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| <b>REPORT TO:</b>   | <b>GENERAL PURPOSES AND AUDIT COMMITTEE</b><br><b>24 JUNE 2015</b>  |
| <b>AGENDA ITEM:</b>   | <b>7</b>  |
| <b>SUBJECT:</b>   | <b>REVENUE &amp; CAPITAL OUTTURN EXPENDITURE</b><br><b>DRAFT FINAL ACCOUNTS FOR THE PERIOD 01/04/14 to 31/03/15</b> |
| <b>LEAD OFFICER:</b>  | <b>RICHARD SIMPSON</b><br><b>ASSISTANT CHIEF EXECUTIVE CORPORATE RESOURCES AND</b><br><b>SECTION 151 OFFICER</b>    |
| <b>CABINET MEMBER:</b>  | <b>COUNCILLOR SIMON HALL CABINET MEMBER FOR FINANCE AND</b><br><b>TREASURY</b>                                      |
| <b>WARDS:</b>   | <b>ALL</b>  |
| <b>CORPORATE PRIORITY/POLICY CONTEXT:</b>   |   |
| <p>The report is a statutory requirement and communicates to our key stakeholders the Council's financial performance and outcome for the period 1 April 2014 to 31 March 2015. 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.</p>  |   |
| <b>FINANCIAL SUMMARY:</b>   |   |
| <p>This report sets out the financial performance of the Council for the period 1 April 2014 to 31 March 2015.</p>  |   |
| <b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b>   |   |
| <b>RECOMMENDATIONS</b>  |   |
| <p><b>The Committee(s) is asked to:</b></p> <ol style="list-style-type: none"> <li>1.1 Approve the levels of reserves and provisions set out in section 7.4 of the report, as recommended by the Section 151 Officer;</li> <li>1.2 Note the Council's outturn position, and the progress of the Council's current Financial Strategy objectives;</li> <li>1.3 Note the departmental outturn variances as contained within Table 2 and Appendix 1 of the report;</li> <li>1.4 Note that a report seeking final approval of the accounts following their review by external audit will be presented prior to the deadline of the 30<sup>th</sup> September 2015.</li> </ol> |   |

## 2. EXECUTIVE SUMMARY

- 2.1 This report presents to the Committee progress on the delivery of the Council's Financial Strategy (FS). The final budget position of the Council for 2014/15 was an over spend of £0.920m, less than 0.5% of the net budget, which is being met by the use of general fund balances.
- 2.2 The Council has met the challenge of reducing grant since 2010 and maintained a robust financial position. The Financial Strategy for 2015/19, which was approved on a recommendation of Cabinet on the 17th of February to full Council (Minute A21/15, Council Meeting 23rd February 2015), sets out the strategy for managing the significant financial challenge for the medium term.
- 2.3 In summary 2014/15 was the fourth successive challenging financial year in the Government's Deficit Reduction Programme and the prevailing economic climate of low growth. The magnitude of government grant cuts resulting again in a high level of savings needing to be achieved to balance the budget, which was voted through by the previous administration. The Council's financial management and controls had identified potential pressures early in the year, notably in areas where there had been pressures in the previous year. Significant efforts were made to bring these under control during 2014/15, consistent with Ambitious For Croydon and without bringing in short term measures that could have adverse implications to service users or longer term ambitions. However, there remained an overall over spend at the end of the year, which has resulted in the Council's General Fund balances reducing from £11.597m to £10.677m. It should be noted that these areas have been given additional growth in the 2015/16 budget to recognise the issues.
- 2.4 The target set out in the Financial Strategy is to hold General Fund balances of 5% of the council's net budget requirement. For 2015/16 this equals £13.4m. The Financial strategy made clear that although 5% remains a target there are no plans to actively move towards the target in cash terms over the medium term as the council's budget is expected to reduce by in the region of £50m over this period. This would see the 5% target reduce by £2.5m, making it £10.9m by the end of 2018.
- 2.5 The Council's overall over spend of £0.920m was made up of Departmental over spends of £9.424m, offset by non-departmental underspends of £8.504m. Details are provided in Table 1, Section 3 of this report.
- 2.6 The Council's earmarked reserves have decreased by £27.62m to £29.54m. The main reason for the decrease is the full use of the CCURV reserve. This reserve was created to hold the interest received on the BWH loan. Cabinet agreed to exercise the council's option to buy out the equity from John Laing in one payment, this led to the ending of the loan arrangements and reversal of all entries and hence the reserve has now been removed. This was £19.6m. Locally Managed Schools' revenue reserves have decreased by £1.6m to £9.7m.
- 2.7 The Council's General Fund Provisions have increased slightly from £33.469m to £33.513m as at 31<sup>st</sup> March 2015.

- 2.8 The Collection Fund has carried forward a £14.523m surplus in relation to Council Tax and a deficit of £11.338m in relation to NNDR, making a total surplus in the collection fund of £3.105m as at 31<sup>st</sup> March 2015.
- 2.9 The Council's Pension Fund increased in value in 2014/15 by £116m (15.7%) to a value of £858m.
- 2.10 The draft accounts are being prepared, and will be presented to the Council's external auditors by the statutory deadline of 30<sup>th</sup> June 2015. There are a number of assumptions and estimates used in the preparation of the draft accounts, which are set out in Section 8 of this report.
- 2.11 The Accounts and Audit Regulations 2011 no longer require the draft accounts to be approved by those charged with governance, and the draft accounts do not form an appendix to this report. However, this report does summarise the Council's financial position at the end of 2014/15, and provides an update on progress towards the Council's financial strategy objectives. The council's draft accounts will be published once submitted to External Audit, and copies will be made available in the member's area to allow them to be scrutinised in more detail. This is in addition to the statutory public inspection periods.
- 2.12 The draft accounts will 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 report. The audited final accounts are expected to be available by 30 September 2015. 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 2014/15**

- 3.1 Departmental spend was **£9.424m** more than budgeted in 2014/15. The areas of overspend are those that have in the main been reported to Cabinet throughout the year and reflect the areas of the council's budget that is impacted heavily by demand and our statutory responsibilities. Growth has been built into the 2015/16 to reflect a new achievable budget for these areas. The main overspends were on care packages for personal support, an increase in the assessment caseload in the Children In Need Service, Adult Services and Temporary Accommodation, including Bed & Breakfast due to an increase in demand for the service.
- 3.2 Despite the financial pressures placed on the budget, the Council has maintained strong financial controls throughout the year. As shown in Table 1, underspends on non-departmental spend enabled the council to make (£8.504m) of savings to offset departmental pressures.

