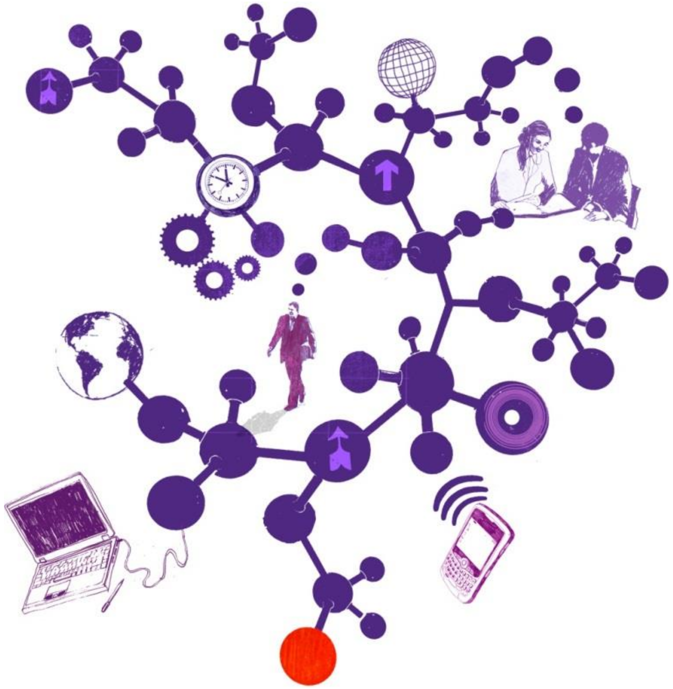
Grant Thornton

Report on Value for Money for Croydon Council

Year ended 31 March 2014

August 2014



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Contents

- The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

What is this report?

This report summarises the findings from our work supporting our Value for Money (VfM) conclusion, which is required as part of our statutory external audit responsibilities.

It complements our Audit Findings Report, providing additional detail on the themes that underpin our VfM conclusion. We have focussed this report on the areas of risk that we identified from our planning processes, following up the recommendations from 2012/13 and reporting any emerging risk areas where arrangements have deteriorated in the year.

Value for Money Conclusion

The Code of Audit Practice 2010 (the Code) describes your responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

You have proper arrangements in place for securing financial resilience: you have robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables you to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report".

You have proper arrangements for challenging how it secures economy, efficiency and effectiveness: you are prioritising your resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Code require auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

Our approach

The approach involves:

- a risk assessment to identify any significant risks
- desktop analysis of relevant documentation
- meetings with key internal stakeholders.

Our approach is designed to assess:

- any significant risks that we have identified
- arrangements in place related to the specified criteria
- performance during 2013-14 and what that says about those arrangements.

Introduction

What is this context?

Nationally

The 2010 Spending Review set the Coalition Government's financial settlement for the four years to 2014/15, and the 2013 Review then covered 2015/16. By the end of this period, central funding to local government will have reduced by 35%.

2013/14 is the third year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Review and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering these efficiency savings and maintaining financial resilience is becoming increasingly difficult, even for top-performing councils. The challenges include:

- responding to welfare reform; and
- the drive towards more integrated health and social care.

Demand for many demography-driven council services is expected to rise, whereas demand for some income-earning services is falling.

To fulfil their statutory requirements, councils must continue to provide certain services. But the opposing trends in funding and demand will create a sizeable funding gap even if carefully managed. In short, the sector is working through its greatest financial challenge of recent times.

Now, more than ever, it is important that councils have sound arrangements for securing Value for Money.

Locally

Croydon covers 87km^2 and is a densely populated borough with circa 365,000 people. The population is increasing rapidly through net inward migration and local birth rates. The rate of change recently has been fast and, whilst you remain an outer London Borough, the borough is rapidly developing some of the characteristics associated with an inner London Borough. You have already noticed increases in the demands for your services.

Croydon is situated in the corridor between London, Gatwick and Brighton. Croydon closely mirrors the economic tides of the UK and when in recession can be badly affected. To try to mitigate against this fluctuation, regeneration of the Borough is one of your key priorities, aiming to attract investment and provide jobs in the Borough in the short term. It is also preparing Croydon for longer term growth, by improving the access infrastructure aiming to attract businesses and residents to the newly redeveloped office blocks, flats and shopping areas. Westfield and Hammerson's Croydon Partnership is aiming to transform Croydon's two main shopping centres, Whitgift and Centrale, into a retail and leisure destination which aims to reposition Croydon as the best place to shop, work and live in South London.

Like most Councils with similar demographics, Croydon faces significant challenges in regard to reducing central government grant funding and in managing the social and financial implications of new government policies on welfare and local taxation. Following a combination of some difficult service decisions, finding efficiencies and some small increases in income from services, your current 2014/15 budget is balanced, but you have identified that there are considerable gaps in the region of £93m across 2015/16 to 2017/18. This requires radical transformational change in the way that core services are identified and delivered.

Executive Summary

Overall Risk Assessment

The following areas of focus were identified during our VfM planning, which we have responded to in the course of our work:

- review of your medium term financial plan and longer term financial resilience, especially your ability to close the budget shortfalls in budgets from 2015/16 to 2017/18 which are estimated to be circa £100m.
- review of your regeneration and redevelopment plans and the impact on the Boroughs infrastructure; including housing and education places and your office relocation into Bernard Weatherill House.
- review of your plans and actions to mitigate the impact on homelessness and housing resulting from the Welfare Reform Act
- review of your Public Health Services reform and Better Care funding arrangements
- review of the shared IT Oracle R12 programme and any value for money impact that slippage to the project timetable has had.
- follow up of issues raised in FR in 2012/13, such as capital slippage against capital plan and the monitoring and benchmarking against sickness absence rates.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2014.

