For general release

REPORT TO:	**CABINET 14 JULY 2014**
AGENDA ITEM:	**12**
SUBJECT:	**JULY FINANCIAL REVIEW**
LEAD OFFICER:	**RICHARD SIMPSON** **DIRECTOR OF FINANCE AND ASSETS AND S151 OFFICER**
CABINET MEMBER:	**COUNCILLOR TONY NEWMAN** **THE LEADER** **COUNCILLOR SIMON HALL** **CABINET MEMBER FOR FINANCE AND TREASURY**
WARDS:	**ALL**

CORPORATE PRIORITY/POLICY CONTEXT:

The review of the Financial Strategy as part of the budget setting process 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 Council's review of its Financial Strategy for the period 2013/17 to establish the context for the Council's budget and medium term financial planning scenarios and assumptions.

FORWARD PLAN KEY DECISION REFERENCE NO.: 1288. This is a key decision as defined in the Council's Constitution. The decision may be implemented from 1300 hours on the expiry of 5 working days after it is made, unless the decision is referred to the Scrutiny & Strategic Overview Committee by the requisite number of Councillors.

1. RECOMMENDATIONS

It is recommended that Cabinet approves:

1.1 The carry forward of £48.235m slippage to the 2014/15 General Fund and HRA Capital Programmes as set out in Appendix 2.
1.2 The changes to the capital programme in relation to the Empty homes, Education estates and Tennison Road Bridge as set out in Para 11.3

And that it notes the overall changes to the capital programme over the 2014/17 period

1.3 The case for additional funding for Croydon as set out in paragraph 5.25 onwards and Appendix 2, and the approach to ensuring that central government is aware of the unfairness inherent in the current system

1.4 The costs associated with Bernard Weatherill House and plans over the financial strategy period 2015/18 to ensure transparency over all costs and income associated with the asset.

1.5 The approach to ensuring the financial challenge of the period 2015/18 are tackled through the 'Croydon Challenge Programme' and fresh approach taken by the new administration to resource prioritisation.

2. EXECUTIVE SUMMARY

2.1 The Council's budget for 2014/15 was approved by Full Council on the 24th February 2014 as part of the annual budget setting cycle of the Council. This report provides an update of progress towards ensuring the financial challenges for 2015/18 are managed in the most effective way possible and provides an update on the:

i. The Council's overall financial position including the 2013/14 outturn position;
ii. Key financial changes which impact on Croydon's local and wider financial 'environment'; and
iii. The Councils readiness in delivering the 2014/15 budget and any resultant impact of this on future years.

2.2 This review ensures that the 2015/16 Budget and resultant council tax level will be set within the context of the financial strategy in order to deliver a balanced budget, updated for the latest information and knowledge available to the Council.

3. Financial Strategy Objectives

3.1 The Financial Strategy's Objectives Framework is set out in Diagram 1 below with the five financial strategy objectives outlined in Table 1.

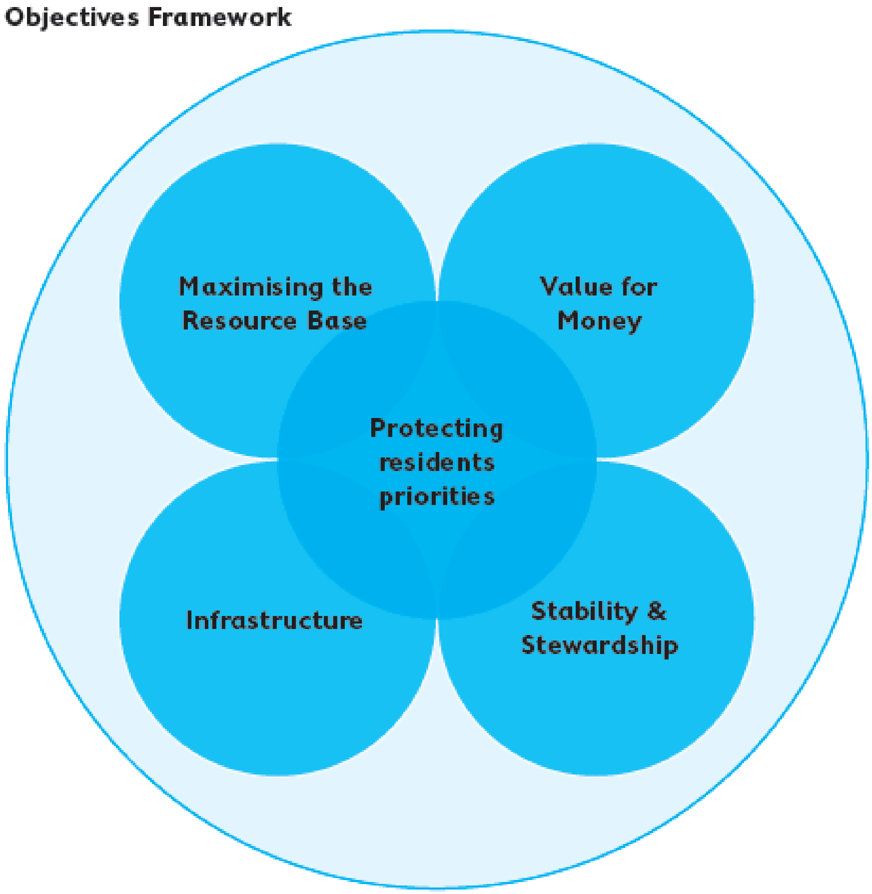

Table 1 – The Council's Financial Strategy Objectives

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

4. Budget Planning Assumptions

4.1 The Financial Strategy 2013/17 contains 12 assumptions that support the annual budget setting process within the 2014/15 financial planning timeframe for both the general fund and the Housing Revenue Account. This was reviewed in February as part of the 2014/15 budget setting and therefore there has been little change in the external environment and assumptions since then. The assumption and any commentary are set out in table 2 below.

