

For general release

<b>REPORT TO:</b>	<b>CABINET 16th JULY 2018</b>
<b>SUBJECT:</b>	<b>DRAFT - JULY FINANCIAL REVIEW</b>
<b>LEAD OFFICER:</b>	<b>RICHARD SIMPSON EXECUTIVE DIRECTOR RESOURCES (SECTION 151 OFFICER)</b>
<b>CABINET MEMBER:</b>	<b>COUNCILLOR TONY NEWMAN THE LEADER COUNCILLOR SIMON HALL CABINET MEMBER FOR FINANCE AND RESOURCES</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
A regular review of the Council's Financial plan enables a balanced budget target to be established with a focus on an affordable level of council tax, delivery of the corporate priorities and policies of the Council and the continued enhancement of value for money and satisfaction with services for the residents of our borough.	
<b>FINANCIAL SUMMARY:</b>	
This report sets out the financial outturn for 2017/18 for revenue, capital and the HRA. It updates on the current position of the council's Revolving Investment Fund (RIF) and the overall financial standing of the council.	
The report also sets out the latest medium financial forecasts and risks for the council.	

**FORWARD PLAN KEY DECISION REFERENCE NO. - This is not a key decision.**

## **1. RECOMMENDATIONS**

It is recommended that Cabinet approves:

- 1.1 The approach to ensuring the financial challenge of the period 2018/20 continues to be managed efficiently and effectively including delegation of decisions on the 2018/19 budget to the Cabinet Member for Finance and Resources in consultation with the relevant Cabinet member as set out in paragraph 4.12.

1.2 The revised capital programme as detailed in section 11 and appendix 2 of this report.

1.3 The continued use of capital receipts for funding transformation as detailed in section 11.

That Cabinet Notes :-

1.4 Final outturn of the 2017/18 budget as detailed in section 3.

1.5 The update on the Revolving Investment Fund as detailed in section 3.20.

## 2. EXECUTIVE SUMMARY

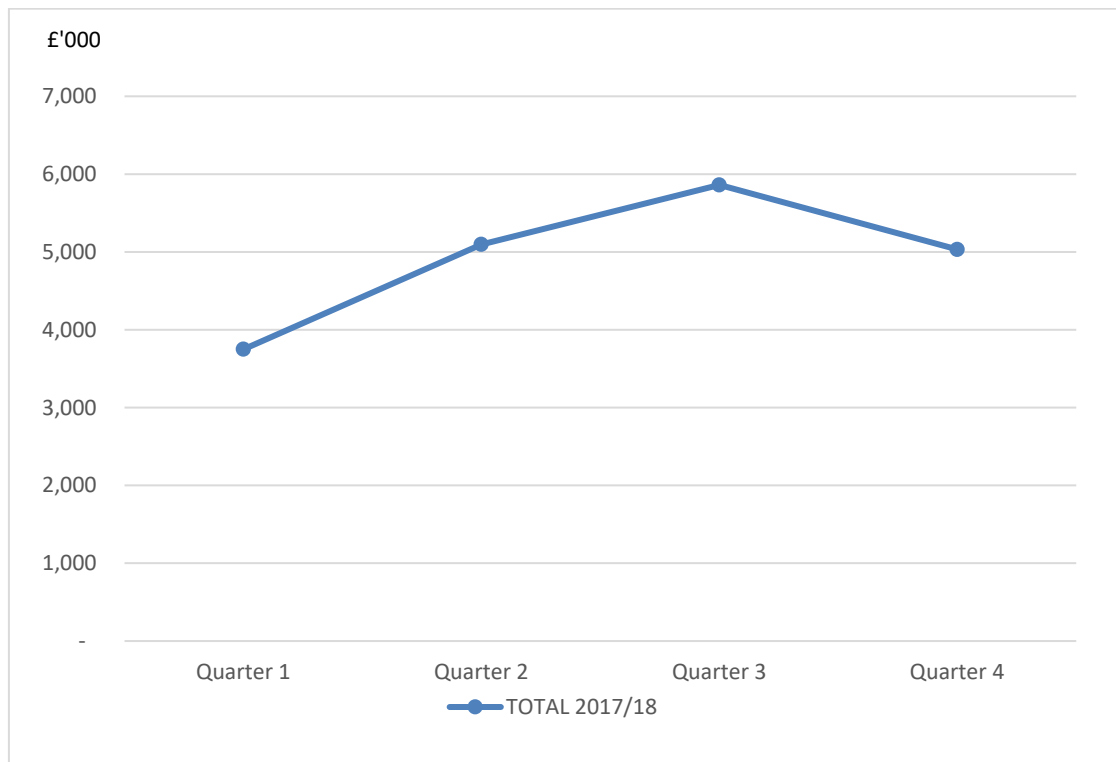
2.1 The Council's budget for 2018/19 was approved by Full Council on the 27th February 2018 (Minute A14/18), as part of the annual budget setting cycle of the Council. This report provides an update of progress towards ensuring the financial challenges for 2018/20 are managed in the most effective way possible and provides an update on the:

- The Council's overall financial position including the 2017/18 outturn position;
- Key financial changes which impact on Croydon's local and wider financial 'environment'; and
- The Council's readiness in delivering the 2018/19 budget and any resultant impact of this on future years.
- The Revolving Investment Fund – RIF
- Capital Programme and use of capital receipts to fund transformation.

2.2 Throughout the year Cabinet have been kept updated on areas of the Council's budget that have been impacted on heavily and have led to significant pressures during the year. These include Adult Social Care demands, Children Social Care demand and the impact following the recent OFSTED inspection, UASC and NRPF, and Temporary and Emergency Accommodation including Bed & Breakfast.

