

Council 23 February 2015 Appendix 2

REPORT TO:	CABINET 17 FEBRUARY 2015
AGENDA ITEM:	6.1
SUBJECT:	GENERAL FUND & HRA BUDGET 2015/16 AND FINANCIAL STRATEGY 2015/19
LEAD OFFICER:	RICHARD SIMPSON ASSISTANT CHIEF EXECUTIVE (CORPORATE RESOURCES AND SECTION 151 OFFICER)
CABINET MEMBER:	COUNCILLOR TONY NEWMAN, LEADER OF THE COUNCIL COUNCILLOR SIMON HALL, CABINET MEMBER FOR FINANCE AND TREASURY
WARDS:	ALL
CORPORATE PRIORITY/POLICY CONTEXT:	
<p>The Council's budget underpins the resource allocation for all corporate priorities and policies and in particular, the corporate priority for the delivery of value for money for the residents of the borough of Croydon. This report sets out the detailed proposals for the financial year 2015/16.</p>	
FINANCIAL SUMMARY:	
<p>This report sets out the new financial strategy for 2015/19 that will support the council navigate through a hugely challenging period which will see the council's grant income continue to fall.</p> <p>The report details the revenue and capital budgets for the General Fund for 2015/16, the priorities of the Council's financial investments based on a recommended no change in the Croydon element of council tax. It also details the budget for the Housing Revenue Account on a recommendation of a 2.2% increase to rent levels for 2015/16.</p>	
FORWARD PLAN KEY DECISION REFERENCE	
<p>The recommendations in sections 1.1 and 1.2 are not executive key decisions – the final decisions are recommended to the Full Council at the meeting scheduled for 23rd February 2015. The recommendations in section 1.3 are key executive decisions (reference 1/15/CAB) as defined in the Council's Constitution. The decisions in 1.3 may be implemented from 1300 hours on the 5th working day after it is made, unless the decision is referred to the Scrutiny & Strategic Overview Committee by the requisite number of Councillors.</p>	

1.0 RECOMMENDATIONS

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

1.1 The Cabinet recommend to full Council:

1.2 no **change to Council Tax for 2015/16** for Croydon and a 1.34% decrease to the Greater London Authority (GLA) precept, on behalf of the GLA on the basis of :-

- I. All budget planning assumptions as detailed in the report;
- II. The programme of revenue investment, efficiencies and cuts by Cabinet Member Portfolio Holder as set out in Appendix A;
- III. The capital programme for 2015/18 as set out in Appendices B & C and the release of the annual highways programme;
 - I. The Council's detailed budget book as set out in Appendix D;
 - II. The overall revenue budgets and council tax levels as set out in Appendices E, F, and G
 - III. The statement on reserves and balances and robustness of estimates from the statutory Section 151 Officer;
 - IV. That with reference to the principles for 2014/15 determined by the Secretary of State under s.s.52ZC(1) of the Local Government Finance Act 1992 (as amended) confirm that in accordance with s.52ZB (1) the Council Tax and GLA precept referred to above are **not excessive** in terms of the most recently issued principles and as such to note that no referendum is required;
 - V. The budget for the Housing Revenue and Capital Accounts for 2015/16 (Appendix H);
 - VI. The proposed housing investment programme of **£40.621m** (summarised in Appendix I);
 - VII. The Council's 2015/18 Financial Strategy (Appendix K)
 - VIII. A capital allowance of **£10.000m** as detailed in Section 6 of this report.
 - IX. To recommend to the Council the adoption of the Pay Policy statement at Appendix L;
 - X. The continuation of the Council's existing Council Tax Support Scheme in 2015/16

- XI. To recommend the allocation of an additional £2m to the Connected Croydon Programme from underspends elsewhere within the capital budget for 2014/15.

1.3 That Cabinet agree:

- i. Rent increases for all Council tenants for 2015/16, in line with the Government's social rent policy with the average rent increases from this national formula being **2.2%**;
- ii. That the full cost of services provided to those tenants who receive caretaking, grounds maintenance and bulk refuse collection services are recovered via tenants service charges, will increase in line with the social rent guidelines by **2.2%** for 2015/16;
- iii. Charges to tenants for garage and parking space rents increase in line with the social rent guidelines by **2.2%** for 2015/16;
- iv. Heating charges for Council tenants to remain unchanged as per Appendix J;

1.4 That Cabinet note:-

- I. That in respect of the Council's public sector equalities duties where the setting of the capital, revenue and HRA budget result in new policies or policy change the relevant service department will carry out an equality impact assessment to secure delivery of that duty including such consultation as may be required.
- II. The progress being made towards balancing the Council's financial position for 2014/15 as at Quarter 3 and the current projected outturn forecast of £1.253m as set out in Appendix M to this report 5.
- III. The response to the draft local government settlement which is attached at Appendix N.
- IV. The Council's Deferred Payments Policy and Charging Policy to be applicable to the April 2015 Care Act implementation (Appendices P & Q).

2.0 EXECUTIVE SUMMARY

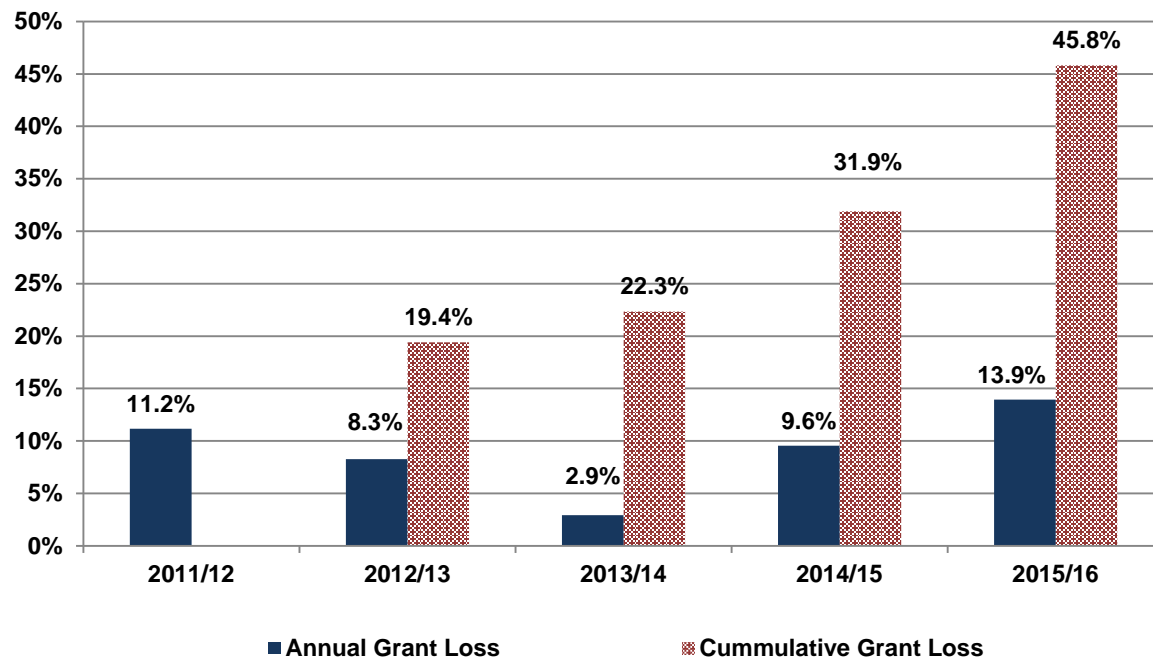
- 2.1 The report sets out the context and challenges faced by the council in setting a balanced budget for 2015/16. The report also sets out the current savings plans and approach to transformation of the council and over the next 4 years.
- 2.2 Funding and grant reductions are expected from national government over the medium term with a funding gap of over £100m projected over the period 2015/19 (a quarter of the base budget). To address this funding gap the Council has initiated

the Croydon Challenge programme to drive through the transformation of Council services. The programme will focus on making our council more efficient but critically more effective, through our focus on the right outcomes, and delivering services to the public that changes people's lives for the better. While we focus on managing this challenge, we will also be demanding the government take immediate action to deliver a Fair Funding Share for the People of Croydon.

2.3 The choices made by in this budget reflect the clear priorities set out in the manifesto of the administration. This is particularly clear in the focus on reducing back office costs and protecting the front line and those services that matter most to our residents. This is reflected in table 3 and 4 which show the investment and savings by Cabinet member portfolio. A new Financial Strategy is being recommended that brings up to date the council's financial challenges and reflects the focus on protecting the front line, driving economic growth and maintaining strong financial management.

2.4 The Coalition Government that took office after the 2010 general election has followed a policy aimed at reducing the public sector deficit, principally through reductions in public expenditure. One of the main areas to be cut has been local government. As a result Councils have had significant reductions in their funding from government grants and further reductions are expected over the medium term (Croydon's Grant loss over the period is shown in the graph 1 below). At the same time the Council has faced increasing demand for some services due to demographic pressure (population growth due to natural increases and migration, particularly in older age groups and children) and the consequences of other government policies such as welfare reform.

Graph 1: Croydon's Grant reductions 2011/16



2.5 The London Borough of Croydon is no different from other council. In order to balance its budget the Council has already delivered over £100m in efficiency savings and cuts so far with a 32% reduction in government funding.

2.6 The Council has a duty under the Local Government Finance Act 2003 to set a balanced budget before 11th March 2015. This report supports the enablement of

that duty to be fulfilled, subject to agreement of the recommendations in this report by Full Council on the 23rd February 2015.

- 2.7 It is recommended that there is no change in council tax for the Croydon element of the charge. The GLA are proposing a 1.34% decrease in their element of the charge and that is due to be agreed by the GLA on the 23rd February 2015. The overall headline reduction is 0.27%. The effect of this decrease on Band D is set out in table 1 below.

Table 1 – Local Taxation & GLA Taxation increase (Band D comparison)

Band D	2015/16	Increase/ (Decrease)	Annual Decrease	Weekly Decrease
	£	%	£	£
Croydon	1,171.39	0.00%	0.00	0.00
Greater London Authority	295.00	(1.34%)	(4.00)	(0.08)
Total	1,466.39	(0.27%)	(4.00)	(0.08)

- 2.8 On the 17th December 2014 Scrutiny and Strategic Overview Committee met and received a report on budget options for 2015/16 from the Director of Finance and Assets. Recommendations were made in relation to further information required on two savings options and they have been reported back to this meeting of Cabinet. The option relating to the closure of Purley swimming pool has been removed from the budget options for 2015/16 whilst more consideration is given to the range of issues raised by users and the community. The new administration earmarked reserve is funding the removal of this proposal.