Table 2 : Financial Strategy Planning assumptions

	Strategic Assumption	Position Statement	Commentary
1	A decrease in Government Grant support of 10% per year in cash terms	A more flexible assumption is now set out in the budget 15/18 position.	CSR2013 resulted in a 10% reduction in government funding for 2015/16, this is an increase from 7.5% implemented as part of CSR 2010 which covered the years 2011/14. The Council will need to assume that future funding reductions will continue at this level.
2	Any changes in central government grant funding will, in the first instance, impact directly on the service supported by the grant.	No change.	In 2012/13 this strategic assumption was followed as a default position. This assumption is still recommended as our position to ensure a direct relationship between grant and service provision. .
3	Local taxation increases will be kept to a minimum	No change.	------
4	Inflation will be estimated in line with ‘sector’ specific forecast increases.	No change.	Inflation continues to be an issue for the UK economy and this will be kept under review with a view to capping the inflation increase in certain areas. The inflation assumption is 2.5%
5	Efficiency targets for the Council will be set at 5% per annum as a minimum	The Council will have to maximise the opportunity to deliver efficiencies to avoid service cuts.	------
6	A minimum of 20% of New Homes Bonus and any increase in business rates yield above budget assumptions will be earmarked for organisational transformation and economic development	No change.	In the 2013 Budget the Chancellor reiterated the Government’s proposal to top-slice London’s New Homes Bonus Grant in order to provide a £70m contribution to be pooled within the London Local Enterprise Partnership, from 2015/16. This would effectively reduce the Council’s annual NHB grant by £2.984m (36%), based on Croydon’s share of London’s 2014/15 NHB grant.
7	All asset rationalisation savings will be used to contribute to Bernard Weatherill House	No change.	The new administration have reviewed the approach to budgeting for costs associated with BWH and savings from asset rationalisation and this is set out in detail later in the report
8	The Housing Revenue Account does not cross subsidise or vice versa	No change.	------

	Strategic Assumption	Position Statement	Commentary
	the General Fund Revenue account up to the point where the HRA continues to exist		
9	Rent restructuring guidelines will follow guidelines which will achieve rent convergence in 2015/16	No change.	------
10	Decent Homes standards will be maintained for HRA stock	No change.	------
11	New council house building will be funded at £6m per annum for the next six years	No change.	The new administration are reviewing all options to increase Housing Supply including direct building within the HRA. £6m per annum will be the minimum but options to increase this are being reviewed
12	New funding for the delivery of a Public Health service will remain ring fenced to the funding allocated	No change.	The new administration will review the outcomes that Public Health are achieving to take a radical approach to the use of the grant to ensure benefits are clear.

4.2 The July Review 2014 has concluded that although the Planning Assumptions of the Financial Strategy remain robust, the financial environment is not yet stable with uncertainties around the wider economic recovery, uncertainties over future years government funding and the impact of welfare and social care integration reforms.

4.3 As a new administration with clear manifesto commitments the assumptions as a whole are being reviewed and a new financial strategy for the period of this administration will be presented to Cabinet before the end of the year.

5.0 Bernard Weatherill House

5.1 The council's debt includes £112m in relation to debt taken out by the council in relation to BWH. The costs associated with BWH do have an impact on the financial strategy of the council and there are a range of ways these can be managed in the future. Firstly it is important to be completely transparent on the costs incurred on BWH and how these have been accounted for. Detail is set out in table 3 below;-

Table 3 BWH Costs

	£m
Debt taken out by LBC and lent on to John Laing	108.5
Equity injection by John Laing into BWH	13.0
Other costs incurred by LBC;-	
Furniture, Fittings & Equipment	5.6
ICT	4.2
Construction Variations	2.4

	Total cost	133.7

5.2 In addition to these direct costs, there is interest paid or accrued on the PWLB borrowings and the equity element (based on the buy-out set out in 5.5 below).. These interest costs will total some £85 million over the life of the loans.

5.3 The approach taken to debt previously was to ringfence the costs associated with the construction (excluding other costs above) and offset those against various income and savings items associated with CCURV, BWH and asset savings across the council estate. The approach was to avoid a short term impact on the council tax payer and attempt to smooth the costs against income over a longer period. As at the 31/03/14 there is £15.6m in the earmarked reserve used for this purpose.

5.4 In respect of BWH the council has now started payment of a 25 year payment deed to John Laing. This is split into two elements, a Tranche A that sees the payment of the senior debt element, in effect the part the council lent to John Laing and a tranche B element to repay the £13m equity with interest. Tranche A does not see any cash payments as the council would be paying John Laing for them to pay us back our loan, however because interest has been charged to John Laing and accounted for during the construction period there are timing differences in accounting for the income and expenditure.

5.5 The Council has an option to buy out the Tranche B payment deed between 1 year and 2 years after practical completion (May 14 to May 15) for an agreed sum. This would end the arrangement with John Laing on BWH as Tranche A would be unwound at this time. There are clear advantages to buying out Tranche B if it is affordable as Tranche B is RPI linked and therefore there would be significant RPI risk to the council over 25 years. The council are currently getting accounting advise to ensure the full affordability implications in both the short and long terms are understood and a report will be brought back to Cabinet later in the year.

5.6 The other strategy to reduce the ongoing costs to the council will be to continue to review out asset base to ensure we maximise the use of commercial opportunity from our assets. This will include working with our LSP partners. The main focus over the next 3 months will be on BWH and the options for getting other partners and commercial lets into the building to increase income. Savings of £2.5m have already been made on assets.

