REPORT TO:	**GENERAL PURPOSES AND AUDIT COMMITTEE** **29 JUNE 2017**
AGENDA ITEM:	**6**
SUBJECT:	**FINANCIAL PERFORMANCE REPORT FOR 2016/17**
LEAD OFFICER:	**RICHARD SIMPSON** **EXECUTIVE DIRECTOR RESOURCES** **(SECTION 151 OFFICER)**
CABINET MEMBER:	**COUNCILLOR SIMON HALL CABINET MEMBER FOR FINANCE AND TREASURY**
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 1 April 2016 to 31 March 2017. 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 sets out the financial performance of the Council for the period 1 April 2016 to 31 March 2017, which showed an underspend of £0.050m.

FORWARD PLAN KEY DECISION REFERENCE No.:

1. RECOMMENDATIONS

The Committee is asked to:

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;

1.2 Note the Council's outturn position, and the progress of the Council's current Financial Strategy objectives;

1.3 Note the departmental outturn variances as contained within Table 2 and Appendix 1 of the report;

1.4 Note that a report seeking final approval of the accounts following their review by external audit will be presented to this committee prior to the deadline of the 30 September 2017.

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 2016/17 was an under spend of £0.050m, which has allowed the authority to add to its levels 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 2015 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 The 2016/17 budget was set with the inclusion of growth to help manage pressures as well as significant savings targets. Despite this growth there continues to be increasing demand for the services provided by the department in the key areas of, adult and children's social care and temporary accommodation.

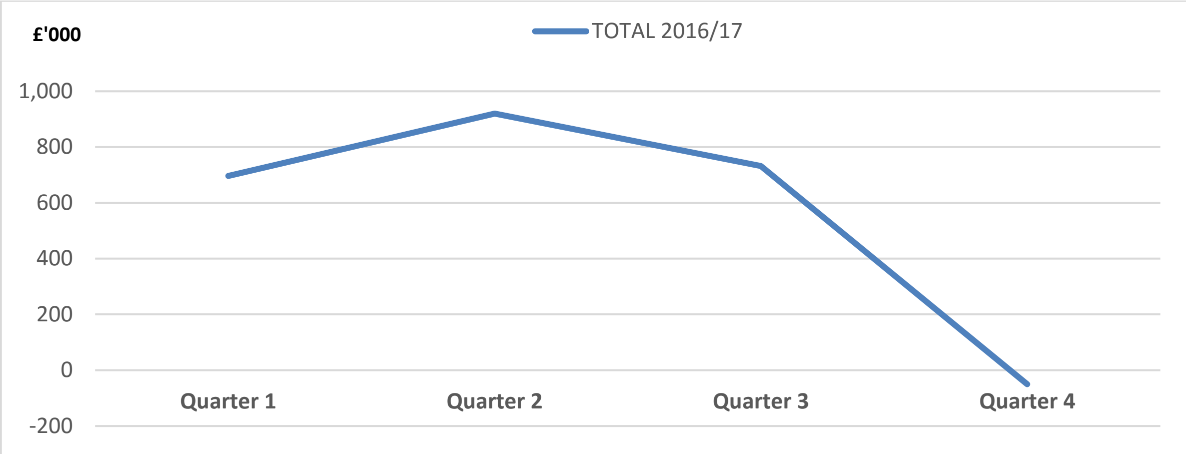
2.4 These pressures are mainly demand related, and are a continuation of pressures experienced in previous years, although the scale has been limited by a combination of improved demand management, and growth awarded in the 2016/17 budget.

2.5 The Council has a continued programme to manage demand and it is anticipated that the greatest impact of this will be within the People Department. This programme will deliver options in the medium and longer term. In the short term a range of immediate actions are in place, including:-

- The transformation of adult social care continues.
- The continuation of the successful Gateway programme.
- A new framework around procuring external foster care placement has been implemented.
- Improved commissioning and contract management.
- A new agency staff contract.
- The development of a recruitment and retention strategy for social workers.
- A new operating model for legal services.
- Implementation of the Asset Strategy to generate income and reduce expenditure.
- Continuation of the digital programme, making more services on line and therefore efficient for the customer alongside saving costs.

2.6 These measures have played an important part in controlling the Council's expenditure during 2016/17, resulting in a final outturn position some £0.746m lower than the initial Quarter 1 projected over-spend. General Fund balances have improved slightly by £0.050m to £10.727m. Graph 1 below the forecast and final 2016/17 outturn.

Graph 1 – 2016/17 Outturn



2.7 The target set out in the Financial Strategy is to hold General Fund balances of 5% of the council's net budget requirement. For 2016/17 this equals £13m. 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 £26m over this period. This would see the 5% target reduce by £1.3m, making it £11.7 m by the end of 2020.

2.8 The 2016/17 under spend of £0.050m is made up of Departmental over spends of £10.413m offset by non-departmental underspends of £10.463m. Details are provided in Table 1, of this report.

2.9 The Council's earmarked reserves have decreased by £10.06m to £30.121m. A number of targeted funding streams have continued to be drawn out of reserves in 2016/17 to support delivery mainly around the transformation agenda.