#### **Table 1 Revenue Outturn Summary for 2014/15**

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

3.3 The main variances (over £500k) that contributed to the departmental overspend are summarised in Table 2 below. A complete breakdown of all variances is shown in Appendix 1.

**Table 2 - Analysis of main departmental variances 2014/15 (+/- £500k)**

| Department | Favourable variance<br>£000 | Unfavourable variance<br>£000 | Comments   |
|------------|-----------------------------|-------------------------------|--|
| Resources  | -508                        |                               | Additional income from Land Charges  |
| Resources  | -1,517                      |                               | More Housing Benefits overpayment income was generated during the last quarter of 2014/15 due to the introduction of the Real Time Information (RTI) project in December 2014. |
| Resources  | -603                        |                               | Savings from the Agency Contract. The council receive a rebate as a result of the renegotiation of rates and this has been greater than budgeted during 2014/15                |
| Department | Favourable variance<br>£000 | Unfavourable variance<br>£000 | Comments   |
| People     |                             | 542                           | Unable to fund some elements of spend from the DSG due to a change in the regulations.   |
| People     |                             | 3,648                         | Increase in children's placement costs, including Independent Fostering, No Recourse to Public Funds and increase in allowances paid for adoption and special guardianships.   |

|        |        |       |  |
|--------|--------|-------|--|
|        |        |       |  |
| People | -1,843 |       | Underspend on commissioned 2 year old places at children's centres and increased use of DSG to fund some core services   |
| People |        | 696   | Agency staff covering vacancies to ensure appropriate level of staffing in Children's Safeguarding   |
| Place  |        | 1,570 | Increase in the number of people requiring temporary accommodation   |
| People |        | 4,738 | Increase in number of clients requiring care packages across the range of services provided including:- Learning Disabilities, Older People services and Physical Disability services. |
| People |        | 565   | Staff costs due to increasing demand and the use of interim staff covering vacancies in the area of Social Work and Adult Safeguarding   |
| People | -470   |       | Staffing savings as posts have remained vacant.  |
| Place  |        | 466   | Increased waste tonnage sent to Landfill   |
| Place  |        | 624   | Shortfall in Pay & Display Income  |

3.4 Table 3 below shows the major variances relating to non-departmental expenditure.

**Table 3 - Analysis of non departmental variances 2014/15 (+/- £500k)**

| Department             | Favourable variance<br>£000 | Unfavourable variance<br>£000 | Comments  |
|------------------------|-----------------------------|-------------------------------|---|
| Non-departmental items | (5,575)                     |                               | Additional grant funding received. This includes Business rate grants received from the government as a result of the lower than RPI business rate increase and the extension of the small business rate relief. The actual amount of grant was not confirmed to very late in the financial year. |
|                        | (1,929)                     |                               | Reduction in interest payable due to lower than anticipated capital spend   |
|                        | (1,000)                     |                               | Contingency budget not used   |

3.5 Table 4 below shows the resultant position on the Council's balances and reserves as at 31 March 2015, compared with previous years. This table excludes Locally Managed Schools (LMS) reserves, as they are controlled by Schools. The most significant movement was the Earmarked Reserves which dropped sharply from £59.4m in 2013/14 to £29.5m in 2014/15.

**Table 4 - Analysis of Movement in Reserves and Balances**

| Balances and Reserves   | 2012/13<br>£m | 2013/14<br>£m | 2014/15<br>£m |
|-------------------------|---------------|---------------|---------------|
| General Fund Balances   | 11.6          | 11.6          | 10.7          |
| Earmarked Reserves      | 60.0          | 59.4          | 29.5          |
| General Fund Provisions | 32.4          | 33.4          | 33.5          |
| <b>Total</b>            | <b>104</b>    | <b>104.4</b>  | <b>73.7</b>   |

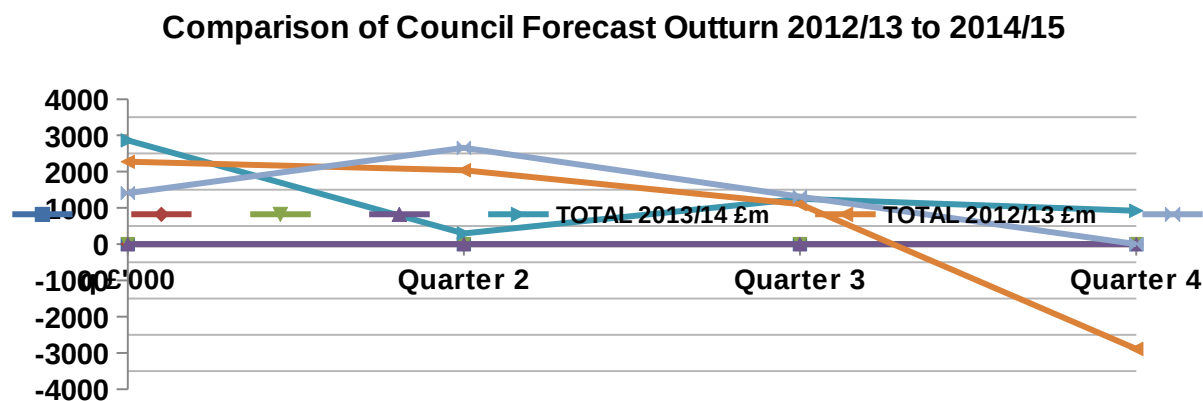
3.6 The reasons for the significant reduction in earmarked reserves when compared to 31/03/14 was set out earlier in the report and relates to CCURV and BWH. Additionally a number of reserves being held to support the transition to the new ICT contract have now been used. Further details are provided in Section 7.4 of this report. The reduction in the General Fund balances by £0.920m was due to the need to finance the shortfall in the overall revenue outturn as set out in Section 2 and 3 above.

### 3.7 REVENUE BUDGET MANAGEMENT

3.7.1 The overall revenue outturn position for 2014/15 is a £0.920m overspend. The past few financial years have been very challenging both due to financial constraints and increased demand for Council services. The Council has in place a strong financial management framework, and has continued to rigorously monitor, manage and

control spending within the framework of the Financial Strategy. Graph 1 below shows the movement of forecast variances through 2014/15 and comparison with previous years.

**Graph 1 – Comparison of Council Forecast Outturn 2012/13 to 2014/15**



3.7.2 As can be seen from the movement in outturn forecasts over the past 3 years, the Council continues to face increasing pressures in the delivery of services. The pressures in terms of grant loss experienced by Local Government have continued into the current year. The Council has required the use of non-departmental savings to ensure budget delivery within resources available. Table 5 shows the overall Council position including non-departmental savings over the last 3 years.

