

REPORT TO:	CABINET 22 FEBRUARY 2016
AGENDA ITEM:	8.1
SUBJECT:	GENERAL FUND & HRA BUDGET 2016/17
LEAD OFFICER:	RICHARD SIMPSON ASSISTANT CHIEF EXECUTIVE (CORPORATE RESOURCES AND SECTION 151 OFFICER)
CABINET MEMBER:	COUNCILLOR TONY NEWMAN, LEADER OF THE COUNCIL COUNCILLOR SIMON HALL, CABINET MEMBER FOR FINANCE AND TREASURY COUNCILLOR ALISON BUTLER, CABINET MEMBER FOR HOMES AND REGENERATION
WARDS:	ALL
CORPORATE PRIORITY/POLICY CONTEXT:	
<p>The Council's budget 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 2016/17.</p>	
FINANCIAL SUMMARY:	
<p>The report details the revenue and capital budgets for the General Fund for 2016/17, including the total Council Tax increase of 1.89%, the budget for the Housing Revenue Account and the 1% decrease in Housing Rents for 2016/17.</p>	
FORWARD PLAN KEY DECISION REFERENCE	
<p>The recommendations in section 1.1 are not executive key decisions – the final decisions are recommended to the Full Council at the meeting scheduled for 29th February 2016. The recommendation in section 1.2 I, II and III are key executive decisions (reference no. 06/16/CAB). The decisions may be implemented from 1300 hours on the 5th working day after it is made, unless the decision is referred to the Scrutiny & Strategic Overview Committee by the requisite number of Councillors.</p>	

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.

That with reference to the principles for 2016/17 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** in terms of the most recently issued principles and as such to note that no referendum is required;

1.1 The Cabinet recommend to full Council:

- I. A 1.99% increase in the Council Tax for Croydon Services
- II. A 2% increase in the Council Tax for Adult Social Care.
- III. The calculation of budget requirement and council tax as set out in Appendix E

Alongside the GLA decrease this will result in a total increase of **1.89%** for Croydon.

- IV. The revenue budget assumptions as detailed in this report and the associated appendices :-
 - Appendix A the programme of revenue investment, efficiencies and cuts by department.
 - Appendix B The Council's detailed budget book
- V. The Capital Programme as set out in section 12, table 20 and 21 of this report.
- VI. The continuation of the Council's existing Council Tax Support Scheme in 2016/17 as detailed in section 10.5 of this report.
- VII. To recommend to the Council the adoption of the Pay Policy statement at Appendix L;

1.2 That Cabinet agree:

- I. A rent decrease for all Council tenants for 2016/17, in line with the Government's social rent policy which has legislated to reduce social rents by 1%.
- II. Garage rents will increase by 2% and parking space rents will increase to £7 per week for tenants and £10 per week for non tenants.
- III. The un pooled service charge for caretaking, grounds maintenance and bulk refuse collection will not change from 2015/16, as detailed in section 11.14.

1.3 That Cabinet note:-

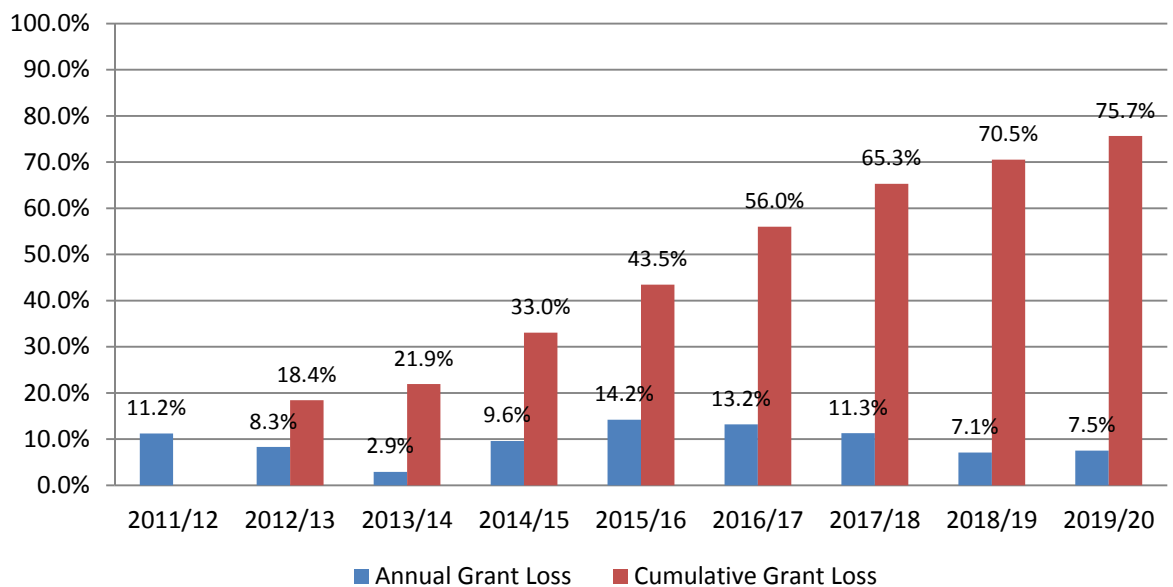
- I. That in respect of the Council's public sector equalities duties where the setting of the capital, revenue and HRA budget result in new policies or policy change the relevant service department will carry out an equality impact assessment to secure delivery of that duty including such consultation as may be required.
- II. The progress being made towards balancing the Council's financial position for 2015/16 as at Quarter 3 and the current projected outturn forecast of £0.602m as set out in the report at item 8.3 on this agenda.
- III. The response to the draft local government settlement which is attached at Appendix F.
- IV. That Cabinet note the pre-decision scrutiny of the proposed Budget 2016/17 at the Scrutiny and Overview Committee as set out in Appendix J
- V. The statement on reserves and balances and robustness of estimates from the statutory Section 151 Officer.

2.0 EXECUTIVE SUMMARY

- 2.1 The report sets out the context and challenges faced by the council in setting a balanced budget for 2016/17. The report also sets out the current savings plans and approach to transformation of the council and over the next 4 years.
- 2.2 Funding and grant reductions are expected from national government based on the Spending Review and Local Government Financial Settlement, over the medium term with a funding gap of over £80m projected over the period 2016/20 (a quarter of the base budget). To address this funding gap the Council initiated the Croydon Challenge programme in 2014 to drive through the transformation of Council services. The programme has focused on making the council more efficient but critically more effective, through a focus on the right outcomes, and delivering services to the public that changes people's lives for the better. While the Council focus on managing this challenge, it will also be continuing to seek immediate action from national government to deliver a Fair Funding Share for the People of Croydon.
- 2.3 The choices made in this budget reflect the clear priorities of the administration. This is particularly clear in the focus on reducing back office costs and protecting the front line and those services that matter most to residents. This is reflected in table 17 and 18 which show the investment and savings by department. With the most significant savings within the Resources department for the second successive year.

2.4 The Government that took office after the 2015 general election has continued to follow a policy aimed at reducing the public sector deficit, principally through reductions in public expenditure. One of the main areas to be cut has been local government. As a result Councils have had significant reductions in their funding from government grants and further reductions are expected over the medium term (Croydon's Grant loss over the period is shown in the graph 1 below). At the same time the Council has faced increasing demand for some services due to demographic pressure (population growth due to natural increases and migration, particularly in older age groups and children) and the consequences of other government policies such as welfare reform.

Graph 1: Croydon's Grant Reductions 2011/20



2.5 The London Borough of Croydon is no different from other council. In order to balance its budget the Council has already delivered over £100m in efficiency savings and cuts so far with a 43.5% cumulative reduction in government funding up to 2015/16 in cash terms. This equates to 54% in real terms.

2.6 The Council has a duty under the Local Government Finance Act 2003 to set a balanced budget before 11th March 2016. 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 29th February 2016.

2.7 It is recommended that there is a 1.99% increase in council tax for the Croydon element of the charge and a 2% increase based on the Adult Social Care Levy as set by the Chancellor. The GLA are proposing a 6.44% decrease in their element of the charge and that is due to be agreed by the GLA on the 22nd February 2016. The overall headline increase is 1.89%. The effect of this decrease on Band D is set out in table 1 below.

Table 1 – Local Taxation & GLA Taxation increase (Band D comparison)

Band D	2016/17	Increase/ (Decrease)	Annual Increase / (Decrease)	Weekly Increase / (Decrease)
	£	%	£	£
Croydon	1,194.70	1.99	23.31	0.45
Adult Social Care Levy	23.43	2.00	23.43	0.45
Greater London Authority	276.00	(6.44)	(19.00)	(0.37)
Total	1,494.13	1.89	27.74	0.53

- 2.8 On the 15th December 2015 Scrutiny and Strategic Overview Committee met and received a report on budget options for 2016/17 from the Assistant Chief Executive (Corporate Resources and S151 Officer). The Committee resolved to recommend to Cabinet that following the pre-decision scrutiny of the proposed Budget 2016/17 at the Scrutiny and Overview Committee meeting on 15th December 2015, it (Cabinet) protects community groups looking to use parks and open spaces for community events including festivals from charges relating to access to these spaces and the use of facilities (eg. toilets) for events and that the Leader and Cabinet takes this recommendation into account in drawing up proposals for submission to the Council. The Cabinet member for Culture and Sport intends to bring a report to Cabinet in the spring on our Parks and these issues will be covered in that report.

