MEDIUM TERM FINANCIAL STRATEGY FOR CROYDON

2018 - 2022

CROYDON
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Delivering for Croydon

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Foreword: Cabinet Member for Finance and Resources

This strategy has been written during a time of significant financial uncertainty in local government.

We have seen local authorities run out of money or take draconian action to avoid such a scenario. I am proud that Croydon is not in this situation, despite all its historic underfunding, demographic pressures and massive cuts in its funding from central government.

The current spending review ends mid way through this strategy and Government has announced an overhaul of local government finance without saying what the new system will be, making it difficult to predict many elements with certainty. However, we know that government funding is set to reduce, so increasing pressure.

Our unique position in London sees us funded as an out of London Borough but we face the pressures and demands of an inner London Borough. We have the pressures created by having a fast growing fast changing population. We also have the pressures created by our unique status as the gateway authority for Unaccompanied Asylum Seeking Children (UASC), the issue of No Recourse to Public Funds (NRPF) and housing pressures, alongside insufficient funding to provide high quality schools and special schools. All of which puts increased pressure on our already stretched budgets and services.

Despite the challenge of reducing funding and increasing demand this administration remains committed and determined to deliver modern affordable services and to maintain excellent financial planning that ensures we are fit for the future.

Our priorities are:

- To support the delivery of the manifesto.
- To continue to maximise economic growth in the Borough.
- To deliver services in a way that protects front line services and ensures good outcomes to residents, notably with a focus on local delivery, prevention, partnership work and empowerment of communities.
- To use our borrowing capacity to deliver infrastructure, housing and contribute financially through investment returns.
- To bring more services in-house and improve our commissioning and contract management.
- To ensure we maintain a strong financial management framework, using and investing resources wisely.

We will continue to develop our workforce and digital services to create a sustainable Council that is able to meet the needs of our residents and partners.

This Medium Term Financial Strategy (MTFS) sets out the financial principles of the Council and is aligned to the Corporate Plan 2018-22. These documents set out our drivers for change and the way in which we plan to meet future challenges both operationally and financially. With some key and fundamental plans to deliver our services in a more direct manner focusing on location and need.

Councillor Hall
Cabinet Member for Finance and Resources

Foreword: Executive Director of Resources

This Financial strategy sets out the approach we will take to ensuring that the financial health of the organisation remains strong over the medium term.

The strategy itself does not provide a detailed budget for the next 4 years but does set out the approach we will be taking to managing the financial challenges. The strategy does not cover the Housing Revenue Account. A separate strategy on this will come to Cabinet early in 2019 as part of the budget setting report.

We will continue to report to Cabinet in July and February each year to update on this financial strategy and its delivery and for detailed decisions to be made on annual budgets. The Fair Funding review and implementation of a 75% business rates retention system are both potentially significant changes to how we are funded. At this stage there remains a great deal of uncertainty about how this will impact us.

I am proud of the work that we have done on financial management over the last 4 years which has included us delivering our final accounts a month earlier in 2018 by the end of May. Accurate and timely reporting of our financial position remains a key priority for this financial strategy to ensure decisions are based on up to date information and are made in a timely way.

There is heightened focus on the financial sustainability of local authorities both from inside and outside local government. The strength of a council's balance sheet including its level of reserves and balances is clearly a factor in this. The management of our reserves and balances remains crucial over this strategy however it is also vital to understand the future position as well as the current position to judge financial sustainability.

The table compares our usable reserves in 2010 to 2018. Overall there has been a reduction, earmarked reserves have gone down significantly as they have been used for the purposes they were intended for. Capital receipts have gone up and these can now be used to fund revenue transformation projects which is a key area to support our future financial sustainability. We also estimate a further £30m of capital receipts will be received by 2021. This strategy assumes we aim to hold 5% in general fund balances over the period of the MTFS.

The level of income this council can raise from council tax, business rates, development and other commercial opportunities is crucial to ensuring that a balanced budget can be delivered over the medium term whilst still delivering the ambitions of our Corporate Plan.

	2010/11 £m	2017/18 £m
GENERAL FUND		
General Fund Reserves	11.6	10.4
Ear Marked Reserves	38.5	16.2
Capital Receipts	7.6	11
Total	**57.7**	**37.6**

Richard Simpson
Executive Director of Resources
(S151 Officer)

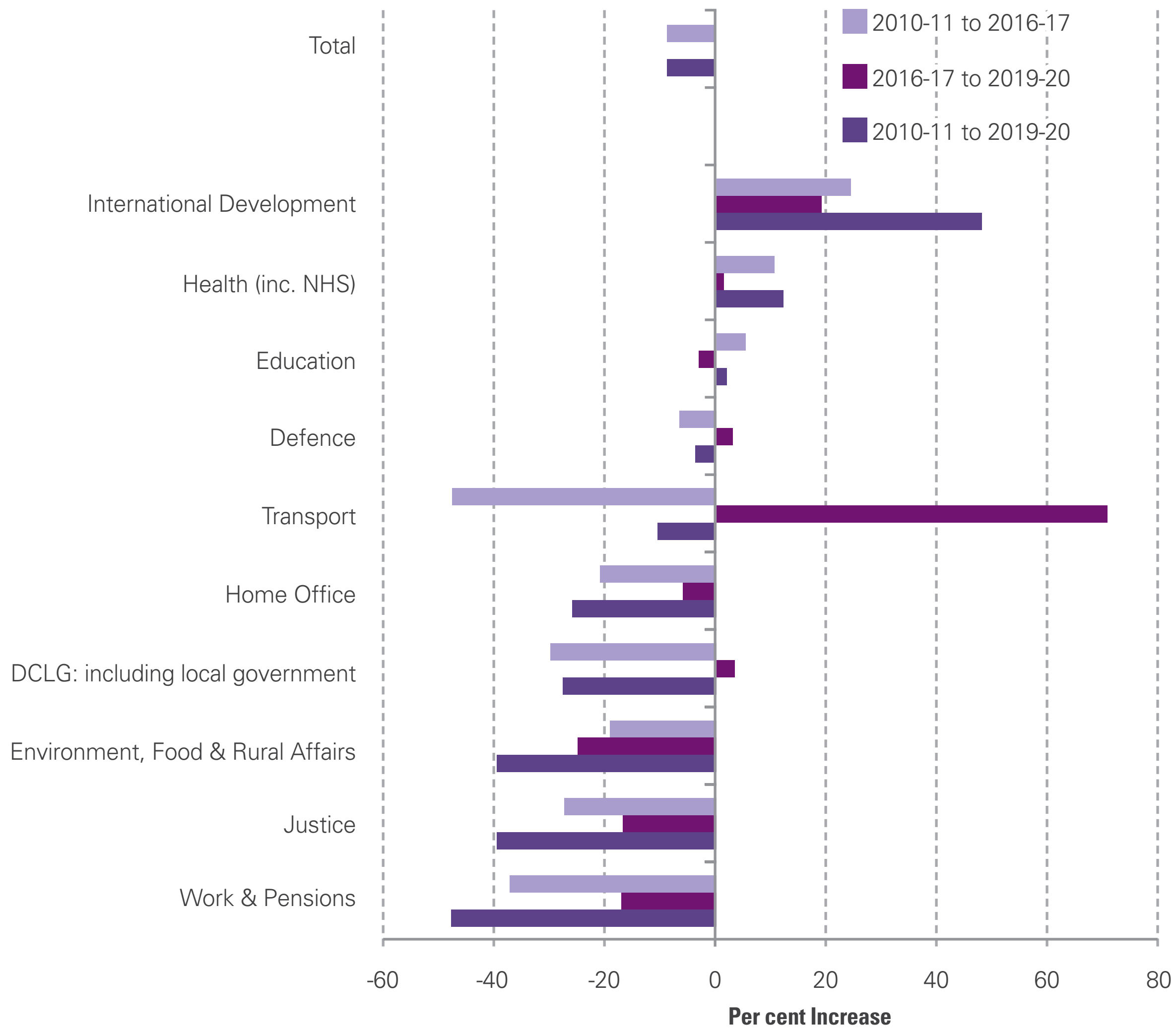
National Context

Since 2010 funding for local government has significantly reduced nationally in line with the government's objective to reduce the national deficit. Over the period of the 2010 spending review, 2010/11 to 2014/15 government funding for local authorities reduced by 27.9%.