5.7 Transparency on the costs and income in association with BWH and CCURV are important to the new administration. In order to ensure this happens from the 2015/16 budget the costs and income will be set out clearly with the budget report and budget book so there is no ambiguity over what the impact is on the budget.

6.0 Funding Issues

The Outcome of CSR2013

6.1 The Council's total Formula Grant reduction, over the four year period of CSR2010 was 32% and additionally CSR 2010 also reduced Croydon's Specific Revenue and Capital Grants. CSR2013 will cover only one year 2015/16, the first year of the next parliament and it is currently intended that 2015 will see the next full (4 year) CSR. The main impacts of CSR2013 on Local Government, announced by the Chancellor of the Exchequer on 26 June 2013 were;-

- **Local government funding -** a 10% reduction in government funding to local government in 2015/16. From the Illustrative 2015/16 Local Government Finance Settlement, published by DCLG in December 2013, this will result in a 13.4% (£19.649m) reduction in Croydon's SFA (Settlement Funding Assessment). Budget 2014 confirmed that Government funding will continue to fall in 2016/17 and 2017/18 at the same rate as over the current Parliament.

- **Council Tax Freeze Grant -** will continue into 2015/16 and local authorities that freeze or reduce their Band D Council Tax in either or both years will receive a grant equivalent to a 1% increase on their 2013/14 Band D Council Tax levels

- **Council Tax referenda -** confirmation of the intention to continue the Council Tax referendum threshold of 2% for 2015/16.

- **Education Services Grant -** to be reduced by £200 million nationally in 2015/16.

- **Health and Social Care Integration -** £3.8bn nationally will be put into a pooled budget, in 2015/16, for health and social care services shared between the NHS and local authorities.

- **Social Care and Support -** £335m will be provided to local authorities in 2015/16 to prepare for delivery of the reformed Social Care funding system including the introduction of both capped costs from April 2016 and of universal deferred payment agreements from April 2015.

- **Public sector pay reform –** There are a further planned 144,000 public sector job losses, a confirmation of 1% public sector pay increase and an announcement to end incremental pay progression in central government by 2015/16

Business Rates Retention

6.2 The new Local Government Financing regime introduced in 2013/14, changing from a system based on Formula Grant to one based on Business Rates Retention, resulted in a significant shift in central/local responsibilities. In 2012/13, the last year of the Formula Grant system, locally raised and retained taxes represented 49.1% of Croydon's Budget Requirement. Locally raised and retained taxes rose to 58.4% of Croydon's Budget Requirement in 2014/15. This reduction in "guaranteed" income, to be replaced by an increased reliance on locally generated income, represented a new risk for the Council.

6.3 Business Rates Retention, reduced the Councils' reliance on a funding system based, via Formula Grant, on authorities' relative need, with a reliance based on the economic prosperity of the business and residential communities. This reliance on local taxation will increase over the years due to both the automatic inflation increases in Business Rates (set nationally and based on RPI increases) and to the reductions to Revenue Support Grant (due to both CSR funding cuts and to the government's desire to offset Business Rates RPI increases).

6.4 Other risks of the scheme include: -

- There is a 7.5% safety net for authorities with declining Business Rates income. As Croydon only receives a lower proportion of its income from Business Rates (relative to other local authorities) its unlikely that it would qualify for the safety net, as in effect it would need a 14% reduction in Business Rates income to qualify for the safety net.
- The cost of Business Rate valuation appeals and reductions in income due to changes in reliefs (e.g. schools becoming academies) will have a direct impact on Croydon's level of Business Rates income.

Ringfencing

6.5 The Government has stated it will phase out the ringfencing of grants to local government. The only significant grants where ringfencing remains are the Dedicated Schools Grant (DSG) and the Public Health Grant.

New Homes Bonus Scheme

6.6 The scheme's intention is to incentivise local authorities to increase housing supply by rewarding them with a New Homes Bonus paid for the following six years as an unringfenced grant (through section 31 of the Local Government Act 2003). There are three elements to the scheme;-

1. Net additional new homes;
2. Empty homes brought back into use; and
3. Affordable Housing

6.7 Initially additional central Government funding funded the full cost of the grant. However, since 2013/14 funding for the grant comes from top-slicing Formula Funding. This redistributive mechanism of the New Homes Bonus means that the scheme will create financial winners and losers, for any authority to gain financially (relative to their formula funding allocation before the bonus) one or more authorities must lose. The implications for Croydon are currently being modelled for inclusion in the future Financial Strategy.

6.8 Croydon's 2014/15 New Homes Bonus Grant was confirmed at £8.312m resulting from;-

Table 4 – New Homes Bonus

Grant Element	2011/12 allocation £m	2012/13 allocation £m	2013/14 allocation £m	2014/15 allocation £m	Total 2014/15 Grant £m
Additional New Homes	1.981	1.528	1.081	1.250	**5.840**
Empty homes brought back into use	0.221	0.231	(0.067)	1.528	**1.912**
Affordable Housing	-	0.264	0.202	0.095	**0.560**
Total	**2.202**	**2.023**	**1.215**	**2.873**	**8.312**

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

Community Infrastructure Levy (CIL)

6.10 The Community Infrastructure Levy (CIL) is a new levy that local authorities can choose to charge on new developments in their area. The income can be used to support development, by funding infrastructure that the council, local community and neighbourhoods need.

6.11 On 1st April 2013, the Croydon Community Infrastructure Levy came into force. All developments are liable to pay CIL if:-
- They involve a new build; and
- They result in one or more new dwellings or they have a net additional floor area of over 100 square metres

CIL may be payable even if the development does not require planning permission (provided it meets the above criteria).

6.12 CIL is payable per square metreage of the area being developed with the first £20 per square metre going to the Mayor for London and the remainder being retained by the Council. The amount charged per square metre varies according to the Planning Use categorisation (i.e. development type) and the location of the development within the borough. If the location is within the Croydon Metropolitan Centre a different rate will be used to a development located in the rest of the borough.

