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| <b>REPORT TO:</b>      | <b>CABINET 16<sup>th</sup> December 2019</b>   |
| <b>SUBJECT:</b>        | <b>QUARTER 2 FINANCIAL PERFORMANCE 2019/20</b>   |
| <b>LEAD OFFICER:</b>   | <b>Lisa Taylor Director of Finance, Investment And Risk<br/>(Section 151 Officer)</b><br><br><b>Jacqueline Harris-Baker, Executive Director<br/>Resources &amp; Monitoring Officer</b> |
| <b>CABINET MEMBER:</b> | <b>Cllr Tony Newman, Leader Of The Council</b><br><br><b>Cllr Simon Hall, Cabinet Member For Finance And Resources</b>   |
| <b>WARDS:</b>          | <b>ALL</b>   |

### **CORPORATE PRIORITY/POLICY CONTEXT:**

The recommendations in the report will help to ensure effective management, governance and delivery of the Council's medium term financial strategy and ensure a sound financial delivery of the 2019/20 in-year budget. This will enable the ambitions for the borough for the remainder of this financial year to be developed, programmed and achieved for the residents of our borough.

### **AMBITIONS FOR CROYDON & WHY WE ARE DOING THIS:**

Strong financial governance and stewardship ensures that the Council's resources are aligned to enable the priorities, as set out in the Corporate Plan, to be achieved for the residents of our borough and further enables medium to long term strategic planning considerations based on this strong financial foundation and stewardship.

### **FINANCIAL IMPACT**

The reduced financial settlement, insufficient funding from the Home Office for UASC and ongoing demand pressures on a range of statutory services is resulting in pressures to the Council's budget, and resulting in a forecast over-spend at Quarter 2.

### **FORWARD PLAN KEY DECISION REFERENCE NO.**

Not a key decision.

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

### **1 RECOMMENDATIONS**

1.1 Cabinet is recommended to :

- i. Note the current revenue outturn forecast at the end of the second quarter of 2019/20 of £1.857m, before exceptional items of £8.550m, resulting in a total overspend of £10.407m;
- ii. Note that the exceptional items of £8.5m relate to costs incurred by Croydon Council for Unaccompanied Asylum Seeking Children (UASC) and No Recourse To Public Funds (NRPF), due to woefully insufficient funding from the Home Office.

- iii. Note the ongoing engagement with and lobbying of Government by the Council for additional funding for Croydon, both in general terms and specifically Unaccompanied Asylum Seeking Children given Croydon's gateway status.
- iv. Note the HRA position of a **£0.046m** forecast underspend against budget.
- v. Note the capital outturn projection of **£278.6m**, forecast to be an underspend of **£160.8m** against budget.

## 1.2 RECOMMEND TO COUNCIL

- i. The approval to increase to the capital programme by **£2.660m** as set out in Table 6.
- ii. The adoption of the lending criteria as set out in section 9 of this report.

## 2. EXECUTIVE SUMMARY

- 2.1 This report updates the Council's financial outlook at the end of the second quarter of 2019/20, which remains against a context of a series of adverse national funding changes affecting Local Government finance. This includes an ongoing chronic underfunding of Unaccompanied Asylum Seeking Children (UASC).
- 2.2 The budget set in February 2019 for 2019/20 assumed grant reductions of £7.8m (8.2%) in the financial year. To manage this reduction there were a number of savings totalling **£27.9m** built in to the budget. Alongside these savings there was growth of **£28.8m** for areas where demand and costs have increased with a continued shift of resources into Children, Families and Education. A sum of **£5.4m** will also be added to revenue reserves in 2019/20, replacing the amount drawn down at the end of 2018/19. This sum represents the surplus available from the collection fund during 2018/19, which was not available until after 1 April 2019.
- 2.3 Croydon Council continues to remain under huge financial pressures, deriving notably from:
  - Historic underfunding of Croydon over the last 15-20 years,
  - Cumulative cuts of more than 75% of government funding between 2010/11 and 2019/20,
  - Failure to recognise the inflationary pressures the Council is subject to,
  - The Local Government Association (LGA) predicted funding shortfall of £8bn across the Public Sector by 2025. This is as a result of growing demand for services and increases in population particularly in social care services where the gap for adult social care is predicted to be £3.6bn by 2025 and £3.1bn in children's services.
  - Predicted shortfalls in a number of other areas, with key ones being, Homelessness at £421m and Public Health £655m
  - Substantial population increase
  - Significant growth in demand for services, both from demographic pressures, such as an aging population and changes to the make-up of the Croydon population
  - Impact of welfare reform, notably the benefits cap, freezing of in-work benefits, inadequacy of local housing allowance, universal credit,
  - Underfunding of new duties, such as Health Visiting, Deprivation of Liberty assessments, the Homelessness Reduction Act, extension of responsibility for care leavers to 25.

- Continued failure to properly fund the direct and indirect costs of Croydon's status as the gateway authority for Unaccompanied Asylum Seeking Children (UASC), even in the face of increased funding for other authorities
  - Impact of the underfunding of the health economy
  - Failure to fund the cost of High Needs via Dedicated Schools Grant adequately
  - Restrictions on council housing, including rent restrictions and rules on right-to-buy receipts.
  - Delivering improvement as a result of the recent Ofsted inspection findings in Children's Social Care.
- 2.4 The financial monitoring process has identified a number of pressures across the council with the most significant being within the Health, Wellbeing and Adults department. The Council's overall forecast revenue over spend of **£10.407m** is made up of Departmental over spends of **£10.460m**, non-departmental under-spends of **£8.603m** and exceptional items of **£8.550m**. These exceptional costs relate to additional costs associated with UASC. Without these exceptional items the forecast overspend would be **£1.857m**, as shown in Table 1 below. This is less than 0.5% of gross departmental expenditure.