The current government's Spending Review 2015 covers the period 2016/17 to 2019/20 and is the first four year settlement, which has been designed to give local authorities more certainty on their funding levels and the ability to undertake longer term financial planning. Over the period of this review funding for local government has reduced by a further 22%.

The graph shows the cuts to local government funding since 2010. It is clear that local government funding which is contained within the DCLG line has been cut significantly more than many other departments, while Health and International Development have seen net budget growth. These reductions have been alongside a period of population growth making the real term impact even greater.

Funding for Government Departments



Government Funding Going Forward

The government is currently in the process of consulting on a funding reform for local government which will be implemented when the current spending review ends in 2019/20. Current uncertainty in future years funding is making it very difficult for local government to plan ahead with any certainty. The Local Government Association (LGA) have published some key assumptions regarding future funding and these have been factored in to this medium term financial strategy where actual funding sources are unknown.

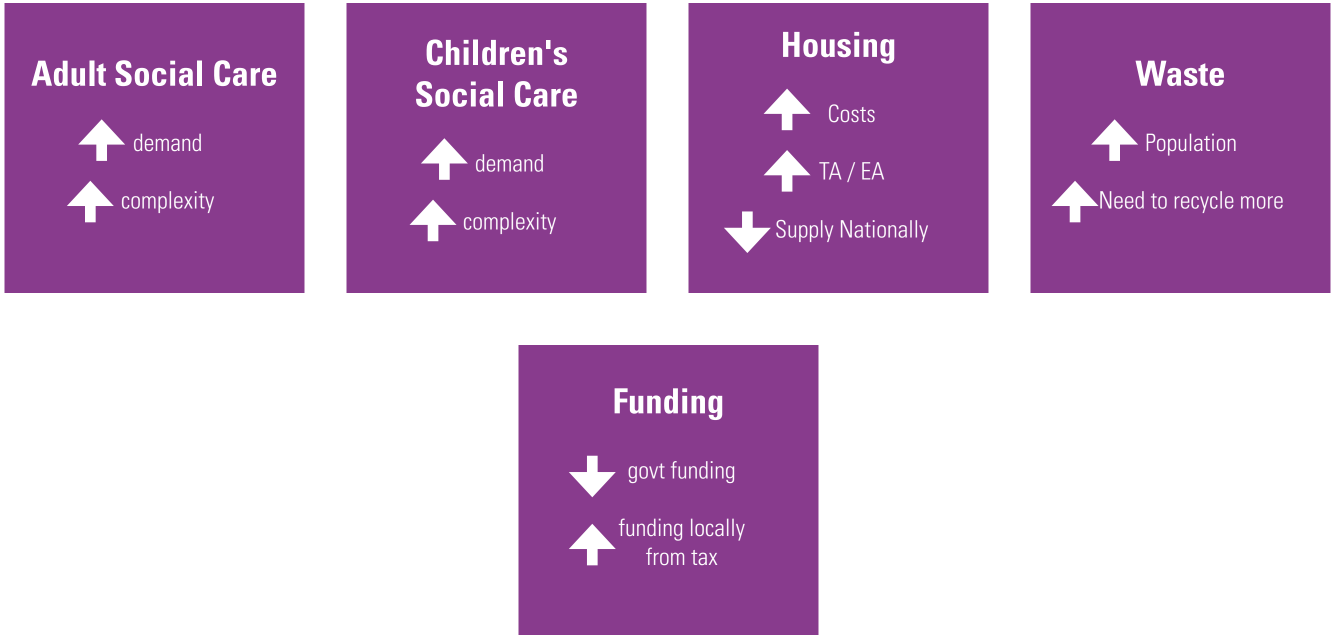
At this time of significant change and unprecedented cuts by central government we will continue to seek to prioritise and protect front line services alongside seeking to achieve best value and efficiency from our back office services.

Nationally the demand for social services is increasing for both adults and children's services. We know that our population is growing, and people are living longer with more complex needs.

Research conducted by the Local Government Association (LGA) has revealed children's services are at breaking point with 75% of councils overspending to keep vital protections in place. The review found that in 2017/18 councils surpassed their children's social care budgets by £816.5m in order to protect children at immediate risk of harm, the largest overspend in the last four years. There has been an increase of 140% in child protection enquiries over the last 10 years with enquiries up to more than 170,000 in 2015/16. The LGA has estimated that Children's Social care pressures will reach some £2bn by 2019/20.

The national pressures faced in adult social care are also significant and the LGA has recently estimated that £2bn is required by 2019/20 to provide services nationally.

We are seeing an increasing number of local Authorities struggling to balance their budgets. Northamptonshire county council issued a S114 notice in early 2018. The first council to issue a S114 notice in over two decades.



Achievements during the last Financial Strategy

Over the four year period of the last financial strategy we have achieved a number of key objectives and delivered a wide range of savings whilst continuing to invest in areas of greatest need.

Our approach to delivering our savings continues to be underpinned by the efficiency strategy that was approved by cabinet in October 2016 and our MTFS continues to recognise this strategy to ensure a sustainable budget is set and delivered over the medium term.

The efficiency strategy set out the key principles and programmes that we have been targeting to deliver savings and includes:

Getting the most out of our assets	Better commissioning and contract management	Managing Demand
Prevention and early intervention	KEY PRINCIPLES	Integration of Health and Social care
Delivering Growth	Commercial Approach	Digital

Some of our key achievements during the period of the last financial strategy include:

- Successfully prosecuted 200 people for fly tipping in the borough as part of the Don't Mess with Croydon Campaign.
- Introduced charges for green garden waste services.
- Town centre improvements, including upgrades to both East and West Croydon bus station, providing new shelters, better lighting, improved pedestrian access, seating and planting.
- Extending the 20mph limit across 80% of the borough and enhancing the cycle network.
- Invested in our school assets to provide good quality school places at all levels of the curriculum, resulting in over 80% of our Schools being judged as good or outstanding by Ofsted.
- The establishment of our Gateway service enabling thousands of residents to become more financially independent.
- Set up a new charity to oversee our LLP Croydon Affordable Homes, focusing on providing affordable accommodation to homeless families.
- Established our own housing development company Brick by Brick to develop housing across the borough providing private for sale homes and affordable accommodation.
- Let a new Leisure centre services contract, enabling facilities to be refurbished and residents enjoy a healthier lifestyle.
- Established the One Croydon Alliance, an Integrated Health and Social Care system, aimed at improving the lives of Croydon residents and delivering more effective health and social care outcomes.
- Transferred Library Services in house without any disruption to service following the collapse of the external provider.
- Replaced over 23,000 street lights in the borough, creating a safer environment.
- Reviewed our assets, releasing 18 of those no longer required to generate capital receipts and letting areas of spare capacity to generate additional income.
- Invested capital receipts to deliver transformation in key service areas including Adult Social Care, Housing, Children's Social Care and ICT.

We have and will continue to review all services to ensure they are delivered in the most efficient and effective way and where appropriate outsourced services will be terminated and insourced to achieve improved service delivery and financial efficiencies. We will also continue to explore alternative ways of providing services by working more closely with our partners and other local authorities.

