

<b>REPORT TO:</b>	<b>SCRUTINY &amp; OVERVIEW COMMITTEE</b> <b>15 JANUARY 2019</b>
<b>SUBJECT:</b>	<b>PRE-DECISION SCRUTINY: PROPOSED GENERAL FUND REVENUE BUDGET 2019/20</b>
<b>LEAD OFFICER:</b>	<b>RICHARD SIMPSON EXECUTIVE DIRECTOR RESOURCES (SECTION 151 OFFICER)</b>
<b>CABINET MEMBER:</b>	<b>COUNCILLOR SIMON HALL, CABINET MEMBER FOR FINANCE AND RESOURCES</b>
<b>PERSON LEADING AT SCRUTINY COMMITTEE MEETING:</b>	<b>COUNCILLOR SIMON HALL, CABINET MEMBER FOR FINANCE AND RESOURCES AND RICHARD SIMPSON EXECUTIVE DIRECTOR RESOURCES (SECTION 151 OFFICER)</b>

<b>ORIGIN OF ITEM:</b>	<b>This item is contained in the Committee's work programme</b>
<b>BRIEF FOR THE COMMITTEE:</b>	<b>To scrutinise the proposed 2019/20 Council Budget.</b>

## **1.0 INTRODUCTION AND BACKGROUND**

- 1.1 This report sets out the context and challenges faced by the council in setting a balanced budget for the financial year 2019/20, and gives an update on the key issues from the Draft Local Government Financial Settlement on the 13 December 2018.
- 1.2 This report looks at the changes and challenges faced by local government and particularly Croydon in terms of its continued reduction in funding and the financial resources available to deliver the key services for the authority.
- 1.3 The report updates on the assumptions and proposed changes that will underpin the 2019/20 budget. The draft growth and savings plans for 2019/20 are then set out in Appendix A. The report also gives details of the forecast financial performance of the Council for 2018/19.
- 1.4 This report is in advance of the final budget report and budget setting decision being made by Council in March 2019.

## **2.0 Provisional Local Government Finance Settlement 2019/20.**

- 2.1 The provisional 2019/20 Local Government Settlement was announced on the 13 December 2018 by James Brokenshire – the secretary of state for Housing, Communities and Local Government. In headline terms there were no material changes announced that change the assumptions made for Croydon in the Medium Term Financial Strategy (MTFS).
- 2.2 In terms of funding for Croydon, the settlement confirmed year 4 of the four year spending plans announced in 2015. This saw a reduction in Settlement Funding Assessment (SFA) of **£7.8m or 8.2%**. As announced in the budget, a social care support grant worth approx. £410m nationally will be made available in 2019/20. The government is consulting on the methodology for allocation and based on their preferred methodology Croydon will receive £3.8m.
- 2.3 Additional funding of £1.1m has also been allocated as part of the Flexible Homelessness Support Grant to fund the rising costs of managing Homelessness.
- 2.4 Public Health funding allocations for 2019/20 were confirmed on the 20 December. Croydon's allocation was confirmed as £20.785m, a reduction of just over £0.5m.
- 2.5 The council tax referendum threshold remained the same at 3% in 2019/20. The police precept can be increased by £24 per annum. There was also no change to the Adult Social Care (ASC) precept principle of a maximum increase of 6% over 3 years to 2019/20.
- 2.6 It was confirmed that London will be a pilot for 75% business rates retention in 2019/20. London was a pilot for 100% retention in 2018/19.
- 2.7 Consultations were published on the Fair Funding Review and 75% business rates retention with deadlines of the 21 February 2019 for responses. The outcomes of how the system for funding local government from April 2020 are still not expected until the Autumn of 2019.

## **3.0 Medium Term Financial Strategy (MTFS)**

- 3.1 Scrutiny reviewed the proposed approach to the MTFS in July 2018. The MTFS was approved by Council in October 2018. The MTFS pulls together in one place all the financial implications of the Council's strategic priorities to produce a costed plan to enable long term financial planning and enable financial sustainability.
- 3.2 It is designed to aid strategic planning and is particularly important during this time of funding uncertainty. The current four year spending review ends in 2019/20 and the ongoing Fairer Funding Consultation means that the level of government funding for 2020/21 and beyond is unknown and therefore makes planning in the later years of the strategy more difficult.
- 3.3 While the MTFS outlines all the key Council financial priorities for the next four years (2018/22). It does make assumptions in some areas due to uncertainty

and therefore regular reviews and updates of the Strategy are fundamental to maintain a strong financial grip.

