

REPORT TO:	Cabinet 15 September 2014 —
AGENDA ITEM:	6
SUBJECT:	Devolution of powers, a fairer share for Croydon and a sustainable future for local government
LEAD OFFICERS:	Nathan Elvery, Chief Executive and Richard Simpson, Director of Finance and Assets and Section 151 Officer
CABINET MEMBER:	Councillor Tony Newman, Leader of the Council, Councillor Simon Hall, Cabinet Member, Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: The “Fair Share for Croydon” campaign specifically supports the corporate plan priority ‘Protect residents’ priorities. The new administration has identified as a key priority the need to focus on promoting measures which maximise growth in Croydon and the sub-region. This includes proactively working with central government, the Greater London Authority and other stakeholders to achieve devolution of powers to aid delivery of this agenda and key services, to meet the needs of local people.	

FINANCIAL IMPACT

There are currently no financial implications arising directly from the recommendations in this report.

KEY DECISION REFERENCE NO.: this is not a key decision

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below:

1. RECOMMENDATIONS

1.1 The Cabinet is recommended to note:

The work being undertaken with the GLA and active engagement with central government and discussions with the national shadow cabinet to:

- (i) Seek greater freedoms and devolution of powers to the Council and other local authorities to aid development of innovative local solutions to meet the needs of local people as detailed in paragraph 4.3.
- (ii) Achieve a fairer share of central government funding allocation to London, to better meet the needs of residents and businesses in Croydon as detailed in paragraph 9.3

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| <p>(iii) Work being undertaken with the aim of achieving a fairer share of central government funding to address increased needs arising from suburbanisation of poverty.</p> |
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2. EXECUTIVE SUMMARY

2.1 This report updates Cabinet about:-

- (i) Shortfalls in grant funding to support a range of services for Croydon residents, highlighting what are considered to be arbitrary processes used for determining Croydon's grant settlement, with particular focus on Revenue Support Grant and the Area Cost Adjustment.
- (ii) The ambition for the Council to achieve greater freedoms and devolution of powers to aid development of innovative local solutions to meet the needs of local people. In addition to the freedoms that the Council prioritises, the report also highlights a range of measures outlined by the Local Government Association in "Investing in Our Nation's Future".
- (iii) Ongoing work and future opportunities and plans aimed at gaining a fairer share of central government funding allocation provided to London for the benefit of Croydon residents, to mitigate the impact of increased demand pressures on diminishing local resources.

2.2 The report advocates the need to persuade central government to respond to changing patterns of need e.g. suburbanisation of poverty by adjusting existing formulas for determining funding allocations, to better reflect need across London.