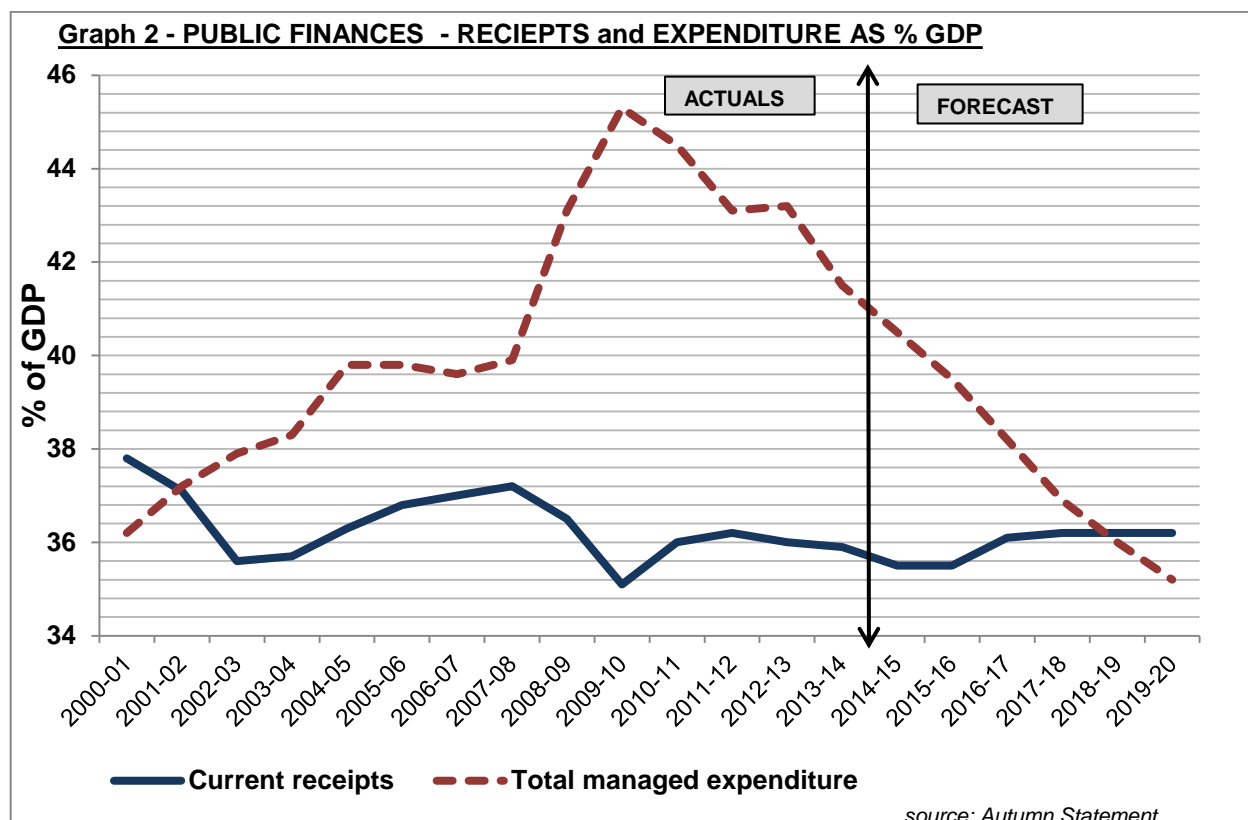
3.0 External Financial Environment

- 3.1 In the 2014 Autumn Statement the Chancellor reiterated the Government's resolve to reduce the fiscal deficit over the coming years which may, according to the Office for Budget Responsibility's (OBR) projections, last until 2018/19 when a small Public Sector Finance surplus is forecast;-

"I do not hide from the House that in the coming years there are going to have to be very substantial savings in public spending. The work starts with our spending plans for 2015-16, which save £13.6 billion. There will be two further years where decisions on this scale will be required. And as I've said before, we're going to have to go on controlling spending after those years if we want to have a surplus and keep it".

- 3.2 With May's forthcoming General Election there appears to be a consensus that the challenges on public sector funding and thus local government could continue through the next comprehensive spending review period and through the Council's next financial strategy period. These remain extremely tough and demanding times for local government, the services the Council provides and the relationships forged with residents. The Council has already identified the strategic pressures that collectively pose a challenge to Local Government and therefore the issues it will have to respond to during this time.
- 3.3 The 2014 Autumn Statement's forecasts provided by the OBR illustrate the fiscal challenge facing the country by showing the gap between revenues and expenditure widening since 2000/01 and its planned reduction during the lifetime of the next parliament. Graph 2 shows that as a result of the plans set out in the Autumn Statement, public spending is projected, by the OBR, to fall from around 45% of GDP

in 2009/10 to 36% of GDP by 2018/19, around the same level as 2000/01. Public sector current receipts are projected to fall from around 38% of GDP to around 36% of GDP over the same period.



3.4 The Public Sector Net Debt (PSND), as a percentage of GDP, continues to rise having reached 74.5% in 2013/14 Outturn and is forecast to peak at 78.3% in 2016/17 (in cash terms an increase from £1.258tn to £1.497tn over the same period).

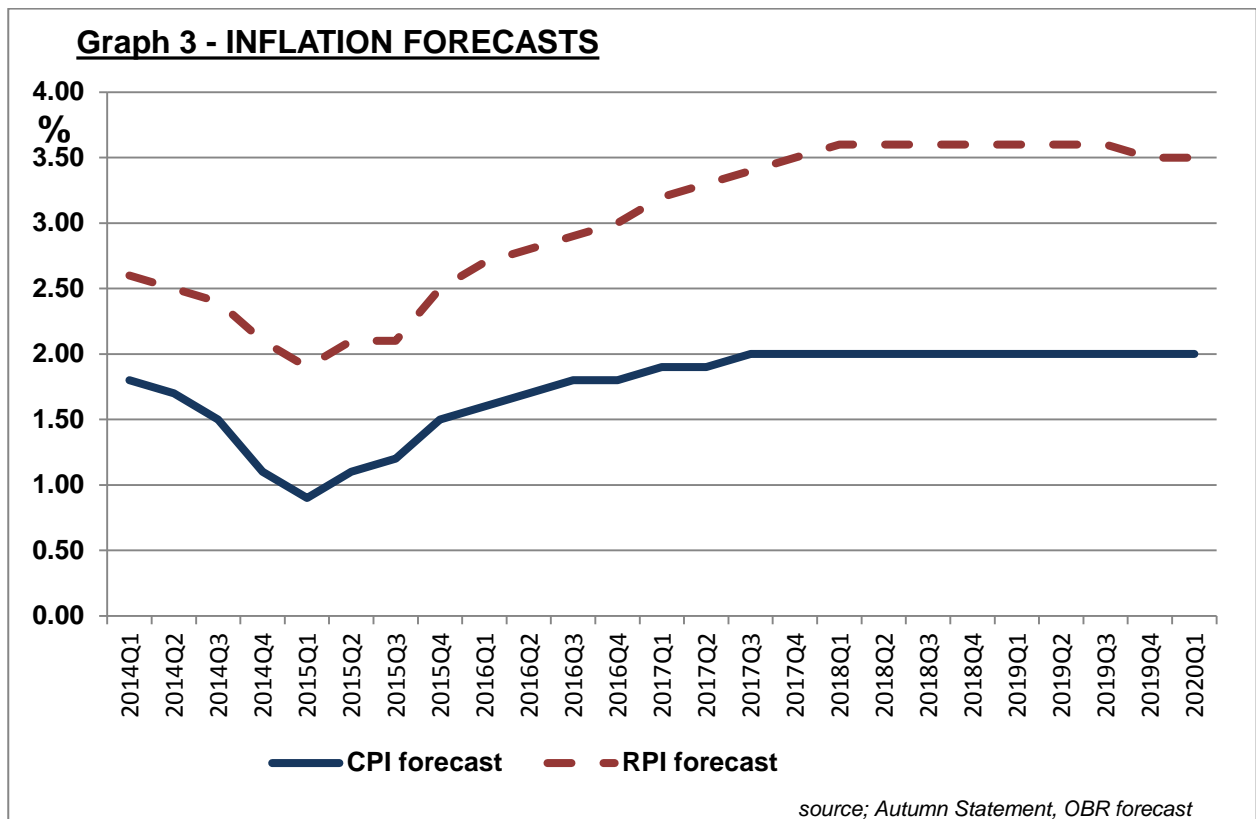
3.5 In his Autumn Statement the Chancellor forecast that GDP annual growth would rise from 1.7% in 2013 to reach 3.0% by the end of 2014 before levelling off at 2.3% in 2018.

3.6 These forecasts provide the backdrop to both the 2015/16 Budget and the economic environment that the revised financial strategy will need to guide the organisation through over the coming years.

4.0 Inflation

4.1 Inflation figures for December 2014 were 0.5% for CPI and 1.6% for RPI. CPI has been below the Bank of England's target rate of 2% since December 2013, raising some fears of deflation. In the Autumn Statement CPI inflation is forecast to reach 1.5% in 2015 and will not meet the 2.0% target until 2017.

4.2 The view of the OBR is an increasing expectation that both CPI and RPI will continue to fall this year and will not stabilise until late 2017 as set out in Graph 3 below.