3.0 External Financial Environment

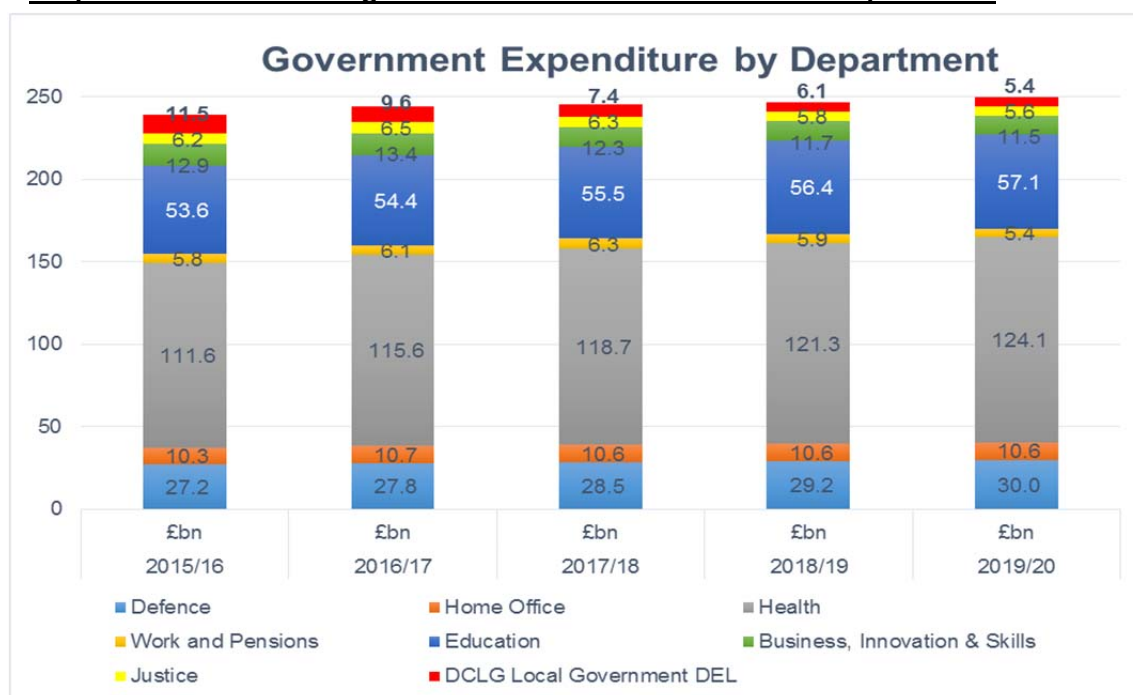
Spending Review 2015

- 3.1 The Chancellor of the Exchequer published the government's Spending Review 2015 on 25 November 2015, setting out public expenditure plans for 2016/17 to 2019/20.
- 3.2 The Chancellor identified £18bn of budgetary consolidation would be needed with the Spending Review period. This was to be achieved through £12 billion of savings to the overall Resource DEL spending, a new apprenticeship levy raising £3 billion and a further £3 billion through reforms such as Making Tax Digital and further measures to tackle tax avoidance.
- 3.3 The resulting funding amounts for the main government departments are shown in Table 2 and graph 2 below. It is important to note that the figures for local government do not include the business rates element of funding and are therefore not a true reflection of the change in funding.

Table 2 Published Funding Amounts for Selected Government Departments

	2015/16 £'bn	2016/17 £'bn	2017/18 £'bn	2018/19 £'bn	2019/20 £'bn	% Change
Defence	27.2	27.8	28.5	29.2	30	10%
Home Office	10.3	10.7	10.6	10.6	10.6	3%
Health	111.6	115.6	118.7	121.3	124.1	11%
Work and Pensions	5.8	6.1	6.3	5.9	5.4	-7%
Education	53.6	54.4	55.5	56.4	57.1	7%
Business, Innovation & Skills	12.9	13.4	12.3	11.7	11.5	-11%
Justice	6.2	6.5	6.3	5.8	5.6	-10%
DCLG Local Government DEL	11.5	9.6	7.4	6.1	5.4	-53%

Graph 2 Published Funding Amounts for Selected Government Departments



Provisional Local Government Funding Settlement 2016/17 to 2019/20

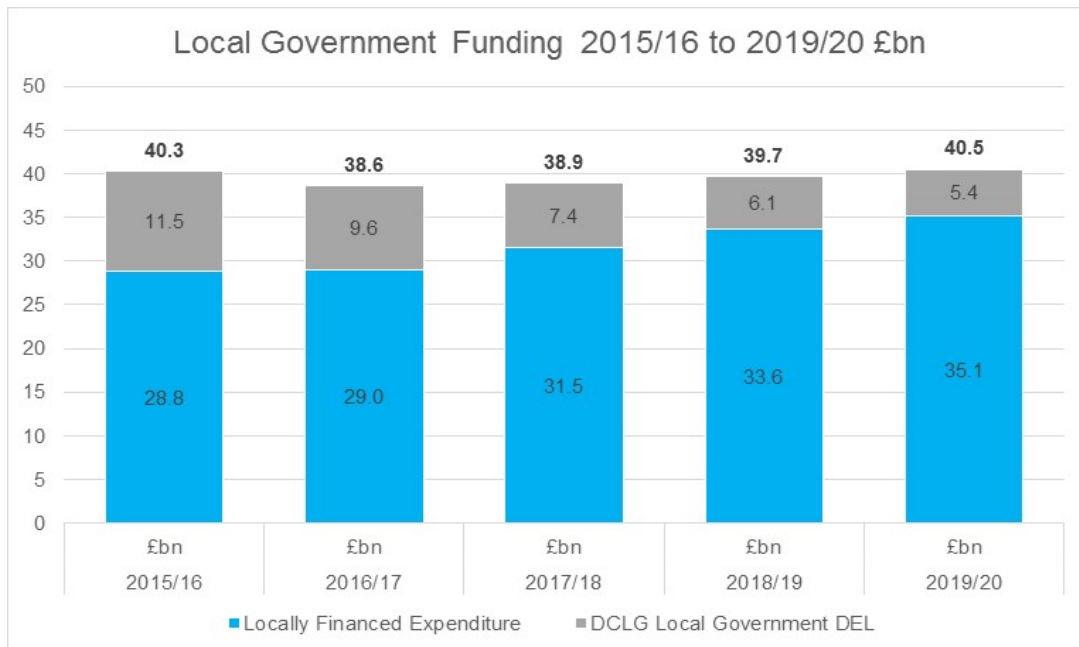
- 3.4 The government has presented local government funding across two funding sources; these being DCLG Local Government DEL and Locally Financed Expenditure.
- 3.5 Table 3 and graph 3 below show the figures provided within the report. It is important to note that:

- The current Business Rates Baseline of £11.3bn is not factored into the figures.
- The figures do not include the move to 100% business rate retention, which is to be consulted upon shortly.
- Changes to grants paid to local authorities from other central government departments are not taken into account.

Table 3 Local Government Funding amounts as per SR15

	2015-16 £bn	2016-17 £bn	2017-18 £bn	2018-19 £bn	2019-20 £bn
DCLG Local Government DEL	11.5	9.6	7.4	6.1	5.4
DCLG Local Government DEL % change		-16.5%	-22.90%	-17.60%	-11.50%
Locally Financed Expenditure	28.8	29	31.5	33.6	35.1
Locally Financed Expenditure % change		0.7%	8.60%	6.70%	4.50%

Graph 3 Local Government Funding amounts as per SR15



3.6 Table 3 shows:

- A reduction in funding of £6.1bn in local government DEL over the period. This equates to a 53% reduction in funding.
- Total funding increases from £40.3bn to £40.5bn.

3.7 In order to put the 53% funding into perspective, it is necessary to consider this

in the context of current Settlement Funding Assessment levels (i.e. including the business rates element). For 2015/16, total funding from SFA is £22.2bn. Therefore, a reduction of £6.1bn over the Spending Review period would represent a reduction of 27.5%.

3.8 The implications for Croydon of these national funding changes were announced at the 2016/17 Provisional Local Government Finance Settlement (see section 5 of this report).