**Table 1 – Summary of forecast revenue outturn position at Quarter 2**

| Department  | Quarter 2 Forecast Variance<br>£'000s | Quarter 1 Forecast Variance<br>£'000s |
|---|---------------------------------------|---------------------------------------|
| Children, Families and Education                        | 1,114                                 | 100                                   |
| Health, Wellbeing and Adults                            | 9,122                                 | 4,959                                 |
| Place   | 0                                     | 0                                     |
| Gateway, Strategy and Engagement                        | 224                                   | 1,255                                 |
| Resources   | 0                                     | 995                                   |
| <b>Departmental Overspend</b>                           | <b>10,460</b>                         | <b>7,309</b>                          |
| Corporate Items   | (8,603)                               | (7,284)                               |
| <b>Sub Total - Before Exceptional Items</b>             | <b>1,857</b>                          | <b>25</b>                             |
| Exceptional Items - Unaccompanied Asylum Seekers (UASC) | 8,550                                 | 9,415                                 |
| <b>Total Projected Overspend</b>                        | <b>10,407</b>                         | <b>9,440</b>                          |

- 2.5 Details of the work being undertaken to manage the overspend are show below in Paragraphs 2.6 to 2.11. In terms of dealing with any in-year overspend, the £5.4m contribution to reserves identified in paragraph 2.2 could be reduced, indeed it could be reduced to zero. Any remaining shortfall would have to be drawn out of either earmarked reserves or general balances. It should be noted that, over the last five years, and despite all the huge pressures that Croydon Council has faced notably for the reasons detailed in Section 2.3, the level of general fund has been maintained at £10.4m and the earmarked reserves have been used for the purposes they were set up for.
- 2.6 Based on the significant demand pressures and challenges that still continue to impact the council work is underway to look at how these pressures can be reduced, these include:
- Continued lobbying of government to fund Croydon adequately for services provided including High Needs DSG and UASC costs.
  - Review of Adult Social Care to ensure services are delivered efficiently and effectively
  - Review of all high cost placements – adults and children's social care
  - Review of fees and charges.
  - Review of capitalisation and use of transformation funds.

- Review of SEN travel provision.
- Establishment of a High Needs Cost Panel to review all out of borough placements and bringing them in house
- Optimisation of use of in-house foster carers and in sourcing of our fostering recruitment from Coram to provide more and higher quality local placements
- Implementation of the High Needs strategy which sets out a five year plan to address the current overspend and supports delivery of improvements and planning for resources to meet identified needs
- Review of service provision for Appeal Rights Exhausted individuals and families.
- Review of services provided by external contractors.
- Increased controls on recruitment and agency staff.
- Review of agency staff in all departments

- 2.7 In addition to the items above, a series of in-year budget ‘sprint’ sessions are taking place to review all current expenditure on a department by department basis, with a view to further reduce spending.
- 2.8 The Council is continuing to make a concerted drive for fairer funding for Croydon. Discussions continue with the Home Office to increase our funding for UASC. The recent UASC Funding Review did not result in any uplift in the tariff rates which Croydon can claim for supporting UASC, whereas all other local authorities did receive an uplift.
- 2.9 Where appropriate the council will seek to recover funds from the Clinical Commissioning Group (CCG) for all placements with a health need and rebalancing the impact of the One Croydon Alliance for health and social care partners. £2m of funding has been assumed within the position set out in this report.
- 2.10 Details of major variances are provided in Table 2 in Section 3 of this report, with further information about all projected outturn variances in Appendix 1 to this report.
- 2.11 The Council is continuing with its planned insourcing programme, with large parts of SEN transport, Special Sheltered Housing and School Improvement and Education Psychology delivered by Octavo Partnership all being insourced. Insourcing of vital services ensures better control and outcomes for some of our most vulnerable residents. It ensures we are better placed to focus on improving outcomes with the resident at the forefront of the delivery model whilst also ensuring that staff are paid the London Living Wage and benefit from Council terms and conditions.

### **3. GENERAL FUND 2019/20 REVENUE SUMMARY**

- 3.1 The projected outturn position at the second quarter of 2019/20 is showing the effect of anticipated saving and recovery plans that are being implemented.
- 3.2 The 2019/20 budget was set with the inclusion of growth to help manage previously identified pressures and ambitious savings targets. Despite this growth there continues to be increasing demand for the services in relation to adult and children’s social care.

**Table 2 – 2019/20 significant forecast variances**

|   | Major Variances over £500k  | Quarter 2<br>£'000 | Quarter 1<br>£'000 | 2018/19<br>Outturn<br>£'000 |
|---|---|--------------------|--------------------|-----------------------------|
| <b>CHILDREN, FAMILIES &amp; EDUCATION</b>     |   |                    |                    |                             |
| <b>Social Care with Children Looked After</b> | Increase in the number of external placements   | 1,852              | 0                  | 0                           |
|   | Children, Families and Education Variances below £500k  | (738)              | 100                | 9,532                       |
| <b>CHILDREN, FAMILIES AND EDUCATION TOTAL</b> |   | <b>1,114</b>       | <b>100</b>         | <b>9,532</b>                |
| <b>HEALTH, WELLBEING AND ADULTS</b>           |   |                    |                    |                             |
| <b>25-65 Disability Service</b>               | Residential Care - increase in client numbers and increase in placement costs.                                      | 944                | 575                | 2,848                       |
|   | Domiciliary Care associated with increased client numbers and increased supported living costs                      | 2,144              | 929                | 0                           |
| <b>Over 65s</b>                               | Nursing Care - increase in client numbers and increase in placement costs.  | 2,712              | 1,662              | 2,790                       |
|   | Domiciliary Care associated with continued increase in clients and hours provided.                                  | 2,889              | 2,161              | 0                           |
|   | Residential care - primarily due to increase in client numbers and weekly costs                                     | 503                | 0                  | 624                         |
|   | Increase in Direct Payments   | 519                | 0                  | 0                           |
| <b>Transformation and Clienting</b>           | Use of transformation funding to fund ADAPT programme   | (1,000)            | (1,000)            | (1,529)                     |
|   | Variances below £500k   | 361                | 632                | 2,926                       |
| <b>HEALTH, WELLBEING AND ADULTS TOTAL</b>     |   | <b>9,122</b>       | <b>4,959</b>       | <b>1,731</b>                |
| <b>PLACE</b>                                  |   |                    |                    |                             |
|   | Variances below £500k   | 0                  | 0                  | (5,410)                     |
| <b>PLACE TOTAL</b>                            |   | <b>0</b>           | <b>0</b>           | <b>(5,410)</b>              |
| <b>GATEWAY, STRATEGY AND ENGAGEMENT</b>       |   |                    |                    |                             |
| <b>Enablement and Welfare</b>                 | NRPF savings based on current demand levies   | (508)              | 0                  | (278)                       |
| <b>Gateway Improvement</b>                    | Potential non-delivery of savings relating to Children and Adult Social Care, partly offset by some service savings | 2,008              | 400                | 0                           |
|   | Residents and Gateway Services Variances below £500k  | (1,276)            | 855                | 254                         |
| <b>GATEWAY, STRATEGY AND ENGAGEMENT TOTAL</b> |   | <b>224</b>         | <b>1,255</b>       | <b>(24)</b>                 |