3. BACKGROUND

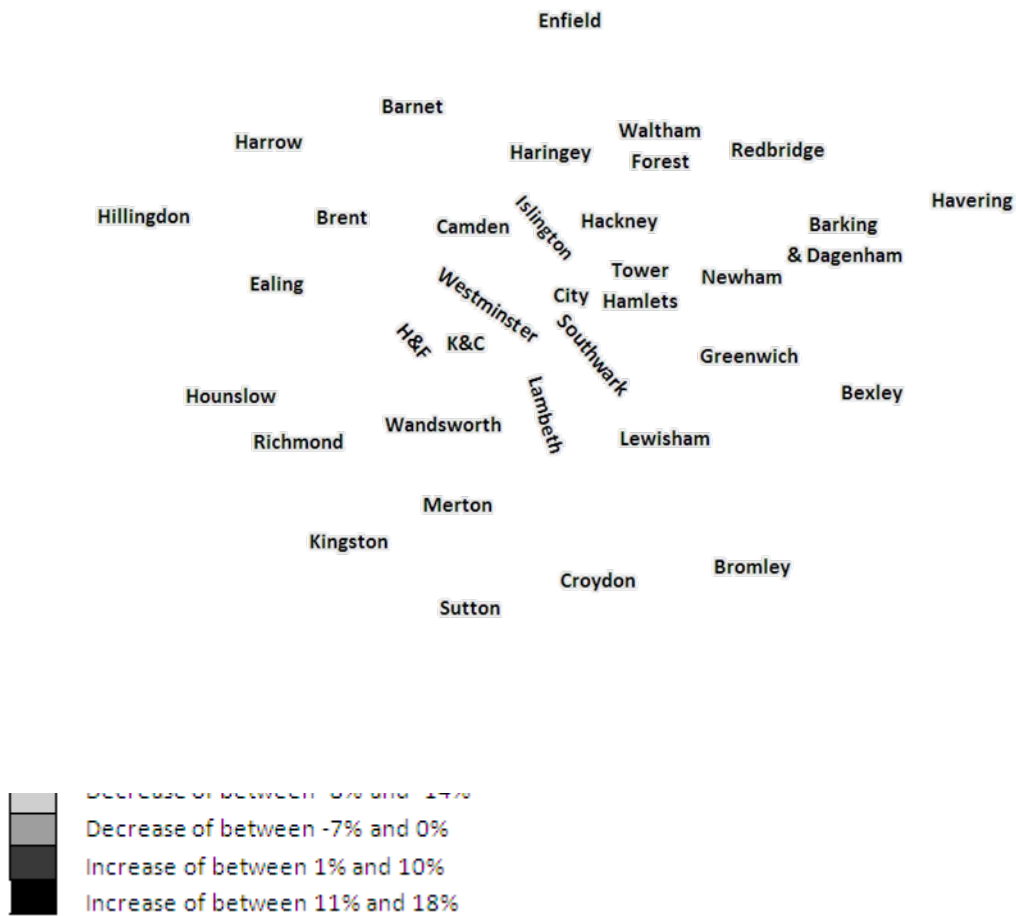
3.1 During the decade to 2011 the population of Croydon grew by 10% to become the largest population of any London borough. The borough has also become more ethnically diverse and has the largest population of 0-16 year olds in London. Increasing suburbanisation of poverty i.e. the movement of less affluent households from inner London to outer London areas, is also impacting need in Croydon. Despite these issues Croydon's funding allocation is significantly less than that of other authorities in inner and outer London with similar issues to address. As part of the objective to achieve fairer funding settlement for Croydon's Council Tax payers, concerns about funding disparities have been raised with government ministers and the intention is to redouble our efforts in this area and to also highlight the issue to the national shadow cabinet.

3.2 The Indices of Multiple Deprivation 2010 (IMD2010) measures deprivation against a range of indicators linked to:

- Income deprivation
- Employment deprivation
- Health deprivation and disability
- Education, skills and training deprivation
- Barriers to housing and services

- Living environment deprivation
 - Crime
- 3.3 The IMD2010 data reflects increasing suburbanisation of poverty in London. It shows that between 2004 and 2010 levels of poverty rose in outer London and decreased in inner London. The data also shows that of 430 neighbourhoods in London which became significantly more deprived than their neighbours, 400 are situated in outer London. Over the same period 374 neighbourhoods, predominantly located in inner London, became significantly less deprived.
- 3.4 A recently published report of a study undertaken by the Smith Institute into the growth of poverty in the suburbs of England and Wales shows that:-
- 57% percent of people in poverty live in suburban areas.
 - Between 2001 and 2011 the number of suburban areas with above-average levels of poverty rose by 34%.
- 3.5 Analysis of a number of key indicators of poverty show that the suburbs are home to a higher proportion of people that are dependent on welfare benefits, e.g. unemployed people, lone parents and people with disabilities. In addition more than half of people living in overcrowded conditions, primarily in the private rented sector, reside in the suburbs. The report calls for improved infrastructure, services and employment opportunities in the suburbs to better meet the needs of less affluent suburban residents.
- 3.6 Further evidence of suburbanisation of poverty is presented in [London's Poverty Profile 2013](#) produced by Trust for London and the independent think tank, New Policy Institute. Their research provides a picture of deprivation across London based on 21 borough level indicators, data from which shows that deprivation is decreasing in inner London and increasing in outer London.