**Table 5 – Council quarterly forecast outturn**

| Quarter             | TOTAL<br>2014/15<br>£'000 | TOTAL<br>2013/14<br>£'000 | TOTAL<br>2012/13<br>£'000 |
|---------------------|---------------------------|---------------------------|---------------------------|
| Quarter 1           | 2,864                     | 2,271                     | 1,410                     |
| Quarter 2           | 294                       | 2,037                     | 2,658                     |
| Quarter 3           | 1,253                     | 1,103                     | 1,314                     |
| Quarter 4 (Outturn) | 920                       | -2,885                    | 0                         |

#### 4. CAPITAL OUTTURN 2014/15

4.1 The original approved General Fund Services capital programme (excluding the Housing Revenue Account) totalled £117.188m, which was increased during the year to £195.749m to reflect both programme slippage and any additional government grants. Outturn capital spend was £97.308m, with the resultant

underspend of £95.441m (48.8%) mainly attributable to slippage in the delivery of schemes. Table 6 below, shows spending against budget by Department in 2014/15 and Appendix 2 provides a detailed breakdown of spend against budget for the capital programme.

**Table 6 – Capital Outturn Variances for 2014/15**

| Department              | Original Budget<br>£'000s | Budget Adjustment<br>s<br>£'000s | Revised Budget<br>£'000s | Outturn<br>£'000s | Outturn Variance<br>£'000s |
|-------------------------|---------------------------|----------------------------------|--------------------------|-------------------|----------------------------|
| People                  | 115,367                   | (8,730)                          | 106,637                  | 53,602            | (53,035)                   |
| Place                   | 56,891                    | 5,845                            | 62,736                   | 28,629            | (34,107)                   |
| Resources               | 6,930                     | 16,446                           | 23,376                   | 15,077            | (8,299)                    |
| <b>General Fund</b>     | <b>117,188</b>            | <b>13,561</b>                    | <b>195,749</b>           | <b>97,308</b>     | <b>(95,441)</b>            |
| Housing Revenue Account | 40,504                    | 3,468                            | 43,972                   | 41,636            | (2,336)                    |
| <b>Total Capital</b>    | <b>219,691</b>            | <b>17,030</b>                    | <b>236,721</b>           | <b>146,944</b>    | <b>(97,777)</b>            |

4.2 The impact of slippage from 2014/15 into the 2015/16 capital programme will be considered as part of the first Financial Performance report for 2015/16. Capital schemes in 2014/15 included the following:

- ← Meeting the needs of the Education Estates Strategy
- ← Delivery of Improvement works to highways
  - ← Improvements to the Public Realm as part of the Connected Croydon Programme.
- ← Continuing the drive to meet the Decent Homes Standard;

## 5. HOUSING REVENUE ACCOUNT (HRA)

5.1 The final outturn shows a surplus of **£4.941m** 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.

5.2 The main variances of revenue spend against budget are set out in Table 7 below.

**Table 7- Analysis of Housing Revenue Account Variances 2014/15**

| Division          | Favourable variance<br>£000 | Unfavourable variance<br>£000 | Detailed explanation  |
|-------------------|-----------------------------|-------------------------------|---|
| Landlord services | 7,664                       |                               | There was an increase in the recovery of rents (£0.9m) combined with a reduction in |



|                   |     |       |   |
|-------------------|-----|-------|---|
|                   |     |       | the level of bad debt provision required (£1.0m). There was also a saving on the responsive repairs contract (£1.2m) and additional work costs recovered from leaseholders (£3.3m). Staff vacancies accounted for a further saving of £0.7m |
| Needs & Strategy  | 84  |       | Combination of small variances  |
| Centralised Costs | 458 |       | Contingency budget not utilised   |
| Capital Financing |     | 3,265 | Changes in funding of capital programme to optimise resources   |

- 5.3 Capital expenditure totalled £41.381m. Expenditure was lower than the revised budget of £43.972m by £2.591m. This is mainly due to slippage on Phase 4 of the Council Housing new build programme (£1.016m). The remaining slippage of £1.575m was spread across a number of smaller projects.
- 5.4 The Contingency reserve has previously been set at 5% of the total income. This was in line with the upper limit included in the Council's financial strategy. However, having reviewed the previous years performance against budget and considered the level of risk within the HRA income and expenditure it is now considered that the level of appropriate level of revenue balances to maintain financial stability can be reduced to 3% of total income, with the balance being transferred to the earmarked reserve for new housing supply. Table 8 below shows the resultant position on the HRA balances and reserves at 31 March 2015 compared with previous year.

**Table 8 – Movement in HRA reserves and balances**

| HRA                                       | Balance at<br>01-Apr-14<br>£m | HRA Outturn<br>2014/15<br>£m | Balance at<br>31-Mar-15<br>£m |
|---|-------------------------------|------------------------------|-------------------------------|
| Earmarked Reserve –<br>New housing supply | - 7,042                       | - 5,836                      | - 12,878                      |
| Contingency Reserve<br>(target 3%)        | - 3,769                       | 1,372                        | - 2,397                       |
| Total                                     | - 10,811                      | - 4,464                      | - 15,275                      |
| Major Repairs Reserve                     | - 947                         | - 477                        | - 1,424                       |
| <b>Total</b>                              | <b>- 11,758</b>               | <b>- 4,941</b>               | <b>- 16,699</b>               |

## 6. PENSION FUND AND TREASURY MANAGEMENT

6.1 The accounts for the Pension Fund are included, as a separate set of accounts, within the Croydon Borough Council's annual accounts publication. Table 9 below shows the change in the value of the Croydon Pension Fund during 2014/15: -

**Table 9 - Pension Fund Performance 2014/15**

| Composition of Net Assets        | 2013/14<br>£000 | 2014/15<br>£000 | Increase /<br>(decrease<br>)<br>£000 | Change<br>%age |
|----------------------------------|-----------------|-----------------|--------------------------------------|----------------|
| <b>Fund Managers</b>             |                 |                 |                                      |                |
| Investments                      | 708,355         | 839,586         | 131,231                              | 18.5           |
| Other balances                   | 1,114           | 1,205           | 91                                   | 8.2            |
| Cash                             | 6,477           | 10,105          | 3,628                                | 56.0           |
| <b>London Borough of Croydon</b> |                 |                 |                                      |                |
| Debtors                          | 1,717           | 1,832           | 115                                  | 6.7            |
| Creditors                        | (6,608)         | (4,882)         | 1,726                                | 26.1           |
| Cash                             | 30,832          | 10,174          | (20,658)                             | (67.0)         |
| <b>Net Assets at Year-End</b>    | <b>741,887</b>  | <b>858,020</b>  | <b>116,133</b>                       | <b>15.7</b>    |

6.2 The net value of the Fund has increased by 15.7% over the reporting period. The diversified nature of the investment strategy has ensured that the fund has been able to deliver growth throughout the year, albeit in aggregate performance was marginally below the benchmark set. In response to a changing macro-economic landscape, the strategic asset allocation is being reviewed. One early decision was to invest in a passively managed fund. The process of restructuring the property portfolio was completed within this reporting period too. A cash balance was held to allow rapid deployment into assets to exploit opportunities as they arose.