| RESOURCES                                 |   |          |                |                |
|---|---|----------|----------------|----------------|
| Finance, Investment and Risk              | No variances over £500k. The previous financial year related to an overspend on Housing Benefits. | 0        | 105            | 1,510          |
| Croydon Digital Services                  | No variances over £500k in 2019/20. The previous year variance related to staffing under-spends.  | 0        | 368            | (561)          |
|   | Variances below £500k   | 0        | 522            | 220            |
| <b>RESOURCES TOTAL</b>                    |   | <b>0</b> | <b>995</b>     | <b>1,169</b>   |
|   |   |          |                |                |
| <b>TOTAL DEPARTMENT OVERSPEND</b>         |   |          | <b>10,460</b>  | <b>7,309</b>   |
|   |   |          |                |                |
| CORPORATE ITEMS                           |   |          |                |                |
|   | Use of contingency budget   | (2,000)  | (2,000)        | (2,000)        |
|   | Net interest earned   | (1,724)  | (1,724)        | (1,873)        |
|   | Staffing savings  | 0        | (1,000)*       | 0              |
|   | Agency staffing savings   | (1,000)  | 0              |                |
|   | Transformation funding  | (2,000)  | (2,000)        | 0              |
|   | S106/ CIL/ Growth Zone funding  | (1,000)  | (1,000)        | 0              |
|   | Capitalisation  | (2,000)  | (1,000)        | 0              |
|   | Corporate items - Variances below £500k   | 1,121    | 1,440          | (2,780)        |
| <b>CORPORATE ITEMS TOTAL</b>              |   |          | <b>(8,603)</b> | <b>(7,284)</b> |
|   |   |          |                |                |
| <b>SUB TOTAL BEFORE EXCEPTIONAL ITEMS</b> |   |          | <b>1,857</b>   | <b>25</b>      |
|   |   |          |                |                |
| Exceptional Items                         | Unaccompanied Asylum Seekers Grant lower than associated costs (UASC)                             | 7,897    | 9,036          | 3,071          |
|   | No Recourse to Public Funds costs for UASC  | 653      | 379            | 2,050          |
| <b>Exceptional Items Total</b>            |   |          | <b>8,550</b>   | <b>9,415</b>   |
| <b>TOTAL VARIANCE</b>                     |   |          | <b>10,407</b>  | <b>9,440</b>   |
| <b>5,466</b>                              |   |          |                |                |

\*Previously reported as staff savings in q1, these are now reported in each department

- 3.3 The main areas of pressure are similar to last year and continue to be within Health, Wellbeing and Adults as well as Children, Families and Education. These are also the areas that local authorities across the country are grappling with and are typically showing much larger percentage overspends.
- 3.4 As a result of the Ofsted inspection in the summer of 2017 £10.784m was added to the budgets for Children's Services in 2018/19, and a further £12.0m added in 2019/20 to cover costs associated with additional placements, additional staff resources for social work and legal costs.
- 3.5 Children's Services is still continuing to see pressures due to the number of cases that are being dealt with but also as a result of the transition whilst the new teams are being put into place and recruitment to roles continues. Funding for transformation will continue to be utilised where appropriate to fund Children's Services.