Key findings

Securing financial resilience

We have undertaken a review which considered your arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

In the short term, you set a balanced budget for 2014/15 and plan to achieve this without using the £70m general fund and earmarked reserves.

Our work highlighted that your medium term financial strategy has identified shortfalls in your 2015/16 to 2017/18 budgetary forecasts that total £93m. This is a significant risk and one that threatens the longer term financial stability of the Council. However, despite the potential for financial breakdown, you have a good track record of strong financial management, demonstrated by past and current performance. The arrangements underpinning this performance remain in place and will support your implementation of the plans you have put in place to address the shortfalls over the next six months. We did note this year however that the combination of staff changes within Finance, implementation of a new financial system and your attention on finding the budget shortfalls affected your preparedness for the financial statements audit, which was not as well run as in previous years.

Your plans to find the solution to the significant budget shortfalls have entailed a fundamental review of all service provision and a completely different approach to building up the budget. In January 2014, you started work as a leadership team, using external support to help you mitigate the forecast 'gaps' to reduce the predicted shortfalls, which for 2015/16 total £35m.

Executive Summary

By April 2014, this process had already 'identified' around two thirds of the £93m in high level shaped ideas across the period, under a transformational agenda, as you decide what the core priority needs are for Croydon as well as the statutory requirements.

You are pursuing a twin track approach of transformation; the Croydon Challenge of alternative solutions, together with a more immediate and traditional ten per cent budget savings review. By the end of July 2014, through a combination of the early findings from both processes, you have indicatively 'identified' the £35m at a middle-detail level.

You remain focussed on turning this into the fine detail that will be needed to stand up to the robust Member-led Star Chamber budget challenge process in the Autumn of 2014 and be fully deliverable in the detailed 2015/16 budget. Whilst this time frame for the 2015/16 budget is tight with formal approval of the finished budget expected in February 2015, you are currently on track with your programmed timetable.

You are also expecting this process will identify some of the second and third year budget savings too. You are planning to keep the overall level of general fund and earmarked reserves at a similar level of around £70m at 31 March 2015 provided your 2014/15 budget outturns are delivered. This therefore provides some scope to absorb financial shocks and help mitigate the immediate risk.

You have good arrangements to support financial governance and financial control. These support the setting of prudent and deliverable budgets based on sound assumptions. You regularly monitor variations and progress against the revenue budgets at a departmental level.

In our view therefore, despite the scale of the financial challenge you are facing, overall you have adequate arrangements in place for securing financial resilience. The challenge you face, however, is significant and will test even the strongest of arrangements

Challenging economy, efficiency and effectiveness

We have reviewed whether you have prioritised your resources to take account of the tighter constraints you are required to operate within and whether you have achieved cost reductions and improved productivity and efficiencies.

Overall our work has not highlighted any significant issues in addition to those identified under our Financial Resilience review to bring to your attention.

Executive Summary

We use a red/amber/green (RAG) rating with the following definitions.

Green	**Adequate arrangements appear to be in place**
Amber	**Adequate arrangements, with areas for development**
Red	**Inadequate arrangements**

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Financial Performance	You have delivered a balanced revenue budget in 2013/14 and maintained the level of your general fund reserves, earmarked reserves and general fund provisions. This is a commendable performance in a challenging economic period which has seen an increase in demand for your key services and decline in central government funding. Your monitoring at the first quarter of 2014/15 though indicates that a year-end a contribution of £2.9m from General Fund balances would be needed if corrective action is not taken over the remainder of the year. On the capital side though, you incurred a £51m slippage on £178m of capital schemes which may require more realistic programming to ensure that slippage is kept to a minimum.	**Amber**
Strategic Financial Planning	In 2013 you started to identify significant budget shortfalls in the region of £100m in the medium term financial plan from 2015/16 to 2017/18. In preparation for tackling this significant risk, you balanced the 2014/15 budget early, to maximise the time available in 2014 to work on the solution. The budget gaps are the result of a continued reduction in central government funding, assumptions such as inflationary pressures and the increased demand for services related to Welfare, Housing and Social Services, all of which you are monitoring through your risk registers. Your planning processes in 2014 for the forthcoming 2015/16 to 2017/18 budgets involve a twin track approach of seeking alternative and transformational efficiencies in tandem with a more traditional 10 per cent departmental budget savings programme. Indications at mid-August indicate that you are making progress in identifying the required shortfall for 2015/16, albeit there is still further work to do in drilling down into the detail of how you will achieve the required savings and undergoing the robust review and challenge of the budget setting processes to see how achievable these identified savings are. However, you are currently in line with your planned timetable ,which aims to set a balanced 2015/16 budget by February 2015. The budget outputs are not yet tried and tested and still represent a large risk. This is especially the case since your monitoring at the first quarter of 2014/15 indicates that a year-end a contribution of £2.9m from General Fund balances may be needed if corrective action is not taken over the remainder of the year. Departments are already identifying corrective actions and are putting them into place to reduce this level of overspend, but it raises the risk that your assumptions on the longer term levels of savings that you can make may not be not fully achievable.	**Amber**