6.3 A critical function of the Pensions Committee is to ensure that the Asset Allocation Strategy matches the current economic climate in order 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, without putting an additional burden on council tax payers. The economic outlook suggests slow growth in the developed world and further uncertainty in the euro zone, but suggests recovery from the Global Financial Crisis is more robust. Table 10 below shows annualised performance by asset class over the 12 months to 31 March 2015.

**Table 10 – Performance by asset class for the year end 31/03/15**

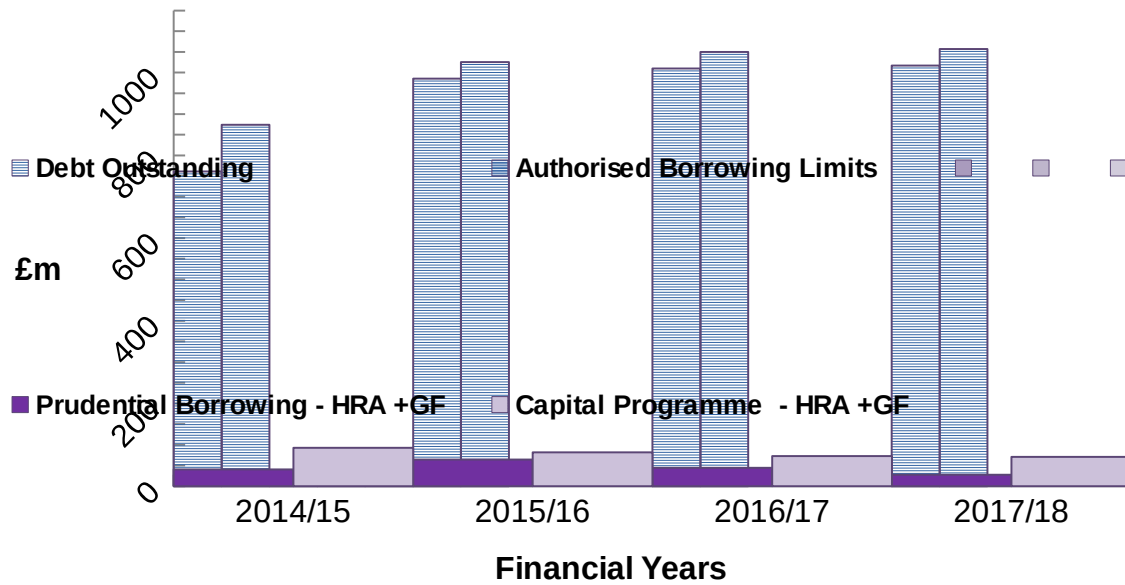
| Asset Class                       | Value at<br>31-3-2015<br>£m | Aggregate<br>d return<br>% | Aggregate<br>d<br>benchmark<br>% | Over / Under<br>performance<br>% |
|-----------------------------------|-----------------------------|----------------------------|----------------------------------|----------------------------------|
| Global Equities                   | 480.5                       | 19.1                       | 18.8                             | 0.3                              |
| Global Bonds                      | 57.9                        | 14.6                       | 14.2                             | 0.4                              |
| Global Bonds and Absolute Returns | 120.8                       | 6.4                        | 7.6                              | (1.2)                            |
| Fund of Hedge Funds               | 32.4                        | 9.3                        | 10.6                             | (1.3)                            |
| Private Equity                    | 41.6                        | 18.8                       | 10.6                             | 8.2                              |
| Infrastructure                    | 29.0                        | 13.5                       | 12.0                             | 1.5                              |

|                   |              |             |             |              |
|-------------------|--------------|-------------|-------------|--------------|
| Property          | 77.4         | 15.2        | 16.6        | 1.2          |
| Cash              | 10.1         | 0.4         | 0.3         | 0.1          |
| <b>Total Fund</b> | <b>849.7</b> | <b>14.6</b> | <b>15.1</b> | <b>(0.5)</b> |

### Treasury Management

- 6.4 The Assistant Chief Executive Corporate Resources and Section 151 Officer is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy and Treasury Management Strategy.
- 6.5 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The Code was updated in 2011 and the Council has adopted this updated Code of Practice on 26 February 2013 (Minute A31/13).
- 6.6 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:
- 6.7 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 2015/16,
- 6.8 £152.121m of investment is planned, £67.226m of which is to be financed from borrowing, resulting in a total level of debt of £985.278m that supports past investment in the infrastructure of the Borough.
- 6.9 Apart from borrowing that is supported by government grant funding, the cost of new prudential borrowing to the Authority will be £9.00 per Band D council taxpayer in 2015/16. 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.
- 6.10 The external debt indicators illustrate the calculation of the affordable borrowing limit. 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.
- 6.11 The final indicator in graph 4 below sets a profile for the maturing of new debt.

**Graph 4: Prudential Indicators for 2014/15 to 2017/18**



**BORROWING**

- 6.1 As part of its Treasury management framework the Council agreed a set of Prudential Indicators covering 2014/15 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, and are shown in Table 11 below:
- 6.2 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.
- 6.3 The impact of unsupported borrowing on Band D council tax levels was less than anticipated because of the lower cost of new borrowing.