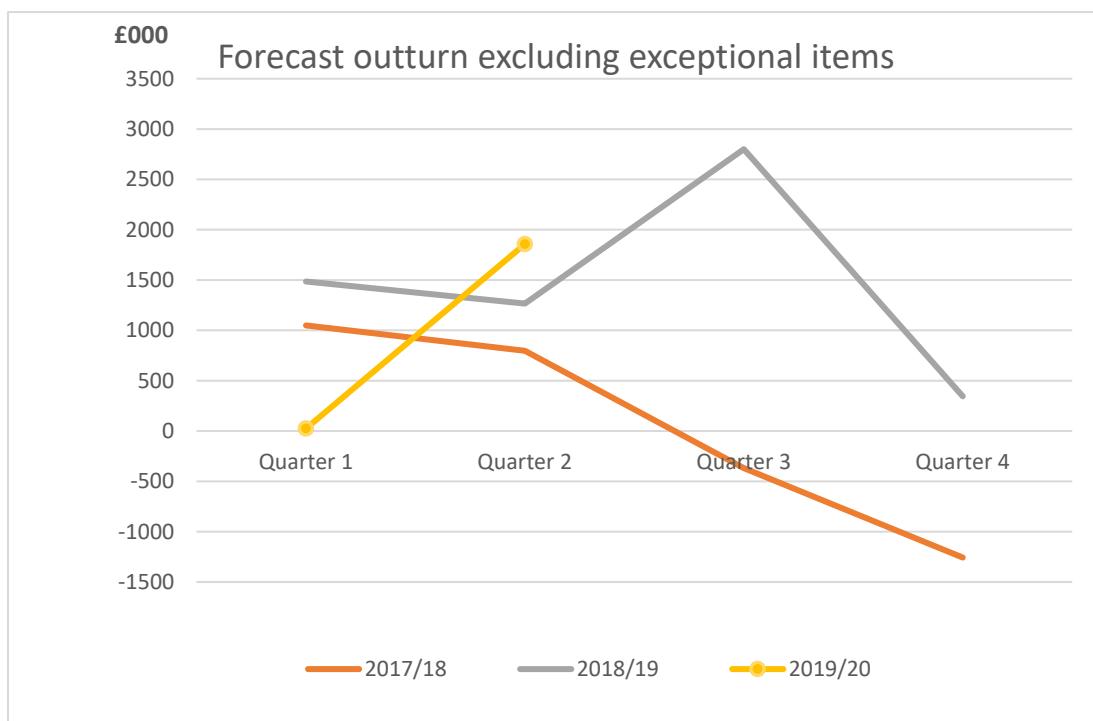
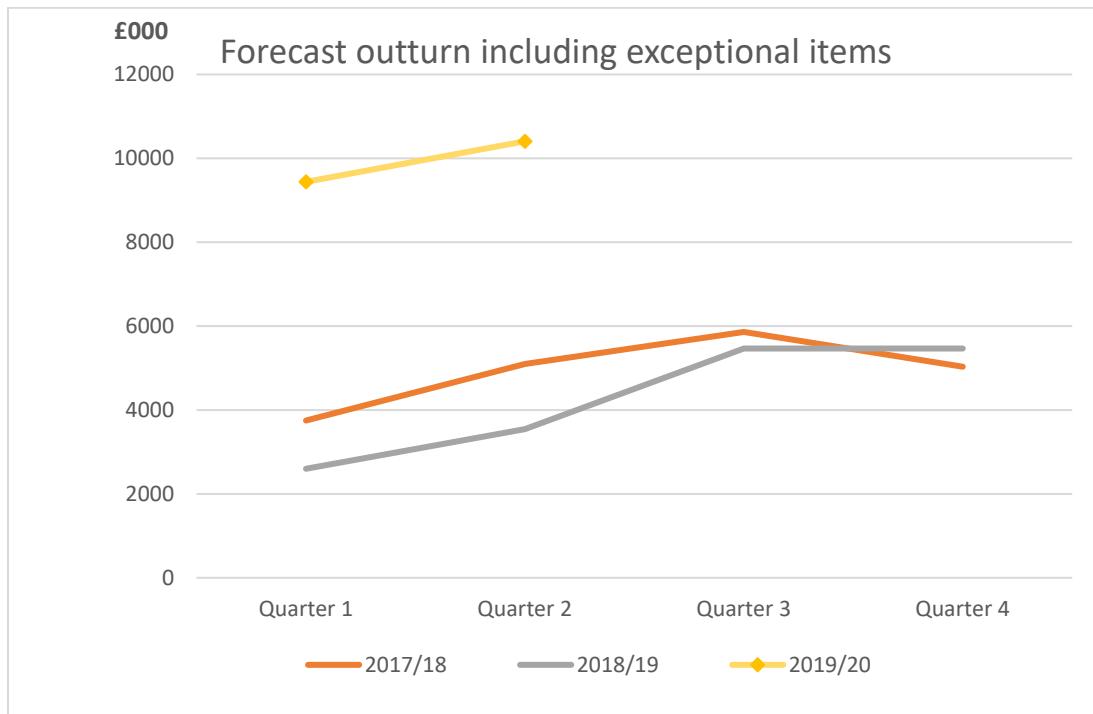
- 3.6 The exceptional item reported at quarter 2 continues to relate to UASC which the Council is continuing to lobby the government to fund adequately. The UASC pressure continues to be as a result of the Home Office only funding a fixed rate per child, which does not accurately reflect our direct and indirect costs for looking after those children, nor the costs of acting as a 'gateway' authority. The number has increased slightly from that reported at quarter one due to an increase in number of children requiring support. Options to reduce this funding gap through the reduction of costs and maximising Home Office income are still continuing to be explored. A further meeting took place with Home Office officials and other gateway authorities at the end of November with a commitment from them to review funding for Croydon and to reconvene in the new year.
- 3.7 The Home Office had previously said that they are committed to reviewing funding rates and in May 2019, they announced an additional £30m of funding nationally. This announcement increased the rates paid to all Upper Tier and Unitary Local Authorities to £114 per UASC per night. Croydon was already in receipt of this rate and, as such, received no increase. Representations continue to be made to central government, making a case for the extraordinary circumstances experienced in Croydon of supporting a large cohort of UASC and former UASC care leavers.
- 3.8 The Improved Better Care Funding (IBCF) is for a three year period and was allocated in two tranches. Tranche 1 was allocated in spending review 2015 and formed part of adult social care core funding to mitigate the reduction in core grant funding. This allocation was built in to base budgets and enabled protection from cuts. Tranche 2 was allocated in the spring 2017 budget. This money will be spent across the health and social care sector to ensure the criteria of the funding of Meeting Adult Social Care Needs, Supporting Hospital Discharge and Stabilising the Social Care provider Market are met.
- 3.9 The Local Government Association has launched a nationwide consultation to start a desperately-needed debate on how to pay for adult social care and rescue the services caring for older and disabled people from collapse.
- 3.10 Years of significant underfunding of councils, coupled with rising demand and costs for care and support, have combined to push adult social care services to breaking point.
- 3.11 Since 2010 councils have had to bridge a £6 billion funding shortfall just to keep the adult social care system going. In addition the LGA estimates that adult social care services face a £3.6 billion funding gap by 2025, just to maintain existing standards of care, while latest figures show that councils in England receive 1.8 million new requests for adult social care a year – the equivalent of nearly 5,000 a day.
- 3.12 Decades of failures to find a sustainable solution to how to pay for adult social care for the long-term, and the Government's recent decision to delay its long-awaited green paper on the issue until the autumn, has prompted council leaders to take action.
- 3.13 Short-term cash injections have not prevented care providers reluctantly closing their operations or returning contracts to councils and less choice and availability to a rising number of people with care needs. This is increasing the strain on an already-overstretched workforce and unpaid carers, and leading to more people not having their care needs met.
- 3.14 Increased spending on adult social care – which now accounts for nearly 40 per cent of total council budgets – is threatening the future of other vital council services, such as parks, leisure centres and libraries, which help to keep people well and reducing the need for care and support and hospital treatment.

