

# Finance Strategy 2015–2019

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## APPENDIX K



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# 1. Forward from Simon Hall, Cabinet member for Finance and Treasury

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The Financial Strategy has been prepared in the context of the continued huge cuts made to local government funding since 2010 and currently forecast to continue over the period covered by this financial strategy.

Local Government has, in many ways, been the worst hit part of public spending under the current Government. This has been seen in the direct elements, such as revenue support grant but also indirect elements such as council tax support, housing benefit, changes to responsibility not fully funded and risk-shifting. In addition, many parts of the calculation of funding to individual local authorities have been frozen. For Croydon, this has added to the pressures by a combination of:

- Population growth, putting unprecedented pressure on all services, most notably schools places
- Actions by Central Government, such as welfare reform and the bedroom tax, which has changed the demographics and needs of residents
- Overall demographic changes

We have made significant representations to Ministers and Shadow Ministers, highlighting Croydon's case, both in terms of direct funding and in terms of our Growth Plan, which was presented in Westminster. Although there have been some encouraging responses, there is nothing tangible at this stage that can be assumed in setting the strategy.

Some £100 million has had to be found over the last four years. The current administration came in with a £100 million hole to fill over the first three years. At the same time, we were elected on a programme of ambition for Croydon.

In this incredibly challenging context, the Council's financial strategy focuses on three areas that we consider to be essential, if we are to deliver to the residents of our borough, whilst ensuring solid financial management. These priorities are:

- To maximise economic growth locally
- To realign our resources to protect our front line resources as much as possible
- To ensure we retain a strong financial management framework and systems

**I believe that we can, through this strategy, maintain our commitment to being ambitious for the people of Croydon.**

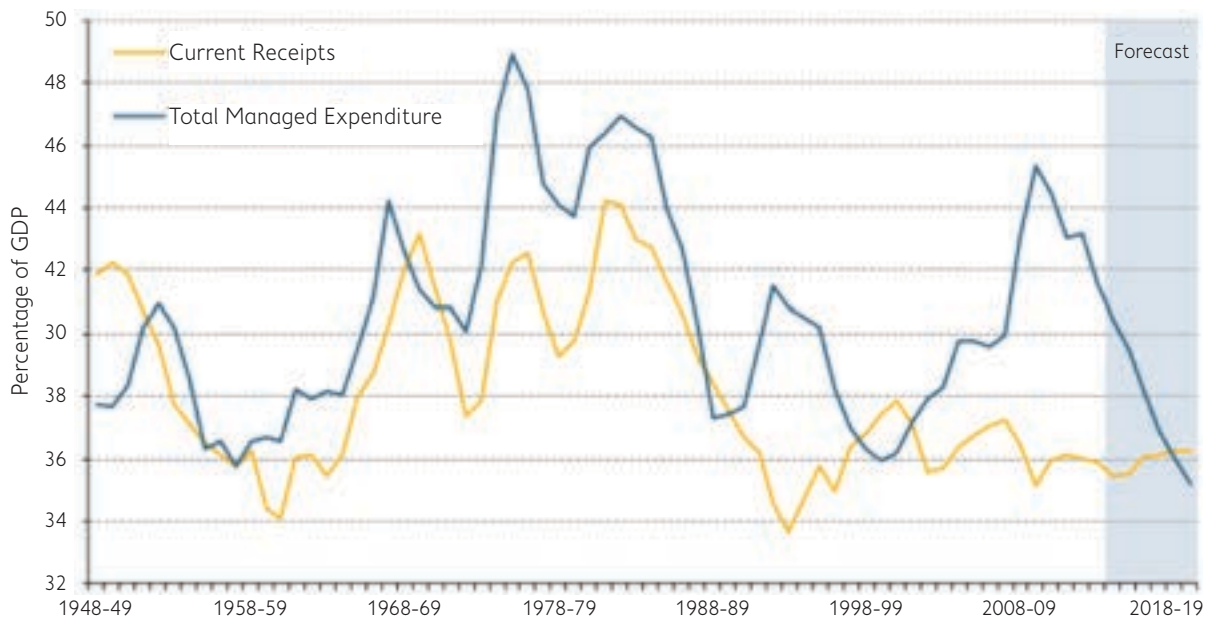
# 2. National Context and Outlook

## The Government's Fiscal Policy

In 2010 the Coalition Government made a commitment to eliminate the budget deficit over this current five-year Parliament. Its intention was to achieve a balanced budget through a combination of tax increases, public sector spending cuts, and welfare cuts.

Figure 1 shows that tax receipts in the UK have remained relatively flat over the past 10 years (at about 36-37% of GDP). This is a combination of tax policy and economic performance, and it appears that future spending will have to be reduced to this level of income relative to GDP. This implies continued cuts in public sector spending from the current level of around 41% of GDP.

Figure 1 – Total public sector spending and receipts



Source: ONS, OBR.

After the next General Election, any government will be faced with the same challenge as to how the gap between expenditure and tax receipts can potentially be closed. The pace of change and the reliance placed on cuts in public sector spending will be crucial to local government.