2.3 The revenue outturn for 2017/18 was an overspend of **£5.032m**. This is an improvement from the anticipated overspend that was reported at quarter 3 of the 2017/18 financial year of **£5.861m**. The 2017/18 outturn is detailed in graph 1 below and section 9 of this report. Cabinet should note that as resulted in the 2018/19 budget report to Cabinet in February 2018 a £4.7m surplus from the collection fund is being released on the 1<sup>st</sup> April 2018 and in effect this can fund all but **£0.332m** of the overspend in 2017/18, which has been taken from general fund balances.

**Graph 1 – Forecast Revenue outturn for 2017/18 by quarter.**



2.4 Specific measure put in place to manage the budget include:-

- Better integration between health and social care including the One Croydon Outcomes Based Commissioning Programme for over 65's.
- Additional governance measures put in place for Adult Social Care placements.
- Continuation of the Gateway service to provide more support at the front door to prevent service users coming in later with more expensive issues.
- Continuation of the Think Family programme – focusing on the top most expensive families who use multiple council services to make efficiencies through a joined up approach.
- Implementation of the recommendations from the Children's Social Care Ofsted inspection (this has resulted in additional investment in the short term).
- The continuation of the review of agency staff across all areas of the Council, with a drive to reduce reliance on agency staff and increase the number of permanently employed staff.
- Greater use of our assets including leasing additional floors of Bernard Wetherill House.

2.5 As reported to this cabinet in February 2018, 2018/19 is the third year of the four year funding agreement and the council continues to face a level of uncertainty regarding the medium term. Savings have been identified for 2018/19 and 2019/20 and there is currently an expected budget gap of £6.3m in 2019/20 at this stage. While the government has provided a

degree of certainty on the reductions in funding until 2020, the end of the spending review period, this is subject to future decisions of the government based on the economic position.

- 2.6 To set the balanced budget for 2018/19 we have had to make a number of key assumptions around the level of growth for areas where demand and cost have increased, alongside savings to offset this increased growth. Assumptions have also been made for 2019/20 resulting in the current funding gap which was reported to Cabinet in February 2018 as part of the budget setting report. An update in 2018/19 and future year's budgets are provided later in this report.
- 2.7 The Local Government Association (LGA) have predicted that there is a funding shortfall of £5.8bn across the Public Sector by 2020. 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 £2.3bn by 2020 and £2bn in children's services. The 2017/18 local government finance settlement amended the use of the additional Social Care receipt, announcing that it could be applied at 3% per annum for 2017/18 and 2018/19, but needed to maintain a maximum additional precept of 6% for the period 2017/18 to 2019/20. Therefore if an authority chose to use the higher 3% threshold in each of 2017/18 and 2018/19, then it would not be able to have an additional precept in 2019/20. In 2017/18 Croydon increased the Social Care Precept by 3% and in 2018/19 it has been increased by 2%, leaving a balance of 1% to be levied next year. With uncertainty at this stage with regard to this continuing in the future.

### **3. FINANCIAL PERFORMANCE 2017/18**

#### **Revenue position**

- 3.1 Last year was the seventh successive challenging financial year in the Government's Deficit Reduction Programme and the prevailing economic climate of low growth. The magnitude of government grant cuts resulting again in a high level of savings needing to be achieved to balance the budget. Through careful budget management and in year interventions to reduce costs the year end revenue position for the Council was an overspend of £5.032m, which is a reduction from earlier in year projections as shown in graph 1 of this report.
- 3.2 The measures detailed in the Executive Summary have played an important part in controlling the Council's expenditure during 2017/18, with the final outturn position being £5.032m overspent, compared to a £5.861m overspend forecast at quarter 3. A £4.7m surplus on the collection fund which was not budgeted for in 2018/19 and which was released on the 1<sup>st</sup> April 2018 can fund that element of the overspend and therefore General Fund balances have only reduced slightly to £10.4m as at 31<sup>st</sup> March 2018.

- 3.3 The target set out in the Financial Strategy is to hold General Fund balances of 5% of the council's net budget requirement. For 2017/18 this equals £13m. The Financial strategy made clear that although 5% remains a target there are no plans to actively move towards the target in cash terms over the medium term as the council's budget is expected to reduce by in the region of £13m over this period. This would see the 5% target reduce by £0.5m, making it £12.5m by the end of 2020.
- 3.4 The Council's over spend of £5.032m was made up of Departmental over spends of £6.774m, exceptional items including UASC, NRPF, and Universal Credit of £6.289m offset by items treated as non-departmental of £8.031m. Details are provided in Table 1 below in the management structure of the Council from 2017/18.
- 3.5 Further detail is set out later in this report in section 4.5 on the unique financial challenges Croydon continue to face in relation to UASC. It is worth noting the National Audit Office published a report reviewing the implementation of Universal Credit on the 15<sup>th</sup> June. The key considerations for local authorities are set out in the extract below;
- 3.6 Universal Credit has taken significantly longer to roll-out than intended, may cost more than the benefits system it replaces, and the Department for Work and Pensions (the Department) will never be able to measure whether it has achieved its stated goal of increasing employment. In today's report, the National Audit Office (NAO) concludes that Universal Credit has not delivered value for money and it is uncertain that it ever will.
- 3.7 Increases in rent arrears since the introduction of Universal Credit in an area, which claimants can often take up to a year to repay, have been reported by local authorities, housing associations and landlords. Some private landlords told the NAO they have become reluctant to rent to Universal Credit claimants. In three of the four areas the NAO visited and for which data was available, the use of foodbanks increased more rapidly after Universal Credit full service was rolled out to the area. This agrees with the Trussell Trust's report showing upsurges of 30% in foodbank use in the six months after Universal Credit rolls out to an area, compared to 12% in non-Universal Credit areas.
- 3.8 Local organisations which support claimants and assist in the administration of the benefit have reported incurring additional costs. The Department says it has told local authorities it will pay them for additional costs associated with administering Universal Credit if they provide evidence of the expenses, but it places the burden of proof on the local authorities, uses its discretion on assessing claims and has not sought to systematically collect data on wider costs. It will therefore have no means to assess the full monetary impact that Universal Credit is having