- 3.15 The LGA consultation sets out options for how the system could be improved and the radical measures that need to be considered given the scale of this funding crisis. Possible solutions to paying for adult social care in the long-term outlined in the consultation include:
- Increasing income tax for taxpayers of all ages: a 1p rise on the basic rate could raise £4.4 billion in 2024/25
  - Increasing national insurance: a 1p rise could raise £10.4 billion in 2024/25
  - A Social Care Premium – charging the over-40s and working pensioners an earmarked contribution (such as an addition to National Insurance or another mechanism). If it was assumed everyone over 40 was able to pay the same amount (not the case under National Insurance), raising £1 billion would mean a cost of £33.40 for each person aged 40+ in 2024/25.
  - Means testing universal benefits, such as winter fuel allowance and free TV licenses, could raise £1.9 billion in 2024/25
  - Allowing councils to increase council tax – a one per cent rise would generate £285 million in 2024/25
- 3.16 The consultation - the biggest launched by the LGA – is seeking the views of people and organisations from across society on how best to pay for care and support for adults of all ages and their unpaid carers, and aims to make the public a central part of the debate. The LGA will respond to the findings in the autumn to inform and influence the Government's green paper and spending plans.
- 3.17 The LGA green paper – alongside funding issues – also seeks to start a much-needed debate about how to shift the overall emphasis of our care and health system so that it focuses far more on preventative, community-based personalised care, which helps maximise people's health, wellbeing and independence and alleviates pressure on the NHS.
- 3.18 The pressure on children's social care is now becoming apparent. Research conducted by the Local Government Association (LGA) has revealed children's services are at breaking point with 75% of councils overspending to keep vital protections in place. There are calls on the government to introduce a fairer funding system based on demand for services.
- 3.19 Overall, councils are facing a £3.1 billion funding gap for children's services by 2025. In 2017/18, councils across England were forced to spend £816 million more on children's social care than they had budgeted for. In addition, government funding for the Early Intervention Grant has been cut by almost £600 million since 2013 and it is projected to drop by another £100 million by 2020.
- 3.20 Over the past 10 years demand the number of child protection enquiries has increased 158 per cent and the number of children on child protection plans increased by more than 25,000. The total number of looked after children reached a new high of 75,420 in 2017/18, representing the biggest annual rise of children in care in eight years. An average of 88 children are now coming into care every day.
- 3.21 As detailed in this report we are continuing to experience rising demand and costs. This year to date, Children's Social Care residential assessments have increased by 33%, and the number of children with a Child Protection Plan has also increased by 66%, contributing towards the reported overspend. As at quarter 2, the number of children in care decreased with 839 in placements at the end of September, this is a reduction of 10 children from the previous quarter. 42 children were in residential settings at the end of Q2 representing 5% of the CLA population with 49.3% (414 children) CLA in external placements of which 299 are in private independent foster care settings. This represents an increase of 9 children in external placements from the previous quarter.

## 4 GENERAL FUND REVENUE SUMMARY POSITION 2019/20

- 4.1 Graph 1 below shows the forecast variance for 2019/20 compared to previous years. The graphs show the position both inclusive of exceptional items, and excluding exception items (explained in paragraph 3.6 above). The Council continues to manage its finances through the rigorous monitoring and control of spending within the framework of the Financial Strategy.

**Graph 1 – Forecast Variances**



## **5 VIREMENTS OVER £500K REQUIRING CABINET APPROVAL**

- 5.1 There are no virements requiring approval.

## **6. HRA (HOUSING REVENUE ACCOUNT)**

- 6.1 The current forecast for the HRA is for an estimated underspend of (£0.046m). The key variances being reported in at Quarter 2 are summarised Table 3 below:

**Table 3 – 2019/20 Main variances within the HRA**

| Department                              | Major Variances   | Quarter 2<br>£'000 | Quarter 1<br>£'000 | 2018/19<br>Outturn<br>£'000 |
|---|---|--------------------|--------------------|-----------------------------|
| HRA – DISTRICT CENTRES AND REGENERATION | Underspends on staff costs  | (46)               | (213)              | (1,907)                     |
| HRA – HOUSING NEED                      | Forecast pressure on under recovery of rental income from garage and commercial property to be offset by underspends elsewhere. | 0                  | 0                  | 1,171                       |
| <b>TOTAL HRA PROJECTED VARIANCE</b>     |   | <b>(46)</b>        | <b>(213)</b>       | <b>(736)</b>                |

- 6.2 Longer term budget planning for the HRA is continuing to take place and includes reviewing the impact of the Housing and Planning Act 2016 to understand the likely impact pending the outcome of recent government consultations on use of retained Right to Buy capital receipts. In addition, to build a sustainable budget for revenue and capital spend within the HRA.
- 6.3 As previously reported to this Cabinet, Croydon Affordable Homes LLP is responsible for managing a number of affordable rented properties working alongside Brick by Brick Limited and The Hub to deliver these additional properties in 2019. Recently, 27 Brick by Brick new build properties have been transferred into the HRA, funded partly by grant from the GLA. These properties are in addition to the street properties that were purchased under the ETA (Emergency Temporary Accommodation) programme. These street properties have transferred to two LLPs, 96 properties into one and 167 into the other. Furthermore, there are 83 additional street properties that are currently being purchased for transfer to the LLP's, taking the total properties to 346. These purchases are nearing completion and will be transferred to the LLP this financial year. These properties are all being managed as part of the existing HRA property portfolio.
- 6.4 Ongoing fire safety works are continuing and will continue to be funded from the HRA as a result of the government failing to provide funding for these essential works. Currently for 2019/20 the investment is £10m for the Fire Safety programme and £1.5m for larger homes.

## **7. FORECAST CAPITAL OUTTURN POSITION**

- 7.1 The high level Capital programme for 2019/20 is shown in Table 4 below, full details of all projects are shown in appendix 2. A forecast under spend of £161m is projected for 2019/20.

