

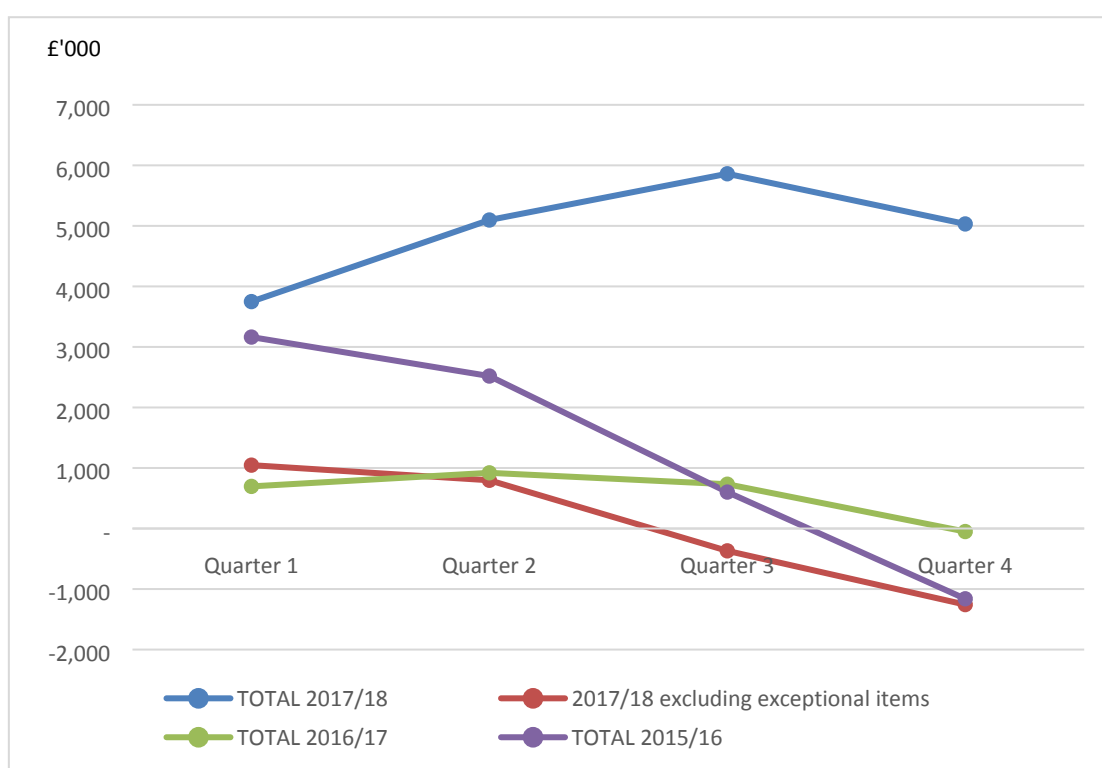
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| REPORT TO: | GENERAL PURPOSES AND AUDIT COMMITTEE 18 JULY 2018 |
| SUBJECT: | FINANCIAL PERFORMANCE REPORT FOR 2017/18 |
| LEAD OFFICER: | RICHARD SIMPSON EXECUTIVE DIRECTOR RESOURCES (SECTION 151 OFFICER) |
| CABINET MEMBER: | COUNCILLOR SIMON HALL CABINET MEMBER FOR FINANCE AND RESOURCES |
| WARDS: | ALL |
| CORPORATE PRIORITY/POLICY CONTEXT: <p>The report is a statutory requirement and communicates to our key stakeholders the Council's financial performance and outcome for the period 1 April 2017 to 31 March 2018. This reporting requirement is a key stage in the communication of the delivery of the Council's Financial Strategy and maps progress in the achievement of the objectives contained within the strategy.</p> | |
| FINANCIAL SUMMARY: <p>This report sets out the financial performance of the Council for the period 1 April 2017 to 31 March 2018, which showed an overspend of £5.032m, after exceptional items of £6.289m.</p> | |
| FORWARD PLAN KEY DECISION REFERENCE No.: | |
| RECOMMENDATIONS <p>The Committee(s) is asked to:</p> <ol style="list-style-type: none"> 1.1 Approve the levels of reserves and provisions set out in section 7.4 of the report, as recommended by the Section 151 Officer; 1.2 Note the Council's outturn position, and the progress of the Council's current Financial Strategy objectives; 1.3 Note the departmental outturn variances as contained within Table 2 and Appendix 1 of the report; 1.4 Note that a report seeking final approval of the accounts following their review by external audit is a separate item on this agenda 1.5 Note following a review of the financial strategy a new financial strategy will be presented to Cabinet in September 2018. | |

2. EXECUTIVE SUMMARY

- 2.1 This report presents to the Committee progress on the delivery of the Council's Financial Strategy. The final budget position of the Council for 2017/18 was an overspend of £5.032m, after exceptional items of £6.289m., which has been funding from our usable general fund balances and Council tax surplus. The Council's collection fund is currently in surplus, however due to accounting restrictions the surplus isn't released until the year following the year it is achieved. This surplus of £4.7m has been released on the 1st April 2018, and released to go back into reserves in 2018/19.
- 2.2 The Council has met the challenge of reducing grant since 2010 and maintained a robust financial position. The Financial Strategy for 2015/19, which was approved on a recommendation of Cabinet on the 17th of February 2015 to full Council (Minute A21/15, Council Meeting 23rd February 2015), sets out the strategy for managing the significant financial challenge for the medium term.
- 2.3 The 2017/18 budget was set with the inclusion of growth to help manage pressures as well as significant savings targets. Despite this growth there continues to be increasing demand for the services provided by the department in the key areas of, adult and children's social care and temporary accommodation.
- 2.4 These pressures are mainly demand related, and are a continuation of pressures experienced in previous years, although the scale has been limited by a combination of improved demand management, and growth awarded in the 2017/18 budget.
- 2.5 Specific measures put in place to manage the budget included:-
- Better integration between health and social care including the One Croydon Alliance, the 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.

- 2.6 Throughout the year, through the quarterly monitoring reports, 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.
- 2.7 Through strong financial management the revenue budget has been carefully managed and the 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

Graph 1 – 2017/18 Outturn



- 2.8 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 would equate to balances of £13m (currently £10.4m). 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.
- 2.9 The 2017/18 overspend of £5.032m is made up of Departmental over spends of £6.774 offset by non-departmental underspends of £8.031m and exceptional items of £6.289m. Details are provided in Table 1, of this report.

- 2.10 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.
- 2.11 General Fund Schools' reserves have decreased by £0.898m to £2.407m, which continues to reflect the conversion of maintained schools to academy status.
- 2.12 The Council's General Fund Provisions have increased from £37.1m to £43.2m as at 31st March 2018.
- 2.13 The Collection Fund has carried forward an overall surplus of £17.046m, 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. This represents a significant improvement on previous years, notably reflecting the record collection rates achieved in 2017/18.
- 2.14 The HRA final outturn shows a surplus of £1.981m which has been transferred to HRA reserves.
- 2.15 The Council's Pension Fund increased in value in 2017/18 by £27m to a value of £1.131bn.
- 2.16 The draft accounts have been prepared and have been presented to the Council's external auditors in line with the statutory deadline of 31st May 2018. This is the first year of the faster closedown requirement, and the council achieved this date, some 20 working days faster than accounts preparation in the previous year. There are a number of assumptions and estimates used in the preparation of the draft accounts, which are set out in Section 8 of this report.
- 2.17 The Accounts and Audit Regulations 2015 no longer require the draft accounts to be approved by those charged with governance, and the draft accounts do not form an appendix to this report. However, this report does summarise the Council's financial position at the end of 2017/18, and provides an update on progress towards the Council's financial strategy objectives. The council's draft accounts have been published on the Council's website to be reviewed in more detail. This is in addition to the statutory public inspection periods, which runs from 1 June to 13 July 2018.
- 2.18 The draft accounts will be subject to external audit. If there are any significant changes to the draft accounts, they will be set out within the Grant Thornton external audit report, which will be presented to the General Purposes and Audit Committee in July. This report will also summarise the outcome of the audit, along with the report to Members charged with Governance as per established good governance practice in previous years.