- 4.3 However Local Government will continue to face pressures on inflation mainly through pay and existing contracts. The management of these inflationary pressures will be a crucial factor in balancing the future budgets of the Council.
- 4.4 Future projections of Local Government pay are difficult to make. The Chancellor of the Exchequer has extended public sector pay restraint up until at least 2015/16 assuming a 1% annual increase. A national agreement has recently been reached for local government for the period January 2015 to March 2016 which was a 2.2% increase in pay. In his 2014 Autumn Statement the Chancellor stated *“Our control of public sector pay these past 4 years has delivered £12 billion of savings. By continuing to restrain public sector pay we expect to deliver commensurate savings in the next Parliament until we have dealt with the deficit”*.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 5.1 The Public Sector continues to face unprecedented challenges following the global economic crisis and has been in a period of public sector funding austerity since mid-2010. Local Government faces a significant challenge as central government resources lessen, demands for efficiency become ever higher and demands for services that much greater. It is inevitable that tougher choices, than have already been made, will have to be made over the future medium term period. On 26th June 2013 the Chancellor of the Exchequer presented the Coalition Government’s Spending Review 2013, covering only 2015/16 but setting a framework for the next Parliament. The review established that the Local Government Resource DEL (Departmental Expenditure Limit) will reduce by an overall 10% over in 2015/16. DCLG’s consultation on the 2015/16 Local Government Finance Settlement contained illustrative reductions in councils’ funding averaging 13.02% (Croydon’s was 13.24%) for existing services. The Government’s intention is that councils will

share an average of 3% to fund Government initiatives and policies, but as the new funding streams will be predominantly bid-based it is likely that the resulting funding distribution will be uneven. Government funding for Croydon will have reduced by 32% during CSR2010, increasing to 46% including CSR2013

5.2 The key element of the councils funding for services is the grant received from central government. The Provisional 2015/16 Settlement was published on 18th December and confirmed that:-

- CSR2013 will see Croydon's 2015/16 unadjusted Settlement Funding Assessment (SFA) reduce to £126.558m a reduction, on 2014/15, of **£19.890m (13.6%)**. This 13.6% reduction is the reduction in the funding of existing services. The Government's statement of an overall 10% grant reduction will be achieved by Croydon receiving additional funding for assuming additional responsibilities (mainly around social care).
- The Chancellor of the Exchequer has stated that he expects Public Sector Expenditure to fall over the next parliament at the same rate as it has fallen over the current parliament. Croydon's budget assumptions therefore are that the Council's 2015/16 SFA reduction of 13.4% will be repeated in both 2016/17 and 2017/18 resulting in cash reductions of **£16.800m** and **£14.600m** respectively (13.6% of an ever-decreasing base).
- Croydon's adjusted SFA included the rolling-in of the 2014/15 Council Tax Freeze Grant (£1.557m) and the 2014/15 Local Welfare Provision Grant (£1.375m). With the DWP ceasing to fund the Local Welfare Provision Grant after 2014/15 Croydon's reduction in adjusted SFA was **£21.265m (14.2%)**.

5.3 The Final 2015/16 Settlement was published on 3rd February and included an additional national allocation of £74m to local authorities in recognition of the pressures faced by both the withdrawal of the Local Welfare Provision Grant and an underestimate of the costs around additional social care responsibilities. This had the effect of increasing Croydon's SFA by £455k to **£128.571m** which revised down the SFA reduction to **£20.810m (13.9%)**. This resulted in an increase in the Resources Department cash limit with the additional £455k contributing to the budget for Local Welfare Provision.

5.4 Initial allocations of 2015/16 Specific Government Grants include:-

- **New Homes Bonus (NHB)** – NHB rewards local authorities for housing growth within their boundaries. Croydon is assuming increases in the grant of **£0.221m** in 2015/16 and £2.183m in 2016/17. This allows for the impact of the 2013 Autumn Statement whereby London Boroughs will contribute £70m from their 2015/16 NHB towards the London LEP, pro-rated between boroughs. Croydon has successfully bid for our element of the top slice which is being invested in public realm improvements in Thornton Heath.
- **Education Services Grant (ESG)** – ESG funds Councils for the support services that it provides for the schools in its area. Croydon's current assumptions are that ESG will reduce by **£0.227m** in 2015/16 and £1.150m in 2016/17 as schools transfer to Academy status. Academies receive funding that enables them to commission support services outside of their local authority's provision.

- **Council Tax Freeze Grant** – The Government will reimburse councils with a grant equivalent to a 1% council tax increase if councils freeze, or reduce their 2015/16 Council Tax levels compared to their 2014/15 council tax. The commitment is for **no council tax increase for 2015/16** and this will result in a grant of approximately **£1.574m** for Croydon

5.5 The **Better Care Fund** is an integrated fund to deliver better integration between the council and the CCG. The total Better Care Fund (BCF) budget for 2015/16 is £23.388m. The NHS funding is £21.498m, of which £6.423m will be from existing s256 NHS funds to support social care for the benefit of health, and £15.075m will be from the baseline 2015/16 budget. The £15.075m is not new funding and is currently fully committed by the CCG in 2014/15 to services for older people. The Council will fund £1.110m from the Disabled Facilities Grant and £0.780m from the Community Capacity capital grant. Both of these funding streams have been part of local authority funding sources for a number of years and have existing commitments. In 2015/16 the Croydon Better Care Fund will be pooled through a joint agreed s75 agreement between Croydon CCG and Croydon Council.

6 FAIR SHARE FOR CROYDON

6.1 Given the impact that grant reductions have had and will have in the future on the council's budget the new administration has identified the need to make the case for a fair share for Croydon. A paper called Fair Share for Croydon was presented to Cabinet in September setting out the key issues where we feel something needs to change.

6.2 These can be summarised into two main themes

1. Greater freedoms and devolutions of power to local authorities – Croydon has been working on the Ask for a Growth zone for central Croydon and the devolution of tax income to fund infrastructure investment required. The Treasury confirmed in the Autumn Statement that they support this proposal subject to working through the value for money. The council are now working with the Treasury on the detailed business case.
2. To achieve a fairer share of central government funding allocation focusing on the issues set out below. These were included in the council's formal response to the draft local government settlement. The detail of which is shown in Appendix N.

a) Funding disparities do not reflect changes to population and poverty

- During the decade to 2011 the population of Croydon grew by 10%. 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.
- Pockets of deprivation persist in areas of the borough, which the Council is committed to tackling.

b) Allocation of formula grant

- Damping was intended to prevent major fluctuations year on year in the final grant settlements for any individual authority. However its continued application prevents the implementation of the redistribution of grant that was meant to be corrected. For 2013/14 the Council's funding was reduced by £10.6m due to the impact of damping.

c) Area cost adjustment (ACA)

- The ACA is intended to reflect geographical variations in the costs of providing local services. For the purposes of ACA, London is divided into four areas. 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. 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.

7 2015/16 GENERAL FUND REVENUE BUDGET

Local Taxation / Collection Fund

- 7.1 Alongside grant, local taxation is the other major income stream that impacts on the budget setting of the council. The collection fund accounts for taxation from Council Tax and Business rates.
- 7.2 **Council Tax base:** the number of domestic properties in the borough is described as the Council tax base. An increase in council tax base will enable a higher level of general fund budget to be supported from any given level of Band D equivalent Council Tax. It is anticipated that there will be an increase in the Council tax base of 2.4% compared to the 2014-15 base, which will enable a further £4.1m of expenditure to be supported in the 2015-16 general fund budget. The Council tax base is adjusted for collection rates, which are proposed to remain at 96.7%.

Table 2 - increase in Council Tax Base

Year	Council Tax base	Band D equivalent £	Council Tax funding £m
2014-15	110,393	1,171.39	129.313
2015-16	113,893	1,171.39	133.413
Change	3,500	0	4.100

- 7.3 **Projected Collection Fund Surplus:** it is anticipated that a surplus of some £6.0m will be available for release into the 2015/16 general fund budget. Following the localisation of business rates in 2013/14, this figure is now a combination of the forecast surplus / deficit position for both Council Tax and business rates. Croydon's share of the anticipated council tax surplus for 2015-16 is £9.5m.

There has been a council tax surplus of the last 3 years as the tax base has grown and collection rates have improved.

- 7.4 Business rate localisation has led to some added risks for the council particularly in relation to valuation appeals from businesses that can go back a number of years. The council has to provide for these even though these may go back a long time before the current financial year. A deficit is projected for 2015-16, of which Croydon's share is £3.5m, which with the council tax surplus forms the overall surplus of £6.0m.
- 7.5 Any difference between the projected surplus and final surplus for 2015-16 will be carried forward within the collection fund, for consideration in 2016/17's general fund budget.

Growth areas in the 2015/16 budget

- 7.6 The biggest impact on the budget results from changes in grant and council tax on the council's income. There are, however, a number of other changes to expenditure assumptions that have to be factored into the budget assumptions. The major ones are set out below;
- 7.7 **Inflation assumptions** – Specific allowances have been made to meet budget pressures as the result of agreed pay award – In November Local government employer and unions agreed a pay award covering 2014 and 2015 of 2.2% increase effective from January 2015 until April 2016. The cost of this will be met from a 1.2% inflationary increase on pay in addition to a 1.0% increase included in the 2014/15 budget. **This has a cost of £1.158m.**
- 7.8 **Contracts** – A large element of the council spend is through third party providers. Longer term contracts have in-built indices to calculate annual changes whilst other contracts can be negotiated on an annual basis. Appropriate provision has been made based on detailed work on a contract by contract basis. **This has a cost of £3.304m**
- 7.9 **Income** – It has been assumed that where the council has discretion over the level of fees and charges these will increase in 2015/16 by RPI. **This has income of £0.895m**
- 7.10 The current figures for Inflation figures for December were 0.5% for CPI and 1.6% for RPI. Local Government will continue to face pressures on inflation mainly through pay pressures and existing contracts. The management of these inflationary pressures will be a crucial factor in balancing the future budgets of the Council.
- 7.11 **Pensions** – following the tri-annual actuarial review completed for April 2014 the employer's contribution rate was agreed as increasing by 1% from April 2015 which will see it increase from 13.1% to 14.1% of pensionable pay. **This has a cost of £0.984m**
- 7.12 **Interest Payable** – the size of the capital programme drives the changes in the interest budget. The programme is set out in section 8. As a result of the borrowing planned for 2015/16 the interest budget will increase by **£1.2m.**

7.13 **Concessionary Fares** – London Councils’ TEC committee agreed in December 2012 that there should be a transition for the introduction of usage apportionment for the National Rail and London Overground elements of the Freedom Pass settlement from 2014/15 onwards when the 2-years of usage data became available for these journeys. Owing to the significant distributional effects of moving these elements to usage apportionment the approach that was adopted is identical to that of the implementation of the original 2008 Arbitration Award, where it was phased in over three years. The total cost to Croydon of the scheme is £14.642m. **The cost increase expected in 2015/16 is £0.699m**

Departmental Growth

7.14 The Council continues to experience budgetary pressures on services, many of the pressures being demand led. Appendix A sets out all the growth included in the 2015/16 budget assumptions. The approach has been to ensure that the significant recurring departmental pressures identified in the 2014/15 Financial Performance reports to Cabinet are included as growth in 2015/16 to ensure there is an accurate baseline. There are also some items which reflect the priorities of the administration. **The total funding for 2015/16 department growth is £8.983m.** Table 3 below gives details at a summary level of the growth identified for each Cabinet member/portfolio;-

Table 3 – Summary of Growth Options by Cabinet Member and Portfolio

Councillor and Portfolio	2015/16	2016/17	2017/18	2015/18
	£m	£m	£m	Total £m
Cllr Bee - Transport and Environment	0.175	-	-	0.175
Cllr Butler - Home and Regeneration	0.900	-	-	0.900
Cllr Collins - Clean Green Croydon	0.865	-	-	0.865
Cllr Hall - Finance and Treasury	0.136	-	-	0.136
Cllr Letts - Economic Development	-	-	-	-
Cllr Watson - Safety and Justice	0.050	-	-	0.050
Cllr Woodley - People and Communities	2.640	0.976	0.553	4.169
Cllr Flemming - Children and Families and Learning	3.997	0.786	0.917	5.700
Cllr Godfrey - Culture Leisure and Sport	0.220	0.060	(0.040)	0.240
TOTAL	8.983	1.822	1.430	12.235

7.15 The 2015/16 budget will also see the continued prioritisation of the reserve set aside to support the new administration’s priorities.