Chart 1: Borough level change in deprivation 2004 - 2010



- 3.7 Although Croydon is attracting and benefitting from large amounts of inward investment and growth, pockets of deprivation persist in areas of the borough, which the Council is committed to tackling. The harsh reality for Croydon is that a significant proportion of residents have issues and needs similar to those in inner London boroughs, but the Council receives significantly less government grant to tackle the problems.
- 3.8 Research published by the Joseph Rowntree Foundation in 2013 shows that cuts in government grants has resulted in much sharper reductions in spending for deprived local authorities (down 21.4%) than for affluent local authorities (down 15.8%). The main reason for this is the greater dependence of deprived authorities on government grants, relative to others. In these difficult times it is critical that the government ensures that mechanisms used to determine grant allocations are weighted in favour of local authorities where need is high or increasing.
- 3.9 Croydon's residents also suffer from underfunding of other public services, health being a good example. Using revised population figures, NHS England has calculated that Croydon CCG is underfunded by £31m per annum, making it the second most underfunded CCG in London and one of the most underfunded in the country. Although the CCGs funding allocation has

increased by £14m to £406m for 2014/15, its funding is still well below the level needed to deliver services to meet the needs of local people.

4. DEVOLUTION OF POWERS

- 4.1 The Council welcomes the measures introduced under the Localism Act which gave local authorities greater control over local matters and the ability to respond more flexibly to local need. However the Council holds the view that there is still too much interference by government in matters which are best determined and managed locally. Croydon is committed and well positioned to achieve a level of growth that will contribute significantly to the wellbeing of local residents and businesses. The Council's ability to respond effectively to local need and inequality in these austere times will be significantly enhanced through devolution of more powers and freedoms, examples of which are outlined in paragraph 4.3 of this report. Devolution will also provide added benefits such as increased local democracy and accountability.
- 4.2 Many of Croydon's priorities are reflected in the Local Government Association (LGA) programme "[Investing in Our Nation's Future](#)", a non-partisan plan for the incoming government of whatever political group, following the 2015 general elections. The aim of the programme is to achieve radical transformation of public services, to better meet the needs of local people. The LGA states that the programme has nil cost and will in fact deliver efficiency savings totalling £11bn.
- 4.3 Listed below are a range of functions and freedoms, responsibility which the Council want devolved from central government to local councils:-

Education skills and employment

- Freedom and funding to develop and deliver joined up further education, employment and skills service, with particular emphasis on providing better support for young people.
- Local control over resources to promote and deliver growth and regeneration, potentially through joint arrangements with neighbouring authorities e.g. through Economic Prosperity Boards.
- Freedom to establish local employment and welfare programmes in preference to Universal Credit.
- Authority to challenge **all** local schools where underperformance is an issue, with the aim of introducing measure leading to improved education standards.
- Freedom to plan and manage capital investment in building new schools through central government allocation of indicative five year capital budgets.

Finance

- Freedom to set the levels of Council Tax, Business Rates and associated discount(s).
- Retention of 100% of growth in Business Rates without a corresponding cut in Revenue Support Grant.
- Freedom to set fees and charges for all council services e.g. planning fees.

Health and Social Care

- Provision of seamless health and social care services through joined up commissioning at the local level.
- Ability to reinvest a proportion of existing VAT on sales of soft drinks, fast food and confectionery in programmes to help tackle childhood obesity.
- Ability to reinvest a proportion of existing duty on tobacco and alcohol sales to tackle the harm caused by smoking and excessive drinking.

Housing

- Freedom to increase borrowing to fund delivery of more affordable housing to meet local need – This will require removal of the Housing Revenue Account (HRA) borrowing cap and application of measures that are used to control other council borrowing.
- Ability to exercise control over the full amount of New Homes Bonus receipts from the Department for Communities and Local Government (DCLG)
- Retention by local councils of savings achieved on the local Housing Benefit bill, for reinvestment in the provision of additional affordable housing.

Planning

- Freedom for local councils to introduce incentives for developers to speed up delivery of housing / business related developments. This could be achieved by levying Council Tax / Business rates on unbuilt units within a specified period after planning permission has been granted.
- Freedom to adopt local approach to permitted development to suit local circumstances.

Roads

- Local control over proportion of existing fuel duty for the purpose of repairing local roads.