3.9 The Council's earmarked reserves have decreased by £16.375m to £13.746m. A number of targeted funding streams have continued to be drawn out of reserves in 2017/18 to support delivery mainly around the transformation agenda. It is worth noting £4.7m have been added back to earmarked reserves in April 2018 as set out in 3.2.

**Table 1 - Revenue Outturn Summary for 2017/18**

Quarter 3 forecast outturn variance £'000	Department	Revised Budget £'000	Outturn 2017/18 £'000	Variation from Revised Budget	
				£'000	%
5,664	People	158,808	167,656	8,848	5.6%
-2,259	Place	71,271	68,492	-2,779	-3.9%
1,192	Resources and Chief Executives	14,046	14,751	705	5.0%
4,597	<b>Departmental Total</b>	244,125	250,899	6,774	2.8%
-4,966	<b>Non-Departmental Items</b>	-244,125	-252,156	-8,031	3.3%
6,230	<b>Exceptional items</b>	0	6,289	6,289	
<b>5,861</b>	<b>Total transfer to / (from) balances</b>	<b>0</b>	<b>5,032</b>	<b>5,032</b>	

3.10 Further detail on the council's Financial Performance for 2017/18 is being reported to the General Purpose and Audit Committee meeting on the 18<sup>th</sup> July alongside the Annual Accounts.

### Capital Position

3.11 The original approved capital programme totalled £414m, which was decreased during the year to £266m to reflect both programme slippage and re-profiling of schemes. Outturn capital spend was £150m, with the resultant underspend of £116m (41%) mainly attributable to slippage in the delivery of schemes. Table 2 below, shows spending against budget by Department in 2017/18 and Appendix 2 provides a detailed breakdown of spend against budget for the capital programme.

**Table 2 – Capital Outturn Variances for 2017/18**

Department	Original Budget £'000s	Budget Adjustments £'000s	Revised Budget £'000s	Outturn £'000s	Outturn Variance £'000s
People	68,748	4,747	73,495	43,568	-29,927
Place	311,780	-177,745	134,035	60,017	-74,018
Resources	6,246	8,443	14,689	20,374	5,685
<b>General Fund</b>	<b>386,774</b>	<b>-164,555</b>	<b>222,219</b>	<b>123,959</b>	<b>-98,260</b>
Housing Revenue Account	27,051	3,943	30,994	26,465	-4,529
<b>Total Capital</b>	<b>413,825</b>	<b>-160,612</b>	<b>253,213</b>	<b>150,424</b>	<b>-102,789</b>

**Housing Revenue Account (HRA)**

- 3.12 The final outturn shows a surplus of **£1.981m** which has been transferred to HRA reserves. The variances to budget that are on-going will be included in the budget planning for 2017/18.
- 3.13 The main variances of revenue spend against budget are set out in Table 3 below.

**Table 3- Analysis of Housing Revenue Account Variances 2017/18**

Division	Favourable variance £000	Unfavourable variance £000	Detailed explanation
HRA – Housing Needs	247		Underspend due to savings on central costs including recharges
HRA – District Centres and Regeneration & Safety	1,734		Underspends due to reduced void levels, fewer gas entries than anticipated and staff vacancies across the service
<b>Total HRA underspend</b>	<b>1,981</b>		

- 3.14 Capital expenditure totalled £26.465m. Expenditure was lower than the revised budget of £30.993m by £4.528m, due principally to the major repairs programme.

## Balance Sheet and Financial Strategy

- 3.15 Table 4 below shows the resultant position on the Council's balances and reserves as at 31 March 2018, compared with previous years. This table excludes Locally Managed Schools (LMS) reserves, as they are controlled by Schools.

**Table 4 - Analysis of Movement in Reserves and Balances**

Balances and Reserves	2015/16 £m	2016/17 £m	2017/18 £m
General Fund Balances	10.7	10.7	10.4
Earmarked Reserves	40.1	30.1	13.7
General Fund Provisions	36.3	37.1	43.2
<b>Total</b>	<b>87.1</b>	<b>77.9</b>	<b>67.3</b>

- 3.16 The overall value of school reserves have decreased by £0.898m to £2.4m. This includes a decrease in revenue by £0.99m to £1.99m and an increase in capital by £0.088m to £0.42m.
- 3.17 The Council's General Fund Provisions have increased from £37.072m to £43.152m as at 31<sup>st</sup> March 2018.
- 3.18 The Collection Fund has carried forward an overall surplus of £12.050m, of which Croydon's share is a surplus of £6.823m. Croydon's share is comprised of a Council Tax surplus of £5.058m and a Business Rates surplus of £1.765m.
- 3.19 The Council's Pension Fund increased in value in 2017/18 by £27.3m (2.5%) to a value of £1.13bn.
- 3.20 The Council also has both S106 and CIL reserves of £11m and £12m for investment in the borough on schemes that meet the criteria. Commitments have been made against these reserves and investment will be made in the year ahead.