4.0 Inflation

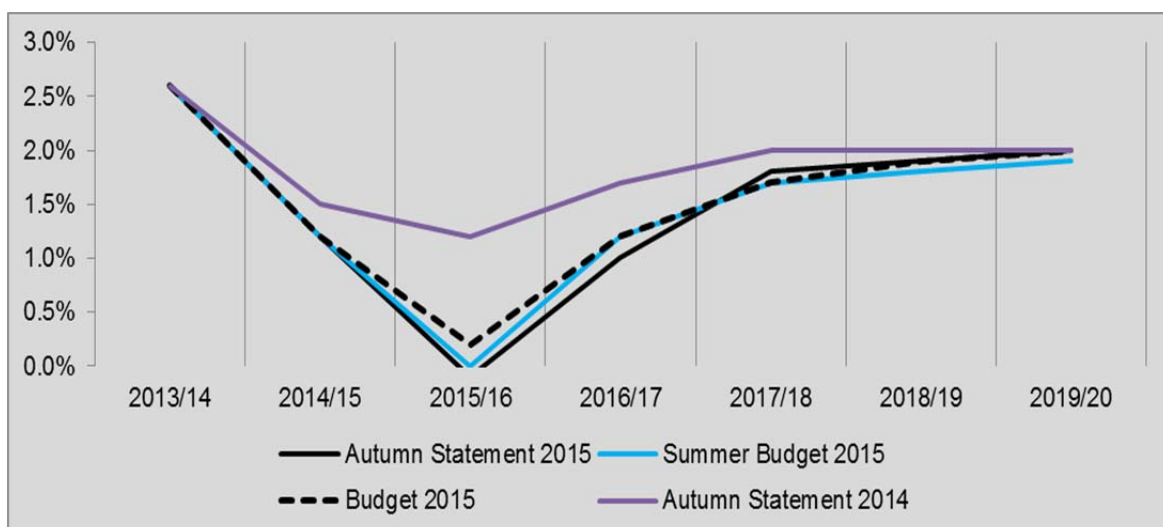
4.1 The Office of Budget Responsibility (OBR) updated its forecast CPI and RPI inflation forecasts for the 2015 Autumn Statement (announced jointly with Spending Review 2015).

4.2 Table 4 and graph 4 below shows the OBR's CPI inflation forecasts against those published in previous announcements. The table shows that forecasts of CPI in 2015/16 and 2016/17 slightly reduced, then slightly increased for the rest of the period compared to July 2015's Summer Budget.

Table 4 CPI Inflation Forecasts

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Autumn Statement 2015	1.20%	-0.10%	1.00%	1.80%	1.90%	2.00%
Summer Budget 2015	1.20%	0.00%	1.20%	1.70%	1.80%	1.90%
Budget 2015	1.20%	0.20%	1.20%	1.70%	1.90%	2.00%
Autumn Statement 2014	1.50%	1.20%	1.70%	2.00%	2.00%	2.00%

Graph 4 CPI Inflation Forecasts



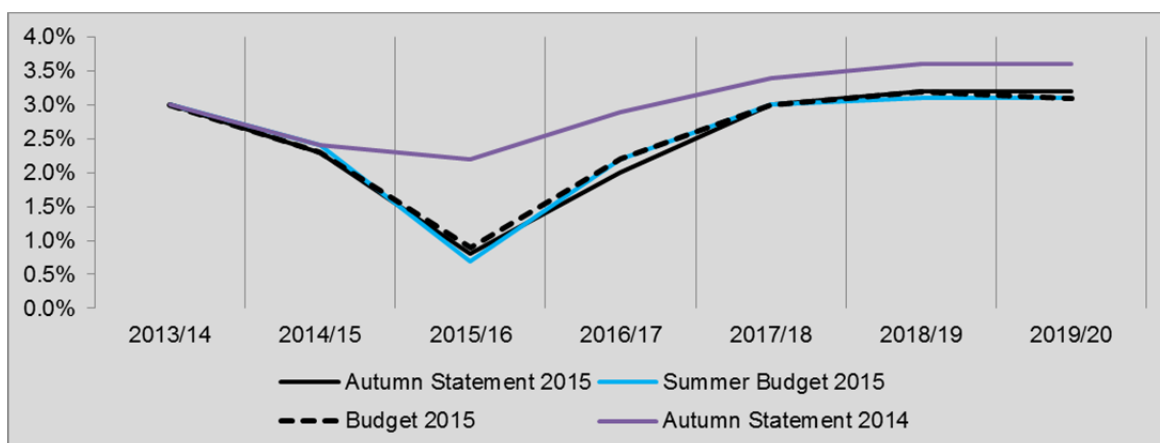
Inflation - RPI

- 4.3 Table 5 and graph 5 below shows the OBR's RPI inflation forecasts against those published in previous announcements. The table shows forecasts of RPI have been varied for most years by between 0.1% or 0.2% compared to July 2015's Summer Budget.

Table 5 RPI Inflation Forecasts

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Autumn Statement 2015	2.30%	0.80%	2.00%	3.00%	3.20%	3.20%
Summer Budget 2015	2.40%	0.70%	2.20%	3.00%	3.10%	3.10%
Budget 2015	2.30%	0.90%	2.20%	3.00%	3.20%	3.10%
Autumn Statement 2014	2.40%	2.20%	2.90%	3.40%	3.60%	3.60%

Graph 5 RPI Inflation Forecasts



5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 5.1 On 17 December 2015, the provisional local government finance settlement 2016/17 was published. This settlement provided provisional figures for 2016/17 and indicative figures to 2019/20. The Council's response to the consultation on the local government settlement is contained in appendix F. The final settlement was announced on the 8th February 2016. No changes were made to the Settlement Funding Assessment (SFA), New Homes Bonus (NHB) and Improved Better Care Fund (BCF). The key issues emerging from the settlement and the implications for Croydon, are as follows:

Settlement Funding Assessment

- 5.2 Rather than all local authorities receiving the same percentage reduction in Revenue Support Grant (RSG) funding, the government propose to take into account the amount that can be raised locally from Council Tax, thereby increasing the reduction in RSG funding for higher taxbase authorities (in terms

of the ratio of taxbase income to SFA) and lowering the reduction for lower than average taxbase authorities.

- 5.3 For the period 2015/16 to 2019/20, there is a reduction to the England Settlement Funding Assessment (SFA) of 31.8% (based on the adjusted 2015/16 figure), as per table 6 below. The Settlement Funding Allocation is composed of Business Rates income and Revenue Support Grant.

Table 6 Settlement Funding Assessment allocations 2005/16 to 2019/20

	2015-16 adjusted £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
SFA	21,250	18,601	16,622	15,536	14,500
Change %		-12.5%	-10.6%	-6.5%	-6.7%
Cumulative change %		-12.5%	-21.8%	-26.9%	-31.8%

- 5.4 The equivalent figures for Croydon, including a breakdown of funding from business rates and Revenue Support Grant, are shown in Table 7 below. The table shows a 13.2% reduction in SFA funding for 2016/17 and an overall reduction of 33.9% up to 2019/20.

Table 7 Croydon's Settlement Funding Assessment allocations 2005/16 to 2019/20

	2015-16 adjusted £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Revenue Support Grant	64.8	46.8	32.6	23.3	13.9
Business Rates	67.2	67.8	69.1	71.1	73.4
SFA	132.0	114.6	101.7	94.4	87.3
Change %		-13.2%	-11.3%	-7.1%	-7.5%
Cumulative change %		-13.2%	-23.0%	-28.5%	-33.9%

- 5.5 It is important to note that the Business Rates baseline funding income figure above assumes Croydon is able to collect at its business rates target (set by government). For 2016/17, Croydon's local share is assumed to be £34.5m, with the remainder of the £67.2m total being NNDR top up grant. In the short to medium term, Croydon is expected to be below this target, due to the cumulative effect of business rate appeals and the proposed redevelopment in the town centre. This initially will cause a reduction in business rates income (through sites being demolished) before an increase in the medium to longer

term as new sites are built and operational. The projected local share of business rates for 2016/17 is £32.7m, which is a gap of £1.8m compared to the government's assumed target. This gap is being met by gains in council tax income growth.

- 5.6 Croydon, however, should also benefit from other aspects of the business rates scheme due to the following locally led initiatives:
- 5.7 We continue to work with Treasury, CLG and the GLA on a growth zone for Croydon as reported previously to Cabinet. This would see future business rate growth in the Croydon Opportunity Area ring-fenced to pay for the infrastructure needed to make this growth sustainable.
- 5.8 Croydon has joined with six Surrey authorities to form a business rates pool in 2016/17. This arrangement should see the authorities from the pool gain from being able to retain a higher proportion of business rates growth locally than they would if they were not within a pool. The pooling gains for Croydon for 2016/17 are forecast at between £0.5m and £0.7m depending on the growth across the pool.

Council Tax

- 5.9 The Council Tax referendum limit remains at 2%. However, local authorities with social care responsibilities will be able to increase council tax by up to 4% per annum to 2019/20, providing that 2% is for social care. There is no Council Tax Freeze Grant offering for the period 2016/17 to 2019/20.
- 5.10 The government produced national and local indicative council tax income levels for the period 2016/17 to 2019/20; with income increasing from £22.0bn in 2015/16 to £25.5bn in 2019/20. These figures assume:
 - 5.11 An allowance for an increase in council tax in line with CPI for the period, using the OBR estimates. The government indicates it has used an average of 1.75% per annum for the period (excluding the additional 2% for social care);
 - 5.12 An assumption of growth in the tax base which is based on the average levels of growth between 2013/14 and 2015/16. However, the increases used by the government are higher than those forecast by the Office of Budget Responsibility (by £1.2bn over the four year period).
- 5.13 The equivalent government figures for Croydon are Council Tax income increasing from £133.4m in 2015/16 to £160.2m in 2019/20. However, as indicated above, these figures are only based on national assumptions regarding council tax increases (3.75% a year) and taxbase growth.

Improved Better Care Fund

- 5.14 From 2017/18, there will be an additional funding through the “Improved Better Care Fund”. By 2019/20, this will be worth £1.5bn per annum. Initial allocations for Croydon begin in 2018/19 at £3.1m, increasing to £6.3m in 2019/20. However, it is important to note that government is consulting on how the resources are to be allocated, therefore, these allocations may alter.

