REPORT TO:	**GENERAL PURPOSES AND AUDIT COMMITTEE** **25 JUNE 2014**
AGENDA ITEM:	**8**
SUBJECT:	**REVENUE & CAPITAL OUTTURN EXPENDITURE** **DRAFT FINAL ACCOUNTS for the Period 01/04/13 to 31/03/14**
LEAD OFFICER:	**RICHARD SIMPSON** **DIRECTOR OF FINANCE & ASSETS** **AND SECTION 151 OFFICER**
CABINET MEMBER:	**COUNCILLOR SIMON HALL CABINET MEMBER FOR FINANCE, TREASURY AND CHANGE**
WARDS:	**ALL**
CORPORATE PRIORITY/POLICY CONTEXT: **The report is a statutory requirement and communicates to our key stakeholders the Council's financial performance and outcome for the period 1st April 2013 to 31st March 2014. This reporting requirement is a key stage in the communication of the delivery of the Council's Financial Strategy and maps progress in the achievement of the objectives contained within the strategy.**	
FINANCIAL SUMMARY: **This report seeks approval of the draft accounts for the period 1st April 2013 to 31st March 2014.**	
FORWARD PLAN KEY DECISION REFERENCE NO.:	

RECOMMENDATIONS

The Committee(s) are asked to:

1.1 Approve the Council's draft accounts for the year 2013/14 in Appendix 1;

1.2 Comment on the report and the proposed establishment of new reserves and provisions and changes in the levels of previously established reserves and provisions, as set out in sections 5 & 6 of the report, as recommended by the Section 151 Officer;

1.3 Note the progress of the Council's current Financial Strategy objectives;

1.4 Note the departmental outturn variances as contained within Table 2 of the report..

2. EXECUTIVE SUMMARY

2.1 This report presents to the Committees the Council's draft accounts for the year 2013/14 (the draft accounts) and updates all Members on the delivery of the Council's Financial Strategy (FS).

2.2 The financial position of the Council remains strong, having achieved a balanced position for 2013/14, even after additional allocations to earmarked reserves. In addition, the Council has set a balanced budget for 2014/15. The Financial Strategy for 2014/18, which was approved on a recommendation of Cabinet to full Council (Minute A36/13, Council Meeting 26th February 2013), sets out the strategy for managing the significant financial challenge for the medium term. This financial strategy is currently being reviewed by the new Administration and it is intended to present a revised Financial Strategy in the Autumn.

2.3 There are a number of assumptions and estimates used in the preparation of the draft accounts. Section 9 of this report sets this out in more detail.

2.4 In summary:

- 2013/14 was the third successive challenging financial year in the Government's Deficit Reduction Programme and the prevailing economic climate of low growth. The magnitude of government grant cuts resulting again in a high level of savings needing to be achieved to balance the budget. The Council was able to achieve a break-even position through strong financial management and controls. The Council's programme of efficiencies successfully delivered the savings required.
- Departmental spend was **£5.063m** more than budgeted in 2013/14. The main overspends were on care packages for personal support, an increase in the assessment caseload in the Children In Need Service and Temporary Accommodation, including Bed & Breakfast due to an increase in demand for the service, however an underspend on interest costs, additional grant income and the use of contingency has meant there is an overall £2.886m underspend. This would have resulted in a surplus being shown, were it now for the creation of additional earmarked reserves.
- This means that the Council has been able to maintain its General Fund balance of **£11.597m** against the currently targeted sum of **£16.616m** (5% of net service expenditure) for 31st March 2014. This represents general fund balances of 3.49% against the 5% longer-term target established under the current financial strategy. The achievement and maintenance of a prudent level of general balances, provides assurance against the potential risks from the external environment and the significant challenges facing the

public sector and has enabled the Council to manage the recent upheaval in the national economy from a position of relative financial strength. This has added importance given the future changes expected in local government funding particularly those in relation to the localisation of business rates and council tax benefit, which add a high degree of potential risk to local authorities.

- The Council's General Fund reserves have decreased by **£3.166m (4.48%)** from **£73.836m** to **£70.670m** as at 31st March 2014. Within this total, Locally Managed Schools' reserves have decreased by **£2.485m (8.1%)** to **£11.304m** and the remaining reserves have increased by **£0.864m (1.42%)** to **£60.911m.**
- The Council's General Fund Provisions have increased by **£0.993m (3.1%)** from **£32.376m** to **£33.369m** as at 31st March 2014.
- The Collection Fund has carried forward a **£6.801m** surplus in relation to Council Tax. Following the cessation of the National Non Domestic Rates (NNDR) pooling arrangements, Council's now retain a proportion of NNDR collected. The collection fund also holds a deficit of **£1.798m** in relation to NNDR, making a total surplus in the collection fund of **£5.003m** as at 31st March 2014.
- The Council's Pension Fund increased in value in 2013/14 by **£37.219m (5.3%)** to a value of **£742.524m**.

2.5 The draft accounts are attached as Appendix 1. In accordance with the Accounts and Audit Regulations 2004, the statutory date by which the draft accounts must be sent to the auditors by the Council is **30th June 2014**.

2.6 The draft accounts will then be subject to external audit. If there are any significant changes, they will be reported later in the year within the Grant Thornton external audit. The audited final accounts are expected to be available by **September 2014**. A report will then be presented to the General Purposes and Audit Committee on the outcome of the audit, along with the report to Members charged with Governance as per established good governance practice in previous years.

3. GENERAL FUND REVENUE ACCOUNT OUTTURN 2013/14

3.1 Departmental spend was **£5.063m** more than budgeted in 2013/14. The main overspends were on care packages for personal support, an increase in the assessment caseload in the Children In Need Service and Temporary Accommodation, including Bed & Breakfast due to an increase in demand for the service.

3.2 Table 1 shows the resultant position on the Council's balances and reserves at 31 March 2014 compared with previous years, excluding LMS reserves.

Table 1 - Movement in Reserves and Balances*

Balances and Reserves	2011/12 £m	2012/13 £m	2013/14 £m
GF Balances	11.6	11.6	11.6
Earmarked reserves	38.6	60.0	59.4
General Fund Provisions	31.7	32.4	33.4
Total	**81.9**	**104.0**	**104.4**

*

*The table excludes LMS reserves

3.3 Despite the financial pressures placed on the budget by the economy and the decisions of national government, the Council's strong financial controls, and in-year monitoring, has resulted in a strong performance over the year. As shown in Table 2, underspends on non-departmental spend enabled the council to make a £2.8m contribution to reserves. The main reasons were:

- Underspend of £4m on Interest payable and MRP due to lower than expected capital spend and the achievement of lower interest rates on debt than expected.
- Contingency Budget of £1m
- Additional grants of £2.5m above budget

Table 2 - Revenue Outturn Summary for 2013/14

November 2013 forecast outturn variance* £'000	Department	Revised Budget £'000	Outturn 2013/14 £'000	Variation from Revised Budget £'000	%
1512	Department of Adult Social Services, Housing and Health	112,909	117,029	4,120	3.65%
1191	Children, Families & Learning	100,840	102,140	1,300	1.29%
-595	Development & Environment	67,679	68,001	322	0.48%
47	Chief Executive's Department	40,351	39,672	**-679**	-1.68%
2155	**Departmental total**	**321,779**	**326,842**	5,063	1.57%
-1296	**Non-Departmental Items**	**-321,779**	**-329,728**	**-7,949**	2.47%
859	**Total (transfer to GF Reserves)**	**0**	**-2,886**	**-2,886**	**4.04%**

3.4 The main variances against budget that contributed to this net position are summarised in Table 3, with fuller details of variances in Appendix 2. Table 3 shows variances greater than £500k, some of which were offset by other savings and overspendings within departments to achieve the net position as set out in Table 2 above.