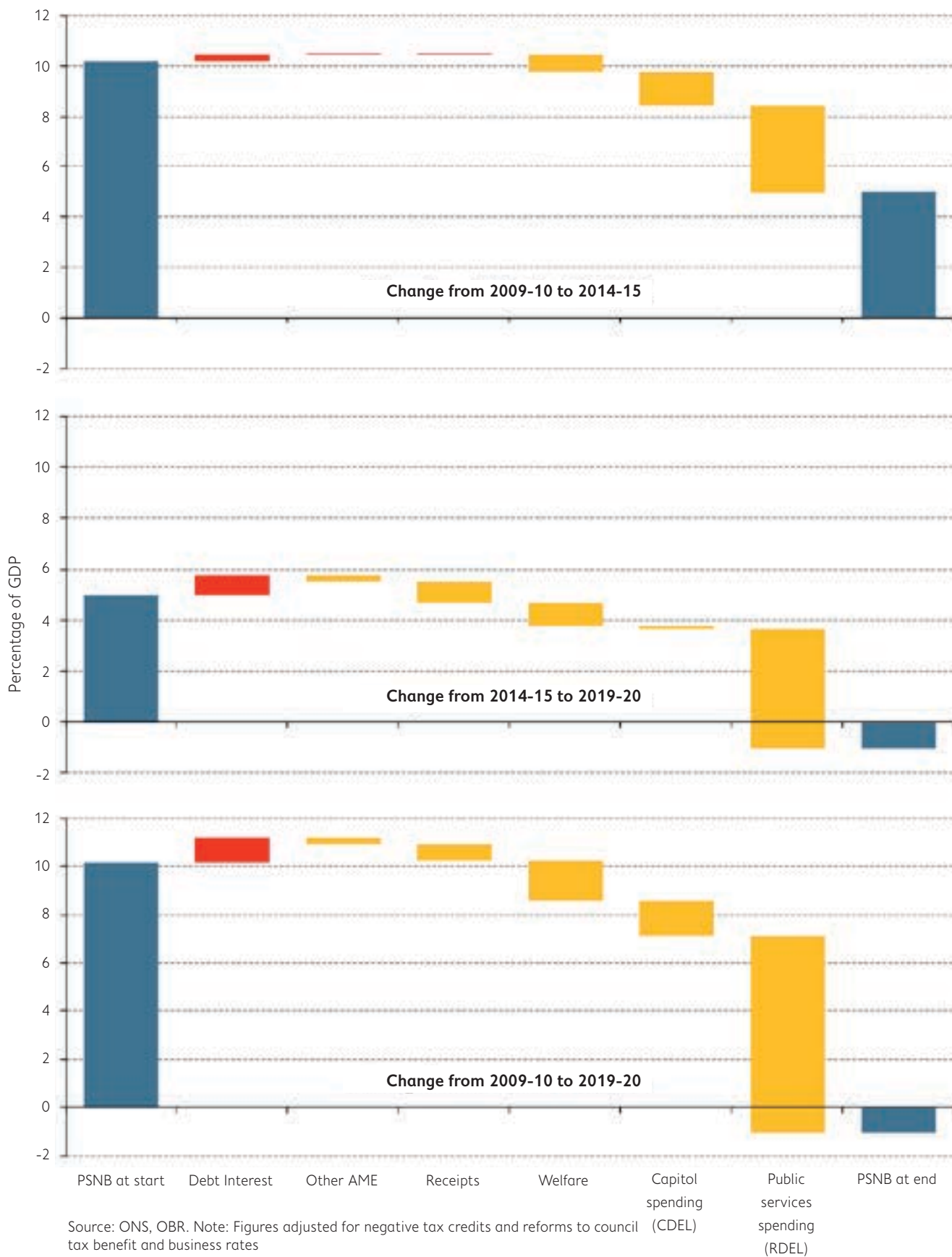
The first chart in Figure 2 shows how the gap was reduced between 2009-10 and 2014-15. The bulk of the savings were from cuts in revenue spending and, to a lesser degree, in capital spending. There were some savings in welfare spending and almost nothing from increased tax receipts.

The second chart shows that there is the same budget gap to close again (about 5% budget deficit). Again, it is expected that the bulk of

the deficit reduction will come from reductions in revenue spending. There will be less of a squeeze on capital spending, which reflects the Government's policy of giving infrastructure investment a higher priority. Planned welfare cuts will be about the same as in the current parliament, and tax receipts a bit more than the current parliament.

This analysis paints a bleak picture for local government: cuts in overall revenue spending are likely to be at least as great as they have been in the current parliament. The actual scale of cuts will depend on political choice, and whether a future Chancellor wants to run a budget surplus or whether they are willing to get close to a balanced budget (say, fewer than 2% budget deficit).

Figure 2 – Composition of deficit reduction





# Impact of the cuts on local government

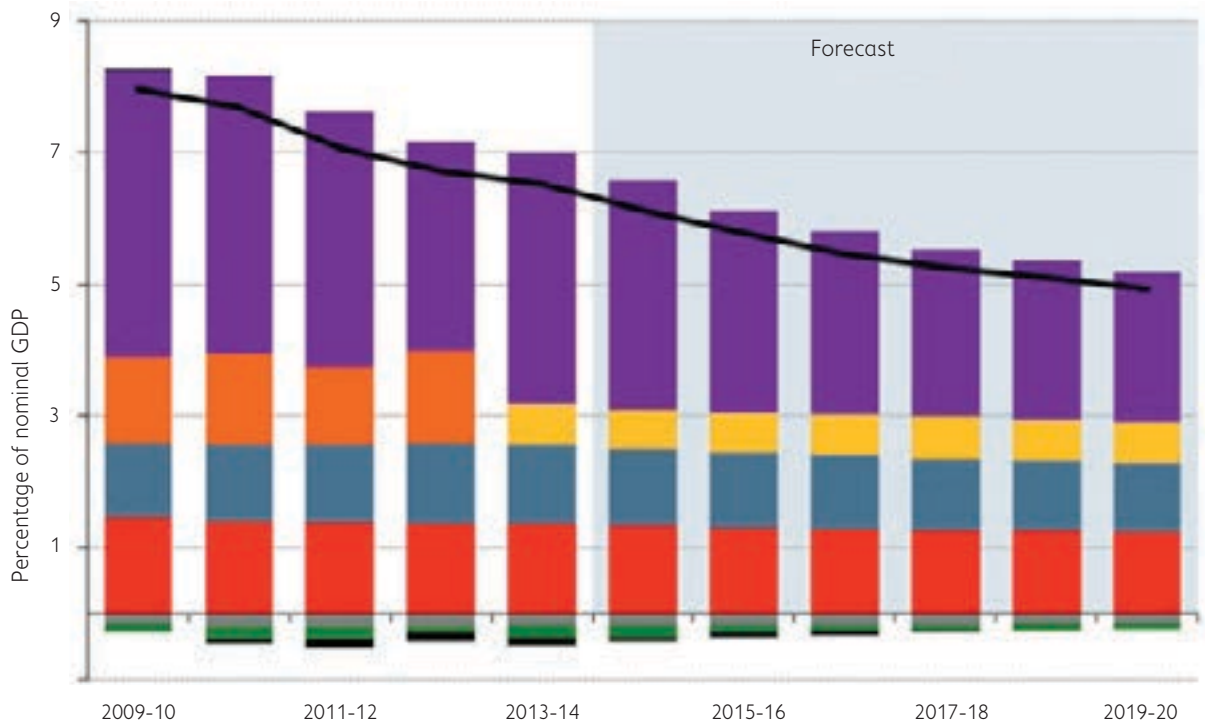
The cuts in public sector spending and the balancing of the UK budget deficit continue to be the dominating factor for local government now and over the period of this financial strategy. Cuts in revenue funding for local government over the current parliament (2009-10 to 2015-16) have been severe (28%). If the planned fiscal consolidation is implemented, total net current expenditure in local government will have fallen from 8.0% of GDP to 4.9%, a reduction of almost 40% as a proportion of GDP between 2009-10 and 2019-20 (and greater in cash terms).

