

For general release

REPORT TO:	CABINET 8th JULY 2019
SUBJECT:	JULY FINANCIAL REVIEW
LEAD OFFICER:	Lisa Taylor, Director of Finance, Investment And Risk (Interim Section 151 Officer) Jacqueline Harris Baker, Executive Director Resources & Monitoring Officer
CABINET MEMBER:	Councillor Tony Newman The Leader Councillor Simon Hall Cabinet Member For Finance And Resources
WARDS:	ALL
CORPORATE PRIORITY/POLICY CONTEXT: A regular review of the Council's Financial plan enables a balanced budget target to be established with a focus on an affordable level of council tax, delivery of the corporate priorities and policies of the Council and the continued enhancement of value for money and satisfaction with services for the residents of our borough.	
FINANCIAL SUMMARY: This report sets out the financial outturn for 2018/19 for revenue, capital and the Housing Revenue Account. It updates on the current position of the council's Revolving Investment Fund (RIF) and the overall financial standing of the council. The report also sets out the latest medium financial forecasts and risks for the council.	
FORWARD PLAN KEY DECISION REFERENCE NO. This is not a key decision.	

1. RECOMMENDATIONS

It is recommended that Cabinet approves:

- 1.1 The approach to ensuring the financial challenge of the period 2019/22 continues to be managed efficiently and effectively including delegation of decisions on measures to deliver the 2019/20 budget to the Cabinet Member for Finance and Resources in consultation with the relevant Cabinet member as set out in paragraph 4.12.
- 1.2 The revised capital programme as detailed in section 5 and appendix 1 and 2 of this report.
- 1.3 The continued use of capital receipts for funding transformation as detailed in section 6.

That Cabinet Notes :-

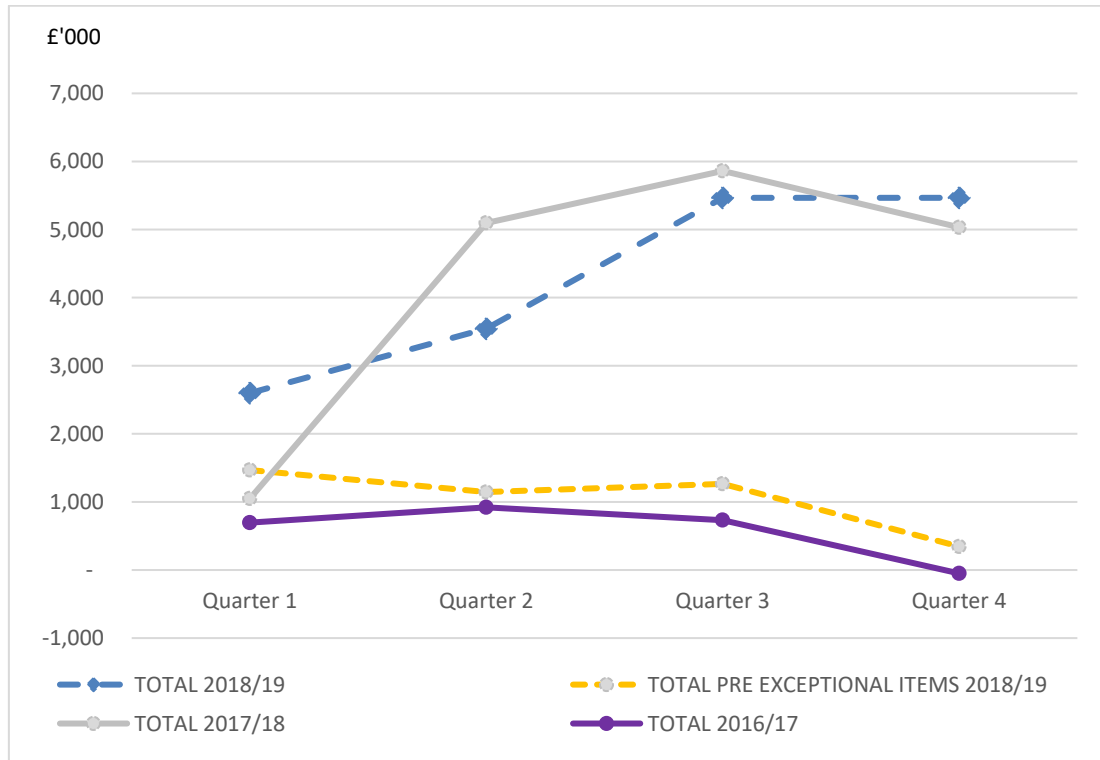
- 1.4 Final outturn of the 2018/19 budget as detailed in section 3.
- 1.5 The update on the Revolving Investment Fund as detailed in section 3.21.