5. FAIRER SHARE FOR CROYDON

- 5.1 All Councils across the political spectrum are affected by Coalition government cuts. The Council has launched Croydon Challenge with the aim of redefining its role and purpose and has developed a three year programme to create an agile and sustainable organisation, fit for the future and for the residents and businesses it serves. However, where Croydon is not receiving its fair share of resources, it is the Council's stated intention to seek to redress the balance on behalf of the local community.
- 5.2 Data from the 2011 census shows that over the decade to 2011, the population of Croydon increased by 10% to 363,400 residents, making it the largest population of any London borough. With 45% of residents coming from BME backgrounds, Croydon's diversity is comparable with inner London boroughs such as Hackney, Lambeth and Lewisham.
- 5.3 The age profile of Croydon's residents has also changed over the past ten

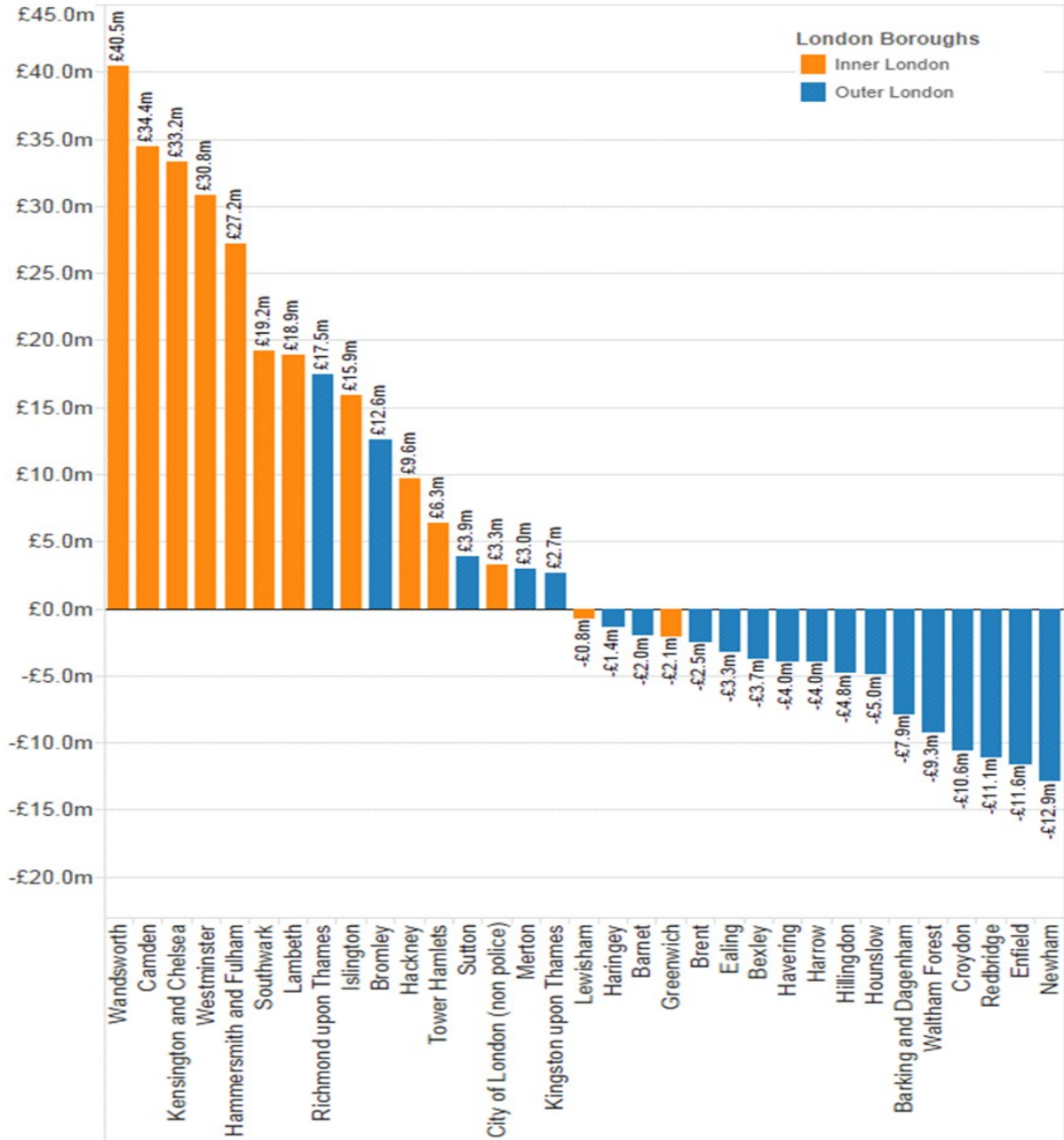
years. While nationally much attention is focused on an ageing population, Croydon's largest area of population growth is amongst children. We have the largest population of 0-16 year olds in London (84,027 residents) which is 23.1% of the total population.