3. GENERAL FUND REVENUE ACCOUNT OUTTURN 2017/18

- 3.1 Departmental spend was £6.774m more than budgeted in 2017/18. The areas of overspend are those that have in the main been reported to Cabinet throughout the year and reflect the areas of the council's budget that is impacted heavily by demand and our statutory responsibilities. Growth had been built into the 2017/18 to reflect a new achievable budget for these areas. The main overspends were on placement costs in relations to looked after children and children with disabilities.
- 3.2 Despite the financial pressures placed on the budget, the Council has maintained strong financial controls throughout the year. As shown in Table 1, underspends on non-departmental spend enabled the council to make £8.031m of savings to offset departmental pressures and exceptional items, which total £6.289m and include costs from UASC, NRPf, and Universal Credit.

Table 1 - Revenue Outturn Summary for 2017/18

| Quarter 3 forecast outturn variance £'000 | Department | Revised Budget £'000 | Outturn 2016/17 £'000 | Variation from Revised Budget | | Variation to Gross Dept Expenditure |
|--|--|----------------------------|-----------------------------|----------------------------------|-------|---|
| | | | | £'000 | % | % |
| 5,664 | People | 158,808 | 167,656 | 8,848 | 5.6% | 5.28% |
| -2,259 | Place | 71,271 | 68,492 | -2,779 | -3.9% | -4.06% |
| 1192 | Resources and Chief Executive | 14,046 | 14,751 | 705 | 5.0% | 4.78% |
| 4,597 | Departmental Total | 244,125 | 250,899 | 6,774 | 2.8% | 2.70% |
| | | | | | | |
| -4,966 | Non-Departmental Items | -244,125 | -252,156 | -8,031 | | |
| | | | | | | |
| 6,230 | Exceptional items | 0 | 6,289 | 6,289 | | |
| | | | | | | |
| 5,861 | Total transfer to / (from) balances | 0 | 5,032 | 5,032 | | |

- 3.3 The main variances over £500k that contributed to the departmental overspend are summarised in Table 2 below. A complete breakdown of all variances is shown in Appendix 1.

Table 2 - Analysis of departmental variances 2017/18 (+/- £500k)**PEOPLE**

| Division | Underspend £000 | Overspend £000 | Explanation of variance |
|--|--------------------|-------------------|---|
| Early Help and Children's Social Care (CSC) | | 597 | Early Help and CSC Directorate - Increased legal costs and delayed digital and enabling savings |
| | | 952 | Care Planning Service - Increase in the costs of Section 17 B&B places, which are court driven. Additional costs of supernumerary and locum staff. |
| | | 8,093 | Looked After Children (LAC) - Increase in the number of external placements and specialist foster care placements. |
| Adult Social Care & All Age Disability | | 592 | Adult Social Care and All Age Disability Service - Delayed digital and enabling savings and increased enhanced pensions and legal costs |
| | (596) | | Disability Commissioning and Brokerage - Underspend relates to staffing vacancies leading to delays in commissioning |
| 0-25 SEND Service | | 1,364 | Children with Disabilities - Increase in Transitions, care packages and staffing costs. |
| All divisions | (2,154) | | Variances under £500k |
| Sub-total | (2,750) | 11,598 | |
| Department Total | | 8,848 | |

PLACE

| Division | Underspend £000 | Overspend £000 | Explanation of variance |
|---|--------------------|-------------------|---|
| Streets | | 1,804 | Waste – pressure on cost of disposal caused by 2.5% year-on-year growth on landfill tonnages plus shortfall on rebate for recycle material |
| | (1,675) | | Street Lighting – Credit amounts relating to the PFI street lighting contract and energy costs |
| Safety | (1,100) | | Parking – income levels higher than forecast partly due to a shift towards electronic payment methods and partly due to CPZ permits |
| Gateway and Welfare and Housing Need | (830) | | Flexible homelessness support grant remaining after funding the pressures in the Emergency and Temporary Accommodation budgets |
| | | 2,353 | Increase in Bad debt provision reflecting the impact of Universal Credit |
| | (2,353) | | Universal Credit costs reported as an exceptional item |
| | (579) | | Additional funding for UC received from DWP |
| All divisions | (1,370) | | Variances under £500k |
| Sub-total | (8,832) | 6,053 | |
| Department Total | | (2,779) | |

RESOURCES AND CHIEF EXECUTIVES

| Division | Underspend £000 | Overspend £000 | Explanation of variance |
|--|--------------------|-------------------|--|
| Customer and Corporate Services | | 1,318 | Revenue and Benefits, Business Support and Customer Contact - Delay on delivery of digital and enabling savings and under recovery of business support income |
| | (1,779) | | ICT - Saving on the ICT contract plus additional project work charged to capital |
| | (600) | | Facilities Management – reduction in organisational demand for FM services |
| Commissioning and Improvement | | 3,080 | SEN Transport - increasing service demand and complexity of need |
| Finance Investment and Risk | (808) | | Assets – Over-achievement of rental income |
| Legal | (525) | | Overachievement of legal income |

| | | | |
|-------------------------------------|----------------|--------------|---|
| Communication and Engagement | | 864 | Unachievable digital advertising income |
| All divisions | (845) | | Variances under £500k |
| Sub-total | (4,557) | 5,262 | |
| Department Total | | 705 | |

3.4 Table 3 below shows the major variances relating to non-departmental expenditure. It should be noted that our budgeting methodology means that there will always be a number of favourable non-departmental items that will help cover departmental pressures.

Table 3 - Analysis of non-departmental variances 2017/18 (+/- £500k)

| Explanation of variance | Underspend (£000) | Overspend (£000) |
|--|-------------------|------------------|
| Use of contingency budget | (1,000) | |
| Additional Utility costs | | 1,121 |
| Lower interest borrowing costs and Minimum Revenue Provision | (2,287) | |
| Additional income and grants: Section 31 funding, Education Services Grant | (4,040) | |
| Housing Benefits - position more favourable than estimated at Quarter 3 | (1,202) | |
| Variances under £500k | (623) | |
| Sub-total | (9,152) | 1,121 |
| TOTAL | | (8,031) |

3.5 Table 4 below gives details of all the exceptional items. These exceptional costs relate to additional costs associated with Unaccompanied Asylum Seeking Children (UASC) over and above the burden on Croydon council taxpayers assumed in the 2017/18 budget, the impact of the failure of Central Government to implement the provisions of the Immigration Act as far as they would impact on No Recourse to Public Funds costs for UASC and the impact of Universal Credit in Croydon.