2.10 General Fund Schools' reserves have decreased by £4.04m to £3.305m, which continues to reflect the conversion of maintained schools to academy status.

2.11 The Council's General Fund Provisions have increased from £36.3m to £37.1m as at 31st March 2017.

2.12 The Collection Fund has carried forward an overall surplus of £12.190m, of which Croydon's share is a surplus of £7.289m. Croydon's share is comprised of a Council Tax surplus of £5.747m and a Business Rates surplus of £1.542m. This represents a significant improvement on previous years, notably reflecting the record collection rates achieved in 2016/17.

2.13 The HRA final outturn shows a surplus of £0.738m which has been transferred to HRA reserves.

2.14 The Council's Pension Fund increased in value in 2016/17 by £218m to a value of £1.095bn.

2.15 The draft accounts are being prepared, and will be presented to the Council's external auditors on the 20th June 2017 ahead of the statutory deadline of 30th June 2017. In anticipation of the statutory deadline moving forward by 1 month in 2018, the Council has been trialling faster closedown process for 2016/17. This allowed a draft set of accounts to be shared with external audit on 20th June ahead of the deadline. 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.

2.16 The Accounts and Audit Regulations 2015 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 2016/17, 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.

2.17 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 2017. 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 2016/17

3.1 Departmental spend was £10.413m more than budgeted in 2016/17. 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 2017/18 to reflect a new achievable budget for these areas. The main overspends were on care packages for Personal Support, an increase in the Children In Need Service, Adult Social Care 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 £10.463m of savings to offset departmental pressures.

Table 1 - Revenue Outturn Summary for 2016/17

Quarter 3 forecast outturn variance £'000	Department	Revised Budget £'000	Outturn 2016/17 £'000	Variation from Revised Budget £'000	Variation from Revised Budget %	Variation to Gross Dept expenditure %
10,171	People	184,236	194,234	9,998	5.4%	2.7%
(192)	Place	49,248	49,782	534	1.1%	0.6%
335	Resources	36,898	36,779	(119)	-0.3%	-0.2%
10,314	**Departmental Total**	270,382	280,795	10,413	3.9%	2%
(9,582)	**Non-Departmental Items**	(270,382)	(280,845)	(10,463)	**3.9%**	
732	**Total transfer to / (from) balances**	0	(50)	(50)		

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 departmental variances 2016/17 (+/- £500k)

Department / Division	Underspend £000	Overspend £000	Comments
PEOPLE DEPT			
Children's Social Care		769	Increased legal costs within social care and family support
		2,495	Increase in case numbers resulting in additional agency staff and additional placement and contact costs
		3,093	Increased in placement costs and staffing costs due to demand
	(1,305)		Reduction in expenditure for supplies and services, transport and third party payments
Gateway and Welfare		1,885	Demand in temporary accommodation and costs of additional staff

0-25 SEND		1,331	Increased demand for services for children combined with increasing acuity and complexity of their need
Adult Social Care and Al Age Disability Service		781	Additional resources in central duty team, ensuring referrals dealt with more effectively. Under recovery of income and delays in achieving budget savings.
	(732)		Reduced expenditure due to vacant posts as projects not started until later in the year. Savings made following re-negotiation of Ability Housing & Hestia Supporting People Contracts
		2,115	Increased demand for services for adults combined with increasing acuity and complexity of their need
	(654)		TRASC project delivering transformation across Adult Social care
		678	Increased costs due to additional nursing beds at Addington Heights. Additional extra care services procured to mitigate winter pressures. Increased demand for community equipment services.
All divisions	(458)		Sub-total of pressures under £500k within People department
SUB-TOTAL	(3,149)	**13,147**	
TOTAL PEOPLE DEPARTMENT		**9,998**	

Department / Division	Underspend £000	Overspend £000	Comments
PLACE			
Planning (Development Control)	(755)		Over-recovery of Planning fee income.
Safety (Neighbourhood Operations)		574	Staff overspend offset against Public Protection where Eyes and Ears restructure savings were delivered (budget re-aligned for 17/18). Under-recovery of internal recharges.
Streets (Waste)		1,527	Increased tonnages for landfill and co-mingled waste disposal, overspend on SLWP procurement, shortfall on recycling rebates and adjustment on leaf clearance costs.
All divisions	(813)		Sub-total of pressures under £500k within the Place Department
SUB-TOTAL	(1,568)	**2,101**	
TOTAL PLACE DEPARTMENT		**534**	

Department / Division	Underspend £000	Overspend £000	Comments
RESOURCES			
Legal	(551)		Overachievement of legal income.
Customer and Corporate Services (Revenues & Benefits)	(787)		Staff vacancies as part of departmental restructure and underspends on ICT contracts.
Commissioning and Improvement (Transport Provision)		1,014	Increased demand and higher unit costs on the SEN transport framework.
All divisions		205	Sub-total of pressures under £500k within the Resources Department.
SUB-TOTAL	(1,338)	1,219	
TOTAL RESOURCES DEPARTMENT		**(119)**	

3.4 Table 3 below shows the major variances relating to non-departmental expenditure. It should be noted that our budgeting methodology means that there will always be a number of favourable non-departmental items that will help cover departmental pressures.