- 5.4 In recent years spiralling housing costs in inner London and the impact of the Government's welfare reforms have driven increased numbers of less affluent households to move from inner to outer London areas such as Croydon, where housing costs are more affordable. This has resulted in increased demand pressure on local health, education and social services which has not been matched with an increase in appropriate levels of government funding. As a consequence, the burden of funding this additional need falls heavily on the shoulders of Croydon's Council Tax payers, a situation which is not considered to be fair or sustainable, particularly in the context of the requirement for the Council to achieve savings of £100m over the next 3 years, a requirement which has the potential to negatively impact the level and quality of service delivery.

6. ALLOCATION OF FORMULA GRANT

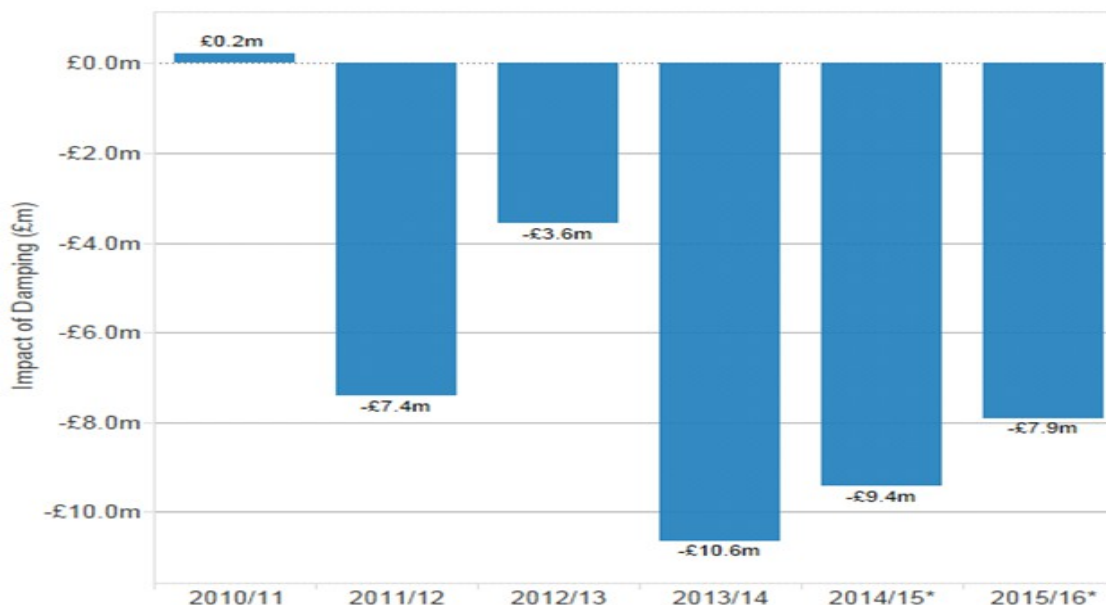
- 6.1 Historically needs based formula grant has been the main source of central government funding for local government and was previously allocated on the basis of (i) each local authority's relative level of need, (ii) a flat rate per head of population, (iii) an authority's ability to raise revenue through Council Tax.
- 6.2 To prevent major fluctuations year on year in the final grant settlements for any individual authority, a damping mechanism was applied. Damping has the effect of limiting the annual percentage change in funding allocation to each authority. In practice, resources are redistributed away from authorities whose funding allocations exceed a specified limit, to those authorities whose funding allocations fall below a specified limit.
- 6.3 For 2013/14 the Council's funding was reduced by £10.6m due to the impact of damping. Collectively inner London boroughs, despite seeing significant reductions in deprivation, made a net gain of £236m. In contrast outer London boroughs, despite seeing significant increases in deprivation, suffered losses totalling £55m. It should however be noted that 5 outer London boroughs that are Croydon's neighbours (Kingston, Merton, Sutton, Bromley and Richmond-upon-Thames), all significantly less deprived than Croydon according to [London's Poverty Profile 2013](#), collectively gained £39.7m from damping arrangements in 2013/14.