**Table 4 – 2019/20 Capital Programme**

| Original<br>2019/20<br>Budget<br>£'000s | Department                       | Carry<br>forward<br>from<br>2018/19<br>£'000s | Re-<br>profiling /<br>Increases<br>in<br>Schemes<br>£'000s | Revised<br>Budget<br>2019/20<br>£'000s | Actuals<br>April-<br>Sept<br>2019<br>£'000s | Forecast<br>Outturn<br>£'000s | Forecast<br>Variance<br>£'000s |
|---|----------------------------------|---|--|--|---|-------------------------------|--------------------------------|
| 0                                       | HEALTH, WELLBEING AND ADULTS     | 334   | 1,500  | 1,834                                  | 4   | 1,834                         | 0                              |
| 35,638                                  | CHILDREN, FAMILIES AND EDUCATION | 14,022  | (13,472)   | 36,188                                 | 6,127                                       | 35,793                        | (395)                          |
| 9,673                                   | GATEWAY, STRATEGY & ENGAGEMENT   | 29,571  | 3,245  | 42,489                                 | 9,258                                       | 24,507                        | (17,982)                       |
| 77,790                                  | PLACE                            | 34,410  | 17,077   | 129,277                                | 38,423                                      | 102,923                       | (26,354)                       |
| 60,373                                  | RESOURCES                        | 14,264  | 102,658  | 177,295                                | 11,382                                      | 72,929                        | (104,366)                      |
| <b>183,474</b>                          | <b>GENERAL FUND TOTAL</b>        | <b>92,601</b>                                 | <b>111,008</b>   | <b>387,083</b>                         | <b>65,192</b>                               | <b>237,986</b>                | <b>(149,097)</b>               |
|   |                                  |   |  |  |   |                               |                                |
| 38,451                                  | HOUSING REVENUE ACCOUNT          | 7,042   | 6,750  | 52,243                                 | 12,499                                      | 40,571                        | (11,672)                       |
|   |                                  |   |  |  |   |                               |                                |
| <b>221,925</b>                          | <b>CAPITAL PROGRAMME TOTAL</b>   | <b>99,643</b>                                 | <b>117,668</b>   | <b>439,326</b>                         | <b>77,691</b>                               | <b>278,557</b>                | <b>(160,769)</b>               |

- 7.2 The main reported variances on projects within the Council's capital programme are as follows:
- 7.2.1 **Park Life** (£11.828m) – This scheme is currently delayed, pending a review by the funding body.
  - 7.2.2 **Affordable Housing** (£13.680m) – This under-spend is a result of savings on the anticipated purchase cost of the property acquisition programme
  - 7.2.3 **Fiveways junction** (£3m) – This underspend is due to Transport for London delaying the start of these works.
  - 7.2.4 **Asset Investment Fund** (£104m) – The investment planned at quarter 1 is not taking place now. Work is underway to identify other opportunities.
  - 7.2.5 **Fire Safety Programme** (£1.009m) slippage - Fire safety works are progressing, with more capital works to be carried out in response to any future recommendations in addition to the £4.2m of works undertaken in 2018/19. There has been some slippage as a result of contractor delays, which are being managed.
- 7.3 The capital programme continues to be funded from a number of different funding streams and makes use of capital receipts to support the delivery of the financial strategy. Table 5 below details the funding for the original 2019/20 budget, the revised programme and the forecast outturn.

**Table 5 – Sources of capital funding**

| Funding  | Original<br>2019/20<br>budget | Revised<br>2019/20<br>budget | Forecast 2019/20<br>Outturn |
|--|-------------------------------|------------------------------|-----------------------------|
|  | £000s                         | £000s                        | £000s                       |
| Capital receipts                                 | 2,500                         | 0                            | 0                           |
| Education & Skills Funding Agency                | 10,000                        | 10,000                       | 10,000                      |
| School Condition Funding (Education)             | 2,000                         | 2,000                        | 2,000                       |
| Basic Needs (Education)                          | 6,833                         | 6,833                        | 6,833                       |
| EFA Invest to Save (Education)                   | 969                           | 969                          | 969                         |
| Transport for London funding                     | 2,462                         | 4,129                        | 4,129                       |
| Community Infrastructure Levy (CIL)              | 6,800                         | 6,800                        | 7,200                       |
| CIL local meaningful proportion                  | 576                           | 1,272                        | 770                         |
| Disabled Facilities Grants                       | 2,400                         | 4,379                        | 1,900                       |
| Borrowing  | 49,570                        | 102,379                      | 88,096                      |
| Borrowing - (Revolving Investment Fund payments) | 37,273                        | 76,709                       | 60,360                      |
| Borrowing - Asset Acquisition Fund               | 45,000                        | 150,893                      | 46,638                      |
| Borrowing - Growth Zone                          | 8,000                         | 9,782                        | 8,000                       |
| Section 106 receipts                             | 1,800                         | 3,647                        | 1,091                       |
| Football foundation                              | 7,291                         | 7,291                        | 0                           |
| <b>GENERAL FUND</b>                              | <b>183,474</b>                | <b>387,083</b>               | <b>237,986</b>              |
|  |                               |                              |                             |
| HRA – Borrowing                                  | 7,677                         | 18,769                       | 7,097                       |
| HRA - Revenue Contribution                       | 10,000                        | 10,000                       | 10,000                      |
| HRA - Use Of Capital Receipts                    | 20,774                        | 20,774                       | 20,774                      |
| HRA – GLA funding for new build properties       | 0                             | 2,700                        | 2,700                       |
| <b>HRA FUNDING</b>                               | <b>38,451</b>                 | <b>52,243</b>                | <b>40,571</b>               |
|  |                               |                              |                             |
| <b>TOTAL FUNDING</b>                             | <b>221,925</b>                | <b>439,326</b>               | <b>278,557</b>              |

- 7.4 The majority of the general fund borrowing detailed excluding that specifically identified for the Revolving Investment Fund and items in table 6 is to fund the education programme due to the inadequate level of funding received from Government and the essential need to provide school places in the borough.
- 7.5 The revised budget has been updated to include new in year schemes. Details of these schemes can be found in Table 6 below, in the section “Quarter 2 adjustments”. Cabinet is asked to recommend to Full Council a £2.660m increase to the Capital programme.

