local authority resources for 2013/14 and beyond will, in part, be determined by the amount of business rates collected locally.

Croydon's forecast business rates income for 2013/14 is approximately £120m. However, as with other London Boroughs, only 30% of this amount would be retained locally, with 50% being paid to central government and 20% to the Greater London Authority (GLA).

Therefore, for Croydon, 22% of its overall general resources are forecast to be received from business rates in 2013/14 and therefore subject to risk. By 2017/18, business rates will account for a larger proportion (33%) of general resources, due to increases to business rates, as a result of inflation and reductions to Revenue Support Grant (due to funding cuts and the need to offset business rates increases).

Other risks of the scheme include:

- There is a -7.5% safety net for authorities with declining business rates income. As Croydon only receives a lower proportion of its income from business rates (relative to other authorities), it is unlikely that it will qualify for the safety net (i.e. it would require a 14% reduction in business rates income to qualify for the safety net);
- In addition to changes to the taxbase relating to business rates growth/decline, there are further factors that will now result in reductions to business rates income (and therefore Croydon's resources). The cost of successful business rate valuation appeals and reductions in income due to changes in reliefs (e.g. schools becoming academies) will have a direct impact on Croydon's level of business rates income.

Reductions in Government Grant

The 2010 Spending Review (SR 2010) set out a 28% reduction in funding for local government over the period 2011/12 to 2014/15. Since SR 2010, there have been further reductions to local government funding.

Table 2 – Funding Changes CSR 2010 onwards

	2011/12	2012/13	2013/14	2014/15	Total
England	9.90%	7.30%	3.90%	8.50%	29.60%
Croydon	11.20%	8.30%	2.70%	8.60%	30.80%

The government has also indicated within the Budget 2012 and the Chancellor's Autumn Statement 2012 that further funding reductions are planned for the period 2015/16 to 2017/18. Since the 28% reduction in local government funding was announced in SR 2010, there have been further funding changes to the level of local government funding.

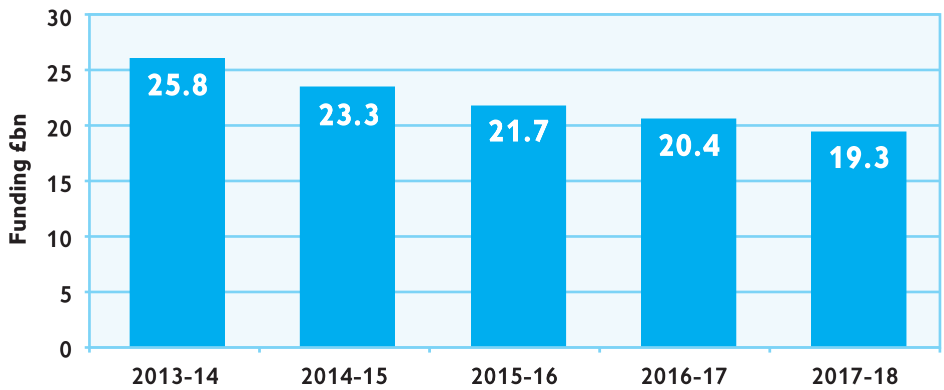
The most significant of these changes are:

- A further 1% reduction in local government funding for both 2013/14 and 2014/15 (i.e. 2% in total for 2014/15) to reflect the reductions in public sector pay assumptions (announced in the Autumn Statement 2011);
- An additional 2% reduction in funding for 2014/15, (Autumn Statement 2012);
- The localisation of council tax support to local authorities, but with a 10% reduction nationally in the level of funding required to finance the scheme, based on current eligibility criteria;
- The government has provided incentives to local government to freeze council tax, by offering council tax freeze grant in 2011/12, 2012/13 and 2013/14;
- Taking the first two bullet points, these reductions, alongside the original 28% cuts, represent a 32% cut in local government funding through the period 2011/12 to 2014/15.