- 3.4 The MTFS outlined a gap between income and expenditure over the period 2019/22 referred to as the budget gap. Table 1 below outlined the gap at the stage the MTFS was signed off. A copy of the MTFS is included as Appendix B.

**Table 1 – Budget gap as per the MTFS**

	2019/20 £m's	2020/21 £m's	2021/22 £m's	Total £m's
<b>Budget Gap</b>	<b>5.8</b>	<b>12.5</b>	<b>7.7</b>	<b>26.0</b>

- 3.5 The focus of the work to date has been to get to a balanced position for 2019/20 that can be presented to Cabinet in February and Council in March.
- 3.6 It is assumed that capital receipts will continue to be allocated where appropriate to fund transformation programmes and projects that support the assumptions made in the MTFS, this includes the transformational activities in the Children's Services Improvement Plan.

#### **4.0 Corporate Assumptions - 2019/20 budget**

##### **4.1 Council tax**

Council tax income made up **£167.4m** of the 2018/19 budget, over 60% of the net income and is therefore a very significant element of the council's budget. The draft budget for 2019/20 assumes that council tax is increased by **3.99%**. This increase comprises of 2.99% Croydon Council Tax and the additional 1% relates to the last percent of the 6% ASC precept allowed. The overall increase generates an additional **£6.9m**.

Also as a result of increases in the number of households liable for council tax and improved collection a further **£5.7m** is expected in council tax from council tax base improvements.

##### **4.2 Grant loss**

As set out in section 2 of the draft settlement. There has been a number of changes in grant income that have to be taken into account in the 2019/20 budget. The overall change is a net loss of **£1.8m**.

##### **4.3 Inflation**

The budget for 2019/20 needs to take account of changes in the cost of living/inflation. A pay award of at least 2% for all staff has been agreed as part of national pay negotiations, with lower paid staff receiving a greater increase.

Additionally a number of the councils contracts are subject to indexation each year. Overall **£5.8m** has been set aside for inflation.

#### 4.4 Capital Programme and borrowing

The council's capital programme assumes the taking out of new borrowing to fund projects that require debt. The assumption overall is that there will be borrowing of circa £60m in 2019/20 and an additional amount of **£2m** has been added to the revenue budget to fund the associated interest payments.

#### 4.5 Pension Contribution

The Pension Fund is valued on a tri-annual basis to determine the employer contribution required by the council to fund future pensions. The valuation undertaken in March 2016 assumed that in the final year of that valuation there would be a 1% increase in contribution for the council which means a **£1.4m** increase in 2019/20.

### 5 Department Assumptions 2019/20 budget

5.1 Alongside the corporate assumptions that underpin the 2019/20 budget, work has been ongoing to ensure that departmental and service estimates are accurate. This is the key element of the budget where movement in resources between services can be identified. This reflects growth and savings. Appendix A sets out the detailed list of growth and savings options across the five departments of the council. Table 2 below shows these at a departmental level.

**Table 2 – Growth and Savings by department**

	Options 2019/20		
	Savings	Growth	Net
	£m's	£m's	£m's
<b>Children, Families and Education</b>	<b>1.0</b>	<b>12.0</b>	<b>11.0</b>
<b>Health, Wellbeing and Adults</b>	<b>8.4</b>	<b>10.2</b>	<b>1.8</b>
<b>Gateway, Strategy and Engagement</b>	<b>2.5</b>	<b>3.2</b>	<b>0.7</b>
<b>Place</b>	<b>8.0</b>	<b>1.8</b>	<b>(6.2)</b>
<b>Resources</b>	<b>8.0</b>	<b>1.5</b>	<b>(6.5)</b>
<b>Total</b>	<b>27.9</b>	<b>28.7</b>	<b>0.8</b>

5.2 The table above shows a clear continued shift of resources into Children, Families and Education. Key areas of growth are set out below.