Executive Summary

Overview of arrangements continued…

Risk area	Summary observations	High level risk assessment
Financial Governance	There is a high level of engagement from officers and Members in the Council and a clear understanding of the financial environment you are in and of the financial implications of current and alternative policies. You have good monitoring and review processes. You understand your responsibilities and subject your financial performance to the appropriate level of scrutiny.	Green
Financial Control	You have robust financial systems and internal controls in place that deliver the revenue budget and savings. Risk management continues to be well embedded across the Council. Financial control is generally good both within departments and within the central finance function. Significant slippage of £51m against the £178m capital programme indicates that more realistic programming may be required to ensure that slippage is kept to a minimum, helping to manage resources better and reducing additional costs that can be incurred as a result of deadlines being missed. We note that the new administration will be reviewing the priorities within the capital programme as part of the 2015/16 budget and you should also take this opportunity to review all planned capital projects for deliverability to ensure that the capital programme is deliverable in the timeframe. There was a high turnover of staff and changes within the Finance department in 2013/14 which resulted in a loss of Corporate memory. Significant delays to key working papers, some of which had to be re-worked, and large-scale amendments to whole areas such as the Collection Fund accounts indicate that the process of preparation of the accounts and for the audit and capacity and learning of the Finance department should be strengthened. However, the finance department retained sufficient knowledge and experience such that the significant accounting decisions and material entries were appropriate. A sound control environment over the financial systems remains in place.	Amber
Prioritising Resources	You understand the need to radically overhaul the budget process to find the £93m shortfall over the next three financial years from 2015/16. You are consulting with and communicating the impact of this to the key stakeholders. You use timely and complete financial and non-financial information for decision making and understand the impact and outcomes from taking decisions that affect services within the Council and the wider Borough. You are working well with partners in Public Health, especially in the arrangements for the emerging Better Care Funding.	Green
Improving Efficiency & Productivity	You understand costs and use suitable benchmarking and performance indicators to monitor progress and report this appropriately according to the effectiveness of services. The delay to the implementation of One Oracle has not significantly affected efficiency and productivity and your implementation arrangements were such that the impact of the inevitable teething issues was kept to a minimum and did not have a significant impact to everyday activity.	Green
Management of Natural Resources	We were satisfied that you are meeting your obligations in regard to carbon emissions and other environmental impacts.	Green

Executive Summary

Next Steps

Area for consideration	Recommendation	Responsibility	Timescale	Management response
MTFS	Your 2014/15 budget revenue monitoring at quarter 1 identified departmental overspends of £7.9m. Underspends, income and contingency reduced this predicted year-end shortfall to £2.9m. Whilst departments are already identifying corrective actions and putting them into place to reduce this level of overspend, you must provide effective challenge so that this corrective action is taken early. The causes of these overspends must be clearly identified and addressed in the context of the MTFS medium term and the significant savings plans being proposed, not just for the symptoms in the short term.	Richard Simpson Director of Finance and Assets	31 September 2014	Meetings have already taken place with Cabinet members and senior officers to look for solutions in the areas of significant overspend. This in being fed into the future budget considerations.
MTFS	It will be essential to keep to the February 2015 timetable you have set for fully identifying, at a detailed level, the £35m of savings required to address the 2015/16 budget shortfall. You will need to robustly check that the target savings are fully deliverable, and then delivered for the year. Any unidentified budget shortfall at 1 April 2015 would clearly significantly increase the risk by back loading any savings plans to the end of the year and accordingly increase the risk of you not meeting your balanced budgeted position at the year-end. You should communicate progress against this key financial risk and report against the plan at every relevant meeting, updating Members on the progress being made, what actions are being taken and what actions still need to be taken.	Richard Simpson Director of Finance and Assets	February 2015	The Cabinet are fully engaged in the challenge as are the Corporate Leadership team. There are various away days and informal meetings scheduled over the next 6 weeks to make progress. Scrutiny will then consider the proposals for the budget in December ahead of decisions in February.

Executive Summary

Next Steps

Area for consideration	Recommendation	Responsibility	Timescale	Management response
Capital programme	Slippage of £51m (28%) against the £178m capital plan occurred in 2013/14, the balance of which will be added to the 2014/15 plan. To ensure that the enlarged 2014/15 and future capital plans remains both realistic and achievable, we recommend that as part of the new administration review of the priorities within the capital programme, you should also take this opportunity to review all planned capital projects for deliverability to ensure that the capital programme is deliverable in the timeframe. Using the Projects Module of One Oracle will allow real time monitoring and forecasting of capital expenditure, increasing the level of scrutiny and monitoring to help to reduce capital slippage in future.	Richard Simpson Director of Finance and Assets	31 March 2015	More detailed forecasting is vital given the size of the programme and progress is being made with key projects particularly in relation to Education estates being delivered on time. Oracle Projects will be a useful tool to support further improvements.
Financial Control	The 2013/14 audit encountered some issues with the timeliness and quality of working papers and the capacity of staff in finance and across the organisation to comprehensively deal with audit queries first time. You should review the effectiveness and impact of recent staff changes to the Finance department and ensure that there is sufficient capacity and timescale to prepare and quality review the draft accounts and all working papers before submission to the auditors next year. As part of the closedown process, you should also provide training for non-Corporate finance based staff to help them prepare responses supported by evidence for any questions raised by Finance and / or in the course of the audit.	Richard Simpson	31 March 2015	A full review is being done to ensure improvements are made. Given the continued reduction in our resources a more radical approach will also be taken to achieve the same outcomes.