Table 3 - Analysis of non-departmental variances 2016/17 (+/- £500k)

Department / Division	Underspend £000	Overspend £000	Comments
NON DEPARTMENTAL ITEMS			
Grants	(5,888)		Additional government grants received– New Homes Bonus, S31 Grants and NNDR safety net payment re: 2015-16
Contingency	(1,000)		Contingency held within the revenue budget
Interest	(868)		Interest receivable higher than anticipated – due to Real Lettings and Box Park
Minimum Revenue Position	(1,887)		Minimum Revenue Position and Interest borrowing costs lower than projected, due to slippage within the capital programme
Other	(820)		Under spend on pension deficit contribution and levies
TOTAL NON-DEPARTMENTAL ITEM	**(10,463)**		

3.5 Table 4 below shows the resultant position on the Council's balances and reserves as at 31 March 2017, compared with previous years. This table excludes Locally Managed Schools (LMS) reserves, as they are controlled by Schools.

Table 4 - Analysis of Movement in Reserves and Balances

Balances and Reserves	2014/15 £m	2015/16 £m	2016/17 £m
General Fund Balances	10.7	10.7	10.7
Earmarked Reserves	29.5	40.1	30.1
General Fund Provisions	33.5	36.3	37.1
Total	**73.7**	**87.1**	**77.9**

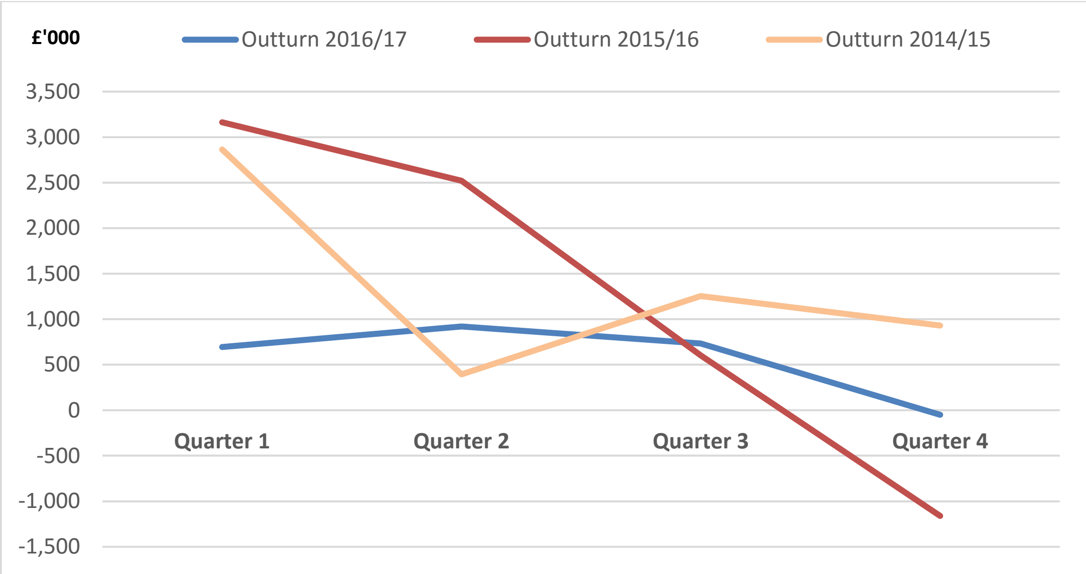
3.6 Further details of earmarked reserves are provided in Section 7.4 of this report.

3.7 REVENUE BUDGET MANAGEMENT

3.7.1 The overall revenue outturn position for 2016/17 is a £0.050m underspend. 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 2 below shows the movement of forecast variances through 2016/17 and comparison with previous years.

Graph 2 – Comparison of Council Forecast Outturn 2014/15 to 2016/17



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 and massive increase in demand experienced by the Council 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 2016/17 £'000	TOTAL 2015/16 £'000	TOTAL 2014/15 £'000
Quarter 1	696	3,163	2,864
Quarter 2	920	2,519	394
Quarter 3	732	602	1,254
Quarter 4	(50)	(1,161)	930

3.7.3 This table highlights clearly the effect of in-year actions identified and agreed by the financial monitoring process. Through a combination of departmental and non-departmental savings, the projected over-spend of £0.732m at quarter 3 was avoided, and a slightly favourable outturn position achieved.

4. CAPITAL OUTTURN 2016/17

4.1 The original approved capital programme totalled £176.1m, which was increased during the year to £249.6m to reflect both programme slippage and any additional government grants. Outturn capital spend was £137.3m, with the resultant underspend of (£112.3m) (45%) mainly attributable to slippage in the delivery of schemes. Table 6 below, shows spending against budget by Department in 2016/17 and Appendix 2 provides a detailed breakdown of spend against budget for the capital programme.

