

# General Purposes & Audit Committee Agenda



To: Councillor Karen Jewitt (Chair)  
Councillor Stephen Mann (Vice-Chair)  
Councillors Jamie Audsley, Jan Buttinger, Mary Croos, Steve Hollands,  
Bernadette Khan, Stuart Millson, Tim Pollard and Joy Prince

Co-optee Members: Muffaddal Kapasi and James Smith

Reserve Members: Clive Fraser, Pat Clouder, Felicity Flynn, Nina Degrad, Patricia Hay-Justice, Jason Cummings, Ian Parker, Badsha Quadir and Simon Hoar

A meeting of the **General Purposes & Audit Committee** which you are hereby summoned to attend, will be held on **Wednesday, 2 December 2020 at 6.30 pm**. This meeting will be held remotely. Members of the Committee will be sent a link to remotely attend the meeting in due course.

**PLEASE NOTE:** Members of the public are welcome to remotely attend this meeting via the following web link: <http://webcasting.croydon.gov.uk/meetings/11208>

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Tuesday, 24 November 2020

The agenda papers for all Council meetings are available on the Council website [www.croydon.gov.uk/meetings](http://www.croydon.gov.uk/meetings)

If you require any assistance, please contact Michelle Ossei-Gerning  
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## **AGENDA – PART A**

**1. Apologies for Absence**

To receive any apologies for absence from any members of the Committee.

**2. Minutes of the Previous Meeting (Pages 5 - 28)**

To approve the minutes of the meetings held on Wednesday 7 October 2020 and Tuesday 20 October 2020 as an accurate record.

**3. Disclosure of Interests**

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

**4. Urgent Business (if any)**

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

**5. Report in the Public Interest - Action Plan (Pages 29 - 102)**

To consider the Council's action plan made in the recent Report on the Public Interest.

**6. Audit Plan**

[To Follow]

**7. Exclusion of Public and Press**

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

“That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.”

## **PART B**

## General Purposes & Audit Committee

Meeting held remotely using MS Teams on Wednesday, 7 October 2020 at 5.00 pm

### MINUTES

**Present:** Councillor Karen Jewitt (Chair);  
Councillor Stephen Mann (Vice-Chair);  
Councillors Bernadette Khan, Joy Prince, Mary Croos, Jamie Audsley,  
Jan Buttinger, Steve Hollands, Stuart Millson and Jason Cummings

**Also Present:** Nigel Cook, Head of Treasury and Pensions  
Malcolm Davies, Head of Insurance and Risk  
Matt Dean, Senior Manager, Grant Thornton  
Jacqueline Harris Baker, Executive Director - Resources  
David Hogan, Head of Anti-Fraud  
Katherine Kerswell, Interim Chief Executive Officer  
Sarah Ironmonger, Director, Grant Thornton  
Simon Maddocks, Head of Internal Audit  
Ian O'Donnell, Finance Consultant  
Dave Philips, Senior Manager, Mazars  
Lisa Taylor, Director of Finance, Investment and Risk

**Apologies:** Councillor Pollard and James Smith (Co-opted Member).

### PART A

Before the formal business of the meeting commenced, the Chair, Councillor Jewitt, noted the late addition of an item to the agenda. This was for the Committee to receive and consider the Croydon Finance Review – Phase 1 report. The Chair acknowledged that this item had been added to the agenda less than two hours before the start of the meeting and that the report was considerable in length (120 pages). It was therefore agreed that whilst Members would be able to ask initial questions on the report at the meeting, a further meeting would be convened within two weeks to provide Members with a further opportunity to consider the report having had a longer time to read its contents.

#### 24/20 **Minutes of the Previous Meeting**

The minutes of the meeting held on 17 March 2020 were agreed as an accurate record subject to one change (the reference in agenda item 18/20 to a *hard Brexit* occurring in September 2020 should have read December 2020).

25/20 **Disclosure of Interests**

Councillor Milson declared that he had commenced a new employed role which was yet to be notified to the register of interests.

26/20 **Urgent Business (if any)**

There were no items of urgent business.

27/20 **Presentation on Renewing Croydon: The Plan**

The meeting received a detailed presentation entitled Renewing Croydon provided by the Director of Finance, Insurance and Risk. This comprised information on the Finance Review Panel, the Croydon Renewal Plan, the Medium Term Financial Strategy and the first phase of the Finance Review.

The objectives and membership of the Finance Review Panel were detailed along with the immediate (in-year) savings workstreams and their consolidation. A summary of savings was presented. It was advised that savings were those that were considered deliverable as opposed to those that had been initially been proposed in the budget. It was highlighted that some savings remained categorised as amber or red denoting that they still required work.

The forecast outturn (overspend) was presented. The gross impact of Covid was £70.5m which was reduced to £42m as a result of Government Covid grants. With the impact of exceptional items (UASC) and a £5m contribution to reserves, the overspend was stated at £50.3m to the end of August 2020. Taking into account the savings agreed at Cabinet in September 2020, the remaining overspend to the end of August 2020 was £22.4m.

The risks that could increase the overspend figure and the limitations on the Council's financial resilience were detailed to the meeting. There was mixed confidence in the delivery of in-year savings and there was potential for the Government to apply further requirements on local authorities that would need funding. It was highlighted the 2019/20 accounts were still to be audited and that there might be adjustments to be made with an effect on the in-year budget.

The options available to the Council were explained. If the Government were to take control, the Council would not have any budget with which to make decisions. If the Council were to retain control of its budget it could either reconcile this by a process of slicing from budgets or go through a process of reshaping and renewing. The latter was the much better and favoured option.

The meeting was reminded of the responsibilities placed on the Chief Finance Officer under the Section 114 directive; that a report was required where expenditure incurred in a financial year was likely to exceed resources. It was

explained that in line with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance, the budget work and development of plans meant that a notice had not been issued. A capitalisation direction was explained as gaining Government permission to borrow money for revenue spending which was not usually allowed. A credible delivery plan to ensure that the budget would be balanced over next three years was required as the basis of the submission to Government. An illustration of the costs of borrowing for revenue spending was provided.

What needed to be done to successfully secure a capitalisation direction was detailed. This was underpinned by being able to give Government confidence in the Council's ability to reshape its future. This was being achieved by the work of the Finance Review Panel, the strategic review of group companies and the delivery of savings. It was critical that the budget be completely understood; it was not desirable to gain the capitalisation to find out that it was not for the right amount of money.

The work already undertaken was detailed including gaining the Cabinet's agreement to request a capitalisation direction from Ministry of Housing, Communities and Local Government (MHCLG). It was explained how this was Plan A with Plan B to undertake a further £22.4 of savings in-year and £47m next year should MHCLG not agree. In such a situation, should it not be possible to agree a further emergency budget, a Section 114 would be issued, after which there would be 21 days to agree a balanced budget.

The annual savings required for 2021/22, 2022/23 and 2023/24 were outlined with it being explained how the capitalisation direction would be used to smooth out the profile of the required savings over the three year period. Further work was being undertaken on the Medium Term Financial Strategy (MTFS) to understand how this would be affected by a variety of factors including inflation, Council Tax and care cost predictions.

The work of the Finance Review Panel and the first phase of its improvement plan was reviewed for the meeting and how this was addressing aspects such as financial management and monitoring of financial performance.

In response to a Member question regarding the auditor's concerns, the Director of Finance, Investment and Risk clarified that the audit for 2019/20 had only just begun and therefore this was a risk that further adjustments may be required. The auditor explained that whilst there had been regular contact with the finance team throughout the year, with items being identified and discussed. However, until the detailed work of the audit was undertaken, it was not possible to come to any conclusions. The auditor noted that the work of the audit might reduce the reserve position.

The Director of Finance, Investment and Risk explained, in response to a Member question, that reshaping, renewing and refocusing the budget had been considered at the time the budget was set for 2020/21. This approach was being brought back for the attention of Members due to the level of savings required.