New Homes Bonus

- 5.15 There are no changes to the New Homes Bonus scheme planned before 2017/18, with in-year national allocations increasing from £1,167m in 2015/16 to £1,485m in 2016/17, £1,493m in 2017/18 and then a reduction to £938m in 2018/19 and to £900m by 2019/20.
- 5.16 For Croydon, an allocation of £11.9m has been made for 2016/17.
- 5.17 For future years, indicative allocations for Croydon of £12.0m (2017/18), £7.5m (2018/19) and £7.2m (2019/20) were published. However, these could alter significantly, due to the current consultation paper on the future of the scheme, where the government propose to make changes to how individual authority allocations are calculated. The figures also do not take into account future new homes growth locally (they are based on previous years’ growth).

Core Spending Power

- 5.18 The Rt Hon Greg Clark Secretary of State for Communities and Local Government announced that the Spending Power calculation that has been published in previous years has been amended to exclude funding that is not directly controlled by local government and is now known as Core Spending Power. The calculation therefore only includes the Settlement Funding Assessment, Council Tax, the Improved Better Care Fund, New Homes Bonus, the Rural Services Delivery Grant and the Transition grant which was included in the final settlement.
- 5.19 In the final settlement a transitions grant of £150m in both 2016/17 and 2017/18 was announced for authorities with the “sharpest reductions in RSG”.
- 5.20 Table 8 below shows the national changes to Core Spending Power between 2015/16 and 2019/20. It shows a reduction of 2.3% for 2016/17 and an overall reduction for the period 2015/16 to 2019/20 of 0.3%.

Table 8 Core Spending Power figures for England 2015/16 to 2019/20

	2015-16 adjusted £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Settlement Funding Assessment	21,250	18,601	16,624	15,559	14,500
Council Tax	22,036	23,163	24,459	25,853	27,353
Improved Better Care Fund	0		105	825	1,500
New Homes Bonus and returned funding	1,200	1,485	1,493	938	900
Rural Services Delivery Grant	16	80	65	50	65
Transition Grant	0	150	150	0	0
Core Spending Power	44,502	43,479	42,896	43,225	44,318
Change %		-2.3%	-1.3%	0.8%	2.5%
Cumulative change %		-2.3%	-3.6%	-2.9%	-0.3%

5.21 The equivalent figures for Croydon are shown in table 9 below. They show a 2.4% reduction in 2016/17 and an overall reduction of 0.5% over the period to 2019/20. However, as noted previously, these figures below do not take into account the actual business rates income collected (within the SFA allocation), potential changes to New Homes Bonus and Better Care fund allocation methodologies or local assumptions regarding taxbase and tax rate growth.

Table 9 Core Spending Power figures for Croydon 2015/16 to 2019/20

	2015-16 adjusted £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Settlement Funding Assessment	132	114.6	101.7	94.4	87.3
Council Tax	133.4	141.8	151.4	161.8	173.1
Improved Better Care Fund	0	0	0	3.1	6.3
New Homes Bonus and returned funding	9.9	11.9	12	7.5	7.2
Transition Grant	0	0.4	0.4	0	0
Core Spending Power	275.3	268.7	265.5	266.9	274
Change %		-2.4%	-1.2%	0.5%	2.6%
Cumulative change %		-2.4%	-3.6%	-3.0%	-0.5%

5.22 The above table only covers the funding to the Council. The council also faces pressures on its expenditure as has previously been reported to the Cabinet. Demand pressures resulting from demographic and population changes and inflationary pressures are not factored into the government's calculation of

spending power. Section 6.12 sets out the latest estimate of these pressures for Croydon over the medium term. The above table does not reflect that some of the funding is for new responsibilities. In addition, there are pressures created from reductions in other funding streams, such as public health, Education Services Grant, Home Office funding for Unaccompanied Asylum Seeking Children and CALAT.

5.23 There has been no update of the allocation of grant to reflect needs. Table 10 below compares funding per head in London. Croydon rank 21st out of London borough's in SFA per head, which does not reflect our position on a number of the indices that reflect deprivation. The Council has written to the Minister for Local Government, Marcus Jones and the Chancellor of the Exchequer, George Osborne to raise the issues about funding of Croydon and a copy of these letters and the response from Marcus Jones is contained in appendix G and H and I of this report.

5.24 For example, if the funding were at the level of the lowest inner London borough, Croydon would receive an additional £23m in 2016/17.

Table 10 – Settlement Funding Assessment per Head

Authority	Population 2015 '000's	Settlement Funding assessment- per head					Rank 2015/20 Average
		2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	
City of London	8.3	3363.97	3120.17	2938.93	2838.59	2735.78	1
Hackney	262.8	712.77	649.77	603.2	577.09	551.28	2
Westminster	232.6	662.56	604.33	561.09	537.1	512.65	3
Tower Hamlets	282.7	664.59	603.92	559	533.91	508.83	4
Southwark	306.5	645.73	585.71	541.33	516.48	491.81	5
Camden	234.5	660.16	590.79	539.4	510.73	481.96	6
Islington	223.6	649.49	585.6	538.35	511.9	485.64	7
Lambeth	321.3	591.52	533.5	490.61	466.57	442.77	8
Newham	330.3	573.12	522.79	485.61	464.74	444.17	9
Hammersmith and Fulham	180	586.89	528.12	484.57	460.29	435.87	10
Kensington and Chelsea	155.6	584.5	512.89	459.62	430.17	399.89	11
Lewisham	293.9	553.22	499.12	459.18	436.73	414.71	12
Greenwich	269	533.02	481.51	443.51	422.12	401.19	13
Haringey	269.6	522.29	467.45	426.93	404.19	381.77	14
Barking and Dagenham	202.4	488.32	442.17	408.12	388.95	370.23	15
Brent	322.4	473.55	424.41	388.09	367.72	347.6	16
Waltham Forest	272	448.16	399.59	363.72	343.58	323.74	17
Wandsworth	317	398.15	361.51	334.34	319.22	303.95	18
Enfield	331.5	390.81	345.18	311.49	292.56	273.96	19
Ealing	351.1	384.91	338.75	304.64	285.51	266.62	20
Croydon	380.8	346.68	300.85	267.00	247.99	229.28	21

Sutton	201.5	337.01	288.23	252.18	231.96	211.98	22
Hounslow	272	322.06	280.15	249.17	231.81	214.62	23
Redbridge	300.5	312.65	272.73	243.24	226.69	210.37	24
Merton	210.3	308.75	263.91	230.72	212.17	193.67	25
Hillingdon	295.7	287.19	245.68	215.01	197.8	180.83	26
Barnet	381.8	281.13	237.29	204.87	186.72	168.7	27
harrow	250.8	276.47	232.24	199.54	181.22	163.06	28
Bexley	240.7	272.64	230.42	199.23	181.71	164.47	29
Havering	247	256.39	212.62	180.29	162.13	144.28	30
Kingston upon Thames	172.5	233.65	186.39	151.38	131.85	112.25	31
Bromley	323.9	215.11	174.44	144.36	127.53	110.78	32
Richmond upon Thames	196.5	225.2	167.9	124.78	101.56	75.88	33

6 2016/17 GENERAL FUND REVENUE BUDGET

6.1 The next section sets out the key areas of change in the London Borough of Croydon budget for 2016/17.

Table 11 below gives a summary of the high level budget movements

Table 11 – Budget Gap

Issues	2016/17 £m
Grant loss	14.6
Inflation	2.6
Growth	9.0
Council Tax base increase	-4.5
Budget Gap	21.7
Gap Closed by	
Council Tax	5.5
Income options	5.7
Efficiencies - Digital and Enabling, corporate resources	5.2
Adults transformation programme	3.0
Efficiencies in service delivery	2.3
	21.7

Local Taxation / Collection Fund

6.2 Alongside grant income, local taxation is the other major income stream that impacts on the budget setting of the council. The Collection Fund accounts for

taxation from Council Tax and Business rates.

- 6.3 **Council Tax base:** the number of domestic properties in the borough is described as the Council tax base, and the number is converted into Band D equivalent units. An increase in council tax base will enable a higher level of general fund budget to be supported from any given level of Band D equivalent Council Tax. It is anticipated that there will be an increase in the Council tax base of 3.4% compared to the 2015-16 base, which will enable a further £4.571m of expenditure to be supported in the 2016-17 general fund budget. The Council tax base is adjusted for collection rates, which are proposed to remain at 96.7% for 2016-17.

Table 12 - Increase in Council Tax Base

Year	Council Tax base (units)	Band D equivalent * £	Council Tax funding £m
2015-16	113,893	1,171.39	133.413
2016-17	117,795	1,171.39	137,984
Change	3,902	0	4,571

*for the purpose of demonstrating the tax base increase, the Band D Council tax rate remains unchanged.