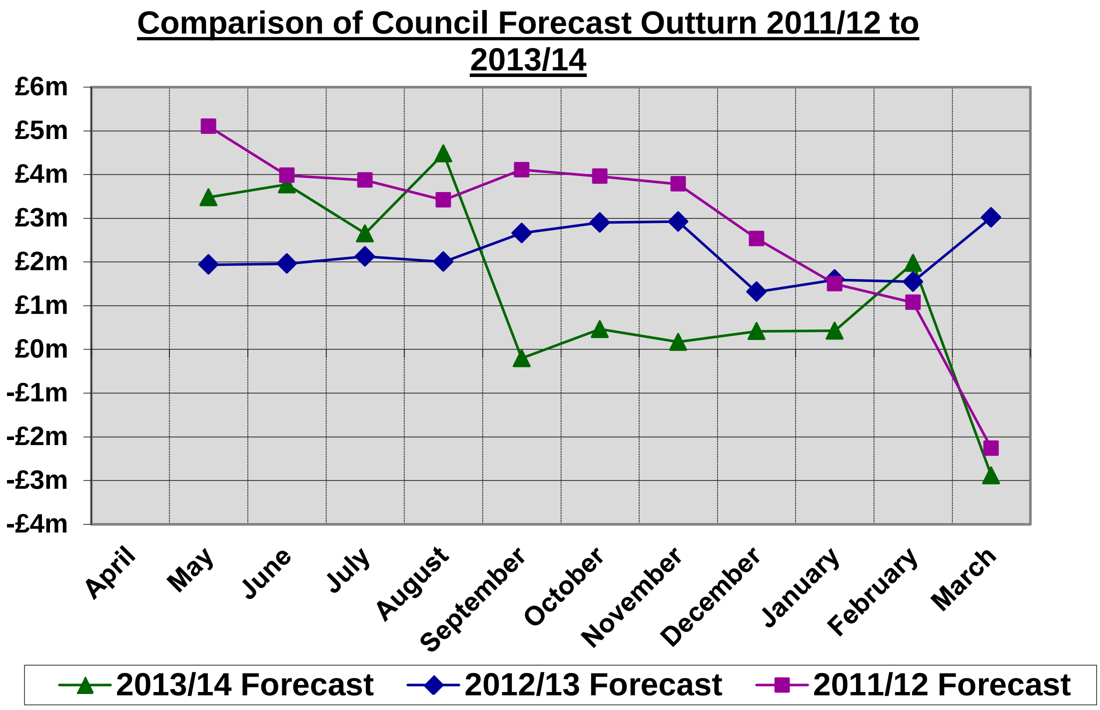
Table 3 - Analysis of main variances 2013/14 (+/- £500k)

Department / Division	**Unfavourable Variance £'000**	**Favourable Variance £'000**	**Explanation of Variation to Budget**
Adult Services, Health and Housing			
Housing Needs and Strategy	717		**Temporary Accommodation, including Bed & Breakfast** - The department has overspent on the Bed & Breakfast budget due to an increase in demand for the service, which was over and above the considerable increase included in the budget.
Commissioning	831		**Mental Health** - the over spend reflects the consequences of historic and new emerging demographic pressures. This level of demand increase is reducing the impact of efficiencies that have been made. The efficiency validation target has been further revised as our expectations of client moves in the near future appear unlikely.
Personal support	2,494		**Assessment and Case Management, and Social Work and Safeguarding Care Packages** - this is the prime area of the Department's expenditure. The increase primarily relates to late notification of a number of care packages including ordinary resident cases dating back a number of years. Further investigation is currently underway to ascertain the reasons why this has occurred, and to see what can be done to mitigate, e.g looking at recharging other local authorities.

Children, Families & Learning			
Children In Need Service	1,360		**Increased assessment caseload and Ofsted recommendations** required the creation of a 4th assessment team which has not been budgeted for. In addition, we had agency staff costs due to inability to recruit permanent staff
Early Intervention and Family Support		1,254	Unspent Payment by Result grant. Additional DSG funding recognised for key workers schools or early years settings. One off additional income received from project partners and recognised in 2013/14
Early Intervention and Family Support		873	**Integrated Children Centres'** offer including 2 year olds provision and central support and early years strategy to be funded from DSG instead of General Fund. This was partly offset by delay in implementation of EIFSS/ Youth Service Restructure.
Looked After Children	863		**Number of In house placements** greater than budgeted resulting in an increase of actual placement costs, the need to employ additional agency staff to manage the service demand and indirect placements cost (Birthday, Travel and Holiday) costs being greater than budget.
Looked After Children	1,893		**IFA's, contact facilitation and secure placements** increase in demand for placements (as with the previous item)
Development & Environment			
Environment		1,300	**Waste Disposal contract** saving from extension.
Environment	844		**Parking Services** shortfall in Pay and Display income

4. REVENUE BUDGET MANAGEMENT

4.1 The revenue outturn was achieved within budget within a challenging and difficult financial environment and has required rigorous monitoring, management and control of spending within the framework of the Financial Strategy. Graph 1 below shows the outcome of the Council's overall budget management over the last three years. As can be seen from the movement in outturn forecasts during 2013/14 potential overspending was identified early in the year and underspends on non-departmental spend enabled the council to make a surplus.



4.2 Table 4 shows the tracking of variances by department through 2013/14 and comparison with previous years by department.

Table 4 - Monthly Net Forecast by Department

Month	Adult Services, Health &Housing £'000	Children, Families & Learning £'000	Development & Environment £'000	Chief Executive's Department £'000	TOTAL 2013/14 £'000	TOTAL 2012/13 £'000	TOTAL 2011/12 £'000
Apr						-	-
May	2,218	1,301	148	163	3,830	1,389	4,934
Jun	1,932	1,917	(269)	41	3,621	1,410	2,884
Jul	1,865	1,911	(208)	435	4,003	2,126	1,804
Aug	2,051	3,511	(113)	528	5,977	2,002	698

Sep	1,505	2,150	(279)	161	3,537	2,658	1099
Oct	1,512	1,529	(641)	46	2,446	3,552	1,867
Nov	1,512	1,191	(595)	47	2,155	3,571	1,155
Dec	1,793	1,185	(490)	(89)	2,399	1,964	749
Jan	2,423	1,178	(677)	(91)	2,833	2,244	(288)
Feb	2,979	1,214	524	(333)	4,384	2,645	(1,059)
Mar	**4,120**	**1,300**	**322**	**(679)**	**5,063**	**3017**	**(2,263)**
Non-Departmental items outturn					**(7,949)**	**(3,017)**	**2,263**
Total – Contribution to General Fund balances					**(2.886)**	**-**	**-**

4.3 The pressures in terms of grant loss experienced in 2013/14 continue into the current year and the Council will need to monitor and manage its budgets rigorously, both at an operational and strategic level to ensure budget delivery within resources available. The Council have already taken appropriate action to ensure this position is managed. Regular financial performance monitoring for 2014/15 will be reported to Cabinet during the year, the first report being made on 30th September 2014 as part of the July financial review. The new Administration is committed to careful management and also looking at strategy, priorities, operations, contracts and assets, in order to deliver its priorities, even with the constrains of central government.

5 PROGRESS AGAINST THE CURRENT FINANCIAL STRATEGY

5.1 The Financial Strategy that was approved on a recommendation of Cabinet to full Council (Minute A36/13, Council Meeting 26th February 2013), established the overriding financial objectives of the Council for the medium term. These 5 core objectives ensure alignment of the Council's overall strategic priorities and resources.

The objectives framework of the Financial Strategy is set out in Diagram 1 below with the five financial strategy objectives outlined in Table 5.

Diagram 1

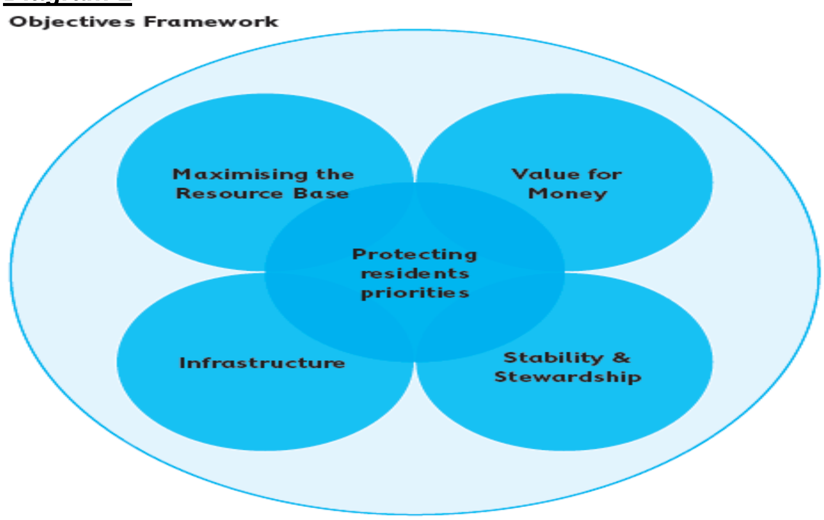


Table 5 – Current Financial Strategy Objectives

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

5.2 The July Review 2013, considered by Cabinet on 15th July 2013 (Min A77/13), concluded that although the Planning Assumptions of the Financial Strategy remain robust, the financial environment is still far from stable with uncertainties around the wider economic recovery, the implementation of the June 2013 Spending Review (CSR2013) and the long term impact of welfare reform**.**

5.3 The previous and current Financial Strategy has seen the Council with a good financial standing and an ability to cope with the financial risk which local government is daily and readily exposed to. The Financial Strategy has seen the councils finances through the large reduction in Government funding. The current Financial Strategy will enable the Council to manage the economic environment and the reductions in Council funding. The Financial Strategy is now being reviewed, in line with the new Administrations priorities and approach.