## Revolving Investment Fund (RIF)

- 3.21 Cabinet previously agreed to set up a Revolving Investment Fund (RIF) to support the delivery of Growth within the Borough. As previously reported to this cabinet the RIF is acting as funder to the development company Brick by Brick, the Housing LLP, Box Park and Taberner House. The RIF lends at commercial rates whilst borrowing at the lower rates which are available to the Council. The net returns estimated over the next 3 years are £2m per annum and are included in the revenue budget.



Table 5 below details the loans, interest arrangements and payment dates.

**Table 5 –Loans made from the RIF**

	<b>Loan amount</b> <b>£m</b>	<b>Interest</b> <b>%</b>	<b>Interest earned in 2017-18</b> <b>£m</b>	<b>Repayment Date</b>
Box Park	3	10.90%	0.502	October 2021 (loan term 5 years)
Brick by Brick (Croydon)	36.899	5% - 6.25%	1.528	5th anniversary of the relevant loan, unless otherwise agreed
Taberner House LLP	3.538	6%	0.084	12 months after practical completion
Croydon Affordable Housing LLP	2.299	3.25%	0.037	November 2058 (loan term 41 years)
<b>Total</b>	<b>45.736</b>		<b>2.151</b>	

#### **4. BUDGET 2018/19**

- 4.1 The budget for 2018/19 was approved by Council in February 2018. Cabinet will be aware that a significant amount of growth was included to address some of the structural budget issues from 2017/18. Table 6 below sets out the allocation of growth in 2018/19.

**Table 6 - Departmental Growth**

<b>Department</b>	<b>2018/19</b> <b>£m</b>
Health, Wellbeing and Adults	9.201
Children's, Families and Education	10.309
Residents and Gateway services	0.253
Place	1.471

Resources and Chief Executives	4.939
<b>TOTAL</b>	<b>26.173</b>

4.2 Growth is needed particularly in areas of the council's budget which are driven by demand for our services, where we know from previous financial years that there are risks to delivering a balanced budget or as a result of new burdens. These pressures are listed in more detail below.

### 4.3 Health, Wellbeing and Adults

4.3.1 It is widely recognised that there is a national crisis within the provision of adult social care services and the crisis facing adult social care has been recognised by all political parties and the Prime Minister has committed to addressing this in the longer term. In response, the Government has provided extra resources to adult social care through the Improved Better Care Fund (IBCF), the adult social care precept and two one-off adult social care grants. In total, these amount to an extra £2.3 billion in 2017/18, £1.0 billion in 2018/19 and £0.35 billion in 2019/20. For Croydon this is an extra £7.093m in 2018/19 and £8.283m in 2019/20.

4.3.2 While the additional money announced will make a significant contribution to protecting services that care for older and disabled people, it is not enough to address the wider pressures across the sector, nor is it planned to continue after 2019/20.

4.3.3 In Croydon we are continuing to experiencing increasing demand for Adult Social Care services along with a rise in the number of complex cases. The main area of increasing spend is the 25-65 all age disability service where there has been an increased demand for services and increase in complexity of need, with client numbers increasing from 3,870 at the start of 2017/18 to 5,870 at the year end. The overspend in 2017/18 associated with Adult Social Care and all Age Disability was £806k, after the application of £976k of IBCF funding. Growth has been allocated in the 2018/19 budget to fund these additional costs.

4.3.4 The Outcomes Based Commissioning Programme (One Croydon Alliance) for over 65's with Health partners is aimed at managing costs more effectively. This programme is now in its second year and delivering benefits across the health sector in Croydon.

4.3.5 Croydon has been awarded Improved Better Care Funding of £15.4m over the two year period 2018 to 2020. £7.1m in 2018/19 and £8.3m in 2019/20. Work is ongoing with the CCG to agree how 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.

### 4.4 Children's Social Care

- 4.4.1 In the July 2017 Ofsted undertook a single inspection framework inspection of Croydon's services for children in need of help and protection, children looked after and care leavers, the findings of which have been reported to this cabinet. As a result of this inspection additional funding and resources were allocated to the service in year and in the 2018/19 budget. There was an £8.8m overspend in 2017/18 and £10m has been allocated to the base budget for 2018/19.
- 4.4.2 The number of local Looked after Children in 2017/18 rose from 401 at the start of the year to 484 at the end of the year peaking at 485 in January 2018. Alongside the increase in the number of cases we have also experienced an increase in the complexity of cases resulting in the need for higher cost placements.
- 4.4.3 Children in Need continues to be challenging, and at the start of the financial year there were 541 cases escalating to 792 at the end of the year. The number of caseloads still in the need for additional staff and an increase placements.
- 4.4.4 To help manage these increasing demands and deliver the improvement work identified in the Ofsted inspection £10m of growth has been allocated to children's social care and £0.7m for business support to this service in 2018/19. Additional funding has also been allocated for Children with Disabilities to fund increasing demand.

#### **4.5 UASC – UNACCOMPANIED ASYLUM SEEKING CHILDREN and IMMIGRATION ACT**

- 4.5.1 As previously reported to Cabinet, Croydon for a number of years has faced local pressure as a result of an inadequate grant from the Home Office for UASC which has led to costs being picked up as a result of our location. We face pressures in this area on a scale only Kent can match. UASC numbers are currently increasing with 300 currently placed in Croydon.
- 4.5.2 We currently receive a weekly rate of £137.50 for under 16 year old UASC's and £114 for over 16 year old UASC's from the Home Office. After prolonged negotiations and discussions during 2015/16 our rate remained at this enhanced rate in 2016/17 and 2017/18. The Home Office have failed to engage in conversation to discuss the 2018/19 rates and at this stage we have assumed they will continue to pay these enhanced rates this year. It should be noted that, in the council's view, and as detailed previously, even this level of funding does not come close to covering all the costs, direct and indirect, associated with UASC's. In 2017/18 Croydon tax payers funded over £5m of costs related to UASC that should have been funded by the Home Office.
- 4.5.3 The scheme of voluntary transfer with the intention of locating UASC over a wider area so there is not the concentration and resulting high costs in certain areas of the country was introduced in the summer of

2016, Croydon were supportive of this scheme. Over recent months it has failed to deliver and we are not seeing this national dispersal scheme operating as promised. This remains a risk to Croydon due to our location and therefore as the level of funding is not sufficient the breakdown of this scheme will actually add to the burden already borne by the council.