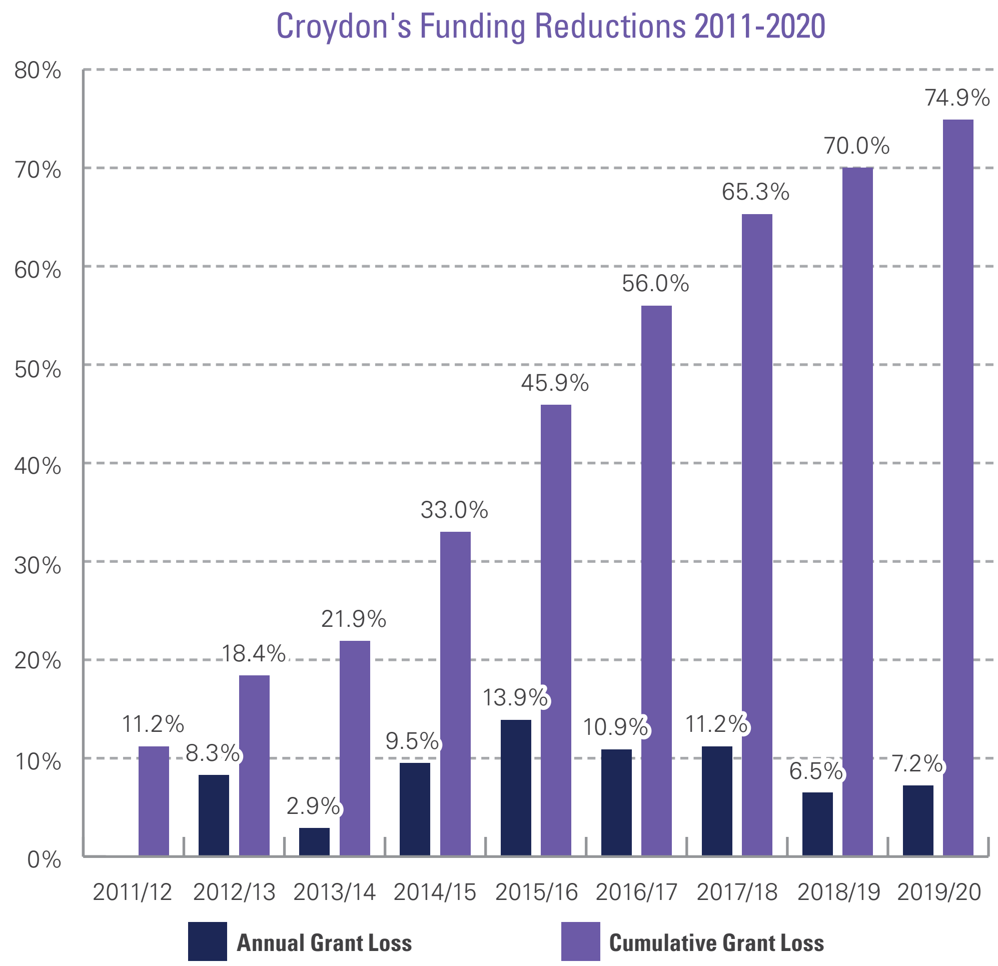
We will continue to engage with the government and lobby for fair funding where we think that Croydon is underfunded and not recognised appropriately. Current areas of lobbying which we anticipate will continue to remain throughout the life of this MTFS are Unaccompanied Asylum Seeking Children (UASC) and funding for High Needs via the Dedicated Schools Grant.

Croydon Context

The graph shows Croydon's funding reductions over the period 2011 to 2020. Our total grant loss compared on a like for like basis with the grant from 2011 is expected to be 74.9% by 2019/20.

In the current global economic climate public financial management is more important than ever. Our resources are becoming scarcer, which coupled with increasing pressures and demands on services, makes it more challenging to ensure that resources are effectively targeted. With funding having been reduced significantly since 2010 we have continued to focus on delivering for our residents whilst maintaining financial control.

Our level of funding per head from government is intended to represent the need in Croydon. The system of need has been fixed within the system since 2013 and is being reviewed as part of the Fair Funding review by MHCLG. We have set out previously how the level of change in need in Croydon over the last decade has driven our demand for services. The table over on page 10 shows our settlement funding assessment per head compared to all the other London Boroughs. Croydon is ranked as 21st lowest, receiving £247.25 per head in 2018/19 compared to neighbouring Lambeth who will receive £457.57 per head. The inner London average funding per head is £394.93. If Croydon were funded at the inner London average per head we would receive an additional £56m (these average figures exclude the City of London due to their uniqueness).



Funding per head

	Estimated population	SFA (£per resident)					Rank Average	Rank of Average 2016/20
		2015/16	2016/17	2017/18	2018/19	2019/20		
City of London	9,401	2,970.00	2,754.75	2,595.95	2,508.29	2,400.91	2,645.98	1
Hackney	273,526	684.82	624.29	579.83	554.95	526.35	594.05	2
Southwark	313,223	631.87	573.14	529.96	505.84	478.23	543.81	3
Westminster	247,614	622.38	567.69	527.32	504.98	478.59	540.19	4
Tower Hamlets	304,854	616.29	560.03	518.62	495.55	468.87	531.87	5
Islington	232,865	623.65	562.30	517.18	491.98	463.33	531.69	6
Camden	246,181	628.84	562.76	514.06	486.95	456.06	529.73	7
Hammersmith & Fulham	179,654	588.02	529.14	485.73	461.60	433.90	499.68	8
Lambeth	327,910	579.59	522.74	480.95	457.57	431.07	494.39	9
Newham	340,978	555.17	506.42	470.63	450.58	427.60	482.08	10
Kensington & Chelsea	156,726	580.31	509.20	456.55	427.48	394.27	473.56	11
Lewisham	301,867	538.62	485.95	447.28	425.59	401.19	459.72	12
Greenwich	279,766	512.51	462.98	426.64	406.24	383.31	438.34	13
Haringey	278,451	505.68	452.59	413.56	391.70	367.24	426.15	14
Barking & Dagenham	206,460	478.71	433.47	400.29	381.64	360.67	410.96	15
Brent	328,254	465.11	416.84	381.36	361.49	339.21	392.80	16
Waltham Forest	275,843	441.91	394.03	358.82	339.10	317.15	370.20	17
Wandsworth	316,096	399.29	362.55	335.46	320.42	302.91	344.12	18
Ealing	343,196	393.78	346.55	311.81	292.36	270.93	323.09	19
Enfield	331,395	390.93	345.29	311.74	292.92	272.22	322.62	20
Croydon	382,304	345.32	299.67	266.08	247.25	226.80	277.02	21
Sutton	202,220	335.81	287.21	251.41	231.36	209.76	263.11	22
Hounslow	271,139	323.08	281.04	250.09	232.76	213.81	260.16	23
Redbridge	299,249	313.95	273.87	244.38	227.85	209.79	253.97	24
Merton	205,029	316.69	270.69	236.77	217.83	197.22	247.84	25
Hillingdon	302,471	280.76	240.18	210.31	193.56	175.51	220.06	26
Barnet	386,083	278.01	234.66	202.70	184.83	165.59	213.16	27
Harrow	248,752	278.75	234.15	201.29	182.90	163.10	212.04	28
Bexley	244,760	268.12	226.59	196.02	178.88	160.52	206.03	29
Havering	252,783	250.52	207.75	176.26	158.59	139.86	186.60	30
Kingston upon Thames	176,107	228.87	182.57	148.36	129.30	108.93	159.61	31
Bromley	326,889	213.14	172.85	143.12	126.51	108.81	152.88	32
Richmond upon Thames	195,846	225.95	168.46	125.27	110.87	75.19	141.15	33

Croydon Context

Core Spending Power has been the governments preferred methodology for measuring the impact of funding changes on local government. This is intended to take account of the full range of income the council receives so includes council tax. The table shows Croydon's Settlement Funding Assessment allocations 2015/16 to 2019/20, clearly showing how our Settlement Funding Assessment (SFA) has significantly reduced and our core spending power in real terms has also significantly reduced. Population growth and inflation has been included so Core funding per head in real terms can be assessed in order to show the impact between 2015/16 and 2019/20 on how much we have to spend per head of the population.