Table 6 – Capital Outturn Variances for 2016/17

Department	Original Budget £'000s	Budget Adjustments £'000s	Revised Budget £'000s	Outturn £'000s	Outturn Variance £'000s
People	108,740	23,055	131,795	68,738	(63,057)
Place	25,384	25,189	50,573	24,436	(26,137)
Resources	8,439	15,868	24,307	19,831	(4,476)
General Fund	**142,563**	**64,112**	**206,675**	**113,005**	**(93,670)**
Housing Revenue Account	33,621	9,339	42,960	24,313	(18,647)
Total Capital	**176,184**	**73,451**	**249,635**	**137,318**	**(112,317)**

4.2 The impact of slippage from 2016/17 into the 2017/18 capital programme will be considered as part of the July Financial Review Cabinet report. Capital schemes in 2016/17 included the following:

- Meeting the needs for school places
- Delivery of Improvement works to highways
- Improvements to the Public Realm as part of Connected Croydon and related Programmes.
- Continuing the drive to meet the Decent Homes Standard and improve tenants housing
- The commencement of the refurbishment of Fairfield Halls into a world class arts and cultural
- Surrey Street Market - commencement of works to provide a more pedestrian-friendly environment, to improve the street scene and create a vibrant, flexible market space.
- Improvement to the IT infrastructure and equipment, to allow the delivery of the Digital and Enabling Programme, with improved productivity, flexibility and decision making

5. HOUSING REVENUE ACCOUNT (HRA)

5.1 The final outturn shows a surplus of **£0.738m** which has been transferred to HRA reserves. The variances to budget that are on-going will be included in the budget planning for 2017/18.

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 2016/17

Division	Favourable variance £000	Unfavourable variance £000	Detailed explanation
HRA - People	432		Underspend due to a combination of additional lease income, and legal expenditure being lower than expected.
HRA - Place	306		Underspends mainly due to vacant posts
Total HRA underspend	**738**		

5.3 Capital expenditure totalled £24.313m. Expenditure was lower than the revised budget of £42.960m by £18.647m, due principally to the alteration in the strategy for providing new affordable homes, and delays to the major repairs programme.

5.4 The Contingency reserve is set at 3% of total income, which is viewed to be appropriate to the level of risk within HRA income. The balance of the under-spend has been transferred to earmarked reserve. Table 8 below shows the resultant position on the HRA balances and reserves at 31 March 2017 compared with previous year.

Table 8 – Movement in HRA reserves and balances

HRA	Balance at 01-Apr-16 £'000	HRA Outturn 2016/17 £'000	Balance at 31-Mar-17 £'000
Reserves	**(11,817)**	**(738)**	**(12,555)**
Major Repairs Reserve	(1,785)	495	(1,290)
Total	**(13,602)**	**(243)**	**(13,845)**

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 2016/17: -

Table 9 - Pension Fund Performance 2016/17

Composition of Net Assets	2015/16 £000	2016/17 £000	Increase / (decrease) £000	Change %age
Fund Managers				
Investments	871,368	1,037,031	165,663	19.01
Other balances	1,501	2,697	1,196	76.68
Cash	4,310	17,460	13,150	305.1
London Borough of Croydon				
Debtors	3,143	2,493	(650)	-20.68
Creditors	(8,159)	(637)	7,522	-92.19
Cash	2,523	36,180	33,657	1,334.0
Net Assets at Year-End	**874,686**	**1,095,224**	**220,538**	**25.21**

6.2 For the year ending 31 March 2017, the Fund produced an investment return of 21.56% which along with net cash received into the Fund, meant the net value increased by 25.21% 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 and exceeded its target return by 15.23%. This is an excellent return despite the fund continuing the process of restructuring the asset allocation.

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. However significant headwinds still prove challenges in terms of meeting our targets. Table 10 below shows annualised performance by asset class over the 12 months to 31 March 2017.

Table 10 – Performance by asset class for the year end 31/03/17

Asset Class	Value at 31-3-17 £m	Return %	Benchmark %	Over / Under performance %
Global Equities	580.8	32.4	32.4	-
Global Bonds	63	6.7	7.6	(0.9)
Global Bonds and Absolute Returns	128.1	5.9	4.7	1.2
Private Equity	85.3	23.3	7.3	16.0
Infrastructure	81.3	7.4	7.3	0.1
Property	106.2	1.1	3.7	(2.6)
Cash & other	50.5	0.3	0.3	-
Total Fund	**1,095.2**	**21.6**	**6.3**	**15.3**