7.16 To date, some £1.8m of this reserve has been allocated to specific initiatives. In 2015/16 it will continue to support Upper Norwood Joint Library, Festivals and New Addington initiatives alongside those funds already committed and reported to Cabinet.

8. Savings and the Croydon Challenge

- 8.1 In order to present a balanced budget for 2015/16 significant savings are required as has been set out in the earlier elements of this report. The approach is underpinned by the transformational programme Croydon Challenge.
- 8.2 The Croydon Challenge is the council's transformation programme comprising of 35 projects which looks at every aspect of the council that focuses on three key strategic objectives
1. Independence
 2. Growth
 3. Liveability
- 8.3 The programme has been built on a foundation of outcome thinking, and instead of looking at what services we provide, we have looked at why we provide them and how all our resources contribute to the local area and our community. We have reviewed our service offer against the strategic objectives and understood the level of need and unit costs, as well as how that service contributed to the three objectives. By building the council from the bottom up the Croydon Challenge will contribute significantly to the savings required to deliver a balanced budget over the next 3 financial years. To date significant progress has been made on the Croydon Challenge with over **£14m** of savings identified over the next financial year, and examples of these projects are:-
- a) **Digital by Design and Enabling Core** - The Cabinet on 15 December has the overall plan of how the council intends to develop and apply digital solutions that help reduce the cost and streamline the way in which the Council does business, to both the customer experience and to internal services and processes. The council will further simplify, standardise and share enabling spend in order to provide a more agile and effective support function. Over the period 2015/18 the draft plans that are already in place are expected to deliver savings of **£2.85m**. There will be further opportunities identified as more detailed work is completed.
 - b) **Asset Management** - The Cabinet on 17 November agreed the Asset Strategy to support the delivery of the Growth Promise and to support the delivery of our Financial Strategy. Over the period 2015/18 the draft plans in place are expected to deliver savings of **£2.325m**, with further opportunities identified as more detailed work is completed.
 - c) **Schools Mutual** - The Cabinet on 30 June agreed to the proposals for the establishment of a Mutual Trading Company for School Support Services. Savings around **£1m** have been identified in the next financial year.
 - d) **Improving outcomes for the over 65s** - The Cabinet on 29 September agreed proposals by Croydon Council and Croydon Clinical Commissioning Group to identify how improvements could be achieved by taking a whole systems approach to care and health. Savings of around **£4.5m** have been identified over the next 3 financial years.
 - e) **Contract Management Transformation** – Savings of **£2m** have been included in 2015/16 to reflect the new approach to Contract management and commissioning as set out to Cabinet on the 15th December. Over 2015 a

number of the other Croydon Challenge projects will be coming to the Cabinet for decision.

- 8.4 Alongside the council wide approach from the Croydon Challenge there has been scrutiny of both the budget and net spend at cabinet member portfolio. Table 4 below gives details at a summary level of the savings identified for each Cabinet member/portfolio including Croydon Challenge projects. Appendix A provides the detail of the 14/15 budget by service and also narrative on each growth and saving option. The decisions on savings reflect the policy priorities of the administration.

Table 4 – Summary of Savings Options by Cabinet Member and Portfolio

Councillor and Portfolio	2015/16	2016/17	2017/18	2015/18 Total
	£m	£m	£m	£m
Cllr Bee - Transport and Environment	(0.691)	(0.210)	-	(0.901)
Cllr Butler - Home and Regeneration	(1.764)	(0.293)	(0.242)	(2.299)
Cllr Collins - Clean Green Croydon	(0.575)	-	-	(0.575)
Cllr Hall - Finance and Treasury	(12.750)	(4.825)	(1.236)	(18.811)
Cllr Letts - Economic Development	(0.090)	-	-	(0.090)
Cllr Watson - Safety and Justice	(0.795)	(0.140)	(0.113)	(1.048)
Cllr Woodley - People and Communities	(4.314)	(3.342)	(5.684)	(13.340)
Cllr Flemming - Children and Families and Learning	(4.213)	(2.398)	(2.501)	(9.112)
Cllr Godfrey - Culture Leisure and Sport	(0.410)	(0.381)	(0.244)	(1.035)
TOTAL	(25.602)	(11.589)	(10.025)	(47.216)

9.0 Public Health grant

- 9.1 From 1 April 2013 the responsibility for the management of Public Health (PH) services in the borough transferred to the Council from the NHS. This brought about a range of new responsibilities including providing PH advice to Croydon CCG, tackling smoking, alcohol misuse and obesity, sexual health services, health inequalities and substance misuse including in-patient care. Additional funding is being received in 2015/16 for the transfer to the Council of new responsibilities from NHS England for Health Improvements 0-5 years which takes place on 1st October 2015. The total ring fenced Public Health funding that the Government has allocated Croydon for 2015/16 is £21.548m.

10.0 Dedicated Schools Grant (DSG)

- 10.1 The Dedicated Schools Grant (DSG) is a grant that funds all aspects of education that relates directly to children. This is split into 3 blocks, a schools block, a High Needs Block and an Early Years Block.
- 10.2 DSG does not fund the statutory functions of the Local Authority which are contained within the Local Education Authority Central Functions sub-block of the Children's Services Block within Formula Grant and are funded through the Education Services Grant. The DSG allocation for Croydon for 2015/16 is **£309.2m** (£284.460m is the

latest allocation for 2014/15). The DSG allocation will be reduced by recoupment for academy funding. This is currently estimated to be £95.0m but will be subject to change throughout the financial year if schools convert to academies. The increase in allocation for 2014/15 is mainly due to an increase in pupil numbers and the additional allocation under the Fairer Funding initiative of £12.7m.

10.3 Details of the grant's planned spend in 2015/16 are contained in Appendix O.

11.0 Specific External Financial Influences

BETTER CARE FUNDING AND THE CARE ACT

- 11.1 **Background** - On 20 December 2013, Minister for Care and Support, Norman Lamb MP and Local Government Minister, Brandon Lewis MP, circulated a joint letter to councils about the Better Care Fund (formerly known as the Integration Transformation Fund), which was originally announced as part of CSR2013 to support the integration of Health and Social Care. The stated intention of the Better Care Fund (BCF) is for funding to be spent locally on health and care, "to drive closer integration and improve outcomes for patients and service users and carers".
- 11.2 **Funding** - The broader funding issues have been discussed in para. 5.5 above however the Care Bill contains provision for the reform of adult social care and support funding and CSR2013 identified £335m funding nationally so that: "*Councils can prepare for reforms to the system of social care funding from April 2016*". The Provisional Settlement included an allocation of £285m of that via 3 New Burdens Grants, the allocations to Croydon totalling £1.591m are:-
- Early Assessments and Reviews, against the cap on care costs, £786k
 - Deferred Payments (cost of administering the loans and the loans themselves) £481k
 - Carers and Care Act Implementation £324
- 11.3 **BCF Statutory Framework** - The main points identified in relation to the statutory framework for the BCF in 2015/16 are that:-
- The Fund will be put into pooled budgets as part of S75 joint governance arrangements between CCGs and councils, with plans for spending the funds needing to be jointly agreed
 - Additional conditions in S31 of the Local Government Act 2003 will allow for legislation to ring-fence national and local NHS contributions and allow Disabled Facilities Grant to be included in the BCF
- 11.4 As a result of the implementation of the Care Act 2014 a revised charging policy is being implemented from 1st April 2015. Appendix O provides details, with the key aim of the policy being to ensure that where an adult is charged for care and support (including making a contribution to a personal budget), that they are not charged more than is reasonably practicable for them to afford and pay.

- 11.5 The Care and Support (Deferred Payment) Regulations and the Care Act 2014 requires all local authorities to have in place a Deferred Payments Policy. This policy allows clients in residential care to have the costs of their care paid for by the authority and these costs can then be recovered at a later date plus interest and administration fees as specified within the policy. Details of this are attached in appendix P.