**Table 11 - Prudential Indicators**

|           | <b>PRUDENTIAL INDICATORS 2014-15</b>   | <b>Revised Budget<br/>£'000</b> | <b>Outturn<br/>£'000</b> | <b>Notes</b> |
|-----------|--|---------------------------------|--------------------------|--------------|
| <b>1.</b> | <b><u>Prudential Indicators for Capital Expenditure</u></b>  |                                 |                          |              |
| 1.1       | In year Capital Financing Requirement  |                                 |                          |              |
|           | - General Fund   | 68.245                          | 34.130                   |              |
|           | - HRA  | 6.000                           | 8.078                    |              |
|           | Total  | 74.245                          | 42.208                   |              |
| <b>2.</b> | <b><u>Prudential Indicators for Affordability</u></b>  |                                 |                          |              |
| 2.1       | Ratio of financing costs to net revenue stream   |                                 |                          |              |
|           | - General Fund   | 10.0%                           | 7.50%                    |              |
|           | - HRA  | 16.0%                           | 14.75%                   |              |
| 2.2       | General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum) |                                 |                          |              |
|           | - In year increase   | £10.00                          | £5.30                    |              |
| 2.3       | HRA impact of Prudential (unsupported) borrowing on housing rents (per annum)                      | 0                               | 0                        |              |
| <b>3.</b> | <b><u>Prudential Indicators for External Debt</u></b>  |                                 |                          |              |
| 3.1       | Borrowing Requirement  |                                 |                          |              |
|           | Total Debt brought forward 1 April 2014  | 717.264                         | 720.264                  | Note 1       |
|           | Total Debt carried forward 31 March 2015   | 834.100                         | 760.839                  |              |

**Note 1** – Of the £717.264m debt brought forward at 1/4/2014, £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.

## **7. PROGRESS AGAINST THE CURRENT FINANCIAL STRATEGY**

7.1 The Financial Strategy that was approved on a recommendation of Cabinet to full Council (Minute A21/15, Council Meeting 23 February 2015), established the overriding financial objectives of the Council for the medium term. These 3 core objectives ensure alignment of the Council's overall strategic priorities and resources. These objectives are as follows:

- (a) To Maximise economic growth locally
- (b) To realign our resources to protect our front line resources as much as possible
- (c) To ensure we retain a strong financial management framework and systems

Progress in 2014/15 made against the Council's 2015/19 Financial Strategy is set out below against each of the Strategy Objectives.

### **7.2 TO MAXIMISE ECONOMIC GROWTH LOCALLY -**

7.2.1 The Council recognises that the delivery of local economic growth needs to be supported by direct investment by the council to drive the pace of growth and is keen to work with the private sector to, where necessary unblock and enable their delivery. One way of addressing these constraints is to establish a Revolving Investment Fund (RIF).

7.2.2 A fund of this nature could, over a period of time, provide funding, finance, debt, skills and resources to a portfolio of projects across the area, whilst ensuring a more strategic and joined up approach to investment. This more innovative approach to enabling delivery will entail the Council taking a lead role in funding and finance arrangements. In this context the Council has taken the decision to establish the RIF as a vehicle to offer this support, with £3 million identified to take forward the development of this initiative. This will focus initially on the delivery of sites within the council's current ownership linking with the key objectives of the councils approved Asset Strategy.

7.2.3 The Business Rates Relief Scheme (BRRS) and New Homes Bonus (NHB) now gives some opportunities for local government to get financial rewards for supporting local economic and housing growth. These changes in funding effectively underpin/support Croydon's corporate priority of 'Promoting economic growth and prosperity', and they are explored in the following sections on New Homes Bonus. The New Homes Bonus Grant incentivises Croydon for promoting house-building in our communities by rewarding the council with a grant for:

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

7.2.3 The tables below show the details of Croydon's allocations since the start of the scheme. There is a risk that NHB may change following the recent General Election, and it is uncertain what effect this may have on the forecasts in Table 12 and 13 below.

**Table 12- New Homes Bonus - Grant Allocations**

| <b>Grant Element</b>              | <b>2011/12<br/>allocation<br/>£m</b> | <b>2012/13<br/>Allocation<br/>£m</b> | <b>2013/14<br/>allocation<br/>£m</b> | <b>2014/15<br/>allocation<br/>£m</b> | <b>2015/16<br/>allocation<br/>£m</b> |
|-----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Additional New Homes              | 1.981                                | 1.528                                | 1.081                                | 1.25                                 | 1.831                                |
| Empty homes brought back into use | 0.221                                | 0.231                                | -0.067                               | 1.528                                | -616                                 |
| Affordable Housing                | -                                    | 0.264                                | 0.202                                | 0.095                                | 122                                  |
| <b>Annual Increase</b>            | <b>2.202</b>                         | <b>2.023</b>                         | <b>1.215</b>                         | <b>2.873</b>                         | <b>1337</b>                          |
| <b>Annual Grant (Cumulative)</b>  | <b>£m</b>                            | <b>£m</b>                            | <b>£m</b>                            | <b>£m</b>                            | <b>£m</b>                            |
| 2011/12                           | <b>2.202</b>                         |                                      |                                      |                                      |                                      |
| 2012/13                           |                                      | <b>4.225</b>                         |                                      |                                      |                                      |
| 2013/14                           |                                      |                                      | <b>5.44</b>                          |                                      |                                      |
| 2014/15                           |                                      |                                      |                                      | <b>8.312</b>                         |                                      |
| 2015/16                           |                                      |                                      |                                      |                                      | <b>9.649</b>                         |

**Table 13 New Homes Bonus – Increase in Housing Units – update table numbers**

| Year    | 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          |
| 2015/16 | 1,385        | 1,247             | -447                              | -420              | 350          |

7.2.4 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.

7.2.5 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.

7.2.6 This also brings risk in that the council will carry 30% of the risk of any reduction in business rates yield. A key part of our strategy will therefore be to try and increase the yield to support our future budget. Table 14 below shows the current business rate income and future forecast.

**Table 14 Business Rates annual increase**

|  | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|--|---------|---------|---------|---------|---------|
|  |         |         |         |         |         |

|                        | £m     | £m     | £m     | £m     | £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  |
| <b>Assumptions</b>     |        |        |        |        |        |
| Annual NDR Growth      |        |        |        | 0.50%  | 0.50%  |
| RPI (OBR forecast)     |        |        |        | 3.30%  | 3.60%  |

### **Achievements in 2014-15 towards this objective**

7.2.7 Details of some of the initiatives delivered in 2014/15 are set out below:

- **Croydon Enterprise Loan Fund**

The Croydon Enterprise Loan Fund (CELF) funded by the Council, has been providing loans for start-ups and small businesses that have difficulty accessing finance from banks. Since its start in 2008, loans have now hit the £2m milestone.

- **Launch of Growth Plan**

A council Growth Plan was launched including creating 16,000 jobs, 9,500 new homes, revitalising district centres, re-establishing Croydon as London's premier retail and leisure destination, and as outer London's prime office centre

- **Growth Zone**

Croydon Council was awarded £7m from Chancellor for growth zone funding, which will accelerate council's £5.25bn regeneration programme, creating 23,500 new jobs.

- **Public realm improvements**

The council successfully bid for £2.7m to deliver major high street improvements in Thornton Heath and is investing £3.2m in London Road, renovating shop fronts, relaying pavement, improving parking bays, planting trees. Connected Croydon improvement works are also taking place around East Croydon.