**Table 6 – Additions to the Capital Programme**

| Additions to the Capital Programme  | £000s    | 2019/20<br>£000s |
|---|----------|------------------|
| <b>2019/20 Original Budget</b>  |          | 221,925          |
| 2018/19 Carry Forward   |          | 99,643           |
| Adjustments at July Review  |          |                  |
| CALAT - Creative Campus / University for Croydon  | 660      |                  |
| Timebridge Community Centre (Fieldway Cluster)  | 1,168    |                  |
| Crosfield Croydon Equipment Services  | 454      |                  |
| <b>Sub-total of changes in July Review</b>  |          | <b>2,282</b>     |
|   |          |                  |
| <b>Quarter 1 adjustments – as detailed in September 2019 Cabinet report</b>   |          | <b>112,816</b>   |
| <b>Quarter 2 adjustments</b>  |          |                  |
| HRA – purchase of new build properties  | 6,750    |                  |
| Purchase of key worker housing  | 3,245    |                  |
| New Addington Leisure Centre – adjust budget to reflect that the 8 housing units won't be sold, and therefore a capital receipt won't be received | 2,500    |                  |
| Sheltered Housing   | 1,500    |                  |
| Re-profile Education Estates Budget (Education Estates Strategy Sept Cabinet Min Ref 76/19)   | (13,822) |                  |
| Newly approved s106 funding   | 378      |                  |
| Corporate Property Programme  | 300      |                  |
| Early Help Hubs   | 150      |                  |
| Assets – Stubbs Mead depot works  | 1,659    |                  |
| <b>Sub-total Quarter 2 adjustments</b>  |          | <b>2,660</b>     |
| <b>LBC CAPITAL PROGRAMME TOTAL</b>  |          | <b>439,326</b>   |

## **8. FINANCIAL MANAGEMENT**

- 8.1 Council Tax and Business Rates are two key income streams for the Council. Collection rates for the current year are show in Table 8 below:

**Table 8 - Council Tax and Business Rates collection**

|                | Target collection – year to date % | Actual collection – year to date % | Variance to target – year to date % | Variance to last year at Q2 % |
|----------------|------------------------------------|------------------------------------|-------------------------------------|-------------------------------|
| Council Tax    | 54.76                              | 54.88                              | 0.12                                | 0.04                          |
| Business Rates | 56.69                              | 56.63                              | (0.06)                              | 0.46                          |

## **Council Tax**

- 8.1 At the end of quarter 2 Council Tax collection has exceeded target by 0.12%. The Council remains on course to achieve its in-year collection target of 97.50%, which is the highest target level set by the Council's revenues team. The Council achieved its highest ever collection performance in 2018/19 of 97.25%.

## **Business Rates**

- 8.2 At the end of quarter 2 Business Rates collection is 0.06% below the target. The target for the current year is 99.25%. Collection targets for last year are affected by business that paid up front for the previous year, who are now paying monthly. This increased the average expected to be collected each month. Average collection for Business Rates will be based on the actual amount collected each month and will be built into the budget planning for 2020/21.

## **9. TREASURY MANAGEMENT INVESTMENT STRATEGY**

- 9.1 On 4 March 2019 full Council approved (Minute A20/17 refers) the investment policy parameters set within the Council's Treasury Management Strategy Statement and Annual Investment Strategy. In accordance with Government guidance investments are defined as "Specified" and "Non-specified"
- 9.2 An investment is a Specified investment if all of the following apply:
- the investment and any associated payments or repayments are denominated in sterling;
  - the investment has a maximum maturity of one year;
  - the investment is not defined as capital expenditure; and
  - the investment is made with a body or in an investment scheme described as high quality or with the UK Government, a UK local authority or a parish or community council.
- 9.3 A Non-Specified investment is any investment that does not meet all the conditions for a Specified investment. The Council's priority when undertaking treasury activities is to ensure security of capital and liquidity and to seek a level of return consistent with the Council's risk appetite. In accordance with these principles specific instruments identified for use by the Council during 2019/20 were agreed by full Council on 4 March 2019 (Minute A20/17 refers) and included as Appendix 3.
- 9.4 The current criteria for the selection of counterparties for investments are based on formal credit ratings issued by Fitch Ratings supplemented by additional market data such as rating outlooks, the pricing of credit default swaps (CDs) and bank share prices. In addition to the Fitch rated institutions all UK local authorities and some public bodies comprise the Council's Approved Lending List.
- 9.5 Each week, the Council receives from its independent treasury advisers, Link Asset Services, a "Suggested Credit List." This is accompanied by a disclaimer reminding recipients, inter alia, as follows:

*This document is intended for the use and assistance of customers of Link Asset Services. It should not be regarded as a substitute for the exercise by the recipient of its own judgement.*

9.6 Notwithstanding this and other similar clauses Link are the largest suppliers of treasury management advisory services to UK local authorities and understand the market well. In their analysis they take into account the views of each of the three major credit ratings agencies along with the pricing of credit default swaps and market intelligence. They are better placed than Council officers to carry out this analysis and it is therefore recommended that the Council amends its lending list criteria and adopts the following:

**Specified investments**

- AAA rated money market funds - limit £20m
- Debt Management Office – no limit
- Royal Bank of Scotland – limit £25m

**Non-specified investments**

- All institutions included on Link Asset Services' weekly "Suggested Credit List" – limit £10m
- All UK local authorities – limit £10m
- Duration to be determined by the "Suggested Credit List" of Link Asset Services.

9.7 At their meeting on 9 October 2019 the General Purposes and Audit Committee agreed to recommend that the Council adopt these revised lending list criteria and Cabinet are now asked to recommend it to Council.

**10. CONSULTATION**

10.1 All departments have been consulted during the preparation of this report.

**11. PRE-DECISION SCRUTINY**

11.1 This financial performance report has not been presented to scrutiny and overview committee in this format. The report identifies a number of key areas that have and are continuing to result in the huge financial pressure that we are facing. Scrutiny and Overview committee received a report in September 2019 (Min Ref 27/19) with a further budget report to be presented in January 2020.