Treasury Management –

6.4 The Executive Director of 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:

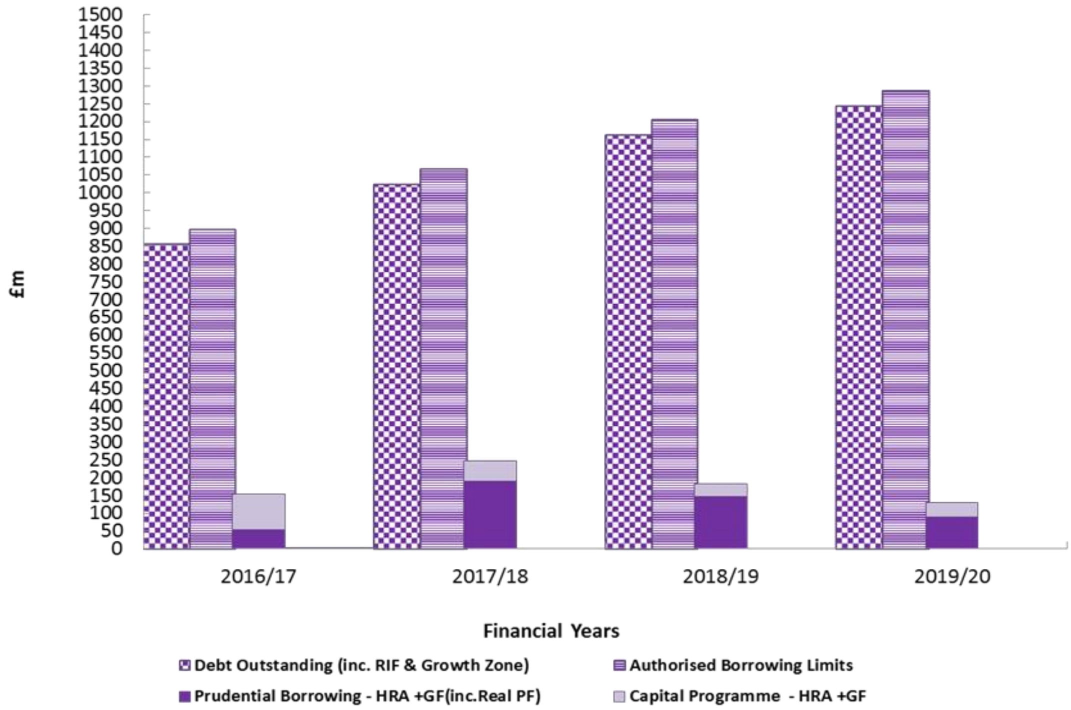
6.7 The capital investment indicators reflect the Authority's future plans to undertake capital works, and the extent to which these will be funded through borrowing. Hence, in the budget for 2017/18, £413.825m of investment is planned, £335.264m of which is to be financed from borrowing and includes over £272m for Brick by Brick.

6.8 Apart from borrowing that is supported by government grant funding, the cost of new prudential borrowing to the Authority will be £14.32 per Band D council taxpayer in 2017/18. 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.

6.9 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.

6.10 The final indicator in graph 3 below sets a profile for the maturing of new debt.

Graph 3: Prudential Indicators for 2016/17 to 2019/20



Borrowing –

6.11 As part of its Treasury management framework the Council agreed a set of Prudential Indicators covering 2015/16 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:

6.12 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 as a result of the Council securing long term funding during the year at lower than anticipated interest rates. This funding was primarily from the European Investment Bank.

6.13 The impact of unsupported borrowing on Band D council tax levels was less than anticipated because of the lower cost of new borrowing undertaken in the year.

Table 11 - Prudential Indicators

	PRUDENTIAL INDICATORS 2016-17	Revised Budget £'000	Outturn £'000	Notes
1.	**Prudential Indicators for Capital Expenditure**			
1.1	In year Capital Financing Requirement			
	- General Fund	82.676	30.940	
	- HRA	6.191	0	
	Total	88.867	30.940	
2.	**Prudential Indicators for Affordability**			
2.1	Ratio of financing costs to net revenue stream			
	- General Fund	13.0%	9%	
	- HRA	16.0%	13%	
2.2	General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum)			
	- In year increase	£4.00	£1.96	
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 2016	808.633		Note 1
	Total Debt carried forward 31 March 2017		885.634	

Note 1 – Of the £808.633 debt brought forward at 1/4/2016, £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 2016/17 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 Throughout the year we have continued to drive growth locally by continuing to invest in the borough and through the buy local scheme.

7.2.2 The establishment of the Revolving Investment Fund (RIF) has enabled the Council to deliver local economic growth by undertaking direct investment. The main focus has been to delivery in accordance with the Asset Strategy to ensure its aims and objectives are achieved.

Achievements in 2016-17 towards this objective

7.2.3 Details of some of the initiatives delivered in 2016/17 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

- **Public realm improvements**
  West Croydon bus station improvements have been conjunction with Transport for London, and the Council has continued to make public realm improvements along London Road and Old Town, improving shop frontages and improving footpaths. The Council has made further improvements to its District Centres, with investment in Thornton Heath, New Addington and South Norwood.

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 2016-17 towards this objective

7.3.2 Details of some of the initiatives delivered in 2016/17 to realign resources are set out below:

- The continuation of the Gateway service bringing together services designed to comprehensively address customer issues with housing, welfare, and debt management. The results continue to reflect overwhelmingly positive outcomes. In 2016/17 the Gateway and Welfare division has helped over 1,300 of Croydon's most severely affected families avoid homelessness, 3,500 people to become more financially independent and supported over 200 residents into employment.

