

REPORT TO:	SCRUTINY & OVERVIEW COMMITTEE 27TH June 2017
AGENDA ITEM:	9
SUBJECT:	Budget update
LEAD OFFICER:	RICHARD SIMPSON EXECUTIVE DIRECTOR RESOURCES (SECTION 151 OFFICER)
CABINET MEMBER:	COUNCILLOR SIMON HALL, CABINET MEMBER FOR FINANCE AND TREASURY
PERSON LEADING AT SCRUTINY COMMITTEE MEETING:	COUNCILLOR SIMON HALL, CABINET MEMBER FOR FINANCE AND TREASURY AND RICHARD SIMPSON EXECUTIVE DIRECTOR RESOURCES (SECTION 151 OFFICER)

ORIGIN OF ITEM:	This item is contained in the Committee's work programme
BRIEF FOR THE COMMITTEE:	To scrutinise the 2017/20 Council Budget and 2016/17 outturn, with a focus on the People Department.

1. INTRODUCTION AND BACKGROUND

- 1.1 This report sets out the context and challenges faced by the council in delivering a balanced budget for the three financial years 2017 to 2020. Focusing on the current financial year, 2017/18.
- 1.2 The report also gives an update on the 2016/17 revenue outturn position, focusing on the People department. The report highlights the key areas of spend and identifies the main areas of pressure. Along with details of the initiatives currently being undertaken and implemented in order to reduce these costs and transform services to continue to provide services to our residents within our budget.
- 1.3 This report is in advance of the July Financial review being presented to Cabinet next month, the Quarter 1 financial monitoring being presented to cabinet in September 2017 and the financial performance report for 2016/17 being presented to General Purposes and Audit Committee on the 29th June 2017.

2.0 The 2017 SPRING BUDGET

2.1. Since setting the three year budget at full Council in February 2017 the Chancellor of the Exchequer has delivered the Spring Budget on the 8th March 2017. This contained a number of key announcements for local government as follows, including:

- **Social care:** Additional grant funding of £2 billion to social care in England over the next three years, with £1 billion available in 2017/18.
- **Business Rates:** Measures were introduced to try and mitigate the impact of the recent revaluation particularly on small businesses this includes a £300m fund for local authorities to deliver discretionary relief.
- **Education:** £320 million in this Parliament to help fund an additional 110 free schools and £216 million investment for school maintenance.
- **London Devolution:** A Memorandum of Understanding on further devolution to London on joint working on a range of areas.

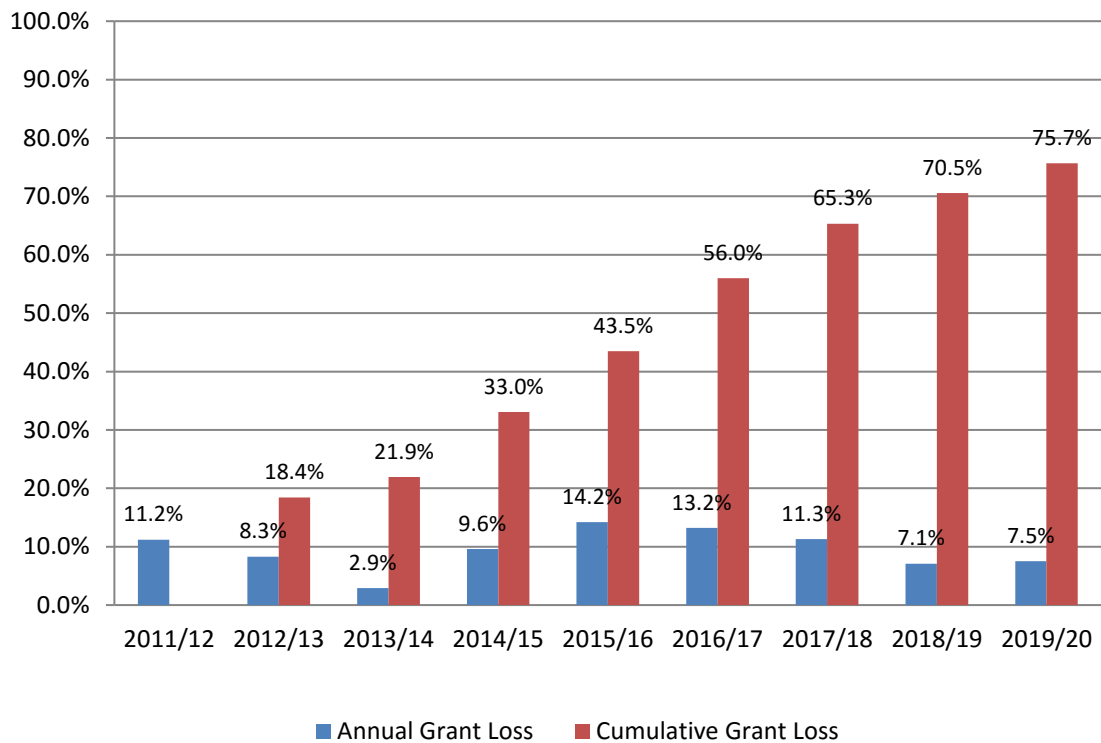
2.2 There are a number of areas where Government policy or the impact of implementation of policy stance is unclear, including