There is increasing evidence to suggest that local government will see funding reductions of a similar magnitude to those seen in the current Spending Review period, for the period 2015/16 to 2017/18. This view is based upon:

- The Chancellor announced a 3.8% real terms reduction in central government funding for both 2015/16 and 2016/17 in Budget 2012;
- In the Chancellor's Autumn Statement 2012, it was announced that 2017/18 would see Totally Managed Expenditure falling at the same rate as over the Spending Review 2010 period;
- Initial forecasts from the Institute of Fiscal Studies suggest a 16.2% reduction in funding for local government between 2014/15 to 2017/18;
- Considering the above evidence, the graph below shows a resource projection for local government for 2013/14 to 2017/18. The 2013/14 and 2014/15 figures are based on DCLG figures, adjusted to take into account the additional 2% reduction for 2014/15. The figures for 2015/16 to 2017/18 are based upon a 5% reduction in funding per annum. The table shows that, over the period 2013/14 to 2017/18, there is a forecast 25% reduction in local government funding.

Figure 1: Local Government Funding Projection



The Chancellor announced in his Autumn Statement 2012 that the next Spending Review will be in the first half of 2013 and provide Departmental Expenditure Limits up to 2015/16.

3. The objectives of the financial strategy

3.1 Objective One: To ensure that we seek to protect the services on which our residents place most priority

Key themes

- Vision for the Borough
- Corporate Priorities
- Policy led allocations for priorities
- The Customer at the heart of our priorities

Ensuring priorities direct and drive our resources forms the key focus of the financial strategy, through this focus we will ensure that those resources are expended on the services and issues most important to the residents of the borough. It is clear that we are operating in a different external environment than previous financial strategies therefore the focus on this objectives reflects the choices the Council will need to make about where reductions in expenditure are focused and thereby ensuring that those services most important to our residents are protected wherever possible.

3.1.1 Vision for the Borough

The Borough has a well-established and clear vision that paints a picture of the type of place we all want Croydon to become. It describes the Croydon of 2040 as being London's most enterprising borough - a place that fosters ideas, innovation and learning, and provides skills, opportunity and a sense of belonging for all.

- **An Enterprising City** – a place renowned for its enterprise and innovation with a highly adaptable and skilled workforce and diverse and responsive economy.
- **A Learning City** – a place that unleashes and nurtures local talent and is recognised for its culture of lifelong learning and ambitions for children and young people.
- **A Creative City** – a place noted for its culture and creativity - one of the best incubators of new artistic and sporting talent in the country.
- **A Connected City** – a place defined by its connectivity and permeability, with one of the best digital, communications and transport networks in the country.
- **A 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.
- **A 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.

In 2040 Croydon will be:

"The funding reductions come at a time when demographic changes and recession-based economic pressures are increasing demands for services, for example rising demand for social care"

Grant Thornton - Towards a tipping point?

3.1.2 Corporate Priorities

The Council is in the process of developing its corporate plan for 2013-15, which sets out the Council's next steps towards the shared vision for the borough. Emerging priorities for this period are:

- Compete as a Place;
- Manage Need and Growing Resilience;
- Protect Resident Priorities; and
- Build the Council of the Future.

Our corporate performance management framework tracks our success in meeting each of these priorities. The Council will continue to ensure that our resources are prioritised towards achieving these aims.

3.1.3 Policy led allocations for priorities

All resource allocation will be policy-led based on the best evidence of need, and strongly influenced by the views of our residents. This will be ensured through the Council's own service and financial planning processes known as 'Challenge'. This will ensure that the Council best uses its resources to deliver the priority outcomes for its residents.

3.1.4 The Customer at the heart of our priorities

The Council actively engages with residents with budget consultation exercises each year to help meet these challenging financial times. We have always been guided by your priorities as our residents and we regularly ask our residents, as part of our budget engagement for their views on the options we have chosen to achieve a balanced budget.

We have had to contemplate difficult decisions for our 2013/14 budget; however we have still tried to protect those services that our residents told us they most valued in terms of their quality of life.