Table 4 – Exceptional Items

| Explanation of variance | Underspend (£000) | Overspend (£000) |
|--|-------------------|------------------|
| Additional Costs in relation to Unaccompanied Asylum Seeking Children (UASC) | - | 2,936 |
| No Recourse to Public Funds costs for UASC | - | 1,000 |
| Impact of Universal Credit | - | 2,353 |
| | - | 6,289 |

- 3.6 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

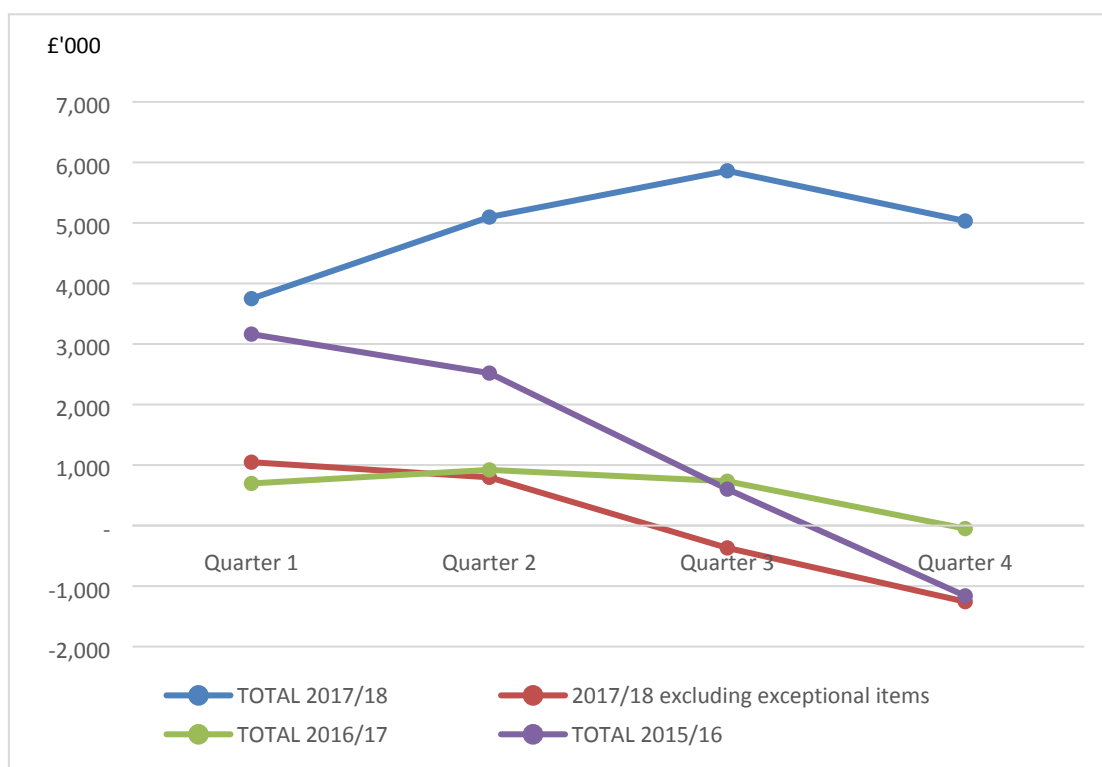
| Balances and Reserves | 2015/16 £m | 2016/17 £m | 2017/18 £m |
|------------------------------|-----------------------|-----------------------|-----------------------|
| General Fund Balances | 10.7 | 10.7 | 10.4 |
| Earmarked Reserves | 40.1 | 30.1 | 13.7 |
| General Fund Provisions | 36.3 | 37.1 | 43.2 |
| Capital Receipts | 10.0 | 7.40 | 11.0 |
| Right to Buy Receipts | 21.8 | 38.6 | 44.4 |
| Total | 118.9 | 123.9 | 122.7 |

- 3.7 Further details of earmarked reserves are provided in Section 7.4 of this report.

3.8 REVENUE BUDGET MANAGEMENT

- 3.8.1 The overall revenue outturn position for 2017/18 is a £5.032m overspend. The past few financial years have been very challenging both due to financial constraints and increased demand for Council services. The Council has in place a strong financial management framework, and has continued to rigorously monitor, manage and control spending within the framework of the Financial Strategy. Graph 2 below shows the movement of forecast variances from 2015/16 to 2017/18.

Graph 2 – Comparison of Council Forecast Outturn 2015/16 to 2017/18



3.8.2 As can be seen from the movement in outturn forecasts over the past 3 years, the Council continues to face increasing pressures in the delivery of services. The pressures in terms of grant loss and massive increase in demand experienced by the Council have continued into the current year. The Council has required the use of non-departmental savings to ensure budget delivery within resources available. Table 5 shows the overall Council position including non-departmental savings over the last 3 years.

Table 5 – Council quarterly forecast outturn

| Quarter | TOTAL 2017/18 £'000 | TOTAL 2016/17 £'000 | TOTAL 2015/16 £'000 |
|-----------|------------------------|------------------------|------------------------|
| Quarter 1 | 1,049 | 696 | 3,163 |
| Quarter 2 | 5,097 | 920 | 2,519 |
| Quarter 3 | 5,861 | 732 | 602 |
| Quarter 4 | 5,032 | (50) | (1,161) |

TRANSFORMATION

3.8.3 The Council has been making use of new guidance on use of flexible capital receipts which were published by the MHCLG in March 2016. This allows local authorities to use capital receipts to fund the up-front set up or implementation costs of projects that will generate future ongoing savings and/or transform

service delivery. Table 6 below provides details of the transformation projects that have been funded from capital receipts during 2017/18.

3.8.4 The Council presented a strategy to Cabinet on 11th December 2017 (Min 98/17) that set out the intended usage of flexible capital receipts during 2017/18. Table 6 below gives details of the projects.

Table 6 – Transformation Projects

| Programme/Area | 2017/18 £'000 | Description |
|--|--------------------------|--|
| Housing Initiatives | 580 | This included a range of projects through managing demand and commercial approach programme that seek to reduce both the costs and demand arising from homelessness, through better procurement and incentive payments to secure accommodation. |
| Adult Social Care new Initiatives | 3,119 | Investment in Adult Social Care to ensure the delivery of effective services, working with external partners and health colleagues in the One Croydon Alliance to ensure our services are delivered efficiently and effectively and will enable us to manage costs in the future. |
| Children's Services | 3,230 | The recent Ofsted inspection has led to further investment in children's social care, front line social work staff and back office business support. This investment is essential to ensure we deliver the improvement plan in a timely manner. Further investment in this area will lead to the delivery of future savings in all areas of the service from initial assessment, to school places and managing the transition to adulthood. |
| Environment Projects | 556 | A series of works was undertaken to review and redesign the Council's delivery of leisure and waste collection services, which will reduce future costs of these services. |
| Demand Management | 2,510 | This programme is designed to look at both front line services and back office services to understand what is driving demand as part of the demand management programme, how to manage and reduce demand where appropriate. Investing in prevention and avoidance activity is key to future proofing services and includes projects such as adults and children's social care, the use of legal services, the use of office space alongside changing the behaviours of both our residents and staff. |
| Transformation programme including ICT | 4,508 | Through the transformation agenda, a programme of digital and enabling works was initiated to review how Croydon could work more effectively as an organisation, the outcome of which will identified a series of measures that have been put in place to improve efficiency and effectiveness. |
| Total | 14,503 | |

3.8.5 To date £14.5m of projects have been funded from the flexible capital receipts with a further £6m earmarked to be funded in future years.