WELFARE REFORM

- 11.6 From 2013/14 the Department for Work and Pensions (DWP) transferred £172m to councils to provide crisis loans and emergency support to vulnerable residents. The fund was intended to replace the crisis loans scheme and the community care grants previously administered by DWP and were transferred to local government, as the Local Welfare Provision Grant from April 2013 as part of the government's welfare reforms. DWP have also confirmed that from April 2015, local authorities will still be able to continue to offer this support to residents but it need to be funded from within local authorities own resources. Croydon's 2014/15 allocation of the Local Welfare Provision Grant was £1.375m. This is locally called the Croydon Discretionary scheme.
- 11.7 DWP have now confirmed that the Local Welfare Provision Grant, which councils currently use to provide goods and cash payments to residents in crisis and in some cases to fund food banks, will not be allocated from 2015/16. The settlement announced that there is no additional funding for local welfare. Instead the Government has separately identified £129.6m, from existing SFA funding, which will be incorporated into the local authority SFAs in 2015/16 (Croydon's notional allocation is £1.035m). The LGA, in their response to the Settlement, said:-
"This announcement is disappointing as the LGA and charities had called for the Government to provide additional funding to support local welfare assistance. Separately identifying funding for local welfare from within the existing core grant (that is reducing by £42.5 million) effectively represents a cut that will put additional pressure on existing council services".
- The additional £455k increase in Croydon's SFA, announced on 3rd February in the Final Local Government Finance Settlement, will mitigate the effects of the loss of this direct funding.
- 11.8 Whilst the reduction of funding presents a risk for some of our most vulnerable customers, officers have been prudently managing the current grant allowing us to continue support into the next financial year, we believe until October 2015. By which point, as part of the people gateway programme, the programme is looking at how we proactively engage with customers in helping them to find a sustainable solutions with regards to budgeting, housing and finding work. As part of the support provided through gateway, officers are reviewing all grants available throughout the council, once completed a paper will be provided including a risk appraisal suggesting options to a more holistic approach.

THE COUNCIL TAX SUPPORT SCHEME

- 11.9 It is proposed to make no changes to the current scheme. The financial impact is built into the Council tax base for 2015/16. Demand continues to be monitored in both Revenues and Benefits although it is not possible to be able to identify how many contacts directly relate to the Council's council Tax Support Scheme (CTS) or

any of the other benefit changes under welfare reform. The Service is able confirm that year to date they have received 4,000 less contacts in Revenues compared to the same time last year despite having 3,500 more chargeable dwellings. Benefits customer contact overall is down by just under 25% on last year and complaints have also reduced across both Revenues and Benefits falling from 165 last year to 64 at the same point this year, a reduction of over 60%.

- 11.10 During the development of the scheme, the need for hardship support was identified in a number of forums. As part of the design and implementation of councils new Croydon Discretionary Scheme (CDS) the local administration of the replacement for social fund and community care grants. The council included clauses allowing vulnerable customers experiencing difficulties in meeting changes to apply for financial support. Generally as part of the overall welfare support provided by the council if customers have difficulties with regards to meeting payments wider budgeting advice and support in find work is also available.
- 11.11 Our current collection rate stands at 88% compared to 81% at the same time last year. Recovery overall is down on last year by 11%, due to the fact that collection rates overall are up on last year; whilst this figure includes customers that have experienced changes with the amount of support they receive from CTS it is also includes other customers who have not been affected by the changes. Of the 34,000 customers who are in receipt of CTS, 2665 have been issued with a summons this year, compared to 2938 at the same time last year, reflecting a reduction of 9%.

12 HOUSING REVENUE ACCOUNT

- 12.1 The HRA is the main business account for the housing service. It remains a ring-fenced account, funded primarily from tenants' rents. The services provided to tenants, for example responsive repairs, management services and caretaking, are resourced from this account.
- 12.2 Long term financial planning is based on the HRA 30 year business plan which is updated annually to reflect actual expenditure, changes in allowances and financial projections.

HRA Self-Financing

- 12.3 The Localism Act received Royal Assent in November 2011 and included the replacement of the national HRA subsidy system with a system of self-financing from 1 April 2012
- 12.4 Croydon's Housing Revenue Account (HRA) took on an additional debt of **£223.126m** which will be scheduled to be repaid over 30 years by the HRA.
- 12.5 The 'valuation' was based on 30 year subsidy calculations for Croydon, discounted to a current value. The Council borrowed money to make a one off payment to Government. This loan is to be financed and repaid from the HRA.

HRA Budget – 2015/16

- 12.6 The attached Appendix H provides a draft budget for the HRA for 2015/16.
- 12.7 The main changes proposed to the HRA for 2015/16 are identified below. The

budget will ensure that existing services are maintained and allows for an increased level of investment in the repair and improvement of homes.

- 12.8 Along with all council services, the HRA has participated in the Croydon Challenge process. As a result the HRA has identified savings of £3m over the period 2015/16 to 2017/18 which are being reinvested within the HRA.

Increases in Rent

- 12.9 Rent restructuring ended in 2014/15, with the rent increase for 2015/16 being based on the new Government social rent guidelines. Under these, rent and service charge increases are limited to consumer price index (CPI) at September 2014 + 1%. The September 2014 CPI was 1.2%.
- 12.10 The proposal is that the Council increases rents by 2.2% from April 2015 will ensure that the long term sustainability of the HRA remains, together with the ability to repay the Self-Financing loan.
- 12.11 Where tenants are eligible for receipt of Housing Benefit, they would receive increased benefits in relation to both rent and service charge increases, although a small number may be subject to the overall benefit cap.
- 12.12 Social rents in Croydon are currently approximately 40-50% of the private sector equivalent. New build council properties are now let at an affordable rent which is based on the GLA guidance for London at 65% of the comparable private sector market rent. Average market rents for Croydon have increased by an average of over 8% in the past year and therefore council rents remain an affordable option as shown in table 5 below;-

Table 5 – Comparison of rents in Croydon

Property Type	Average weekly Council rent 2015/16	Current average private sector weekly rent	Council rent as % of private sector
1 bed	£91	£190	48%
2 bed	£107	£271	39%
3 bed	£129	£314	41%

- 12.13 If trends in historic private sector rent increases were to continue, the average private sector rents would be between £205 per week for a 1 bed and £340 per week for a 3 bed property for 2015/16.

12.14 Service Charges

The unpooled service charge for caretaking, grounds maintenance and bulk refuse collection will increase in line with the social rent guidelines. The charges for 2015/16 will therefore be:

- Caretaking £9.98 pw
- Grounds maintenance and refuse collection £2.05 pw

12.15 Heating Charges

Only a small number of tenants use communal heating systems and are charged a fixed weekly amount for the gas they use. Apart from the Handcroft Road Estate all other schemes are sheltered schemes for elderly people. The way in which Croydon

purchases energy changed in 2009 and as a result heating charges will not be changed from the 2012/13 level. See Appendix J for details on weekly heating charges.

12.16 Garages and Parking Spaces

The rents for garages and parking spaces in 2014/15 will increase in line with dwellings rents by **2.2%**.

13.0 NEW FINANCIAL STRATEGY – 2015/19

13.1 The council's previous financial strategy was set in 2013 during the period of the previous spending review. Given there is now more certainty on the future financial challenges and with a new administration the time is now right for a new strategy to manage through the next four years and budgets.

13.2 The financial strategy is attached as Appendix K. The strategy contains details around the assumptions built into the council's financial planning for the period 2015/19 and also sets three objectives which are;

1. To ensure that the focus of the councils budget is prioritised towards the front line to ensure the best service possible for our residents
2. To invest where possible to support the economic growth locally.
3. To remain focused on ensuring that strong financial management and value for money remains at the heart of everything we do.

14.0 CAPITAL BUDGET 2015/18

14.1 The Capital Programme for 2015/18 reflects the investment priorities of the administration. It remains focused on supporting the delivery of our statutory responsibility in relation to school places whilst also investing in district centres and community facilities across Croydon.

14.2 Table 6 below shows the draft capital programme by programme this includes agreed slippage from 2014/15 and table 7 shows the funding streams.

Table 6 – Capital Programme

Description	Budget 2015/16	Budget 2016/17	Budget 2017/18	Total
	£	£	£	£
Corporate Property Maintenance Programme	2,530,000	2,100,000	2,000,000	6,630,000
Disabled Facilities Grant	1,600,000	1,600,000	1,600,000	4,800,000
Education - Fixed Term Expansions	3,250,000	750,000		4,000,000
Education - Primary Estate	47,507,286	52,403,348	37,650,000	137,560,634
Education - Major Maintenance	3,125,000	2,000,000		5,125,000
Education - Secondary Estate	15,151,922			15,151,922
Education - SEN	15,874,389			15,874,389
New Salt Barn	750,000			750,000
Empty Homes Grants	500,000	500,000	500,000	1,500,000
ICT	1,500,000	1,500,000	1,500,000	4,500,000
Don't Mess with Croydon - Investment	2,160,000	2,160,000	160,000	4,480,000
Fairfield Halls	3,000,000	4,000,000	5,000,000	12,000,000
Highways	6,000,000	5,000,000	5,000,000	16,000,000
New Addington Regeneration	670,000	7,830,000	8,500,000	17,000,000
Connected Croydon	7,428,919			7,428,919
TFL - LIP	3,336,000	3,336,000	3,336,000	10,008,000
Measures to mitigate travellers in parks and open spaces - funded through New Admin Priorities Reserve	233,000			233,000
Thornton Heath Public Realm	264,000	2,158,000		2,422,000
Old Ashburton Library	500,000			500,000
Ward Based Programme	120,000			120,000
General Fund	115,500,517	85,337,348	65,246,000	266,083,865
HRA	40,621,000	36,621,000	36,621,000	113,863,000
TOTAL CAPITAL EXPENDITURE	156,121,517	121,958,348	101,867,000	379,946,865

Table 7 - Funding for the above programme

Funding	Budget 2015/16	Budget 2016/17	Budget 2017/18	Total
Capital Receipts	10,200,000	7,000,000		17,200,000
Targeted Basic Needs	11,547,982	-	-	11,547,982
Basic Need Funding	22,939,064	32,982,648	32,000,000	87,921,712
TFL	3,336,000	3,336,000	3,336,000	10,008,000
NHB	500,000	500,000	500,000	1,500,000
NHB - Top slice	264,000	2,158,000	-	2,422,000
Earmarked reserve contribution	233,000	-	-	233,000
Better Care Fund	900,000	900,000	900,000	2,700,000
GLA	4,353,919	-	-	4,353,919
Borrowing	61,226,552	38,460,700	28,510,000	128,197,252
GENERAL FUND	115,500,517	85,337,348	65,246,000	266,083,865
HRA				
Major Repairs Allowance	17,342,000	17,342,000	17,342,000	52,026,000
HRA - Revenue Contribution	10,186,000	10,186,000	10,186,000	30,558,000
HRA - Use Of Reserves	7,093,000	1,606,000	9,093,000	17,792,000
HRA - Unsupported Borrowing	6,000,000	7,487,000	-	13,487,000
HRA FUNDING	40,621,000	36,621,000	36,621,000	113,863,000
TOTAL FUNDING	156,121,517	121,958,348	101,867,000	379,946,865

14.3 Schemes funded from external grants will only be undertaken once the funding is secure.

14.4 Some of the key projects supported in the 2015/16 programme are:

- Continued investment in the primary school estate to provide additional places to meet the growing demand. Including **£45.2m** on schools expansions.
- Investment in the Special Education Needs provision to provide additional places for pupils, reducing the need for attendance at schools outside of the Borough.
- Significant Investment in Public Realm and Highways Infrastructure. This scheme will enable investment in the public realm and highways to ensure that the infrastructure is fit-for-purpose and achieves our vision.
- Investment in a range of activities including public realm improvements, building frontage and building frontage and shopfront improvements in Thornton Heath.
- £0.250m for further enabling works in relation to the Arena school
- £0.500m on bringing old Ashburton Library back into use
- Community based programme – a new allocation of £5k per ward to spend on improvements required in the local area. There will also be an allocation of £5k from the new administration earmarked reserve.