3.2 Objective Two: To maintain financial stability over changing economic cycles to give our community continued confidence in the financial stewardship of the Council

Key themes

- Balanced Budget
- Balances and Reserves
- Strong Financial service, systems and processes
- One Oracle
- Financial Planning and Budget Process

"The quality of financial governance and leadership is critical in meeting the financial management challenges facing authorities, and for securing a sustainable financial position"

Grant Thornton - Towards a tipping point?

Over the last three years the council has worked hard to maintain financial stability. Given the turbulent economic environment we face, maintaining financial stability will be essential in order to continue to maintain a medium to long term strategic focus for the Borough and its priorities.

3.2.1 Balanced Budget

One of the key strengths of the Council is its financial management which has enabled the financial stability track record to be achieved over recent years. We have managed to deliver the priorities of our community within our overall budget resources over the past four years, despite the many difficult challenges and choices. Maintaining this level of financial discipline will be vital over this coming financial period and this is firmly established in the performance accountabilities of the officers of the organisation and the discipline of the organisation itself.

3.2.2 Balances and Reserves

The Council needs to maintain an appropriate level of general fund balances to maintain financial stability and to manage any identified and increased financial risk. This has been set at a minimum of 5% of net operating expenditure for the financial strategy.

In determining the minimum level of balances, key factors include:

- The risks inherent in the budget;
- The level of specific reserves and associated provisions;
- The future risks the Council maybe exposed to; and
- The Authority history of delivering services within the budgetary provision set.

During the period of the financial strategy the minimum level of general fund balances will be 5%. There has been a significant risk shift from central government to local government in terms of business rate and council tax benefit which make it more vital than ever that reserves are held to protect the Council from this potential risk.

Alongside general balances it is vital the Council has an appropriate level of reserves and provisions to support the delivery of the resident's priorities and to protect our services, where possible, against the negative economic circumstances.

3.2.3 Strong financial service, systems and processes

Financial management continues to be an area of strength for the organisation over the last 4 years which has resulted in positive external audit opinions and a strengthened financial position. Despite this strong performance it is clear that the challenge for the public sector will become greater over the coming years. In this time the finance function has unified across the Council providing an efficient and professional service.

The unified finance function continue to examine the approach to financial processes and reporting with consistent best practice and ensuring that service managers have the support and competencies they require to deliver value for money services across the organisation.

3.2.4 One Oracle

Over the next year the Council is working with 5 other London Boroughs to implement a shared instance of the Oracle Enterprise Resource system. The aim is to reduce costs of ownership and have some standardisation across the participating boroughs in order to minimise further upgrade costs through sharing.

3.2.5 Financial Planning and Budget Process

The Council has a robust and detailed resource planning process to align our resources to our agreed priorities and also, to challenge, at a service level, performance, costs and customer satisfaction. A twenty year planning model is used to inform assumptions and various sensitivities are tested.

3.3 Objective Three: To ensure that the Council continues to systematically challenge, secure and deliver Value for Money

Key themes

- Departmental Led Transformation
- Investments and Pump Priming
- Income Maximisation

"The drivers of our economy – business, central government and local leadership – should be organised and structured for success"

Heseltine Report
No Stone Unturned In Pursuit Of Growth

Throughout the period of the last financial strategy the Council has been pursuing a corporate transformation strategy through the Step Change Croydon programme. This programme has blended corporate and departmental efficiency projects in shifting the Council to a fresh Target Operating Model (TOM) that envisages the organisation as a smaller commissioning led body that operates as a single, highly professionalised team. The programme has been hugely successful and has delivered over £25m of efficiency savings for the residents of the borough.

3.3.1 Departmental Led Transformation

Efficiencies achieved through transformation will be critical to the Council if it is to manage a solid financial platform through to March 2017. Departmental led Transformation Plans will continue to be at the heart of our Transformation programme as it is clear that there is no single service or department of the Council that will be able to afford its service model by 2016/17, very simply all our services and our entire business needs to continue to transform over the short term period if we are to successfully manage the reduction in government funding support to the Council.