4. CAPITAL OUTTURN 2017/18

- 4.1 The original approved capital programme totalled £414m, which was decreased during the year to £255m to reflect both programme slippage and re-profiling of schemes. Outturn capital spend was £153m, with the resultant underspend of £102m (40%) mainly attributable to slippage in the delivery of schemes. Table 7 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 7 – 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 | 311,900 | -175,991 | 135,909 | 71,055 | -64,854 |
| Resources | 6,126 | 8,443 | 14,569 | 11,635 | -2,934 |
| General Fund | 386,774 | -162,801 | 223,973 | 126,258 | -97,715 |
| Housing Revenue Account | 27,051 | 3,943 | 30,994 | 26,465 | -4,529 |
| Total Capital | 413,825 | -158,858 | 254,967 | 152,723 | -102,244 |

- 4.2 The impact of slippage from 2017/18 into the 2018/19 capital programme will be considered as part of the July Financial Review Cabinet report. Capital schemes in 2017/18 included the following:

- ▶ Education Estates Strategy;
- ▶ New Addington Leisure Centre;
- ▶ Restoration of Old Ashburton Library;
- ▶ Improvements to the Public Realm;
- ▶ Commencement of Growth Zone
- ▶ House building by London Borough of Croydon development company Brick by Brick, including continued refurbishment of Fairfield Halls;
- ▶ Financing for Affordable Homes.

5. HOUSING REVENUE ACCOUNT (HRA)

- 5.1 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.
- 5.2 The main variances of revenue spend against budget are set out in Table 8 below.

Table 8- Analysis of Housing Revenue Account Variances 2017/18

| Division | Underspend £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 |
| Total HRA underspend | (1,981) | |

- 5.3 HRA 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.
- 5.4 The Contingency reserve is set at 3% of total income, which is viewed to be appropriate to the level of risk within HRA income. The balance of the under-spend has been transferred to earmarked reserve. Table 9 below shows the resultant position on the HRA balances and reserves at 31 March 2018 compared with previous year.

Table 9 – Movement in HRA reserves and balances

| HRA | Balance at 01-Apr-17 £'000 | HRA Outturn 2017/18 £'000 | Balance at 31-Mar-18 £'000 |
|-----------------------|---|--|---|
| Reserves | (12,555) | (1,780) | (14,535) |
| Major Repairs Reserve | (1,294) | (635) | (1,929) |
| Total | (13,849) | (2,415) | (16,564) |

6. PENSION FUND AND TREASURY MANAGEMENT

- 6.1 The accounts for the Pension Fund are included, as a separate set of accounts, within the Croydon Council's annual accounts publication. Table 10 below shows the change in the value of the Croydon Pension Fund during 2017/18: -

Table 10 - Pension Fund Performance 2017/18

| Detail of Composition of Net Assets | 2016/17 | 2017/18 | Net Increase / (Decrease) | Change |
|--|------------------|------------------|----------------------------------|---------------|
| | £m | £m | £m | % |
| Total Investments | 1,046.186 | 1,106.620 | 60.434 | 5.8% |
| Other balances held by Fund Managers | 2.697 | 1.465 | (1.232) | (45.7%) |
| Debtors | 3.090 | 4.052 | 0.962 | 31.1% |
| Cash Held by: | | | | |
| Fund Managers | 17.460 | 8.603 | (8.857) | (50.7%) |
| London Borough of Croydon | 36.164 | 17.380 | (18.784) | (51.9%) |
| Creditors | (1.542) | (6.759) | (5.217) | 338.3% |
| Net Assets at Year End | 1,104.055 | 1,131.361 | 27.306 | 2.5% |

- 6.2 For the year ending 31 March 2018, the Fund produced an investment return of 3.85% which along with net cash outflow of £10m from the Fund, meant the net value increased by 2.5% over the reporting period. The diversified nature of the investment strategy has ensured that the fund has been able to deliver growth throughout the year although the Fund was 2.6% below the benchmark for the year, but has exceeded the return assumed by the actuaries. Over a 5 year period the Fund has returned 9.20% p.a. which is 3.84% above the benchmark return. This is despite the Fund continuing the process of restructuring the asset allocation.
- 6.3 A critical function of the Pensions Committee is to ensure that the Asset Allocation Strategy matches the current economic climate in order to stabilise returns and reduce portfolio volatility whilst closing the funding gap. In the long-term, this will allow the Fund to meet its current and future liabilities to pensioners and stabilise employer contribution rates, without putting an additional burden on council tax payers. The economic outlook suggests slow growth in the developed world and further uncertainty in the euro zone, but suggests recovery from the Global Financial Crisis is more robust. However significant headwinds still prove challenges in terms of meeting our targets. Table 11 below shows annualised performance by asset class over the 12 months to 31 March 2018.

Table 11 – Performance by asset class for the year end 31/03/18

| Asset Class | Value at 31-3-18 £m | Return % | Benchmark % | Over / Under performance % |
|-----------------------------------|------------------------------------|---------------------|------------------------|---|
| Global Equities | 578.962 | 0.54 | 0.67 | (0.13) |
| Global Bonds | 63.692 | 0.97 | 2.65 | (1.68) |
| Global Bonds and Absolute Returns | 128.716 | 0.50 | 1.10 | (0.60) |
| Private Equity | 88.836 | 8.30 | 7.44 | 0.86 |
| Infrastructure | 112.061 | 10.20 | 7.44 | 2.76 |
| Property | 134.352 | 10.30 | 10.00 | 0.30 |
| Cash & other | 24.742 | - | - | - |
| Total Fund | 1,131.361 | 3.85 | 6.44 | (2.59) |