- In parallel with the Gateway programme, the Council has established a Family Link Team and Think Family panel to consider the needs and cost of selected target groups to test out where a cross-departmental response has the greatest ability to improve outcomes for individuals/households and reduce costs for the council. The results from the team and panels have brought about savings delivered through divisions across the people department, reflecting financial improvements approaching £1.5m. From these significant results the council is continuing to make improvements through a number of demand management programs in the people department, whilst it has also launched a dedicated team, family link, with the ambition of joining up services, improving outcomes for residents and reducing cost to the council.

- The new Facilities Management contracts commenced in July 2016 and the new inhouse FM client operating model went live in November 2016.

- The Asset Strategy continues to generate income through better utilisation of our accommodation and in particular the 'restack' of BWH, resulting in asset disposal and in the letting of floors 11 and 12 generating both income and reducing expenditure. Further leasing opportunities and asset utilisation continues as part of the Managing Demand programme to further generate income opportunities in 2017/18.

- Continued use of the Community Priority fund to deliver a series of initiatives that make a difference to residents.

- A programme of reducing back office costs and improving productivity, including our Digital and enabling programme and IT transformation

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 31st March 2017 is £10.7m. This represents 4.1% of 2016/17's net budget requirement against a Financial Strategy target of 5%. Table 12 below sets out actual general fund balances against the targeted level.

Table 12 – Comparison of General Fund Target Balance with Actual Balances

Year	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Target 5% (£m)	14.6	13.9	13.4	13.0	12.9	12.5	12.4
General Fund balance (£m)	11.6	10.7	10.7	10.7	10.7	n/a	n/a

7.4.3 The Council has a General Fund balance of **£10.7m** as at 31st March 2017 and earmarked reserves of **£30.124m** 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 13 below.

Table 13 – Analysis of earmarked reserves (greater than £0.5m)

Reverse	Balance 31/03/2017 £m	Balance 31/03/2016 £m
NON DEPARTMENTAL		
Transformation Fund - this is funding to support the delivery of the transformation programme	2.153	3.675
Community Priority Fund - set aside to support key initiatives of the administration.	0.886	1.351
Revolving Investment Fund - set aside to fund the up-front costs of the schemes within the investment fund.	0.918	1.126
New Homes Bonus - a top slice of government funding that will be used to fund capital investment within the borough.	0.657	0.657
Croydon Enterprise Loan Fund - a reserve created to help Croydon businesses access an economic loan fund	0.611	0.750

Reserve	Balance 31/03/2017 £m	Balance 31/03/2016 £m
PEOPLE		
Transformation of Adult Social Care Programme	0.000	0.552
Care Act	0.550	0.000
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.	0.000	1.031
Troubled Families	0.765	0.927
Best Start - transformation	1.200	1.721

Reserve	Balance 31/03/2017 £m	Balance 31/03/2016 £m
PLACE		
Growth Zone funding received from the DCLG to fund early life of zone	7.000	7.000
Selective Licencing - income from private rental licencing scheme to be used over the life of the licence to improve the standards of private rental housing within the Borough	4.555	6.208
Street Lighting PFI sinking fund – will be used over the life of the street lighting project to match operational requirements.	6.314	8.010
RESOURCES		
Public Health Transformation	0.000	1.565
Other (only identified if over £0.5m as at 31 March 2017)	4.515	5.608
TOTAL EARMARKED RESERVES	**30.124**	**40.181**

SCHOOLS RESERVES

7.4.4 The overall value of school reserves have decreased by £4.04m to £3.3m. This includes a decrease in revenue by £3.97m to £2.31m and a decrease in capital by £0.25 to £0.330m.

7.4.5 Five 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. Some schools hold additional revenue balances for community purposes. These balances decreased by £0.19m to £0.666m

7.4.6 The government allows Schools' Forums to set their own policy on reviewing levels of balances held by schools. The Schools Forum agreed a maximum of 4% for Secondary Schools and 6% for all other schools of revenue reserves as a percentage of annual funding received.

7.4.7 Table 14 below lists all schools that ended 2016/2017 in revenue deficit and includes those that had approved licensed deficits.

Table 14 Schools in revenue deficit and action plans

School	Deficit at end of 2016/17 £'000	Licensed deficit plan	Deficit agreed in 2016/17 plan £'000	Notes – explain the plan OR explain why a deficit with no plan
Virgo Fidelis Convent Senior School	910	Yes	907	A loan agreement is in place with a 10 year plan for recovery. Falling pupil numbers and therefore a reduced level of funding

				has created the need for this loan arrangement.
St Andrew's CE School	402	Yes	402	The school has seen a reduction of 55 pupils and therefore reduced funding.
Heavers Farm Primary School	135	No	-	Awaiting information from school
Norbury Manor Primary	111	Yes	140	There has been a fall in pupil numbers by 29, which has reduced the level of funding
All Saint's Primary	100	Yes	84	Pupil numbers have dropped by 23 over the past year resulting in drop in funding. There has also been a rise in the of pupils with special needs.
Cypress Primary School	97	No	-	Pupil numbers have decrease by 13. Awaiting application for deficit plan from school
Selsdon Primary School	78	Yes	64	The school has reduced pupil numbers by 7 and low nursery pupil numbers. Staffing costs for maternity cover have contributed to the deficit position.
The Hayes Primary School	62	Yes	108	Staff turnover has contributed to the deficit
Archbishop Tenison's High	50	No	580	Reduced funding levels.
Selhurst Early Years	36	No	-	Awaiting deficit request from school

Purley Nursery School	13	No below the £25k requirement	-	School did not forecast a deficit during the year. Their position will be monitored in the new year.
Courtwood Primary	6	No below the £25k requirement	-	School did not forecast a deficit during the year. Their position will be monitored in the new year.