- **Jobs brokerage service**

The council is to launch a job brokerage service to ensure that jobs created from major commercial developments in and around the borough, such as the Whitgift Centre and expansion of Gatwick, go to Croydon residents.



- **Value Croydon**

This is aimed at encouraging local small businesses to pitch for council contracts, supporting the local economy, creating jobs for local people, providing training and skill development opportunities, investing in local business growth and opening up more commissioning opportunities to local businesses.

### **7.3 TO REALIGN OUR RESOURCES TO PROTECT OUR FRONT LINE RESOURCES AS MUCH AS POSSIBLE**

7.3.1 The Council's aim is to rebalance the resources of the organisation to ensure that there are more of our resources directed to support the delivery of front line services, and that over time the cost of the enabling services which support the front line are reduced.

#### **Achievements in 2014-15 towards this objective**

7.3.2 Details of some of the initiatives delivered in 2014/15 to realign resources are set out below:

- Commissioned a new integrated drug and alcohol service, adopting an outcome focus. The new model provides flexible and personalised services, and a more integrated community based offer, whilst saving £370k compared to previous provision.
- Acted as lead for the South London SEN Commissioning Programme, securing a £710k grant from the DCLG and winning initiative of the year at the 2015 National Government Opportunities (GO) Excellence in Public Procurement Awards. The programme has achieved savings of £180k in 14/15 and is projecting savings in future years.
- Provided assurance around the level of spend through the temporary agency worker contract and reduced reliance on expensive resource through implementation of the new agency worker policy and establishment of a contract management function, achieving savings in excess of £1.5m compared to 13/14.
- Exceeded the target for residential and nursing home placements by £300k, achieving a saving of £1.5m through commercial negotiations.
- Established a new integrated framework for care and support services focused on personal outcomes, and improving quality and consistency. The framework also embeds London Living Wage into home care services and is estimated to achieve savings of 10% / £8m over four years
- Launched the first tender for a new model of delivering housing planned

maintenance and improvement services. The new contracts will embed social value and will ensure that the borough achieves a range of social benefits, including training and skills, apprenticeships and employment opportunities, increased access for local businesses within the supply chain, and support for community groups. The first live tender is set to achieve savings of circa £1.4m-1.8m per annum to the HRA.

- Agreed the re-procurement of Facilities Management and established an Asset Strategy to generate income and reduce expenditure
- Launched a series of Croydon Challenge projects which allow greater focus on the front line, notably the Digital and Enabling project
- Used the Administration Priorities Reserve to deliver a series of initiatives that make a difference to residents

#### 7.4 TO ENSURE WE RETAIN A STRONG FINANCIAL MANAGEMENT FRAMEWORK AND SYSTEMS

7.4.1 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.

7.4.2 The level of general fund balances as at 31<sup>st</sup> March 2015 is £10.677m. This represents 3.98% of 2015/16's net budget requirement against a Financial Strategy target of 5%. Table 15 below sets out actual general fund balances against the targeted level.

**Table 15 – Comparison of General Fund Target Balance with Actual Balances**

| Year                       | 2011/12<br>£m | 2012/13<br>£m | 2013/14<br>£m | 2014/15<br>£m | 2015/16<br>£m | 2016/17<br>£m | 2017/18<br>£m |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Target 5% (£m)             | 13.7          | 13.4          | 14.6          | 13.9          | 13.4          | 12.1          | 10.9          |
| General Fund balances (£m) | 11.6          | 11.6          | 11.6          | 10.7          | n/a           | n/a           | n/a           |

Note: budget reductions of £25m are assumed for 2016/17 and 2017/18

7.4.3 The Council has a General Fund balance of **£10.677m** as at 31<sup>st</sup> March 2015 and earmarked reserves of **£29.5m** excluding Schools reserves.

7.4.4 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 16 below.

**Table 16 – Analysis of reserves (greater than £0.5m)**

| <b>Reserve</b>  | <b>Balance<br/>31/03/2014<br/>£m</b> | <b>Balance<br/>31/3/2015<br/>£m</b> |
|---|--------------------------------------|-------------------------------------|
| <b>NON DEPARTMENTAL</b>   |                                      |                                     |
| Croydon Challenge – this is funding to support the delivery of the transformation programme                 | 0.896                                | 3.859                               |
| New Administration Priorities – set aside to support key initiatives of the administration.                 | 2.886                                | 2.235                               |
| Revolving Investment Fund – set aside to fund the up-front costs of the schemes within the investment fund. | 2.341                                | 2.106                               |
| Redundancy Reserve – To fund redundancy costs associated with budget savings                                | 1.697                                | 1.039                               |
| <b>PLACE</b>  |                                      |                                     |
| Street Lighting PFI Sinking Fund – To manage the costs and income of the PFI contract over 25 years.        | 4.683                                | 8.731                               |
| Economic Development Reserve – set up to support key economic development initiatives                       | 1.232                                | 0.594                               |

| <b>Reserve</b> | <b>Balance<br/>31/3/2014<br/>£m</b> | <b>Balance<br/>31/3/2015<br/>£m</b> |
|----------------|-------------------------------------|-------------------------------------|
| <b>PEOPLE</b>  |                                     |                                     |

|  |               |               |
|--|---------------|---------------|
| Unaccompanied Minors Asylum Seekers Grant – set up to manage the council’s spend on asylum seekers. There is a risk that the costs funded by the Home Office reduce in future years. | 1.716         | 1.216         |
| Reablement Grant – this is earmarked to support improvements in adult social care working with the NHS   | 1.302         | 0.755         |
| <b><u>GRANTS</u></b>   |               |               |
| <b><u>RESOURCES- Public Health</u></b>   |               |               |
| Ring Fenced Public Health Grant – Grant which has not yet been spent.  | 1.288         | 2.254         |
| <b><u>PEOPLE</u></b>   |               |               |
| Troubled Families & PBR Programme – The troubled family programme has a mismatch between income and expenditure and therefore income needs to be carried forward.                    | 1.030         | 1.527         |
| <b><u>GRANTS sub-total</u></b>   | 2.318         | 3.781         |
| Other (only identified if over £0.5m as at 31 March 2015)  | 38.092        | 5.224         |
| <b>TOTAL EARMARKED RESERVES</b>  | <b>57.163</b> | <b>29.540</b> |

7.4.5 There were no new reserves over £0.5m established in 2014/15.

### **SCHOOLS RESERVES**

7.4.6 The overall value of school reserves have decreased by £1.604m to £9.699m. This includes a decrease in revenue by £1.039m to £9.026m and a decrease in capital from £1.238m to £0.674m. This represented a fall in capital balance by £0.584m.