As there can be no blueprint for service transformation, individual services will need to select and combine their approaches. Some of these will be developed and implemented wholly locally while other elements will need to be sourced corporately and delivered in partnership with specialist teams.

3.3.2 Investments and Pump Priming

A reserve has been established to drive the Departmental transformation. In future years funding will be established to ensure the Council can pursue the future transformation journey that the Council requires.

3.3.3 Income Maximisation

The Council's income policy going forward will be based on optimising the income opportunities through:

- A deliberate move away from using historical prices to inform fees and charges;
- Understanding the true cost of providing or commissioning services and to price accordingly, recognising the service users needs for the services being charged for; and
- Developing a commercial/entrepreneurial culture within the organisation.

"Our analysis of 2011–12, the first year of SR10, indicates the sector continues to deliver. However, local government's resilience over the medium-term remains far less certain"

Grant Thornton - Towards a tipping point?

3.4 Objective Four: To ensure that the Council's infrastructure is fit for purpose

Key themes

- Capital Strategy
- Capital Gateways
- Linkages to other funding sources
- Development Income
- LDF and Infrastructure needs
- Asset Rationalisation
- Housing Stock Strategy
- 5 year Housing Capital programme

To deliver a long term vision for the borough requires a fundamental shift in the resourcing of our infrastructure needs, in short a shift away from a revenue dominated strategy to one that is capital in its nature of thinking, planning and implementation.

3.4.1 Capital Strategy

A 20 year capital strategy was agreed by Cabinet in November 2010. The first 5 year programme guided by this strategy was agreed by Council in February 2011 and we are now moving into year 3 of that programme. Alongside this step change in investment agreed, the Council needed to rapidly develop corporate capacity to effectively deliver the Borough's ambitious built environment and infrastructure programme.

Historically, the delivery of capital projects has not always been sufficiently co-ordinated across the Council. Although there are pockets of excellent practice, the existing model is dependent upon procuring external project management support and does not make best use of category management or intelligent commissioning. As a result, the Council is not always able to maximise value for money through the supply chain.

Therefore a Capital Delivery Hub (CDH) has been established. The structure is based on examination of best practice models in similar size complex organisations in both the private and public sectors. By entrusting future commissioning and delivery to the CDH, departments will be able to focus on their core business: ensuring efficient delivery of high quality services. To ensure that departmental needs are met, the CDH has also established intelligent client functions working directly to service departments. With a clear understanding of service-specific business needs, the client function acts as the departmental commissioner for capital delivery, maintaining an overview of the department's capital delivery projects and programmes.

3.4.2 Capital Gateways

Croydon's 'Capital Portfolio' is a portfolio of projects and programmes that represents a 5-year rolling investment plan. This will drive the achievement of Croydon's long-term Vision including corporate priorities to transform our places, transform our services and most effectively manage our assets.

To achieve this the Council have introduced a set of Corporate Gateways and a process that will enable us to make sound investment decisions based on a balanced evaluation of projects and programmes, prioritise and sequence projects and programmes and provide the authority to proceed between stages confirming the release of funding where necessary.

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 are of good quality;
- Benefits are clearly-defined from the outset, and achievable.

3.4.3 Linkages to other funding sources

The Council continues to work hard to lever in all available external funding for the Borough. Key external funding sources to support the development of the infrastructure are:

- Transport for London;
- Home Office;
- Department for Education;
- Department for Communities and Local Government;
- Department of Health; and
- Mayors Regeneration Fund.

"Prosperity comes from the effective accumulation and efficient use of capital – financial, human, intellectual, natural and physical capital"

HM Treasury - National Infrastructure Plan

3.4.4 Development Income

The Council will seek to maximise income arising from the granting of planning permissions in order to fund infrastructure needs through both:

- Section 106 agreements; and
- A Community Infrastructure Levy (CIL).

The Council is currently preparing to implement a Community Infrastructure Levy (CIL) from April 2013. CIL is a new charge which local authorities are empowered, but not required, to levy on most types of new development. The introduction of CIL enables the Council to introduce a new mechanism to capture the funding for infrastructure through the planning process. The proceeds of the levy will fund new local infrastructure to support the development of an area in line with the Local Authority's development plan. CIL will be levied in pounds per square metre of the net additional increase in floor space of particular types of development.