- **Business rates devolution:** Timing of when this comes in and methodology
- **Housing Policy:** Rent levels, sales of voids, use of right to buy receipts, 'pay to stay'
- **Immigration Act implementation and Unaccompanied Asylum Seeking Children funding:** This has a significant potential impact on Croydon, notably due to our gateway status.

3.0 2017/20 Budget

3.1 Funding for Local Government has been reduced significantly since 2011 and it is set to continue to reduce until at least 2020, and the budget report in February 2017 provided detail of the anticipated funding losses since the start of austerity in 2011 until the end of the current comprehensive spending review period in 2020. These losses are shown again for information in graph 1

Graph 1: Croydon's Grant Reductions 2011/20



3.2 This is in the context of a growing population, increased demographic pressures and increased demand through new burdens, including:

- A growing older population
- Increased needs among those entering the borough, notably those forced out from Inner London due to benefit reform.
- A growing number of children with additional needs
- The impact of welfare reform, including the benefits cap and the inadequacy of Local Housing Allowance limit
- The inadequate funding of Health in our borough
- Inadequately funded new pressures

4. 2016/17 Outturn

4.1 2016/17 was the sixth 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. Through careful budget management and in year interventions to reduce costs the year end revenue position for the Council was an underspend of £0.05m. £0.746m lower than the initial Quarter 1 projected over-spend.

4.2 To achieve this positive financial position the Council had to implement a number of in year measures and continue with a number of already established high profile programmes including :-

- A Council wide programme to manage demand across all areas of the business, focusing on changing behaviours to create efficiencies.

- Implementation of a new asset strategy to enable greater use of our assets including leasing floors of BWH and the sale of Janette Wallace House
- The continued transformation of adult social care
- Early Intervention in Children's Social care, including a new framework for external foster care placements
- Recruitment of social workers, reducing the need for agency staff
- A new contract for agency staff, providing better value for money
- The continuation of the successful Gateway Service and Think Family Programme.
- A programme of reducing back office costs and improving productivity, including our Digital & Enabling programme and IT transformation
- A number of invest-to-save projects
- Use of treasury management and our borrowing powers to deliver improved services at reduced costs and tangible returns
- Improved contract management and new contracts

4.3 The 2016/17 revenue under spend of £0.050m consists of departmental over spends of £10.413m offset by non-departmental underspends of £10.463m. Details are provided in Table 1 below.

Table 1 - Revenue Outturn Summary for 2016/17

Quarter 3 forecast	Department	Revised Budget £'000	Outturn 2016/17 £'000	Variation from Revised Budget		Variation to Gross Dept expenditure
				£'000	%	%
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 balances	0	(50)	(50)		

4.4 The non-department items include:

- Additional grant income received during the year that was not anticipated at the beginning of the year.
- Corporate contingency that was included in the original budget.
- A higher level of interest received, mainly from the Real Lettings Programme and BoxPark.
- Reduced capital costs as a result of slippage within the capital programme.

These corporate items were fundamental to the delivery of the overall underspend. 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.