Real term core spending reduction is 9%.

Real term core spending per head reduction is 13%.

Core Spending Power

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment	133.0	115.5	102.6	96.0	88.9
Council tax	133.4	140.7	147.7	156.8	166.4
Adult Social care council tax precept		2.8	7.3	12.6	13.3
Improved Better Care Fund	–	–	5.5	7.1	8.3
Transition Grant	–	0.4	0.4	–	–
The 2017/18 Adult Social Care Support Grant		–	1.4	–	–
New Homes Bonus	9.9	11.9	8.7	6.3	6.4
Core Spending Power	276.3	271.4	273.7	278.7	283.3
Population	380,368				399,552
Core funding per Head	726.3				709.0
Core spending power real terms	276.3	266.4	260.1	255.7	252.3
Core funding per Head – real terms	726.8				631.4

Medium Term Financial Model

This Medium Term Financial Strategy sets out the underpinning financial assumptions of the Council and is aligned to the Corporate Plan 2018-22. These documents set out our drivers for change and the way in which we plan to meet future challenges both operationally and financially. With some key and fundamental plans to deliver services more focused on prevention.

The MTFS covers a 4 year period. The first year 2018/19 is the current financial year and the budget was agreed at Cabinet in February 2018.

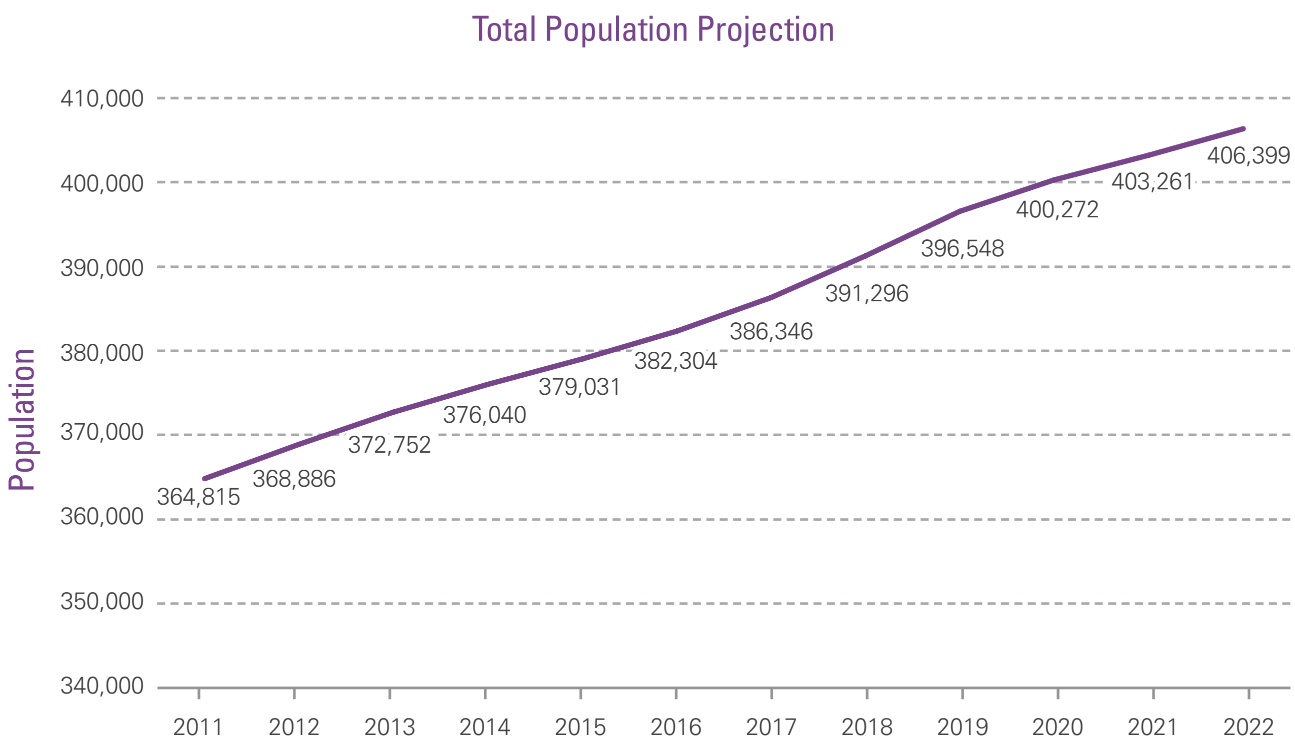
Year 2 is 2019/20, this is the last year of the current spending review and the draft budget was also presented to Cabinet in February 2018.

Years 3 and 4, 2020/21 and 2021/22 are the first two years following the new spending reform that has yet to be fully developed. As a result the figures in these two years are less developed and contain more assumptions, these are explained and will need to be reviewed.

Population

In developing this Medium Term Financial Strategy we needed to consider growth and the changing demographics. Croydon is expanding at a significant pace, and the speed and extent of change is evident in the built environment and in the number of people and businesses moving in to the borough.

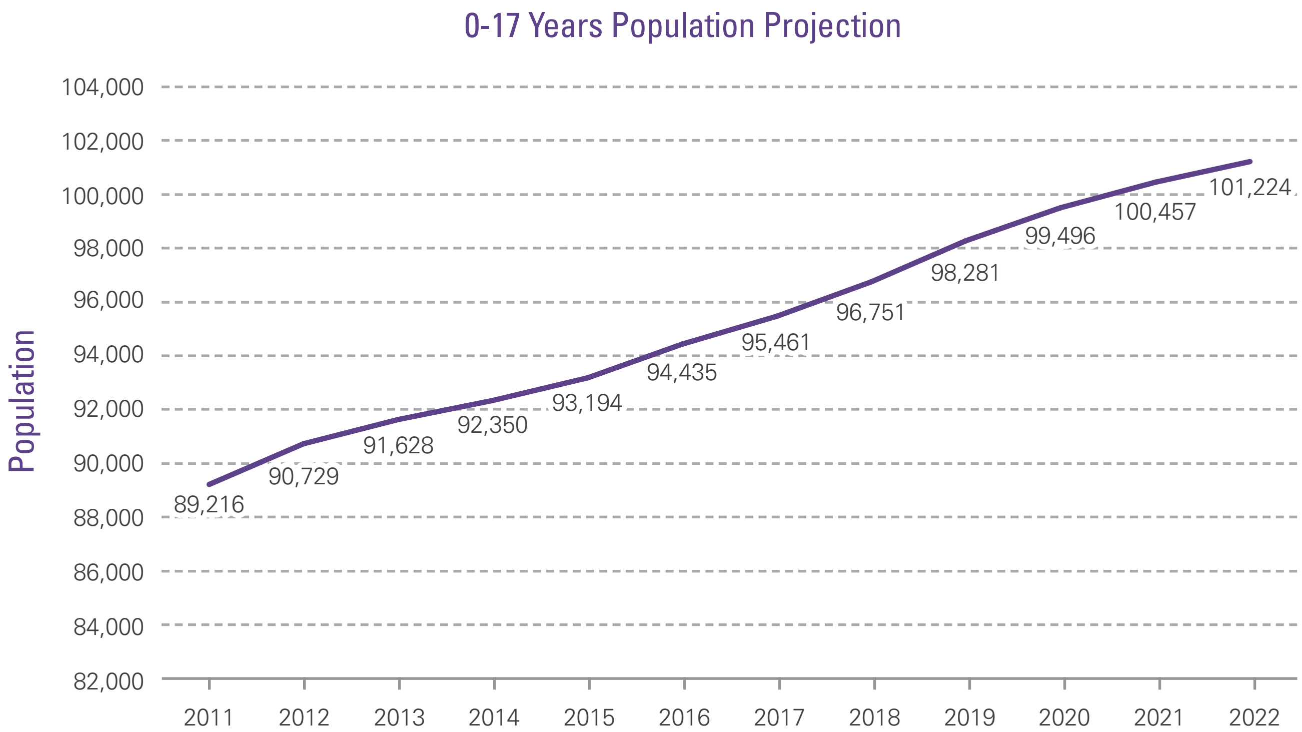
We know that our population is increasing and the GLA have predicted that out total population will grow from 391,296 in 2018 to 406,399 in 2022. This is an increase of 4%. The graph shows our growth since 2011 at over 11%.