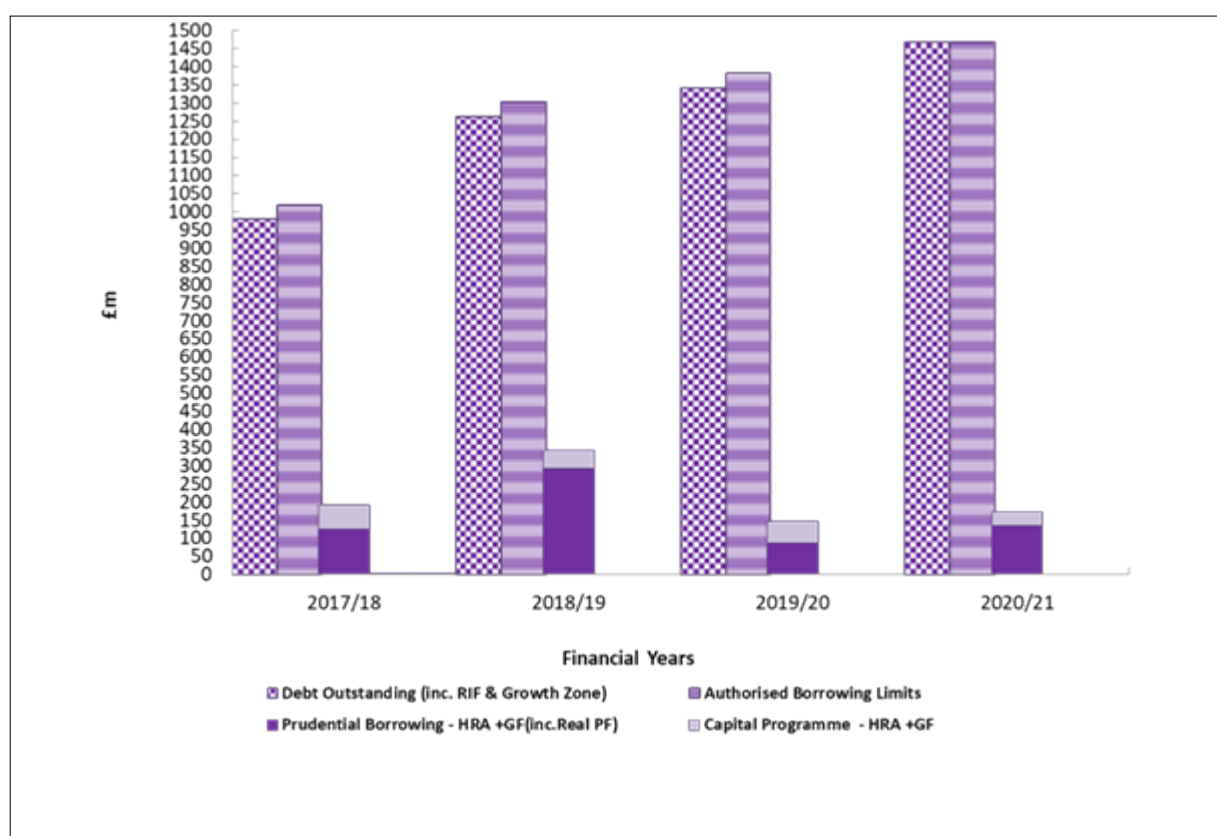
Treasury Management

- 6.4 The Executive Director of Resources and Section 151 Officer is responsible for setting and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy and Treasury Management Strategy.
- 6.5 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The Code was updated in 2017 and the Council has adopted this updated Code of Practice on 26 February 2018 (Minute 14/18c).
- 6.6 The Prudential Indicators set will continue to be monitored throughout the year and will be reported to Cabinet on a quarterly basis. The indicators break down into four blocks relating to capital expenditure, the affordability of that investment programme, debt and treasury management as follows
- 6.7 The capital investment indicators reflect the Authority's future plans to undertake capital works, and the extent to which these will be funded through borrowing. Hence, in the budget for 2018/19, £345.85m of investment is planned, £288m of which is to be financed from borrowing.
- 6.8 Apart from borrowing that is supported by government grant funding, the cost of new prudential borrowing to the Authority will be £22.34 per Band D council taxpayer in 2018/19. This Prudential Indicator reflects the impact of funding decisions relating to capital investment in Croydon. The Prudential

Code specifically indicates that it is not appropriate to compare this indicator with other authorities.

- 6.9 The external debt indicators illustrate the calculation of the affordable borrowing limit. The treasury indicators show that the Authority will limit its exposure to variable rate debt to no more than 20% of total debt and will only invest up to 30% of the total investments for periods in excess of one year for reasons of limiting exposure to risk and guaranteeing adequate liquidity.
- 6.10 The final indicator in graph 3 below shows a comparison of new debt against Prudential Limits.

Graph 3: Comparison of Debt against Prudential Limits for 2017 to 2021



Borrowing

- 6.11 As part of its Treasury management framework the Council agreed a set of Prudential Indicators covering 2017/18 and the next three years on a rolling programme. These indicators relate to capital investment and the treasury function to provide a level of assurance that investment and borrowing decisions are sustainable, affordable and prudent, and are shown in Table 12 below:
- 6.12 The affordability of financing costs for General Fund and HRA capital spending, reflected in the ratios of net financing costs to the revenue streams,

showed an improvement over budget as a result of the Council securing long term funding during the year at lower than anticipated interest rates. This funding was primarily from the European Investment Bank.

- 6.13 The impact of unsupported borrowing on Band D council tax levels was less than anticipated because of the lower cost of new borrowing undertaken in the year.

6.14

Table 12 - Prudential Indicators

PRUDENTIAL INDICATORS FOR 2017/18 – 2020/2021

| PRUDENTIAL INDICATORS | 2017/18 Actual Outturn £m | 2018/19 Forecast £m | 2019/20 Forecast £m | 2020/21 Forecast £m |
|--|------------------------------------|---------------------------|---------------------------|---------------------------|
| 1. <u>Prudential Indicators for Capital Expenditure</u> | | | | |
| 1.1. Capital Expenditure | | | | |
| - General Fund | 165.184 | 313.466 | 115.429 | 145.901 |
| - HRA | 26.034 | 32.385 | 31.951 | 26.951 |
| Total | 191.218 | 345.851 | 147.380 | 172.852 |
| 1.2. In year Capital Financing Requirement | | | | |
| - General Fund - gross of MRP costs | 125.418 | 295.404 | 87.265 | 134.932 |
| - HRA | 0.000 | 0.000 | 0.000 | 0.000 |
| Total in year Capital Financing Requirement | 125.418 | 295.404 | 87.265 | 134.932 |

| | | | | |
|---|-----------------|-----------------|------------------|------------------|
| 1.3. Capital Financing Requirement as at 31 st March – balance sheet figures | | | | |
| - General Fund (net of MRP costs) | 685.822 | 973.782 | 1,052.338 | 1,178.038 |
| - HRA - limit of HRA debt imposed by CLG | 338.688 | 338.688 | 338.688 | 338.688 |
| Total | 1,024.51 | 1,312.47 | 1,391.026 | 1,516.726 |
| 2. <u>Prudential Indicators for Affordability</u> | | | | |
| 2.1. Ratio of financing costs to net revenue streams | | | | |
| - General Fund | 8.1% | 8.3% | 9.1% | 9.1% |
| - HRA | 12.9% | 13.1% | 13.2% | 13.2% |
| 2.2. General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum) | | | | |
| - In year increase | £13.15 | £22.34 | £5.72 | £6.02 |
| - Cumulative increase (includes MRP costs). | | £35.48 | £41.20 | £47.22 |
| 2.3. HRA impact of additional borrowing (unsupported) on housing rents (per annum) | 0 | 0 | 0 | 0 |
| [The HRA's additional £223.1m debt costs are reflected in these ratios.] | | | | |
| 3. <u>Prudential Indicators for Long External Debt</u> | | | | |
| 3.1. Debt brought forward 1 st April | 881.067 | 979.108 | 1,267.067 | 1,345.623 |
| Debt carried forward 31 st March (Includes the £223.1m debt for the HRA self- financing) | 979.108 | 1,267.067 | 1,345.623 | 1,471.323 |

| | | | | |
|--|---------------|----------------|---------------|----------------|
| settlement sum plus RIF & Growth Zone borrowings in future years). | | | | |
| <u>Additional Borrowing</u> | 98.041 | 287.959 | 78.556 | 125.700 |

£223.126m of debt carried forward relates to long term loans taken up from the PWLB on 28/3/12 for the HRA Self Financing settlement payment. This sum was paid to the Government to exit the national HRA Subsidy system.

7. PROGRESS AGAINST THE CURRENT FINANCIAL STRATEGY

7.1 The Financial Strategy that was approved on a recommendation of Cabinet to full Council (Minute A21/15, Council Meeting 23 February 2015), established the overriding financial objectives of the Council for the medium term. These 3 core objectives ensure alignment of the Council's overall strategic priorities and resources. These objectives are as follows:

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

Progress in 2017/18 made against the Council's 2015/19 Financial Strategy is set out below against each of the Strategy Objectives.

A review of the current strategy is taking place over the summer 2018 and a new financial strategy will be presented to this Cabinet in September 2018.

7.2 TO MAXIMISE ECONOMIC GROWTH LOCALLY -

7.2.1 Throughout the year we have continued to drive growth locally by continuing to invest in the borough and through the buy local scheme.

7.2.2 The establishment of the Revolving Investment Fund (RIF) has enabled the Council to deliver local economic growth by undertaking direct investment. The main focus has been to delivery in accordance with the Asset Strategy to ensure its aims and objectives are achieved.