4.5 As shown in table 1 above the People department had the most significant overspend in 2016/17. The main areas of this overspend are detailed in table 2 below:-

Table 2 – People Department

People Dept.	Variance
	£'000
Children's Social Care	5,311
Adult Social Care And All-Age Disability	1,881
Gateway And Welfare	1,537
0-25 Send Service	1,331
Housing Need	243

Full details of these variances can be found in appendix 1 to this report

4.6 **People Department**

The People department overspent by £9.9m in 2016/17. Details of these overspends are detailed below:-

4.7 **Children's Social Care**

The Children's Social Care service is made up of a number of complex demand driven services, including Looked after Children and Children in Need.

4.7.1 **Looked after Children**

Graph 2 below shows the increase in the number of Looked after Children in 2016/17. Rising from 386 at the start of the year to 400 at the end of the year, peaking at 428 in October 2016

Alongside the increase in the number of cases we have also experienced an increase in the complexity of cases resulting in the need for higher cost

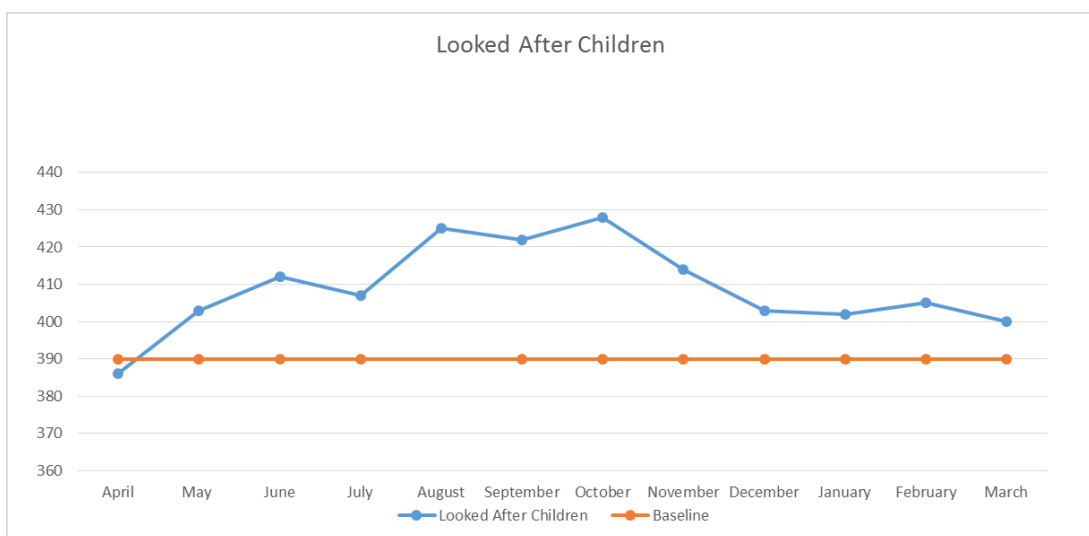
placements. In addition, there were considerable increases in court work. This resulted in a service overspend of £3m.

During the year work has been undertaken to mitigate costs by continually review placements and contract costs resulting in some remodelling of contracts at reduced rates.

There has also been a reduction in the number of external placements and greater use of in house placements, this will continue in 2017/18. Alongside this work has been taking place to transition more over 16's in to semi-independent accommodation enabling young people to live more independently but with support.

Alongside the measures to manage service demand there has been an in year drive to increase the use of technology by the service, with a move to enable front line staff to be able to make greater use of technology and therefore enhance efficiency.