It was explained by the Director of Finance, Insurance and Risk that it was not possible to provide the number of budgets that were at variance in 2019/20 given the volume involved. However, this would be addressed through the development of the MTFS which would determine which budgets required growth. The commitment was made to provide Members with details outside of the meeting on the success of measures taken to address budget overspends.

The Director of Finance, Investment and Risk verified that an increase in debt repayments of around £1.5m a year equated to a 1% increase in Council Tax.

Again in response to a Member question, it was confirmed that gaining income from the sale of assets was being explored with the focus on the Council's estate. This recognised that the Council was working different because of the impact of the pandemic. However, it was also highlighted that any sale of property would need to happen at the best time to maximise the income generated. It was also confirmed that the costs of Special Educational Needs transport were a focus given the level of expense incurred. Some savings had arisen from lockdown when the service was not in operation. A reduction in costs was also anticipated as a result of schools being built within the borough reducing the extent of travel involved.

The auditor confirmed that the work on the audit of the 2019/20 accounts had not started. The legal timetable had been extended until the end of August 2020 to make allowance for the impact of Covid. However, this had been exceeded for a number of reasons including officers working on the Council's response to the pandemic and because there had been a loss in finance personnel. It was stressed that the Council's finance team was working closely with Grant Thornton to ensure the accounts were as strong as possible. It was acknowledged that there were other Councils that also had not completed the audit process. Despite the deadline being exceeded, there was still a commitment to make the accounts available for public inspection.

It was explained by the auditor that conversations were happening about concerns and that these were subject to additional review before the final accounts were submitted. Those issues that might impact on the reserve position were to be prioritised by the audit. It was acknowledged that there was work to do on asset valuations given the impact of Covid. It was hoped that the audit would commence before the end of October 2020. It was thought that whilst the Council may be acknowledged for not having completed its audit within the legal timeline, no further action was anticipated.

It was agreed to provide Members with the details of the number of agency workers employed by the Council during 2019/20.

The Director of Finance, Investment and Risk explained that it was unclear whether it would be necessary to identify in the submission MHCLG the additional £22.4m of in-year savings and the £47.1m of savings to be made 2021/22 if the capitalisation direction was not agreed. However, it was clear

that the main focus of this submission was how the Council planned to achieve a balance and sustainable budget supported by a capitalisation direction.

In response to a Member question regarding a Report in the Public Interest, the auditor noted that an adverse qualification had previously been made on value for money and it was not thought that this situation had improved. It was explained that when repeating a qualification, there was a need to consider if anything additional should be done in terms of the powers available to the auditor. Statutory recommendations might be considered for one or two specific issues and would mean that the Council would have to respond at a public meeting. A Report in the Public Interest was usually employed for a more pervasive issue with impact across the whole Council. Discussions would be had with officers and relevant Members as part of the consideration before issuing. Officers were to be kept informed as the audit progressed.

In response to Member comments regarding the welcomed transparency being provided at the meeting, the Chair informed the Committee of the intention to increase the number of meetings, giving greater opportunity to build familiarity with the Council's finances. It was intended to invite the relevant Cabinet Member to respond to Members' questions.

## 28/20 **Croydon Finance Review - Phase 1 Report**

The item was introduced by the Finance Consultant who apologised for the length of the report. This was explained as being caused by the report being based on best practice in local authority finance and therefore was necessarily very detailed. The CIPFA financial management code was cited as the framework used with the resulting work broken into phases in order to make this accessible. The first of these prioritised the areas most relevant to the Council's financial situation; financial planning, budget setting, budget monitoring.

It was explained that the financial management issues had been recognised in April 2020 at which point the decision had been taken to conduct a root and branch review. This was recognised in setting up the Financial Review Panel and commissioning the Financial Consultant who had an extensive background as a Section 151 officer.

The review acknowledged that the management of finances had clearly not been as effective as it needed to be. This was demonstrated by the magnitude of the overspend. This was explained as having been caused by process, culture and governance. The report made 75 recommendations related to the areas of financial planning, budget setting, budget monitoring. It was explained that Members would be given a further opportunity to ask questions on the report. It had been thought important to bring the report to the meeting to demonstrate the work being undertaken and to show that urgent action was being taken to address the issues identified. It was described how a new budget process had been put in place over the summer.

This included increasing budget monitoring to make it a monthly activity rather than quarterly. Medium term financial planning was being put in place as this had last been refreshed in 2018.

In response to a question from a Member regarding Best Practice Recommendation 23, the Financial Consultant gave reassurance that capital investment decisions had been made correctly as these had been agreed by full Council as required. The best practice recommendation referred to the quality of advice provided to Members when taking decisions. It had been set out in the financial regulations that the Growth Board was the internal vehicle to enable proper discussion about capital decisions. This was to allow all information to be tested before going forward to Members for decision. However, the Growth Board fell into disuse after it had been considered not to be working effectively. It had been the intention that this be replaced with part of its function being fulfilled by the Asset Board. It was explained that it did not mean discussion did not happen or that the decisions were wrong but that the Growth Board did not function which was in breach of the financial regulations. There had been an intention to change financial regulations but this had been overlooked.

In response to a further question from a Member regarding Best Practice Recommendation 46, the Financial Consultant provided additional information regarding how the correct level of reserves should be determined. It was described how this needed to take into consideration an assessment of risk, based on what was known about the future as set out in the MTFs. This needed to be determined by the Section 151 Officer. It was highlighted that this was explicitly not about affordability but had to be focused on the Council's ability to manage financial risk. It was highlighted that the MTFs had not been reviewed since 2018 at which point the decision had been made to set the target reserves at 5% nett of the General Fund figure. Whilst this target level was commonly used by local authorities, the level of risk had changed (the Council was experiencing exceptional times). It was therefore appropriate to review the level of reserves which was being undertaken as part of the budget setting process for 2021/22. The risk being faced would be reviewed and a view would need to be taken on the level of reserves required as a result. A £5m contribution would be made in the 2020/21 financial year to reserves which demonstrated the commitment to addressing the Council's reserve position. However, it was anticipated that this would be required to be increase considerably.

A Member asked the Financial Consultant to provide his observations on the statement in the Executive Summary regarding the Council's financial governance being inadequate and any correlation between this and the role of the Cabinet and political leadership. In response, the Financial Consultant described how the Council's governance arrangements were intended to ensure Members were properly informed of the implications of every decision. This included being provided with the appropriate financial information. Whilst it was clear that Members had been supplied with information, it had been established that some of the data used to inform those decisions had been out of date. The example of information on the establishment not being

reconciled with staffing budgets was given. It was explained that this made it difficult for Members to gain an accurate picture and therefore for them to understand the implications of decisions. As a result, the decision-making process was not robust. This was further illustrated by decisions regarding the capital programme. The information provided as the basis for decision-making had not been robustly tested with no audit trail available to demonstrate that the appropriate work had been undertaken. It was not the process at a democratic level that had been ineffective but rather the information provided to support decision-making which had not been up to the required standard.

The Member sought clarification on whether failure in the decision-making process had been recognised and if so, what steps had been taken for it to be addressed. The Financial Consultant described how this had been recognised since April 2020 which was demonstrated by the Financial Review being set-up. It was noted that the Finance Review Panel comprised two Cabinet Members who were supporting the process through their participation.

In response to a Member question regarding the specific decision-making process used for the purchase of the Croydon Park Hotel and the Colonnades, the Financial Consultant confirmed that this decision had been taken through the Asset Board.

The meeting was reminded that there would be a further opportunity to consider the Croydon Finance Review – Phase 1 report and to question the Financial Consultant on the recommendations made.