Our Demographics – Young People

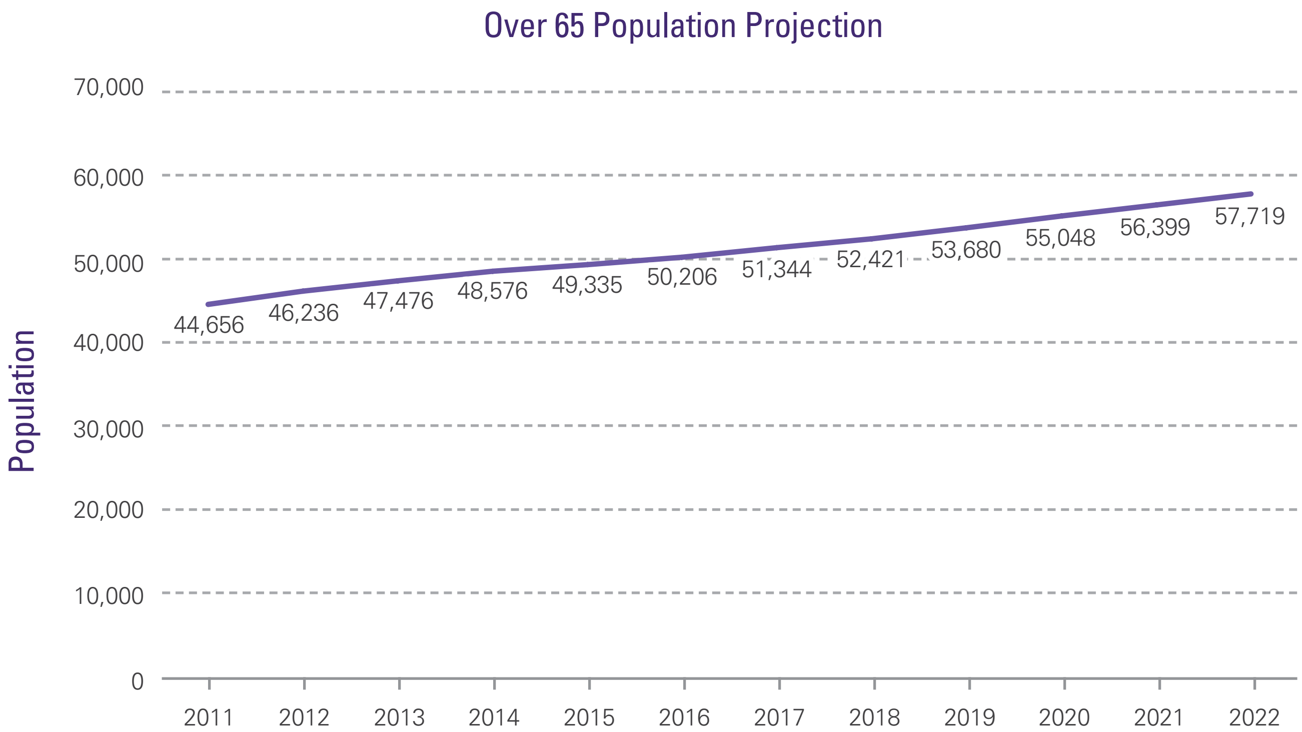
▸ We have assumed that our number of young people aged 0-17 years will increase from 96,751 now in 2018 to 101,224 in 2022, based on GLA assumptions. This is an increase of 4.6%, and can be seen in the graph.

Children Social Care referrals and the number of children with special education needs are growing at a much faster rate.



Our Demographics – Older People

- We know that our population of older people is increasing and based on the GLA modelling we have assumed that our population of over 65's will increase by 10% to 57,719 in 2022. And of those 8,173 will be over 85. This is an increase of 14.8%.



OUR DEMOGRAPHICS

Each of these different groups of our population will have different needs and require different levels of services from us. In developing this strategy we have taken account of these forecasts and they will need to continue to be reviewed over the life of the strategy.

With an increase in population we know that there will be an increase on demand for both universal and targeted services.

Set out are the key assumptions that have been built into the MTFS.

ADULT SOCIAL CARE

We know that our population is growing and that our residents are living longer, often with complex health and social care needs. By 2020 we anticipate that 15% of our population will be over 65. We want our residents to live long, healthy, happy and independent lives with access to care services when needed.

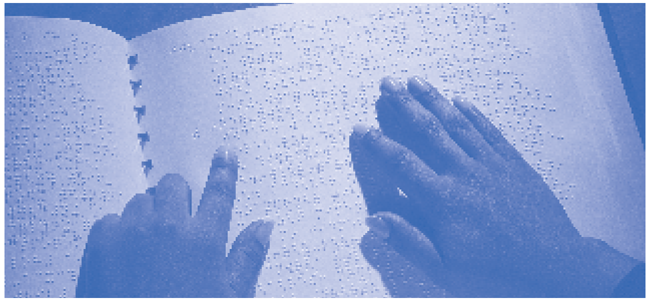
In this MTFS we have assumed that demand for social care services will continue to grow and in 2019/20 we have factored in specific service growth of £3.7m. We have factored in an annual increase of 2.5% in real terms to manage demand and growing complexity of need, this is based on the projected GLA projections on population change over the life of the strategy.

CHILDREN'S SOCIAL CARE

The number of young people in our borough is continuing to increase and by the end of this financial strategy we predict (using GLA data) that the number of young people under the age of 17 will have increased to over 101,000, an increase of 4% over the life of this MTFS.

The recent Ofsted inspection of our Children's services identified that we needed to make improvements and in 2018/19 we have invested over £10m in to children's services to provide a greater number of front line social workers and for the provision of good quality foster placements. Based on this investment and the continued growth in demand and complexity of need we have assumed an additional investment in 2019/20 of a further £7m.

We have assumed in this strategy that demand for Children's Social care services will increase at 1.5% in real terms per annum over the life of the MTFS, based on the projected GLA population projections over the life of the strategy.



CHILDREN WITH DISABILITIES

With the number of young people in our Borough increasing and the current costs exceeding budget we have assumed in this financial strategy that the cost of providing services to children with disabilities will continue to rise. The assumption in 2019/20 is a £2m increase to manage both current overspends and increasing demand and for future years we have assumed demand growth will continue at £1m per annum.

HIGH NEEDS

The number of young people in Croydon with High Needs is continuing to increase and this is putting increased pressure on our Dedicated Schools Grant (DSG) and General fund.