#### **Children, Families and Education – Demand and issues**

5.3 The projected department overspend in 2018/19 is **£7.542m** excluding the exceptional items detailed in paragraph 5.4 below. The main areas of overspend continue to derive from demand led services; Children's Social Care placements and staffing. These pressures are a continuation of pressures experienced in previous years, although additional investment was made in 2018/19. A further **£12m** of growth is provided for in the 2019/20 budget.

5.4 The exceptional items as reported to Cabinet in the quarter 2 financial monitoring report relate to Unaccompanied Asylum Seeking Children (UASC), No Recourse to Public Funds (NRPF) and Appeal Rights Exhausted (ARE), which we are continuing to lobby the government to fund. The UASC increased

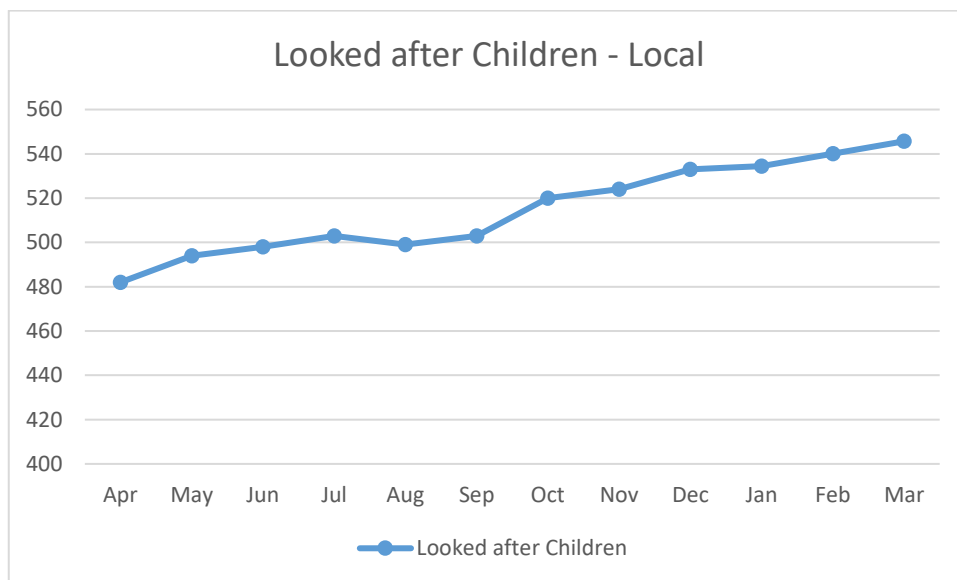
cost is as a result of the Home Office continuing to only fund a fixed rate per child. While our numbers of UASC are decreasing, direct and indirect service provision costs are not decreasing at the same rate. Options to reduce this funding gap through the reduction of costs and maximising Home Office income continue to be explored.

The total 2018/19 forecast cost of UASC for the Council is **£6.7m** and includes Children’s Social Care costs, along with costs associated with education and health for these young people.

The NRPF pressure remains due to the impact of the failure of Central Government to implement the provisions of the Immigration Act. In addition to these exceptional items Croydon also funds in excess of £5m of other costs relating to NRPF across Adults, Children’s and Gateway services from our own resources.

5.5 The numbers of looked after children have continued to increase in 2018/19 and have been rising significantly. With 533 local children being looked after in December 2018. The graph below shows the actual data until December and estimated figures for January to March. It is hoped that the increase will not be as great as shown in January to March as the impact of new commissioning arrangements are embedded.