6.13 There are various exemptions to pay CIL which are principally regarding developments by registered charities or where at least part of the development will be used to provide social housing.

6.14 The government believes that CIL has the potential to raise, nationally, an additional £1bn a year of funding for local infrastructure by 2016, and CIL is expected to make an important contribution to the Council's Capital Financing.

6.15 In 2013/14 Croydon received £0.401m of CIL. This represents a relatively small proportion of the expected annual yield of the Levy, due to the time lapse between planning applications being approved and the reaching of the stage in development when CIL becomes collectable and it is anticipated that this proportion will grow over the next few years. The quantum of the yield will be largely dependent on the success of the Council's regeneration programme.

Section 106

6.16 A full review of section 106 agreements has been completed so there is a clear understanding of the opportunities to align the spend with the councils strategic plans in relation to infrastructure investment. Table 5 below sets out the funds currently available by category.

Table 5 – section 106 funds

CONTRIBUTION	BALANCE
General	£96,611.73
Creditors Accruals	£549.92
Management Costs	£112,329.64
Highways Works	£169,985.40
Public Realm Improvements	£87,151.34
Public Art	£55,000.00
Renewable Energy	£119,439.66
Recreational Open Space	£1,803,953.27
Sustainable Transport	£2,295,067.83
Vision 2020	£181,950.86
Education	£472,612.25
Health	£1,070,584.62
Libraries	£36,967.96
Air Quality	£44,490.55
Housing	£2,350,000.00
Parking	£142,031.09
East Croydon Station	£75,876.00
Skyline Project	£4,000.00
Environmental Improvement	£60,134.44
Footways and Pedestrian Environment	£91,875.89
Tree planting and Maintenance	£3,972.00
Equality Programme	£21,975.00
Wettern Tree Gardens – Signage Vandalism	£14,674.46
Croydon Metropolitan Centre	£120,200.00
Bus Improvement	£333,224.00
TFL Tramlink	£57,100.00
Business Centre Refurbishment	£10,000.00
***TOTAL**	**£9,831,207.99**

The Dedicated Schools Grant (DSG)

6.16 The Department for Education (DfE) has built on proposals announced in 2013/14 to move towards a national funding formula, but was not in a position to implement it ready for 2015/16. Instead, a consultation has been issued on fairer schools funding, with the aim of addressing the historic inequity in schools funding.

6.17 **Fairer Schools Funding –** In March 2014 the DFE announced a review of school's funding and in doing so announced an additional £350m of funding to support authorities who were funded lower than the national averages. Indicative analysis from the consultation document is showing that Croydon could receive **£271** extra per pupil, which equates to an additional **£12.4m** total. This raises the GUF (guaranteed unit of funding) from **£4,559** to **£4,830**, some 5.9% for school aged pupils.

6.18 The 2013/14 funding formula review implemented the funding "block" system and created the Schools Block, Early Years Block and High Needs Block. In 2014/15 there has been no change to this structure. The DSG will still be calculated based on the October census pupil count, multiplied by the GUF (Guaranteed Unit of Funding).

6.19 The DSG allocations for Croydon (before academy recoupment) are shown in table 6

Table 6: Dedicated Schools Grant allocations

Year	Schools Block GUF	Early Years Block GUF	Total DSG allocation
2013/14 Final	£4,559.18	£4,564.33	£279.580m
2014/15 Budget	£4,559.18	£4,564.33	£282.871m
2015/16 Estimate*	£4,830.00	£4,564.33 **	£295.271m

**Final allocations are subject to pupil numbers and academy recoupment*
***Early Years Block GUF assumed to remain as 14/15 rate*
**** Early Years Two Year Old funding and High Needs Block allocation are included in the total allocation, but are not calculated on a per pupil/GUF basis.*

6.20 ***Pupil premium*** - Pupil premium was introduced in April 2011 as a means of providing schools with additional funding for deprived children. The total 2014/15 Pupil Premium grant for Croydon is £20.412m and is made up of three elements:-

i. Deprivation as defined by pupil eligibility for free school meals over the last 6 years, for those pupils in years Reception to Year 11 as at the preceding census. The 2014/15 grant is £1300 per eligible primary pupil, and £935 per eligible secondary pupil.
ii. Deprivation as defined by pupil eligibility by being a looked after child, for those in years Reception to Year 11. The eligibility is based on being looked after for the previous 6 months. The 2013/14 grant per pupil is £1,900

iii. Service children (children whose parents are in the armed forces) as at the preceding census. The 2013/14 grant per pupil is £300

6.21 ***Academy Funding*** **-** Academies will continue to be funded by the EFA on the basis of the formula set by the local authority. This will ensure that both Academies and local maintained schools continue to be funded on a fair and comparable basis.

Education Services Grant

6.22 From 2013/14 LACSEG (Local Authority Central Spend Equivalent Grant) was been replaced by the Education services grant (ESG), as by delegating the maximum amount of the schools block straight to maintained schools and academies there was no longer the need for LACSEG. The Education Services Grant is based on a national per pupil rate and is paid to Local Authorities to be used to fund its statutory duties over both schools and pupils. The 2014/15 national rates show a reduction of 2.8% over the 2013/14 rates, following an overall increase in national pupil numbers, as shown in table 7 below;-

Table 7: ESG national rates and Croydon's Grant

ESG Element per pupil	2013/14 £	2014/15 £	2014/15 Grant
General Funding Rate for mainstream schools	116.46	113.17	**£3.636**
General Funding Rate for special schools	494.96	480.97	**£0.387**
General Funding Rate for PRUs	436.73	424.38	**£0.163**
Retained Duties Funding Rate*	15.00	15.00	**£0.832**
		Total	**£5.018****

* This includes funding for the statutory duties that the local authority has retained for those pupils in academies
** DfE's original 2014/15 allocation was calculated for the December local government finance settlement and before the 2013/14 outturn pupil numbers were known

6.23 This grant has been established by transferring back to government money from the local government formula funding schools block who then reimburses local authorities and academies on a per pupil basis. The original 2013/14 ESG allocation for Croydon was £5.404m however this will reduced during the year to £4.939m due to the reduction in the number of pupils attending locally maintained schools that subsequently attained academy status. Future grant allocations will depend on the rate of school conversion from mainstream to academy status.