Key Indicators of Financial Performance

The detail in this report focuses only on matters to bring to your attention but is not an analysis of all the detail behind the findings in the summary. This is because we have focused our reporting on the risk areas identified from planning, following up on issues identified in 2012/13 and any emerging matters to bring to your attention.

Area of focus	Summary observations	RAG-Rating
Workforce	You moved from your old HR / payroll system (iTrent) to Oracle on 4 August 2014 which has been the focus of your attention over the past year and consequently, progress against the recommendation from 2012/13 has slipped as the implementation date of Oracle was delayed. The sickness inputs and reports are now in the process of being defined on the new system. You have not yet redefined your management information and benchmarking metrics as you are not yet fully clear what you will be able to report on, although you intend for this to be in place by the end of 2014/15. It is likely to include a new suite of corporate and departmental indicators following the approval of the 2013-15 People Strategy by Cabinet in 15 July 2013 and the subsequent drafting of departmental people plans. Your sickness outturn for 2013/14 was 7.1 FTE days compared to the target of 7 days and is comparable to the average level of sickness across London Boroughs and similar to your performance last year.	**Amber**
Performance against budgets (Revenue & Savings)	Overall, you delivered a revenue overspend of £5.063m on services, offset by non-departmental underspends and a budgeted contingency, which meant that overall you achieved a balanced outturn in 2013/14. This was achieved without the need to utilise any General Fund (GF) reserve, earmarked reserves and GF provisions, which remained constant at £104m and only marginally short of the 5% financial strategy target. The performance against revenue reflects the strong financial management and good budget setting, which is prudent and closely monitored during the year. You incorporate the identified savings into your budgets and monitor performance against the budget, rather than specifically on savings schemes at a high level, albeit each departmental budget continues to review the impact of the savings and whether they are being achieved at a detailed level as part of their budgets. Your monitoring at the first quarter of 2014/15 indicates that the projected Departmental Revenue Outturn for 2014/15, is an overspend of £7.9m. A £2m underspend on interest and £2m of unallocated grant income and the availability of £1m contingency reduces the corporate overspend position down to a £2.9m. Therefore at this stage there would need to be a contribution of £2.9m from General Fund balances if corrective action were not taken over the remainder of the year. In addition to being able to explain the reasons for the variances from the budget, departments have already identified corrective actions and are putting them into place to reduce this level of overspend. *continued…..*	**Amber**