CIL differs from S106 as it is a general local levy that is placed on new development. S106 will be levied on specific developments to fund capital schemes that are required to mitigate the impact of those developments on their local environment.

3.4.5 LDF and Infrastructure needs

In 2012 the Council put a new Local Development Framework (LDF) in place. The LDF sets out a spatial strategy for the borough which will guide planning and development in the borough over the long-term horizon. It will act as a catalyst for borough-wide transformation. The infrastructure plan derived from the LDF will in turn drive the capital strategy of the Council.

3.5.6 Asset Rationalisation

The Council's Corporate Property Strategy sets out how the Council will manage its property portfolio over the next 5 to10 years and challenge services on their use of property. The property strategy provides a clear direction and a set of asset challenge criteria to achieve a reduced and centralised estate.

Longer term the Corporate Accommodation Strategy will provide a comprehensive view of how the corporate accommodation can be reduced and centralised over the next 3 to 5 years to achieve the journey from a widely dispersed offer to a more focussed centralised offer.

3.5.7 Housing Stock Strategy

The current business plan allows for significant investment in our existing housing stock which is intended to address the backlog of major works that built up under the financial constraints of the housing subsidy system

3.5.8 Five Year Housing Capital Programme

The current housing business plan allows for the following capital expenditure over the next 5 years:

- Major repairs £125.0m
- Backlog works £ 13.4m
- New build £ 30.0m
- **Total £168.4m**

3.5 Objective Five: To Maximise the Councils resource base

Key themes

- New Homes Bonus
- Business Rates Retention Scheme
- Council Tax
- Housing Rents

Effectively managing the future resource base of the Council will be key to the long term sustainability of the Council. A significant amount of our resource will be driven by local decision making (Local taxation and Rent changes) and local growth (Business rates income and New Homes Bonus).

The Local Government Resource Review (LGRR) was launched by Communities Secretary Eric Pickles in late 2010, after the Government indicated its intention to replace the current 'needs based' system with one that incentivises authorities to grow their business rates base. This reflected a wide consensus that the current system did not incentivise local decisions that supported growth.

Local government has therefore seen a significant shift in emphasis of funding with the Coalition Government's proposals on resources available to councils. These effectively underpin/support Croydon's corporate priority of 'Promoting economic growth and prosperity".

3.5.1 New Homes Bonus

The New Homes Bonus Grant incentivises Croydon for promoting house-building in our communities by rewarding the council with a grant for:

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

The majority of this resource is essentially top sliced from the Revenue Support Grant. Therefore the New Homes Bonus is part of a shift from a needs based formula of funding for local government to one that places more emphasis on local economic growth. The Council has a clear plan for the provision of new housing in the Borough which will help deliver New Homes Bonus over the period of the financial strategy.

Croydon's New Homes Bonus Grant for the first three years of the scheme is shown in the tables below:

Table 3 – Funding Element

Funding Element	2011/12 £	2012/13 £	2013/14 £
New Build Empty homes brought back into use	1,981,007 220,840	1,527,929 231,252	1,080,530 (67,393)
Affordable Homes Riot Addition	2,201,847 -	1,759,181 263,550 30,066	1,013,137 201,950
Total	**2,201,847**	**2,052,797**	**1,215,087**

Table 4 - Annual Grant (Cumulative)

Annual Grant (Cumulative)			
2011/12	£2,201,847		
2012/13		£4,254,644	
2013/14			£5,469,731

Table 5 - Data

Data	New Build		Empty homes brought back into use		Affordable
	No. of Units	Band D equivalent	No. of Units	Band D equivalent	No. of Units
2011/12	1,562	1,377	159	153	n/a
2012/13	1,252	1,062	155	161	753
2013/14	841	748	(41)	(47)	577