6.24 Following CSR2013 DfE are consulting on how to reduce ESG by £200 million nationally in 2015/16.

7 Fair Funding

7.1 The Commission on Local Government finance was established by the Local Government Association (LGA and the Chartered Institute for Public Finance and Accountancy (CIPFA. The Commission is tasked with making recommendations for the reform of local government finance and find better ways to fund local services and promote economic growth in England.

7.2 The Commission will explore how an improved local government finance system could help to address five key challenges facing the country within the context of lower public spending;-

- Promoting economic growth and investment in infrastructure.
- Ensuring sufficient housing is provided in every place.
- Integrating the health and social care systems to promote independent living, including preventing unnecessary health interventions.
- Achieving a welfare benefits system that promotes work and protects the vulnerable.
- Supporting families and developing young lives through early intervention.

7.3 The commission's final recommendations on the future of local government finance will be presented to all of the main political parties with the aim of shaping the debate on the future of local government and influencing the next government. The Commission held its first meeting in May 2014 and will publish an interim report in autumn 2014 with a view to publishing its final recommendations in early 2015. The Commission welcomes submissions from any interested parties.

7.4 For a number of years there have been various issues that have led to Croydon being underfunded through a number of systems of local government funding. This has exaggerated since April 2013 for two main reasons;

- The needs element of the local government funding formula has been fixed and growth can only come from local economic growth in the form of business rates
- Croydon continues to change at a rapid pace both in terms of population and deprivation.

7.5 Croydon commissioned some independent work from Local Government Futures. This will now be used as the basis for significant work to ensure government are fully aware of the evidence and the impact on Croydon. The detailed issues and proposed solutions are set out in Appendix 1. The full report will be published on our website.

8 Factors Impacting the 2015/18 Budgets

8.1 There are a number of issues that are likely to have an impact on the council's financial planning for 2015/18. At this stage of the planning process a provision has been made for additional demand pressures on the revenue budget of £5m per annum. The range of issues are set out in the paragraph below:

Welfare Reform

8.2 From 2013/14 a range of changes to the welfare system were implemented including;

i. Benefit cap piloted (including in Croydon).
ii. Social Sector Size Criteria implemented.
iii. Local Housing Allowance rates up-rated by Consumer Prices Index.
iv. Most working age benefit rates up-rated by 1%.
v. Universal Credit pathfinder began in Greater Manchester.

8.3 Two benefit changes have impacted on local government following the transfer of responsibilities and funding to councils.

i. Council Tax Support schemes replacing Council Tax Benefit, a national scheme, with locally determined schemes.
ii. Social Fund schemes replacing Crisis Loans and Community Care Grants, a national scheme with locally determined welfare provision schemes. The Government has confirmed that its funding of this scheme will cease after 2014/15. In 2014/15 Croydon will receive £1.152m.

8.4 Budget 2014 confirmed the implementation of welfare spend capping from 2015/16. In doing so Chancellor stated which benefits and tax credits are either in the scope of its welfare cap or are to be excluded. Most existing benefits are included, the main exclusions are;-

- Jobseeker's Allowance and its passported Housing Benefit
- Universal Credit payments to claimants subject to full conditionality and on zero income
- State Pension (basic and additional)

8.5 Except for the two schemes in paragraph 7.3 above these reforms relate to changes to national benefit schemes. However they may well impact locally by increasing demand for local intervention with resulting financial pressures. London Councils are monitoring the position with a view to carrying out a full assessment of any new financial burdens on borough finances. The impacts of Welfare Reforms on Croydon remain as a risk of increased demand for services or support. The key areas that will be monitored closely are collection rates on council tax and housing rents and also on homelessness.

Demographic changes

8.6 Under the Business Rates Retention funding system, a settlement funding assessment (SFA) is determined for each local authority. This was determined in 2013/14 in the same way that Formula Grant was determined previously i.e. using the four block model to determine a level of need and then take into account changes in responsibility (specific grants moving in and out of general grant).

8.7 However It is important to note that from 2014/15 council's SFA figures will not be revised to reflect changes to key variables/elements that were previously updated annually through Formula Funding, including:

- Specific indicators within the Relative Needs Formulae
- Council Taxbase
- Floors and Scaling

8.8 This means that the Formula Funding element has been effectively frozen at 2013/14 levels and that the Government does not plan to update the SFA figure to take any changes to these factors into account until the next 'reset' of business rates retention. The next reset is not expected before 2020/21, at the earliest. Therefore changing need will not be reflected in our grant.

8.9 The 2011 Census showed that Croydon's population had grown by 10% over the last ten years making it the biggest borough in London with 363,400 residents. This is one of the highest increases across the London boroughs. Croydon has the largest population of 0-16 year olds in London (at 84,027 residents) which makes up 23.1% of the population. Life expectancy is increasing with expectancy for men and women now at 79.6 and 83.3 years with consequences for social care. Overall, Croydon has become more deprived between 2004 and 2010 and all electoral wards have become more deprived relative to England. The impacts of these changes will have to be factored into the expected demand for our services over the medium term.