5.4 The progress made against the Council's 2013/17 Financial Strategy is demonstrated below against each of the Strategy Objectives.

5.5 Objective 1 – To ensure that we seek to protect the services on which our residents place most priority

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

5.5.2 **Vision for the Borough**

Croydon's corporate plan for 2013/15 sets out the Council's contribution to the Community strategy over the next two years. The commitments within the plan flow directly from the longer-term shared goals of our Croydon's community. Croydon Council will;

1. **Compete as a place**
   - The £1bn Westfield/Hammerson plan to regenerate the town centre was given the go-ahead by the council's Planning Committee and The Mayor of London in November 2013. The project will be overseen by a new Town Centre Board that includes representatives from Westfield/Hammerson, local businesses, the GLA, the police and the council.
   - The £50m Connected Croydon programme, which is designed to enhance the borough's built environment and improve connectivity within and beyond its boundaries, was initiated. A major part of the programme - a new pedestrian walkway from East Croydon station to the town centre – was completed in December.
   - The 'Pathways to Employment' programme was launched which aims to get thousands of local people into work with the creation of 16,000 jobs over the next five years. The programme is being run in partnership with Job Centre Plus, private sector companies and charities.
   - The £1.5m West Croydon Investment Programme was launched in August 2013 aimed at significantly expanding the range of support available to new businesses in the area, including the opening of an 'enterprise hub' in London Road. The programme has six individual schemes with specific objectives that together form a solid foundation to promote economic regeneration.
   - The Croydon Urban Regeneration Vehicle (CURV) achieved the completion of Bernard Weatherhill House and the design, planning and funding of the Taberner House and Lion Green Road developments.
   - The Clocktower was re-launched as a centre for learning and culture. The centre includes the local studies room, a gallery for the exhibition of paintings from the borough's art collection and a newly-refurbished area for the adult learning service, CALAT. The Braithwaite Hall and former David Lean cinema were refurbished and brought back into use for hire for cultural events.

2. **Manage need and grow independence**
   - We secured £0.265m of government funding to help reduce the number of homeless families staying in bed and breakfast accommodation. A 12-month programme supports households at an early stage by helping them find suitable housing, work and childcare and by providing advice on managing debt and budgeting.

- The council's housing renewal policy will provide an additional £4m for housing improvements to ensure that where appropriate elderly, vulnerable and disabled residents can remain in their own homes. The sum includes around £1.2m of GLA grants to bring empty homes back into use; £1.9m in disabled facilities grants and £1m of interest-free loans to renovate properties in need of repairs.
- An integrated concept bringing together 19 family support services is working with over 400 of Croydon's hardest-to-help families who are receiving multi-agency support.
- Croydon became a 'Heart town' to improve the borough's cardiovascular health. Working with the NHS, activities have included the Healthy Living Hub on Tour; Summer's Alive events; 'Know Your Numbers Week' blood pressure awareness and 'Stopover', a campaign which saw 1,562 sign up to quit smoking.
- A full programme of community and inclusion events was organised for 2013 in partnership with external stakeholders. Events included Big Lunches, Celebrating Age and Silver Sunday, Black History month and Holocaust Memorial Day.

3. Protect residents' priorities

- A multi-agency safeguarding hub to help keep children and young people safe became fully operational in October 2013 in Bernard Weatherill House.
- Working with partners the Council engaged with approximately 130 young people involved with gangs with 52 exiting gang lifestyles. The 'empowerment project' delivered intensive intervention to gang-affected young women and gangs awareness training was delivered to over 100 professionals.
- Croydon pupils achieved over 68% for good GCSEs including English and maths in 2013. This represented an increase of around 6% on the previous year, making it the best ever set of results at a time when national standards have declined.
- The percentage of schools judged good or better by Ofsted continues to improve. Following an intense period of inspection activity during the autumn term 78% of Croydon's schools were judged good or better and 22% outstanding.
- In order to meet rapidly growing demand, hundreds more school places were created and during the year there were three separate announcements by government through which we were awarded £207 million towards the school expansion programme.
- Croydon is well on the way to becoming one of London's top recycling boroughs at sixth place across the capital with the percentage of domestic waste diverted away from landfill for 2012/13 at 44%.

- **Build the council of the future**
- To date the procurement taskforce has delivered savings of £13m through improved contract arrangements and the renegotiation of service provision.
- The 'providers programme', targeted at voluntary and community organisations, was initiated. The programme focuses on developing the skills, behaviours and competencies required to help organisations to become 'commissioning ready' and to compete more successfully for contracts.
- Joint commissioning arrangements across the council and Croydon's clinical commissioning group have been strengthened through the development of an integrated commissioning unit for health and social care.
- A collaborative arrangement has been agreed with Bromley, Bexley and Merton councils for commissioning SEN places from independent special schools. This will deliver financial savings and increase strategic leverage with suppliers to better shape the market offer.
- An improved support contract for the council's ICT services was awarded to Capita Secure Information Solutions Ltd to replace the existing contracts with CapGemini and Northgate from April 2014. This will deliver savings of £40m over nine years.
- The Bernard Weatherill House project was completed on time and on budget, with all staff successfully transferred to the new building by October.
- Improved customer service facilities are available in Bernard Weatherill House with customers now able to access a large number of services through self-serve. An increased number of services are also available online.

5.6 Objective 2 – To maintain financial stability over changing economic cycles to give our community continued confidence in the financial stewardship of the council.

5.6.1 Over the last three years the council has worked hard to maintain financial stability. Given the turbulent economic environment faced, 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.

5.6.2 The level of general fund balances as at 31st March 2014 is £11.597m. This remains the same as the previous year and represents 3.49% of net service expenditure against a Financial Strategy budget of 5%.

Table 6 – Comparison of General Fund Target Balance with Actual

Year	2009/10	2010/11	2011/12	2012/13	2013/14
Target 5% (£m)	14.1	14.1	14.7	15.5	16.6
General Fund balances (£m)	11.6	11.6	11.6	11.6	11.6

5.6.3 The Council has a General Fund balance of **£11.597m** as at 31st March 2014 and earmarked reserves of **£70.670m** including Schools reserves.

5.6.4 The General Fund balances are in place to meet unanticipated costs arising in the year or budget overspends. The appropriate level of the General Fund balances has regard to assessment of risks from the external environment that may result in overspending and impact on the Council's financial position in the context of the overall arrangements that the Council has for mitigating risks, including earmarked reserves detailed in table 8. The General Fund balance of £11.597m represents 3.49% of budgeted net operating expenditure for 2013/14.

5.6.5 The movements in balances and reserves and the financial standing that the level of general balances provides for the roll forward of the Financial Strategy, representing 3.5% of expected net operating expenditure in 2013/14 is shown in table 11.

5.6.6 There are a number of other reserves set aside by the Council for specific purposes. The Council's reserves should be viewed in the context of the overall risks that the Council faces on an ongoing basis in managing its gross budget of £1,088m for 2013/14. There are currently 37 risks that have a score of more than 15 on the Council's risk register, some of which directly relate to specific earmarked reserves."

The whole approach to provisions and reserves will be reviewed by the new Administration, to ensure that the approach is fit for purpose given the experiences of past years, the need for transparency and the ambitious policies and priorities of the new Administration.