Figure 3 shows how cuts in overall public sector spending might translate into reductions in funding for local government. Cuts in spending power for local government come principally from reductions in central government grant funding. Business rates yield rises roughly in

line with increases in the multiplier (inflation) and council tax remains steady in cash terms (average increase in Band D council tax only just above 0%). Whilst the direction of travel for funding for local government is fairly clear, the actual amount of cuts in funding and how much of this will impact on Croydon is more difficult to determine.

The precise impact on local government is not confirmed yet. Much will depend on political decisions made by the next government, including: the pace of reduction in budget deficit and when this might potentially be attempted to be balanced by; how deficit reduction is delivered (the make-up of increases in taxation or reductions in spending); and which services are protected and to what extent. Local government is likely to be asked to deliver a large proportion of any shortfall. This is a particularly difficult period to forecast because the range of options is very wide, including both political uncertainty and different potential approaches to fiscal consolidation.

**Figure 3 – Composition of local authority financing**



Source: DCLG, OBR

<sup>1</sup> Central government grants in DEL from 2013-14 includes funding for business rates not yet retained by local authorities.

<sup>2</sup> Figures for central government grants to local authorities in DEL after 2015-16 are assumed to decline in line with total implied PSCE in RDEL

- Council tax
- CG grants: housing benefit
- CG grants: business rates
- Retained Business Rates
- CG grants: other grants in DEL (1,2)
- Other
- CERA
- Net use of reserves
- Total net current expenditure

# 3. Financial Strategy Objectives

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## 1. To ensure that the focus of the council's budget is prioritised towards the front line to ensure the best possible service to our residents

The budget is always a choice about priorities despite a number of statutory responsibilities and a rapidly reducing income from government since 2010. Protecting the front line is a key priority of the administration and therefore is a central part of the financial strategy.

### Service Delivery/ Front Line Delivery

Activity and costs related to the delivery of Front Line services.

#### Example staff activities:

- Parking Wardens activity
- Activity from staff in the actual delivery of a care package
- Driver providing transport to a customer

#### Example non staff costs:

- Contract spend on Waste Collection
- Contract spend on Foster Carers
- Contract spend on Temporary Accommodation

The Leadership of the organisation, both officer and political, has agreed that we need to rebalance the resources of our organisation to ensure that more of our resource supports the delivery of front line services<sup>1</sup>; and that over time we reduce the cost of the enabling services<sup>2</sup> which support the front line. At present the ratio of enabling to front line within the organisation is 50:50. Over the period 2015/18 it is intended to rebalance our resources to reflect the outcome priorities for our residents and therefore to aim to achieve a 40:60 ratio. The proposals impacting the first tier across the whole Council new seek to support this realignment of our resources to achieve this aim. The definitions of the activities are set out below.

### Enabling Service Delivery

Support activity and costs Enabling Service Delivery to take place.

#### Example staff activities:

- Enquiry handling activity
- Processing requests and applications activity
- Eligibility and assessments activity
- Managing contracts activity
- IT activity supporting the service delivery
- Quality assurance of service delivery activity
- Procurement and commissioning

#### Example non staff costs:

- IT contracts spend supporting service delivery

<sup>1</sup> Front line service – a service where the relationship between our resident and the service can be measured as a direct contact, influence or support.  
<sup>2</sup> Enabling service – a service where the relationship exists between the front line service and service.



## Core Activity

Non-service specific activity and costs fundamental to the Councils existence.

### Example staff activities:

- Developing corporate strategy and policy activity
- Activity relating to the democratic Core
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### Example non staff costs:

- Fixed building costs
- Facilities management spend on fixed buildings
- Fixed infrastructure costs e.g. parts of ICT provision

The Transformation Programme is the primary tool to drive this change as it acts to shape the structure of the Council in two clear ways. Firstly the programme itself has identified the changes required which will improve key outcomes and the service models/business models which will enable these outcomes to be achieved. These models influence the structure of the Council. Secondly the structure of the organisation needs to be remodelled to successfully deliver the 'ideas' which have been created and thus ensure the structure of the Council is robust both in terms of the resource envelope available and key outcomes which have been prioritised.

The 2015/16 budget sees that start of the change with nearly 50% of the savings in the budget coming from the Resources department.