- 6.4 **Projected Collection Fund Surplus:** it is anticipated that a surplus of £3.7m will be available for release into the 2016/17 general fund budget. This figure is now a combination of the forecast surplus / deficit position for both Council Tax and Business Rates, as set out below:
- 6.5 Council Tax - Croydon's share of the anticipated council tax surplus for 2016-17 is £9.2m. There has been a council tax surplus in the last 3 years as the tax base has grown and collection rates have improved.
- 6.6 Business rate localisation since 2013-14 has led to some added risks for the council particularly in relation to valuation appeals from businesses that can go back a number of years. The council has to provide for these within the collection fund even though these may go back a long time before the current financial year. A deficit is projected for 2016-17, of which Croydon's share is £5.5m.
- 6.7 Any difference between the projected surplus and final surplus for 2016/17 will be carried forward within the collection fund, for consideration in 2017/18's general fund budget.

Local Taxation Change for 2016/17

- 6.8 The council tax change for the Croydon element of the charge for 2016/17 is recommended to be **3.99%** in accordance with Appendix D of the report.
- 6.9 This decision includes a 2% increase for the adult social care levy that was approved as part of the Local Government Finance Settlement. This is contained in Appendix E, with the Band D effect shown in Table 13 below.

Table 13 – Local Taxation for 2016/17

	2016/17 £	Increase £
Croydon Band D per year	1,194.70	23.31
Croydon Adult Social Care Levy	23.43	23.43
Band D per year	1,218.13	46.74

Table 14 – Croydon Council Tax Bandings for 2016/17

Band	2016/17 Croydon Council Tax	2016/17 Croydon Adult Social Care Levy	2016/17 Croydon Annual Amount	Annual Increase	Weekly Increase
	£	£	£	£	£
A	796.47	15.62	812.09	31.16	0.60
B	929.21	18.22	947.43	36.35	0.70
C	1,061.96	20.83	1,082.79	41.55	0.80
D	1,194.70	23.43	1,218.13	46.74	0.90
E	1,460.19	28.64	1,488.83	57.13	1.10
F	1,725.68	33.84	1,759.52	67.51	1.30
G	1,991.17	39.05	2,030.22	77.90	1.50
H	2,389.40	46.86	2,436.26	93.48	1.80

Greater London Authority Precept 2016/17

- 6.10 On 27th January 2016 the Mayor published his final draft budget and announced his intention to reduce the Band D council tax by £19.00 to £276.00. This results in a decrease of **6.44%** in the precept. The Mayor will present his final budget to the London Assembly on 22nd February 2016.
- 6.11 This overall resultant council tax increase is set out in Tables 15 and 16 below.

Table 15 – Local Taxation increase and the GLA Tax increase %

Band D	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %
Croydon – Council Tax	0.00%	1.85%	0.00%	0.00%	1.99%
Adult Social Care Levy	0.00%	0.00%	0.00%	0.00%	2.00%
Greater London Authority	-1.00%	-1.21%	-1.32%	-1.34%	-6.44%
Total	-0.21%	1.21%	-0.27%	-0.27%	1.89%

Table 16 – Local Taxation increase and the GLA Tax increase £

Band D	2016/17 £	Increase / (Decrease) £	Increase per week £
Croydon – Council Tax	1,194.70	23,31	0.45
Croydon – Adult Social Care Levy	23.43	23.43	0.45
Greater London Authority	276.00	-19.00	-0.37
Total	1,494.13	27.74	0.53

6.12 The overall increase for the residents of Croydon is **1.89%**.

Growth areas in the 2016/17 budget

6.13 There are a number of other changes to expenditure assumptions that have to be factored into the budget assumptions. The major ones are set out below;

6.14 **Inflation assumptions for Pay**—: in November 2014 the government agreed a 2 year pay award for local government covering the period April 2014 to March 2016. At the time of setting the budget the pay award for 2016/17 has not been agreed and we have assumed a 1% increase for 2016/17. **This has a cost of £1.156m**

6.15 **Contracts** – A large element of the council spend is through third party providers. Longer term contracts have in-built indices to calculate annual changes whilst other contracts can be negotiated on an annual basis. Appropriate provision has been made based on detailed work on a contract by contract basis. **This has a cost of £1.601m**

6.16 **Income** – It has been assumed that where the council has discretion over the level of fees and charges these will increase in 2016/17 by RPI. **This will generate additional income of £0.119m**

- 6.17 The current figures for Inflation for December were 0.2% for CPI and 0.5% for RPI, but are expected to increase to 2% and 1% respectively. 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.
- 6.18 **Pensions** – following the tri-annual actuarial review completed for April 2014 the employer's contribution rate was agreed as increasing by 1% per annum from April 2015 which will see it increase from 14.1% to 15.1% of pensionable pay. **This has a cost of £1.028m**
- 6.19 **Interest Payable** – the size of the capital programme drives the changes in the interest budget. The programme is set out in section 12. As a result of the borrowing planned for 2016/17 the interest budget will decrease by £0.839m. A separate credit facility has also been set up with the European Investment Bank (EIB) to fund capital schemes within the Council's Education Capital Strategy. This facility will allow the Council to access up to £102m in loans from the EIB for these capital projects over the next few years. To date, a maturity loan of £25.745m has been taken on 1 December 2015 over 15 years at a rate of 2.292% - the comparable PWLB loan interest rate on the day was 3.14%. The Council is therefore expected to make substantial savings of interest on this and future loans taken from the EIB
- 6.20 **Concessionary Fares** – London Councils' TEC committee agreed in December 2012 that there should be a transition for the introduction of usage apportionment for the National Rail and London Overground elements of the Freedom Pass settlement from 2014/15 onwards when the 2-years of usage data became available for these journeys. Owing to the significant distributional effects of moving these elements to usage apportionment the approach that was adopted is identical to that of the implementation of the original 2008 Arbitration Award, where it was phased in over three years. The total cost to Croydon of the scheme for 2016/17 is estimated to be £16.151m. **This has an expected increase of £0.738m.**

Departmental Growth

- 6.21 The Council continues to experience budgetary pressures on services, many of the pressures being demand led. Appendix A sets out all the growth included in the 2016/17 budget assumptions. The approach has been to ensure that the significant recurring departmental pressures identified in the 2015/16 Financial Performance reports to Cabinet are included as growth in 2016/17 to ensure there is an accurate baseline. There are also some items which reflect the priorities of the administration. **The total funding for 2016/17 department growth is £8.910m.** Table 17 below gives details at a summary level of the growth identified for each department:-

Table 17 – Summary of Growth Options by Department

Department	2016/17 £m	2017/18 £m	2018/19 £m	2016/19 Total £m
People	8.910	1.050	0.800	10.760
Place	0.000	0.000	0.000	0.000
Resources	0.000	0.000	0.000	0.000
TOTAL	8.910	1.050	0.800	10.760

- 6.22 The 2016/17 budget will also see the continued prioritisation of the reserve set aside to support the new administration's priorities.
- 6.23 To date, £1.4m of this reserve has been allocated to specific initiatives. In 2016/17 the reserve will continue to support key administration priorities, this may include a package of funding being negotiated with Fairfield (Croydon) Limited on any transitional support they require over the next financial year. Updates will be reported to Cabinet on a regular basis.

7. Savings and the Croydon Challenge

- 7.1 In order to present a balanced budget for 2016/17 significant savings are required as has been set out in the earlier elements of this report. The approach is underpinned by the transformational programme Croydon Challenge.
- 7.2 The Croydon Challenge is the council's transformation programme comprising of a number of projects which looks at every aspect of the council that focus on three key strategic objectives
1. Independence
 2. Growth
 3. Liveability
- 7.3 The programme has been built on a foundation of outcome thinking, and instead of looking at what services we provide, we have looked at why we provide them and how all our resources contribute to the local area and our community. We have reviewed our service offer against the strategic objectives and understood the level of need and unit costs, as well as how that service contributed to the three objectives. By building the council from the bottom up the Croydon Challenge will contribute significantly to the savings required to deliver a balanced budget over the next 3 financial years. To date significant progress has been made on the Croydon Challenge, and examples of these projects are;-
- a) **Digital by Design and Enabling Core** – This project intends to develop and apply digital solutions that help reduce the cost and

streamline the way in which the Council does business, to both the customer experience and to internal services and processes. The council will further simplify, standardise and share enabling spend in order to provide a more agile and effective support function. The programme has already delivered over £2m in savings and is expected to deliver over £5m by 2018.

- b) **Asset Management** - The Cabinet on 17 November 2014 agreed the Asset Strategy to support the delivery of the Growth Promise and to support the delivery of the Financial Strategy (Min.A104/14). The programme is estimated to deliver over £3m in revenue savings by 2018. The letting of space in BWH and the sale of JWH which are items elsewhere of this agenda will make a significant contribution to these savings.

7.4 Alongside the council wide approach from the Croydon Challenge there has been scrutiny of both the budget and net spend for each department. Table 18 below gives details at a summary level of the savings identified for each department including Croydon Challenge projects. Appendix A provides the detail of the 2016/17 savings and growth items by service and also narrative on each. The decisions on savings reflect the policy priorities of the administration. The savings were set out in the Scrutiny and overview paper in December.

Table 18 – Summary of Savings Options by Department

Department	2016/17 £m	2017/18 £m	2018/19 £m	2016/19 Total £m
People	(5.191)	(8.269)	(0.906)	(14.366)
Place	(4.657)	(0.149)	(0.000)	(4.806)
Resources	(6.428)	(3.959)	(0.050)	(10.437)
TOTAL	(16.276)	(12.377)	(0.956)	(29.609)

8.0 Public Health grant

8.1 From 1 April 2013 the responsibility for the management of Public Health (PH) services in the borough transferred to the Council from the NHS. This brought 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. Additional funding is being received in 2016/17 for the transfer to the Council of new responsibilities from NHS England for Health Improvements 0-5 years which took place on 1st October 2015.