Key Indicators of Financial Performance

<table>
<tr><th>Area of focus</th><th>Summary observations</th><th>RAG-Rating</th></tr>
<tr><td>Performance against budgets (Capital)
(continued….)</td><td>
Slippage on the capital schemes meant that for the second year running, a quarter of the proposed capital expenditure was not spent in the year.
<table>
<tr><th colspan="2">Capital</th><th></th><th colspan="2">HRA</th></tr>
<tr><th>2013/14</th><th>2012/13</th><th></th><th>2013/14</th><th>2012/13</th></tr>
<tr><td>£178m</td><td>£171m</td><td>capital programme</td><td>£36m</td><td>£31m</td></tr>
<tr><td>£130</td><td>£123m</td><td>outturn</td><td>£32m</td><td>£25m</td></tr>
<tr><td>£52m</td><td>£48m</td><td>slippage</td><td>£4m</td><td>£6m</td></tr>
<tr><td>27.2%</td><td>28.1%</td><td>percentage</td><td>1.1%</td><td>19.4%</td></tr>
</table>
The level of capital slippage has increased by £4m in real terms since 2012/13, but fallen by 1 per cent in percentage terms due to the larger capital programme base. As was the case in 2012/13, around half of the main capital slippage in 2013/14 was caused in the education programme and the transforming our place projects. Capital expenditure on public works to upgrade Croydon's streets, squares, open space and transport links link in to many other developments happening in the borough, brings with it delays from issues such as planning constraints and other third party timings.
The impact of this slippage means that the capital plan in 2014/15 has been revised upwards to £231.5m and HRA to £44m.
Despite a high level of monitoring by management and Members through quarterly reports to Cabinet and formal approval of slippage by Members, such a high level of slippage raises the question of whether your programming of the capital programme is becoming increasingly unrealistic as the size of the roll forward into the following year grows.
We note that the new administration will be reviewing the priorities within the capital programme as part of the 2015/16 budget and you should also take this opportunity to review all planned capital projects for deliverability to ensure that the capital programme is deliverable in the timeframe. We also note that capital projects do not fit neatly into financial years and the monitoring quite rightly focuses on overall project spend, as well as the fact that your planned use of the Projects Module in One Oracle which will allow real time monitoring and forecasting of capital expenditure has been delayed in 2013/14.
</td><td>Amber</td></tr>
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Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Focus of the MTFP	Despite the continued difficult economic outlook, you formally agreed a balanced revenue budget for 2014/15 in February 2014. You kept Council-tax at the same level in 2014/15, but did increase the HRA rent levels by 4.9% in line with the national formula for social housing rents, albeit with a locally agreed two week rent free period. You completed the 2014/15 budget internally in late 2013, freeing up the whole of 2014 to focus on the £93m budget shortfalls of the MTFP. The Financial Strategy to 2017 contains a dozen assumptions which you regularly review and update and which help inform your annual budget setting process which are considered reasonable. The underlying budget planning assumptions in the Financial Strategy are: • Continued decrease in Government Grant support. The 2013 Comprehensive Spending Review resulted in an overall 10% reduction in government funding for 2015/16 in cash terms and you are also assuming future funding reductions at this level. The indicative 2015/16 Settlement Funding Assessment indicates that this may equate to a reduction for Croydon of 13.4%; • Any changes in central government grant funding will, in the first instance, impact directly on the service supported by the grant; • Local taxation increases will be kept to a minimum; • Inflation will be estimated in line with "sector" specific forecast increases as inflation continues to be an issue for the UK economy. • Efficiency targets for the Council will be set at 5% per annum as a minimum and you recognise that you will have to maximise the opportunity to deliver efficiencies to avoid service cuts. • A minimum of 20% of New Homes Bonus and any increase in Business rates yield above budget assumptions will be earmarked for economic development and organisational transformation. • The Housing Revenue Account (HRA) does not cross subsidise or vice versa the General Fund Revenue account up to the point where the HRA continues to exist; • All asset rationalisation savings will be used to contribute to the cost of Bernard Weatherill House; • Rent restructuring will follow guidelines which will achieve rent convergence (equalisation of council rents with housing associations) in 2015/16. Up to 2015/16 rents will increase at RPI + 0.5% and a further amount towards convergence. • Decent Homes standards will be maintained for HRA stock; • New council house building will be funded at £6m per annum for the next six years. • New funding for the delivery of a Public Health service will remain ring fenced to the funding allocated You considered these issues in both the annual budget setting cycle for 2014/15 but also with a medium term focus, recognising for example, that not taking action in 2014/15 would also put additional pressure on future budgets.	**Amber**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Adequacy of planning assumptions	National and local factors affecting the current year (2014/15) budget and future budgets to 2017/18 have been considered, covering a wide range of factors and realistic and prudent assumptions. These are considered reasonable and include: • Inflation which is based on recent RPI and CPI inflation reports and the Office Budget Responsibility predictions up to 2016. You have used an inflation assumption of 2.5%. This has an impact on budgets estimated at £6m per year in the period up to 2017/18. • Continuing public sector pay restraint – using the assumption of pay increases of 1% in the period. • Treasury management - refinancing debt as it matures to take advantage of the lower interest rate levels as and when the opportunity arises. • A general decrease in central government funding. You planned for reductions in your Settlement Funding Assessment of £15m in 2014/15 and are expecting reductions in the region of £19m in 2015/16. • Centrally funded ring-fenced grants of DSG and Public Health Grant which are reliant on central government formulae, which you continue to challenge where appropriate, especially where it is based on population statistics for example. • You have identified that the reduction in "guaranteed" government income being replaced by an increased reliance on locally generated income represents a risk to you. You are factoring this into your future budgets. • Your regeneration of the Borough should help benefit from the New Homes Bonus Scheme, which incentivises Councils to increase the supply of housing and rewards new housing being built and empty houses being brought back into use. Your 2014/15 budget included £8.3m of grant funding; an increase on the £2.9m on the 2013/14 levels. Although not confirmed, you expect this funding to remain at a similar level in 2015/16 as well. • The Business Rates Retention scheme is now a key source of Croydon's funding and you will benefit from being able to retain 30% of the increased yield from locally generated Business Rates resulting from increased economic growth. Conversely however, you are at risk in that you will also carry 30% of the risk of any reduction in business rates yield. However, you predict that Business Rate retention should increase by £2m a year from £66m in 2014/15 to £72.4m in 2017/18, benefiting from the local element as the regeneration of the Borough progresses. • Council-tax funding – you took the government cash incentive to keep this at a zero per cent increase in 2014/15 but will review the need for future increases as the future budget years are set. ***continued……***	**Amber**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Adequacy of planning assumptions **(continued…)**	• Savings of £21.7m were included in the 2014/15 budget. Your monitoring at the first quarter of 2014/15 indicates that a year-end a contribution of £2.9m from General Fund balances would be needed if corrective action was not taken over the remainder of the year. Departments are already identifying corrective actions and are putting them into place to reduce this level of overspend, but it raises the risk that your assumptions on the levels of savings that you can make may not be not fully achievable. • You have identified shortfalls of £93m required for the three year period from 2015/16 to 2017/18 which you have been planning for in 2014 applying a twin track approach: - The Croydon Challenge – ten thematic areas targeting savings including alternative delivery models, improving the procurement and re-procurement processes, asset management, becoming fit for the digital age and public health integration and enablement. - A more traditional budget saving approach with 10 per cent savings targets each year for each department. • You face a significant risk that the detailed level of sustainable savings will not be identified quickly enough or sustainably enough. However, indications from the combined output from the initial phases in both approaches indicate that you have made progress towards reducing the level of outstanding shortfall in 2015/16 close to the required £35m level, albeit that there is still much work to be done in embedding these each departments budget. These initial phases and assumptions are also yet to be internally challenged via the Member led Star Chamber review process. You then have to actually realise these savings in the 2015/16 budget year and meet the much reduce budget outturn. However, the arrangements and processes you have put in place so far indicate that this provides a decent platform to work from, whereby the overall budget savings required may be achievable without the need to utilise your general fund reserves in the next 18 months. • You are continuing the process of review and challenge to and revision of the assumptions being used, drilling down into the detail of how you will achieve the required savings. You remain in line with your planned timetable to try to deliver a balanced 2015/16 budget by February 2015.	**Amber**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Scope of the MTFP and Links to Annual Planning	Croydon's Community Strategy 2013-18 is the overarching strategy for the Borough. The Corporate Plan 2013-15 sets out the Council's contribution to the Community Strategy in the next two years and flowing from this, the People Strategy 2013-15 sets out how the Council will work to ensure it has the right people with the right skills in the right jobs to do this. These strategies are regularly revisited along with the annual financial plan 2014/15. The longer term financial plans for 2015/16 to 2017/18 link closely into these longer term strategies. You are also strategically planning for and reviewing the risks to your plans for the regeneration of the Borough and some the key legislative risks that affect you, including Welfare reform.	**Amber**
Regeneration and development, including impact on infrastructure, education places and office accommodation.	You have historically championed the strategic improvement and redevelopment of the Borough, and recognised that significant change and investment is needed to reverse the town centre's decline and enable Croydon to fulfil its function as a Metropolitan Centre. You have therefore encouraged and facilitated the joint venture between Westfield and Hammerson in the form of the Croydon Limited Partnership redevelopment scheme which you believe will make a major contribution to your vision for the town centre and act as a further catalyst for the wider regeneration of the Borough. Croydon Limited Partnership(CLP) intend to invest £1 billion to develop the area primarily for retail space, but also for other mixed use, such as 500 residential accommodation units including some affordable housing, leisure facilities and parking. Your own land interests principally comprise freehold and leasehold interests in the two multi storey car parks which will be included in the redevelopment. Your main role remains one of facilitator rather than bearer of any risk; the responsibility for which lies with the CLP. Your arrangements for managing this process through each stage and recognising and limiting the risks involved in such a large –scale redevelopment seem appropriate. In 2013/14, you have moved this plan forward in two keys areas. In February 2014, after due consideration and process, you granted outline planning permission and conservation area consent for proposals by the CLP to comprehensively redevelop the centre. Secondly, whilst you are aware that the compulsory purchase of land and rights is intended to be a last resort in the event that attempts to acquire by agreement fail for the greater development of the centre, you resolved in April 2014 to make a compulsory purchase order to assist in assembling the land needed to implement the scheme. This is subject to formal approval by the Secretary of State and the hearing of any objections. Again, you are following standard practices in managing this process such as obtaining necessary legal advice and adhering to the required timeframes, which you hope should conclude in a decision in early 2015.	