**12. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

12.1 This report sets out the current financial position of the Council, and actions being taken to address the projected overspend.

The report is submitted by Lisa Taylor – Director of Finance Investment & Risk and Section 151 officer

**13. LEGAL CONSIDERATIONS**

13.1 The Head of Law and Litigation on behalf of the Director of Law and Governance 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.

13.2 The Local Government Act 1972 Section 151 states that each local authority has a statutory duty to make arrangements for the proper administration of their financial affairs. In addition, the Accounts and Audit Regulations 2015 impose an explicit duty on the Council to

ensure that financial management is adequate and effective and that they have a sound system of internal control, including arrangements for the management of risk.

- 13.3 "Proper administration" is not statutorily defined; however, there is guidance, issued by CIPFA on the responsibilities of the Chief Finance Officer (CFO). This states that local authorities have a corporate responsibility to operate within available resources and the CFO should support the effective governance of the authority through development of corporate governance arrangements, risk management and reporting framework. Regular monitoring of the Council's actual expenditure to budget and forecasting of the expenditure for the full year is part of the proper administration and governance of the Council.
- 13.4 Part 4 of the Constitution Budget and Policy Framework provides in paragraph 4 (a) that any decision, on the advice of the CFO, which is contrary to or not wholly in line with the budget approved by Full Council may only be taken by the Council, save in cases of urgency.

Approved by: Sandra Herbert Head of Litigation and Corporate Law for and on behalf of Sean Murphy Director of Law and Governance and Deputy Monitoring Officer.

## **14. HUMAN RESOURCES IMPACT**

- 14.1 The items from the savings packages and action plans included in the report or those that need to be developed in response to the report are likely to have a significant HR impact. These can vary from posts not being re-filled or deleted through restructuring proposals leading to possible redundancies. Where that is the case, the Council's existing policies and procedures must be observed and HR advice must be sought.
- 14.2 HR will continue to work closely with service areas on any in year proposals for savings or service redesign that affect the workforce. All proposals will be managed within the council HR procedures and policies and be subject to formal consultation with the trades unions.

Approved by: - Sue Moorman, Director of Human Resources

## **15. EQUALITIES IMPACT**

- 15.1 The key service areas that currently have over spend in budgets are Children's Social Care and Adults Social Care. These are areas that provide services to customers from equality groups that share protected characteristics; such as younger people (Looked after Children), people with a disability (Children with special educational needs), older people and BME groups. There are a number of known equality and inclusion issues in the above mentioned service areas such as an over-representation of BME young people in looked after children, over-representation of BME groups and other vulnerable groups, young children with a disability who have a special educational needs and their carers, vulnerable older people with complex needs etc. The mitigating actions, on these specific services are unlikely to affect these groups more than the population as a whole. In fact, a number of those will affect these groups less.
- 15.2 In addition, there are policy changes made by Government that will impact on the in-year budget, in particular the delay in the implementation of the Immigration Act. The Council will work to ensure key services to Croydon residents are protected wherever possible. However, it is likely that some of the areas affected will be a reduction in Home Office funding for UASC, Youth Justice Board grant and changes to the Welfare and Housing Bill. There is a likelihood that these cuts will have a more significant adverse impact on some groups that share a protected characteristic such as age, race and disability. Changes to

the Welfare and Housing Bill are also likely to have an adverse negative impact on the more vulnerable customers.

- 15.3 In order to ensure that our vulnerable customers that share a “protected characteristic” are not disproportionately affected by the actions proposed to reduce in year budget over spend we will ensure that the delivery of the cost reduction initiatives are informed by a robust equality analysis of the likely detrimental impact it could have on all services users and in particular those that share a “protected characteristic”.
- 15.4 If the equality analysis suggests that the cost reductions initiatives are likely to disproportionately impact on particular group of customers, appropriate mitigating actions will be considered. This will enable the Council to ensure that it delivers the following objectives that are set out in our Equality and Inclusion Policy:
  - To increase the rate of employment for disabled people, young people, over 50s and lone parents who are furthest away from the job market
  - To increase the support offered to people who find themselves in a position where they are accepted as homeless especially those from BME backgrounds and women
  - To reduce the rate of child poverty especially in the six most deprived wards
  - To improve attainment levels for white working class and Black Caribbean heritages, those in receipt of Free School Meals and Looked After Children, particularly at Key Stage 2 including those living in six most deprived wards
  - To increase the percentage of domestic violence sanctions
  - To increase the reporting and detection of the child sexual offences monitored
  - To reduce the number of young people who enter the youth justice system
  - To reduce social isolation among disabled people and older people
  - To improve the proportion of people from different backgrounds who get on well together
  - To reduce differences in life expectancy between communities

Approved by: Yvonne Okiyo, Equalities Manager

## **16. ENVIRONMENTAL IMPACT**

- 16.1 There are no direct implications contained in this report.

## **17. CRIME AND DISORDER REDUCTION IMPACT**

- 17.1 There are no direct implications contained in this report.

## **18. DATA PROTECTION IMPLICATIONS**

- 18.1 This report and its recommendations does not involve the processing of personal data

## **19. REASONS FOR RECOMMENDATION /PROPOSED DECISION**

- 19.1 Given the current in year-position Executive Leadership Team have been tasked to identify options to achieve a balanced year-end position.

## **20. OPTIONS CONSIDERED AND REJECTED**

- 20.1 Given the current in year-position Executive Leadership Team have been tasked to identify options to achieve a balanced year-end position. The alternative would be to over-spend and draw down on balances, which would not be prudent.
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**CONTACT OFFICER:** Lisa Taylor – Director of Finance, Investment & Risk and Section 151 Officer.  
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**APPENDICES:** Appendix 1 – Revenue Variation over £100k with explanation  
Appendix 2 – 2019/20 Q2 Capital Outturn Forecast  
Appendix 3 – Lending List Criteria

**BACKGROUND PAPERS:** None