#### 29/20 **Financial Performance Report**

The Director of Finance, Investment and Risk clarified that this report was the same as presented at Cabinet on 21 September 2020 and Council on 28 September 2020. It was being provided to the Committee for completeness and was for noting.

**RESOLVED:** The Committee AGREED to note the Financial Performance Report for Quarter 1 June 2020.

#### 30/20 **Treasury Management Strategy Statement and Annual Investment Strategy End of Year Review 2019/2020**

The item was introduced by the Head of Pensions and Treasury. It was explained that the report was retrospective, looking back at the 2019/20 financial year. Its objectives were threefold: 1) to show compliance with the three strategies governing Treasury Management, 2) to review activity over the year and 3) show compliance with the set of prudential indicators designed to give assurance that capital investment was prudential, sustainable and affordable. It was explained that the report provided a commentary on interest rates and inflation which were seen as the most significant risk to Treasury Management. The Treasury and Investment

Strategies were reviewed within the report along with borrowing, capital expenditure and investment. Debt rescheduling was considered but this was not considered financially advantageous over the last period and therefore had not happened. Up-to-date prudential indicators were included along with the outturn report for the treasury function.

A Member posed a question regarding the operational boundary and authorised limit. It was stated that both had raised significantly over the last six years and therefore it was questioned what would happen to them given the Council's current financial position and anticipated rationalisation. Specifically, the Member wanted to know what would happen should the limits drop below the current borrowing level.

In response, the Head of Pensions and Treasury explained that in practice the operational boundary and authorised limit were always above the borrowing level due to the way they were calculated. However, should they become temporarily inverted this would have to be reported and an explanation provided. The operational boundary and authorised limit existed to give elected Members an indication of the extent to which capital expenditure and borrowing were within an overall plan. Where the level of capital investment and associated borrowing was being reduced, because the Prudential Indicators were calculated on an aggregation for the previous year, the indicators relating to the levels of debt would operate like a ratchet meaning that they would not decrease. The only way in which they could be eroded would be by contributing more to the minimum revenue provision.

It was the duration of the debt which was significant. The opportunity for this to be repaid as it matured was constrained by the fact that as debt had been taken out, the point of maturity had been spread over a range of dates up to as much as 70 years into the future. The rationale was to have approximately £10 – 20m of debt maturing at any time. It would be at the point debt was maturing that it would be considered whether or not that this should be repaid. However, over the recent period borrowing had been so cost effective that it had not been considered worth repaying. It was described how the cost of the Council's debt portfolio at the time of the meeting was 2.7%. It was considered remiss for debt to be repaid when it could be replaced with such cheap borrowing. In summary, it was a ratchet mechanism that gave limited opportunities for reducing borrowing.

In response to a Member question regarding assurance that investment income from the assets comprising the Asset Investment Fund was in excess of borrowing costs, the Head of Pensions and Treasury provided confirmation; investment properties that made up this Asset Investment Fund (the Colonnades, Imperial Way, Victor Way and the Croydon Park Hotel) had provided a £0.8m yield in 2019/20. This yield was greater than the average long run cost of borrowing. The Director of Finance, Investment and Risk committed to provide Members with a further breakdown of borrowing costs and investment income subsequent to the meeting.

In response to a further Member question, the Director of Finance, Investment and Risk confirmed that there was potential for the Council to dispose of assets. A review of the Council's asset portfolio was ongoing.

**RESOLVED:** The Committee AGREED to note the Treasury Management Strategy Statement and Annual Investment Strategy End of Year Review 2019/2020.

## 31/20 **Head of Internal Audit Annual Report**

The Head of Internal Audit introduced the item by highlighting that his annual report had only provided limited assurance. It was described how there had been a steady pattern over the last five years with the number of limited assurance finalised internal audits having increased whilst those judged substantial had declined. Over half of all internal audits (52%) during 2019/20 had a Limited or No assurance outcome.

It was described how from the outcome of internal audits conducted in 2019/20, it had been demonstrated that Key Financial and ICT systems were considered to be operating appropriately. However, the same could not be said for Operational and Departmental Systems along with Schools. With regard to the audits for both, over 60% showed issues. As a result, action plans had been agreed and were being followed-up. Many actions were reported as having been implemented but the rate of progress was slowing demonstrating that staff were under pressure.

Any areas of particular weakness were to be carried forward and featured in the Annual Governance Statement. These areas were contracts, financial management in social care teams, energy recharges to external organisations, privacy notices relating to the collection of personal data, schools in financial deficit with some weak financial control and the claiming, approving and recording of staff expenses. In order to bring greater focus to addressing areas of weakness, it had been agreed that action plans would have to be signed by the relevant Executive Director, they would then be responsible for the implementation of the action plan.

The Head of Internal Audit would also more frequently attend Departmental Leadership Team (DLT) meetings to discuss issues being reported to the Committee. The Head of Internal Audit would also be attending Executive Leadership Team (ELT) meetings prior to Committee meetings to ensure awareness of all the issues being raised. Assurance was given from already having attended two ELT meetings and a Corporate Leadership Team meeting where there was support for all the action being taken.

In response to a Member question, the Head of Internal Audit clarified that political oversight of the rise in the limited assurance categorisation was through the Committee to which the Cabinet Member for Finance and Resources was usually in attendance.

The Head of Internal Audit, in a response to a Member question, clarified that the issue regarding staff expenses did not concern fraudulent activity. Rather this was related to issues such as claiming after the permitted timeframe had expired, incorrect categorisation and claiming incorrectly where not entitled. It was confirmed to the meeting that the Council had a whistleblowing policy which was supported by a third party organisation to which disclosures could be made. The reference to union involvement was simply acknowledgement of the agreement that any change to the staff expenses policy also had to be agreed with representative unions.

In response to a Member question, the Head of Internal Audit, explained that where more than half of audits had obtained a limited assurance, this had to be reflected in the overall rating. Thought would have to be given to how examples of individual assurance reports could be shared with the Committee. It was confirmed that here was a correlation between those schools in deficit and those with limited or no overall assurance reports. It was being seen how this contributed to the overall deficit position.

It was explained that whilst there had been a lot of work to implement the requirements of the Guide to the General Data Protection Regulation (GDPR), the Council was a large organisation and it needed to be ensured that this had been implemented appropriately right across the organisation. Where it was becoming clear this had not happened, it was being picked-up and addressed.

In response to a Member question regarding why the issue on energy charges had remained unresolved for a year, the Head of Internal Audit explained that a contributory factor may have been a restructure that had occurred, with the responsible service being transferred. This had caused a disconnect which should have been identified.

The Head of Internal Audit clarified, in response to a further Member question, that reports regarding whistleblowing disclosures were made to the Ethics Committee and therefore had an established procedure for being reported in the public domain. The follow-up of outstanding management actions arising from audit activity would continue until all key recommendations were implemented with support to be gained through attendance at DLT meetings.

It was discussed whether it was appropriate to determine that the operation of Key Financial Systems was generally effective. The Head of Internal Audit highlighted that this judgement was made based on the outcome of the internal audit work on the big financial systems such as Business rates, Council tax, Housing benefit, Housing rents, Debtors, Creditors, Pensions etc, most of which were working well. It was stressed that the judgement did not generally take other factors into consideration.

**RESOLVED:** The Committee AGREED to note the Head of Internal Audit Annual Report.

The Head of Finance, Insurance & Risk explained that the Annual Governance Statement was part of the annual accounts process as required by the CIPFA Solace framework (Delivering Good Governance in Local Government). It provided a retrospective view of governance arrangements for 2019/20. It was acknowledged that a lot of change had occurred over the previous six months. The statement was drawn from two main sources; the Head of Internal Audit Annual Report and the main risks from the Corporate Risk Register. The risks of significant concern detailed in the report were highlighted to Members and were summarised as around finance and the demand budget gap. These were acknowledged to pre-date the impact of Covid and had featured in the previous two budget years.