8.2 On 4 June 2015 the Chancellor of the Exchequer announced a package of

savings to be made across government in 2015/16 to reduce public debt. These included £200 million to be saved nationally from the public health grant. For Croydon this meant an in year saving of £1.335 million or 6.2% of the grant allocation for 2015/16. The Chancellor's autumn statement announced further savings from the public health grant would be made in 2016/17.

8.3 The public health allocation for 2016/17 and 2017/18 has been announced and results in a reduction in funding of 2.2% and 2.5% respectively. This equates to a reduction of £0.519 million for 2016/17. The 2016/17 Public Health grant for Croydon will be £22.466m.

8.4 The savings for 2016/17 will be realised through a combination of a reduction in the public health staffing budget, service efficiencies, and reductions in the value of a number of contracts.

9.0 Dedicated Schools Grant (DSG)

9.1 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.

9.2 DSG does not fund the statutory functions of the Local Authority which are contained within the Local Education Authority Central Functions sub-block of the Children's Services Block within Formula Grant and are funded through the Education Services Grant. The DSG allocation for Croydon for 2016/17 is **£312.58m** (£309.2m 2015/16). The DSG allocation will be reduced by recoupment for academy funding. This is currently estimated to be £123m but will be subject to change throughout the financial year if schools convert to academies. The increase in allocation for 2016/17 is mainly due to an increase in pupil numbers.

9.3 Details of the grant's planned spend in 2016/17 are contained in Appendix K

9.4 The Spending Review and Autumn Statement reaffirms the Government's intention to ending local authorities' role in running schools and all schools becoming academies. It confirms the introduction of a national funding formula for schools, high needs and early years. A detailed consultation will be launched in 2016 and the new formulae will be implemented from 2017-18.

10.0 Specific External Financial Influences

BETTER CARE FUNDING AND THE CARE ACT

10.1 The Better Care Fund (BCF) 2016-17 policy framework was published on the 8th January. Key changes from the 2015-16 framework are the removal of the pay for performance condition linked to non-elective admissions, and the

removal of the non-elective admissions metric. In general terms, it can be considered that for Croydon the level of change between the 2015/16 and 2016/17 plans will be minor.

- 10.2 The total BCF budget for 2016/17 is estimated at £24m. The budget is managed by the Health and Wellbeing Board where joint priorities are agreed. It is anticipated that Council will control around £10m of the total budget in 2016/17.

WELFARE REFORM

- 10.3 In 2015/16, funding for Local Welfare Support was transferred into the Council's Spending Funding Assessment (SFA), with £455k notionally available to provide crisis loans and emergency support to residents. Whilst this sum was not ring-fenced for this purpose, the amount was committed for this purpose in last year's budget, and will continue to be committed at the same level for the 2016/17 financial year.
- 10.4 The Gateway programme was developed in response to Welfare reforms, and brought together services designed to holistically address customer issues with housing, welfare, and debt management. Since its formation, the Gateway service has been ensuring that these funds are used prudently, and it is anticipated that monies available in 2016/17 will be a combination of the continued allocation of £455k alongside an estimated surplus of £300k to be carried forward into 2016/17 from the current financial year.
- 10.5 The Council's welfare support arrangements will continue to be reviewed in light of national welfare reforms, and further options regarding the Council's support to vulnerable residents are due to be considered in the Summer of 2016.

THE COUNCIL TAX SUPPORT SCHEME

- 10.6 There are no proposed changes to the Council Tax support (CTS) scheme, which offers support to residents with the payment of their Council Tax. The implications of CTS expenditure are built into the Council's Council tax base for 2016/17.
- 10.7 Demand continues to be monitored in both Revenues and Benefits although it is not possible to be able to identify how many contacts directly relate to the Council's council Tax Support Scheme (CTS) or any of the other benefit changes under welfare reform. The value of CTS discount provided to residents remains broadly unchanged between years, with the value of CTS as a percentage of the total value of council tax collectable increasing from 4.0% to 4.1% between December 2014 to December 2015.

11 HOUSING REVENUE ACCOUNT (HRA)

- 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.
- 11.3 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.
- 11.4 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. This was based on the presumption on rent increases.
- 11.5 The Welfare Reform and Work Bill has legislated that council's must reduce rents by 1% per annum from 2016/17 for the next 4 years. The reduction in rents means that the HRA will need to make saving in expenditure of at least £13m over the next three years. The budget for 2016/17 has been balanced without making any changes to service provision, however engagement with tenants is about to commence to begin planning the real cuts that will be necessary over the next 3 years.
- 11.6 A draft budget for the HRA for 2016/17 can be found in the Budget Book in Appendix B.
- 11.7 The future position of the HRA remains subject to further uncertainty in light of a second round of policy proposals issued by the government. These proposals had their second reading in the House of Lords on the 26th January as part of the Housing and Planning Bill. The Council is awaiting the outcome of the legislative process and guidance to be issued from Central Government. Beyond the 1% reduction in rental income the two main proposals that will affect the council's finances are explained below:

Disposal of "high value" properties

- 11.8 Prior to the General Election in May 2015, the Government announced that it proposed to extend the right to buy to housing association tenants, funded from the proceeds of selling "high value" council houses as they become available. The initial indications were that "high value" homes would be those that are in the top third of values for their size and area. As the payments will be based on assumptions about receipts from void sales, it may be the case that actual

receipts will fall short of the payments due. In this case local authorities will need to fund the payments from other resources. Croydon currently has an average of 700 void properties per annum. Therefore if the Government's assumption that a third of these would be classed as "high value", the impact could be the loss of 180 homes each year

Pay to Stay:

- 11.9 The Summer Budget Statement included a policy announcement regarding high income social tenants (HIST). It stated that registered providers would be required to charge market or near market rents to tenants where the household income is in excess of £40,000 in London and £30,000 outside London, referred to as "pay to stay". The accompanying policy costings report indicated that implementation of pay to stay proposals would commence in 2017/18 and in that year are expected to generate £365m of payments (from Councils) to the Treasury. Household income takes into account the two highest incomes earned by the household, and it is expected that rents would be reviewed if the household experiences a sudden and ongoing reduction in income.
- 11.10 In addition to the impact of these changes on the Housing Revenue Account, they are likely to put significant pressure on other (General Fund) services, such as Gateway and homelessness.

Changes in Rent

- 11.11 The Welfare Reform and Work Bill requires all registered providers of social housing in England to reduce rents by 1% a year for four years. Rents for new tenants must also reflect the 1% per annum reduction. Where tenants are eligible for receipt of Housing Benefit, the level of benefit will reflect the lower rent. However, a small number of tenants may be subject to the overall benefit cap.
- 11.12 Social rents in Croydon are currently approximately 40-50% of the private sector equivalent. New build council properties are 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 5% in the past year and therefore council rents remain an affordable option as shown in table 19 below;-

Table 19 – Comparison of rents in Croydon

Property Type	Average weekly Council rent 2015/16	Average weekly Council rent 2016/17	Current average private sector weekly rent	Council rent as % of private sector
1 bed	£88	£87	£200	44%
2 bed	£105	£104	£285	37%
3 bed	£127	£126	£356	35%

11.13 If trends in historic private sector rent increases were to continue, the average private sector rents would be between per £210 week for a 1 bed and £374 per week for a 3 bed property for 2016/17.

Service Charges

11.14 The unpooled service charge for caretaking, grounds maintenance and bulk refuse collection will not change from 2015/16. The charges for 2016/17 will therefore be:

- Caretaking £9.98 pw
- Grounds maintenance and refuse collection £2.05 pw

Heating Charges

11.15 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.

Garages and Parking Spaces

11.16 It is proposed that the rents for garages will increase at 2% (the projected CPI rate for 2016/17) and parking spaces will increase to £7 per week for tenants and £10 per week for non tenants.

12.0 CAPITAL BUDGET 2016/19

12.1 The Capital Programme for 2016/19 reflects the investment priorities of the administration. It remains focused on supporting the delivery of our statutory responsibility in relation to school places whilst also investing in district centres and community facilities across Croydon.

12.2 Tables 20 and 21 show the draft Capital budget by programme and funding streams, this includes the maximum potential slippage from 2015/16 which will be reviewed at the end of the financial year.