The reserves are analysed in Table 7 below:

Table 7 - Earmarked Reserves

Reserve	**Balance 31/03/2012 £m**	**Balance 31/03/2013 £m**	**Balance 31/03/2014 £m**
LMS reserves – total of individual schools' balances	15.160	13.789	11.304
Support of corporate and organisational priorities			
ICT Strategic Improvement Reserve	0.940	0.940	-
ICT Contract Transition Reserve	1.000	1.000	1.000
ICT Re-procurement Project Reserve	0.594	0.855	0.402
IT Technology Fund	-	-	4.746
Transformation Reserve	2.095	4.112	2.223
Efficiency Dividend Reserve	-	-	3.226

New Ways of Working	-	-	0.500
Procurement Taskforce Reserve	-	-	0.500
New Administration Priorities	-	-	2.886
FM Re-procurement 2016 Reserve	-	-	0.483
Financial strategy management reserves			
Recession Impact Reserve	2.000	1.053	-
Redundancy Reserve	-	3.005	1.696
Interest Rate Risk Reserve	2.203	2.203	-
Step Change	7.299	3.742	-
CCURV Affordability	10.227	18.173	15.621
Budget Support 2014-15	-	-	2.586
Croydon Challenge	-	-	0.395
Pension Deficit	-	-	0.551
PAYE reserve	0.750	0.750	-
Taxation Reserve	0.586	0.53	-
Litigation Reserve	1.100	1.076	-
Housing Benefit Subsidy Reserve	1.653	1.653	-
Service Reserves			
Street Lighting PFI	-	3.126	4.683
Welfare Reform Reserve	-	0.790	1.029
Schools Places Reserve	-	-	2.341
Homelessness	0.788	0.361	0.410
Grants received in advance	0.798	2.517	3.467
Local Elections Reserve	0.661	0.737	0.797
Unaccompanied Minors Asylum Seekers Grant	1.500	1.500	1.716
Re-ablement (NHS Investment)	1.602	2.008	1.614
Economic Development Reserve	2.936	2.308	1.232
New Housing Supply Reserve	-	0.750	0.000
Other (only identified if over £0.5m)	6.690	6.858	5.262
Total	60.582	73.836	70.670

5.6.7 The new reserves over £0.5m for 2014/15 are:

- ICT Technology Fund (£4.746m) - This reserve was created to fund the costs of technology refresh as part of the new ICT contract which are planned in 2014/15
- Efficiency Dividend reserve (£3.226m) - This reserve was created to fund the dividend which was agreed as part of the 2014/15 budget.
- Budget Support 2014-15 Reserve (£2.586m) - This reserve was created to support the 2014/15 budget.
- Revolving Investment Fund (£2.391m) –This reserve was created to support the creation of an investment fund which was agreed by Cabinet to support the delivery of the Housing delivery plan.

- New Administration Priorities (£2.886m) – This reserve was created from the 2013/14 underspend to support a number of early priorities of the new administration, the use of which will be discussed by Cabinet.

5.6.8 School reserves

The overall value of school reserves have decreased by **£2.485m** to **£11.304m.** This includes a decrease in revenue by £1.951m to £10.066m and a decrease in capital by £0.533m to £1.238m.

- A number of schools have converted to academies during the financial year. The balances of the closing schools are not included in the above totals, as they are transferred to the academy.
- A reduction in capital funding passed to schools has meant that schools have had to spend some capital balances. They have also transferred £2.852m from revenue to capital.
- The revenue balance includes some funds for community purposes. These balances decreased by £0.295m to £0.612m Details of each school's 2013/14 year-end balance are shown in Appendix 3.

5.6.9 The previous government guidance advised the appropriate level of balances that should be held by schools, to be a maximum of 8% of budget for Primary, Nursery and Special Schools and 5% of budget for Secondary Schools. The Schools Forum agreed guidance to reduce this to 4% for Secondary Schools and 6% for all other schools although the Coalition government has relaxed the need for any restrictions.

5.6.10.Table 8 lists all schools that ended 2013/2014 in revenue deficit and includes those that had approved licensed deficits.

Table 8 – Schools in revenue deficit and action plans

School in deficit at end of 2013/2014	Deficit at end of 2013/2014 (£)	Licensed deficit plan	Deficit agreed in 2013/2014 plan (£)	Notes
The Hayes Primary	(62,188)	Agreed for 2013/14. Application for 2014/15 licenced deficit has been submitted	(27,717)	Licenced deficit approved 16.7.13
All Saints Primary	(30,003)	No	No	The school has since returned to a balanced budget in 2014/15
St Andrews High	(119,416)	Application for 2014/15 licenced deficit has been submitted	No	This school is due to convert to an academy on 01.09.14
The Archbishop	(58,060)	Application for 2014/15 licenced	No	The deficit is to be underwritten by the LA

Lanfranc		deficit has been submitted		and School Forum voted on 19/5/14 to approve this plan
Archbishop Tennison	(80,937)	Application for 2014/15 licenced deficit has been submitted	No	Schools finance are reviewing High Needs and 6th form funding due to this school which has previously been underestimated. Action is underway on a recovery plan.
Bensham Manor	(34,385)	No	No	The school has since returned to a balanced budget position in 2014/15

Table 9 - Schools Revenue Balances

	Number of schools	Total Balances £m	Percentage of Schools above Schools Forum Guidance	Number of schools in deficit	Percentage of Schools in deficit
Nursery Schools	6	0.44	67%	0	0%
Primary Schools	64	6.94	45%	2	3%
Secondary Schools	7	1.11	57%	3	43%
Special schools	6	0.49	17%	1	17%
PRUs	5	0.48	20%	0	0%
Total	**88**	**9.45**	**44%**	**6**	**7%**

Note the above number table excludes revenue community reserves and capital reserves held by schools. It includes maintained schools at the 31 March 2014.

General Fund Provisions

5.6.11 The General Fund provisions are analysed in table 10 below

Table 10 - General Fund Provisions

Provisions	Balance 31/03/2012 £m	Balance 31/03/2013 £m	Balance 31/03/2014 £m
Provision for Doubtful debts	22.382	22.821	23.644
Insurance Fund	8.095	8.273	8.454
Other	1.253	1.282	1.271
Total	**31.730**	**32.376**	**33.369**

5.6.12 The report requests approval to the establishment of new reserves and provisions and to changes in the levels of established reserves and provisions, as summarised in **table 10 and table 11**.

Table 11 - Movement in Reserves and Balances

Balances and reserves	**2009/10 actual £m**	**2010/11 actual £m**	**2011/12 actual £m**	**2012/13 actual £m**	**2013/14 actual £m**
General Fund balances	11.597	11.597	11.597	11.597	11.597
Earmarked reserves*	37.998	37.976	45.422	60.047	59.366
Total	**49.595**	**49.573**	**57.019**	**71.644**	**70.963**
Net Operational Expenditure	**282.227**	**282.002**	**294.496**	**309.966**	**332.336**
General Fund Balances % of net operational expenditure	**4.11%**	**4.11%**	**3.94%**	**3.74%**	**3.49%**

* the table excludes LMS reserves.

Overall, general fund and earmarked reserves represent over 21% of net operational expenditure.

5.6.13 **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 continues to examine the approach to financial processes, reporting with consistent best practice and ensuring that service managers have the support and competencies that are required to deliver value for money services across the organisation.

5.6.14 Grant Thornton presented their Annual Governance Report to Corporate Services Committee in September 2013 (Min. A125/13) with an unqualified audit opinion on the Council's Financial Statements.

5.6.15 The Council delivers a comprehensive internal audit plan through a contract with Mazars Public Sector Internal Audit Ltd. The plan includes key financial systems, risk based audits from across the organisation as well as probity audits in schools and other establishments. The internal audit plan has been delivered in full with all field work completed by the end of March 2014. This will be the eighth successive year that the plan has been delivered in its entirety 'in year'. The detailed audit outcomes for the key financial audits are shown in Table 15 below.

5.6.16 From all audits finalised to date, 63% have been given a full or satisfactory assurance level. After each audit is finalised there is a robust follow-up procedure to ensure that agreed recommendations are implemented. At this point in the year, 89% of recommendations made in audits for 2012/13 and 78% of recommendations made in 2013/14 have been implemented. Internal audit will continue to follow-up on these until the vast majority have been implemented, including any high priority recommendations.

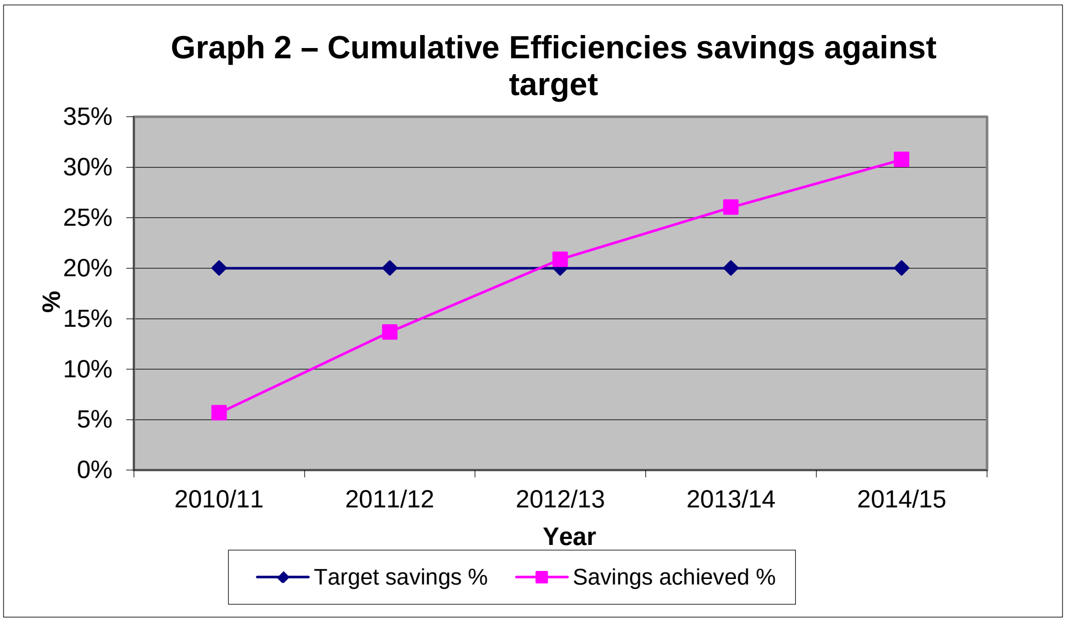
Table 12 – 2013-14 Audit Plan

2013-14 Audit Plan	Assurance
Cash & Banking	Satisfactory
Creditors (inc P2P)	Limited
Housing Benefit	Satisfactory
Main Accounting System	Satisfactory
NNDR	Satisfactory
Payroll	Satisfactory
Pensions	Satisfactory
Community Care Payments	Limited
Housing Repairs	Satisfactory
Payments to Schools	Satisfactory
Parking Enforcements and Tickets	Limited