The Digital by Design and Enabling Core is the key programme that will support the reduction in our enabling costs as a council. These projects will:

- a) 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; and
- b) further simplify, standardise and share enabling spend in order to provide a more agile and effective support function.

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. Through the implementation of the strategy the council will be looking to make better use of its assets to deliver services and also reduce the cost of the space occupied.

Contract Management Transformation – The council spends a significant amount of its budget on commissioned services. 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.



## 2. To invest where possible to support economic growth locally

Croydon Council has plans in place to maximise economic growth within the borough. Some of these plans will have direct financial consequences for the council, such as where capital investment is required or in the setting up of a housing company. There will also be indirect financial benefits, such as from increased tax revenues.

### “Promoting growth and economic prosperity”

This is one of the Council’s key policy priorities and the Council’s plans are set out in “The Croydon Promise: Growth for All” builds from our existing strategic policies, including: the *Croydon Local Plan: Strategic Policies 2013*; the emerging *Croydon Local Plan: Detailed Policies and Proposals* and *Croydon Local Plan: Strategic Policies Partial Review*; and the *Infrastructure Delivery Plan (IDP)*.

Targets for 2020:

- Our economy will be growing rapidly;
- New houses will be being built at a faster rate;
- The metropolitan centre will offer the most exciting shopping and leisure experience in London and the South East;
- Our district and local centres will be ‘neighbourhoods of choice’;
- Croydon will confirm its position as South London’s primary commercial centre;
- Croydon will be one of London’s most enterprising boroughs;
- Croydon will be a place that is easy to move around;
- Croydon will be a hub for learning.

The Council recognises that the delivery of these of the growth promise needs to be supported by direct investment by the council to drive the pace of growth and is keen to work with the private sector to, where necessary unblock and enable their delivery.

One way of addressing these constraints is to establish a Revolving Infrastructure Fund. A fund of this nature could, over a period of time, provide funding, finance, debt, skills and resources to a portfolio of projects across the area, whilst ensuring a more strategic and joined up approach to investment.

This more innovative approach to enabling delivery will entail the Council taking a lead role in funding and finance arrangements. In this context the Council has taken the decision to establish the RIF as a vehicle to offer this support, with £3 million identified to take forward the development of this initiative.

This will focus initially on the delivery of sites within the council’s current ownership linking with the key objectives of the councils approved Asset Strategy.





## Growth Zone

The Autumn Statement set out the potential opportunity for Croydon to be a Growth Zone, Croydon provides one of the greatest growth opportunities in London and the South East. The scale of growth planned is the equivalent to that of Ebbsfleet, yet in half the time. Over the next five year period Croydon will deliver a £5.25bn<sup>3</sup> regeneration programme.

Croydon's growth objectives state that the area can create upwards of 23,594 net new jobs to London with a further 5,097 during the construction phase and 8,359 new homes in the opportunity area by 2031. The annual GVA equivalent of these jobs is estimated to be in order of £1.2 billion by 2031.

Croydon estimates that the public sector support needed to drive change, amounts to around **£1.1bn**. Croydon has already raised nearly half of this amount through its own sources and Transport for London (TfL) investment. This leaves a funding gap of **£805m**. We would like to see the devolution of business rates and stamp duty in the zone to enable this gap to be met.

Croydon would like to create an innovative *Growth Zone* for Government which will not just see this growth potential delivered but provide a locally led solution.

Croydon would like to create a *Growth Zone* in the Opportunity Area which will have three core strands:

1. Supported delivery of housing;
2. Delivery and ownership of hard and soft infrastructure; and
3. Facilitation of private sector redevelopment and investment.

The *Growth Zone* aims to address the delivery of infrastructure, in its widest sense, the non-delivery of which is currently one of the most significant risks to the delivery of these growth objectives. To achieve this, it would like to create a '*Growth Zone*' which will have the financial means to deliver locally with an impact felt across London.

The BRRS and New Homes Bonus now gives some opportunities for local government to get financial rewards for supporting local economic and housing growth. These changes reflected a wide consensus that the current system did not incentivise local decisions that supported growth. These changes in funding effectively underpin/support Croydon's corporate priority of 'Promoting economic growth and prosperity', and they are explored in the following sections on New Homes Bonus and Business Rates.

<sup>3</sup> Croydon's integrated delivery plan has identified projects in the pipeline which will deliver this investment

## New Homes Bonus

The New Homes Bonus Grant incentivises Croydon for promoting house-building in our communities by rewarding the council with a grant for:

- each additional housing unit built;
- each empty home brought back into use; and
- each affordable housing unit delivered.

The majority of this resource is essentially top-sliced from the Revenue Support Grant. Therefore, the New Homes Bonus is part of a shift

from a needs-based formula of funding for local government to one that places more emphasis on local economic growth. The Council has a clear plan for the provision of new housing in the Borough which will help deliver New Homes Bonus over the period of the financial strategy.

The tables below show the details of Croydon's allocations since the start of the scheme.

There is a risk that New Homes Bonus ceases after the next General Election. This would mean that Croydon would not get the full benefit of its investment in the local economy. The risk would be offset because the current NHB funding would be recycled through RSG, and Croydon would expect to receive its share.