Graph 2 Looked after Children 2016/17



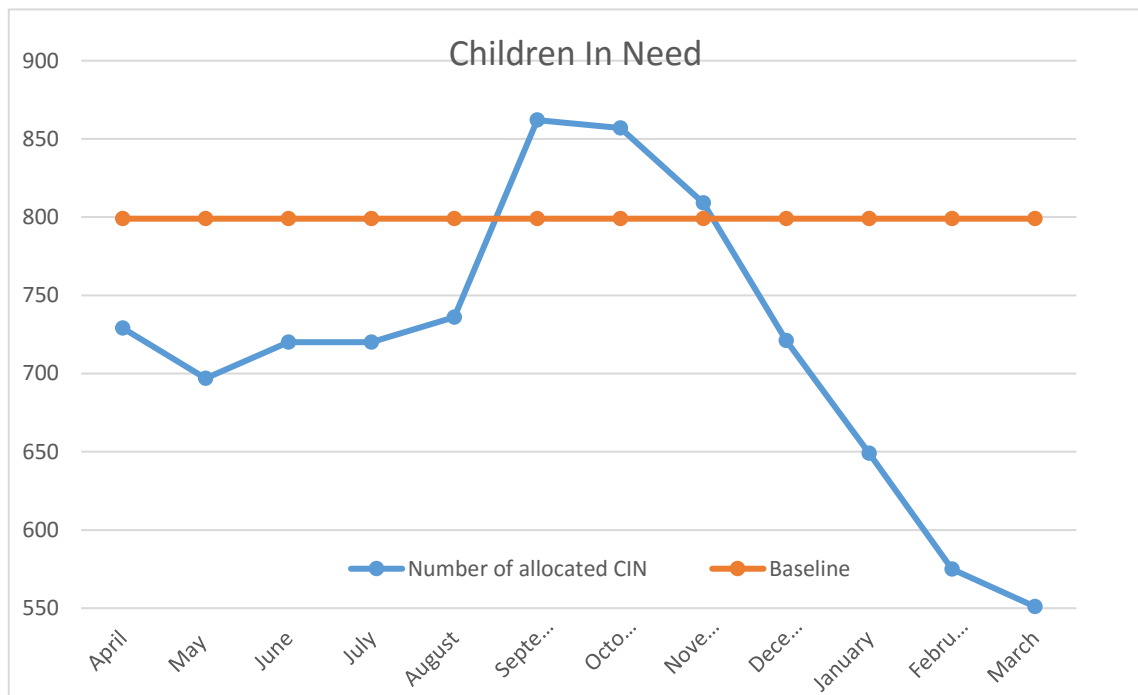
4.7.2 Children in Need

Graph 3 below shows the number of open Children in Need cases during 2016/17. At the start of the financial year we were below target with 729 cases (target was 799) and mid-way through the year numbers escalated to 862 in September and fell again to 551 at the end of the year. This decrease is partly due to an in year audit to close down any non active cases. The number of caseloads still resulted in the need for additional staff and an increase placements.

Resulting in a service overspend of £2.5m in 2016/17.

During the year work has also been taking place to manage the number of cases and costs particularly associated with staff by continuing the drive to employ less agency staff and more permanent staff, this recruitment drive will continue in 2017/18. Other cost saving measures to manage demand including the successful family link service continue to be implemented.