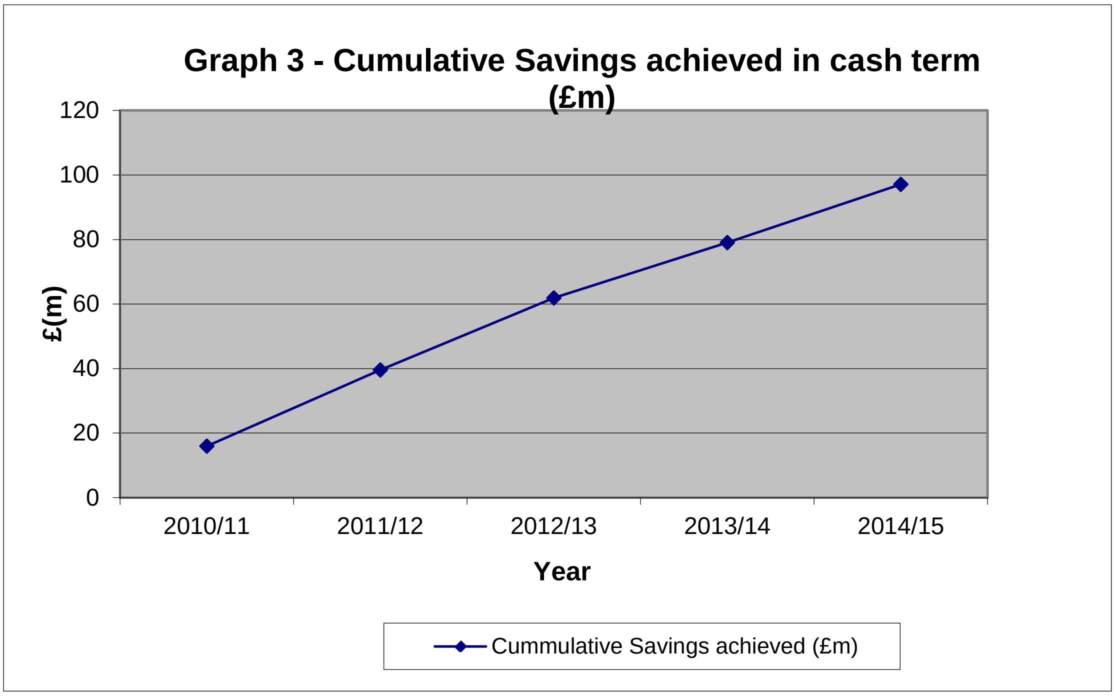
5.7 Objective 3 – To ensure that the council continues to systematically challenge, secure and deliver Value for Money.

5.7.1 Throughout the period of the previous financial strategy the Council pursued a corporate transformation efficiency strategy through the Step Change Croydon programme. This programme blended corporate and departmental efficiency projects that envisaged the organisation as a smaller commissioning led body that operates as a single, highly professionalised team. The programme was hugely successful and has delivered over £25m of savings for the residents of the borough.

5.7.2 Graph 2 below gives details of the savings achieved over 2011/15 comparison with target savings



5.7.3 Graph 4 below gives details of the Council's achievements in this financial strategy period (2011/15) in cash terms.



5.8 Objective 4 – To ensure that the council's infrastructure is fit for purpose.

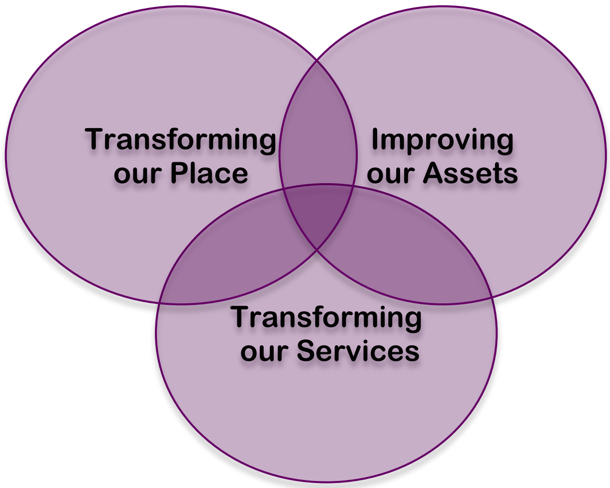
5.8.1 Delivering a long term vision for the borough requires a fundamental shift in the resourcing of the Council's infrastructure needs, in short a shift away from revenue dominated strategy to one that is capital in the nature of its thinking, planning and implementation.

5.8.2 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 2014/15 will be year 4 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,

5.8.3 Prior to the approval of the 20 year Capital Strategy there had been insufficient capital investment to achieve Our Vision and from 2010/11 capital programme included an increase in the amount borrowed compared with the previous three years of the financial strategy recognising the strategic nature of our infrastructure requirements and our relatively low level of capital gearing. This increased level of borrowing has been continued in the 2014/15 to 2016/17 Capital Programme.

5.8.4 The Capital Investment Programme focuses on three themes;-

Diagram 2



5.8.5 The Strategy's objectives are to:-

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

5.8.6 This is now the fourth year of the capital strategy.

5.8.7 The new Administration will be reviewing the capital strategy, in order to ensure that it supports its priorities and aspirations.

CAPITAL

5.8.8 The original approved General Fund Services capital programme (excluding the Housing Investment Programme) totalled **£158.558m**, which was increased during the year to **£178.368m** to reflect both programme slippage from any additional government grants. Outturn capital spend was **£130.246m**, with the resultant underspend of **£51.827m (27.17%)** mainly attributable to slippage in the delivery of schemes. Table 15, below, shows spending against budget by Department in 2013/14 and Appendix 4 provides a detailed breakdown of spend against budget. Table 13 below shows the draft capital programme by Department.

Table 13 - Departmental Capital Variances for 2013/14

Department	Original Budget 01/04/2013	Budget changes 2013/14	Revised budget 31/03/2014	Outturn 2013/14	Variance to revised budget	Variance to revised budget
	£'000	£'000	£'000	£'000	£'000	%
Adult Services, Health and Housing	23,001	120	23,121	15,759	- 7,362	-31.84%
Children, Families and Learning	91,335	546	91,881	67,045	- 24,836	-27.03%
Development and Environment	23,970	11,786	35,756	22,473	- 13,283	-37.15%
Chief Executive's Department	20,252	7,358	27,610	24,969	- 2,642	-9.57%
Sub Total	158,558	19,810	178,368	130,246	- 48,122	-27.17%
Housing Revenue Account	34,471	1,098	35,569	31,864	- 3,705	-10.42%
Totals	**193,029**	**20,908**	**213,937**	**162,110**	**-51,827**	**-24.39%**

5.8.9 The impact of slippage from 2013/14 into the 2014/15 capital programme will be considered as part of the first Financial Performance report for 2014/15.

5.8.10 Capital schemes in 2013/14 included the delivery of: Improvement works to the highways;

- Meeting the needs of the Education Estates Strategy
- Continuing the drive to meet the Decent Homes Standard;

5.8.11 The original approved Housing Revenue Account Housing Investment Programme (HIP) capital budget was £34.471m, adjusted to £35.569m due to in-year approved changes to the budget. Expenditure of £31.864m was incurred during the year.