**Figure 4 – New Homes Bonus – Grant Allocations**

Grant Element	2011/12 allocation £m	2012/13 allocation £m	2013/14 allocation £m	2014/15 allocation £m	2015/16 allocation £m
Additional New Homes	1.981	1.528	1.081	1.250	1.831
Empty homes brought back into use	0.221	0.231	(0.067)	1.528	(616)
Affordable Housing	-	0.264	0.202	0.095	122
Annual Increase	2.202	2.023	1.215	2.873	1337

Annual Grant (Cumulative)	£m	£m	£m	£m	£m
2011/12	2.202				
2012/13		4.225			
2013/14			5.440		
2014/15				8.312	
2015/16					9.649

### New Homes Bonus - Increase in Housing Units

Year*	New Build		Empty homes brought back into use		Affordable
	No. of Units	Band D equivalent	No. of Units	Band D equivalent	No. of Units
2011/12	1,562	1,377	159	153	n/a
2012/13	1,252	1,062	155	161	753
2013/14	841	748	(41)	(47)	577
2014/15	972	859	1,068	1,050	270
2015/16	1,385	1,247	(447)	(420)	350





## Business rates

The Council will benefit from being able to retain 30% of the increased yield from locally generated Business Rates resulting from increased economic growth. It incentivises Croydon to retain, develop and grow the businesses already in the borough as well as increasing the attractiveness of the town for other businesses to set-up or re-locate here. This also brings risk in that the council will carry 30% of the risk of any reduction in business rates yield. A key part of our strategy will therefore be to try and increase the yield to support our future budget. The table below shows the current business rate income and future forecasts.

**Figure 5 – Business Rates Annual Increase**

	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m
Business Rates Income	32.962	33.604	34.532	35.706	37.063
Top up	31.723	32.340	33.232	34.196	35.324
Baseline Funding Level	64.685	65.944	67.764	69.902	72.387
Annual Increase		1.259	1.82	2.138	2.485
<b>Assumptions</b>					
Annual NDR Growth				0.50%	0.50%
RPI (OBR forecast)				3.30%	3.60%

### 3. To ensure we retain a strong financial management framework and systems

Over recent years the Council has worked hard to maintain financial stability. Given the turbulent economic environment we face, maintaining financial stability will be essential in order to continue to maintain a medium to long term strategic focus for the Borough and its priorities.

### Balanced budget

One of the key strengths of the Council is its financial management which has enabled the financial stability track record to be achieved over recent years. We have managed to deliver the priorities of our community within our overall budget resources over the past four years, despite the many difficult challenges and choices. Maintaining this level of financial discipline will be vital over this coming financial period and this is firmly established in the performance accountabilities of the officers of the organisation and the discipline of the organisation itself.

## **Balances and reserves**

The Council needs to maintain an appropriate level of general fund balances to maintain financial stability and to manage any identified and increased financial risk. This has been set at a minimum of 5% of net operating expenditure for the financial strategy. Given the reducing budget this target will decrease year on year and therefore there are no plans to budget to get to 5% in the short term.

In determining the minimum level of balances, key factors include:

- The risks inherent in the budget;
- The level of specific reserves and associated provisions;
- The future risks the Council maybe exposed to; and
- The Authority history of delivering services within the budgetary provision set.

There has been a significant risk shift from central government to local government in terms of business rate and council tax benefit which make it more vital than ever that reserves are held to protect the Council from this potential risk.

Alongside general balances it is vital the Council has an appropriate level of reserves and provisions to support the delivery of the resident's priorities and to protect our services, where possible, against the negative economic circumstances.

## **Strong financial service, systems and process**

Financial management continues to be an area of strength for the organisation over the last 4 years which has resulted in positive external audit opinions and a strengthened financial position. Despite this strong performance it is clear that the challenge for the public sector will become greater over the coming years. In this time the finance function has unified across the Council providing an efficient and professional service.

The unified finance function continue to examine the approach to financial processes and reporting with consistent best practice and ensuring that service managers have the support and competencies they require to deliver value for money services across the organisation.

## **One Oracle**

The Council has delivered a new Finance and HR system in partnership with 5 other London Boroughs. This has reduced the costs of ownership and have some standardisation across the participating boroughs in order to minimise further upgrade costs through sharing. The council will be reviewing the opportunities from further sharing of the services delivered from the system with partners over the next 12 months.

## **Financial planning and budget process**

The Council has a robust and detailed resource planning process to align our resources to our agreed priorities and also, to challenge, at a service level, performance, costs and customer satisfaction. A twenty year planning model is used to inform assumptions and various sensitivities are tested.



# 4. Key Pressures for Croydon

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Many of the pressures on Croydon's budget come from changes in the local population. Croydon is the largest London borough (363,400 residents), it is growing quickly, and it has a diverse population. Growth and change in population drives demand for new services, and funding for those pressures is not met by additional funding from central government. Croydon has challenged Government on the way that it short-changes the Council on these pressures.

Changes in responsibilities for the Council are also driving costs. This includes welfare reform and the new social care responsibilities in the Care Act.

## Population growth

The Office for National Statistics (ONS) projected a 2011 population for Croydon of 350,100 people, compared to a 2011 Census population of 363,400. This equates to a total under-estimation of 13,278 people (3.8%). This compares to an underestimate across London of 1.3% and nationally of 0.7%, with Croydon therefore being disadvantaged by a factor of over 5 times, compared to the average national position. Based on an estimate that each person is 'worth' approximately £1,025 in local government funding terms, prior to 2013/14 (when the 2011 Census figures were introduced), an under-enumerated population of 13,278 people would be equivalent to £13.6m in lost funding per annum for the Council alone.

Figure 6 shows that Croydon's population growth of 7.3% is expected to be higher than the England average (6.7%), and significantly higher than the average seen in most other regions. From 2014/15 onwards, the distribution of funding between local authorities is essentially "frozen". It is the government's intention that this funding distribution will not be reviewed until 2020/21. If the distribution of funding was 'rebalanced' to account for different rates of population growth, it is estimated that Croydon Council's funding levels would increase by a total of £2.2m between 2014/15 and 2020/21 (and would rise to £0.8m per year by 2020/21). The decision to freeze the funding distribution from 2014/15 will therefore penalise Croydon relative to authorities other parts of England.