2. EXECUTIVE SUMMARY

- 2.1 The Council's budget for 2019/20 was approved by Full Council on the 4th March 2019 (Minute A14/18), as part of the annual budget setting cycle of the Council. This report provides an update of progress towards ensuring the financial challenges for 2019/22 are managed in the most effective way possible and provides an update on the:
 - The Council's overall financial position including the 2018/19 outturn position;
 - Key financial changes which impact on Croydon's local and wider financial 'environment';
 - The Council's readiness in delivering the 2019/20 budget and any resultant impact of this on future years.
 - The Revolving Investment Fund – RIF and
 - Capital Programme and use of capital receipts to fund transformation.
- 2.2 Throughout the year Cabinet have been kept updated on areas of the Council's budget that have been impacted on heavily and have led to significant pressures during the year. The main areas continue to be in relation to Adult Social Care, Children's Social Care, Unaccompanied Asylum Seekers, No Recourse to Public Funds and Emergency and Temporary Accommodation.
- 2.3 The revenue outturn for 2018/19 was an overspend before exceptional items of £0.345m (less than 0.1% of gross departmental expenditure), exceptional items of £5.121m, leading to an overall overspend of **£5.466m**. This is the same as forecast and reported at quarter 3. The 2018/19 outturn is detailed in graph 1 below and section 3 of this report. Cabinet should note that as reported to Cabinet in February 2019 this

over spend has been funded by drawing down from earmarked reserves in 2018/19, and replenishing these reserves from the collection fund surplus. This is a similar process to last year whereby £4.7m was added to earmarked reserves on the 1st April 2018.

Graph 1 – Forecast Revenue outturn for 2016/17 - 2018/19 by quarter.



2.4 Work has been ongoing to try and reduce the impact of the pressures which includes:

- The continued integration between health and social care through the One Croydon Alliance.
- Greater governance for all Adult Social Care placements.
- Continuation of the Gateway service to provide more support at the front door to prevent service users coming in later with more complex and expensive issues.
- Continuation of the Think Family programme – focusing on cohorts of the most expensive households who use multiple council services to make efficiencies through a joined up approach.
- Continued implementation of the recommendations from the Children's Social Care Ofsted Inspection.

- The implementation of Adult Social Care fees and charges from 2019/20.
 - Recognising the impact of parking income increase.
 - A review of the SEN travel policy and the type of provision.
 - Continued lobbying of Government to fully fund the services, especially in relation to UASC and NRPF.
 - A review of services provided by external contractors.
 - Gains available from the London Business Rates pool are also under review, which could be up to £2m greater than budgeted for, dependent on business rates performance across London.
- 2.5 As reported to this cabinet in February 2019, 2019/20 is the last year of the four year funding agreement and funding for future years has yet to be confirmed by government. This leads to a significant level of uncertainty regarding the medium term, making financial planning extremely difficult. The Chief Secretary to the Treasury has recently reported that it is unlikely that current ongoing Spending Review will cover numerous years.
- 2.6 As previously reported to this Cabinet we have continued to engage in all consultations with the government and will continue to do so to ensure Croydon's views are represented.
- 2.7 To set the balanced budget for 2019/20 we had to make a number of key assumptions around the level of growth for areas where demand and cost have increased, alongside savings to offset this increased growth. These are detailed in table 6 below.
- 2.8 The Local Government Association (LGA) have predicted that there is a funding shortfall of £8bn across the Public Sector by 2025. This is as a result of growing demand for services and increases in population particularly in social care services where the gap for adult social care is predicted to be £3.6bn by 2025 and £3.1bn in children's services. There are also predicted funding shortfalls in a number of other areas, with key ones being, Homelessness at £421m and Public Health £655m.
- 2.9 The 2017/18 local government finance settlement amended the use of the additional Social Care receipt, announcing that it could be applied at 3% per annum for 2017/18 and 2018/19, but needed to maintain a maximum additional precept of 6% for the period 2017/18 to 2019/20. Therefore if an authority chose to use the higher 3% threshold in each of 2017/18 and 2018/19, then it would not be able to have an additional precept in 2019/20. Croydon increased the Social Care Precept by 3% and 2% respectively in 2017/18 and 2018/19 leaving the balance of 1% which has been levied for 2019/20. The Future of this precept is currently

unconfirmed.