Table 20 – Capital Programme

Description	Expected Slippage	Budget 2016/17	Budget 2017/18	Budget 2018/19	Total
	from 2015/16				
	£'000	£'000	£'000	£'000	£'000
Corporate Property Maintenance Programme	7,189	2,100	2,000	2,000	13,289
Disabled Facilities Grant	209	1,600	1,600	1,600	5,009
Education - Academies Programme	0	317	0	0	317
Education - Feasibility, Support & DDA	857	1,180	400	0	2,437
Education - Fixed Term Expansions	439	2,491	25	0	2,955
Education - Primary Estate	9,855	74,060	28,064	1,732	113,711
Education - Major Maintenance	186	2,119	2,000	2,000	6,305
Education - Secondary Estate	0	8,500	139	0	8,639
Education - SEN	129	16,444	10,787	200	27,560
Onside Youth Zone	0	2,000	1,000	0	3,000
Burial Land	0	30	1,300	0	1,330
Empty Homes Grants	0	500	500	500	1,500
ICT	0	1,500	1,500	1,500	4,500
ICT Refresh	0	4,719	1,173	8,582	14,474
Waste and Recycling	1,350	2,160	160	160	3,830
Fairfield Halls	0	4,000	5,000		9,000
Highways	0	5,000	5,000	5,000	15,000
New Addington Regeneration	243	7,830	8,500	0	16,573
TFL - LIP	0	3,336	3,336	3,336	10,008
Thornton Heath Public Realm	164	2,158	0	0	2,322
Old Ashburton Library	25	800	100	0	925
Ward Based Programmes	0	120	0	0	120
Public Realm programme	1,275	0	0	0	1,275
Measures to mitigate travellers in parks and open spaces	158	0	0	0	158
General Fund	22,079	142,964	72,584	26,610	264,237

Description	Expected Slippage	Budget	Budget	Budget	Total
	from 2015/16	2016/17	2017/18	2018/19	
	£'000	£'000	£'000	£'000	£'000
Assisted Private Purchase Scheme (APPS)	0	500	500	500	1,500
Special Transfer Payments	0	250	250	250	750
Larger Homes	0	100	100	100	300
New Build Council Housing	5,523	8,336	6,000	6,000	25,859
Sub-Total	5,523	9,186	6,850	6,850	28,409
Repair and Improvements	0	26,771	26,771	26,771	80,313
HRA	5,523	35,957	33,621	33,621	108,722
TOTAL CAPITAL EXPENDITURE	27,602	178,921	106,205	60,231	372,959

Table 21 - Funding for the capital programme

Funding	Expected Slippage	Budget	Budget	Budget	Total
	from 2015/16	2016/17	2017/18	2018/19	
	£'000	£'000	£'000	£'000	£'000
Capital Receipts	0	13,900	2,538	12,500	28,938
Targeted Basic Needs	0	1,623	0	0	1,623
Basic Need Funding	11,347	32,983	0	0	44,330
School Condition Funding	0	4,487	4,487	0	8,974
TFL	0	3,336	3,336	3,336	10,008
NHB	0	500	500	500	1,500
NHB - Top slice	164	2,158	0	0	2,322
Earmarked reserve contribution	0	400	100	0	500
Better Care Fund	0	900	900	900	2,700
GLA	0	0	0	0	0
Borrowing	10,568	82,676	60,723	9,374	163,341
GENERAL FUND	22,079	142,963	72,584	26,610	264,237
HRA					
Major Repairs Allowance	0	17,301	17,342	17,342	51,985
HRA - Revenue Contribution	0	8,523	7,186	7,186	22,895
HRA - Use Of Reserves	0	3,943	9,093	9,093	22,129
HRA - Unsupported Borrowing	5,523	6,191	0	0	11,714
HRA FUNDING	5,523	35,958	33,621	33,621	108,723
TOTAL FUNDING	27,602	178,921	106,205	60,231	372,959

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

12.4 Some of the key projects supported in the 2016/19 programme are:

- Continued investment in the primary school estate to provide additional places to meet the growing demand. Including **£103.9m** 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.
- 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 making use of the Revolving Investment Fund and opportunities presented by the Croydon Growth Zone.
- Significant investment in a new leisure centre in New Addington.
- Improvements to the councils ICT infrastructure to provide a fit for purpose service to staff and residents.
- Investment in Fairfield Halls estimated at £30m. This is expected to be offset from land values and sales on the rest of the site and therefore the council net contribution is shown within the proposed capital programme as set out in Table 20.

Revolving Investment Funding (RIF)

12.5 Cabinet has agreed to set up a RIF to support the delivery of our Growth Promise. The RIF will be an internal fund within the council where funding is provided to schemes that support the Growth promise and also deliver a financial return.

12.6 The focus will initially be principally on the delivery of a programme of development and regeneration on our land. These will be funded outside the capital programme and be based on the projects delivering a return and therefore there should be no negative impact on the revenue budget. In fact there may be some positive impact from income streams such as rent.

12.7 The Council has also formed a wholly owned Development company which will also be focused on regeneration in the borough, primarily relating to providing homes. The Development Company will be operated commercially and will also deliver a financial return to the Council over time.

Croydon Housing Investment Programme – 2016/17

12.8 The Council is able to invest capital resources from the following sources in 2016/17:-

- 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.

12.9 The proposed housing investment programme summarised below, 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.

Housing supply

12.10 In 2016/17 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. Table 22 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 22 – Funding for the Capital Programme

Housing supply programme	£'000
New council homes	8,336
Assisted private purchase scheme	500
Special transfer payments scheme	250
Larger homes	100
Total	9,186

Repair and Improvement of council stock

12.11 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.

12.12 The proposed repair and improvement programme for 2016/17 will remain at circa £27m in 2016/17. It should be noted that there is also a separate programme of responsive and cyclical repairs which are resourced through revenue funding totalling **£12m**.

Capital Allowance (HRA)

- 12.13 Local authorities are required to establish 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.
- 12.14 The Capital Allowance for 2015/16 was set at £10m. It is recommended that the Capital Allowance for 2016/17 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.

Five Year Housing Capital Programme

- 12.15 The current housing business plan allows for the following capital expenditure over the next 5 years:-
- Major repairs £153m
 - Estate New build £23m

Treasury Management

- 12.16 The Assistant Chief Executive (Corporate Resources and S151 Officer) is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy. The details are set out in the Treasury Management Strategy which is recommended to Cabinet for approval as a separate item on this agenda.

13.0 Financial Projection 2017/20

- 13.1 All Members should note that the Council's budget setting will remain challenging over the medium term given the financial climate. Continuing grant loss and potential risk to local taxation streams 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 social care responsibilities, which will need to come from efficiencies and transformation initiatives.
- 13.2 The estimated effect of this constraint can be seen in Table 23, which shows investment and efficiency proposals. The draft budget forecast for 2017/20 is summarised in Appendix C.

Table 23 – Draft Budget Projected Gaps

	2017/18	2018/19	2019/20	2017/20
	£m	£m	£m	£m
Cut in Grant	14.4	8.7	7.1	30.2
Inflation	2.6	2.6	2.6	7.8
Debt Charges	-	1.5	1.5	3.0
Demand/Demographic Pressure	5.0	5.0	5.0	15.0
Gross Budget Gap	22.0	17.8	16.2	56.0
Council tax (assumed 2% increase in 2017-20)	-2.7	-2.7	-2.7	-8.1
CT Base expected increases	-2.5	-2.5	-2.5	-7.5
Savings Options proposed	-12.4	-1.9	0.3	-14.0
Net Budget Gap	4.4	10.7	11.3	26.4

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

- 14.1 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 2015/16. The Chief Financial Officer and Section 151 Officer statutory responsibility resides with the Assistant Chief Executive (Corporate Resources and Section 151 Officer). This is his statement which meets the Section 25 requirement of the Act.
- 14.2 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 spending review reductions for the Council and more recently in the Provisional local government settlement 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 2019/20. These further reductions are going to require a further review of the way we work and the way we deliver services. 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.
- 14.3 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.

14.4 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 growth and savings in service expenditure or income;
- b) The level of increase in local taxation (council tax); and
- c) The level of reserves and balances.

14.5 With regard to the Housing Revenue Account, It is important for Members to understand that a 1% reduction for the next 4 years through government legislation would result in a significant reduction in income to the Housing Revenue Account and would make the 30 year business plan unsustainable based on the current expenditure plans. There is a great deal of uncertainty around other changes covered in the report that will impact on the HRA and therefore the focus has been on ensuring the 2016/17 budget is balanced and working on options within the control of the council to reduce expenditure in future years.

Growth and Savings in service expenditure

14.6 Proposals for growth and savings in service expenditure 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

14.7 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. The recent local government settlement saw a major shift in the government's approach to Council tax. There are no plans for further Council tax freeze grants and there has been the creation of the option to increase council tax by 2% to cover the expected increases in costs in relation to Adult Social Care. It is important for Members of the Council to understand that this reflects a long term pressure that the council faces as a result of demographic and population change and any decision made now also has a long term impact on the council's financial strategy.

The Level of Reserves and Balances

- 14.8 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.
- 14.9 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 been seen as an appropriate level of General Fund balances for the medium term. Given the reduction in the budget this should happen by default if we retain balances at the current level. In determining the 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 may be exposed to both quantifiable and unquantifiable; and
 - The Authority's history of delivering services within the budgetary provision set.
- 14.10 Earmarked reserves are also relevant in supporting the budget and objectives of the council. Table 24 below sets out the projected position on earmarked reserves at the 31st March 2016. The level of earmarked reserves reflects a number of policy decisions by the council and supports the revenue budget. The decision to use earmarked reserves for particular purposes can be a political decision based on priorities and also needs to reflect the financial strategy objectives of the council.