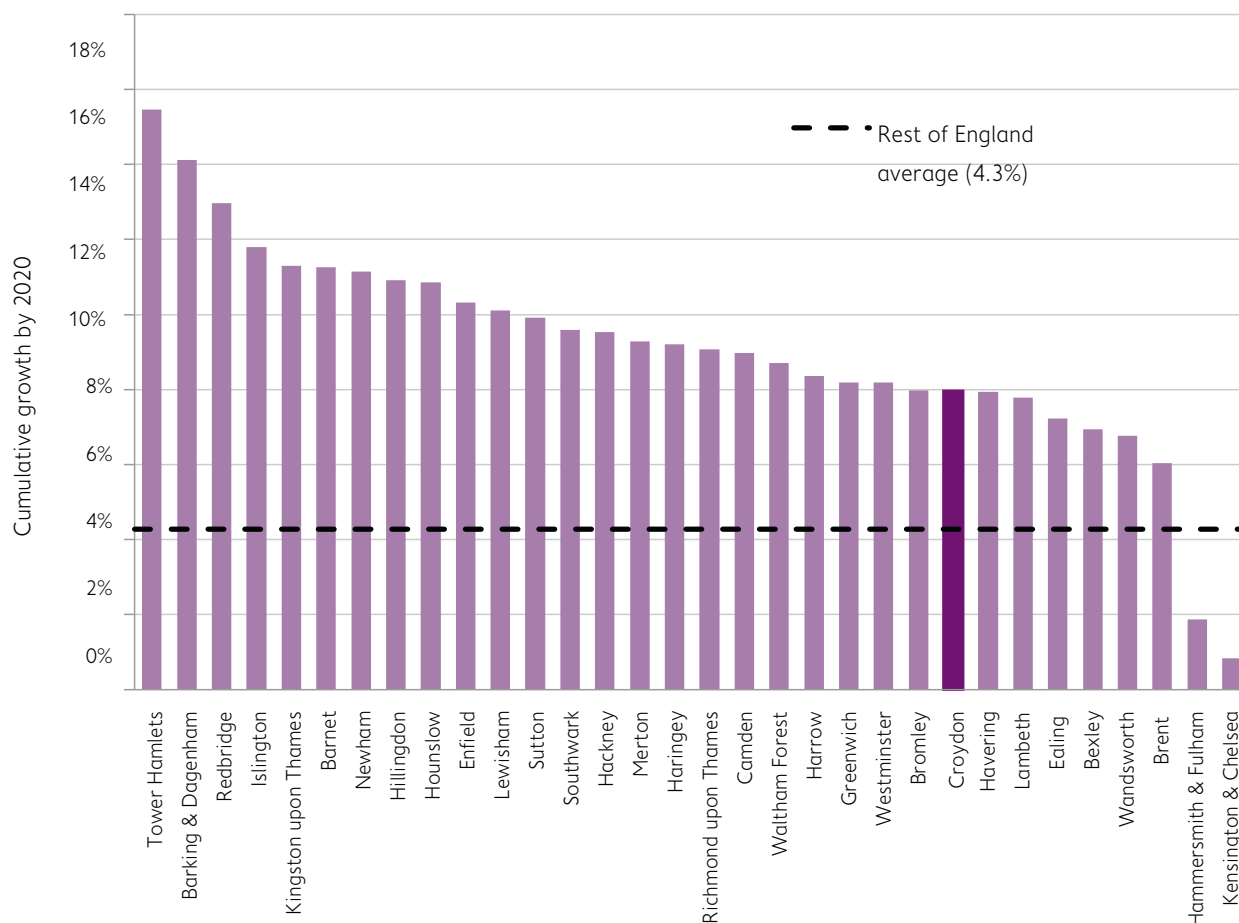
## Demographic trends

Croydon is becoming relatively more deprived in comparison to other London boroughs and the England average. There has been a recent trend for more deprived people to move out from inner London into outer London boroughs, such as Croydon (known as the "suburbanisation of deprivation).

Croydon also has particularly significant pressures from migration. Partly, this is due to the location in Croydon of the Border Agency's only non-port based screening centre in the country. As a result, the borough has become a long-term base for many asylum seekers. This means that Croydon is facing associated challenges on a scale that no other authority in the country is required to face. Specific issues have been identified below which could indicate that the location of Lunar House places financial pressure on the Council, including No Recourse to Public Funds, homelessness and specific pressures in children's services.



**Figure 6 – Cumulative growth in population by 2020**



## Social care/ Care Act

The Better Care Fund is an integrated fund with the intention of delivering better integration of health and social care. It is jointly managed by the Council and the CCG. Funding is provided from a combination of existing pooled budget (section 256 arrangements) and from existing base budgets. Funding is already fully committed and there is no additional spending power in the short term. However, better working and stronger provision of community-based services has the capacity to deliver more effective local services and the potential for savings. From 2015-16, the Croydon Better Care Fund will be pooled through a joint s.75 agreement between Croydon Council and Croydon CCG.

## Pupil places

Croydon has the fastest-growing pupil population in England, with forecast growth in the number of planned pupil places being greater in Croydon than for places in any other local authority, an increase of 36.2% from 2012/13 to 2017/18, compared to a London increase of 17.8% and an England average increase of 8.8%.

In its current phase of building, the Council will have to provide a further 33 primary and 21.5 secondary forms of entry for the period 2015-17. Seven new schools will need to be built, which requires the Council to fund the costs associated with the new land. The Council estimates that the actual cost of provision to meet this growth in demand will be £165m between 2013 and 2015, compared to funding from government of only £111m. The remaining funding will be required from capital borrowing, with the cost of financing the borrowing being financed through Council Tax, placing significant budgetary pressure on the authority.

Croydon has asked for more flexibility over how it manages the pressure on the places in its schools. Additional flexibility would include larger classroom sizes or the adoption/piloting of the European model of schooling, which would allow the Council to maximise the use of its existing accommodation.