**Graph 1: Looked after children case numbers compared to budget**

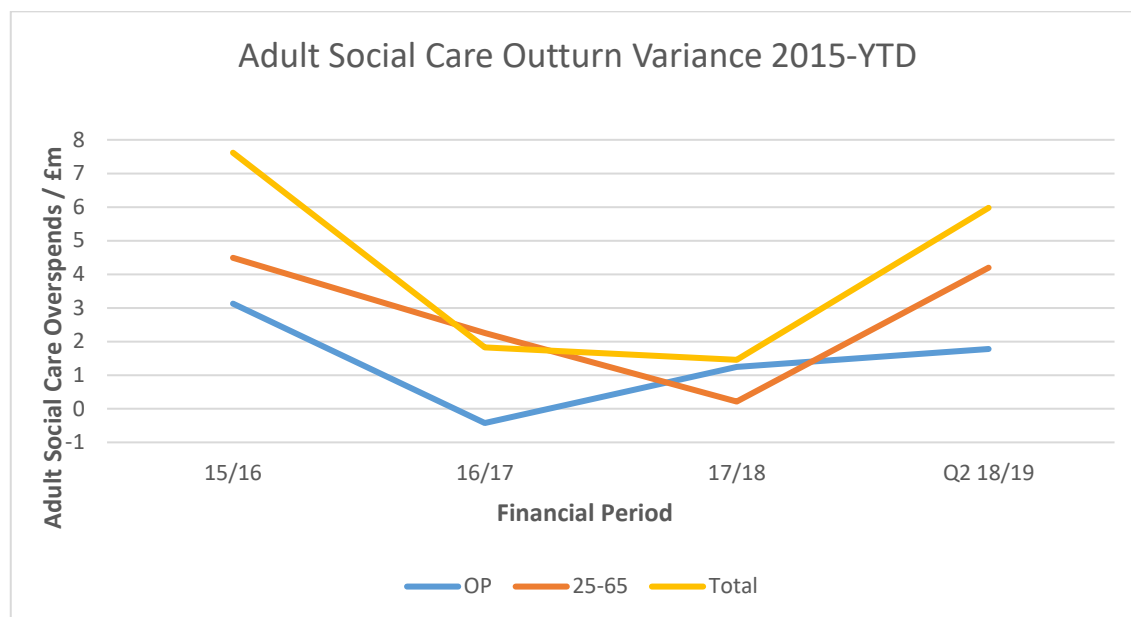


### Health, Wellbeing and Adults – Demand and issues

5.6 Adult Social Care has continued to see increases in demand for services above budget and is projecting a net overspend of £0.225m in 2018/19. However there are areas of significant overspend such as the 25-65 disability service with an overspend of just over £4m. This is as a result of rising demand and increased complexity of cases, especially within the 25 to 65 year old service. In the last six months there has been a 3.4% increase in the number of care packages (total 17% increase since April 2018). Graph 2 below shows the overspend for the Older People and 25-65 service. Provision of over £10m has been made in

the 2019/20 budget for growth across the department.

**Graph 2: Adult Placement overspend for Older People service and the 25 to 65 service.**



## Gateway Services

5.7 Gateway services continue to focus on managing demand for homelessness services and helping residents with prevention measures. Additional funding of £3.2m has been allocated to this service to ensure the service can continue to support the most vulnerable residents, with savings from managing demand and need early expected in adult social care services, children's social care services and housing.

5.8 The full list of savings are set out in Appendix A. The key areas are set out below:

- Additional parking income – this reflects the additional level of activity seen in 2018/19 from parking income.
- Asset investment strategy – the net income achieved is based on the two purchases made in 2018/19.
- One Croydon Alliance – Savings from integration work with partners.
- Gateway link – savings achieved across social care from joined up work with families in gateway.
- Improved recycling – savings in landfill costs from improvements in our recycling rate.
- Adult social care charging – changes to charging policy in social care.

## 6.0 Financial Performance 2018/19

6.1 The revenue outturn forecast at the end of the second quarter of 2018/19 is **£1.226m**, this is before exceptional items of **£2.279m**, resulting in a total overspend of **£3.545m**. If this forecast overspend is not reduced by the end of the year then the contribution to reserves will need to be reduced to fund this.

- 6.2 This total overspend is made up of Departmental over spends of **£6.266m** and exceptional items of **£2.279m**, these exceptional costs relate to Unaccompanied Asylum Seeking Children (UASC) and the impact of the failure of Central Government to implement the provisions of the Immigration Act. These costs are offset by non-departmental underspends of **£5m**. Further detail is shown in table 3 below.
- This