In response to a Member comment highlighting the risk associated with the long-term continued dependence on interim resources by Children's Services, the Head of Insurance & Risk acknowledge that in common with other authorities recruitment of permanent staff for Children's Services was a challenge. This could not be addressed through a single solution but would continue to be the subject of a range of measures.

In response to a Member question regarding the risk to the Council posed by the financial failure of a local authority school, the Director of Finance and Risk acknowledged that this was being closely monitored. It was described how the Children, Families and Education Department had good financial tracking mechanism and that meetings were being held with schools. The assets of any local authority school that closed would return to the Council and therefore would be used to offset any deficit.

The Head of Insurance and Risk acknowledged the risk of the request to MHCLG for a capitalisation direction not being agreed. However, it was highlighted that the Annual Governance Statement was retrospective for 2019/20. It was envisaged that this would be included in the half year annual statement.

The meeting discussed the degree to which the impact of Covid on performance should be reflected in the Annual Governance Statement given this only occurred towards the very end of the period covered. It was suggested by a Member that as drafted, that this did not strike the right balance. The Head of Insurance & Risk acknowledged the difficulty of getting this right. The Director of Finance, Insurance and Risk suggested that the balance was correct but that it would be reviewed again before final sign-off. Ultimately this was for determination by the Leader and the Chief Executive. The Member stated they would provide some suggested revisions.

**RESOLVED:** The Committee AGREED the recommendations in the report:

1. Approved the content of the Annual Governance Statement for the year 2019/20 at appendix 1 in the report.

2. Agreed the statement on 'outcomes' in relation to 'Issues raised in 2018/19 Statement and progress to date'. (Appendix 1, Table 2 in the report)
3. Agreed the significant governance issues identified in relation to 2019/20 and the actions being taken to mitigate those risks.(Appendix 1, Table 1 in the report)

### 33/20 **Anti-Fraud Update Report**

*Councillor Prince left to attend a further meeting.*

The item was introduced by the Head of Anti-Fraud who explained the report was brief because like other services, the work had been put on hold at the start of lockdown with resource redeployed to assist with the Council's emergency response. As a result, as shown in table 3.3, performance to date was at considerable variance from the targets set at the start of the calendar year. Activity had recommenced and was described as building momentum with the backlog in cases being addressed. It was highlighted to the Committee that cases were being picked-up where Covid business grants had been paid out incorrectly.

The Chair noted that fraudulent claims were inevitable especially where pressure had been applied to make allocations at speed. A good job had been done in distributing the funds and the request was made for thanks to be given to officers. The meeting discussed the risks of fraudulent claims being made given the speed at which allocations were made. The Head of Anti-Fraud explained that whilst the level of fraud experienced by Croydon in the distribution of Covid business grants had not been benchmarked, there was anecdotal evidence that Croydon's numbers were low.

**RESOLVED:** The Committee AGREED to note the Anti-Fraud Update Report.

### 34/20 **Internal Audit Review of Effectiveness**

The Director of Finance, Investment and Risk introduced the item. It was explaining that this was an Annual Report to the Committee giving an assessment of the internal audit function for 2019/20. This was being presented late due to the impact of Covid.

It was highlighted that there was more work to be done to finalise the Annual Audit Plan for 2019/20. An internal review had been completed on the function of internal audits. The Committee was reminded that this service was delivered by Mazars under contract. This contract had been re-let in 2018 for 6 years with the option of a two year extension.

A peer review of the audit function had been conducted by another local authority in 2015/16 with a good result. It had been hoped that another peer review would have been undertaken in 2020 but this had also been delayed by Covid. It was hoped this would be delivered in 2021.

Performance was reviewed with it being highlighted that this was slightly below target. However, as already explained to the meeting by the Head of Internal Audit, it was hoped that this position would be recouped. Progress with the issuing of reports was slightly behind but it was stressed that the report did also contain good performance data.

Croydon participated in the CIPFA annual audit club which provided benchmarking against other boroughs. This demonstrated good performance in some areas such as low costs per day leading to good level of activity and reports. Stakeholder audit feedback scored 100% on usefulness with an overall score of 92% which was compared with 75% in 2006/7. This demonstrated a good improvement in the quality of the audit work undertaken.

As a result of the self-assessment undertaken, it had been determined that the audit function generally conformed to standards. This meant the service had been judged to be demonstrating effectiveness for money. Whilst there was work that needed to be completed, the Director of Finance, Investment and Risk determined that she was satisfied with the quality of work of the internal audit function. This was described as incredibly thorough with there being no fear in issuing reports with recommendations.

A Member highlighted that it seemed unusual that the Director of Finance, Investment and Risk and Internal Audit were producing reports on each other's functions. It was noted that this would not happen in the private sector. It was asked if this structure was typical for local authorities. The Director of Finance, Investment and Risk confirmed that it was a similar structure across local authorities but that the Head of Internal Audit had a direct line to the Chief Executive should it be judged that something was not being administered appropriately. The Member stated that he would like to look at how this was achieved in other Councils just to explore other practice. It was also noted that the peer review would be shared with the Committee once completed.

**RESOLVED:** The Committee AGREED to note the Internal Audit Review of Effectiveness 2019/20.

35/20 **Update on In-Year Appointments**

**RESOLVED:** The Committee AGREED to note in-year appointments as detailed in the report.

36/20 **Exclusion of Public and Press**

This item was not required.

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The meeting ended at 7:42pm

**Signed:**

**Date:** .....

## **General Purposes & Audit Committee**

Meeting of held on Tuesday, 20 October 2020 at 6.30 pm via Microsoft Teams.

A recording of this meeting can be found on the Council website.

### **MINUTES**

- Present:** Councillor Karen Jewitt (Chair);  
Councillor Stephen Mann (Vice-Chair);  
Councillors Jamie Audsley, Jan Buttinger, Mary Croos, Steve Hollands,  
Bernadette Khan, Stuart Millson, Tim Pollard and Joy Prince  
Independent Co-optees: James Smith
- Also Present:** Councillor Hamida Ali
- Apologies:** Muffaddai Kapasi (Independent Co-optee)

### **PART A**

**37/20 Disclosure of Interests**

There were no disclosures of interest made at the meeting.

**38/20 Urgent Business (if any)**

There were no items of urgent business.

**39/20 Croydon Finance Review - Phase 1 report**

The Committee considered the Phase 1 report from the Croydon Finance Review, set out on pages 5 to 124 of the agenda, along with an accompanying presentation. It was highlighted by the Chair that the report had originally been scheduled for review by the Committee at its meeting on 7 October 2020, but given its importance it had been decided to arrange a further meeting of the General Purposes and Audit Committee to allow time for a more in-depth conversation on the content.

Financial Consultant, Ian O'Donnell, who had prepared the Croydon Finance Review – Phase 1 report, was in attendance at the meeting to introduce the report and answer any questions from the Committee on the information provided. To guide the discussion of the Committee it was agreed that the report would be broken down into sections, starting with the introduction and followed by discussions focussing on long to medium term financial management, annual budgeting and the monitoring of financial performance.

During the introduction to the report the following was noted:-

- The Croydon Financial Review had been commissioned in May 2020 following recognition that the Council was facing financial challenges that would be difficult to resolve under existing arrangements and practices. The Council had brought in Ian O'Donnell as a Financial Consultant to review how the Council managed its finances, with a Finance Review Panel (FRP) set up to oversee the process and address some of the more immediate concerns.
- The financial management activity in Croydon had been reviewed against best practice set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code and other statutory guidance. It was highlighted that local authorities were under a duty to comply with the CIPFA code.
- Due to the scale of work required, the initial focus had been on those areas considered to be in the most pressing need of review. These were identified as long to medium term financial management, annual budgeting and the monitoring of financial performance.
- A separate piece of work to review the group company structures of the Council had also commissioned.
- The Phase 1 report had been considered at a meeting of FRP in September and had originally been scheduled for consideration at the meeting of the Committee on 7 October, where it had been decided to defer any discussion until this meeting to allow the opportunity for more detailed questioning.