3.5.2 Business Rates

The *'Local Government Resource Review'* has resulted in the introduction of the Business Rates Retention scheme as a key source of Croydon's funding. The Council will benefit from being able to retain 30% of the increased yield from locally generated Business Rates resulting from increased economic growth. It incentivises Croydon to retain, develop and grow the businesses already in the borough as well as increasing the attractiveness of the town for other businesses to set-up or re-locate here. This also brings risk in that the council will carry 30% of the risk of any reduction in business rates yield. A key part of our strategy will therefore be to try and increase the yield to support our future budget. Based on the Council's 2013/14 Baseline Funding Level and the assumptions in the table below the annual increases in business rate income that Croydon would retain are illustrated as follows:

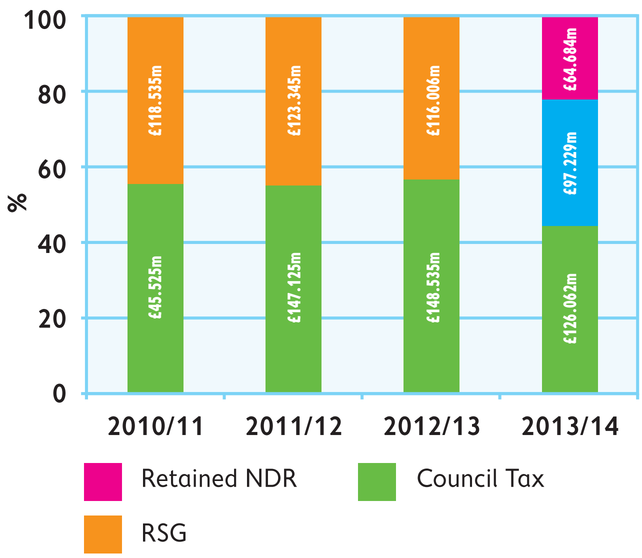
Table 6 – Business Rates annual increase

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Business Rates Income	32.962	33.889	34.944	36.418	38.064
Top up	31.723	32.675	33.524	34.563	35.635
Baseline Funding Level	64.685	66.563	68.468	70.981	73.699
Annual Increase		1.878	1.905	2.513	2.718
Assumptions					
Annual NDR Growth	0.5%	0.5%	0.5%	0.5%	0.5%
RPI (OBR forecast)	2.6%	3.0%	2.6%	3.1%	3.1%

3.2.3 Council Tax

Council tax remains a critical part of the council's resource base as Chart 4 below shows;-

Chart 4 – % of Budget Requirement raised from Council Tax 2010/11 to 2013/14



Increasing our council tax base provides a direct increase to the income available to the council. This can come from three areas:

Improvements in collection – As a Council, we will continue to drive up collection rates to ensure all money owed is paid. Over the period of the last financial strategy in year collection was increased each year.

Reductions in discounts/exemptions – The Comprehensive Spending Review 2010 introduced the proposal that support for council tax benefit would be localised from central to local government from 2013-14 and that expenditure is reduced by 10% from the same date. Localisation of council tax support is part of a wider set of reforms to the welfare system which are intended to improve the incentives to work and ensure resources are used more effectively, so "reducing worklessness and ending a culture of benefit dependency".

The challenge for Croydon is to ensure an affordable local council tax support/benefit scheme is developed and implemented which provides continued support to the most vulnerable residents within the community whilst seeking to protect the priorities of our residents overall. The actual cost to the council was reduced by both the Council Tax Support Scheme agreed by Cabinet on 10th December 2012 and by the legislative changes to council tax discounts and exemptions to a net impact of £0.860m. The devolution of responsibility to provide Council Tax Support will incentivise the Council to encourage and support all our residents in their seeking and retaining employment whilst at the same time maintaining protection for those most vulnerable in our community. A reduction in the numbers claiming benefit will have a direct impact on the council's budget although the risk to the Council will rest mainly on external factors such as economic growth and the resulting employment levels.