3. FINANCIAL PERFORMANCE 2018/19

Revenue position

- 3.1 Last year was the eighth successive challenging financial year of austerity. 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 and increase income, and despite the exceptional costs in respect of Unaccompanied Asylum Seeking children and related areas the year end revenue position for the Council was an overspend of £5.466m, which is in line with our projections at quarter 3 as shown in graph 1 of this report.
- 3.2 The measures detailed in the Executive Summary have played an important part in controlling the Council's expenditure during 2018/19, with the final outturn position being £5.466m overspent, as per our forecast at quarter 3, met by monies held in earmarked reserves. A £5.466m contribution to reserves has been budgeted in 2019/20 to replace this drawdown. The General Fund balances remain unchanged at £10.4m at the end of 2018/19, this is the same level as 2017/18.
- 3.3 The long term target set out in the Financial Strategy is to hold General Fund balances of 5% of the council's net budget requirement. For 2018/19 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 2.5% in 2020/21, which is in the region of £6.5. This would see the 5% target reduce by £12.5m, making it £262m by the end of 2020.
- 3.4 The revenue outturn for 2018/19 was an overspend before exceptional items of £0.345m, which is 0.13% of the Council's net budget requirement. Exceptional items of £5.121m relating to unfunded UASC costs, lead to an overall overspend of **£5.466m**. Details are provided in Table 1 below grouped in the management structure of the Council from 2018/19.
- 3.5 Further detail are set out later in this report in section 4.5 on the unique financial challenges Croydon continue to face in relation to UASC.
- 3.6 Despite all of these pressures and demand for services the Council's general fund reserves have remained stable at £10.4m and earmarked reserves have decreased slightly by £1.5m to £14.2m. A number of targeted funding streams have continued to be drawn out of reserves in 2018/19 to support delivery mainly around the transformation agenda. It is worth noting £4.7m has been added back to earmarked reserves in

April 2019.

Table 1 - Revenue Outturn Summary for 2018/19

Quarter 3 forecast outturn variance £'000	Department	Revised Budget £'000	Outturn 2018/19 £'000	Variation from Revised Budget	
				£'000	%
2,099	Health, Wellbeing and Adults	105,409	107,140	1,731	1.64%
9,131	Children, Families and Education	68,354	77,886	9,532	13.95%
(5,350)	Place	48,430	43,020	(5,410)	-11.17%
1,002	Gateway, Strategy and Engagement	31,434	31,410	(24)	-0.08%
2,018	Resources	28,439	29,608	1,169	4.11%
8,900	Departmental Total	282,066	289,064	6,998	2.48%
(6,100)	Non-Departmental Items	(282,066)	(288,719)	(6,653)	
2,800	Revenue Total before Exceptional Items	0	345	345	
2,666	Exceptional items	0	5,121	5,121	
5,466	Total transfer from balances	0	5,466	5,466	

- 3.10 Further detail on the Council's Financial Performance for 2018/19 is being reported to the General Purpose and Audit Committee meeting on the 23rd July alongside the Annual Accounts.

Capital Programme

- 3.11 The original approved capital programme for 2018/19 totalled £345m, which was increased during the year to £449m to reflect both programme slippage and re-profiling of schemes. Actual capital spend in 2018/19 was £355m, with the resultant underspend of £94m (21%) mainly attributable to slippage in the delivery of schemes. Table 2 below, shows spending against budget by Department in 2018/19 and Appendix 1 provides a detailed breakdown of spend against budget for the capital programme. Appendix 2 details the funding sources for the programme.

Table 2 – Capital Outturn Variances for 2018/19

Department	Original Budget £'000s	Budget Adjustments £'000s	Revised Budget £'000s	Outturn £'000s	Outturn Variance £'000s
Health, Wellbeing and Adults	0	579	579	245	(334)
Children, Families and Education	35,527	(1,192)	34,335	20,387	(13,948)
Place	224,984	(87,095)	137,889	107,788	(30,101)
Gateway, Strategy and Engagement	33,850	94,718	128,568	98,997	(29,571)
Resources	19,105	91,664	110,769	98,105	(12,664)
General Fund	313,466	98,674	412,140	325,522	(86,618)
Housing Revenue Account	32,385	4,715	37,100	30,058	(7,042)
Total Capital	345,851	103,389	449,240	355,580	(93,660)

Housing Revenue Account (HRA)

- 3.12 The 2018/19 outturn is a surplus of **£0.736m** which has been transferred to HRA reserves.
- 3.13 The main variances of HRA revenue spend against budget are set out in Table 3 below.

Table 3- Analysis of Housing Revenue Account Variances 2018/19

Division	Variance £'000s	Detailed explanation
HRA – Housing Needs	1,171	Overspend on leased properties used for the provision of temporary accommodation and staffing costs as a result of carrying out fire safety assessments.
HRA – Council Homes, Districts & Regeneration	(1,907)	Underspends due to vacancies within the team. Repairs costs being lower than budgeted for.
Total HRA underspend	(736)	

- 3.14 HRA Capital expenditure totalled £30.058m. Expenditure was lower than the revised budget of £37.100m by £7.041m, due to reduced spending on the major repairs programme in year.

Balance Sheet and Financial Strategy

- 3.15 Table 4 below shows the position on the Council's balances, reserves and provisions as at 31 March 2019, compared with previous years. This table excludes Locally Managed Schools reserves, as they are managed by Schools.