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Scope of the MTFP and Links to Annual Planning **Regeneration and development, including impact on infrastructure, education places and office accommodation.**	You have already identified and putting in place arrangements to minimise the risk of disruption to infrastructure as the regeneration of Croydon gathers pace. You are communicating this risk to stakeholders and developing a five year plan for the town centre helping to coordinate public and private investment, aiming to minimise the adverse impacts on the Croydon economy. You are making good progress towards the delivery of nine bulge classes for places for September 2014 to support the permanent expansion of the school estate. You are assessing the immediate and longer term demand for primary and secondary school places, analysing more detailed information on 'churn' levels across geographical areas and journey paths Your proposed longer term supply strategy for school places is matched to the areas of greatest growth in demand. You own analysis of demand for school places, together with the number of free schools that are now being provided for both the permanent and secondary expansions has resulted in a reassessment of planned capital expenditure which you have reduced by £27m over the period 2014/17. This reduced borrowing requirement will save you £2m of borrowing costs, providing a positive contribution to the budget gap over the period. However, you are still investing heavily in the school places, with for example, a £31m proposed Primary School investment strategy for the provision of new primary schools for delivery in 2017/18. Work on Bernard Weatherill House commenced in March 2010 and CCURV achieved practical completion on 31st May 2013, in line with the contractual completion date. Staff moved in to the 240,000 square foot building in September 2013, designed to house Croydon Council and a range of local service providers. The next phase of the development is the demolition and redevelopment of Tabener House, the old 19 storey 1960s office block that was at the end of its useful economic life and therefore not cost effective to run. You intend to develop this into a mix of privately rented and flexible tenure units, whilst retaining the neighbouring Queen's Gardens.	🟩 Green