5.8.12 The total expenditure for capital schemes was £162.110m in 2013/14.

Treasury Management

5.8.13 The Chief Executive is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy and Treasury Management Strategy.

5.8.14 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted by Corporate Services Committee on 12 March 2004 (Minute A28/03) with a Revised 2009 Code being adopted by Full Council on 1 March 2010 (Minute 6 Section 2 paragraph 1.1 to 1.9). The Code was updated in 2011 and the Council has approved this updated Code of Practice on 26 February 2013 (Minute A31/13).

5.8.15 The Prudential Indicators set will continue to be monitored throughout the year and will be reported to Cabinet on a quarterly basis. The indicators break down into four blocks relating to capital expenditure, the affordability of that investment programme, debt and treasury management as follows:

1. The capital investment indicators reflect the Authority's future plans to undertake capital works, and the extent to which these will be funded through borrowing. Hence, in the budget for 2014/15, £219.338m of investment is planned, £87.2m of which is to be financed from borrowing, resulting in a total level of debt of £891.751m that supports past investment in the infrastructure of the Borough.

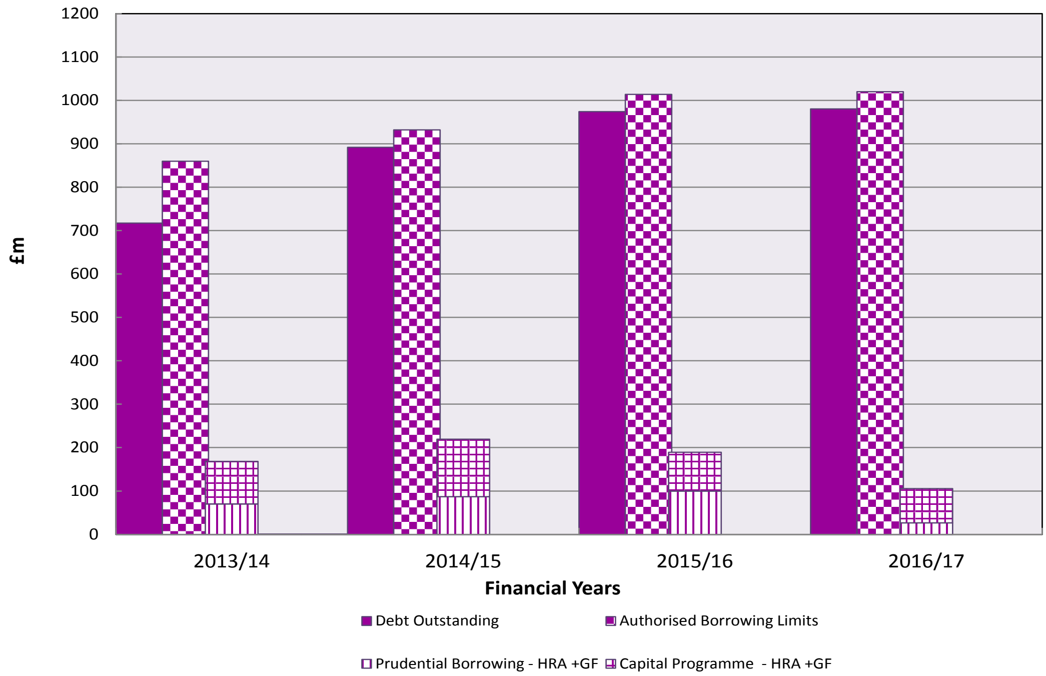
2. Apart from borrowing that is supported by government grant funding, the cost of new prudential borrowing to the Authority will be £10.00 per Band D council taxpayer in 2014/15. This Prudential Indicator reflects the impact of funding decisions relating to capital investment in Croydon. The Prudential Code specifically indicates that it is not appropriate to compare this indicator with other authorities.

3. The external debt indicators illustrate the calculation of the affordable borrowing limit.

4. The treasury indicators show that the Authority will limit its exposure to variable rate debt to no more than 20% of total debt and will only invest up to 30% of the total investments for periods in excess of one year, for reasons of limiting exposure to risk and guaranteeing adequate liquidity. The final indicator sets a profile for the maturing of new debt.

These main indicators are as featured in graph 4 below;-

Graph 4: Prudential Indicators for 2013/14 to 2016/17



5.8.16 As part of its Treasury management framework the Council agreed a set of Prudential Indicators covering 2013/14 and the next three years on a rolling programme. These indicators relate to capital investment and the treasury function to provide a level of assurance that investment and borrowing decisions are sustainable, affordable and prudent.

Table 14 - Prudential Indicators

		2013/14	2013/14	Notes
	PRUDENTIAL INDICATORS	**Revised Budget £'000**	**Outturn £'000**	
1.	**Prudential Indicators for Capital Expenditure**			
1.1	In year Capital Financing Requirement			
	- General Fund	107.818	66.500	
	- HRA	9.078	3.866	
	Total	116.896	70.366	
2.	**Prudential Indicators for Affordability**			
2.1	Ratio of financing costs to net revenue stream			
	- General Fund	10.0%	5.75%	
	- HRA	16.5%	15.3%	
2.2	General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum)			
	- In year increase	£13.00	£7.50	
2.3	HRA impact of Prudential (unsupported) borrowing on housing rents (per annum)	0	0	
3.	**Prudential Indicators for External Debt**			
3.1	Borrowing Requirement			
	Total Debt brought forward 1 April 2013	690.264	690,264	Note 1
	Total Debt carried forward 31 March 2014	819.964	717.264	

Note 1 – Of the £690.264m debt brought forward at 1/4/2013, £223.126m relates to long term loans taken up from the PWLB on 28/3/12 for the HRA Self Financing settlement payment. This sum was paid to the Government to exit the national HRA Subsidy system.

5.8.17 The affordability of financing costs for General Fund and HRA capital spending, reflected in the ratios of net financing costs to the revenue streams, showed an improvement over budget primarily as a result of the Council securing long term funding during the year at lower than anticipated rates of interest.

5.8.18 The impact of unsupported borrowing on Band D council tax levels was less than estimated because of the lower cost of the new borrowing.

5.8.19The Council's long-term debt as at 31 March 2014 was £717.264m.

Table 15 - Long Term Debt

Long Term Debt	**£000**
Long Term debt outstanding as at 1 April 2013	690,264
Long Term debt repaid 2013/14	0
New Long Term borrowing taken 2013/14	27,000
Long term debt outstanding as at 31/3/14	**717,264**

5.9 Objective 5 – To maximise the Council's resource base.

5.9.1 Effectively managing the future resource base of the Council will be key to the long term sustainability of the Council. A significant amount of resources available to the Council will be driven by local decision making (Local taxation and Rent changes) and local growth (Business rates income and New Homes Bonus). There was a wide consensus that the previous local government funding system did not incentivise local decisions that supported growth. This resulted in the Coalition Government's introduction of a change in the nature of resources available to councils. Local government subsequently saw a significant shift in emphasis of funding with a Business Rates Retention system replacing the previous 'needs based' grant system. This effectively underpins/supports Croydon's corporate priority of 'Promoting economic growth and prosperity".

5.9.2 The Cabinet approved a 5 year housing strategy in September which set out our aspirations to build 9500 new homes over the period to 2018. This would have a significant impact on our future New Homes Bonus. The council is also through its Economic Development strategy attempting to ensure we maximise growth of business rates in Croydon. The Business Rate Relief Scheme is Croydon Council's pioneering initiative of business rate discounts aimed at small and medium-sized businesses. It was originally launched in January 2013 with 65% in year 1 and 35% in year 2 business rates discounts for properties within Croydon New Town, and the scheme was expanded from July 2013 in order to accommodate a greater number of businesses (lower rateable value) across a larger area within Croydon, Opportunity Area Planning Framework location and High Streets (London Road & South End). It is part of the £5 million Mayor's Regeneration Fund designed to boost local jobs and opportunities for business growth in Croydon. The scheme runs from 1 January 2013 to 31 March 2015.

5.9.3 The business rate relief scheme aims to encourage expanding SMEs to relocate to Croydon Town Centre and high streets either through inward investment or business retention, where there is vacant quality retail and office space. Substantial discounts on business rates are on offer to growing businesses ready to take the next step into larger accommodation. Businesses will also benefit from the major transformation of Croydon currently underway, which includes quality retail (Westfield / Hammersons development), cultural and public spaces and a new affordable residential community. It has unrivalled transport links to the capital, the coast and the airports.

5.9.4 In November 2013, BRRS became one of the first campaigns under the Croydon London brand in "Free for a Year". The simplified BRRS incentive model now offer 100% discounts in business rates for one year across all properties within the eligible geographical area.

5.9.5 **New Homes Bonus** - The New Homes Bonus Grant incentivises Croydon for promoting house-building in the borough 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.