Table 4 - Analysis of Movement in Reserves and Balances

Balances and Reserves	2016/17 £m	2017/18 £m	2018/19 £m
General Fund Balances	10.7	10.4	10.4
Earmarked Reserves excluding Schools	30.1	15.7	14.2
General Fund Provisions	37.1	41.2	41.5
Total	77.9	67.3	66.1

- 3.16 The overall value of school reserves have increased by £1.3m to £3.7m. This includes a decrease in revenue reserves by £1.4m to £2.6m and an increase in capital reserves by £0.7m to £1.1m.
- 3.17 The Council's General Fund Provisions have increased from £41.2m to £41.5m as at 31st March 2019.
- 3.18 The Collection Fund has an overall surplus of £5.409m which has been carried forward in to 2019/20. Croydon's share of this is a surplus of £6.938m, which is greater than the overall surplus because of the way NNDR retention percentages with the MHCLG have changed between 2017/18 and 2018/19. Croydon's share is comprised of a Council Tax surplus of £4.676m and a Business Rates surplus of £2.262m. £5.466m of this balance has been transferred to earmarked reserves on 1 April 2019 in order to fund the 2018/19 deficit.
- 3.19 The Council's Pension Fund increased in value in 2018/19 by £111.6m (9.8%) to a value of £1.25bn.
- 3.20 The Council also has both S106 and CIL reserves of £9m and £11m respectively for investment in the borough on schemes that meet the criteria. Commitments have been made against these reserves and investment will be made in the year ahead.

Revolving Investment Fund (RIF)

- 3.21 Cabinet previously agreed to set up a Revolving Investment Fund (RIF) to support the delivery of Growth within the Borough. As previously reported to this cabinet the RIF is acting as funder to the development company Brick by Brick, the Housing LLP, Box Park and Taberner House.
- 3.22 The RIF lends at commercial rates whilst borrowing at the lower rates which are available to the Council. The net returns estimated over the next 3 years are between £1m -£2m per annum, and are included in the revenue budget. Table 5 below details the loans, interest arrangements and payment dates.

Table 5 –Loans made from the RIF at 31.3.2019.

	Loan amount	Interest	Net interest earned in 2018-19	Repayment Date
	£m	%	£m	
Box Park	3.000	10.90%	0.185	October 2021 (loan term 5 years)
Brick by Brick (Croydon)	104.330	5% - 6.25%	1.321	5th anniversary of the relevant loan, unless otherwise agreed
Taberner House LLP	10.062	6%	0.182	12 months after practical completion, unless otherwise agreed
Croydon Affordable Housing LLP	2.289	3.25%	0.003	November 2058 (loan term 41 years)
Total	119.681		1.691	

4. BUDGET 2019/20

- 4.1 The budget for 2019/20 was approved by Council in March 2019. Cabinet will be aware that a significant amount of growth was included to address some of the budget issues from 2018/19. Table 6 below sets out the allocation of growth and savings in 2019/20.

Table 6 - Departmental Growth and Savings 2019/20

Department	Growth £m's	Saving £m's	NET £m's
Children, Families and Education	15.000 *	-1.000	14.000
Health, Wellbeing and Adults	7.221 **	-8.348	-1.127
Gateway, Strategy and Engagement	3.338	-2.500	0.838
Place	3.300	-7.968	-4.668
Resources	0.000	-8.053	-8.053
Total	28.859	-27.887	0.972

* Includes £3m growth for Children with Disabilities that was previously part of the Health, Wellbeing and Adults department.

** Excludes £3m growth for Children with Disabilities now part of the Children, Families and Education department.

- 4.2 Growth is needed particularly in areas of the council's budget which are driven by demand for our services, where we know from previous financial years that there are risks to delivering a balanced budget or as a result of new burdens. These pressures are listed in more detail below.

4.3 Health, Wellbeing and Adults

- 4.3.1 It is widely recognised that there is a national crisis within the provision of adult social care services and the crisis facing adult social care has been recognised by all political parties and the Government has committed to addressing this in the longer term.
- 4.3.2 The Budget 2018 announced £650m of additional Social Care Funding, the government indicated how this funding will be allocated in 2019/20.
- 4.3.3 As reported to this Cabinet in the budget report in February 2019, this comprises of the Winter Pressures Grant of £240m of additional funding in 2019/20 for councils to spend on adult social care services to alleviate winter pressures on the NHS. This Winter Pressures Grant funding will be allocated in 2019/20 using the existing Adult Social Care Relative Needs Formula. This funding is ring-fenced and will be pooled into the Better Care Fund.
- 4.3.4 The other element is the Social Care Support Grant. £410m in 2019/20 for use for adult and children's social services. The government believes there is not a single bespoke needs formula that can be used to model relative needs for both adult and children's social care fund therefore the existing Adult Social Care Relative Needs Formula will also be used to distribute this Social Care Support Grant funding. This grant will not be ring-fenced, and conditions or reporting requirements will not be attached, nor there should any prescription of how much of it be spent on adult social care or children's social care.
- 4.3.5 Croydon has been awarded Improved Better Care Funding of £15.4m over the two year period 2018 to 2020. £7.1m in 2018/19 and £8.3m in 2019/20. Work continues with the CCG agreeing how this money will be spent across the health and social care sector to ensure the criteria of the funding of Meeting Adult Social Care Needs, Supporting Hospital Discharge and Stabilising the Social Care provider Market are met.
- 4.3.6 While the additional money announced will make a significant contribution to protecting services that care for older and disabled people, it is not enough to address the wider pressures across the sector, nor is it planned to continue after 2019/20.
- 4.3.7 In Croydon we are continuing to experiencing increasing demand for Adult Social Care services along with a rise in the number of complex cases. The main area of increasing spend is the 25-65 all age disability service where there has been an increased demand for services and increase in complexity of need, with client numbers increasing from 5,870 at the start of 2018/19 to 5,889 at the year end, a net increase of