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Scope of the MTFP and Links to Annual Planning **Housing and Welfare reform**	The impact of changes of Welfare Reform to the Welfare Benefit cap, under-occupancy adjustment (bedroom limit), Universal Credit and Direct Payments have increased pressures on an already high demand for social housing and on homelessness which continues to be identified as a high risk in your Corporate Risk register. The greatest potential financial impact is a cost to the General Fund due to increased spending on emergency and temporary accommodation. You have therefore been implementing a range of initiatives to try to reduce the high costs associated with temporary accommodation as homeless applications continue to rise. You have increased the amount of housing available, and in 2013 achieved close to your target of 100 additional properties in the year. You also recently invested £10 million of 2014/15 capital expenditure in a property investment fund in an alternative attempt to ease the pressure and provide suitable accommodation for around 100 homeless families as the scheme bulk buys units from developers and makes this accommodation available to your waiting residents. You have also sought to improve and speed up internal processes of decision making and initiatives such as the continuous liaison with landlords to help maintain current tenants in their houses. You have also targeted prevention, by engaging with residents to help them avoid falling into homeless by minimising the impact of the welfare reform changes of reduced income and supporting tenants through their own action plans to retain their own independence and responsibilities. You have also encouraged the supply of private rented accommodation mixing short term quicker wins and longer term programmes through the Housing Supply Task Force, the new build programme and a five year housing programme. You have projected levels of homelessness likely to be seen in Croydon over the next three to five years, helping develop your longer term plans against the likelihood that homelessness pressures will only increase. You are providing appropriate resource, initiatives and pilot schemes to help combat the issue in both the short and medium term and have adequate and appropriate arrangements in place to monitor progress against these plans, with Cabinet receiving regular papers and updates and the risk remains prominently on the Corporate risk register. Plans for this risk feed into the medium term financial strategy.	**Green**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Review process	The MTFP, currently financial period 2013-17, is continually revisited and reviewed, especially when there are changes to policy or circumstance. The Financial Strategy 2013/17 contains 12 assumptions that support the annual budget setting process within the 2014/15 financial planning timeframe for both the general fund and the Housing Revenue Account. These were all reviewed in February 2014 as part of the 2014/15 budget setting, and again under the July financial review 2014. The July Review 2014 concluded that although the Planning Assumptions of the Financial Strategy remain robust, the financial environment is not yet stable with uncertainties around the wider economic recovery, uncertainties over future years government funding and the impact of welfare and social care integration reforms. However, no changes were deemed necessary or were made to the existing financial plan for 2014/15 at this time. All changes to the current budgets are communicated to Cabinet on a quarterly basis, requiring approval. Looking further ahead at the forthcoming budgets, the new Cabinet is now focused on rebuilding the Council from the bottom up, being clear about the priorities for the council, addressing technology and service integration, making the most of the councils assets, developing alternative delivery models and developing opportunities for sustainable growth. Plans are being put into practice for a refreshed approach to budget engagement with the budget options going to Scrutiny and Overview Committee in December 2014, with the proposed budget savings having been through CLT challenge already and Cabinet Member for Finance star chamber style challenge imminently, en-route. The new administration are also reviewing the assumptions as a whole and a new financial strategy for the period of this administration will be formed and also be presented to Cabinet before the end of 2014, with a view to setting the Council-tax budget in February 2015 alongside the medium term strategy.	Green

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Responsiveness of the Plan	You have historically set prudent budgets, having explored best and worst case scenarios, and generally used the most likely balance, erring on the side of prudence. Using realistic scenario planning and modelling of demand has enabled you to plan responsibly, which is a factor in you meeting recent targets. Your 2014/15 budget made use of prudent budgeted contingencies. You already recognise the risks involved from a reduction in "guaranteed" government grant income being replaced by an increased reliance on locally generated income and have considered the balance between raising taxes and income from services, refining existing service provision and sought efficiency savings. You have long been aware of the risks to the medium term financial strategy which is why you started the process of communicating the risks and actions around the Croydon Challenge early in 2014, to be able to maximise the time spent on finding the difficult solutions to the budget shortfalls for 2015/16 to 2017/18. To help close these budget shortfalls, you are now focused on rebuilding the council from the bottom up, being clear about your priorities, addressing technology and service integration, making the most of your assets, developing alternative delivery models and developing opportunities for sustainable growth. Your twin track approach helps provide a more flexible plan to find the £35m gap in the 2015/16 budget in the relatively short timeframe before February 2015. The £100m Croydon Challenge spread across ten themes and a three year period, challenges delivery methods and seeks alternative options and solutions. Allied to this at the same time, the more traditional ten per cent budget savings route is a safer, but obviously less sustainable route to finding the immediate savings. You are hoping that the combination will provide a sufficient response to the challenging target. You have an established level of £70m of general fund and earmarked reserves which provides some scope to absorb financial shocks and help mitigate the immediate risk of any shortfall against the plan. You do not propose to intentionally run down reserves to fund budget deficits. The amber rating is linked to the scale of the challenge, which will test your arrangements to the limit, given the size of the savings that you need to achieve.	**Amber**

Financial Control

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring – revenue & capital	You have well established revenue budget setting challenge processes that encourage ownership from budget holders. Historically this has been budgeted prudently and included contingencies. Recent year-end balanced outturns suggest that your budget setting process is accurate and well managed. Members are given appropriate training and appropriately challenge on finances and also understand the scale of the financial management challenge ahead as the you look to close the £93m shortfalls in the 2015/16 to 2017/18 budgets. You are changing your formal revenue budget monitoring process in 2014/15 away from the monthly management information that you produced in 2013/14, to quarterly management reporting, whilst retaining your quarterly Cabinet information reporting. No change is expected in the overall monitoring process that clearly recognises the accountabilities of Directors for the financial management of their departments. In 2013/14 you had a good track record monitoring and managing budgets on a service by service basis, being able to identify, explain and take prompt action on under and overspends and managing the budget overall within its means. The switch to quarterly formal management reporting will release time for officers to review any specific variance overspends in depth in the intervening months, and provide more analysis and understanding of the causes as well as symptoms. It should also free up time for officers to review risk, decision and judgement making areas during the year, rather than a concentrating this review at the year-end. You are mid-way through the process of implementing a completely different approach to budget setting designed to address the significant challenges of the £93m 2015/16 to 2017/18 budget shortfalls, moving away from incremental adjustments to historic baselines for inflation, growth and savings pressures. This involves a fundamental review of all service provision and a completely different approach to building up the budget from the base up and identifying areas of savings on a thematic scale, to be able to balance the budget in these future years, which is tied into your medium term financial strategy. The risk of these new arrangements is mitigated somewhat by a twin track approach of also setting the more traditional budget savings targets for each department at the same time. This approach is not without risk that the savings will not be identified, but the early findings from the initial phases in combination indicate that progress has been made towards reducing the level of outstanding shortfall, albeit there is plenty of work still to be done. *continued…..*	**Amber**