4.5.4 As detailed above there still remains uncertainty over the long term funding in this area which creates a significant pressure on our budgets and a risk, and Cabinet Members and officers have written to and met with the Secretary of State seeking clarity. At this stage we have failed to receive an adequate response making it increasingly difficult to plan and manage spending in this area. Conversations with the Home Office and Ministers are continuing and cabinet is asked to approve the continued conversations and lobbying of the Home Office to fund these services appropriately. Further updates will be brought to this Cabinet as they develop.

#### **4.6 Special Education Needs (SEN)**

4.6.1 We are also continuing to experience an increase in the number of children and young people with Special Education needs. Resulting in an increase in costs funded from the Dedicated Schools Grant (DSG) and in the number of young people requiring travel to school. In 2017/18 the number of pupils requiring SEN transport rose by 10% from 1,169 to 1,293. As a consequence of this the budget overspent by £3m in 2017/18 and £2.5m has been allocated in 2018/19. Work is continuing to review and manage transport costs and a new Transport Board has been established to review this service.

#### **4.7 Housing**

4.7.1 The Homelessness Reduction Act 2017 had its third and final reading in the House of Lords on the 23<sup>rd</sup> March 2018. The House of Commons and Lords have agreed the text of the new Bill and it will now proceed to Royal Assent. This will result in the Bill becoming an Act of Parliament, with the date for this still to be confirmed. Croydon has been allocated a total of £1.2 million, from 2017/18, over 3 years to fund the new Homelessness Reduction Act. Expenditure in 2018/19 and 2019/20 is expected to exceed the annual allocation. Any shortfall between expenditure and income from the annual Homelessness Reduction Grant will be met from the Flexible Homelessness Support Grant. This is currently estimated to be £195k.

4.7.2 Croydon continues to face significant need for temporary and emergency accommodation from homeless households, along with high numbers sleeping in the borough. Over £1.3m of growth has been included in the 2018/19 budget to help tackle this growing demand. The council was successful in bidding for funding from the government's Homelessness Prevention Programme ('Trailblazers'), and was allocated £1m funding

for homelessness prevention, early intervention and supporting people out of homelessness. The funding has been allocated for activity in the 24 months from January 2017 - £192,000 in 2016/17, and £404,000 in 2017/18 and 2018/19. The council was also allocated £510,210 from the government's Rough Sleeping Initiative Fund to action to significantly reduce the number of people sleeping rough - £12,400 in 2016/17, and £193,800 in 2017/18 and 2018/19

4.7.3 In Croydon, the number of decisions the council had to make in response to households applying as homelessness in 2017/18 was 1336, the fewest in 11 years, and a strong indication of the impact Croydon's 'Gateway & Welfare' approach is having. The number of people in temporary accommodation also fell from 2,449 in March 2017, to 2005 in March 2018, the lowest level in 6 years. The number of households presenting 'in crisis' (i.e. without anywhere to sleep that night and requiring emergency accommodation) has fallen from 801 at the beginning of the financial year to 667 at the end of 2017/18. The number of households placed in shared bed and breakfast accommodation by the council at the end of March 2018 was 121, the fewest since 2009/10. However, these figures do not take into account how the council has shifted its focus and activity, through its Gateway and Welfare Service, to intervening early, and preventing homelessness before it reaches a crisis point wherever it can. In 2017/18, the council managed to prevent or relieve homelessness for 2,155 households, the highest number since 2010/11.

4.7.4 Homelessness responds to a combination of structural economic and housing market factors and is very difficult to predict. Government policy, particularly in relation to housing and welfare, also has an impact on levels of homelessness. While the economy is expected to continue to grow, which is positive for employment and homelessness; there are concerns that access to market housing will be affected by the rate at which household incomes are likely to rise in comparison to house prices and private rents. Affordability is an increasingly significant issue for households in Croydon, despite the fact that house prices and private sector rents are lower than London overall. Median House prices in Croydon are over 10 times median salaries. Competition for market rented housing is pushing up rents, and local landlords are reluctant to let their homes to people on benefits - the most common reason for homelessness continues to be the loss of a private rented tenancy. This is exacerbated by the Government's decision to freeze the Local Housing Allowance (LHA), even though the council had previously demonstrated to Government that Croydon had the biggest mismatch between LHA and actual rent levels of any English local authority.

4.7.5 We are trying to mitigate these increasing costs by increasing the supply of affordable accommodation and a report was presented to this Cabinet in June 2017 detailing the proposals to increase the provision of affordable housing within the borough. Increasing supply will reduce the

need for expensive temporary accommodation and provide more suitable accommodation.