Following the introduction, the Committee was provided with its first opportunity to ask questions on the content of the report. The first question related to the findings of the Governance Review published in March 2020 and whether these had been factored into the Finance Review process. It was advised that the Governance Review had not been included at this stage, as the Finance Review had focussed on comparing the Council's current practices to best practice as set out in the CIPFA code. There may be an opportunity at a later stage to look at the recommendations of the Governance Review to see how they compared to the findings from the Finance Review.

In response to a question about the timetable for the Finance Review and what would be covered in the stakeholder section, it was advised that the next tranche focussing on financial leadership and financial governance was due to be finalised in mid-November. The report on this tranche would go to the FRP first and then be scheduled for the next appropriate meeting of the General Purposes and Audit Committee. At this stage the timescales for the remainder of the work was still to be finalised.

The section of the Finance Review focusing on stakeholders was mainly linked to the Council's work with its partners, but consideration may also be given to the role of the local community. This would be a significant piece of

work, which had not yet been timetabled, but at this stage it was felt there was ample time to complete the full review.

In response to a question about how the work of the FRP was progressing and the wider arrangements for monitoring the Finance Review, it was highlighted that the FRP had already commented upon the Phase 1 report. The FRP had been pleased about the level of detail in the report and work had already started on implementing the recommendations. The three priority areas (highlighted above) had been chosen for Phase 1 as the Council was in the process of launching its budget setting process for 2021-22 and was developing a new Medium Term Financial Strategy. As it was important to ensure identified savings were delivered, finance monitoring had also been identified as another area in need of immediate review.

It was highlighted that work on the development of a new budget setting process had begun, with a report taken to Cabinet on 21 September 2020. At the same Cabinet meeting another had been considered on the development of a new Medium Term Financial Strategy. Work had also commenced on moving the Council to a monthly finance monitoring system.

Given that phase 1 of the Croydon Finance Review had resulted in 75 recommendations, it was questioned how the Council compared to other local authorities. It was advised that all Councils had a duty to comply with the CIPFA code and while it was unlikely that many would be completely compliant at this time, those that were not would be working towards compliance.

#### Long to Medium Term Financial Management

During the introduction to the Long to Medium Term Financial Management section of the report, the following information was noted:-

- A key criteria for robust financial management was ensuring that plans were in place to recognise and manage potential risks in the medium to long term.
- Many areas of finance required long term planning, such as managing and maintaining the Council's housing stock. As such it was importance to have robust long term plans in place.
- Having a Capital Strategy was also important, as it allowed an organisation to understand its position on capital spend.
- By having a comprehensive Asset Management Plan, detailing the planned maintenance of assets, it would allow the Council to understand its financial commitments in this area. At the present time the Council did not have a full suite of plans for all its assets, which had been flagged as a risk.

- Through being able to develop a robust Medium Term Financial Strategy, the Council would be in a better position to understand how it would manage foreseeable risks and any potential budget gaps.
- Sound financial management needed to be supported by comparative data as it would enable the Council to learn from best practice elsewhere and provide support when lobbying for funding.
- The level of General Fund reserves held by the Council was set by the Section 151 Officer. The current level of reserves held by the Council in its General Fund was at a comparatively low level compared to other local authorities. In addition to the reserves held in the General Fund, the Council may also have other earmarked reserves for specific commitments.

The first question in this section of the meeting concerned the prudential code and whether it had been complied with by the Council in terms of long term planning. In response it was explained that the Prudential Code was mandatory and required the Council to set out the amount it would be borrowing and the affordability of that borrowing, allowing the risks to be managed. The Finance Review had found that the Council was managing its borrowing in compliance with the code. Although local authorities had to operate within the published bounds of the code, there was a certain amount of flexibility in some areas, such as the timing of drawing down borrowing to ensure the best rate was achieved.

It was questioned whether decisions, such as those concerning asset investment, had been made on a sound basis. In response it was highlighted that it was easy to look at individual decisions with the benefit of hindsight and determine that those decision should not have proceeded. As such it was important when reviewing decisions to give consideration to the context in which they were made. This including looking at whether the decision maker had been provided with the right level of information to make a sound decision, whether the analysis provided was adequate and whether professional advice had been listened to.

Although not all of the Council's investment decisions had been looked at as part of the Finance Review due to the sheer number involved, the governance arrangements around some of the asset investments had been reviewed. The purchase of the Croydon Park Hotel was highlighted as an example, with it noted that the process had not followed the Council's arrangements in place for capital decisions at that time, which would have normally gone through the Growth Board for approval. This was because the Council was in the process of setting up new arrangements for capital investments, with the formation of an Asset Board as the mechanism for approving any such investments. Although the new arrangements were published in September 2018, slightly after the decision to purchase the Croydon Park Hotel had been taken, arrangements were in place for officers to investigate the viability of capital investments through the Asset Board. By the time the decision was made by Cabinet Members the review found that there was a process in place. Members had received advice which included a matrix setting out the risks

and criteria, this had also been shared with the Scrutiny and Overview Committee. As such the review had concluded that there were no issue around the legality of the decision.

As a follow up, recommendation BP 10 from the report (page 22 in the Committee agenda) was highlighted and in particular the need for the Council to consider the affordability of its borrowing plans. In the context of the low level of reserves held in the General Fund by the Council, it was questioned whether the same investment decisions would be made today. In response it was advised that it was unlikely the Council could pursue the same investment strategy as it must look at affordability within the revenue budget when building the capital programme. Had the level of planned borrowing continued then the cost would have equated to 17% of the budget which was considered to be very high.

As the report highlighted the need for the Council to have long term financial plans and a capital strategy that covered a 20 to 30 year period, it was questioned whether this was a statutory requirement as it may be difficult to plan this far in advance in a local authority where there are regular political changes. In response it was advised that this was a new requirement from CIPFA and at present not many Councils had a strategy which looked that far ahead. However, there were some areas of the Council where a long term plan was required, such as the Housing Revenue Account which required a 40 year plan to enable the Council to manage its housing stock and understand what it could afford to borrow to invest in new stock. The recommendations from CIPFA identified other areas where long term planning was needed such as roads and schools. It was best practice to review long term plans at regular intervals, such as when the political leadership of the Council changes.

It was noted that the Finance Review had highlighted the need to have improved processes in place for testing the achievability of savings and as such more information was requested on the role of Cabinet Members in this process. It was advised that work on savings proposals should begin in the summer with officers working up proposals to such a point that when presented to the Cabinet a recommendation can be given on their achievability. One of the reasons the Council had struggled to achieve its savings in recent years was because the work to understand the achievability of savings had not been as thorough as required when delivering a robust budget.

Regarding whether Members should have known whether the budget proposals were robust enough, it was highlighted that they relied upon the sign off of the Section 151 Officer in the budget report. However, when the budget proposals were discussed with Members prior to the decisions being made there were opportunities to discuss achievability. When there is insufficient time built into the budget development process, it can lead to savings being included without the necessary due diligence being undertaken. Members had been aware of this, but had made the decision to proceed with the budget to ensure it was agreed within the required timeframe. To avoid

this happening in the future stronger budget processes were being put in place.

One Member of the Committee suggested that there may have been a priority towards delivering new projects rather than delivering budget savings and as such questioned whether this may have impacted upon decision making. In response it was highlighted that once savings were put into the budget they became part of the organisation's plan, which all Members and officers had committed to delivering. It was not possible to make a judgement over whether there were any officers who felt they were under no pressure to deliver their identified savings and it was more likely to be the case that savings had been added at late notice and when it came to delivery it was discovered they were not achievable.