8.10 This will present a significant challenge to the Council as due to the freezing of the need based elements in formula funding, population changes either in terms of the total population or the changes in relative size of the various population groups, elderly, children and working age, will not result in any change in government funding to meet the specific needs of those age groups. ONS projections show that by 2020, the time of the next ‘reset’ of business rates retention, Croydon’s population is expected to grow by a further 25,000.

8.11 Additionally variations in need following population migration resulting from the squeezed inner London housing market will have to be met from Croydon’s existing resources.

The Care Bill

8.12 In the 2013 Budget, the Chancellor announced that he was bringing forward the cap on social care costs to April 2016 and that the cap would be set at £72,000. Previously the cap was to have been introduced in April 2017 and set at £75,000. From 2016, individuals will be entitled to local authority support towards their care costs if their total assets were worth £118,000 or less (previously, this was to be £123,000 by 2017). However concerns have been raised that the cap will only apply to the health/social care elements of care packages with living costs, food, heating etc being excluded from the funding changes.

8.13 With the number of people requiring social care services expected to grow significantly over the next 15 years, this will place added financial pressures on councils. This is particularly the case in Croydon where the older population is forecast to increase from 2012 by 15% to 2020, by 29% to 2025 and by 48% to 2030. The council is assessing the impact of the bill, which also includes the requirement to assess all recipients of social care services (i.e. including those that previously independently arranged and funded their own care). The council will also be required to provide wider levels of advice on preventative options to ensure people have the most effective form of care when needed and that in terms of direct provision, there will be a standard national eligibility level for care.

National Pension Increases

8.14 In the 2013 Budget, the Chancellor announced that he was bringing forward the introduction of the new Single Tier State Pension, from April 2017 to April 2016. The introduction of the Single Tier State Pension will result in the abolition of the contracted-out National Insurance scheme and its lower employer contribution rate. The estimated cost to all public sector employers was estimated, by the Chancellor, to be £3.3bn per annum. The Chancellor stated that “public sector employers will have to absorb the burden”, but added that “any spending review in the next Parliament will, of course, take the £3.3 billion cost into account”.

8.15 There is therefore some uncertainty as to how future funding to councils in the next Parliament will take into account the cost to public sector employers, however it is unlikely to be on a pound-for-pound basis in every case.

9. The Outturn for 2013/14

9.1 Despite the significant level of savings that had to be delivered in the 2013/14 budget, the council's strong financial management has resulted in the achievement of a balanced position for the year. Table 8 below shows that Departmental spend was **£5.063m** more than budgeted in 2013/14. The main overspends were on care packages for personal support, an increase in the assessment caseload in the Children In Need Service and Temporary Accommodation, including Bed & Breakfast due to an increase in demand for the service, however an underspend on interest costs, additional grant income and the use of contingency has meant there is an overall £2.886m underspend.

9.2 The £2.886m surplus has been put into an earmarked reserves to support the new administrations priorities as set out in the report to General Purposes and Audit Committee on the 25th June. The table below sets out the current position in terms of allocations of funds against the reserve. To ensure the prioritisation of the reserve is completely transparent this will come back to Cabinet as part of the quarterly reporting on Financial Performance.

Table 8 – Allocation of new administration priorities reserve

Description	£m
Cleaner and Greener Croydon (June 30 Cabinet)	249
Fairness Commission (June 30 Cabinet)	200
Play Streets (June 30 Cabinet)	23
Upper Norwood Joint Library – increased contribution	48
Webcasting for Cabinet and Council	12
Free Swimming for children during the Summer	10
Reversal of Arnhem saving	10
Total allocated	**552**

Table 9 - Revenue Outturn Summary for 2013/14

November 2013 forecast outturn variance*	Department	Revised Budget	Outturn 2013/14	Variation from Revised Budget	
£'000		£'000	£'000	£'000	%
1,512	Department of Adult Social Services, Housing and Health	112,909	117,029	4,120	3.65%
1,191	Children, Families & Learning	100,840	102,140	1,300	1.29%
(595)	Development & Environment	67,679	68,001	322	0.48%
47	Chief Executive's Department	40,351	39,672	**(679)**	(1.68%)
2,155	**Departmental total**	**321,779**	**326,842**	5,063	1.57%
(1,296)	**Non-Departmental Items**	**(321,779)**	**(329,728)**	**(7,949)**	2.47%
859	**Total (transfer to GF Reserves)**	**0**	**(2,886)**	**(2,886)**	**4.04%**

* The November variance was reported to Cabinet in February 2014

9.2 This means that the Council has been able to maintain its General Fund balance of **£11.597m** against the targeted sum of **£16.616m** (5% of net service expenditure) for 31st March 2014. This represents general fund balances of 3.49% against the 5% longer-term target established under the new financial strategy. The achievement and maintenance of a prudent level of general balances, provides assurance against the potential risks from the external environment and the significant challenges facing the public sector and has enabled the Council to manage the recent upheaval in the national economy from a position of relative financial strength. This has added importance given the future changes expected in local government funding particularly those in relation to the localisation of business rates and council tax benefit, which add a high degree of potential risk to local authorities.

9.3 The Council's General Fund reserves have decreased by **£3.166m (4.48%)** from **£73.836m** to **£70.670m** as at 31st March 2014. Within this total, Locally Managed Schools' reserves have decreased by **£2.485m (8.1%)** to **£11.304m** and the remaining reserves have increased by **£0.864m (1.42%)** to **£60.911m. This includes an earmarked reserve to pay for the efficiency dividend agreed by the former administration and which has been fully implemented as part of the current year's council tax billing.**

The Council's General Fund Provisions have increased by **£0.993m (3.1%)** from **£32.376m** to **£33.369m** as at 31st March 2014. The whole approach to provisions and reserves will be reviewed by the new administration to ensure that the approach is fit for purpose given the experience of past years, the need for transparency and the ambitious policies and priorities of the new administration.