Funding for school High Needs places is not increasing in line with demand and over the last year we have seen an increase in costs of £4m. To manage this rising demand we are increasing the number of school places within our borough for pupils with high needs and therefore reducing the cost of expensive placements in the private sector. This will also reduce the number of journeys needing to be made and therefore reduce transport costs.

Expectations in this strategy are that the increase in places in the borough along with a change to the level of provision provided in main stream schools will reduce costs and enable the service to be delivered in line with the Dedicated Schools Grant funding from Government and therefore not impact on the need for budget growth in our general fund.

SEN TRANSPORT

With an increase in population and growing numbers of children with disabilities we are also seeing an increase in demand for SEN transport. Work is taking place to review the service provision and we have assumed in this strategy that there will be an increase in the budget of £1.5m in 2019/20 to manage current demand. We will continue to work with schools to enhance our local provision and therefore reduce the need for transport.

TEMPORARY AND EMERGENCY ACCOMMODATION

- Whilst we have greatly reduced our spend on temporary and emergency accommodation we are currently spending more than the budget. To correct this and ensure the budget is correct for the future we have assumed in this financial strategy that there will be the need to increase the budget by **£0.5m** in 2019/20.

WASTE

- We have assumed in this strategy that our population will continue to grow and therefore we have assumed that the cost of waste collection and disposal will also grow. The assumption is that costs will increase by £1m per annum, this will continue to be monitored closely especially as the new collection contract that commences in September 2018 is expected to increase recycling rates.

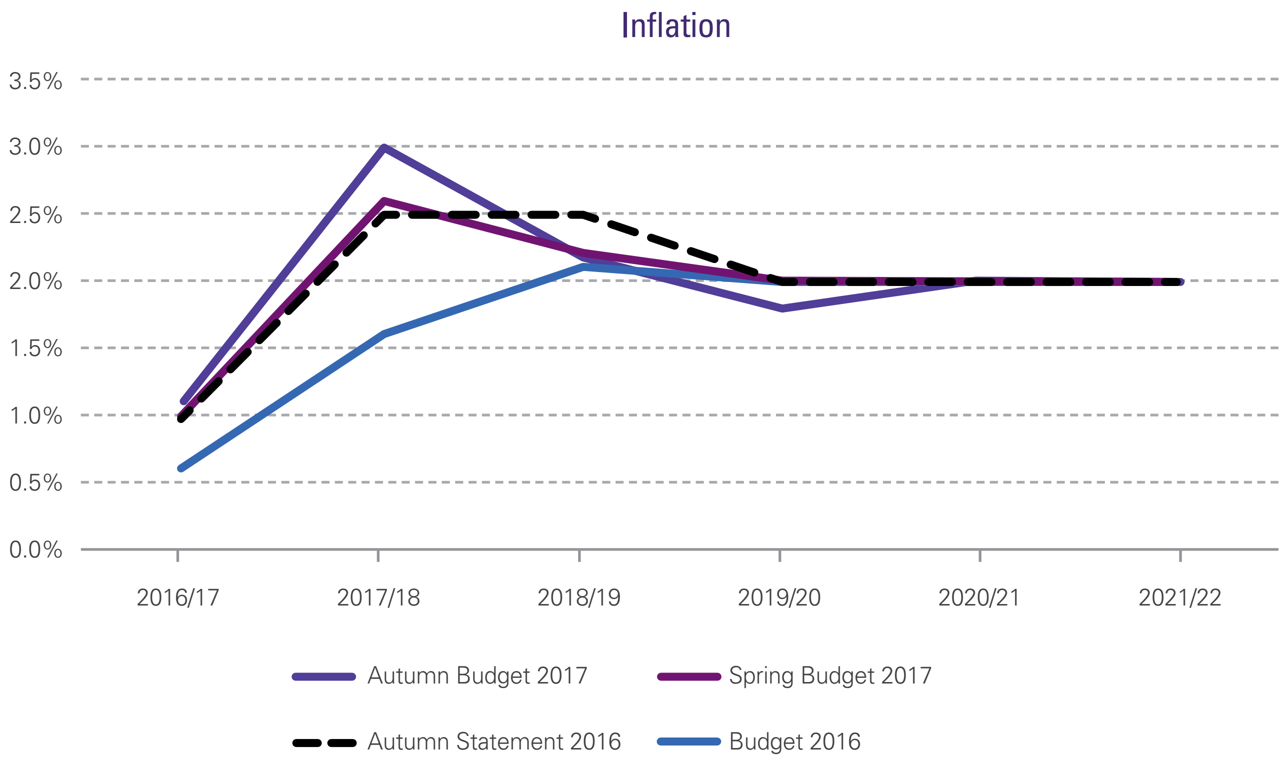
2019/20 savings

The 2019/20 budget agreed at Cabinet in February 2018 contained a number of savings options totalling £14.9m, these include savings from the One Croydon Alliance, ICT and asset management savings. While these are assumptions in the budget they all need to be reviewed and tested to ensure they remain viable deliverable options. For the purposes of this MTFS we have assumed that the Brick by Brick divided of £3.3m has been removed and therefore the savings in 2019/20 are £11.6m.

Inflation

We have assumed that general inflation in the financial model will be 2.5%. This has been assumed as a general increase on all income and expenditure items that are subject to inflation.

The graph shows the Budget 2017 forecasts for CPI against those published in previous announcements. Figures show very little overall change, with an increase of 0.4% in projected CPI in 2017/18 and then unchanged CPI for three of the next four years.



Capital Programme

Our Capital programme is a key part of our MTFS and investment in our assets and infrastructure are an important part of our financial plans.

We will invest in programmes and projects in line with our statutory and core functions with priority for funding being given to these schemes along with invest to save projects. We will use return on investment to prioritise schemes. The MTFS assumes that we will continue to make maximum use of planning gain from CIL and S106 where possible to reduce our borrowing requirements.

We are proposing to create an asset Acquisition Fund of £100m to enable us to invest in property to generate an income for the Council.

We have assumed that Borrowing for the capital programme will be £25m per annum maximum from 2019/20.

Capital receipts will continue to be used to fund our transformation programme given our shortage of earmarked reserves this is key to manage the medium term revenue position.

The Growth Zone is a big element of our capital programme. The principle assumed in this strategy is that future business rates received from the zone are ring fenced outside of this strategy for investment within the zone.

Borrowing	Budget 2018/19 £m	Budget 2018/19 £m	Budget 2019/20 £m	Budget 2020/21 £m	Budget 2021/22 £m	Total 2018/22 £m
General Fund Debt at 31.3.18	581.5					581.5
Borrowing – Revolving Investment Fund		194.9	37.3	20.0	20.0	272.2
Borrowing – Growth Zone		4.0	27.0	90.0	90.0	211.0
Borrowing – General		96.5	25.0	25.0	25.0	171.5
Asset Acquisition Fund		32	50	30	20	132.0
Total General Fund Debt		**908.9**	**1,048.1**	**1,213.1**	**1,368.1**	**1,368.1**

How we spend our money

The table details our expected expenditure based on the assumptions set out in this MTFS:

Pg 23 shows our anticipated budget gap based on the assumptions in this MTFS.