When it was questioned why overspending in some areas of the Council had been repeated over a number of years, it was advised that there was some evidence that similar errors had been repeated in terms of the budget setting process not being sufficiently robust. In particular, late decision making without sufficient time to undertaken due diligence on achievability had led to a repeated failure to deliver savings. It was highlighted that the Council had overspent on social care year on year, which indicated the need to do things differently if savings were going to be achieved.

The Council's relationship with Brick by Brick, a company it had set up to deliver new affordable housing, came under scrutiny by the Committee. Of particular concern was the Council still not having been provided with the latest accounts from the company and that there was no longer Council representation on the Board even though the Council was its sole shareholder. In response it was advised that membership of an external board was a difficult issue as when appointed an individual has to accept certain obligations, including acting in the best interests of the company. This led to a risk of there being a conflict of interest if an individual was also employed by the shareholder, which in the case of Brick by Brick was the Council. As such any appointees needed to be able to resolve these conflicts. It would be fine to appoint a council officer in principle, but the individual would require significant training for the role and if they did not have experience of working on a board it could be a steep learning curve. The Council did provide training for officers appointed to the Board of Brick by Brick, but it was not clear that all appointees had the necessary experience in large scale development required for the role.

It was questioned whether there was confidence that the right management was in place across the Council to lead the transformation of services required in order to address the budget deficit. In response it was highlighted that the use of the Programme Management Office to lead on future transformation work was recommended as it would bring structure, clarity and accountability to the process. Another benefit of a Programme Management Office was it should ensure that a greater depth of information on the transformation work was more readily available, enabling updates to be provided for Members at regular intervals.

In response to a question about how the recurring issue of identified savings not being achieved could be rectified, it was advised that it was essential that the robustness of any savings proposals be tested at an early stage. There also needed to be clarity over the timescales for implementing any savings with an accompanying action plan setting out the pathways for delivery. For any saving being delivered in year during 2021-22 these action plans will need to be in place by 1 April 2021, to reduce the risk of a possible overspend. Identified savings need to accurately take account of what was achievable and delivery needed to be tracked to ensure any failure to deliver could be addressed at the earliest possible time to allow corrective action to be taken.

It was noted that significant change was required within the Council, both in terms of budget processes and the need to reign back spending, which will mean significant changes to how it is structured and how it spends. It was very clear that the Council did not have the capacity within its existing resources to deliver this change without bringing in additional support. As such consideration will need to be given to how this is resourced, as upfront investment will be required.

While there was cross party agreement that Croydon was unfairly financed by the Government, there was an acknowledgement that these were known facts and the Council had to live within its available means. In order to begin to do so, the importance of the Medium Term Financial Strategy was highlighted as a good strategy would provide the Council with an understanding of the financial landscape, would identify the areas of pressure and confirm the funding envelope available. Although it was difficult to plan for the longer term when the Government was only providing short term settlements, having a strategy would enable the Council to deliver more ambitious projects over a number of years.

#### Annual Budget

During the introduction to the Annual Budget section of the report the following was noted.

- The Council had a statutory obligation to set a robust budget, the process for which culminated in the production of a budget report submitted to Council for approval in February/March of each year.
- The CIPFA guidance highlighted a number of areas of particular importance which needed to be considered when setting the budget. These included taking account of the recent past when developing projections for the future, the local and national economic context, and the statement from the Section 151 Officer on the robustness of the reserves.

The first question on this section of the report asked whether there were opportunities for the political leadership of the Council to challenge the Section 151 Officer's statement. It was advised that the level of General Fund reserves was a matter for the Section 151 Officer to determine and should

take into account the risks facing the Council and the context in which the statement is being made. It was highlighted that it would be difficult for an individual without knowledge and experience of the organisation to deliver the Section 151 Officer statement. To aid the Section 151 Officer in the preparation of the statement a recommendation had been made for the Council to undertake an annual resilience assessment, with a new system for this being trialled. It was important that the narrative within the statement made it clear how the decision had been reached.

A section under recommendation BP 43 referring to proposals not being screened out politically prior to being presented at budget development meetings (page 46 of the Committee agenda) was highlighted, with further information requested on what this meant. It was advised that this referred to instances when Cabinet Members had been involved in the early development savings proposals with officers, allowing them to screen out the ones they did not want to go forward for consideration. It was best practice for Members not to be involved at this stage of the process and instead the Cabinet should be presented with a range of proposals for discussion.

In reference to recommendation BP 44 (page 46 of the Committee agenda) which referred to the budget being owned and articulated by the whole leadership team, it was noted that previously the budget setting process had not been as inclusive as was recommended in best practice. This may have been due to the reduced timescales involved, but as a consequence it meant that decisions were taken without debate.

It was highlighted that recommendation BP 46 (page 48 of the Committee agenda), advised that the budget plan should prioritise maintaining the reserves at the target level above any operational considerations. As such it was questioned whether this had been neglected over the past few years. In response it was advised that it did not appear to be the case that the reserves had been neglected. It was the role of the Section 151 Officer to recommend the level of General Fund reserves to be retained and the Council's had remained at the same level since 2018, with a £5,000,000 increase included in 2020-21 budget to manage foreseen financial risks. This had been signed off as adequate when the budget was agreed by Members at the Budget Council meeting.

In response to a question about the role for Scrutiny in the budget setting process it was advised that it was best practice for Scrutiny to have the opportunity for pre-decision scrutiny, in order to test some of the proposals. In setting a three year budget, it would enhance the role of Scrutiny and it would normally be expected that Scrutiny was given time to look at the proposals agreed by the Administration, prior to being formally agreed by the Cabinet.

#### Monitoring Financial Performance

During the introduction to the Monitoring Financial Performance section of the report the following was noted:-

- Some of the key areas for focus included how the Council reported on its financial position, how to ensure the information provided was of good quality and having a framework in place to provide assurance of this.
- There was also a need to manage accountability for ensuring budgets were delivered and that budget holders took responsibility for their budgets.
- There should be a savings tracker which presented a clear set of information on whether the Council was achieving its savings.
- There needed to be a greater understanding of the financial position of the Council's subsidiaries and how this impacted upon the budget.
- There needed to be greater awareness of capital expenditure, which should include paying attention to individual projects.

The Chair advised the Committee that it had been proposed that Cabinet Members would be invited to future meetings when their budgets were getting close to being spent to answer question on their budget and the monitoring taking place. This suggestion was welcomed by the other members of the Committee.

It was highlighted that the usability of the finance system could sometime be a barrier for officers when trying to manage their budgets and as such it was questioned whether there were plans for improving the current system. In response it was advised that there were plans to review the finance system to identify how it could be made more user friendly for budget holders to manage their budgets. It was highlighted that there was a range of different data reporting that needed to be fixed within the finance system, such as employee budgets, which was in the process of being addressed.

In response to concerns about the difficulty in creating an up to date organisation chart, it was acknowledged that there needed to be tighter control over starters, leaver and movers within the organisation and an exercise was underway to rectify reporting on this.

It was noted that some of the recommendations related to providing the Cabinet with earlier visibility of high risk spend and the delivery of savings, which seemed to be designed to ensure the Cabinet took sufficient accountability for their budgets. As such it was questioned whether this had not been the case in the past. In response it was highlighted that it was best practice for both the Cabinet and the Council's officer management team to take responsibility for delivering the budget. Cabinet would need to take action when the Council was overspending, through the provision of clear instructions to officer on the priorities when addressing the overspend.

The Chair advised that through the proposal to invite Cabinet Members to the Committee to face questioning on their budgets, it would provide assurance that they understood their budgets and that they had an open dialogue with

their respective directors. There also need to be a process in place to improve all Members understanding of the budget going forward.

It was highlighted that the Council was on a journey to implementing the recommendations related to finance monitoring, with a lot of change required that needed to be resourced properly and embedded across the Council. It was likely that improvement journey would take three years and investments was needed upfront to put the right systems and structures in place.