Achievements in 2017-18 towards this objective

7.2.3 Details of some of the initiatives delivered in 2017/18 are set out below:

- **Croydon Enterprise Loan Fund**
The Croydon Enterprise Loan Fund (CELF) funded by the Council, has been providing loans for start-ups and small businesses that have difficulty accessing finance from banks. Since its start in 2008, loans of £3.2m have been distributed.

- **Public realm improvements**

Town centre improvements including upgrading of East Croydon bus station to provide new shelters, better lighting, signage, improved pedestrian access, seating and tree planting has been completed. Extending the 20mph limit across 80% of the borough and the continuation of our public realm programme to enhance and improve the public space including the cycle network.

- **Housing**

The shortage of affordable housing across Greater London continues to have an impact on Croydon's costs relating to homelessness. There has been a concerted effort to manage the demand for emergency and temporary housing through targeted interventions at earlier stages as well as through changing the messaging around the homelessness journey. This has led to an overall reduction in the number of families housed in bed and breakfast accommodation and other types of temporary housing. These efforts have contributed to the ongoing success of lobbying to central government to secure additional funding for both the 2017/18 financial year and for future years, including £579k related to Croydon's work as a Universal Credit pilot authority in 2017/18 and an increased allocation of Flexible Homelessness Support Grant agreed for 2019/20.

Brick by Brick, the housing development company established by the council, has obtained planning permission on over 30 sites throughout the borough with many more at pre-application stage, and work has started on a number of these sites.

Leisure and Culture

- A new leisure services partnership commenced in March 2018, and will see the leisure centres' gym facilities refurbished to provide state-of-the-art facilities. As a result of the new contract, which will also see the council make savings of over £1m by 2021, this partnership we will deliver first class leisure facilities across the borough, encouraging more people to use them and enjoy a healthier lifestyle, along with creating new employment opportunities for local people and bringing the wider benefits of the Better brand to the residents of Croydon. These include significant investment in facilities and widening active participation through more use of the borough's parks

7.3 TO REALIGN OUR RESOURCES TO PROTECT OUR FRONT LINE RESOURCES AS MUCH AS POSSIBLE

- 7.3.1 The Council's aim is to rebalance the resources of the organisation to ensure that there are more of our resources directed to support the delivery of front line services, and that over time the cost of the enabling services which support the front line are reduced.

Achievements in 2017-18 towards this objective

7.3.2 Details of some of the initiatives delivered in 2017/18 to realign resources are set out below:

- Gateway Services focus on enabling families and individuals to be more financially resilient, to overcome barriers to employment, tackle debt, and find sustainable solutions to potential homelessness. One of the council's priorities has been to reduce the number of people we accommodate in emergency accommodation as a result of homelessness. The current position is 626 households housed in emergency accommodation, this is 175 fewer households than April 2017, and 386 fewer than the projected had Gateway and Welfare had not taken any action since April 2017.

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 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 in the borough.

Statistics for statutory and discretionary prevention services provide a strong indication of the impact Croydon's 'Gateway & Welfare' approach is having in Croydon. For example, the number of decisions the council had to make in response to households applying as homeless in 2017/18 was 1336, the fewest in 11 years. In addition, 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 (currently 625, as mentioned above). 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.

- Further letting of space within BWH has been completed as part of the wider asset strategy with the 9th and 10th floors let to the Home Office and part of the ground and first floor to the Department for Works and Pensions as the new Job Centre Plus. These will generate significant

income and revenue savings going forward in excess of £1.25m. Further opportunities for revenue savings are being progressed with the relocation, development and refurbishment at three other sites under the service led asset review work which will all be delivered over the next 6-12 months.

7.4 TO ENSURE WE RETAIN A STRONG FINANCIAL MANAGEMENT FRAMEWORK AND SYSTEMS

7.4.1 Over the last three years the council has worked hard to maintain financial stability. Given the turbulent economic environment faced, 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.

7.4.2 The level of general fund balances as at 31st March 2018 is £10.4m. This represents 3.9% of 2017/18's net budget requirement against a Financial Strategy target of 5%. Table 13 below sets out actual general fund balances against the targeted level.

Table 13 – Comparison of General Fund Target Balance with Actual Balances

| Year | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m |
|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Target 5% (£m) | 13.9 | 13.4 | 13.0 | 12.9 | 12.5 | 12.4 |
| General Fund balance (£m) | 10.7 | 10.7 | 10.7 | 10.4 | 10.4 | n/a |

7.4.3 The Council has a General Fund balance of **£10.4m** as at 31st March 2018 and earmarked reserves of **£13.748m** excluding Schools reserves.

7.4.4 The General Fund balances are in place to meet unanticipated costs arising in the year or budget overspends. The appropriate level of the General Fund balances has regard to assessment of risks from the external environment that may result in overspending and impact on the Council's financial position in the context of the overall arrangements that the Council has for mitigating risks, including earmarked reserves detailed in table 14 below.

Table 14 – Analysis of earmarked reserves (greater than £0.5m)

| Reserves | Balance 31/03/2018 | Balance 31/03/2017 |
|---|-------------------------------|-------------------------------|
| | £m | £m |
| <u>NON DEPARTMENTAL</u> | | |
| Revolving Investment Fund - set aside to fund the up-front costs of the schemes within the investment fund. | 1.199 | 0.918 |
| Transformation Fund - this is funding to support the delivery of the transformation programme | - | 2.153 |
| Community Priority Fund - set aside to support key initiatives of the administration. | - | 0.886 |

| | | |
|---|---------------|---------------|
| New Homes Bonus - a top slice of government funding that will be used to fund capital investment within the borough. | - | 0.657 |
| Croydon Enterprise Loan Fund - a reserve created to help Croydon businesses access an economic loan fund | - | 0.611 |
| <u>PEOPLE</u> | | |
| Care Act | - | 0.550 |
| Troubled Families | - | 0.765 |
| Best Start - transformation | - | 1.200 |
| <u>PLACE</u> | | |
| Growth Zone funding received from the DCLG to fund early life of zone | 7.000 | 7.000 |
| Selective Licencing - income from private rental licencing scheme to be used over the life of the licence to improve the standards of private rental housing within the Borough | 2.884 | 4.555 |
| Street Lighting PFI sinking fund – will be used over the life of the street lighting project to match operational requirements. | 1.555 | 6.314 |
| Other (only identified if over £0.5m as at 31 March 2017) | 5.810 | 4.515 |
| Draw Down of Reserves budgeted to be replaced on 1 April 2018 | -4.700 | |
| TOTAL EARMARKED RESERVES | 13.748 | 30.124 |

SCHOOLS RESERVES

- 7.4.5 The overall value of school reserves have decreased from £3.3m, by £0.89m to £2.4m. This includes a decrease in revenue by £0.99m to £1.99m and an increase in capital of £0.08m to £0.42m.
- 7.4.6 Four schools have converted to academies during the financial year. The balances of the closing schools are not included in the above totals, as they are transferred to the academy.
- 7.4.7 The government allows Schools' Forums to set their own policy on reviewing levels of balances held by schools. The Schools Forum agreed a maximum of 4% for Secondary Schools and 6% for all other schools of revenue reserves as a percentage of annual funding received.
- 7.4.8 Table 15 below lists all schools that ended 2017/2018 in revenue deficit. Schools in deficit positions are required to submit a licensed deficit form from

their head teacher and governing body to the council for approval by the S151 Officer.