4.8 The budget also included a range of savings proposals as set out in Table 7 below;

**Table 7 – Summary of Savings Options by Department**

<b>Department</b>	<b>2019/20</b>
	<b>£m</b>
Health, Wellbeing and Adults	-5.145
Children's, Families and Education	0
Residents and Gateway services	-0.847
Place	-4.431
Resources and Chief Executives	-4.371
<b>TOTAL</b>	<b>-14.794</b>

4.9 At this stage the majority of these savings are on track to be delivered with limited slippage in plans.

4.10 Based on these range of challenges there remain significant demand pressures and challenges to deliver to budget in 2018/19. A full update will be brought to Cabinet in September on the quarter 1 performance. At this stage it is estimated that these are in the region of £5m. There is however £2m of contingency set aside within the budget.

4.11 It is therefore vital that work on options to reduce these pressures is prioritised. This includes exploring a number of options as follows:

- Review of Adult Social Care fees and Charges is underway to ensure services are charged in accordance with the Care Act legislation.
- Review of Parking Fees and charges, including emission based permits, pay and display services and enforcement.
- A review of licensing fees to ensure they remain appropriate.
- Review of SEN travel and the option to further utilise Personalise budgets for the provision of services.

- The Council is also undertaking a review of service provision for Appeal Rights Exhausted individuals and families to ensure budgetary control can be maintained.
- 4.12 Given the need to act quickly in these areas it is recommended delegation is given to the Cabinet member for Finance and Resources to make decisions in consultation with the relevant Cabinet member to bring proposals forward to reduce the pressure on the 2018/19 budget. Any normal processes in relation to key decisions and appropriate consultation would apply.

## 5 CAPITAL PROGRAMME INVESTMENT – 2018/19

- 5.1 In February 2018 Cabinet agreed the capital programme. During the first quarter of the financial year there have been a small number of requested amendments to the capital programme as a result of updated cost estimates or changes to priorities, (these are detailed in paragraphs 5.4 to 5.6 below), along with slippage from 2017/18. With full details in appendix 2.
- 5.2 Cabinet is asked to approve the following changes to the Capital Programme resulting in a revised general fund capital programme of £351m for 2018/19 and £37.1m for the HRA. This is detailed below in table 8.

**Table 8 - revised Capital Programme – 2018/21**

	2018/19	2019/20	2020/21
	(£m)	(£m)	(£m)
<b>General Fund</b>			
Original Budget	313.5	115.4	145.9
Slippage from 2017/18	63.6	0	0
Re-Profiling	-28.6	4.4	8.3
New schemes	2.5	2.1	0.5
<b>Revised Budget</b>	<b>351</b>	<b>121.9</b>	<b>154.7</b>
<b>HRA</b>			
Original Budget	32.4	31.9	26.9
Slippage from 2017/18	4.7	-	-
<b>Revised Budget</b>	<b>37.1</b>	<b>31.9</b>	<b>26.9</b>

- 5.3 The impact of the proposed revisions to the capital programme is a £18.6m increase in the borrowing requirement for 2018/19. The main cause is attributable to slippage from 2017/18, particular in the Education Estates Programme.

- 5.4 **Post 16 - SEN: Centre of Excellence** – Located in the heart of Croydon, Croydon Council and Croydon FE College propose to create cutting edge, twenty first century further education for young people who are aged 16-25 and have special educational needs. The specialist education provided will improve young people’s life chances, their opportunities to develop independence and gain employment in or near their local community. Therefore Cabinet is recommended to approve a **£3m** budget across 2018/19 and 2019/20 which will provide suitable facilities and sufficient places for those currently educated outside Croydon to access college education more locally when they finish school. It will also mean that young people currently travelling to other FE colleges can go to their local college. This proposal is expected to create savings of £2.2m in the first three years against the Dedicated Schools Grant Budget in school placement costs alone. There will also be savings annually to the Council’s General Fund Budget due to reduced transport costs.
- 5.5 **Don’t mess with Croydon** - waste and recycling investment – the original budget was an estimate and now has been revised in order to reflect the expected costs due to altered bin capacity and associated works to encourage recycling. This results in an additional £2m over three years.
- 5.6 **Fiveways** – the Council was originally required to contribute £20m towards the Fiveways project, which will improve the layout of this junction. This contribution will mainly be funded from the Growth Zone alongside an element of borrowing. Cabinet is recommended to approve an increase in the Growth Zone element by £5m to specifically fund the cycle improvements along the A23. This has no overall impact on the capital programme and can be met within the overall Growth Zone programme. A full update will be provided to Cabinet in October.

## **6 Use of Capital Receipts**

- 6.1 In March 2016 the DCLG (now MHCLG) issued guidance allowing a more flexible approach to using capital receipts. This guidance enabled local authorities to have the flexibility to use capital receipts from the disposal of property, plant or equipment assets for expenditure on projects that will generate ongoing savings and efficiencies. With such expenditure being incurred between 1 April 2016 and 31 March 2019.
- 6.2 At the beginning of the 2017/18 financial year the balance of general fund capital receipts was £7.3m. In year receipts of £22.1m were received and after the application of capital receipts to fund both the capital programme and transformation projects listed in table 9 below the balance of general fund capital receipts is now £11m.



- 6.3 In July 2016 (Minute ref A76/16) it was reported to this Cabinet that the Council would be taking advantage of this new flexibility and in 2017/18 £14.5m of transformation projects were funded from capital receipts. These are detailed in table 9 below. These have either supported the delivery of revenue savings or supported the management of long term costs.

**Table 9 – Transformation projects funded from flexible capital receipts.**

	<b>2017/18 £'000</b>
Housing Initiatives	580
Adult Social Care new Initiatives	3,119
Children's Services	3,230
Environment Projects	556
Managing Demand - Programme	2,510
Transformation programme including ICT	4,508
<b>Total</b>	<b>14,503</b>

- 6.4 To enable the continued delivery of our transformation programme we will continue to use this approach to the flexible use of Capital Receipts in 2018/19 and receipts of £6m have been allocated for projects. Further reports on progress of these projects will be presented to this cabinet as part of the quarterly financial monitoring report.