Graph 3 Children in Need 2016/17

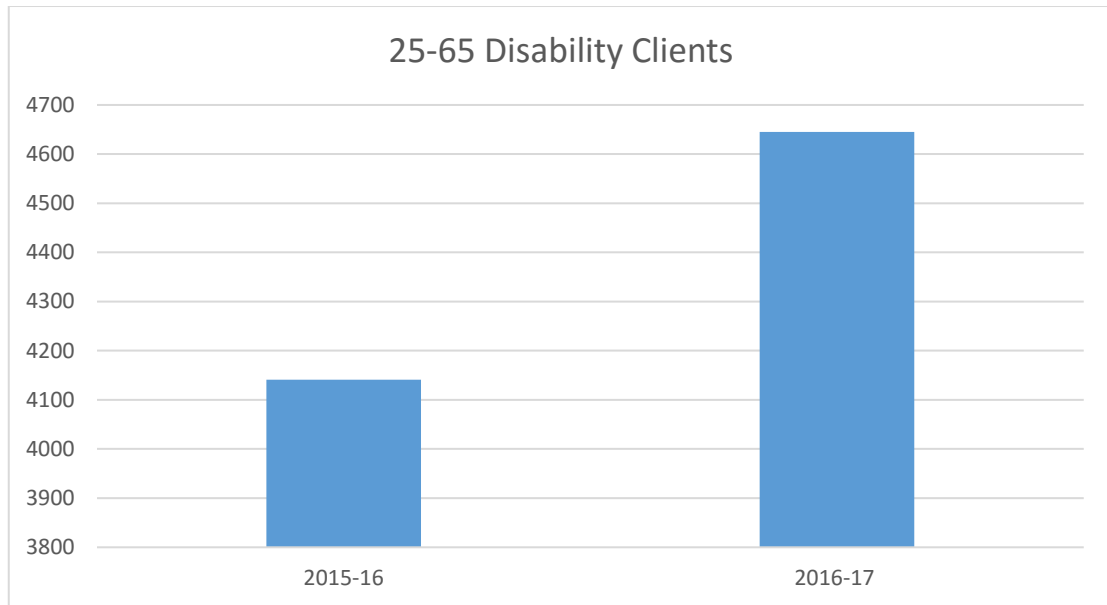


4.8 Adult Social Care and all Age Disability Service

This service continues to see rising demand for services and the service overspent by £1.88m in 2016/17. The main area of increasing spend is the 25-65 all age disability service where there has been an increased demand for services and an increase in complexity of need. Graph 4 shows the increased demand in the 26-65 disability service in 2016/17, resulting in a £2.1m overspend. The increase in case numbers is 504, from 4,141 at the start of the year to 4,645 at the end of the year.

During the year the Transforming Adult Social Care (TRASC) programme has been actively reviewing all services to drive down demand and reduce cost. There is an ongoing review of contracts and placement costs and 10 beds at Addington Heights have been converted from residential care to nursing to better meet demand, which has helped limit the overspend in Over 65's, despite the growth in that cohort. Work continues with health colleagues to ensure care is provided by the correct provider as well as with other boroughs for ordinary resident cases.

Graph 4 25-65 Disability Service



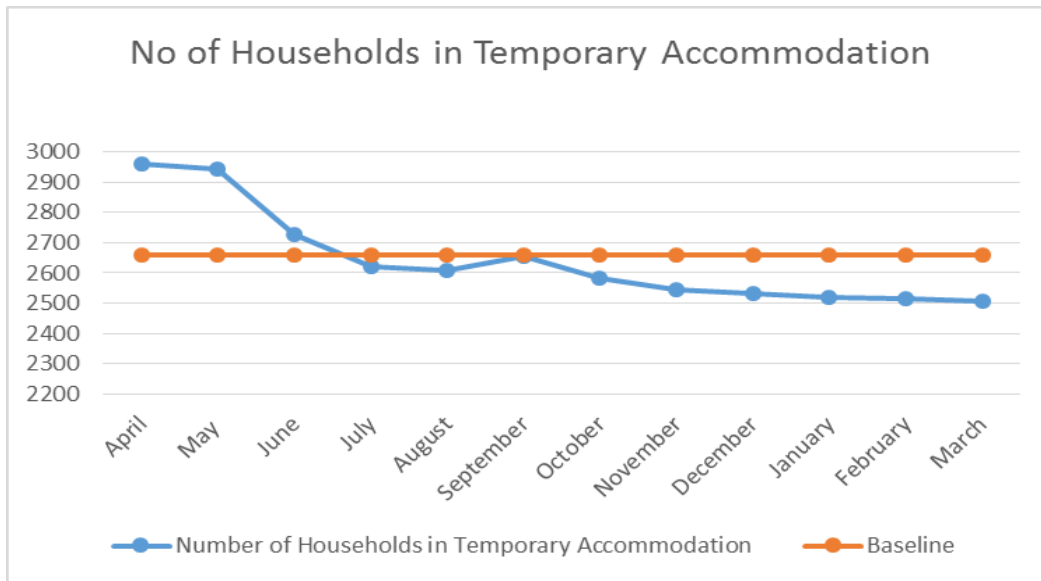
4.9 Gateway and Welfare Service

The Gateway and Welfare service overspent in 2016/17 by £1.5m due to demand for temporary and emergency accommodation remaining at a higher than budgeted for level. The number of people in temporary accommodation fell from 2,962 at the start of the year to 2,508 at the end of the year. This a greater figure than budgeted for half of the year. The number of people in emergency accommodation rose from 811 at the beginning of the year to 824 at the end of the year, with a peak of 904 in September 2016.