The Council is also continuing to call for more funding for the new places that it will have to build, and for the government to fund a larger proportion of the overall cost. The shortfall over two years is more than £50m, and this is set to grow over future years as more places are required. Greater certainty over funding allocations would also help the Council to put in place more robust medium term plans.

# 5. Resources

Croydon's projected resources over the period of the financial strategy are driven largely by the cuts in Government funding. Figure 7 shows that it is estimated that Revenue Support Grant will fall by £66.1m between 2015-16 and 2018-19.

These reductions will be offset to a limited degree by additional resources from council tax, in part from an increase in taxbase and better than expected collection rates.

**Figure 7 – 2016-17 to 2018-19 Funding changes for Croydon**

Description	2016/17 (£m)	2017/18 (£m)	2018/19 (£m)	2016/19 (£m)
<b>Funding</b>				
Grant Reduction	16.800	14.600	7.385	38.785
Council Tax base changes	(2.572)	(2.623)	0.000	(5.195)
Academies Conversion (Loss of ESG)	1.150	0.000	0.000	1.150

## Resource forecasts for Croydon

Prospects for public sector and local government funding have been explored already in this financial strategy. Based on this information and analysis, Croydon is assuming that SFA will fall by 13.4% in 2016-17 and 2017-18, the same rate as the cut in SFA in 2015-16. This results in cash reductions in Revenue Support Grant of £16.8m in 2016-17 and £14.6m in 2017-18. The projected reduction in grant over the period of the financial strategy is £66.1m, which is equivalent to more than 50%.

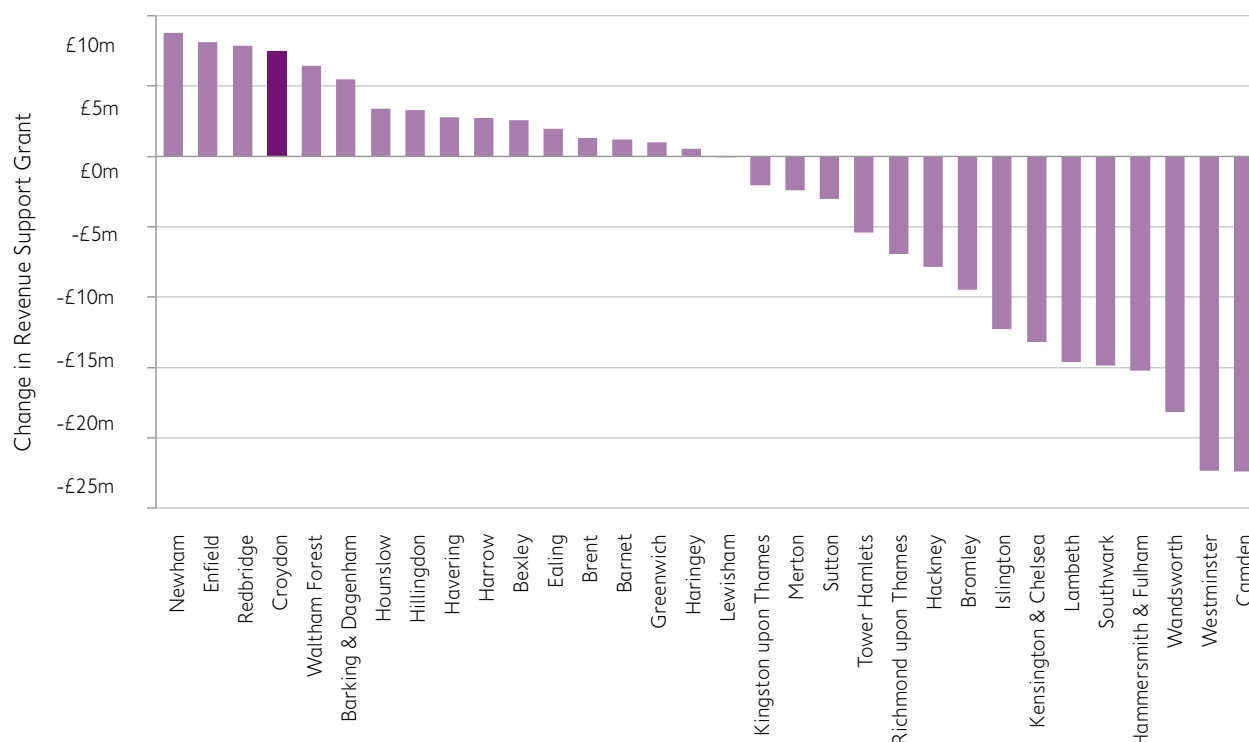
Within the introduction of the BRRS, Croydon will retain a proportion of the business rates that it collects. It is expected that the income received by Croydon will increase in line with the multiplier (which increases in line with the September RPI). Thus the Council's income is derived from RSG and from retained business rates.

## Funding shortfalls for Croydon

Within the context of this frozen funding system, Croydon is penalised for two reasons: (i) rapid population growth and (ii) initial levels of damping.

As we have seen, Croydon is projected to have faster than average population growth between 2013 and 2020. It is projected to grow by 8.0% over this period, compared with only 4.3% for authorities outside of London. If the SFA was adjusted each year to compensate authorities for their relative population growth (while holding the envelope of total funding constant), it is estimated that Croydon's annual revenue would increase by up to £4.6m by 2020.

**Figure 8 – Damping correction grant**



Croydon is also penalised by damping. Croydon was above the funding floor in 2013/14, with its Formula Funding was ‘scaled back’ by £10.6m to provide additional funding to authorities who would otherwise have been below the floor. Damping was intended as a transitory measure to minimise year-on-year fluctuations in funding; however, the ‘freeze’ in funding shares in 2013/14 effectively locked this damping into Croydon’s settlements over the subsequent years (and potentially until 2020/21). Damping for Croydon effectively means that it is not being funded for the needs that the government has assessed in the first instance. Figure 8 shows how much extra Croydon would receive if damping was phased-out and the impact on other London boroughs.