**Table 3 – Summary of forecast revenue outturn position at Quarter 2**

Department	Quarter 2 Forecast Variance £'000s
Health, Wellbeing and Adults	225
Children, Families and Education	7,542
Place	(5,062)
Gateway, Strategy & Engagement	1,517
Resources and CEO	2,044
<b>Departmental Overspend</b>	<b>6,266</b>
Corporate Items	(5,000)
<b>Sub Total - Before Exceptional Items</b>	<b>1,266</b>
Exceptional Items - Unaccompanied Asylum Seekers (UASC), UASC Leaving Care and All Rights Exhausted associated costs	2,279
<b>Total Projected Over-spend</b>	<b>3,545</b>

- 6.3 The 2018/19 budget was set with the inclusion of growth to help manage known pressures as well as ambitious savings targets. Despite this growth there continues to be increasing demand for the services provided by the Health, Wellbeing and Adults department and the Children, Families and Education department in the key areas of, adult and children's social care and also gateway and welfare services.
- 6.4 As in previous years we have continued to implement a number of programmes and projects aimed at reducing both demand and cost and it is anticipated that the greatest impact of these programmes will continue to be within the Health, Wellbeing and Adults and Children, Families and Education Departments.
- 6.5 Alongside these programmes there continues to be monthly reviews in the areas of highest risk and a continual review of the actions being implemented to manage them. The other departments are also continuing to review spend and deliver efficiencies in the short term to help bring the budget back in line.
- 6.6 The findings from the Children's Social Care Ofsted inspection have put increased pressure on our financial resources. £10.2m additional revenue funding was allocated in the 2018/19 budget, along with additional transformation funding of £4m.
- 6.7 As previously reported to cabinet there are a number of actions in place to manage spend this financial year and in future years.

In the short term, there are a range of immediate actions being taken across departments, including:-

- Improved commissioning, contract management and brokerage including a new framework for independent foster care placements.
- A further review of the use of and cost of agency staff, with reduced use over the Christmas period where possible.
- Continued implementation of the recruitment and retention strategy for social workers.
- The transformation of adult social care continues, which includes a detailed review of high cost care packages alongside the implementation of the Outcome Based Commissioning (OBC) programme for over 65's with health partners.
- The successful Gateway programme continues to deliver savings and support the most vulnerable residents to become more independent.
- The continuation and further growth of the Family Link workers team to assist families.
- Boosting the supply of affordable housing by committing to purchase a further 250 street properties.

## **7 Capital Budget – 2018/2022**

7.1 Our Capital Programme remains a key part of the overall budget setting process. The draft programme for 2019/22 is set out in Appendix C. Borrowing is undertaken for specific schemes and is prioritised where it can have a net positive impact on the revenue budget and there is a clear repayment plan for the capital. Borrowing can be clearly split into four elements:

- **Borrowing – Revolving Investment Fund** – normally for housing and on lent at a commercial rate where debt is repaid on completion of the project.
- **Borrowing – Growth zone** – debt is repaid from future business rates growth.
- **Borrowing – Asset Investment strategy** – Borrowing decisions made in line with the agreed strategy and where the asset generates a positive net return. Debt would be repaid in future from asset value.
- **Borrowing – General** – Any other priority capital schemes that cannot be funded from external sources. Allowance needs to be made in the revenue budget for repayment of capital and payment of interest.

## **8 Next Steps and Risks**

8.1 The key next steps in the financial planning process over the next 12 months are set out in the table below



**Table 4 – Timetable for future budget decisions/issues**

<b>Item</b>	<b>Date</b>
Response to Fair Funding and Business rates consultations	20/02/19
Cabinet review of budget	25/02/19
Council budget meeting	04/03/19
Spending review	July – Oct 2019
Financial Strategy review – Cabinet	15/07/19
Outcome of Fair Funding review	Oct/Nov 19
Draft Local government financial settlement 2020/21	Dec 19