19 which comprises 121 new clients and 102 clients no longer receiving services. These new clients tend to be more complex and so usually more costly. The overspend in 2018/19 associated with Adult Social Care and all Age Disability was £911k, after the application of £2m of IBCF funding and £12.971 funding from flexible capital receipts for transformation. Growth has been allocated in the 2019/20 budget.

- 4.3.8 The One Croydon Alliance for over 65's with Health partners is aimed at managing health and social care pathways and costs more effectively. This programme is now in its third year and delivering benefits to residents and to the health and social care economy in Croydon.

4.4 Children's Social Care

- 4.4.1 In the July 2017 Ofsted undertook a single inspection framework inspection of Croydon's services for children in need of help and protection, children looked after and care leavers, the findings of which have been reported to this cabinet. As a result of this inspection additional funding and resources were allocated to the service in year in 2017/18 and in the 2018/19 and 2019/20 budgets. There was a £9.5m overspend in 2018/19 and £11m net has been allocated to the base budget for 2019/20, (excluding children with disabilities - £3m of growth was allocated to this service in 2019/20) with additional funding available from capital receipts for transformation.

- 4.4.2 The number of local Looked after Children in 2018/19 rose from 484 at the start of the year to 550 at the end of the year peaking at 551 in January 2019. 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.

- 4.4.3 Children in Need continues to be challenging, and at the start of the financial year there were 742 cases reducing to 701 by the end of the year. Although there has been a reduction in the number of caseloads, the high number throughout the year has resulted in the need for additional staff and an increase in placements.

- 4.4.4 To help manage these increasing demands and deliver the improvement work identified in the Ofsted inspection £10.611m of growth has been allocated to children's social care and £0.389m for business support to this service in 2019/20. Additional funding of £3m has also been allocated for Children with Disabilities to fund increasing demand.

4.5 UASC – Unaccompanied Asylum Seeking Children

- 4.5.1 As previously reported to Cabinet, Croydon for a number of years has faced local pressure as a result of an inadequate grant from the Home Office for UASC.

- 4.5.2 As a result of the Home Office being located in Croydon we are a gateway authority, and face pressures on a scale greater even than Kent. UASC numbers are currently increasing with over 290 currently placed in Croydon and with the national transfer scheme being in crisis it is becoming increasingly difficult to transfer UASC out of Croydon and therefore resulting in increasing costs that are not fully funded by the Home Office Grant.
- 4.5.3 We have previously received additional funding of £6.5m from the Home Office as a gateway Authority and after prolonged negotiations and discussions during 2015/16 our daily rate was increased above the national rate to recognise our increased costs. These increased daily rates remained in place until the end of the 2018/19 financial year. Despite this enhanced rate funding is still not adequate to cover all costs incurred and in 2018/19 Croydon Council Tax payers funded £10.6m of costs related to UASC. This included costs associated with education, health and placements.
- 4.5.4 We have continued to lobby the government to fund all associated UASC costs, however this lobbying has largely been ignored despite face to face meetings with Ministers and promises to fairly fund Croydon.
- 4.5.5 The Home Office have failed to engage in conversation with us to discuss the 2019/20 rates having announced a funding boost of over £30 million for local authorities looking after unaccompanied asylum seeking children.
- 4.5.6 On the 8th May 2019 the Immigration Minister wrote to all Local Authorities confirming uplifted funding rates. This letter confirmed funding rates for 2019/20 which were uprated for the whole country to match the funding already being paid to Croydon for 16/17 years olds, but no increase to Croydon rates.
- 4.5.7 In 2018/19 Croydon tax payers funded over £10.6m of costs related to UASC that should have been funded by government.
- 4.5.8 The continued failure to fund Croydon for costs incurred to support these vulnerable young people will continue to put an enormous strain on our financial reserves.

4.6 Special Education Needs (SEN)

- 4.6.1 We are also continuing to experience an increase in the number of children and young people with Special Education needs. Resulting in an increase in costs funded from the Dedicated Schools Grant (DSG) as well as an increase in the number of young people requiring travel to school.
- 4.6.2 The High Needs Block of the DSG has seen costs rising annually and in

2018/19 spending was greater than budget by £5.6m, with a cumulative high needs deficit of £13m.