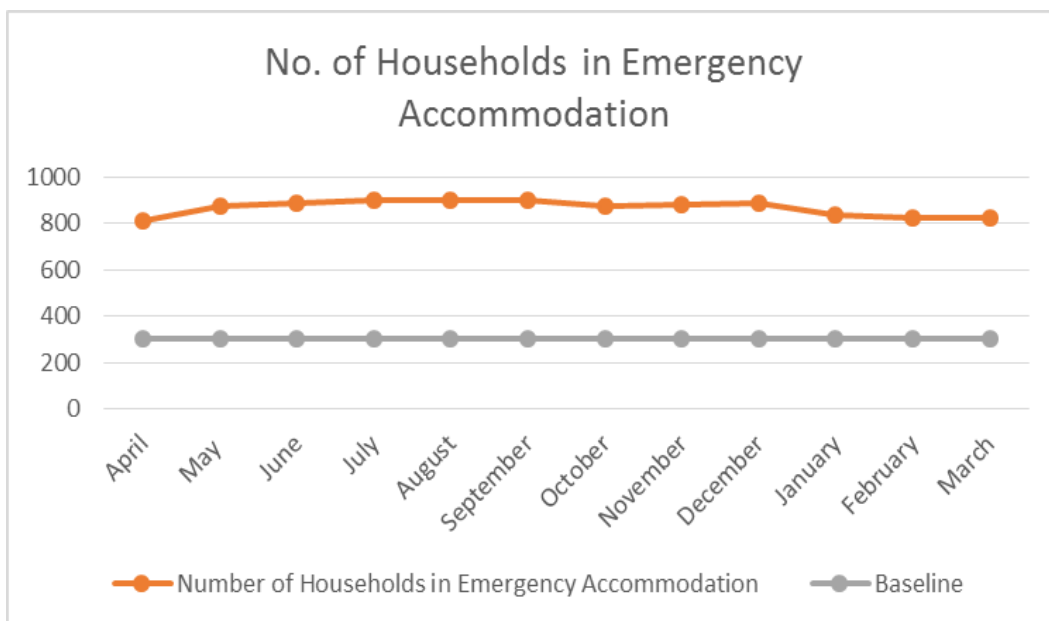
In 2016/17 the Gateway and Welfare service helped over 1,300 of Croydon's most severely affected families avoid homelessness, 3,500 people to become more financially independent and supported over 200 residents into employment. The Gateway services brought together services designed to comprehensively address customer issues with housing, welfare, and debt management. The results continue to reflect overwhelmingly positive outcomes and the work of the service will continue in 2017/18.

Graphs 5 and 6 below show the Number of Households in Temporary and Emergency Accommodation.

Graph 5 Number of Households in Temporary Accommodation in 2016/17



Graph 6 Number of Households in Emergency Accommodation in 2016/17



4.10 0-25 SEND Service

This is a new service area for 2016/17 with services previously split across Children's and Adults Social Care. The service was created by combining the service functions and budgets to enable a more holistic approach to service delivery. This area, be it the General Fund element or the Dedicated Schools

Grant High Needs, has continued to see an increase in demand alongside a rise in the number of complex cases resulting in an overspend in 2016/17 of £1.3m.

5 2017/18 budget readiness

5.1 The 2017/18 budget contains a number of areas of growth for the People Department to help mitigate the overspend previously experienced alongside the rising demand and cost of a number of the services. These total £11.8m and are detailed below in table 3. We show at Appendix 1 how these figures compare with the overspends in 2016/17.

Table 3 People department growth 2017/18.

Adults	£m
Case complexity and demand	2.890
Market Management	0.100
OBC	0.366
DOLS	0.250
Total Adults	3.606
Children's	
Demand - placement and staff costs	3.806
Total Children's	3.806
Gateway and Welfare	
Emergency and Temporary Accommodation	3.143
Total Gateway and Welfare	3.143
0-25 SEND Service	
Transitions Growth	1.000
0-25 SEND Service	0.300
Total 0-25 SEND Service	1.300

5.2 There is a level of risk associated with the assumptions made within the budget and all budgets need to continue to be carefully monitored. The People Department has established a monthly Governance board attended by officers and relevant cabinet members to scrutinise the key services listed above and ensure that budgets are effectively managed.

5.3 The inclusion of these growth budgets recognises that these services are facing continuing pressure to deliver services to a rising number of people and that it is important that they are correctly resourced.

5.4 Despite this additional growth there continues to be a risk to delivering a balanced budget in 2017/18 as we continue to see demand for services growing and funding levels falling. It is essential that we continue to deliver our efficiency strategy and the projects within the managing demand programme.