14.5 Future Investment Commitments 2015-18 include:-

- **£16m Investment in Highways**– The highways are currently in need of repair and replacement and it has been recognised that there is the need to invest additional resources to ensure that they are safely maintained and customer satisfaction does not fall. Capital investment will result in a corresponding reduction in revenue expenditure recognising the longer term focus of this programme of works;

- **£133m Investment in Primary Schools** – within the borough we have a growing demand for primary school places. A number of schools have already undergone expansion programmes in the last two years and this funding for the programme will continue to ensure the longer term needs of the residents of the borough are met;
- **£15.8m Investment in Special Education Needs provision** – to meet the needs for specialist provision in relation to the increasing number of primary aged pupils with emotional, social and mental health needs.
- **£17m for Investment in New Addington Regeneration** - to include reinventing & regenerating the Town and Village Green and to deliver a Foodstore, Leisure Centre, Community facility, housing, improved parking and other aspects.

Revolving Investment Funding (RIF)

- 14.6 Cabinet agreed to the principle of setting up a RIF to support the delivery of our Growth Promise. The RIF will be an internal fund within the council where funding is provided to schemes that support the Growth promise and also deliver a financial return.
- 14.7 The focus will initially be principally on the delivery of programme of development and regeneration on our land. These will be funded outside the capital programme and be based on the projects delivering a return and therefore there should be no negative impact on the revenue budget. In fact there may be some positive impact from income streams such as rent.
- 14.8 The council is also reviewing potential opportunities from the creation of a wholly owned development company. The RIF may be a funding source for this company.

Planning Obligation Funding

Section 106 Agreements

- 14.9 Section 106 of the Town & Country Planning Act 1990 (as amended) allows local planning authorities to agree planning obligations with developers as part of the grant of planning permission for development. Section 106 can be used in one of three ways:-
1. to prescribe the nature of the development (eg a proportion of the housing must be affordable);
 2. to compensate for loss or damage caused by the development (eg loss of open space); or
 3. to mitigate a development's impact (eg increase public transport provision).

Community Infrastructure Levy (CIL)

- 14.10 CIL legislation was published in 2010. The Council introduced the borough's CIL in April 2013. CIL is a levy chargeable on the net gain of liable development floorspace as part of an overall permitted scheme. In accordance with the CIL Regulations, CIL can only be spent on infrastructure included on the Council's Regulation 123 list. Necessary infrastructure falling outside of the Regulation 123 list has to be secured

through Section 106.

Infrastructure Finance Group

- 14.11 The Infrastructure Finance Group (IFG) was endorsed and established by Corporate Leadership Team in July 2012. Its role is to create a strategic alignment with the capital programme and / or the Infrastructure Delivery Plan to determine which infrastructure projects will be funded in whole or in part from planning obligations secured by Section 106 and the Borough's Community Infrastructure Levy (CIL). The focus for funding is projects in the Capital Programme and / or the Infrastructure Delivery Plan that will support the growth outlined in the Croydon Local Plan. The IFG also ensures that the funds being allocated to projects can be tracked up to completion.
- 14.12 The first assignment of the borough's CIL will occur in 2015/16. As of 30th September 2014 the borough had collected £722,952. As CIL can only apply to CIL liable developments since its introduction (April 2013) and payment is triggered by development commencement, income to date has been modest, but this will increase as more CIL liable development commence.
- 14.13 Since July 2012 (inception of the IFG) a total of £2.6m has been allocated to approximately 90 infrastructure project, of which £1.3m relates to live infrastructure projects (IFG bids). Notable allocations include £333,300 towards the provision of affordable housing at a development for 26 houses and flats at Lennard Lodge, £112,329 to fund the Town Centre Construction Logistics Plan and £154,800 to fund a BMX Track at Norbury Park. Furthermore, funding has also been provided to Education Estates, third parties to provide play area facilities in local parks and discussions are well underway with NHS partners regarding the allocation of the £1.3m health contributions.
- 14.14 As of December 2014 the Council's Section 106 funds totalled £11.834m, with the largest balances as follows;-
- Affordable Housing - £2.8m
 - Sustainable Transport - £2.5m
 - Recreation and Open Space - £1.5m
 - Health - £1.3m
 - Education - £1.2m
- 14.15 For the 2015/16 year the work of the IFG (as part of overseeing the work of the Section 106 Framework Group) will, as a consequence of well-established governance, allocation processes and recovery mechanisms, primarily focus will be on the allocation of the Section 106 funds.
- 14.16 The IFG (as part of overseeing the work of the Section 106 Framework Group) is also responsible for recovering the Section 106 contributions that should have been received by the Council. As a consequence of this work the recovery of Section 106 income has become as systematic process. Approximately £3.5m has been recovered since IFG's establishment.

Croydon Housing Investment Programme – 2015/16

14.17 The Council is able to invest capital resources from the following sources in 2015/16;-

- receipts from the sale of council houses sold through the Right to Buy provisions and/or Social Home Buy schemes
- revenue contributions from within the HRA
- unsupported borrowing within the Council's capital programme in line with the overall debt cap allowed for the HRA.

14.18 The proposed housing investment programme summarised below, and detailed in the appendices, reflects the priorities detailed in the Housing Strategy and aims to tackle two key housing investment needs for Croydon - generating new housing supply, and improving the condition of the existing housing stock. **Appendix I** provides a summary of the HRA investment programme.

Housing supply

14.19 In 2015/16 the housing supply programme will have four components: the new-build programme, the larger homes scheme (extensions and de-conversions), the Assisted Private Purchase Scheme and the Special Transfer Payments Scheme. The following table sets out the proposed allocations under each of these headings (subject to council approval). This programme will be funded through the housing revenue account.

Table 8 – Funding for the Capital Programme

Housing supply programme	£'000
New council homes	10,000
Assisted private purchase scheme	500
Special transfer payments scheme	250
Larger homes	100
Total	10,850

14.20 The current programme is planned to deliver 89 new homes by March 2016. The new homes programme have been increased from the use of revenue reserves above the targeted level.

14.21 The assisted private purchase scheme (APPS) assists qualifying council tenants to purchase a home in the private sector. Resources for APPS have been decreased in the last few years in order to ensure that the council met the decent homes target. It is proposed to increase these now in order to free up much needed homes for homeless households and others in urgent need. Similarly, a proposed increase in the number of special transfer payments to under-occupying households would help to meet demand from larger families.

Repair and Improvement of council stock

14.22 A key aim for the council has been the government target of bringing 100% of social homes up to the decent home standard, and this was achieved in the Council's own stock by 31 March 2011. Homes which are currently decent will fall below the

standard, for example as facilities age and with wear and tear, and the council will wish to continue to invest in the stock to keep homes up to standard over time. Indeed, the social housing regulator has proposed a revised home standard which will reflect the government's direction that social landlords should comply with the decent home standard with ongoing effect. The council must also invest in other maintenance and improvement works in order to maximise the life of the assets.

- 14.23 The proposed repair and improvement programme for 2015/16 is attached at **Appendix H**. Altogether, available resources have remained at £29.771m in 2015/16.
- 14.24 It should be noted that there is also a separate programme of responsive and cyclical repairs which are resourced through revenue funding totalling **£13.642m**.

Capital Allowance (HRA)

- 14.25 In April 2004 the Government revised the system of capital finance for local authorities. As part of these changes a new provision in the regulations was made for Housing Revenue Account, non Right to Buy disposals. This change means that local authorities can use 100% of the receipt if the money is reinvested in affordable housing. In practice this could be through grants to housing associations and/or investment in Council homes to meet the Decent Homes Standard.
- 14.26 To take advantage of this new provision the regulations require that the local authority establishes a 'Capital Allowance'. This is a notional amount set by the Council. The main considerations in setting the allowance are to ensure that it will exceed the anticipated receipts during the year and that total investment in affordable housing needed within the borough exceeds the allowance. This is in order to justify 100% use of the receipts.
- 14.27 The Capital Allowance for 2014/15 was set at £10m. It is recommended that the Capital Allowance for 2015/16 is set again at £10m. This will enable the Council to keep 100% of the receipts of any HRA disposals of land or property during the year for housing investment purposes. The Capital Allowance will continue to be reviewed annually as part of the process for approval of the Council's Housing Investment Programme and will include a report back on the previous year's activity.

Five Year Housing Capital Programme

- 14.28 The current housing business plan allows for the following capital expenditure over the next 5 years;-
- Major repairs £156.1m
 - Estate New build £ 30.3m

Treasury Management

- 14.29 The Director of Finance and Assets is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy. The details are set out in the Treasury Management Strategy which is recommended to Cabinet for approval as a separate item on this agenda

15.0 Financial Projection 2016/19

- 15.1 All Members should note that the Council's budget setting will remain challenging over the medium term given the financial climate. Continuing grant loss and potential risk to local taxation streams following the introduction of both the localisation of Council Tax Support and the NNDR Retention funding regime will put additional pressures on the budget along with the proposed changes to social care responsibilities, which will need to come from efficiencies and transformation initiatives.
- 15.2 The estimated effect of this constraint can be seen in Table 10, which shows investment and efficiency proposals. The draft budget forecast for 2016/19 is summarised in Appendix E.