Table 15 Schools in revenue deficit and explanations

| School | Deficit at Q4 £m | Licensed deficit plan | Deficit agreed in 2017/18 plan £m | Notes – Reasons for the deficit |
|-------------------------------------|-------------------------|-----------------------|--|---|
| Virgo Fidelis Convent Senior School | (1.267) | Yes | (1.177) | Continuing low pupil numbers. October census saw further fall in numbers. |
| St Andrew's CE School | (0.702) | Yes | (0.779) | Significant decline in pupil numbers |
| Norbury Manor Primary | (0.140) | Yes | (0.180) | Sustained increase in the pupil population has resulted in the decrease in the deficit position. |
| All Saint's Primary | (0.098) | Yes | (0.283) | Planned staff reorganisation taken place in January 2018, to take effect (savings) from 1 st April 2018. |
| The Hayes Primary School | (0.028) | Yes | (0.045) | The school has implemented a restructure which incurred redundancy payments. The school has as of April 2018 returned to a surplus |
| Archbishop Tenison's High | (0.626) | Yes | (0.694) | The school has reduced its deficit position through review of all expenditure and an increase in pupil numbers and increases in site income |
| Heavers Farm Primary | (0.125) | Yes | (0.113) | The school had a large supply cover costs in the 2017-18 year and unexpected legal costs along with prior year overspend brought forward. |
| Monks Orchard Primary School | (0.083) | No | N/A | Number of 'one off' costs at year end resulted in the unexpected deficit position. |

7.4.9 Table 16 below shows the total balances held by maintained schools, and gives details of how many schools hold balances over the threshold set by Schools Forum.

Table 16 - Schools Revenue Balances

| Type of School | Number of schools | Total Balances* £m | Percentage of Schools above Schools Forum Guidance | Number of schools in deficit | Percentage of Schools in deficit |
|-------------------|-------------------|-----------------------|--|------------------------------|----------------------------------|
| Nursery Schools | 5 | 0.069 | 20% | 1 | 20% |
| PRU | 1 | 0.155 | 0% | 0 | 0% |
| Primary Schools | 37 | 2.510 | 16% | 6 | 16% |
| Secondary Schools | 6 | (2.577) | 0% | 3 | 60% |
| Special Schools | 6 | 1.317 | 33% | 0 | 0% |
| Total | 55 | 1.474 | | 10 | |

***Note: Values in the above table excludes community reserves and Capital reserves held by schools, and includes all maintained schools at the end of March 2018.**

General Fund Provisions

7.4.10 The General Fund provisions are analysed in table 76 below. A provision is a sum of money held for a specific purpose to cover a potential cost, where the amount or timing is not certain, and an overall increase of £6.08m is recommended.

Table 17 - General Fund Provisions

| Provisions | Balance 31/03/2016 £m | Balance 31/03/2017 £m | Balance 31/03/2018 |
|------------------------------|-----------------------------|-----------------------------|-----------------------|
| Provision for Doubtful debts | 21.858 | 30.458 | 34.393 |
| Insurance Fund | 4.811 | 4.580 | 4.850 |
| Other provisions | 1.686 | 2.034 | 3.909 |
| Total | 28.355 | 37.072 | 43.152 |

7.4.11 Table 18 below shows the combined total of general fund balances and earmarked reserves. Overall, general fund and earmarked reserves represent around 16% of the Council's net budget requirement.

Table 18: Reserves and Budgeted Net Operational Expenditure

| Balances and reserves | 2014/15 Actual £m | 2015/16 Actual £m | 2016/17 Actual £m | 2017/18 Actual £m |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| General Fund balance | 10.677 | 10.677 | 10.727 | 10.394 |
| Earmarked reserves | 29.540 | 32.171 | 30.124 | 13.746 |
| Total | 40.217 | 42.848 | 40.851 | 24.14 |
| Net Budget Requirement | 279.079 | 259.999 | 258.55 | 266.898 |
| General Funds Balances% of net budget requirement | 3.83% | 4.11% | 4.15% | 3.89% |

7.5 STRONG FINANCIAL SERVICES, SYSTEMS, PROCESSES AND GOVERNANCE

7.5.1 Financial management continues to be an area of strength for the organisation which has resulted in positive external audit opinions. Despite this strong performance it is clear that the challenge for the public sector will become greater over the coming years.

7.5.2 Grant Thornton presented their Audit Findings Report to General Purposes & Audit Committee in September 2017 with an unqualified audit opinion on the Council's Financial Statements.

7.5.3 The Council delivers a comprehensive internal audit plan through a contract with Mazars Public Sector Internal Audit Ltd. The plan includes key financial systems, risk based audits from across the organisation as well as probity audits in schools and other establishments. The internal audit plan has been delivered in full with all field work completed. The detailed audit outcomes for the key financial audits are shown in Table 19 below.

7.5.4 From all audits finalised to date, 66% have been given a full or substantial assurance level. After each audit is finalised there is a robust follow-up procedure to ensure that agreed recommendations are implemented. At this point in the year, 87% of recommendations made in audits for 2016/17 and 70% of followed-up recommendations made in 2017/18 have been implemented. Internal audit will continue to follow-up on these until the vast majority have been implemented, including all high priority recommendations.

Table 19 – 2017/18 Audit Plan

| 2017-18 Audit Plan | Assurance |
|--|------------------|
| Business Rates | Substantial |
| Council Tax | Substantial |
| Creditors (inc P2P) | Limited |
| Debtors (Report is still Draft) | Substantial |
| Housing Benefits (Report is still Draft) | Substantial |
| Housing Repairs | Substantial |
| Main Accounting System (limited scope) | Full |
| Parking Enforcement & Income | Substantial |
| Payments to Schools | Substantial |
| Payroll (including data analysis) | Substantial |
| Pension Administration | Substantial |
| Treasury Management (limited scope) | Full |

ANNUAL GOVERNANCE STATEMENT (AGS)

7.5.5 The Accounts and Audit Regulations 2015 require the Council to review, at least annually the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) each year with the financial statements.

The information for the AGS has been collected from the following sources;-

- External Audit;
- Internal Audit;
- Risk Management Process;
- Executive Directors Assurance Statements; and
- Performance Management.

7.5.6 There are detailed actions to manage and mitigate the risks identified within the Annual Governance Statement, which will be monitored by the Corporate

Leadership Team on a quarterly basis to ensure appropriate action is taken in-year. The AGS will be reported separately on the same agenda.

7.6 Financial Performance Data

7.6.1 Table 20 below sets out sundry debt collection performance for 2017-18. Collection rates remained strong throughout the year, although collection of up to 30 days and 60-90 day debt were skewed by a small number of high value outstanding at that time, which significantly reduced the percentage collected.

Table 20 – Sundry debt collection performance in 2017-18

| Age of debt | Debt Issued £m | Debt Outstanding at 31-3-2018 £m | Actual Collection Rate at 31-3- 2018 | Target Collection Rate |
|------------------------------|---------------------------|---|---|---------------------------------------|
| 2 months (31-60days) | 20.141 | 12.535 | 37.77% | 80% |
| 3 months (61-90days) | 9.283 | 2.281 | 75.42% | 90% |
| 4 to 6 months (91-120days) | 4.831 | 1.205 | 75.04% | 95% |
| 7 to 12 months (121-365days) | 65.711 | 1.217 | 98.15% | 97.50% |

Collection Fund

7.6.2 The Collection Fund is a ring-fenced account into which all sums relating to Council Tax and Business Rates are paid. Surpluses or deficits within the fund are split between the precepting bodies in accordance with pre-determined percentages, which for Council Tax is Croydon Council and the Greater London Authority (GLA), and for Business Rates includes both the Department for Communities and Local Government (DCLG) and GLA as well as the Council.