9.4 The Collection Fund has carried forward a **£6.801m** surplus in relation to Council Tax. Following the cessation of the National Non Domestic Rates (NNDR) pooling arrangements, Council's now retain a proportion of NNDR collected. The collection fund also holds a deficit of **£1.798m** in relation to NNDR, making a total surplus in the collection fund of **£5.003m** as at 31st March 2014.

9.5 The Council's Pension Fund increased in value in 2013/14 by **£37.219m (5.3%)** to a value of **£742.524m**.

9.6 The original approved 2013/14 General Fund Services capital programme (excluding the Housing Investment Programme) totalled **£158.408m** and was increased during the year to **£178.369m** to reflect programme slippage from 2012/13 and additional government grants. Outturn capital spending was **£130.246m**. The detail of the programme is set out in Appendix 2. Cabinet are asked to approve the slippage of **£44.767m** to enable the completion of those schemes.

10. The Budget for 2014/15

10.1 The 2014/15 budget was approved by Council on the 24th February 2014. Given the loss of government funding the approved budget includes a significant amount of savings which were required to deliver a balanced budget and as such presents the council with a challenge in terms of delivery.

10.2 The first full financial management report to Cabinet on financial management for 2014/15 will be made in September 2014. The performance of the budget is reported to the Corporate Leadership Team (CLT) on a quarterly basis.

10.3 The first report to CLT identified pressures in relation to placements and temporary accommodation in DASHH, both issues that were pressures in the previous financial year. The pressure is forecast at £1.5m at this stage. No other departments are reporting any pressure against their budget. Corporately £1m of contingency is held and remain unallocated whilst departmental pressure exists. Also £1m of additional grants were received after the budget was set. Therefore a total of £2m is held against a £1.5m pressure. A detailed departmental report on the 14/15 budget will come to Cabinet in September. This will include details of the proposed allocation of the new administration earmarked reserve set up from the 2013/14 surplus in the accounts.

11. Budget 2015/18

11.1 Table 8 below sets out the current forecasts in relation to the budget gap for 2015/18. The net budget gap for 2015/16 is **£34.458m.** This is the gap including the identification of efficiencies and includes ongoing investment commitments that had been identified by departments during the previous budget setting process.

11.2 The gap of **£92.781m** over the period 2015/18 is hugely challenging. Section 8 of this report set out some of the significant challenges faced by the council over this period. The increasing reduction of grant income alongside increasing demands on expenditure means significant cost reductions will continue to have to be made. The shift in focus on local government funding as set out in section 6 means there is much greater direct benefit to the councils funding from economic growth through New Homes Bonus, Business rates and CIL. The council's regeneration plans over the medium term will provide huge opportunity for this to have a significant impact in this regard although possible not until 2018+.

11.3 The key assumptions within the budget gap are, no increase in the level of council tax, however a 2% increase in council tax increase from the increase in the base and collection improvements and also a 2% assumption on inflationary costs.

Table 10– Budget Gap – 2015/18

Budget	2015/16	2016/17	2017/18	Total

Requirement and Resources	£m	£m	£m	2015/18 £m
Base Budget	279.079	256.112	241.884	777.075
Inflation	5.941	5.886	5.840	17.667
Investment	7.388	10.457	10.325	28.170
Savings identified	(1.838)	(0.390)	0.000	(2.228)
Budget requirement	**290.570**	**272.065**	**258.049**	**820.684**
Business Rates Retention	(67.764)	(69.119)	(70.502)	(207.385)
Revenue Support Grant	(59.035)	(40.880)	(24.897)	(124.812)
Council Tax	(129.313)	(131.885)	(134.508)	(395.706)
Total Finance	**(256.112)**	**(241.884)**	**(229.907)**	**(727.903)**
Funding Gap	**34.458**	**30.181**	**28.142**	**92.781**

11.4 In order to ensure that the level of savings required between 2015/18 work is underway on reviewing the priorities and outcomes the council should be focusing on over this period. This will be shaped around the ambitious for Croydon plans of the new administration.

11.5 The new Cabinet is now focused on rebuilding the council from the bottom up, driving performance being clear about the priorities for the council, addressing technology and service integration, making the most of the councils assets, developing alternative delivery models and developing opportunities for sustainable growth. There will also be a refreshed approach to budget engagement with the budget options going to Scrutiny and Overview Committee in December.

11.6 The current key elements of the overall programme are set out below;

- **Enabling**- this will consolidate, rationalise and digitalise enabling support helping automate, eliminate and streamline processes
- **Digital by Design** – This will apply agile digital solutions to help reduce the cost and way in which we do business, transforming both the customer experience and our internal services so we are fit for the digital age
- **Commercial** – this will consolidate expertise in commercial approaches to commercial opportunities and achieve multiple policy objectives, raising money while promoting positive outcomes
- **Procurement, Commissioning and Contract Management** – this will allow further cost reduction and increased value for money, together with improved performance, through a fresh approach to scoping and dealings with suppliers

- **Places** – this will support community assets and talent to design, deliver and improve services; to help themselves with services shaped at a community scale
- **Eyes and Ears** – this will maximise the impact of our visible presence, with multi-skilled teams focused on the entire Challenge not single silos
- **Cultural Trust** – this will support development of sustainable future business models for discretionary services
- **People 'Think Family' Integration** – this will put people and families at the heart of our approach, taking the opportunity to create a family centred and networked approach to care and wider support services
- **Health Integration** – this will reset and reshape our relationship across the health economy to determine the right delivery models for effectively supporting healthy communities
- **Asset Management** – this will focus on creating a platform for growth through the key levers of skills, infrastructure, investment and innovation to accelerate delivery of jobs and homes for our residents, as well as looking to sweat our assets

The programme is developing, so some of the themes will evolve and there are other areas which will be identified. In addition, there are some underpinning initiatives in terms of organisation, valuing our staff partnerships and support functions.