Local Taxation – Over the period of the last financial strategy 2010/13 there has been no increase in council tax raised and therefore the council tax base has remained at the same level as 2009/10. In considering the future tax decisions at a local level the Council will need to balance the considerations of grant incentives to keep tax increases constrained, referendum levels which are a mechanism to control increases and the underlying financial needs of the borough which should be appropriately supported through local taxation decisions. The complexity of policy changes in this area make these decisions more challenging over the medium term.

3.5.4 Housing rents

Long term planning in the Housing Revenue Account is based on a 30 year business plan. Following the introduction of self financing in 2012 the council took on £223m of 'new' debt. As a consequence it no longer has to pay subsidy payments annually to the government. The loan will be financed and repaid from the HRA. In order to make this affordable the assumption on rent increases are that following national set rent convergence targets to 2015/16 and rents will rise year on year by RPI + 0.5%. It is vital to note that any variation from this would have a significant impact on the income levels within the HRA and therefore the business plan.

4. Financial Strategy Planning Assumptions

4.1 Key principles

4.1.1 The Financial Strategy informs the key principles of the budget based upon the following 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 organisational transformation and economic development;
- All asset rationalisation savings will be used to contribute to Bernard Weatherill House;
- 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;
- Rent restructuring guidelines 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;
- New funding for the delivery of a Public Health service will remain ring-fenced to the funding allocated.

4.1.2 Table 7 - Draft Budget for the period of the Financial Strategy

	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Starting point for Budget	**292.716**	**274.238**	**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**
Net Budget	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
Budget Requirement	**-274.235**	**-267.500**	**-262.798**	**-804,533**
Revised Gap	**7.170**	**24.217**	**22.331**	**53.718**

4.1.3 Housing 30 Year Business Plan

Table 8 - The estimated income and expenditure over the HRA business plan

Financial Years	Rental Income £m	Other Income £m	Total Income £m	Housing Management Costs £m	Service Charge Costs £m	Other Revenue Spend £m	Capital Works £m	Capital Financing Charges £m	Total Spend £m	Surplus/ Deficit £m
2013/14 - 2017/18	-422.7	-32.2	**-454.9**	100	40.7	79.9	172.6	63.6	**456.8**	**1.9**
2018/19 - 2022/23	-497	-19.3	**-516.3**	113.1	46.1	91	193.3	72.3	**515.8**	**-0.5**
2023/24 - 2027/28	-575.1	-19.8	**-594.9**	128	52.2	102.9	201.8	75	**559.9**	**-35**
2028/29 - 2032/33	-663.8	-22.6	**-686.4**	144.8	59	116.4	197.8	56.1	**574.1**	**-112.3**
2033/34 - 2037/38	-766.3	-25.9	**-792.2**	163.8	66.8	131.7	205.6	60.1	**628**	**-164.2**

Note: The surpluses from the HRA will be used to repay the borrowing incurred from the subsidy buy out.

5. Delivering and monitoring the financial strategy

5.1 The budget setting process

TThe Council has a robust and embedded financial planning process that will support the delivery of this financial strategy process through:

Transformation 'Challenge'

In line with the service led transformation approach now being taken each department is required to produce a departmental transformation plan that sets out at service level the steps being taken to deliver their service over the next 3 years and the resources required in order to do so. This is based on a targeted level of savings required in order for the Council to set a balanced budget.

This then go through a Challenge process which ends with the budget being agreed in February. The stages are set out below:

Guidance and Planning Principles circulated by Section 151 Officer in April, this sets out the detail of the process and the assumptions that the plans should be based on in terms of inflation, savings targets etc;

Officer Transformation Challenge – Chaired by the Chief Executive (July) – departments present initial proposals for services over the next 3 years with high level financials;