7.4.8 Table 15 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 15 - 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	0.116	50%	2	33%
PRU	4	0.105	0	0	0%
Primary Schools	41	2.935	31%	8	21%
Secondary Schools	7	-1.850	0	3	60%
Special Schools	6	1.005	50%	0	0%
Total	**64**	**2.309**		**13**	**1.10%**

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 2017.

General Fund Provisions

7.4.10 The General Fund provisions are analysed in table 16 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 £0.147m is recommended.

Table 16 - General Fund Provisions

Provisions	Balance 31/03/2015 £m	Balance 31/03/2016 £m	Balance 31/03/2017 £m
Provision for Doubtful debts	25.589	21.858	30.458
Insurance Fund	6.400	4.811	4.580
Other provisions	1.524	1.686	2.034
Total	**33.513**	**28.355**	**37.072**

7.4.11 Table 17 below shows the combined total of general fund balances and earmarked reserves. Overall, general fund and earmarked reserves represent around 16% of the Council's net budget requirement.

Table 17: Reserves and Budgeted Net Operational Expenditure

Balances and reserves	2013/14 Actual £m	2014/15 Actual £m	2015/16 Actual £m	2016/17 Actual £m
General Fund balances	11.597	10.677	10.677	10.727
Earmarked reserves	59.366	29.54	32.171	30.124
Total	**70.963**	**40.217**	**42.848**	**40.851**
Net Budget Requirement	292.716	**279.079**	**259.999**	**258.550**
General Funds Balances % of net budget requirement	3.96%	3.83%	4.11%	4.15%

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 2016 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 2017. This will be the eleventh 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 18 below.

7.5.4 From all audits finalised to date, 73% have been given a full or substantial 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, 77% of recommendations made in audits for 2015/16 and 91% of followed-up recommendations made in 2016/17 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 18 – 2016/17 Audit Plan

2016-17 Audit Plan	**Assurance**
Community Care Payments (report is still draft)	Substantial
Council Tax	Substantial
Creditors (inc P2P)	Limited
Debtors	Substantial
Housing Benefits	Substantial
Housing Rents & Accounting	Substantial
Housing Repairs	Substantial
Main Accounting System	Substantial
Business Rates	Substantial
Parking Enforcement & Income	Substantial
Payments to Schools	Substantial
Payroll	Substantial
Pension Administration	Substantial
Pension Fund Investments	Substantial
Treasury Management	Substantial

ANNUAL GOVERNANCE STATEMENT (AGS)

7.5.5 The Accounts and Audit Regulations 2015 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 19 below sets out sundry debt collection performance for 2016-17. Collection rates remained strong throughout the year, although collection of up to 30 days and 60-90 day debt were skewed by a small number of high value outstanding at that time, which significantly reduced the percentage collected.

Table 19 – Sundry debt collection performance in 2016-17

Age of debt	Debt Issued £	Debt Outstanding at 31-3-2017 £	Actual Collection Rate at 31-3-2017	Target Collection Rate
1 month (1-30days)	9,106,675	5,412,510	40.60%	None
2 months (31-60days)	3,068,625	561,212	81.70%	80%
3 months (61-90days)	9,512,418	639,990	93.30%	90%
4 to **6 months** (91-120days)	4,863,748	1,484,201	69.50%	95%
7 to 12 months (121-365days)	42,109,294	752,175	98.20%	97.50%

Collection Fund

7.6.2 The Collection Fund is a ring-fenced account into which all sums relating to Council Tax and Business Rates are paid. Surpluses or deficits within the fund are split between the precepting bodies in accordance with pre-determined percentages, which for Council Tax is Croydon Council and the Greater London Authority (GLA), and for Business Rates includes both the Department for Communities and Local Government (DCLG) and GLA as well as the Council.

Deficits within the fund must be met by the precepting bodies, but any surpluses can be used by those bodies to fund expenditure within their own organisation. Table 20 below sets out the position of the Collection fund at the end of 2016/17, compared to the year end position at the end of 2015/16.

Table 20 – Collection Fund at 31 March 2017

201/17	Council Tax £m	Business Rates £m	Total Collection Fund £m	Total Collection fund at 31.3.16 £m
Overall (surplus) / deficit	(7.049)	(5.141)	(12.190)	13.743
Croydon Council - share	81.5%	30%	-	-
Croydon Council - Amount	**(5,757)**	**(1,542)**	**(7,289)**	**(2.407)**

7.6.3 The Council Tax surplus of £7.049m was due primarily to growth in the council tax base, as well as stronger collection than budgeted. The predicted surplus declared in January 2017 was £7.150m (Croydon’s share £5.829m) which will be distributed in 2017/18, and is very close to the outturn value achieved.