Chart 2: 2013/14 Impact of damping on London boroughs



- 6.4 Between 2011/12 and 2014/15 the Council suffered loss of funding totalling over £30m. If damping continues at the level estimated for 2015/16, Croydon stands to suffer further losses totalling £47m between 2015/16 and 2020/21.

Chart 3: Impact of damping on Croydon's annual funding



- 6.5 In 2014/15 the government introduced the Business Rates Retention Scheme and funding previously allocated through Formula Grant and a number of other grants was replaced with Settlement Funding Assessment (SFA) which comprised, (i) a proportion of business rates raised locally and (ii) Revenue Support Grant (RSG) from central government. Each authority's Settlement Funding Assessment in 2014/15 was based on its share of funding (including damped Formula Grant) in 2013/14. In effect the settlement levels that were applicable in 2013/14 have been locked into the arrangements for allocating funding under the Business Rates Retention Scheme which could potentially remain unchanged until 2020/21.
- 6.6 Analysis shows that had Croydon's undamped grant been used as the basis for its Settlement Funding Assessment in 2014/15, its funding would have been higher by £9.4m in 2014/15 and by £7.9m in 2015/16.
- 6.7 Given that the present SFA process could remain in place until 2020/21, it is important that the Council makes more representations to the Coalition Government and the Shadow Cabinet regarding the potential for adjustments to the system to achieve more equitable funding settlements.
- 6.8 A potential approach that could be applied to reduce the negative impact of damping on Croydon's funding settlement is through adjusting RSG. For 2014/15 the national SFA pot was £23.8bn, comprised of £11.1bn retained business rates and £12.7bn RSG. There is scope to apply incremental change in the allocation of RSG up until 2020/21 to mitigate funding shortfalls that have been locked into the Business Rates Retention Scheme.

7. AREA COST ADJUSTMENT

7.1 Another area of funding where the Council is treated less favourably than other London local authorities with comparable cost pressures is in the determination of Area Cost Adjustment (ACA). The ACA is intended to reflect geographical variations in the costs of providing local services. There are two main components to ACA:-

- The **Labour Cost Adjustment (LCA)**, which is based on wage differences between local authorities and
- The **Rates Cost Adjustment (RCA)** based on rateable value per square metre.

7.2 The LCA is the most important factor in determining each authority's ACA. Labour costs are estimated to account for between 40% and 80% of local authorities expenditure (depending on the service) compared to business rates which accounts for up to 2% of expenditure.

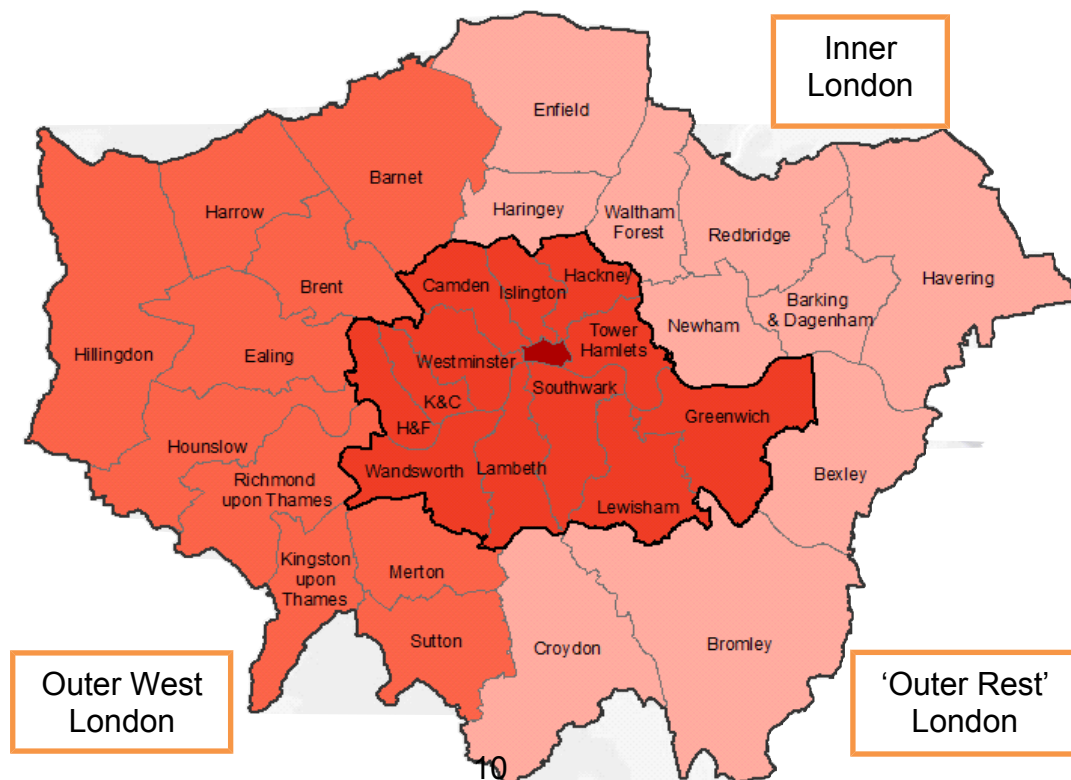
7.3 For the purposes of ACA, London is divided into four areas:-