12 Capital Programme Investments and slippage

12.1 The new administration will be reviewing the priorities within the capital programme as part of the 2015/16 budget .Slippage on capital spending from the 2013/14 financial outturn has been reviewed and it is recommended that the slippage on the schemes set out in Appendix 2, totalling **£44.767m**, is approved to be carried forward to 2014/15.

12.2 The HRA is also requesting approval for slippage from 2013/14 of **£3.468m**. This will be funded from borrowing with the HRA.

12.3 Other changes to the Capital programme and the rationale is set out below. Overall these result in a reduction in our borrowing requirement in comparison with the budget agreed by Council in February 2014.

- Empty property Grants and Loans to provide a source of funding for renovation or conversion works to long term private sector vacant properties in the borough. Details of this are set out in the empty property report which forms part of this Cabinet agenda. The approval is for **£0.500m** for each of 15/16 and 16/17.

- Tennison Road Bridge – to cover the costs of works required to enable a wider carriageway and footway, this will ensure it meets minimum Department for Transport requirements and is

DDA compliant. It will also increase the expected lifecycle of the bridge before replacement would be needed to 120 years. The approval is for an additional **£0.700m**. The total budget for the scheme funded by TFL is £12m

- Education Estates Strategy - changes in funding required for the supply of school places over the academic years 2014/15 – 2016/17, including the development of provision to expand provision for children with special educational needs, in order to meet increases in demand, and take into account the impact of changes for demand in school places and the decision on free schools. Details are set out in school places r report which forms part of this Cabinet agenda. The overall reduction in borrowing required is **£27.1m**.

13 General Fund (GF) Debt

13.1 The long term strategic planning assumption underpinning the current policy is that for the GF, Croydon needs to take up **£74.8m** of prudential borrowing in 2014/15, and thereafter **£99.8m** in 2015/16 and **£26.6m** in 2016/17. This is as set out in the Treasury Management Strategy approved by Full Council on 26 February 2014. The Council's overall long term debt as at 31 March 2014 was £717.264m. This debt included loans taken to fund past GF and Housing Revenue Account (HRA) capital schemes, the £223.126m borrowed on 28 March 2012 for the HRA Self Financing settlement sum and borrowing undertaken to finance Bernard Weatherill House.

Graph 6 - London Borough of Croydon – Average Interest Rate of Long Term Debt 2005/06 to 2013/14

13.2 The average rate of long term debt, as set out in graph 6, continues to be below the average for London Boroughs. In 2013/14, the Council took up £27.0m of new long term borrowing in the year. Of this, £10m was taken up from London Borough of Newham at 1.62% for three years maturing on 31May 2017; £7.5m was taken up from Portsmouth City Council at 1.45% for three years maturing on 27 September 2017; and £9.5m was taken up as a Lenders Option Borrowers Option (LOBO) loan from Siemens Financial Services on 30 December 2013. This LOBO loan was agreed on 11 November 2013 and was for a 15 year term with 2 option dates in Year 5 and in Year 10 when Siemens has the option to have the loan repaid. The interest rate achieved was 3.33% - a comparable 15 year maturity loan from the PWLB on 11 November 2013 was at an interest rate of 4.00%.

14 **Temporary Investments and Bank Risk**

14.1 The Council's Treasury Management Strategy Statement sets out the criteria that determine which counterparties are suitable for taking deposits. This list is reviewed on a daily basis and the team consider a range of factors when assessing whether to lend to these institutions. To address members' concerns about counterparty risk, treasury policy has been to adopt a very cautious approach and any negative indicator will be enough to warn the team away from lending to that body. Critical factors include the continued sovereign debt crises, the reconstruction of bank balance sheets and the continuing historically low interest rates. Across the Eurozone - Portugal, Ireland, Greece, Spain and Cyprus continue to experience significant issues with their domestic economies that effectively excludes their banking sectors from the Authority's authorised lending list. Within the global banking sector, Australian and Canadian banks have maintained their robust ratings and for some of the UK's part nationalised banks longer term deposits are attracting slightly higher rates. However for the remainder of 2014 the outlook looks like continuing low rates being offered by a select group of quality banks, augmented by lending to other local authorities and short-term deposits in AAA-rated vehicles. The focus will continue to be on diligent scrutiny to prioritise security of deposits over riskier rates of return.

Graph 7 - Temporary Investments Outstanding at Year End 2005/06 to 2013/14

15. SUMMARY AND CONCLUSIONS

15.1 As all Members are aware, setting a budget for 2015/18 that is robust, balanced and deliverable is challenging, and will involve a number of difficult decisions in these challenging times.

16. FINANCIAL CONSIDERATIONS

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

(Approved by Richard Simpson, Director of Finance and Assets and s151 Officer).

17. COMMENTS OF THE SOLICITOR TO THE COUNCIL

17.1 The Solicitor to the Council comments that the information in this report supports the Council's statutory duty to set a balanced budget.

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

18. HUMAN RESOURCES IMPACT

18.1 There are no direct Human Resources implications arising from this report.

Approved by: Heather Daley, Director of Workforce

19. EQUALITIES IMPACT

19.1 There are no specific issues arising from this report.

20. ENVIRONMENTAL IMPACT

20.1 There are no specific issues arising from this report.

21. CRIME AND DISORDER REDUCTION IMPACT

21.1 There are no specific issues arising from this report.

Report Author: Richard Simpson, Director of Finance and Assets
Contact Person: Richard Simpson, Director of Finance and Assets
Background docs: Financial Strategy 2013/17
Financial Strategy appendix o