7.4.7 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. The revenue balance includes some funds for community purposes. These balances decreased by £0.006m to £0.616m Details of each school’s 2014/15 year-end balance are shown in Appendix 3.

7.4.8 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 had relaxed the need for any restrictions in the last Parliament.

7.4.9 Table 17 below lists all schools that ended 2014/2015 in revenue deficit and includes those that had approved licensed deficits.

**Table 17 Schools in revenue deficit and action plans**

| School in deficit at end of 14/15 | Deficit at end of 2014/15 £ | Licensed deficit plan  | Deficit agreed in 2014/2015 plan £ | Notes   |
|-----------------------------------|-----------------------------|--|------------------------------------|---|
| The Hayes Primary                 | -72,973                     | Application for 2014/2015 licenced deficit has been agreed 24/6/14 | 29,899                             |   |
| St Andrews High                   | -369,579                    | Application for 2014/2015 licenced deficit was approved 30/4/14    | 311,755                            | There are no plans to convert to an academy . Application for 15/16 licenced deficit submitted  |
| Virgo Fidelis                     | -75,797                     | Application for 2014/2015 licenced deficit was approved 2/7/14     | 140,871                            | Application for 15/16 licenced deficit submitted  |
| Archbishop Tenisons               | -360,683                    | Application for 2014/2015 licenced deficit was approved 24/6/14    | 188,822                            | Schools finance are reviewing High Needs and 6th form funding due to this school which had previously been underestimated. Action is underway on a recovery plan. |
| Tunstall Nursery                  | -43,867                     | Application for 2014/2015 licenced deficit was submitted           | 45,583                             |   |
| Cypress Primary                   | -18,381                     | Application for 2014/15 licenced deficit applied for               | no                                 |   |
| Norbury Manor Primary             | -9,900                      | Application for 2014/15 licenced deficit applied for               | no                                 |   |

7.4.10 Table 18 below shows the total balances held by maintained schools, and gives details of how many schools hold balances over the threshold set by Schools Forum.

**Table 18 - Schools Revenue Balances**

| Type of School | 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         | 0.634        | 83% | 1        | 17%         |
| Primary Schools   | 52        | 7.318        | 40% | 3        | 6%          |
| Secondary Schools | 7         | 0.053        | 29% | 3        | 43%         |
| Special schools   | 6         | 1.082        | 33% | 0        | 0%          |
| PRUs              | 4         | 0.613        | 75% | 0        | 0%          |
| <b>Total</b>      | <b>75</b> | <b>9.700</b> |     | <b>7</b> | <b>9.3%</b> |

Note: Values in the above table excludes community reserves and Capital reserves held by schools, and includes all maintained schools at the end of March 2015.

### General Fund Provisions

7.4.11 The General Fund provisions are analysed in table 19 below. A provision is a sum of money held for a specific purpose to cover a potential cost, where the amount or timing is not certain, and an overall increase of £144k is recommended.

**Table 19 - General Fund Provisions**

| Provisions                   | Balance<br>31/03/2013<br>£m | Balance<br>31/03/2014<br>£m | Balance<br>31/03/2015<br>£m |
|------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Provision for Doubtful debts | 22.821                      | 23.644                      | 25.589                      |
| Insurance Fund               | 8.273                       | 8.454                       | 6.400                       |
| Other provisions             | 1.282                       | 1.271                       | 1.524                       |
| <b>Total</b>                 | <b>32.376</b>               | <b>33.369</b>               | <b>33.513</b>               |

7.4.12. Table 20 below shows the combined total of general fund balances and earmarked reserves. Overall, general fund and earmarked reserves represent around 15% of the Council's net budget requirement.

**Table 20 : Reserves and Budgeted Net Operational Expenditure -**

| Balances and reserves         | 2011/12<br>Actual<br>£m | 2012/13<br>actual<br>£m | 2013/14<br>Actual<br>£m | 2014/15<br>actual<br>£m |
|-------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| General Fund balances         | 11.597                  | 11.597                  | 11.597                  | 10.677                  |
| Earmarked reserves            | 45.422                  | 60.047                  | 59.366                  | 29.540                  |
| <b>Total</b>                  | <b>57.019</b>           | <b>71.644</b>           | <b>70.963</b>           | <b>40.177</b>           |
| <b>Net Budget Requirement</b> | <b>273,815</b>          | <b>267,707</b>          | <b>292,716</b>          | <b>279,079</b>          |

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| <b>General Funds Balances % of net budget requirement</b> | <b>4.23%</b> | <b>4.33%</b> | <b>3.96%</b> | <b>3.83%</b> |
|---|--------------|--------------|--------------|--------------|

## 7.5 STRONG FINANCIAL SERVICES, SYSTEMS, PROCESSES AND GOVERNANCE

7.5.1 Financial management continues to be an area of strength for the organisation which has resulted in positive external audit opinions. Despite this strong performance it is clear that the challenge for the public sector will become greater over the coming years.

7.5.2 Grant Thornton presented their Audit Findings Report to General Purposes & Audit Committee in September 2014 with an unqualified audit opinion on the Council's Financial Statements.

7.5.3 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 2015. This will be the ninth 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.

7.5.4 From all audits finalised to date, 64% 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, 92% of recommendations made in audits for 2013/14 and 86% of recommendations made in 2014/15 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 21 – 2014/15 Audit Plan**

| <b>2014-15 Audit Plan</b>  | <b>Assurance</b> |
|----------------------------|------------------|
| Council Tax                | Satisfactory     |
| Creditors (inc P2P)        | Satisfactory     |
| Debtors                    | Satisfactory     |
| Housing Benefits           | Satisfactory     |
| Housing Rents & Accounting | Satisfactory     |
| Main Accounting System     | Satisfactory     |

|                         |              |
|-------------------------|--------------|
| NNDR                    | Satisfactory |
| Payroll                 | Full         |
| Pensions                | Satisfactory |
| Treasury Management     | Full         |
| Community Care Payments | Limited      |

## ANNUAL GOVERNANCE STATEMENT (AGS)

7.5.5 The Accounts and Audit Regulations 2011 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.

7.5.6 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.