5.9.6 The majority of this resource is essentially top sliced from the Revenue Support Grant. Therefore the New Homes Bonus is part of that shift from a needs based formula grant of funding for local government to one that places more emphasis on the incentives of 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 four years of the scheme is shown in the tables below;-

Table 16 – New Homes Bonus – Grant Allocations

Grant Element	2011/12 allocation £m	2012/13 allocation £m	2013/14 allocation £m	2014/15 allocation £m
Additional New Homes	1.981	1.528	1.081	1.250
Empty homes brought back into use	0.221	0.231	(0.067)	1.528
Affordable Housing	-	0.264	0.202	0.095
Annual Increase	**2.202**	**2.023**	**1.215**	**2.873**
Annual Grant (Cumulative)	**£m**	**£m**	**£m**	**£m**
2011/12	**2.202**			
2012/13		**4.225**		
2013/14			**5.440**	
2014/15				**8.312**

Table 17 – New Homes Bonus – Increase in Housing Units

	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
2014/15	972	859	1,068	1,050	270

5.9.7 However in the Autumn Statement the Chancellor reiterated the Government's proposal to top-slice London's New Homes Bonus Grant in order to provide a £70m contribution to be pooled within the London Local Enterprise Partnership, from 2015/16. This would effectively reduce the Council's annual NHB grant by £2.984m (36%) based on Croydon's share of London's 2014/15 NHB grant.

5.9.8 Also, it should be noted that NHB should increase for the first six years of the grant as annual grant awards are cumulative and paid for six consecutive years. In year seven (2017/18) the receipts relating to year one will drop out, with the grant, from then onwards, being a more constant amount.

5.9.9 **Business Rates -** The Business Rates Retention scheme is now 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 the financial strategy will therefore be to try and increase business rate yield in order to support our future budget. Taking as the base the Council's 2013/14 Baseline Funding Level and the Provisional Settlement figures the annual increases in business rate income that Croydon would retain are illustrated as follows;-

Table 18 – Business Rates annual increase

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Business Rates Income	32.962	33.604	34.532	35.706	37.063
Top up	31.723	32.340	33.232	34.196	35.324
Baseline Funding Level	64.685	65.944	67.764	69.902	72.387
Annual Increase		1.259	1.82	2.138	2.485
Assumptions					
Annual NDR Growth				0.50%	0.50%
RPI (OBR forecast)				3.30%	3.60%

5.9.10 **Council Tax -** Council tax remains a critical part of the council's resource base. Increasing the council tax base provides a direct increase to the income available to the council. This can come from three areas:

1. **Improvements in collection** – The Council, 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 has increased each year.

2. **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 the community. A reduction in the numbers claiming council tax discounts 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. The new Administration will review he support scheme to ensure that it is fit for purpose going forward.

3. **Local Taxation** – Over the period of the previous financial strategy 2010/13 there had 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 with the underlying financial needs of the borough which should be appropriately supported through local taxation decisions within the constraint that referendum levels which are a mechanism to control increases may impose. The complexity of policy changes in this area make these decisions more challenging over the medium term.

5.9.11 **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 is that of following national set rent convergence targets to 2015/16 whereby rents will rise year on year by RPI + 0.5%. in terms of future rent increase, we will need to ensure that they are consistent with the affordability constraints.

5.10 Financial Performance- Data

5.10.1 Debtors - Performance against targets are shown in table 19 below

Table 19 – Debtors

Age of Debt	Collection rate Feb 14	Target Collection rates	Debts issued	Debt outstanding @ Mar 14	Collection rate Mar 14	Interest cost @ 1.5% £(m)
1 month	81.42%	80%	8,431,447	812,601	90.36%	0.012
2 months	86.12%	85%	2,036,776	203,129	90.03%	0.003
3 months	96.27%	90%	2,738,481	244,553	91.07%	0.004
4 - 12 months	93.79%	97%	36,529,553	1,199,588	96.72%	0.018

5.10.2 Year end targets were achieved in the first three, early stage, tranches of debt with the first full financial year of operating a dedicated collections focussed, operation clearly having a positive effect in reducing the risk of debt ageing.

5.11 Collection Fund

5.11.1The Collection Fund is a ring-fenced account to which all sums relating to Council Tax and Business Rates are paid.

5.11.2 Any deficits on the Fund, in relation to Council Tax, must be met by the Council and the GLA but any surpluses can be used by those bodies to fund expenditure within their own organisation. Any surpluses or deficits in relation to Business Rates are shared between the Council, GLA and the Department for Communities and Local Government (DCLG).

5.11.3 The Collection Fund reported a surplus of £8,560m in relation to Council Tax (Croydon Council share is £6.800m) as at 31st March 2014. The declared surplus in January 2014 was £4,201m (Croydon's share £3,337m) which will be distributed in 2014/15.

5.11.4 For Business Rates there is a deficit of £5.994m (Croydon Council share £1.798m) primarily due to having to make a provision for outstanding appeals of £5.796m. In January 2014 a small surplus (£333k) was estimated. This is the first year of the Business Rates Retention Scheme and therefore the first year in which any surplus or deficit has been shared between precepting authorities.

5.11.5 The Best Value Performance Indicator (BVPI) target relates to the amount of debt collected in the initial year of billing (2013/14 debt collected in 2013/14). The target set for 2013/14 was 96.50% and the actual BVPI performance was confirmed at 96.07%, a shortfall of 0.43%.

5.11.6 The net collectable debt for council tax in 2013/14 was £171.3 million, an increase of £10.2 million on the previous year. Table 20 shows the impact of actual performance against the target in cash terms.

Table 20 – The BVPI target and performance for Council Tax Collection

	2013/14 Target	2013/14 Actual	Variance
%	96.50%	96.07%	-0.43%
Cash	£165.310m	£164.570m	-£0.741m

Note: These figures relate to amounts collectable for 2013/14 only; the amounts shown in the Collection Fund include variations to the debit for all past years up to and including 2013/14.

5.11.7 Although the year end performance of 96.07% is down on target it reflects Croydon's fourth best performance on record, despite increasing the debit by over £10 million, as a result of the changes to council tax benefit and empty property discounts. Recovery action remained robust, resulting in a 36% increase in reminders issued (over 21k notices) and a 22% increase in summonses (almost 5k notices), while help and support was given to customers who were struggling: budgeting assistance and signposting to the dedicated welfare team to ensure customers were receiving everything they were entitled to, and a special exercise was conducted where customers who were in work or looking for work and in receipt of council tax support were awarded a discretionary payment to clear their arrears, where they could demonstrate hardship.

National Non Domestic Rate (NNDR) Collection

5.11.8 The target set for 2013/14 was 98.75% and the actual BVPI performance was confirmed at 97.94%, a shortfall of 0.81%. The collectable debt for business rates in 2013/14 was £117.3m. Table 21 shows the impact of actual performance against the target in cash terms

Table 21 – The BVPI target and performance for NNDR Collection

	2013/14 Target	2013/14 Actual	Variance
%	98.75%	97.94%	-0.81%
Cash	£115.792m	£114.843m	£0.949m

5.11.9 Business rates collection performance has ended up below target but considering the economic climate this is still a good result and in line with performance across London. The volume of recovery action was down on the previous year but the value was up by 8%, £1.26 million in real terms. Support has been given to businesses who were struggling, in the form of more flexible payment plans or the award of relief if appropriate, and all of the top 100 businesses in Croydon paid in full for the year, with the exception of the Discount Department Store (who took over the Allders premises) which has since gone into liquidation.

5.11 Payments

5.11.1 Performance has shown a slight increase of 93.7% overall over 2012/13 (93.1%). Work is continuing with departments and suppliers to ensure invoices are receipted and paid on time. Table 22 gives details of the invoice payment statistics.

Table 22 – Invoice Payment statistics

Month	Invoices paid Within 30 Days	Total Invoices	% paid within 30 days
April	5,926	6,465	91.7%
May	6,403	6,839	93.6%
June	5,943	6,376	93.2%
July	6,250	6,511	96.0%
August	5,652	6,090	92.8%
September	5,172	5,527	93.6%
October	7,112	7,565	94.0%
November	6,471	7,025	92.1%
December	6,811	7,095	96.0%
January	6,335	6,932	91.4%
February	6,791	7,107	95.6%
March	7449	7917	94.1%
Total	**68,866**	**73,532**	**93.7%**

6. HOUSING REVENUE ACCOUNT (HRA)

6.1 The final outturn shows a surplus of **£1.966m** which has been transferred to HRA reserves The variances to budget that are on-going will be included in the budget planning for 2015/16.