- 4.6.3 Following a brief consultation period the Department for Education (DfE) introduced, as a condition of the 2019/20 Dedicated School Grant (DSG), the requirement to provide recovery plans for DSG deficits. Where a LA has an overall deficit on DSG of one per cent or more at the end of the 2018/19 financial year, it must submit a recovery plan to the DfE by 30th June 2019, setting out how it plans to bring the overall DSG account into balance within a maximum of three years. In exceptional cases the authority may propose to leave some of the accumulated deficit outstanding, where it is not practicable to do otherwise. The recovery plan should be discussed and, if possible, agreed with the Schools Forum, and will require Chief Finance Officer (CFO) / Section 151 Officer sign off prior to submission to the DfE.
- 4.6.4 Our plans for the recovery of this deficit were presented to Children and Young People Scrutiny Sub Committee on the 18th June 2019, following a discussion with the Schools Forum and we plan to bring the DSG High Needs back in line with Budget in five years and then to manage the cumulative deficit after that.
- 4.6.5 CIPFA have confirmed that Local Authorities can retain DSG deficits and that they do not need to be funded from General fund reserves as long as there is a deficit recover plan that has been submitted to the DfE. Croydon Council has submitted its plan.
- 4.6.6 In 2018/19 the number of pupils requiring SEN transport rose by 15% from 1,293 to 1,492. As a consequence of this the budget overspent by over £2m. An additional £2m budget has been allocated in 2019/20 for such costs. Work is continuing to review and manage transport costs and a new Transport Board has been established to review this service.

4.7 Housing

- 4.7.1 The Homelessness Reduction Act 2017 allocated Croydon £1.292m over the period 2017/18 – 2019/20 to fund the new Homelessness Reduction Act obligations. In line with previous years expenditure in 2019/20 is expected to exceed the annual allocation.
- 4.7.2 Croydon continues to face significant need for temporary and emergency accommodation from homeless households, along with high numbers sleeping rough in the borough. £0.500m of growth has been included in the 2019/20 temporary accommodation budget to help tackle this growing demand. The government's funding ('Trailblazers') for homelessness prevention was allocated for 24 months from January 2017 - £0.192m in 2016/17 and £0.404m each in 2017/18 and 2018/19. The council also secured through the government's Rough Sleeping Initiative Fund to significantly reduce the number of people sleeping rough. Croydon received £510,210 allocation in 2018/19 and a further £468,054 allocation

in 2019/20 was announced in March 2019.

- 4.7.3 The Council rehoused 273 social housing tenants and 320 families from the housing register. Re-let 567 empty Council properties (including 112 sheltered properties). Supported 1,483 people through 'Staying put' home improvements to enable them to stay in their homes through repair and improvements works and handy person services. 305 placements were made in the private rented sector. 47 council tenants moved to smaller homes more suited to their household size, in tackling under-occupying. In addition, delivered adaptations to enable disabled people to remain in their homes and also developed a joint approach with Children services to meet the housing need of young people leaving care.
- 4.7.4 In 2018 the Council launched a Social Lettings Agency (SLA) – called Croydon Lettings. The aim was to procure private rented accommodation at or below the local housing allowances (LHA), without paying incentives to landlords. The rent levels were negotiated with the offer of tenancy training for new tenants, provide a wrap-around support for both the landlord and tenant should "tenancy sustainment" issues arise. In the first year 41 residents all at LHA or below, and negotiated a reduction in rent of £32k p.a. for these residents. 75 landlords/agents have joined the SLA scheme.
- 4.7.5 We are trying to mitigate these increasing costs by increasing the supply of affordable accommodation. The Council has set up an independent housing development company to increase the provision of affordable housing within the borough, through a choice of shared ownerships and affordable accommodation. The company Brick by Brick (BxB) currently have planning consents on around 40 sites and will be delivering 1,000+ new homes, including 400+ affordable homes. Increasing supply will reduce the need for expensive temporary accommodation and provide more suitable accommodation.
- 4.7.6 The Council approved the use of retained Right-to-Buy (RTB) receipts for street property acquisitions, this will prevent having to return receipts to the government with interest. In 2017/18, the first 96 units have been transferred to Croydon Affordable Homes LLP, a limited liability partnership (LLP) with a local charity in a structure that will allow RTB receipts to be invested in the development activity whilst allowing the Council to retain a long-term interest in the assets. In 2018/19, the first tranche 167 of 250 units have been transferred to Croydon Taberner LLP, more transfers of units to LLPs are planned in the future.
- 4.8 The budget also included a range of savings proposals as set out in Table 6 above;
- 4.9 At this stage the majority of these savings are on track to be delivered with limited slippage in plans.