7.6.4 For Business Rates there is a surplus of £5.141m. This surplus was caused by an observed reduction in the effect of valuation appeals, as well as a withdrawal by Virgin Media of a request to move their rating to another Council area. This allowed some £15m of appeal provision to be released back into the collection fund during the year. The declaration made in January 2017 was for a deficit of £7.260m (Croydon’s 30% share being £2.178m) but this was made before data on appeals, or the Virgin Media decision was known.

7.6.5 Croydon’s combined share of the Collection Fund is therefore a credit of (£7.289m), which can be declared in January 2018, and will be available to preceptors to use in the 2018/19 year.

7.6.6 The net collectable debt for council tax in 2016/17 was £185.8.1 million, an increase of £7.7 million on the previous year: a combination of both property growth within the borough as well as increases in Band D.

7.6.6 The Ambitious for Croydon target relates to the amount of debt collected in the initial year of billing (2016/17 debt collected in 2016/17). The target set for 2016/17 was 96.75% and the actual performance was confirmed at 96.85%, an increase of 0.40% on the previous year performance and also 0.10% above the target. The net collectable debt for council tax in 2016/17 was £179.7 million, an increase of £7.585 million on the previous year. Table 21 shows the impact of actual performance against the target in cash terms.

Table 21 – Collection target and performance for Council Tax Collection

	2016/17		
	Target £000	**Actual £000**	**Variance £000**
% collection	96.75%	96.85%	0.10%
£ collection	179,611	179,790	179

This is the best ever collection rate of Council Tax in year. The collection rate was a 0.4% increase on last year's performance whilst the net collectable debit increased by £7,586 million.

National Non Domestic Rate (NNDR) Collection –

7.6.8 The target set for 2016/17 was 98.75% and the actual performance was confirmed at 99.10%, an increase of 0.35% over the target. The collectable debt for business rates in 2016/17 was £117.4m. Table 22 shows the impact of actual performance against the target in cash terms.

Table 22 – Collection target and performance for NNDR Collection

	2016/17		
	Target £000	**Actual £000**	**Variance £000**
% collection	98.75%	99.10%	0.35%
£ collection	115,569	115,973	£404K

7.6.9 Business rates collection performance was 99.10% collected. This is the best ever collection rate for Business rates, and was an increase of 1.36% collection on the previous year and 0.35% above the end of year target. The net collectable debit decreased by £406k from the previous year.

8. FORMAT OF THE ACCOUNTS

8.1 There are two main changes to the draft accounts, which relate to the re-configuration of the Comprehensive Income & Expenditure Statement, and the inclusion of Group financial statements.

8.1.1 Following consultation with Local Authorities, accounting guidance has changed to require the Council's income and expenditure statement to now align to its management accounting statements, instead of being based on the "code of practice" headings specified in previous years. For Croydon, this means income & expenditure is shown on "People", "Place" and "Resources" and "below the line", which corresponds to the information presented in this report.

8.1.2 Following a review of group activity in 2016/17, it is necessary to prepare a set of Group financial statements that include the activity of Brick by Brick (Croydon) Limited. The group statements will be included at the end of the Council's main statements, and will combine the activity of Croydon Council and Brick by Brick into a "single entity" set of statement, once activity between the two organisations has been removed. These group accounts will reflect the circa £12m of expenditure undertaken by Brick by Brick towards the construction of new homes in the Borough.
The main estimates are discussed in the following sections:

8.2 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.

8.3 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.

8.4 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

8.5 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 National Audit Office 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.

8.6 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.

8.7 Auditors are required by the 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.

8.8 Those charged with governance will be required to review this report in September 2017 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.

8.9 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.

8.10 The Richard Simpson – Executive Director Resources & Section 151 Officer will advise Members of the Committee accordingly throughout this process.

PUBLIC ACCESS

8.11 The Council has improved Public Access and awareness of the Council's Accounts through its Public Access Strategy. The Council's accounts will be available for public inspection for a period of 30 working days, which commences the day after the Council's accounts are signed and published on the Council's internet site. It is anticipated that this period will begin on Monday 19th June, and run until Monday 31 July. During this time, the Accounts will be available via 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, as well as at Bernard Wetherill House.

8.12 The Accounts and Audit (England) Regulations 2015 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, which will be completed ahead of the statutory deadline of 30th September.

9. FINANCIAL CONSIDERATIONS

9.1 The body of the report sets out the 2016/17 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 2015 no later than 30th 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 for and on behalf of Jacqueline Harris- Baker, Director of Law and Monitoring Officer.

11 OTHER CONSIDERATIONS

11.1 There are no immediate human resource impacts.

Approved by: Jason Singh, Head of HR Employee Relations on behalf of the Director of HR.

Report Author: Richard Simpson – Executive Director Resources & Section 151 Officer

Background Documents: None

Contact Officer:	Richard Simpson – Executive Director Resources & Section 151 Officer
Appendices:	Appendix 1 – Revenue outturn Appendix 2 – Capital Programme outturn