Table 24 -Earmarked Reserves Projected at 31st March 2016

Description	£'000's
Corporate Items:	
Croydon Challenge transformation	1,881
New Administration Priorities	1,801
Revolving Investment Fund	1,956
Corporate Transition Funding	139
Total Corporate Items	5,777
People	2,824
Place	10,437
Resources	2,759
TOTAL EARMARKED RESERVES	21,797

- 14.11 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 £16.276m. Whilst the financial environment remains volatile I believe that the budget takes account of that environment and is therefore prudent for the 2016/17 financial period.
- 14.12 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, it will be achieved in 2016/17. 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.
- 14.13 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.
- 14.14 The level of General Fund balances currently represent 4.11% and therefore just short of the Financial Strategy target. However based on the expected reductions in budget the 5% target will be hit with no changes to the balance within the Financial Strategy period. HRA reserves are currently held to fund investment in Housing Supply, and overall revenue balances within the HRA are being maintained at 3% in line with the Financial Strategy.

Table 25– General Fund and HRA Balances

	Balance as at 31/03/15 £m	Forecast balance as at 31/03/16 £m	Forecast at 31/03/16 %
GF balances	10.677	10.677	4.11%
HRA balances	2.397	2.397	3%

14.15 Table 26 shows the schools reserves position.

Table 26 Reserves (Schools)

Reserves	Balances as at 31/03/15 £m	Estimated 31/3/16 £m
Local Maintained School balances	9.700	7.044
Total	9.700	7.044

14.16 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.

14.17 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.

15.0 SUMMARY AND CONCLUSIONS

15.1 As all Members are aware, setting a budget for 2016/17 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.

15.2 This budget report is based on the current financial outturn projections for 2015/16. If any of the projections change significantly, this will have to be taken account of in setting the budgets for future years.

15.3 **Appendix D and E contains the legally required recommendations to Council for setting the budget and Council Tax for 2016/17.**

16.0 FINANCIAL CONSIDERATIONS

16.1 The report contains the financial implications of the options to deliver a balanced budget for 2016/17, the current position for the following financial years 2016/20 and the draft capital programme for 2016/17.

17.0 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

Budget and Council Tax Setting

17.1 The Solicitor to the Council comments that the Council is under a statutory duty to set a balanced budget. Section 25 of 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 11th March 2016 but it may not be set before the GLA has issued the precept on 1st March.

17.2 The Local Government Finance Act 1992 (as amended), requires 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 - s.52ZI to hold a referendum.

17.3 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.

17.4 For the coming financial year, and for which this Council Tax is being set, such principles have not yet been approved. However, as noted in the recommendations, in accordance with the statutory requirements, the Council Tax recommended is not considered excessive such that no referendum is required.

17.5 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.

- 17.6 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.
- 17.7 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: Gabriel MacGregor, Head of Corporate Law on behalf of the Borough Solicitor & Director of Legal & Democratic Services)

18.0 HUMAN RESOURCES IMPACT

- 18.1 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. Where a redundancy is being 'contemplated' the unions must be informed. 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. The organisation will take these considerations into account in planning for the implementation of any structural reform.
- 18.2 Table 27 below indicates the indicative net level of reduction in full time equivalent posts by departments in the period 01 April 2016 to 31 March 2017 (excluding any TUPE transfer proposals where redundancies do not apply). Many of these proposals are still subject to consultation and the actual numbers of redundancies will not necessarily correlate identically because (a) vacant posts may be deleted instead if staff turnover allows reducing the impact on our permanent workforce whilst reducing the cost to taxpayers of any potential redundancy (b) some staff will be redeployed to newly created posts during the same time period to mitigate the risk of compulsory (c) some staff will leave the organisation during the same time period as a consequence of the Council's voluntary severance scheme (2015).

Table 27 – Indicative net reduction on posts per department

INDICATIVE NET REDUCTION IN POSTS PER DEPARTMENT	FTE
People	1
Place	25
Resources	19
TOTAL	45

- 18.3 The following staff (not full time equivalent) have been offered voluntary severance as a consequence of the Council applying a voluntary severance scheme in 2015 where applications were considered in January/February 2016 to take effect between 29 February 2016 and 31 March 2017. The actual number that accept the offers of voluntary severance has still to be confirmed and therefore the figures below may change accordingly.

Table 28 – numbers of staff offered voluntary severance per division and department

Count of Employee Number	2016-17	2015-16	Grand Total
People	13	17	30
Children's Services	5	1	6
Universal Services	1	7	8
Housing Services	6	7	13
Adult Social Care	1	2	3
Place	10	12	22
Safety	5	2	7
Development	1	3	4
Planning & St. Transport		2	2
District Centres	2	3	5
Streets	2	2	4
Resources	20	14	34
Customer & Trans.	4	0	4
Human Resources	3	1	4
Legal and Democratic	1	1	2
Corporate Resources	7	4	11
SCC	5	8	13
Grand Total	43	43	86

- 18.4 In addition, the Council has had a recruitment pause in place since November 2015 and has been reviewing the engagement of all long term agency/interim resource within the Council. Action taken has included the non-filling of vacant posts and the identification of future potential restructures which could result in additional redundancies if staff are not redeployed as an alternative.
- 18.5 Where restructures or transfers are proposed the Council's existing policies and procedures must be observed.

Pay Policy Statement

- 18.6 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.

- 18.7 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 2016/17 on:
- The remuneration of its senior staff including chief officers
 - The remuneration of its lowest paid employees
 - The relationship between the remuneration of its senior staff, including chief officers, and the remuneration of staff who are not chief officers
- 18.8 The pay policy statement is at **Appendix L**. The Council are required to approve the pay policy on an annual basis and therefore this will be considered as part of the budget decision of the Council on the 29th February 2016.

Approved by:- Heather Daly – Director of Human Resources.

19 EQUALITIES CONSIDERATIONS

- 19.1 The Equality Act, 2010, also requires the Council to have due regard to the three aims of the Public Sector Equality Duty (the Equality Duty) in designing policies and planning / delivering services. In reality, this is particularly important when taking decisions on service changes. The three aims of the Equality Duty are to:-
- Eliminate unlawful discrimination, harassment and victimisation;
 - Advance equality of opportunity; and
 - Foster good community relations between people who share any of the defined Protected Characteristics and those who do not.

The Act lists nine Protected Characteristics as age, disability, race, religion or belief, sex (gender), sexual orientation, gender reassignment, marriage and civil partnership and pregnancy and maternity. However, it is highly unlikely that these “protected characteristics” will all be of relevance in all circumstances.

- 19.2 Whilst the council must have due regard to the Equality Duty when taking decisions, there is a recognition that local authorities have a legal duty to set a balanced budget and that council resources are being reduced by central government. However, where a decision is likely to result in detrimental impact on any group with a protected characteristic it must be justified objectively. This means that the adverse impact must be explained as part of the formal decision making process and attempts to mitigate the harm need to be explored. If the harm cannot be avoided, the decision maker must balance the detrimental impact against the strength of legitimate public need to pursue the service change to deliver savings.
- 19.3 In developing its detailed budget proposals for 2016/17 the Council aims to

achieve best practice in equality and inclusion. The Council recognises that it has to make difficult decisions in order to reduce its overall expenditure to meet Government cuts in grant funding and to deliver a balanced budget while at the same time ensuring that it is able to respond positively to increases in demand for essential services. In doing so it will endeavour to ensure that it best meets the specific needs of all residents, including those groups that share a “protected characteristic”.

- 19.4 Through its budget proposals, the Council will also seek to identify opportunities to improve services and the quality of life for all Croydon residents while minimising any adverse impacts of decisions, particularly in regard to groups that share protected characteristics. It will be guided by the broad principles of equality and inclusion and will carry out and publish equality impact assessments to secure delivery of that duty, including such consultation as required.
- 19.5 An equality analysis has been completed in respect of the overall Council Tax increase which will apply to all households in the borough. While this increase is relatively modest it will nonetheless impact on those on low and fixed incomes and in particular those that may have been adversely affected by changes to the benefit system and who do not qualify for Council Tax Support. This segment of the population is more likely to live in the most deprived areas in the borough where there is a greater proportion of BAME residents. This has to be balanced against the additional amount raised through the Adult Social Care charge which will contribute to meeting the expected increase in demand for these services. This will benefit Croydon’s most vulnerable adults and families. In addition the Council will continue, through the Council Tax Support scheme to provide financial relief for vulnerable households including:
- Pensioners on low incomes.
 - People that are in receipt of disability living allowance or employment support allowance.
 - People that are in receipt of income support.
 - Single parents with a child or children aged under five.
- 19.6 As part of the overall welfare support provided, customers having difficulties with their payments are also offered wider budgeting advice and support and help in finding work is also available where applicable through the Council’s Gateway service. These provisions and the support available are highlighted in the customer’s Council Tax bills.
- 19.7 In respect of specific proposals as outline in Appendix A that may result in new policies or policy or service changes an equality analysis will inform the final proposal and its implementation and will be available at the time of decision.

20.0 ENVIRONMENTAL IMPACT

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

21.0 CRIME AND DISORDER REDUCTION IMPACT

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

22.0 REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

22.1 The council has a duty to set a balanced budget and therefore the proposals set out in the report achieve this duty.

23.0 OPTIONS CONSIDERED AND REJECTED

23.1 Various other options were considered in terms of council tax levels, investments and savings. These are ultimately decisions of policy and political choice.

**REPORT AUTHOR AND CONTACT: RICHARD SIMPSON, ASSISTANT
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RESOURCES AND S151
OFFICER)**

Background documents: none