- 4.10 There continues to remain significant demand pressures and challenges to deliver to budget in 2019/20. A full update will be brought to Cabinet in September on the quarter 1 performance. There is £2m of contingency set aside within the budget.
- 4.11 It is therefore vital that work on options to reduce these pressures is prioritised. This includes exploring a number of options as follows:
- A review of parking services.
 - Continued review of all fees and charges
 - A further review of licensing and other fees and charges.
 - A continued review of the provision for those individuals and families who are “Appeal Rights Exhausted.”
 - A review of costs associated with housing needs in the borough
- 4.12 Given the need to continue to act quickly in these areas and many others it is recommended delegation is given to the Cabinet member for Finance and Resources to make decisions in consultation with the relevant Cabinet member (or the Leader where it relates to his portfolio) to bring proposals forward to reduce the pressure on the 2019/20 budget. Any normal processes in relation to key decisions and appropriate consultation would apply.

5 CAPITAL PROGRAMME INVESTMENT – 2019/20

- 5.1 In February 2019 Cabinet agreed the capital programme. During the first quarter of the financial year there have been a number of requests for amendments to the capital programme as a result of updated cost estimates or changes to priorities, these are detailed in para 5.4 below, along with slippage from 2018/19. With full details of the programme in appendix 1 to this report and details of the funding of the programme in appendix 2 to this report.
- 5.2 Cabinet is asked to approve the following changes to the Capital Programme resulting in a revised general fund capital programme of £278.4m for 2019/20 and £45.4m for the HRA. This is detailed below in table 7.

Table 7 - Revised Capital Programme – 2019/22

	2019/20		2019/20	2019/20	2020/21	2021/22
	Original Budget (£m)	Slippage from 2018/19 (£m)	Re- Profiling (£m)	Revised Budget (£m)	(£m)	(£m)
General Fund	183.5	92.6	2.3	278.4	95.8	87.4
HRA	38.4	7.0	0	45.4	26.9	26.9
TOTAL	221.9	99.6	2.3	323.8	122.7	114.3

5.3 The revisions are as a result of slippage from 2018/19 of £99.6m (£92.6m for the General Fund and £7m for the HRA), with the main changes in the general fund being in relation to the Education Estates Programme, housing programme and HRA.

5.4 New additions to the programme relate to the following projects :-

- The development of the new Timebridge Community Centre which now includes a family centre of £1.1m. This will provide much needed community space to the area.
- Crosfield – additional capital funding of £0.45m towards the development of the building to bring the Crosfield Industrial unit up to a lettable standard and allow the Community Equipment Service, currently based at Boulogne Road to fulfil its commercial objectives of generating new income and delivering social impact for the Council.
- CALAT – additional capital funding of £0.6m for improvements to adult and community learning through CALAT to improve the learner experience and future-proof the service positioning it for skills devolution. The funding will cover digital upgrades to improve the teaching and learning experience, and improvements to Strand House in Thornton Heath creating new and improving existing fit for purpose learning spaces that address skills gaps for business in high demand areas such as health and care and leisure and hospitality.
- University - Launched at MIPIIM 2019 Croydon Creative Campus is our approach to the metropolitan centre which looks to ensure a flexible changing mix of uses in the centre reducing reliance on retail. Croydon Creative Campus will deliver a mix of creative, learning, retail, cultural, leisure, commercial and residential uses that can change over time as the needs and demands of our populations change. It will bring together a vibrant mix of uses in high quality built environment and public realm. The council working with

developers, stakeholders and higher education providers aims to bring about this change by embedding a high quality university presence as phase 1 of the Creative The cost and funding of this programme is yet to be developed and will be reported to Cabinet at a later stage when known.

6 USE OF CAPITAL RECEIPTS

- 6.1 In March 2016 the DCLG (now MHCLG) issued guidance allowing a more flexible approach to using capital receipts. This guidance enabled local authorities to have the flexibility to use capital receipts from the disposal of property, plant or equipment assets for expenditure on projects that will generate ongoing savings and efficiencies.
- 6.2 At the beginning of the 2018/19 financial year the balance of general fund capital receipts was £11.2m. In year receipts of £61.2m were received and all of the capital receipts were used to fund both the capital programme and transformation projects listed in table 9 below.
- 6.3 In July 2016 (Minute ref A76/16) it was reported to this Cabinet that the Council would be taking advantage of this new flexibility and in 2018/19 £29.3m of transformation projects were funded from capital receipts. These are detailed in table 8 below.

Table 8 – Transformation projects funded from flexible capital receipts.

	2018/19 £m
Housing Initiatives	3.092
Adult Social Care new Initiatives	11.847
Children's Services	9.810
Demand Management	0.203
Transformation programme including ICT	4.354
Total	29.306

- 6.4 To enable the continued delivery of our transformation programme we will continue to use this approach to the flexible use of Capital Receipts in 2019/20. Further reports on progress of these projects will be presented to this cabinet as part of the quarterly financial monitoring report.

7 HRA

- 7.1 Managing the Housing Revenue Account continues to be an ongoing challenge for the Council in light of legislative changes driven by the

government. The biggest challenge remains the impact of the 1% rent reduction each year from 2016/17 to 2019/20. The cumulative loss of revenue over the 4 years amounts to £31m and the income base from rents has been reduced by £23m. The outlook for the HRA is based on a rapidly decreasing rent base due to the on-going sale of HRA stock via right-to-buy (RTB). The government has discontinued the implementation of the High Value Voids but uncertainty remains with other government consultations regarding the use of RTB capital receipts.