- City of London
- Inner London
- Outer London West
- 'Outer Rest' London

For each authority, an ACA is calculated for four groups of services:-

- Education
- Environmental, Protective and Cultural Services (EPCS)
- Social Care; and
- Highways Maintenance.

Chart 4: Area Cost Adjustment – London Groupings



- 7.4 Chart 5 below shows that for each of the services, the adjustment for inner London authorities is almost three times as large as Croydon's, while for West London, the adjustment is around one-and-a-half times as large. Croydon's ACA is also smaller than that of neighbouring Surrey County Council.

Chart 5: ACA factors 2013/14

■ Education ■ EPCS ■ Social Care ■ Highways

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- 7.5 The Council's primary concern is that Croydon's ACA is calculated on the basis of outdated boundaries based on the long defunct Inner London Education Authority and that Croydon has been arbitrarily placed in a group that receives the lowest uplift in London. Changing the existing boundaries in London would have significant impacts on funding. For example, were Croydon to join the West London grouping (and assuming the West London ACA was unchanged as a result) then this would have increased the council's undamped Formula Grant by £9.0m (7.5%) in 2013/14, and its damped grant by £2.5m (2.4%). Previous efforts to adjust London's ACA groupings have met with considerable resistance given that benefits for some London boroughs are offset by losses for others.
- 7.6 It is apparent from research undertaken, some of which is outlined in this report, that the concentration of grant funding in inner London and some of the gains made by Croydon's less deprived outer London neighbours through the current funding arrangements defies logic. The additional Council Tax levied to mitigate under-funding by central government is an unfair burden on Croydon's Council Tax payers. The Council is therefore taking steps to

persuade government ministers to act to correct the situation in the interest of fairness and justice for Croydon residents. Similar approaches will be made to the national shadow cabinet.

8. INFRASTRUCTURE PLANNING

- 8.1 The Council's Infrastructure Delivery Plan (IDP) outlines the infrastructure necessary to support the development and growth set out in the Croydon Local Plan: Strategic Policies (2013). Considerable development and growth is planned for Croydon Metropolitan Centre (CMC) over the coming years, including at least 7,300 homes, a renewed retail core, offices, hotels, leisure and cultural facilities.
- 8.2 To plan for this development and growth the Council, Transport for London (TFL) and the Greater London Authority (GLA) have jointly commissioned a Development Infrastructure Funding Study (DIFS) to support comprehensive and coordinated infrastructure planning, including prioritisation of projects and funding needed to aid growth in Croydon and the wider sub-region. The DIFS is intended to ensure that any approaches or mechanisms pursued to secure additional funding for infrastructure will be founded on sound evidence. The extent of the infrastructure funding gap and planned approaches will be outlined in the final report due to be published in the latter part of September 2014. The council are currently preparing a case for this funding to be submitted to the GLA for them to consider as part of their annual submission to the Treasury.