As a follow-up, given the need to deliver urgent savings, it was questioned should be expected from the 2021-22 Budget when it was produced in January. It was advised that the Council would need sufficient information to be able to sign off a budget that was both robust and deliverable. There would need to be a large margin built into the budget for risk, as there will be a lot that will not be foreseeable at that stage, but the budget will be created with the understanding that there is a need to deliver services differently in order to manage costs and bring spending back within the financial envelope. There was a need to get the basics right when setting the next budget, while financial management and governance will take longer to address.

At the conclusion of the meeting the Chair thanked Mr O'Donnell for his attendance at the meeting and the well-considered answers given in response to the questions of the Committee. The quality of the report was commended and thanks was also given to all the officers involved in working to find a way forward for the Council. Finally, all Members of the Council were encouraged to speak with the respective MPs to lobby for fairer funding for the borough.

40/20 **Exclusion of Public and Press**

This motion was not required.

The meeting ended at 8.35 pm

**Signed:**

**Date:** .....

<b>REPORT TO:</b>	<b>GENERAL PURPOSES AND AUDIT COMMITTEE</b> <b>2 December 2020</b>
<b>SUBJECT:</b>	<b>Report in the Public Interest – Action Plan</b>
<b>LEAD OFFICER:</b>	<b>Katherine Kerswell, Interim Chief Executive</b> <b>Jacqueline Harris Baker, Executive Director of Resources</b> <b>and Monitoring Officer</b> <b>Lisa Taylor, Director of Finance, Investment and Risk and</b> <b>Section 151 Officer</b>
<b>CABINET MEMBER:</b>	<b>Councillor Hamida Ali, Leader of the Council</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON:</b>	
The delivery of the report in the public interest action plan forms part of the Council’s overall improvement journey to strengthen its financial position, its financial governance and its overall effectiveness.	
<b>FINANCIAL IMPACT:</b>	
While the recommendations in this report do not have a direct financial impact in themselves, there will be costs associated with the implementation of the recommendations detailed within the report. These costs are currently unknown and an update regarding associated costs will be presented to the 18th January 2021 meeting of Cabinet for consideration and approval.	

## 1. RECOMMENDATIONS

The Committee is recommended to:

- 1.1 Consider and review the Action Plan attached at Appendix 1B;
- 1.2 Consider any proposed amendments or feedback that it wishes to make on the action plan; and
- 1.3 Submit that feedback in a report to Cabinet at its meeting on 18 January 2020.

## 2. EXECUTIVE SUMMARY

- 2.1 Following the extraordinary meeting of Council held on 19 November 2020, this report provides an opportunity for Members of the Committee to consider the Council’s action plan to deliver the recommendations made in the recent Report on the Public Interest and to agree any comments or feedback that it wishes to make on the action plan.

### **3. BACKGROUND**

- 3.1 The extraordinary meeting of Council held on 19 November 2020 considered a Report in the Public Interest (attached at Appendix 1A) concerning the Council's financial position and related governance arrangements issued by the Council's external auditors, Grant Thornton. A copy of the report to Council is attached at Appendix 1, including the appendices to that report, namely the Action Plan (labelled as Appendix 1B) and a high-level improvement diagram (labelled as appendix 1C).
- 3.2 In considering the report, Council agreed the action plan to implement the 20 recommendations made in the report in the public interest and the four additional recommendations made by the Council itself.

### **4. REPORT IN THE PUBLIC INTEREST ACTION PLAN**

- 4.1 In agreeing the action plan, Council also agreed that the plan be presented to the next meetings of the General Purposes and Audit Committee and the Scrutiny and Overview Committee. This is to allow the respective committees to consider and review the action plan from their differing constitutional positions.
- 4.2 Following consideration of the action plan, any comments and feedback from the Committee will be reported to the Cabinet meeting scheduled for 18 January 2021. At that meeting, Cabinet will also consider any feedback from the Scrutiny and Overview Committee as well as further detail on the recommendations, timelines and accountabilities, the delivery mechanism to support the improvement work and the costs, where possible, associated with implementing the recommendations.
- 4.3 In considering the action plan, Members of the Committee should also note that Council agreed all of the recommendations listed in Appendix 1, with two amendments as follows:

#### Recommendation 1.8

Council notes that a report will be brought back to Council in November 2021 to update Members on the progress on implementing the Action Plan. Also, Council notes that an ongoing quarterly progress monitoring report will be issued to all Councillors on the progress of implementing the Action Plan.

#### Recommendation 1.9

Council notes that prior to November 2021, there will be progress monitoring on this Action Plan and other associated plans. Cabinet will receive quarterly updates on progress. Updates will also be presented to the Scrutiny and Overview Committee and the General Purposes and Audit Committee, having regard to their respective terms of reference. Council will receive quarterly reports from the Improvement Board. Also, Council notes that the quarterly progress monitoring report will be an agenda item at every subsequent Full Council, Cabinet, Scrutiny & Overview Committee and GPAC for discussion.

## **5. CONSULTATION**

- 5.1 This report forms part of the consultation on the action plan following the dedicated debate upon the Report in the Public Interest at the extraordinary meeting of Council held on 19 November 2020.

## **6. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 6.1 The recommendations in the Report in the Public Interest and the accompanying action plan will help to ensure that the Council operates to best practice standards with regard to its financial governance and overall financial effectiveness.
- 6.2 Having stronger corporate and financial governance will help improve the underlying financial viability of the Council and the sustainability of its finances in the long term.
- 6.3 There will be costs associated with the implementation of the recommendations detailed within the Report in the Public Interest. These costs are currently unknown and an update regarding associated costs will be presented to the January 2021 meeting of Cabinet for consideration and approval.
- 6.4 Capacity and capability within the Council to deliver the recommendations is a key risk when considered against the other reviews and likely resulting recommendations and the overall improvement needed for the Council.
- 6.5 The impact of both forthcoming budget reductions and the reintroduction of COVID-19 restrictions preventing staff from attending the office will need to be carefully managed to ensure that it does not impair the delivery of the recommendations.

Approved by: Lisa Taylor, Director of Finance, Investment and Risk and Section 151 Officer

## **7. LEGAL CONSIDERATIONS**

- 7.1 The Interim Director of Law and Governance comments that there are no additional legal considerations arising from this report further to those previously detailed in Appendix 1.

Approved by Sean Murphy, Interim Director of Law and Governance & Deputy Monitoring Officer

## **8. HUMAN RESOURCES IMPACT**

- 8.1 There are no human resource impacts arising directly from the recommendations in this report. However, there will be impacts associated with the delivery of the improvement plan. The improvement plan is part of a range

of measures relating to improving the Council's financial position and it is inevitable that this will ultimately impact on the Council's workforce, when the Council's agreed Human Resources policies and procedures will be followed.

- 8.2 Human resources impacts will be appropriately reported to the relevant decision-making bodies as individual actions from the plan are implemented.

Approved by: Sue Moorman Director of Human Resources

## **9. EQUALITIES IMPACT**

- 9.1 There are no equality impacts arising directly from the recommendations in this report. As such, an equality analysis has not been undertaken following the initial response to the external auditor's report. However, there will be impacts associated with the delivery of the improvement plan. The improvement plan is part of a range of measures relating to improving the Council's financial position and it is inevitable that this will ultimately impact on the Council's workforce and the communities it serves.
- 9.2 Consideration will be given as each of the individual actions included in the Action Plan are implemented as to whether they are relevant to equalities and will require an equalities impact assessment undertaken to ascertain the potential impact on vulnerable groups and groups that share protected characteristics.
- 9.3 Any improvements to governance that arise from the implementation of the recommendations in the action plan must pay due regard to ensuring that all residents in Croydon are able to understand the actions the Council takes in their name, the decisions it makes to spend resources on their behalf, and who is accountable for that action.
- 9.4 Close attention will need to be paid to ensure the Council is as transparent as possible and is as open and engaging with all its local communities through this process of improvement and afterwards in the new governance practices that are established.