7.6.3 Deficits within the fund must be met by the precepting bodies, but any surpluses can be used by those bodies to fund expenditure within their own organisation. Table 21 below sets out the position of the Collection fund at the end of 2017/18, compared to the year end position at the end of 2016/17.

Table 21 – Collection Fund at 31 March 2018

| 2017/18 | Council Tax | Business Rates | Total Collection Fund | Total Collection fund at 31.3.17 |
|------------------------------------|--------------------|-----------------------|------------------------------|---|
| | | | | |
| Overall (surplus) / deficit £m | (6.166) | (5.884) | (12.050) | (12.190) |
| Croydon Council - share | 82% | 30% | - | - |
| Croydon Council – Amount £m | (5,058) | (1,765) | (6,823) | (7,291) |

- 7.6.4 The Council Tax surplus of £6.166m was due primarily to growth in the council tax base, as well as stronger collection than budgeted. The predicted surplus declared in January 2018 was £5.901m (Croydon's share £4.841m) which will be distributed in 2018/19, and is very close to the outturn value achieved.
- 7.6.5 For Business Rates there is a surplus of £5.884m. The declaration made in January 2018 was to distribute a surplus of £13.089m (Croydon's 30% share being £3.927m) which contained the Virgin Media appeal provision released at the end of 2016-17. However, the 2017-18 year-end position does include an increased provision for appeals against business rates valuations, as well as for reliefs to be applied.
- 7.6.6 Croydon's combined share of the Collection Fund is therefore a credit of (£6.823m), and will be considered as part of the 2019/20 budget setting process.
- 7.6.7 The net collectable debt for council tax in 2017/18 was £197.6 million, an increase of £11.8 million on the previous year: a combination of both property growth within the borough as well as increases in Band D.
- 7.6.8 The Ambitious for Croydon target relates to the amount of debt collected in the initial year of billing (2017/18 debt collected in 2017/18). The target set for 2017/18 was 97.00% and the actual performance was confirmed at 97.08%, an increase of 0.08% above the target. Table 22 below shows the performance against the target.

Table 21 – Collection target and performance for Council Tax Collection

| | 2017/18 | | |
|-------------------|---------|---------|----------|
| | Target | Actual | Variance |
| % collection | 97.00% | 97.08% | 0.08% |
| £000's collection | 179,611 | 179,790 | 0.179 |

National Non Domestic Rate (NNDR) Collection –

- 7.6.9 The target set for 2017/18 was 98.75% and the actual performance was confirmed at 99.17%, an increase of 0.42% over the target. The collectable debt for business rates in 2017/18 was £115.9m. Table 23 shows the impact of actual performance against the target in cash terms.

Table 23 – Collection target and performance for NNDR Collection

| | 2016/17 | | |
|--------------|----------------|----------------|------------------|
| | Target £000 | Actual £000 | Variance £000 |
| % collection | 98.75% | 99.17% | 0.42% |
| £ collection | 115,569 | 115,973 | £404K |

- 7.6.10 Business rates collection performance was 99.17% collected. This is the best ever collection rate for Business rates, and was an increase of 1.36% collection on the previous year and 0.42% above the end of year target

8. FORMAT AND PREPERATION OF THE ACCOUNTS

- 8.1 There are no significant changes to the format of accounts in 2017/18. The council continues to prepare group financial statements that include the activity of Brick by Brick (Croydon) Limited. The group statements are included at the end of the Council's main statements, and will combine the activity of Croydon Council and Brick by Brick into a "single entity" set of statements, once activity between the two organisations has been removed. These group accounts will reflect the circa £35m of expenditure undertaken by Brick by Brick towards the construction of new homes in the Borough.
- 8.2 In preparing the accounts, it is necessary to make judgements about uncertainty of future events, and to make estimates based on assumptions. The key areas are set out below:

- 8.2.1 Properties are valued based on valuations prepared by the Council's external professional valuers. They are then depreciated over the useful economic life of the asset based on the asset category. Variations in property valuations and useful economic life estimates could have a major impact on the total comprehensive income and expenditure and the balance sheet net balances value.
- 8.2.2 Estimates are used in the preparation of the provision for doubtful debt. The Council uses historical collection rates when estimating these provisions
- 8.2.3 Changes in the collection rates of key revenue streams could have an impact on the total comprehensive income and expenditure position.
- 8.3 The Council aims to take a prudent approach when making estimates to ensure that they do not overstate their position. Where possible the Council uses professional guidance in calculating the value of its assets.

EXTERNAL AUDIT OF THE ACCOUNTS

- 8.4 The audit of the Council's accounts is under way, and this will be completed by the end of July 2018 in line with the new statutory deadlines. The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the National Audit Office Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.
- 8.5 Audit in the public sector is under-pinned by three fundamental principles:
- auditors are appointed independently from the bodies being audited;
 - the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
 - Auditors may report aspects of their work widely to the public and other key stakeholders.
- 8.6 Auditors are required by the statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from the audit work. This is called the International Standard on Auditing (ISA) 260 Report and can be found elsewhere on this meeting's agenda for consideration by the General Purposes Audit and Advisory Committee. The principal purposes of the report are:
- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide recommendations for improvements arising from the audit

process.

- 8.7 Those charged with governance will be required to review this report in order to:
- consider the statement of accounts before the financial statements are approved and certified; and
 - ensure the representation letter can be signed on behalf of the authority by the Executive Director of Resources and Section 151 Officer and those charged with governance before Grant Thornton issues its opinion on the financial statements.
 - give the opportunity for those charged with governance to amend the financial statements for the unadjusted misstatements/significant qualitative aspects of financial reporting issues identified above.
- 8.8 Should Members choose not to amend the financial statements, in accordance with ISA 260, the Auditors will request that members extend the representation letter to explain why adjustments are not being made to the financial statements.
- 8.9 Richard Simpson – Executive Director Resources & Section 151 Officer will advise Members of the Committee accordingly throughout this process.

PUBLIC ACCESS

- 8.10 The Council has improved Public Access and awareness of the Council's Accounts through its Public Access Strategy. The Council's accounts will be available for public inspection for a period of 30 working days, which commences the day after the Council's accounts are signed and published on the Council's internet site. This period began on Friday 1 June, and will run until Friday 13 July 2018. During this time, the Accounts will be available via the Council's enhanced public website both as part of the Committee agenda and as a separate web presence in the in the Council and Democracy web pages, as well as at Bernard Wetherill House.
- 8.11 The Accounts and Audit (England) Regulations 2015 also require publication (including on the Council's website) of the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor, which will be completed ahead of the statutory deadline of 31st July.

9. FINANCIAL CONSIDERATIONS

- 9.1 The body of the report sets out the 2017/18 outturn in the context of the Council's Financial Strategy as approved by Cabinet on the 23 February 2015

10. LEGAL CONSIDERATIONS

- 10.1 The Council Solicitor comments that the Council are obliged to prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2015 and proper accounting practices.

10.2 Under the Financial Regulations which form part of the Constitution, the Chief Financial Officer has the delegated responsibility to spend balances and reserves in accordance with the final accounts that are received at General Purposes & Audit Committee. However, the General Purposes & Audit Committee is required to sanction any changes to the agreed amounts if they differ.

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

11 OTHER CONSIDERATIONS

11.1 There are no immediate human resource impacts.

Approved by: Sue Moorman, Director of HR.

| | |
|------------------------------|---|
| Report Author | Richard Simpson – Executive Director Resources & Section 151 Officer |
| Background Documents: | None |
| Contact Officer | Richard Simpson – Executive Director Resources & Section 151 Officer |