6.2 The main variances of revenue spend against budget were:

Table 23- Analysis of Housing Revenue Account Variances 2013/14

Division	Unfavourable Variance £'000	Favourable Variance £'000	Detailed Explanation of Variation to Budget
Housing Management		661	There was an underspend generated by a number of staff vacancies within the division
Housing Management		484	There was a significant saving on utility costs due to more accurate recording of usage combined with credits received relating to previous financial years.
Capital Financing		695	There was a reduction debt management costs due to lower than anticipated borrowing in previous years mainly due to slippage on the HRA capital programme.

Working Balance		1,966	Surplus transferred to reserves

6.3 Capital expenditure totalled £31.864m. Expenditure was lower than the revised budget of £35.332m by £3.468m. This is mainly due to planned slippage on Phase 3 of the Council Housing new build programme (£2.264m), The remaining slippage of £1.204m was spread across a number of smaller projects.

6.4 The Contingency reserve balance has increased to £4.421m as a result of the revenue underspends in 2013/14. This means the revenue reserves represent 5% of the total income. This is in line with the Council's current financial strategy which ensures that the HRA maintains an appropriate level of revenue balances to maintain financial stability. The balance held in the Major Repairs reserve will continue to increase over coming years, as there is a need to have sufficient balances over the next 30 years to repay the Self-Financing debt of £223.126m. The following table shows the resultant position on the HRA balances and reserves at 31 March 2014 compared with previous year

Table 24 - Movement in Reserves and Balances

Balances and reserves	2011/12 £m	2012/13 £m	2013/14 £m
Working balance	3.819	5.595	0.000
Housing repairs fund	3.363	0.000	0.000
Major repairs reserve	0.000	0.470	7.379
General reserve	0.000	3.769	4.421
Total	**7.182**	**9.834**	**11.800**

7 PENSION FUND

7.1 The accounts for the Pension Fund are included, as a separate set of accounts, within the Croydon Borough Council's annual accounts publication. Table 25 below shows the change in the value of the Croydon Pension Fund during 2013/14: -

Table 25 - Pension Fund Performance 2013/14

Detail of Composition of Net Assets	2012/13 £000's	2013/14 £000's	Increase/ (Decrease) £000's	Change %
Fund Managers				
Investments	668,067	707,111	39,044	5.8
Other balances	(6)	1,139	1,145	
Cash	7,837	7,127	(710)	(9.1)
London Borough Of Croydon				
Debtors	1,549	1,675	126	8.1
Creditors	(5,878)	(5,357)	(521)	(8.9)
Cash	33,736	30,829	2,907	(8.6)
Net Assets at Year End	**705,305**	**742,524**	**37,219**	**5.3**

7.2

The value of investments increased by 5.3% over the period characterised by a rally in equity markets during the second half of the year. The diversified nature of the investment strategy has ensured that the fund has been able to deliver growth throughout the year. The investment portfolio and subsequent investment managers are subject to continual review, which resulted in the redemption of two investments. The majority of realised funds were held in cash at year-end pending the implementation of the revised investment strategy.

7.3 A revised Asset Allocation Strategy was approved by the Pensions Committee on the 5th of March 2013 (MinA08/13). The strategy's objective is to stabilise returns and reduce portfolio volatility whilst closing the funding gap. In the long-term, this will allow the Fund to meet its current and future liabilities to pensioners and stabilise employer contribution rates. The economic outlook suggests sluggish growth within the develop world and further uncertainty in the euro zone.

7.4 Table 26 below shows annualised performance by asset class over the 12 months to 31 March 2014.

Table 26 – Performance by asset class for the year end 31/03/14

Asset Class	**Value @ 31-Mar-14 £m**	**Aggregated return %**	**Aggregated benchmark %**	**Over/ Under performance %**
Global Equities	390.74	6.9	8.4	-1.5
Global Bonds	50.52	-2.1	-1.2	-0.9
Global Bonds and Absolute Returns	113.91	2.3	2.4	-0.1
Fund of Hedge Funds	29.66	4.8	10.5	-5.7
Private Equity	23.13	5.7	20.8	-15.1
Infrastructure	26.73	24.5	12.0	12.5
UK Property	55.09	15.0	11.9	2.8
European Property	11.15	0.8	8.0	-6.7
Cash	38.26	0.4	0.4	0.0
Venture Capital	7.49	14.1	20.5	-6.4
Total Fund	**746.68**			

7.5 Whilst market conditions improved throughout 2012/13, the fund continued to suffer the adverse effects of a diminished employee contribution base as a result of redundancies, outsourcing services and an increased level of opt-outs across the fund's membership. On a more positive note, automatic enrolment, introduced at Croydon in January 2013, has resulted in increased member numbers although it is difficult to assess the longer-term impact on member numbers at this stage.

8. ANNUAL GOVERNANCE STATEMENT (AGS)

8.1 The Accounts and Audit Regulations require the Council to review, at least annually the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) each year with the financial statements. The information for the AGS has been collected from the following sources;-

- External Audit;
- Internal Audit;
- Risk Management Process;
- Executive Directors Assurance Statements; and
- Performance Management.

8.2 There are detailed actions to manage and mitigate the risks identified within the Annual Governance Statement, which will be monitored by the Corporate Leadership Team on a quarterly basis to ensure appropriate action is taken in-year. The AGS will be reported separately on the same agenda.

9. FORMAT OF THE ACCOUNTS

9.1 There were no major changes to the format of the accounts in 2013/14.

9.2 There are a number of assumptions and estimates on which the figures in the accounts are reported. The main estimates are discussed below.

9.3 Properties are valued based on valuations prepared by the Council's external professional valuers. They are then depreciated over the useful economic life of the asset based on the asset category. Variations in property valuations and useful economic life estimates could have a major impact on the total comprehensive income and expenditure and the balance sheet net balances value.

9.4 Estimates are used in the preparation of the provision for doubtful debt. The Council uses historical collection rates when estimating these provisions. Changes in collection rates could have an impact on the total comprehensive income and expenditure position.

9.5 The Council aims to take a prudent approach when making estimates to ensure that they do not overstate their position. Where possible the Council uses professional guidance in calculating the value of its assets.

10 EXTERNAL AUDIT OF THE ACCOUNTS

10.1 The accounts will now be subject to external audit. The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board. Audit in the public sector is under-pinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- Auditors may report aspects of their work widely to the public and other key stakeholders.

10.2 Auditors are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from the audit work. This is called the ISA 260 Report and should be completed in September for consideration by the General Purposes Audit and Advisory Committee. The principal purposes of the report are:

- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance;
- to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
- to provide recommendations for improvements arising from the audit process.

10.3 Those charged with governance are required to review this report in order to:

- consider the statement of accounts before the financial statements are approved and certified; and
- ensure the representation letter can be signed on behalf of the authority by the Director of Finance and Assets and those charged with governance before Grant Thornton issues its opinion on the financial statements.
- given the opportunity for those charged with governance to amend the financial statements for the unadjusted misstatements/significant qualitative aspects of financial reporting issues identified above.

Should Members choose not to amend the financial statements, in accordance with the International Standard on Auditing (ISA) (UK and Ireland) 260, the Auditors will request that members extend the representation letter to explain why adjustments are not being made to the financial statements.

10.4 The Director of Finance and Assets will advise Members of the Committee accordingly throughout this process.

11. PUBLIC ACCESS

11.1 The Council has improved Public Access and awareness of the Council’s Accounts through its Public Access Strategy. The foundation of public access are the public inspection of the Accounts, running from the 14th July 2014 to 8th August 2014 and the publication of the Accounts on the Council's enhanced public website both as part of the Committee agenda and as a separate web presence in the Council and Democracy web pages.

12. FINANCIAL CONSIDERATIONS

12.1 The body of the report sets out the 2013/14 outturn in the context of the Council's Financial Strategy as approved by Cabinet on the 26th February 2014.

13. LEGAL CONSIDERATIONS

13.1 The Council Solicitor comments that under the Constitution, responsibility for setting the Council Budget is reserved to Full Council. This would include any changes made to the established reserves and provisions as proposed by the recommendations.

13.2 However, in the case of urgency, the General Purposes and Audit Committee has the power to exercise that function, further to Part 3, para.2.01 of the Constitution, and for the reasons detail in para. 2.5 approve draft accounts for the year 2013/14 in Appendix 1. The changes to reserves must be made in finalisation of the accounts for 2013/14 before June 30th and before the next meeting of the Council.

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

14. OTHER CONSIDERATIONS

14.1 There are no HR, equalities, environmental, crime and disorder, and human rights considerations arising directly from this report.

Report Author:	Richard Simpson – Director of Finance & Assets and Section 151 Officer
Background Documents:	Exempt
Contact Officer:	Richard Simpson – Director of Finance & Assets and Section 151 Officer