Table 10 – Draft Budget Projected Gaps

	2016/17	2017/18	2018/19	Total
Grant Reductions	17.950	14.600	7.385	39.935
Cost of Capital	3.000	4.000	5.500	12.500
Inflation costs	5.887	5.841	5.000	16.728
Pensions Fund Contribution	1.500	0.000	0.000	1.500
New Homes Bonus	(2.183)	0.000	0.000	(2.183)
Council Tax Freeze	(2.572)	(2.623)	0.000	(5.195)
Growth pressures	5.000	5.000	5.000	15.000
Gross budget gap	28.582	26.818	22.885	78.285
Savings Proposed	(11.589)	(10.024)	0.000	(21.613)

16.0 Local Taxation Change for 2015/16

- 16.1 The council tax change for 2015/16 is recommended to be **0.00%** in accordance with Appendix F of the report.
- 16.2 The effect of this decision means that all council tax bands remain at the same levels as 2014/15. This is contained in Appendix G, with the Band D effect shown in Table 11 below.

Table 11 – Local Taxation for 2015/16

	2015/16 £	Increase £
Band D per year	1,171.39	0.00

Table 12 – Croydon Council Tax Bandings for 2015/16

Band	2015/16 Croydon Council Tax £	Annual Increase Croydon Council Tax £	Weekly increase Croydon Council Tax £
A	780.93	00.00	00.00
B	911.08	00.00	00.00
C	1,041.24	00.00	00.00
D	1,171.39	00.00	00.00
E	1,431.70	00.00	00.00
F	1,692.01	00.00	00.00
G	1,952.32	00.00	00.00
H	2,342.78	00.00	00.00

17.0 Greater London Authority Precept 2015/16

17.1 On 29th January 2015 the Mayor published his final draft budget and announced his intention to reduce the Band D council tax by £4.00 to £295.00. This results in a decrease of **1.34%** in the precept. The Mayor presented his final budget to the London Assembly on 23rd February 2015.

17.2 This overall resultant council tax increase is set out in Tables 13 and 14 below.

Table 13 – Local Taxation increase and the GLA Tax increase

Band D	2011/12 %	2012/13 %	2013/14 %	2014/15 %	2015/16 %
Croydon	0.00%	0.00%	1.85%	0.00%	0.00%
Greater London Authority	0.00%	-1.00%	-1.21%	-1.32%	-1.34%
Total	0.00%	-0.21%	1.21%	-0.27%	-0.27%

Table 14 – Local Taxation increase and the GLA Tax increase

Band D	2015/16 £	Increase / (Decrease) £	Increase per week £
Croydon	1,171.39	0.00	0.00
Greater London Authority	295.00	(4.00)	(0.08)
Total	1,465.39	(4.00)	(0.08)

17.3 As a result of the 0.00% increase for Croydon and the 1.34% decrease in the GLA element, there is an overall **0.27%** decrease for the residents of Croydon.

18.0 FINANCIAL PERFORMANCE 2014/15

18.1 A detailed report on the Financial Performance for 2014/15 is attached in appendix M. The latest position by department is set out in table 15 below;

Table 15 – 2014/15 Financial Performance by department

Department	Overspend/ (Underspend) £m's
People	7.669
Place	2.182
Resources	(1.698)
Corporate – Interest	(2.100)
Corporate – Core Grants	(3.100)
Corporate – Agency rebate	(0.700)
Corporate – Contingency	(1.000)
Total	1.253

18.2 The detailed variances are set out in appendix M. The main issues/risks continue to be focused around the people department and demand led services particularly in relation to Adult Social Care. All parts of the council will be looking to minimise non-essential spend over the last 2 months of the year to bring back within budget.

18.3 The key areas of demand led overspend are factored into the 2015/16 budget.

18.4 Details of the capital outturn are also included in appendix M. Table 16 below gives a summary of the main areas of slippage, overspend and underspends.

Table 16 – Capital Outturn 2014/15

Categories	Quarter 3 latest budget 2014/15	Q3 Spend to date	Forecast Outturn for 2014/15	Outturn Variance for 2014/15	SLIPPAGE	UNDER/ OVERSPEND
Corporate Property Maintenance Programme Total	10,916,742	1,332,090	3,811,566	(7,105,176)	(7,002,676)	(102,500)
Disabled Facilities Grant	3,968,359	508,245	1,900,000	(2,068,359)	(700,000)	(1,368,359)
Educ - Fixed term Expansion	3,545,015	1,231,024	4,127,199	582,184	0	582,184
Education - Primary Estate	66,238,494	24,371,251	55,906,769	(10,331,725)	(8,685,000)	(1,646,725)
Education - SEN	16,122,275	3,378,898	9,509,573	(6,612,702)	(6,612,702)	0
Fairfield Halls Total	2,124,115	567,412	735,401	(1,388,714)	(1,388,714)	0
Feasibility Fund Total	550,518	77,487	357,230	(193,288)	(80,000)	(113,288)
HRA	43,972	10,031	37,972	(6,000,000)	(6,000,000)	
HSG - GF Total	24,520,000	7,178,782	23,520,000	(1,000,000)	0	(1,000,000)
ICT Total	4,014,086	1,114,543	3,216,086	(798,000)	(798,000)	0
TOS Total	4,489,508	1,888,044	3,308,812	(1,180,696)	(1,179,426)	(1,270)
Grand Total	136,533,084	41,657,807	106,430,609	(36,096,475)	(32,446,517)	(3,649,957)

18.5 Detailed project analysis has been undertaken and potential pressures have been identified in relation Connected Croydon programme, West Croydon Interchange and the Wellesley Road projects. Cabinet is asked to approve the recommendation as set out in para 1.2 to allocate a contingency sum of £2m cover the delivery of the programme.

19.0 Statement of the Section 151 Officer on reserves and balances and robustness of estimates for purposes of the Local Government Act 2003

19.1 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (CFO) to report on the robustness of the budget estimates and adequacy of the planned reserves when the council tax decision is being made by the Council, this

forms part of the statutory advice from the Section 151 officer to the Council in addition to his advice throughout the year in the preparation of the budget for 2015/16. The Chief Financial Officer and Section 151 Officer statutory responsibility resides with the Director of Finance and Assets. This is his statement which meets the Section 25 requirement of the Act.

- 19.2 All Members of the Council have been advised of the financial challenges the Council faces over the medium and longer term indicated clearly to the Council through the comprehensive spending review reductions for the Council and more recently in the Autumn Statement from the Chancellor of the Exchequer. This clearly forecasts further and deeper reductions to Local Government and to the Council's funding until at least 2018/19. These further reductions are going to require a fundamental review of local government, the services it provides and the way in which services continue to be provided. In taking decisions on any budget all Members must first and foremost understand the underlying funding changes which the Council faces and set these associated decisions within the context of the overall financial environment the Council faces. These considerations are clearly set out in the Council's Financial Strategy 2015/19 which is part of this report.
- 19.3 These are very challenging times for local government and therefore it is certain that further difficult choices will be required over the coming budget cycles if the Council is to maintain a continued solid financial foundation and achieve a balanced budget position in future years. Continuous improvements have been made in the Council's overall financial standing demonstrated through progress towards targeted levels of general fund balances and the Council's ability to manage the significant in-year risks in a corporate and planned way. The revised financial strategy has been written to help us navigate through these difficult times and Members will need to fully support this strategy if the Council is to maintain a solid financial foundation. In forming my statement of the robustness of the budget estimates and adequacy of planned reserves I have reviewed this position in detail and have reported my conclusions and assumptions to the Cabinet on a continued on-going basis as part of the Council's overall governance and financial stewardship arrangements.
- 19.4 All Members must be aware that the calculation of the budget is, in its simplest form, dependent on three key factors, which are set in the context of the reducing level of support from central government, these are:
- a) The structural growth and savings in service expenditure or income;
 - b) The level of increase in local taxation (council tax); and
 - c) The level of reserves and balances.
- 19.5 With regard to the Housing Revenue Account, It is important for Members to understand that any future decision to vary from the assumption over the level of rent increases (i.e. increase future rents at a lower rate than CPI plus 1%) would result in a significant reduction in income to the Housing Revenue Account and would make the 30 year business plan unsustainable based on the current expenditure plans.

Growth and Savings in service expenditure

- 19.6 Proposals for growth and savings in service expenditure are ultimately a matter of political judgment balancing the needs and priorities of the borough with the available resources from Government and that which can be raised locally through taxation and income. In balancing such decisions Members must have regard to the professional advice of officers in such matters as service need, statutory

responsibility, changes to Government legislation, demographic factors (particularly in respect of demand-led services), unavoidable cost pressures and future levels of Government funding support. This report forms part of the advice.

Local Taxation

- 19.7 The level of change in council tax is similarly a matter of political judgment, again having due regard to the professional advice of officers, and in particular to the advice of the s151 officer as regards the robustness of the budget, the level of reserves and balances, prudent financial management, the current and future financial risks the Council may face over the medium to longer term such as the localisation of business rates and council tax benefit support and the future forecast of Government funding support. All Members of the Council should be aware that my advice as the s151 officer regarding the proposed council tax change is based on a number of key factors; the underlying inflationary pressures, the Council's position with regard to current and future balances and reserves' needs, the risks associated with all efficiencies and investment options within the budget, the medium to longer term local taxation opportunities (contained by capping and the influence of the council tax freeze grant) and the strategic financial risks which the Council is required to address, set within the context of the continued challenging financial climate for local government as we move forward.

The Level of Reserves and Balances

- 19.8 The level of reserves and balances are principally the responsibility of the s151 officer. The Members of the Council are not automatically obliged to accept my advice in every particular, but must pay due regard to it and be satisfied that they have met their own public obligations if they are minded to depart from my advice.
- 19.9 In the context of the current financial climate and the financial risks which the Council faces my formal advice remains to all Member is that 5% should now been seen as an appropriate minimum level of General Fund balances for the medium term. Given the reduction in the budget this should happen by default if we retain balances at the current level. In determining the minimum level of reserves and balances key factors include:
- The risks inherent in the budget;
 - The level of specific reserves and associated provisions;
 - The identified efficiencies to be achieved;
 - The future financial risks the Council may be exposed to both quantifiable and unquantifiable; and
 - The Authority's history of delivering services within the budgetary provision set.