Expenditure	2018/19 Base Year	£m year 2	£m year 3	£m year 4
	18/19	19/20	20/21	21/22
Adults Health and Wellbeing	106.8	112.6	117.6	122.5
Children, Families and Education	61.7	68.7	71.0	73.3
Residents and Gateway services	30.4	30.9	30.9	30.9
Place Department	37.6	38.6	39.6	40.6
Resources Department	19.7	21.2	21.2	21.2
Chief Executives Department	0.6	0.6	0.6	0.6
Contribution to Doubtful Debt	0.2	0.2	0.2	0.2
Pension Deficit Contribution	8.1	9.1	9.1	9.1
Carbon Credits	0.3	0.3	0.3	0.3
Apprenticeship Levy	0.6	0.6	0.6	0.6
Community Initiative Fund	0.7	0.7	0.7	0.7
Contracts Review	-2.0	-2.0	-2.0	-2.0
Inflation	0.0	5.3	12.4	19.6
Contingency	2.0	2.0	2.0	2.0
Interest Payable	21.0	23.0	25.1	27.2
MRP	6.8	7.0	7.1	7.3
Levies	1.4	1.4	1.5	1.5
Contribution to Reserves	4.7	0.0	0.0	0.0
TOTAL	**300.4**	**320.2**	**337.9**	**355.8**
Savings Identified	0.0	-11.5	-11.5	-11.5
Total Expenditure	**300.4**	**308.7**	**326.4**	**344.3**

What income we receive & savings required

We know that our expenditure is greater than our income and therefore savings need to be identified. From our assumptions in this strategy savings of £5.8m are needed in 2019/20. A further £12.5m in 2020/21 and £7.7m in 2021/22. The total savings required over this MTFS are £25.9m.

Income Assumptions – %

	£m Year 1	£m Year 2	£m Year 3	£m Year 4
Projections	Baseline 2018/19	2019/20	2020/21	2021/22
Income				
Council Tax – assumptions	1.99%	3%	2%	2%
ASC Precept	2%	1%	2%	2%
Government funding loss	0	-2.5%	-2.5%	-2.5%

Income Assumptions – £

	£m Year 1	£m Year 2	£m Year 3	£m Year 4
Income	Baseline 2018/19	2019/20	2020/21	2021/22
Council Tax	156.7	167.6	173.8	180.2
ASC Precept	10.7	12.6	16.4	20.4
Interest and Investment Income	5.9	6.0	6.2	6.4
Collection Fund Surplus	8.8	4.7	0.0	0.0
Business Rates Top Up Grant	12.7	12.0	11.0	10.0
Business Rates Income	78.0	78.0	79.6	81.2
Core Grants	27.5	22.0	21.3	20.2
Fair Funding	0.0	TBC	TBC	TBC
TOTAL	**300.4**	**303.0**	**308.2**	**318.3**

Savings Required

	Year 1	Year 2	Year 3	Year 4
	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Budget Gap Per Year	n/a	5.8	12.5	7.7
Cumulative Savings Required	n/a	5.8	18.2	25.9

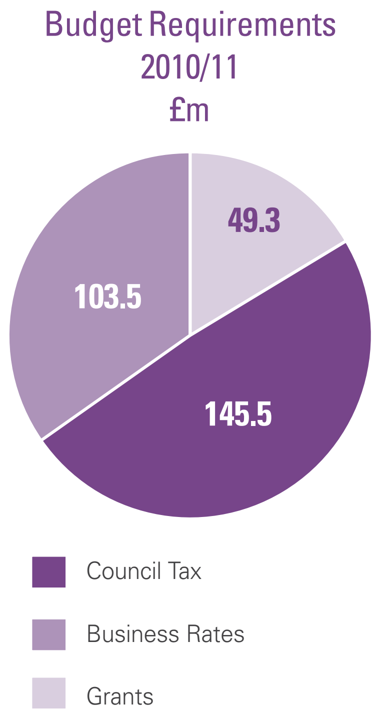
Detail of what money we recieve

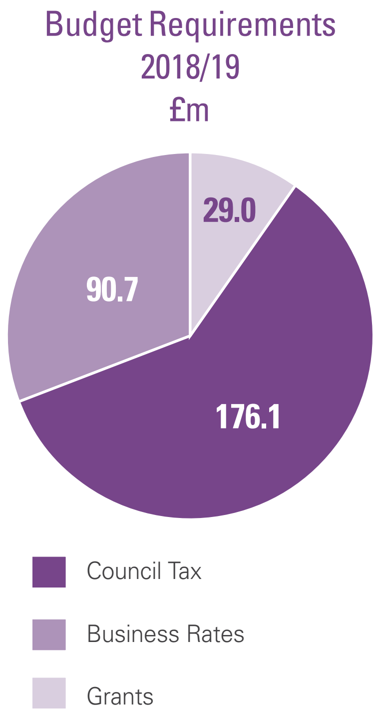
We know that our funding from government will continue to be reduced, and therefore the need for income generation to deliver services will continue to become greater to ensure we have enough money to deliver services.

With income being an important element of the budget and with the new spending review coming in to effect from 2020/21 following the funding reform we do not know the level of funding we will receive from government in the form of grants beyond 2019/20. So, at the time of writing this strategy with the significant level of uncertainty around funding beyond the end of the current spending review in 2020, we have modelled a number of different scenarios.

The grant assumptions range from between a freeze and a 5% reduction in grant. The assumption is a 2.5% loss of grant in cash terms. Our current grant funding from government is £29m and includes New Homes Bonus funding, Improved Better Care fund and S31 Business Rates Grant.

The graphs show our budget requirement over the period 2010/19. Clearly showing that our income from Council Tax has increased and the government funding from Grants has significantly reduced. This means in simple terms that council tax has a much more significant impact on the affordability of our spending plans than in 2010.





Council Tax

This MTFS assumes that Council tax will increase by a total of 4% in 2019/20. This includes the final 1% of the allowable Adult Social Care Levy and 3% for Croydon services.

For 2020/21 and 2021/22 it is currently uncertain how much we will be able to increase Council Tax by, and whether the Adult Social Care levy will continue. For the modelling in this strategy we have assumed that Council tax will increase by a 2% per annum from each source.

Based on the current Council tax base a 1% increase generates approximately an additional £1.5m of income.

Growth in the Council Tax base has been built in to our income projections at 1.2% per annum, with the potential for further growth in future years if the increase in new properties exceeds current projections. This increase in council tax income also results in an increase in demand on services and this projected increase in demographic growth has also been factored in to this MTFS.

Business Rates

The delivery of economic growth remains a key part of our MTFS, enabling increased prosperity and reducing dependency on Council services. Businesses play an important role in our borough and the rates they pay make a significant contribution towards our funding. Business Rates are forecast to grow over the period of this MTFS. Assumptions made in the strategy are that Business rates will increase by CPI over the life of the strategy.

We are currently a member of the London Business Rates Pilot for 2018/19, enabling all the London Boroughs to retain 100% of their Business Rates growth with no borough being worse off by being a member of the pool. The current proposal is that this will change to a 75% scheme from 2019/20.

The growth in business rates from the growth zone is ring-fenced separately from a general fund budget as it is used to repay debt.

Fees and Charges

All discretionary fees and charges will be reviewed annually and will be increased where appropriate. The assumption in this strategy is an increase of inflation per annum.

Actions to manage our financial position

We recognise that good financial management is key to delivering effective services and maintaining financial sustainability and control and needs to be embedded in everything we do. We know that demand for our services is increasing and that we need to deliver them in a different way if they are to be effective and affordable.

The areas set out in this strategy are the key strategic priorities for how we will manage the medium term budget position.

It will be vital to make well informed decisions on the basis of accurate financial and operational information. It is also important to recognise that the council will need to take considered risks to deliver it's objectives.

Delivering our Corporate Plan

It is crucial that the financial strategy is completely aligned with the Corporate Plan. The corporate plan sets out the key priorities for the next four years and identifies the need to drive even harder the approach to:

- supporting residents and families
- tackling issues before they reach crisis
- delivering creative solutions to deliver better outcomes
- overcome the challenges presented by ongoing reductions to funding and increasing need for Council services

Building on the approach already established in the Gateway Service, the Corporate Plan will drive, a total place based approach that uses business intelligence to design new preventative services and programmes tailored to local need and delivered close to home.