Financial Control

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring – revenue & capital **(continued…)**	Assets are being managed effectively and treasury management is appropriate, ensuring a balance between risk and reward that safeguards the investments whilst making it work as effectively as possible in the current market conditions and interest rates. As in 2012/13, your capital plan in 2013/14 was significantly affected by slippage. This raises the possibility that it was unrealistic to expect to deliver the full £178m planned expenditure in year which included the £48m slippage from 2011/12. £51m of slippage has now been added to the planned capital expenditure of £180m in 2014/15, taking the total to £231m making the task of delivering this level of expenditure even harder. A review of all capital projects from 2015/16 is planned under the new administration which should also be used to review the timing and realism when setting future capital budgets. Identifying the causes and effects of the slippage together with closer and more active monitoring of the programming side should also help reduce the level of slippage. The delays to One Oracle prevented your planned use of the Projects Module in One Oracle in 2013/14; something which will allow real time monitoring and forecasting of capital expenditure in the future.	
Finance department resourcing	There was a high turnover of staff and changes within the Finance department in 2013/14 which resulted in a loss of Corporate memory. The Collection Fund accounts, for example, were heavily amended. Whilst closedown was fairly effective, there was a significant reduction in the quality and timeliness of working papers which were not all provided on the first day of the audit on 1 July 2014. Some key working papers in operating expenditure and creditors, such as the aged-creditors listing were not provided until the end of August. Handover arrangements between staff moving on and replacement staff were not comprehensive enough to prevent issues arising where working papers had to be re-worked and re-prepared by those that remained. The finance team was further stretched by the impact of other priorities such as the transfer across to the new Oracle system on 4 August 2014, which occurred in the middle of the audit and had a further detrimental effect on the efficiency of the audit. The audit team and finance department have continued to work closely however during the audit to limit the impact of this situation and work through the issues. At the end of the process, once the opinion is signed, we will discuss with you ways in which you need to strengthen your arrangements for quality reviewing the draft year-end accounts and fully preparing for the audit. Management has taken ownership of the issues and is committed to improvement. Whilst the process of preparation for the audit and capacity and learning of the Finance department should be strengthened, management and the finance department were effective in retaining sufficient overall strategic knowledge and experience, such that the significant accounting decisions and material account entries were appropriate.	**Amber**

Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Better Care Fund (BCF)	The Better Care Fund plan is led by Croydon Council and Croydon CCG, with involvement from the providers Croydon Health Services NHS Trust (acute and community) and South London and Maudsley (mental health) NHS Trust. Joint plans were in place by the deadline of April 2014, which have been approved by the Health And Well Being Board. These detailed plans included local indicators, with metrics to show a baseline together with expected levels at a future date. The governance structure is run through the Croydon Health and Wellbeing Board which has the statutory responsibility. Croydon CCG Board and Council Committees continue to hold budget responsibilities. The Health and Wellbeing Board in Croydon is linked to the decision making structures within both the CCG (CCG Board) and the Council (Council Cabinet) and has representation from both organisations. The Partnership Boards which are linked to the Health and Wellbeing Board bring together representatives from relevant organisations to set the strategic direction for these public services in Croydon. The Boards monitor progress and performance. The BCF plan includes a risk register with appropriate actions to mitigate risks and this is regularly reviewed through the governance structure. Arrangements therefore seem appropriate and are in place before the significant funding is due to come through. In 2013/14, there was a £5m funding transfer from the NHS to social care, with expenditure expected to increase to £15.3m in 2014/15, rising to £21.5m in 2015/16.	Green

Improving Efficiency & Productivity

Area of focus	Summary observations	RAG-Rating
IT Systems and Data quality	The shared Oracle12 'go-live' date slipped from its original implementation date by a year to August 2014 due to technical issues. Whilst the direct cost of the Oracle package is fixed, the delay has had a 'local' financial impact. The estimated indirect cost for Croydon is circa £0.5m in total, which includes for example, the additional cost of employing the business change and training team for a further 12 months more than anticipated. Such time was well spent though preparing for the implementation, including writing and then delivering the e-training which received excellent feedback from participants. You also chose to continue to employ the teams rather than let the team break up as implementation gradually slipped by against the likelihood of not being able to get the appropriate level of staff back when they were realty needed at the go-live stage. There has also been an opportunity cost of not achieving the future savings from the shared service as this has been delayed by a year too. The missed savings are estimated at approximately £250k for the year, which equates roughly to £167k for the eight months in 2013/14, and £83k for the four months in 2014/15. Go-live on 4 August 2014 and the following few days elicited the usual teething problems associated with a new system as the phased roll out took place, but periods of outages were kept small and did not have a significant impact on day to day activity. The arrangements in place for emergency procedures such as access for only 50 critical business users, were not required. The payroll run in August was successfully delivered without significant issues being raised.	Amber

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