## **7 HRA**

- 7.1 Managing the Housing Revenue Account continues to be an ongoing challenge for the Council in light of legislative changes driven by the government. The biggest challenge remains the impact of the 1% rent reduction each year to 2020, with 2018/19 being Year 3 of this policy. The cumulative loss of revenue over the 4 years amounts to £31m. The outlook for the HRA is based on a rapidly decreasing rent base due to the on-going sale of HRA stock via right-to-buy (RTB). Uncertainty also remains about whether further disposals will be required to meet the High Value Voids levy, the implementation of which has been delayed.
- 7.2 This sharp reduction in income over the medium-term means that savings are needed across the HRA. Once the remaining £11.4m that will take Croydon's HRA up to the debt ceiling has been applied to support the on-going capital programme we will be unable to borrow additional funding. It is currently projected that the HRA will face a shortfall in funding from 2023/24 onwards.

- 7.3 In 2018/19 an efficiency programme with a value of £1.478m is being delivered across the housing management structure. The council is reviewing the HRA capital programme alongside its efficiency programme in order to keep the HRA sustainable. Further mitigating options will be identified as part of the HRA business planning cycle in the run up to 2019/20.
- 7.4 Following the Grenfell Tower tragedy in June 2107 the Council committed to installing a range of fire safety measures across its own housing stock. This includes the installation of water sprinklers in residential blocks over ten storeys high. The cost of these works is in the region of £10m. The Council has lobbied the government to fund these essential safety works on a number of occasions in the last year, and unfortunately they have failed to provide any funding, resulting in the costs being funded from the HRA.
- 7.5 The Council has begun to implement a number of proposals which were presented to Cabinet in June 2017. These allow Right-to-Buy (RTB) receipts to be used to support investment in affordable housing across the borough (namely Brick-by-Brick developments, Taberner House, and existing properties purchased under the ETA scheme). The first of these units have been transferred to Croydon Affordable Homes LLP, a limited liability partnership (LLP) with a local charity in a structure that will allow approximately RTB receipts to be invested in the development activity whilst allowing the Council to retain a long-term interest in the assets.
- 7.6 We are actively engaging with the GLA On the announcement by the Mayor of London of the Building Homes for Londoners which aims to build at least 116,000 homes by 2022. Croydon will be putting in a proposal to access this grant funding and also the proposed flexibility on the HRA borrowing limit.

## **8. BUDGET 2019/20 – PLANNING ASSUMPTIONS**

- 8.1 Table 10 below sets out the current forecasts in relation to the budget for 2019/20. This includes the savings and pressures identified by departments during the budget setting process for 2018. Appendix 1 gives details of the savings identified to date as presented at the time of the 2018/20 budget and approved by Council.

**Table 10 - Budget Gap 2019/20**

	<b>2019/20 £m</b>
Cut in Grant	10.151
Department Growth	13.774
Inflation	5.2
<b>Gross Budget Gap</b>	<b>29.125</b>
Council tax	-5
CT Base Increases	-3
Savings Options	-14.794
<b>Net Budget Gap</b>	<b>6.331</b>

8.2 The assumptions that are built into this gap are set out below:

- **Pay** - Future years pay awards have been assumed in the budget to be 2% per annum. Since setting the budget the Greater London Provincial Council have agreed the pay award for April 2018 and April 2019, with no scale point increasing by less than 2% per annum.
- **Contracts** - Estimates for future years have been based broadly on a 2% increase, with more targeted increases in some areas of Adult Social care, including a 1.5% increase of Third Party Services and a 1% increase for Council delivered services in the One Croydon Alliance. A large element of the council spend is through third party providers. Longer term contracts have in-built indices to calculate annual changes whilst other contracts can be negotiated on an annual basis.
- Grant funding is confirmed for 2019/20 which is the last year of the four year settlement.
- It is assumed the Council tax will be increased by 2% for the general rate and a further 1% for the remainder on the adult social care precept
- Current housing growth has been factored into the council tax base increase forecast.

- Departmental growth is based on a combination detailed analysis of future trends and known pressures.
- 8.3 This is a robust position and Cabinet will be updated in the autumn as further progress is made on the 2019/20 budget.
- 8.4 It is also clear that there may well need to be some tough choices made on services we can no longer afford. The principle will be one of fairness and the outcomes from the fairness and opportunity commission will also be key in determining how we allocate our reducing resources. This will result in the need to charge more for services or charge for services that have previously been provided at no cost.

## **9 MAJOR CHANGES IN FUNDING FOR LOCAL GOVERNMENT**

- 9.1 The Local Government Finance Settlement published on the 6<sup>th</sup> February 2018, provided allocations for 2018/19 and indicative allocations for 2019/20. The main announcements are listed below.
- 9.2 On the 13<sup>th</sup> March 2018, the Chancellor of the Exchequer presented his spring statement to Parliament, the first spring statement since the Chancellor moved the annual budget from March to November. He had promised in advance that he would not be making any new tax or spending announcements, seeing the spring Statement purely as an opportunity to present the updated economic forecast for the UK economy.
- The publication of the consultation paper “Fair funding review: a review of relative needs and resources”, a technical consultation on relative need, with the intention being that the new needs formulae will be introduced in 2020/21.
  - The roll out of 75% business rates retention across all areas in 2020/21, alongside a reset of the business rates baseline.
  - An increase to the referendum limit for Council Tax from 2% to 3% for 2018/19
  - A further ten business rate pilot areas were announced for 2018/19; there were in addition to the London pilot that was previously announced at the 2017 Autumn Budget.
  - Inclusion of the additional Improved Better Care Funding, previously announced at the March 2017 Budget.
  - An additional £31m in Rural Services Delivery Grant for 2018/19
  - Additional funding of £150m for Adult Social Care
- 9.3 The impact of these announcements for Croydon are as follows:-

### **Fair Funding Review:-**

9.3.1 Ongoing fair funding review is welcomed by Croydon and we have responded to the consultation that took place earlier this year and will continue to partake in any future consultations that take place over the coming months, with an anticipated implementation date of 2020/21. The focus of the review is looking at the following 3 closely related strands:-

- i) relative needs,
- ii) relative resources, and
- iii) transitional arrangements.