Working in partnership, notably with health, police and the voluntary sector, we will look to design holistic and integrated services based on a system-wide approach, with joint pooled resources and pathways operating across organisational boundaries and maximising the use of digital technology.

A key element of delivering the corporate plan priorities and securing better outcomes requires us to recognise the variations in assets and needs within the different localities across the borough.

Providing the right services closer to home, and developing preventative programmes in conjunction with communities and families who need them is central to the new approach. This reflects approaches already underway in the Gateway Service and through our work with Health in the One Alliance. Trialling different approaches in different areas will enable us to test the impact of this approach.

This is an approach not driven by saving money but driven by improving outcomes for residents. However we do believe it will lead to a more effective use of our resources and increase the opportunity to reduce the amount of the council's resources spent on acute need which can be both expensive and not lead to the best outcome for our residents.

Asset Acquisition

The Council has an aspiration to secure medium to long term revenue returns from sound property investment principally within the Borough. If chosen carefully the revenue returns should be consistent and less prone to fluctuation due to the protection within the lease agreements. These returns will be key to our future revenue income and enable expenditure on key services.

We will be principally looking at the opportunity that property investment offers to help generate a secure revenue stream over the medium to long term. However, less secure assets that offer future revenue potential with higher returns that also unlock the development of strategic sites will also be considered. These may typically be part vacant properties in district centres that requiring some degree of refurbishment or additional development to secure their full letting potential.

Each opportunity will be assessed against a matrix.

The matrix will have scoring against each of the key elements and categorise into Excellent, Fair, Good and Marginal investments. Procurement of investment and valuation advice and any survey work will be delivered by the Professional Property Services framework.

In order to ensure we can compete in a competitive commercial market for the purchase of investment assets it is proposed that a £100m asset acquisition fund is created.

The key elements to be scored within the matrix will be:

Location – the proposal is to have all investments within borough unless there are exceptional circumstances to justify an out of borough purchase (e.g. linked to a wider portfolio of assets, supports local employment or business retention). The split between locations is suggested as Prime 65%, Secondary 25%, Out of borough prime/secondary 10%

Covenant Strength – to secure the required security of revenue it is important to secure grade A covenants. By exception, weaker covenants may be considered if there are refurbishment/redevelopment benefits.

Tenure – unencumbered freehold or long leasehold titles without any restrictive covenant terms

Lease terms – ideally 15-20 years on Full Repairing basis in a single occupation to minimise management costs.

Building Age – new build or have been subject to a comprehensive refurbishment. Older buildings in sound condition, may also be considered on the right terms

Lot size – This will reflect the quality of the requirements but a range of values should be considered to help reduce risk and offer some flexibility. Suggested split: £1-5m 20%, £5-12m 35%, £10-20m 25% and £20m+ 20%

Net Yields – These must reflect the total costs including SDLT, Agents fees and legal costs together with the cost of borrowing to give a true return on the investment to the Council

Property use – certain uses will not be considered and it is suggested that these follow the requirements of the pension fund

Portfolio mix – to spread the type of investment so that not all investments are in one market sector (Suggested 35% Offices, 35% industrial, 20% other and 10% retail)

Revolving Investment Fund (RIF) + Brick by Brick

The Revolving Investment Fund (RIF) is key to our financial strategy enabling investment in the borough and supporting the delivery of our Growth Promise. The RIF also acts as a funder to our Housing Development Company Brick by Brick enabling the development of homes in the borough.

The RIF lends at commercial rates whilst borrowing at 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.

The Council has also set up a Housing LLP to increase the provision of affordable homes in the borough. To enable the increase of the provision of affordable housing in the borough, the Council, via wholly owned entities, has entered in to three separate limited liability partnerships (LLPs) with a local charity to develop units across the borough and street purchased properties as affordable rented homes.

The LLPs will be able to utilise the Council's retained right to buy receipts, which it is unable to use due to the limited resources in the housing revenue account, with the Council acting as lender for the balance of the funds for the purchase of the leases and development of the sites. If the Council did not use the right to buy receipts in this manner, we would have to repay them to central government with interest.

Croydon will retain a long term interest in the properties via the freehold of the sites or properties and receive an income stream in to the general fund from each LLP. The impact on the Council's general fund, once all properties are fully available, is an ongoing benefit of £1.4m. Additionally, there will be capital gains on the previously purchased units and, through arms lengths agreements with the LLPs, a contribution to the Council's fixed costs.

We have established a development company, Brick by Brick Croydon Limited (BXB), to bring forward housing led development in a way which realises the development potential of a number of sites throughout the borough and maximises the benefit from development to local residents. Although the Council is the sole shareholder, the board of the company operates independently from the Council and on a commercial basis.

The key implication for the Council from the lending arrangement to BXB is the estimated net funding requirement driven by the company's cash flow projections. BxB will draw down from the Council through a combination of borrowing and equity investment (on a 75:25 split) to fund its planned development programme. The borrowing for this funding is via the Revolving Investment Fund and the interest earned by the Council is used to run services.

For the purpose of calculating the budget gap it has been assumed that any dividends from Brick by Brick will go directly into our earmarked reserves. Given these are likely to difficult to predict in timing and uneven between years it is felt these should not be included with the base revenue budget at this stage.

BRICK BRICK

Children's Improvement

Improving Children's services continues to be a key priority and the implementation of the Children's Improvement plan following the Ofsted inspection in the summer of 2017 remains a key priority. Our aim is to deliver good services for children and young people, we recognise that this is likely be a three year journey. The plan will continue to focus on the child's experience and will continue to require close working with partners to implement our vision:

To implement improvement we are investing in our staff to ensure they are stable and skilled and their case loads are manageable. We are strengthening our strategic commissioning to ensure efficient and effective services are delivered and that children are at the forefront of service delivery. We have invested over 10m in 2018/19. We are assuming a further investment of £7m in 2019/20.

The implementation of our Early Help Strategy is also key to delivering service improvement and we are working with partners to deliver joined up service offer for children aged 0-18 and their families. Services will be provided on a locality basis and be evidence based.

The aim to develop a service that builds sustainability in Croydon enabling more families to be self-sufficient and less reliant on council services, generating a better outcome for the family, which will also be at a lesser cost.

Adult Social Care Transformation

The Transformation of Adult Social Care (TRASC) Programme is key to enabling us to deliver personalised services, "a life not a care plan", as well as a financially sustainable adult social care system. It has been developed as a response to reducing budgets and increasing demand arising from an aging population and an increase in clients with increasingly complex needs and will continue to be developed and delivered through the life of this financial strategy.

The intended benefits of the programme are:

- People will have better access to advice, information and targeted prevention that will help them to live their lives without support from the Council;
- People will be supported through re-ablement to be as independent as possible;
- People will have more choice and control, leading to higher satisfaction levels;
- More people will be supported to live independently.
- In line with the Care Act we are moving toward delivering services through an Asset Based Approach.

This will deliver better outcomes for our residents, at a lower cost. Integration of our services with our health partners is a key priority and the One Croydon Alliance has been and will continue to be key in delivering services working together with the hospital, borough GP'S, CCG, Mental Health Trust and Age UK.

Reporting

Our financial position will be reported to Cabinet on a quarterly basis for both revenue and capital to ensure Cabinet can continue to monitor the delivery of our budget.

Additionally an update on the financial strategy and future budgets for the council will be reported in February and July each year to ensure there is continued focus on our MTFS and the delivery of the actions.

MEDIUM TERM FINANCIAL STRATEGY FOR CROYDON

2018 - 2022

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