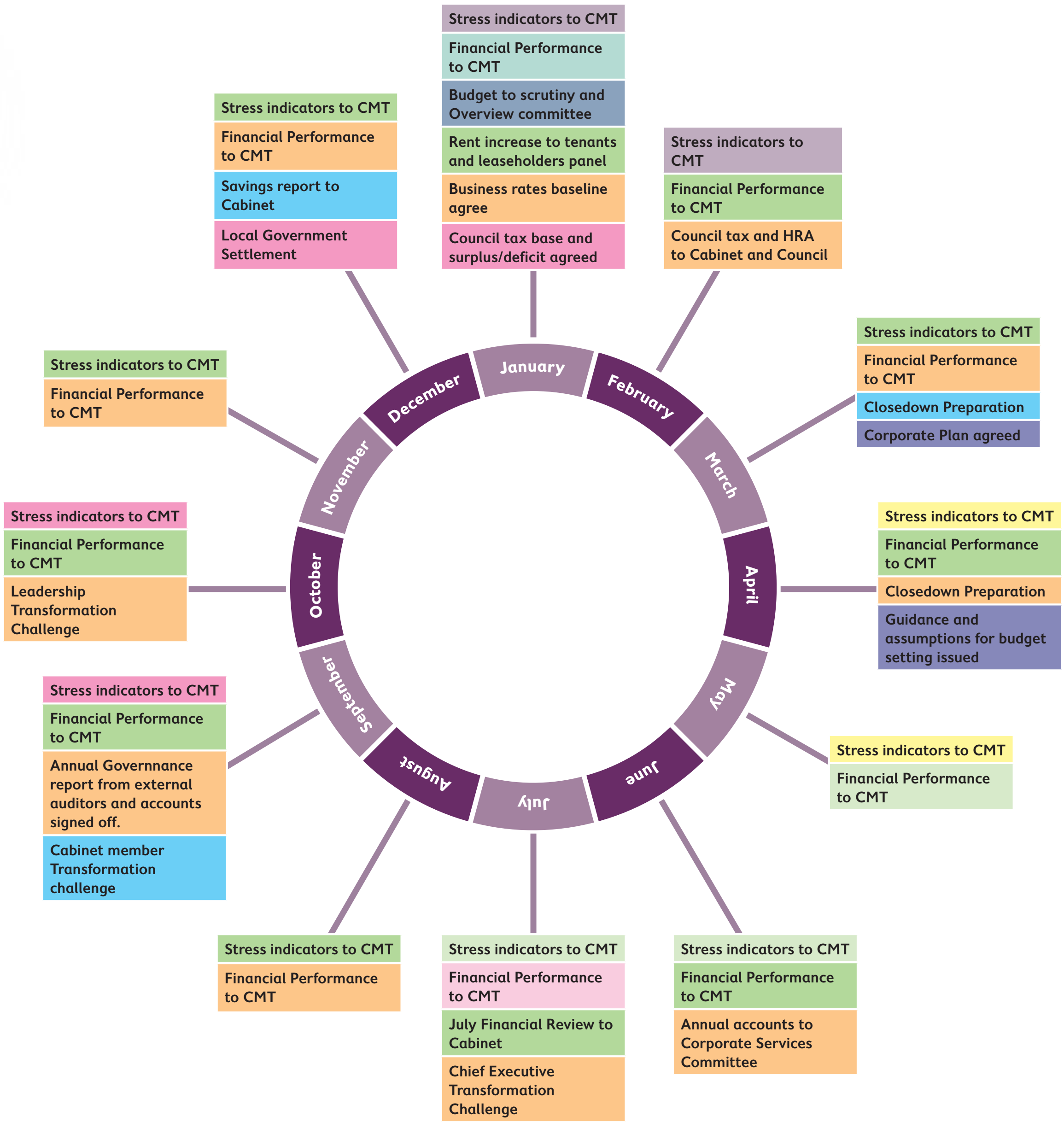
Cabinet Member Transformation Challenge – Chaired by Cabinet member for Finance and Performance Management (September)- departments presents more detailed proposals and political challenge provided to include impact on performance and finance;

Leader Transformation Challenge – Chaired by the Leader of the Council (October) – Final proposals for the next 3 years presented including any options for cuts.

Savings proposals presented to Cabinet – December – Proposals presented to Cabinet for approval

Budget and council tax decisions – presented to Cabinet and Council

Key Financial Processes during the Financial Year



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