Growth in the council taxbase has been built into the projections (£4.100m in 2015-16) and there is potential for further growth in future years. Taxbase is projected to increase by 2.4% in 2015-16 compared to the 2014-15 base. The collection rate is currently at 96.7% and it is expected to remain at this level or even to improve. Recent years have seen collection fund surpluses as taxbase has grown more quickly than expected and collection rates have also improved (expected surplus of £3.5m in 2015-16).

For New Homes Bonus, Croydon is assuming growth of £0.810m in 2015-16 and £2.183m in 2016-17. London boroughs will contribute £70m to the London LEP in 2015-16 (pro-rated to boroughs). New Homes Bonus is not permanent and future allocations could potentially be lost if there is a change in government. Any unused NHB is recycled, and if NHB were stopped, Croydon would expect to receive its share of recycled NHB.

## Council Tax

The financial projections assume that council tax will be frozen and that the Council will receive Council Tax Freeze Grant (which is equivalent to a 1% increase in Band D council tax). Croydon committed to council tax freeze in 2015-16. There is no guarantee that this funding will be available in 2016-17 or that CTFG will be repeated. Any government likely to continue control over council tax. Referendum threshold is 2%. Unlikely to be much different in future.

# 6. Assumptions

## Key principles

The Financial Strategy informs the key principles of the budget based upon the following assumptions:

- Government grant reductions between 2016 and 2019 in line with overall government spending projections with proportion for local government in line with 2010-14;
- Local taxation increases will be kept at or below inflation;
- General Fund balances will be targeted at 5% of our budget requirement;
- Earmarked reserves will be set up for specific purposes beyond the general fund balance which is there to mitigate against demand risk on service budgets;
- Inflation will be estimated in line with 'sector' specific forecast increases;
- Investment in development delivered from the RIF will be ring-fenced from the capital programme;
- The Housing Revenue Account does not cross subsidise or vice versa the General Fund Revenue account up to the point where the HRA continues to exist;
- Rents will be assumed to rise at CPI + 1% in line with social rent guidance; and
- Decent Homes standards will be maintained for HRA stock.

## Budget gap for the period of the financial strategy

Figure 9 – Projected budget gap 2016-17 to 2018-19

BUDGET GAP	2016/17 (£m)	2017/18 (£m)	2018/19 (£m)	2015/19 (£m)
Gross Budget Gap	22.695	20.467	12.885	56.047
Departmental Growth	1.822	1.430	5.000	8.252
Departmental Inflation	5.886	5.840	5.000	16.726
Savings	(11.589)	(10.025)	0.000	(21.614)
<b>Net Gap</b>	<b>18.814</b>	<b>17.712</b>	<b>22.885</b>	<b>59.411</b>

The Council has already delivered over £100m in efficiency savings. And a further funding gap of £100m is projected by 2017-18, which is equivalent to about one-quarter of the Council's budget. Figure 9 above shows the savings that have been identified already and shows that there remains a funding gap of £62m.

As part of its programme to deliver a balanced budget, the Council has used the Croydon Challenge programme. This programme has driven through the transformation of Council services, focussing on making them more efficient and more effective. The objective of the programme is to reduce back office costs and to protect the frontline and the services that matter most to residents.

Planned savings have been applied to all services across local government, including adult and children's social care. Combination of statutory and non-statutory services.

The main source of inflation within Croydon budgets is from pay. Public sector pay inflation has been very low in recent years and there is some potential for greater increases in the next planning period. The local government pay award is 2.2% in period between January 2015 and April 2016.

## **Housing 30-year business plan - assumptions**

The 30 year business plan for the HRA sets out the principles to support continued investment in the councils housing stock

The business plan commences in 2014/15 and covers the period to 2043/44. Inflation for future years is based on the Retail Price Index (RPI) which is 2.3% for 2015/16 and assumed at 2.5% thereafter except for rents which are linked to the Consumer Price Index (CPI), in line with Government proposals, which is 1.2% for 2015/16 and assumed at 2% thereafter.

1. Rents are assumed to increase at CPI + 1% for existing tenants with re-let property rents at the formula level in accordance with Government guidance.
2. Retained Right to Buy receipts, assumed debt and allowable debt are assumed to be applied to the HRA.

3. Management and service costs are assumed to be £22.7m and £7.3m respectively based on the budget for 2014/15 with £0.7m savings to the budget from 2015/16 and increases assumed in line with CPI.
4. Responsive repairs are estimated at £11.177m for 2014/15 with an inflationary allowance of 2.5% per annum. Cyclical costs are estimated at £1.125m with no allowance for inflation.
5. The capital programme is based on the current asset management plan including additional resources of £2.5m per year for the first 5 years (at current prices) to target key backlog areas. This programme has then been adjusted to ensure there are sufficient resources available to meet the plans.
6. The business plan includes the council's latest schedule for its new build development programme.
7. Long term borrowing is assumed from the PWLB to meet the business plan requirements at an interest rate of 4.5% in 2014/15 and 5% thereafter. Where pre self-financing loans reach maturity during the Plan these are also assumed to be refinanced at 5%. The self-financing loans (the borrowing in 2012 to pay the Government, £226.3m) are assumed to be repaid at maturity.
8. There is a minimum level of revenue balance that is required by the Council to meet the risks of managing the HRA.
9. The current business plan shows that balances on the revenue account are at this minimal position in the short to medium term and once the borrowing capacity of the Council has been used; there are insufficient resources to meet the planned major works expenditure. A re-phasing of expenditure has therefore been calculated to ensure a balanced business model.
10. In the longer term provision is accumulated in the HRA to repay the self-financing loan at maturity and a balance of £103.3m remains at the end of the 30 years.