19.10 Earmarked reserves are also relevant in supporting the budget and objectives of the council. Table 17 below sets out the projected position on earmarked reserves at the 31st March 2015. The level of earmarked reserves reflects a number of policy decisions by the council and supports the revenue budget. The decision to use earmarked reserves for particular purposes can be a political decision based on priorities and also needs to reflect the financial strategy objectives of the council

Table 17 -Earmarked Reserves

Description	£'000's
Corporate Items:	
Croydon Challenge transformation	6,239
New Administration Priorities	2,381
Revolving Investment Fund	2,360
Redundancy Reserve	1,562
Tax Reserve	314
Total Corporate Items	12,856
People	5,266
Place	8,685
Resources	6,181
TOTAL EARMARKED RESERVES	32,988

19.11 Despite budgets being calculated on most likely estimates, not the best estimates basis, the budget contains significant challenges in terms of efficiencies delivery as well as demand led pressures. The Council has set plans to deliver efficiencies of £25.8m. Whilst the financial environment remains volatile I believe that the budget takes account of that environment and is therefore prudent for the 2015/16 financial period.

19.12 The Authority has now achieved an overall balanced budget for an established period of time and I believe that although it will be demanding on the organisation to achieve this again, it will be achieved in 2014/15. However, this remains challenging and this outcome is only achieved through the constant focus of the organisation's officers and the leadership of its Members.

19.13 In order to recognise that there will always remain a level of unidentifiable risk a £1.0m contingency budget will again be included in the budget.

19.14 The level of General Fund balances currently represent 4.38% and therefore just short of the Financial Strategy target. However based on the expected reductions in budget the 5% target will be hit with no changes to the balance within the Financial Strategy period.

Table 18– General Fund Balances

	Balance as at 31/03/13 £m	Forecast Balance as at 31/03/14 £m	Forecast At 31/03/15 %	Target at 5% of budget requirement £m
GF balances	11.597	11.597	4.38%	13.233
Total	11.597	11.597	4.38%	17.141

19.15 Table 19 shows the schools reserves position.

Table 19 Reserves (Schools)

Reserves	Balances as at 31/03/14 £m	Estimated 31/3/15 £m
LMS balances	11.304	10.328
Total	11.304	10.328

19.16 The Council does not currently set or control balance levels for Schools although it is open to local authorities to amend these with the agreement of their Schools Forum. Croydon's Schools Forum has agreed a threshold level of balances for schools, which are 4% of annual expenditure for secondary schools and 6% for primary schools. If Schools have balances greater than these sums and do not have plans meeting approved criteria that explain the reasons for additional balances, the additional balances may be redistributed between Croydon's schools.

19.17 The Section 151 officer has a responsibility to ensure Croydon's schools have sound financial management. Where a school has set a deficit budget (one where anticipated expenditure will exceed anticipated income), or is heading towards a deficit position in year, the Section 151 officer requires the school to submit a pro forma, setting out their action plan to show how the deficit position will be managed. The pro forma is signed by the School Governors and submitted to the Section 151 officer for agreement.

20.0 SUMMARY AND CONCLUSIONS

20.1 As all Members are aware, setting a budget for 2015/16 that is robust, balanced and deliverable has been challenging and has involved a number of difficult decisions for the Council. The Council faces increasingly challenging choices over the medium term period within the context of its own funding position, the national economy and the level of funding available to the public sector as a whole.

20.2 This budget report is based on the current financial outturn projections for 2014/15. If any of the projections change significantly, this will have to be taken account of in setting the budgets for future years.

20.3 **Appendix F contains the legally required recommendations to Council for setting the budget and Council Tax for 2015/16.**

21.0 FINANCIAL CONSIDERATIONS

- 21.1 The report contains the financial implications of the options to deliver a balanced budget for 2015/16, the current position for the following financial years 2015/18 and the draft capital programme for 2015/16.

22.0 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

Budget and Council Tax Setting

- 22.1 The Solicitor to the Council comments that the Council is under a statutory duty to set a balanced budget. The Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the estimates made for the purposes of calculating the Council Tax and the adequacy of reserves both of which are contained within this report. The Council is required to set the amount of the Council Tax before 11th March 2015 but it may not be set before the GLA has issued the precept or 1st March.
- 22.2 The Local Government Finance Act 1992 (as amended), requires the Council as billing authority to determine whether its relevant basic amount of council tax for a financial year is excessive. If it is excessive then there is a duty under s.52ZF - s.52ZI to hold a referendum.
- 22.3 Determining whether the Council Tax is excessive must be decided in accordance with a set of principles determined by the Secretary of State and approved by a resolution of the House of Commons.
- 22.4 For the coming financial year, and for which this Council Tax is being set, such principles have not yet been approved. However, as noted in the recommendations, in accordance with the statutory requirements, the Council Tax recommended is not considered excessive such that no referendum is required.
- 22.5 The procedure followed in developing the budget proposals as detailed in the report meets the requirements of the Budget and Policy Framework Procedure Rules provided in Part 4.C of the Council's Constitution.
- 22.6 When considering the budget proposals the Cabinet and Council will be mindful of their fiduciary duty to ensure that the Council's resources are used in a prudent and proportionate manner. Members are required to have regard to their statutory duties whilst bearing in mind the requirement to act reasonably when taking in to account the interests of the Council Tax payers and Croydon's communities.
- 22.7 To deliver some of the budget proposals action may be required which should be undertaken in accordance with statutory requirements including any legal requirements for consultation and equality impact assessments. Members will be aware of the requirement to consider the Council's obligations under the Equality Act 2010.

23.0 HUMAN RESOURCES IMPACT

- 23.1 The implementation of the efficiency and cuts programme will in a number of

instances necessitate a change of structure and skill mix of staff and/or change of working practices. An assessment should be made in this respect when planning for future services, including devising departmental people plans as part of the service planning process for 2015/16. Where a redundancy is being 'contemplated' the unions and staff must be informed at the earliest opportunity. If subsequently a redundancy is actually 'proposed' then the employer is immediately obliged to consult with the unions and staff for a minimum statutory period before any decisions and formal notification of redundancy is issued. Departments should take these considerations into account in their planning; ensure they are adequately resourced to meet their obligations and seek support from HR Consultancy.

23.2 The table below indicates the indicative levels of staff/post reduction proposed by departments in the period February 2015 to March 2016 (excluding any TUPE transfer proposals where redundancies do not apply; and any dismissal and re-engagement to effect changes to terms and conditions). The majority of these proposals are still subject to consultation and the actual numbers of redundancies may therefore vary. Additionally, further redundancies may subsequently be proposed.

Table 20 – Indicative Redundancies/post deletions per department

INDICATIVE REDUNDANCY NUMBERS	FTE
People	(5.00)
Place	(19.60)
Resources	(46.50)
TOTAL	(71.10)

Pay Policy Statement

23.3 The Council aims to ensure that its remuneration packages are fair, equitable and transparent and offer suitable reward for the employment of high quality staff with the necessary skills and experience to deliver high quality services.

23.4 Under section 112 of the Local Government Act 1972, the Council has the "power to appoint officers on such reasonable terms and conditions as the authority thinks fit". In accordance with Section 38 of the Localism Act, this Pay Policy Statement sets out the Council's policy for 2015/16 on:

- The remuneration of its chief officers
- The remuneration of its lowest paid employees
- The relationship between the remuneration of its chief officers and the remuneration of staff who are not chief officers

23.5 The pay policy statement is at **Appendix L**.

(Heather Daley, Director of Human Resources)

24 EQUALITIES CONSIDERATIONS

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

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

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

24.2 The Equality Act, 2010, also requires the Council to have due regard to the three aims of the Public Sector Equality Duty (the Equality Duty) in designing policies and planning / delivering services. In reality, this is particularly important when taking decisions on service changes. The three aims of the Equality Duty are to;-

- Eliminate unlawful discrimination, harassment and victimisation;
- Advance equality of opportunity; and
- Foster good community relations between people who share any of the defined Protected Characteristics and those who do not.

The Act lists nine Protected Characteristics as age, disability, race, religion or belief, sex (gender), sexual orientation, gender reassignment, marriage and civil partnership and pregnancy and maternity. However, it is highly unlikely that these “protected characteristics” will all be of relevance in all circumstances.

24.3 Whilst the council must have due regard to the Equality Duty when taking decisions, there is a recognition that local authorities have a legal duty to set a balanced budget and that council resources are being reduced by central government. However, where a decision is likely to result in detrimental impact on any group with a protected characteristic it must be justified objectively. This means that the adverse impact must be explained as part of the formal decision making process and attempts to mitigate the harm need to be explored. If the harm cannot be avoided, the decision maker must balance the detrimental impact against the strength of legitimate public need to pursue the service change to deliver savings.

24.4 In developing its detailed budget proposals for 2015-16 the Council aims to achieve best practice in equality and inclusion. The Council recognises that it has to make difficult decisions to reduce expenditure to meet Government cuts in grant funding and to deliver a balanced budget that meets the specific needs of all residents, including those groups that share a “protected characteristic”. Through its budget proposals, the Council will also seek to identify opportunities to improve services and the quality of life for all Croydon residents while minimising any adverse impacts of decisions, particularly in regard to protected groups. It will be guided by the broad principles of equality and inclusion that recognise the need to:

- Engage communities
- Narrow the gap between equality groups that share a “protected characteristic” and the majority of the population in relation to services and employment.
- Support active citizenship to enable residents to participate more fully in civic life
- Build community capacity and strengthen cohesion and trust
- Display robust community leadership using diversity as a driver for social and economic growth and prosperity.
- Address inequality and social exclusion
- Provide differentiated services designed and delivered in such a way that they meet the individual need of residents and are accessible

Human Resources

24.5 The equality impact assessment on the proposed budget options has identified changes that will impact on staff potentially from all protected characteristics. However more work needs to be undertaken by individual departments and divisions to understand the impact of these before implementation of any proposals.

25.0 ENVIRONMENTAL IMPACT

25.1 There are no direct environmental considerations arising from this report.

26.0 CRIME AND DISORDER REDUCTION IMPACT

26.1 There are no savings which should impact upon this Corporate Priority.

27.0 REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

27.1 The council has a duty to set a balanced budget and therefore the proposals set out in the report achieve this duty.

28.0 OPTIONS CONSIDERED AND REJECTED

28.1 Various other options were considered in terms of council tax levels, investments and savings. These are ultimately decisions of policy and political choice

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OFFICER**

Background documents: none