- 7.2 The sharp reduction in rents over the medium-term means that savings are needed across the HRA. In 2019/20 an efficiency programme with a value of £1.088m is being delivered across the housing management structure. The council is reviewing the HRA capital programme alongside its efficiency programme in order to keep the HRA sustainable. Further mitigating options will be identified as part of the HRA business planning cycle in the run up to 2020/21.
- 7.3 The government announced the lifting of the borrowing cap in October 2018. The removal of the borrowing cap provides an opportunity for the Council to borrow more money for social housing provision in the future which it can use flexibly subject to affordability constraints. Prior to the lifting of the borrowing cap, the introduction of self-financing for the Housing Revenue Account (HRA) in April 2012 was accompanied by a limit on the amount of housing debt that each authority could hold. Croydon's current HRA debt is £324m with a headroom of £11m as against the old borrowing cap. The limitations this generated for the HRA business plan resulted in many authorities (including Croydon) seeking to borrow to support affordable housing outside the HRA. In the 2017 Autumn Budget statement, an additional £1 billion of borrowing was allocated to the Housing Revenue Account across 'areas of high affordability pressure' of which Croydon Council secured £61m of borrowing.
- 7.4 Following the Grenfell Tower tragedy in June 2016 the Council committed to installing a range of fire safety measures across its own housing stock. This includes the installation of water sprinklers in residential blocks over ten storeys high. The cost of these works was in the region of £5m for 2018/19 and increased to £10m for 2019/20. The Council has lobbied the government to fund these essential safety works on a number of occasions and unfortunately they have failed to provide any funding, resulting in the costs being funded from the HRA.
- 7.5 From 2017, the Council approved the use of Right-to-Buy (RTB) receipts to support investment in affordable housing across the borough (namely Brick-by-Brick developments, Taberner House, and existing properties purchased under the ETA scheme. The first 96 units have been transferred to Croydon Affordable Homes LLP, a limited liability partnership (LLP) with a local charity in a structure that will allow RTB receipts to be invested in the development activity whilst allowing the Council to retain a long-term interest in the assets. In 2018/19, a further

167 units have been transferred to the LLP, with a further 83 to be transferred in 2019/20. More purchases and transfers are planned in the future.

8. BUDGET 2020/22 – PLANNING ASSUMPTIONS

- 8.1 Table 9 below sets out the MTFS assumption in relation to the budget for 2020/22. This includes the options identified as part of the medium term financial strategy that was presented to Cabinet in October 2018 and the subsequent report to Cabinet on the 2019/20 budget.

Table 19 - Budget Gap 2020/22

	2020/21 £m	2020/21 £m
Net Budget Gap	12.5	7.7

- 8.2 The gap above is based on current assumptions and initiatives that we are aware of. At the current time we are working with officers and members to review the budget and close the gap for 2020/21 and this will be reported back to Scrutiny and Overview Committee and Cabinet as part of the budget setting process.

9. SUMMARY AND CONCLUSIONS

- 9.1 As all Members are aware, setting a budget for 2020/21 that is robust, balanced and deliverable is challenging, and will involve a number of difficult decisions in these challenging times.

10. FINANCIAL CONSIDERATIONS

- 10.1 This report deals with the Financial Strategy assumptions in planning a balanced budget over the medium term.

Approved by Lisa Taylor Director of Finance, Investment and Risk
(Interim Section 151 Officer)

11. LEGAL CONSIDERATIONS

- 11.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that this report details updated information required for the Council's statutory duty to set a balanced budget.

Approved by, Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer

12. HUMAN RESOURCES IMPACT

- 12.1 There are no specific highlighted implications for LBC workforce arising from this report.
- 12.2 Any future proposals on budget that may have any impact on the workforce would be consulted on in line with agreed formal consultation arrangements with the recognised trade unions.

Approved by: Sue Moorman, Director of HR.

13. EQUALITIES IMPACT

- 13.1 There are no specific issues arising from this report.

14. ENVIRONMENTAL IMPACT

- 14.1 There are no specific issues arising from this report.

15. CRIME AND DISORDER REDUCTION IMPACT

- 15.1 There are no specific issues arising from this report.

16. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 16.1 These are detailed within the report.

17. OPTIONS CONSIDERED AND REJECTED

- 17.1 The options considered are detailed in the report. The only option rejected was the one of do nothing as this is not viable.

Report Author: Lisa Taylor Director of Finance, Investment and Risk
(Interim Section 151 Officer)

Appendices: Appendix 1 – Capital Programme 2018-2022
Appendix 2 – Capital Funding 2019/20 to 2021/22

Background docs: Medium Term Financial Strategy 2018/22