5.5 The key risks to delivery are :-

- 5.5.1 **Legislative Changes** – There continues to be a risk that the Government could make other policy changes that could impact on Croydon. This is particularly likely following the recent General Election on the 8th June 2017. These changes if they occur will need to be managed as they arise.
- 5.5.2 **Social Care burden and Health Funding** – The lack of funding for Adult Social Care and Health continues to be a pressure nationally and due to the current financial pressures faced by the health economy locally in Croydon this could have a material impact on our budget.
- 5.5.3 **Unaccompanied Asylum Seeking Children** - Croydon currently has a high level of UASC and has previously been able to negotiate funding rates outside of the national agreed formula to help with the high level of costs. The Home Office has failed to engage in negotiations for the 2017/18 rates and are currently continuing to pay the same rates as last year but without a formal agreement, which leaves a level of uncertainty. In addition, it is increasingly clear that the current rates fail to cover the real direct and indirect costs. Members have written to Home Office Ministers expressing or concerns but to date have not received a response.
- 5.5.4 **Education Funding** - The Government has announced that it is changing the way funding is made to schools and are currently mid-way through a consultation process to implement a National Funding Formula. The Department for Education (DfE) have recently announced that they will delay the implementation of the National Funding Formula (for schools and high needs) by a year, moving its implementation back from April 2017 to April 2018. This leaves us with a level of uncertainty in areas where we are already experiencing high levels of financial difficulties with a number of schools and the High Needs block struggling to balance their budgets.
- 5.5.5 **Demand Growth** – While the budget assumptions contain a level of growth based on current demand and anticipated expectations. As with all models there is a level of uncertainty and if demand were to be greater than modelled this will have an impact on the budget. Demand for services will continue to be managed closely and the projects that have been developed as part of the Managing Demand Programme will continue to be delivered and embedded within services.
- 5.5.6 **Temporary Accommodation** – While the budget contains growth for temporary accommodation it also contains ambitious targets for reducing the need for temporary accommodation and there is a risk that these cannot be achieved in the planned timescale if demand continues to rise rapidly. Gateway services will continue to work with residents to reduce demand.
- 5.5.7 **Welfare Reform** – The changes to welfare benefits, such as Universal Credit, the benefit cap and changes to Housing benefit have been implemented and we have seen an impact in some areas. The Gateway service will continue working to mitigate these risk, and where appropriate we will lobbying government.
- 5.5.8 **Proposed changes to Business Rates** – There are major changes being planned to how much business rates local authorities retain and also the needs formula linked to business rates redistribution across the country. Consultation on the changes proposed is ongoing and changes are expected to be

implemented in 2019/20. It is too early to predict the impact on Croydon of this changes although it is clear that there will a greater proportion of business rate growth retained locally in the new system and therefore locally we would have more opportunity to gain from economic growth and also bear greater risk of reductions. We are continuing to monitor and review this as the current level of uncertainty does leave a risk to the delivery of budgets.

5.5.9 **Implementation of Immigration Act** – There are changes contained in the Immigration Act, notably in terms of Home Office decision making and those who have ‘No Recourse to Public Funds’. However, there is lack of clarity on when this is going to be implemented and original dates have not been met. Changes to welfare benefits, such as Universal Credit, the benefit cap and changes to Housing benefit have been implemented and we have seen an impact in some areas. The Gateway service will continue working to mitigate these risk, and where appropriate we will lobbying government.

5.5.10 **Housing and Planning Act** – There are areas such as high value voids, rent controls, use of right-to-buy receipts, which will have an impact on the Council’s finances.

6 Summary

6.1 There are a number of significant savings and growth options factored in to the budget. And as always there remains a level of risk around the delivery of these options which will need to be carefully managed and reported as part of the quarterly budget monitoring reports to cabinet.

7 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

7.1 The report is submitted by the Executive Director of Resources (Section 151 Officer)

8 COMMENTS OF THE COUNCIL SOLICITOR & MONITORING OFFICER

8.1 The Council is under a duty to ensure that it maintains a balanced budget and to take any remedial action as required in year.

9 HUMAN RESOURCES IMPACT

9.1 There are no direct human resources implications as a result of this report.

10 EQUALITIES IMPACT

10.1 Croydon Council recognises the important role it has in creating a fair, inclusive and cohesive society through its functions as:

- A community leader
- A provider and commissioner of services
- An employer

Serving one of the most diverse boroughs in outer-London the Council’s aim is to make the borough a place where people want to live and work - a place where everyone has fair and equal opportunities and life chances.

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