As the review progresses further reports on progress and the impact for Croydon will be reported to this Cabinet

### **Social care**

9.3.2 The additional Improved Better funding announced at the March 2017 Budget has seen an increase in Croydon's allocation over the period 2017/18 to 2019/20. For 2018/19, Croydon's allocation increased from £3.1m to £7.1m. For 2019/20, the allocation will increase from £6.3m to £8.3m. Work is continuing with the CCG to ensure this money is spent effectively across the health and social care sector and 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.

9.3.3 £150m of additional funding was also allocated through Adult Social Care Support Grant in 2018/19. This has been funded from underspends in existing departmental budgets, and will not affect existing revenue commitments made to local government. This funding has been distributed according to the adult social care relative needs formula, with £23m being allocated to London and £0.876m directly allocated to Croydon.

### **Business Rates:**

9.3.4 The pan-London Business Rates Pilot should provide an opportunity for all London authorities to gain from the business rates growth across the region. Pilot status will remove the levy on growth paid by high tax base authorities and allow a greater proportion of any local growth to be retained. As the gains from the pilot are dependent on the business rates collected across all of the boroughs during 2018/19, it is difficult to predict the outcome for Croydon at this stage. Once 2018/19 NNDR1 forms have been completed and collated, a forecast level of gain for each of the boroughs should be possible. However, this will only be a forecast and the final amount will not be known until the actual business rates collected in 2018/19 is determined (summer 2019). Again as the pilot progress updates will be made to Cabinet as part of the financial monitoring and

budget reports.

### **Council Tax referendum limits**

9.3.5 The recent local government settlement saw a major shift in the government's approach to Council tax. There was the creation of the option to increase council tax by up to 3% without the requirement for a referendum, previously 2%. As reported as part of the Budget setting report to this Cabinet, Croydon increased Council Tax in 2018/19 by 2.99%, taking advantage of this change to increase the amount of much needed funding for local services.

### **New Funding Announcements in year**

9.3.6 Since the Council set its budget in February 2018 MHCLG has announced additional Homelessness Prevention Rough Sleeping funding to continue work this important work. For 2018/19 Croydon has been awarded £193.8k to reduce the flow of new rough sleepers, ensure people have a safe place to stay while their position is resolved and to help rough sleepers of the street and in to independence.

## **10 FINANCIAL STRATEGY 2018/22**

10.1 A new financial strategy will be presented to Cabinet in September alongside the new Corporate Plan. These strategy will set out the approach to managing the council's financial position effectively over the medium term and will align with the commitments of the Corporate Plan.

10.2 As set out in Section 9 there are expected to be some major changes to the funding of local authorities during this period and some major uncertainties. Principally these are;

- Spending review 2019 – what size if the total funding for local government during this period
- Fair Funding Review – a fundamental review of needs and resources which will lead to a change in how the total level of funding for local authorities is allocated by authority.
- 75% business rates retention – a new system with new incentives for local growth

10.3 The financial strategy will have to make some assumptions about the impact of these major changes and it is highly likely a material update will be needed to the strategy in 2019/20

## **11. SUMMARY AND CONCLUSIONS**

- 11.1 As all Members are aware, setting a budget for 2019/20 that is robust, balanced and deliverable is challenging, and will involve a number of difficult decisions in these challenging times.

## **12. FINANCIAL CONSIDERATIONS**

- 12.1 This report deals with the Financial Strategy assumptions in planning a balanced budget over the medium term.

(Approved by Richard Simpson, Executive Director of Resources and S151 Officer)

## **13. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

- 13.1 The Solicitor to the Council comments that the report details updated information required pursuant to the Council's statutory duty to set a balanced budget.

- 13.2 (Sandra Herbert for and on behalf of Jacqueline Harris-Baker, Director of Law and Monitoring Officer)

## **14. HUMAN RESOURCES IMPACT**

- 14.1 There are no direct Human Resources implications arising from this report.

- 14.2 Any future proposals on budget that may have any impact on the workforce would be consulted on in line with agreed formal consultation arrangements with the recognised trade unions.

(Approved by: Sue Moorman, Director of HR.)

## **15. EQUALITIES IMPACT**

- 15.1 There are no specific issues arising from this report.

## **16. ENVIRONMENTAL IMPACT**

- 16.1 There are no specific issues arising from this report.

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

- 17.1 There are no specific issues arising from this report.

## **18. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION**

- 18.1 These are detailed within the report.

## 19. OPTIONS CONSIDERED AND REJECTED

- 19.1 The options considered are detailed in the report. The only option rejected was the one of do nothing as this is not viable.

**Report Author:** Richard Simpson, Executive Director Resources and S151 Officer

**Contact Person:** Richard Simpson, Executive Director Resources and S151 Officer

**Background docs:** Financial Strategy 2015/19  
Appendix K of appendix 2 to item 7 Council meeting 23/02/15  
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