## 7.6 Financial Performance- Data

7.6.1 Table 22 below sets out debt collection performance. In the last 5 working days during the month of March 2014, 2,384 invoices were raised with a value of over £8.4m. Of these, 6 invoices had a value of over £6.7m, (NHS were invoiced £6.4m). Collection of this value in month was therefore extremely limited, and this is the reason that the in-month collection figure for “1 month” was low

**Table 22 Debtors - Performance against targets are shown in table 22 below**

| Age of debt  | Collection Rate | Target Collection Rate | Debts Issued | Debt Outstanding | Collection Rate | Interest cost @1.5% £ (m) |
|--------------|-----------------|------------------------|--------------|------------------|-----------------|---------------------------|
|              | @28/02/2015     |                        |              | 31/03/15         | 31/03/15        |                           |
| 1 month      | 74.57%          | 80%                    | 15,194,741   | 14,196,279       | 6.57%           |                           |
| 2 months     | 25.42%          | 85%                    | 6,177,523    | 797,622          | 87.09%          |                           |
| 3 months     | 60.54%          | 90%                    | 2,308,787    | 293,531          | 87.29%          |                           |
| 4 to 12 mths | 9.71%           | 95%                    | 30,394,741   | 1,323,288        | 95.65%          |                           |



7.6.2 Year-end targets were achieved in the first three, early stage, tranches of debt with the second full financial year of operating a dedicated collection focussed.

### Collection Fund

7.6.3 The Collection Fund is a ring-fenced account to which all sums relating to Council Tax and Business Rates are paid. Any deficits on the Fund, in relation to Council Tax or Business Rates, must be met by the precepting bodies, but any surpluses can be used by those bodies to fund expenditure within their own organisation. Any surpluses or deficits in relation to Council Tax is shared between the Council and the GLA, whereas Business Rates amounts are shared between the Council, GLA and the Department for Communities and Local Government (DCLG).

7.6.4 The Collection Fund reported a surplus of £14.523m in relation to Council Tax (Croydon Council share is £11.570m) as at 31<sup>st</sup> March 2015. This was due primarily to growth in the council tax base, as well as stronger collection than budgeted. The declared surplus in January 2015 was £11.903m (Croydon's share £9.508m) which will be distributed in 2015/16.

7.6.5 For Business Rates there is a deficit of £11.338m (Croydon Council share £3.401m) primarily due to having to increase the provision for outstanding appeals to £6.8m. In January 2015 a deficit of £11.579m was declared (Croydon's share £3.474m)

7.6.6 The Best Value Performance Indicator (BVPI) target relates to the amount of debt collected in the initial year of billing (2014/15 debt collected in 2014/15). The target set for 2014/15 was 96.50% and the actual BVPI performance was confirmed at 96.48%, a shortfall of 0.02%. The net collectable debt for council tax in 2014/15 was £174.3 million, an increase of £3.055 million on the previous year. Table 20 shows the impact of actual performance against the target in cash terms.

#### **Table 23 – The BVPI target and performance for Council Tax Collection**

|              | 2014/15<br>Target<br>£000 | 2014/15<br>Actual<br>£000 | Variance<br>£000 |
|--------------|---------------------------|---------------------------|------------------|
| % collection | 96.50%                    | 96.48%                    | -0.02%           |
| £ collection | 168,258                   | 168,223                   | (34)             |

Note: These figures relate to amounts collectable for 2014/15 only; the amounts shown in the Collection Fund include variations to the debit for all past years up to and including 2014/15.

7.6.7 This is the best ever collection rate of Council Tax in year collection and an increase of 0.41% on last year whilst the net collectable debit increased by £3.05 million.

### National Non Domestic Rate (NNDR) Collection

7.6.8 The target set for 2014/15 was 98.75% and the actual BVPI performance was confirmed at 98.38%, a shortfall of 0.53%. The collectable debt for business rates in 2014/15 was £117.9m. Table 21 shows the impact of actual performance against the target in cash terms

#### **Table 24 – The BVPI target and performance for NNDR Collection**

|  | 2014/15 | 2014/15 | Variance |
|--|---------|---------|----------|
|--|---------|---------|----------|

|                 | Target<br>£000 | Actual<br>£000 | £000   |
|-----------------|----------------|----------------|--------|
| % collection    | 98.75%         | 98.38%         | -0.53% |
| Cash collection | £116,491       | £116,173       | £318   |

7.6.9 Business rates collection performance is the best it has been in the last 6 years, with an increase of 0.44% collection from last year. The net collectable debit increased by £704K from the previous year.

## 8. FORMAT OF THE ACCOUNTS

- 8.1 There are major changes to the format of the draft accounts in 2014/15, although following a review with our external auditor, a number of non-material disclosures will not be continued. Most notable is the preparation of consolidated group accounts, but also tables on leasing arrangements and the cash flow statement will be simplified, where there was some duplication. Removing non-material or trivial information from the accounts will improve clarity, as it will allow users to focus on the key aspects of Croydon's financial position
- 8.2 There are a number of assumptions and estimates on which the figures in the accounts are reported. The main estimates are discussed below.
- 8.3 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.
- 8.4 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.
- 8.5 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.

## EXTERNAL AUDIT OF THE ACCOUNTS

- 8.6 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.
- 8.7 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.

8.8 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 International Standard on Auditing (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.

8.9 Those charged with governance will be required to review this report in September 2015 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 Assistant Chief Executive Corporate Resources and Section 151 Officer 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.

8.10 Should Members choose not to amend the financial statements, in accordance with ISA 260, the Auditors will request that members extend the representation letter to explain why adjustments are not being made to the financial statements.

8.11 The Assistant Chief Executive Corporate Resources and Section 151 Officer will advise Members of the Committee accordingly throughout this process.

## **PUBLIC ACCESS**

8.12 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 6 July 2015 to 31 July 2015 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 in the Council and Democracy web pages.

8.13 The Accounts and Audit (England) Regulations 2011 also require publication (including on the Council's website) of the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor.

## **9. FINANCIAL CONSIDERATIONS**

9.1 The body of the report sets out the 2014/15 outturn in the context of the Council's Financial Strategy as approved by Cabinet on the 23 February 2015

## **10. LEGAL CONSIDERATIONS**

10.1 The Council Solicitor comments that under the Accounts and Audit (England) Regulations 2011 no later than 30<sup>th</sup> September the Council must:

(a) consider either by way of a committee or by the members meeting as a whole the statement of accounts;

(b) following that consideration, approve the statement of accounts by a resolution of that committee or meeting;

(c) following approval, ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval was given;

10.2 Under the Financial Regulations which form part of the Constitution, the Chief Financial Officer has the delegated responsibility to spend balances and reserves in accordance with the final accounts that are received at General Purposes & Audit Committee. However, the General Purposes & Audit Committee is required to sanction any changes to the agreed amounts if they differ.

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

## **11 OTHER CONSIDERATIONS**

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

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| Report Author         | Richard Simpson – Assistant Chief Executive<br>Corporate Resources & Section 151 Officer |
| Background Documents: | Exempt   |
| Contact Officer       | Richard Simpson – Assistant Chief Executive<br>Corporate Resources & Section 151 Officer |