- 8.2 As always there is a level of risk associated with the assumptions made within the budget and the period 2019/20 is no different. National uncertainties are in addition to local risks, with the key ones listed below :
- 8.3 **Adults and Children’s Social Care and Health.** The lack of additional funding for these services are continuing to be a pressure nationally and in Croydon we are continuing to experience rising demand and complexity of need. While a number of measures have been put in place to manage these demands there still continues to be a growing level of overspend in these services. Growth has been allocated based on known costs and expected future impacts. There is always the ongoing risk that growth may be greater than anticipated and work will need to be ongoing to review and manage budgets.
- 8.4 The Children’s Social Care Ofsted inspection has resulted in a rise in demand for services and therefore an increase in costs. This is alongside the cost to implement our improvement plan. Investment in this essential service area is being made but there remains a risk that the £12m investment from 2019/20 detailed earlier in this report may still not be sufficient.
- 8.5 **UASC and Immigration.** Funding for UASC and Immigration remains a risk, and we are continuing to make a concerted drive for fairer funding for Croydon. The Leader of the Council and the Cabinet Member for Finance and Resources met with the Immigration Minister on the 16<sup>th</sup> November 2017 and follow up discussions have been taking place between council officers and the Home Office to ask for a reinstatement of our Gateway funding which would increase our funding by £2m, disappointingly these are still ongoing. We have also highlighted a number of other areas where prioritisation by the Home Office could result in a saving to Croydon, including prioritising unresolved appeals for families with no recourse to public funds and a co-ordinated approach to enforcement action with individuals where appeal rights are exhausted. Until the agreement is reached to fund these services these remain a financial risk to Croydon.
- 8.6 **Dedicated Schools Grant (DSG) High Needs Funding.** Funding for schools changed in 2018/19 as a result of the National Funding Formula being implemented. This was welcomed news but did not wholly address the issue of under resourcing for the High Needs block. In recent years funding has been provided at a lower level than need and this has resulted in an overspend. A review of high needs provision is taking place in the borough and the increase

in the number of in borough school places will help reduce costs. However there remains a risk that funding is not sufficient to meet demand resulting in an annual deficit.

8.7 **Legislative Changes.** There continues to be a risk that the Government could make other policy changes that could impact on Croydon over the period of this budget. These changes if they occur will need to be managed as they arise.

8.8 **BREXIT.** Leaving the European Union brings with it financial uncertainty for the Council, as well as the Country as a whole. Whilst the exact impact cannot be estimated at this point, sound financial management requires consideration and preparation for a range of consequences.

## 9.0 Summary

9.1 There are a number of significant savings options factored in to the budget model and as with all future years there remains a level of risk around the delivery of these options which will need to be carefully managed and reported.

## 10.0 CONSULTATION

All Departments have been consulted during the preparation of this report.

## 11.0 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

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

## 12.0 COMMENTS OF THE COUNCIL SOLICITOR & MONITORING OFFICER

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

Approved by: Sandra Herbert Head of Litigation and Corporate Law for and on behalf of Jacqueline Harris-Baker Director of Law and Monitoring Officer.

## 13.0 HUMAN RESOURCES IMPACT

13.1 There will be savings packages and action plans that will need to be developed in response to the report that are likely to have workforce implications and significant HR impact. These can vary from posts not being filled or deleted, through to possible redundancies, although in the latter case the Council will seek to mitigate this as far as possible. Where that is the case HR advice must be sought. The Council's existing policies and procedures will apply and must be observed.

Approved by Gillian Bevan for Sue Moorman Director of Human Resources

## 14.0 EQUALITIES IMPACT

14.1 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 everybody has the opportunity to benefit and people want to invest, live and work here.

14.2 The Equality Act, 2010, 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.

14.3 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.

14.4 Whilst the council must have due regard to the Equality Duty when taking decisions, there is also recognition that local authorities have a legal duty to set a balanced budget and that council resources are being reduced by central government. The report has highlighted some of the service challenges that may impact some of our more vulnerable residents, and how the Council is managing these through the budget decisions.

14.5 The Council has an equalities assessment process to ensure that any significant service changes, including those resulting from budget changes, are assessed to identify any impact on any group with a protected characteristic. Where an impact is identified, an equalities plan will be developed to mitigate the harm. 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, and understand the potential risk to challenge.

14.6 In developing its detailed budget proposals for 2019/20 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.

Approved By Gavin Handford - Head of Policy and Communities.

A detailed analysis will be presented alongside the Cabinet report on the budget in February.

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**Contact Officer:** Richard Simpson, Executive Director Resources (S151 Officer)

**Background Documents:** None

**Appendices:** Appendix A Savings and Growth  
Appendix B Medium Term Financial Strategy 2018-2022