9. OTHER SERVICES FOR WHICH THE COUNCIL IS UNDERFUNDED

- 9.1 Officers have already highlighted to government ministers, a number of services where the Council is underfunded relative to other local authorities experiencing similar issues and needs. This includes funding for provision of additional school places to satisfy the unprecedented demand arising from population increase, per pupil funding and funding to support migrants with no recourse to public funds (NRPF).
- 9.2 Research on a range of services provided to support migrants with NRPF has identified that in this area alone the Council is underfunded by almost £6m per annum, the equivalent of 4.6% of Croydon's total Council Tax for 2014/15. This equates to an additional charge of £53.88 per annum per Band D property.
- 9.3 Listed below are some services where officers have identified significant shortfalls in funding and for which it is considered appropriate to seek action from central government to help alleviate the situation.

Current funding issues about which the Council has concerns

- Funding for provision of additional school places. The Council also need greater certainty about funding provision over the longer term.
- The level of per pupil funding which does not adequately reflect increased needs amongst Croydon's school age population.

- The high cost to Croydon's Council Tax payers of supporting migrants with NRPF, relative to other local councils.
- The impact of the Housing Revenue Account borrowing cap which restricts the Council's ability to build more affordable housing to help meet local need.
- The need to increase Local Housing Allowance rates for Croydon to align them more closely with private rent levels. The mismatch between Housing Benefit paid and private sector rents is resulting in rising homelessness, which seriously impacts the cost to the council of providing temporary accommodation.
- In March 2014 the Supreme Court broadened the scope of the application of Deprivation of Liberty Safeguards (DOLS) to include many more people. Croydon is disproportionately affected by this ruling due to the large number of care (and nursing) homes, hospitals and supported living schemes within the borough compared with other local authorities, which is already leading to a significant increase in the volume of DOLS applications being received each week.
- The need for increased funding allocation (2014-15 and 2015-16) for Croydon Clinical Commissioning Group (Croydon CCG) to better meet the health needs of Croydon's residents.
- Funding for extension of the tram network to Crystal Palace.

10. FINANCIAL CONSIDERATIONS

- 10.1 There are no direct additional costs associated with developing and presenting Croydon's case for a fairer settlement and devolution of powers. All associated costs are contained within existing budgets. If the Council is able to secure additional resources either through growth or better government funding, it will be better able to respond to the needs of the local population.
- 10.2 There is also a risk that the devolution of powers outlined in section 4 of this report could lead to a reduction in funding in the future and each proposal will need to be fully reviewed before any of the proposals are agreed.

Approved by Lisa Taylor, Head of Finance and Deputy Section 151 Officer, on behalf of Richard Simpson, Director of Finance and Assets.

11. LEGAL CONSIDERATIONS

- 11.1 The Council Solicitor comments that there are no specific legal implications arising from this report.

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

12. HUMAN RESOURCES IMPACT

- 12.1 There are no direct Human Resource implications arising from this report.

Approved by Colin Chadwick, Head of HR Policy, Pay and Employee Relations, on behalf of Heather Daley, Director of Human Resources.

13. EQUALITIES IMPACT

- 13.1 If the Council is able to secure additional resources either through growth or better government funding, the council will be better able to respond to the needs of the local population, including its responsibilities under the Equality Act 2010, to tackle discrimination and provide equality of opportunity for all.

14. ENVIRONMENTAL IMPACT

- 14.1 There are no direct environmental and sustainability impacts arising from this report.

15. CRIME AND DISORDER REDUCTION IMPACT

- 15.1 It is well researched that low income, poor housing, being in care and a lack of training and employment are some of the key risk factors for those at risk of engaging in anti-social behaviour and crime. Young people aged 15 to 24 are more likely to be victims of crime and this age group are also more likely to commit crime. Croydon has the largest number of young people of all London boroughs, therefore the Safer Croydon Partnership supports maximising the resources available to the Council, to enable effective responses to the needs of local people.

16. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 16.1 The recommendations made in this report are aimed at increasing local decision making and accountability, and also maximising the resources available to the Council, to enable effective responses to the needs of local people.

17. OPTIONS CONSIDERED AND REJECTED

- 17.1 There were no alternative options considered.

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Background documents: None