Approved by: Yvonne Okiyo, Equalities Manager

## **10. DATA PROTECTION IMPLICATIONS**

- 10.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

**NO**

The Head of Democratic Services and Scrutiny comments that the recommendations in this report do not involve the processing of personal data and as such, there are no data protection implications arising from this report.

Approved by Elaine Jackson, Interim Assistant Chief Executive.

**CONTACT OFFICER:** Stephen Rowan, Head of Democratic Services and Scrutiny

**APPENDICES TO THIS REPORT**

- Appendix 1 - Report to Extraordinary Council 19 November 2020
- Appendix 1A - Report in the Public Interest
- Appendix 1B - Action Plan
- Appendix 1C - High Level Improvement Diagram

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<b>REPORT TO:</b>	<b>EXTRAORDINARY COUNCIL</b> <b>19 November 2020</b>
<b>SUBJECT:</b>	<b>Report in the Public Interest concerning the Council's financial position and related governance arrangements &amp; establishment of an overarching Improvement Board</b>
<b>LEAD OFFICER:</b>	<b>Katherine Kerswell, Interim Chief Executive</b> <b>Jacqueline Harris Baker, Executive Director of Resources and Monitoring Officer</b> <b>Lisa Taylor, Director of Finance, Investment and Risk and Section 151 Officer</b>
<b>CABINET MEMBER:</b>	<b>Councillor Hamida Ali</b> <b>Leader of the Council</b>
<b>WARDS:</b>	<b>All</b>
<b>FINANCIAL IMPACT:</b>	
<p>There will be costs associated with the implementation of the recommendations detailed within the report and for the production of the external auditor's report. These costs are currently unknown and an update regarding associated costs will be presented to the 18<sup>th</sup> January 2021 meeting of Cabinet for consideration and approval as part of the report detailed in recommendation 1.7 below.</p>	

<b>1. RECOMMENDATIONS</b>
<p>Council is recommended to:</p> <p>1.1 Fully accept the findings of the Report in the Public Interest, the scale and urgency of the issues that it raises, and all of the external auditor's recommendations, from R1 to R20, and note that R1a, R1b, R2, R3, R9, R12, R14, R18, and R20 have been identified by the external auditor as high priority, as detailed in appendix A;</p> <p>1.2 Agree the four additional recommendations, LBC1 to LBC4, detailed in appendix B to the report;</p> <p>1.3 Agree the Action Plan detailed at appendix B to the report, including the indicative timeline and accountabilities;</p> <p>1.4 Note that the Action Plan includes a response to each of the external auditor's recommendations;</p> <p>1.5 Agree that the Council continues to seek external support from across the sector to ensure that it learns from best practice nationally;</p> <p>1.6 Agree that the Scrutiny and Overview Committee and the General Purposes and Audit Committee, at their next meetings, consider and review the Action Plan</p>

- from their differing constitutional positions and report their feedback in separate reports to Cabinet at its 18<sup>th</sup> January 2021 meeting;
- 1.7 Request that Cabinet receive a report at its 18<sup>th</sup> January 2021 meeting on the Action Plan. The report will respond to the feedback from the Scrutiny and Overview Committee and the General Purposes and Audit Committee. The report will also provide further detail on the recommendations, timelines and accountabilities, the delivery mechanism to support the improvement work and the costs, where possible, associated with implementing the recommendations;
  - 1.8 Note that a report will be brought back to Council in November 2021 to update Members on the progress on implementing the Action Plan.
  - 1.9 Note that prior to November 2021, there will be progress monitoring on this Action Plan and other associated plans. Cabinet will receive quarterly updates on progress. Updates will also be presented to the Scrutiny and Overview Committee and the General Purposes and Audit Committee, having regard to their respective terms of reference. Council will receive quarterly reports from the Improvement Board;
  - 1.10 Agree to maintain a regular and open dialogue with the external auditor, the Local Government Association (LGA) and the Ministry of Housing, Communities and Local Government (MHCLG) to keep them apprised of the Council's progress in implementing its action plan in addition to inviting them to be members of the Council's Improvement Board;
  - 1.11 Agree that the Chief Executive undertakes a review of the capacity needed to deliver the improvements required of the Council and seeks to secure the specialist skills needed to deliver those improvements;
  - 1.12 Agree to establish an overarching, independently chaired Croydon Renewal Plan Improvement Board as detailed in paragraph 7 of the report;
  - 1.13 Note that the LGA has been commissioned to support the Council in undertaking an independent initial investigation of senior management actions in regard to the findings of the Report in the Public Interest to assess what, if any, formal action is required to be taken under any relevant process; and
  - 1.14 Note and welcome the Non-Statutory Rapid Review being undertaken by representatives of the MHCLG and that its recommendations will be incorporated into the overall improvement programme.

## **2. EXECUTIVE SUMMARY**

- 2.1 This report details the findings of the external auditor, Grant Thornton, in the Report in the Public Interest concerning the Council's financial position and related governance arrangements published on Friday 23 October 2020.
- 2.2 The report sets out the Council's statutory obligations in response to the Report in the Public Interest, which to date have been met in full. The report also outlines the further statutory requirements following the Extraordinary Council Meeting which have yet to be taken.

- 2.3 The report requests Council to agree an Action Plan in response to the recommendations made by the external auditor and to agree the overarching Croydon Renewal Plan Improvement Board to govern the wider improvements required to the Council as well as these specific set of recommendations.

### **3. BACKGROUND**

- 3.1 On Friday 23 October 2020, the Council's external auditor issued a Report in the Public Interest (the Report) concerning the Council's financial position and related governance arrangements. The full report is attached at appendix A.
- 3.2 The Report has been published as the external auditor is of the opinion that the Council:
- i) Has experienced deteriorating financial resilience for a number of years
  - ii) Has significant issues relating to its financial sustainability
  - iii) Has not responded promptly to previous audit recommendations and concerns
  - iv) And that this needs to be brought formally to the public's attention
- 3.3 The Report highlights concerns in a number of areas across the Council, namely:
- i) Overspends in Children's social care and Adults' social care over a number of years
  - ii) Reserves not maintained at a sustainable level
  - iii) Reliance on use of capital receipts for transformation expenditure
  - iv) Not managing Dedicated School Grant within existing budgets
  - v) The impact of Unaccompanied Asylum Seeking Children expenditure
  - vi) Treasury Management and affordability
  - vii) The complexity and risk of the Council's subsidiary company structure
  - viii) The Council's culture and governance of its financial decision making
- 3.4 In particular, the Report states that:
- i) There has been "corporate blindness" to the seriousness and urgency of the financial situation
  - ii) There is little evidence that £50m of transformation money has reduced demand, delivered savings or reduced costs in children's or adults' social care
  - iii) The Council has focused on service improvement without sufficient attention to controlling overspends
  - iv) There has been investment in the "Place area" without addressing if that investment was delivering the intended outcomes
  - v) Financial governance has been focussed on lobbying government for additional funding and not supported by actions to contain spending within available funding
  - vi) Numerous opportunities have been missed in recent years to tackle the Council's financial position

3.5 The Report contains 20 recommendations, of which 9 are identified as priority recommendations.

3.6 The Council fully accepts the findings of the Report and the recommendations that have been made.

#### **4. STATUTORY FRAMEWORK FOR REPORTS IN THE PUBLIC INTEREST**

4.1 Reports in the Public Interest are issued under the provisions of the Local Audit and Accountability Act 2014. The Act sets out a number of statutory requirements that a Local Authority must comply with following the publication of the Report.

4.2 The Council is required under the Act to consider the recommendations of the Report and decide what action to take in response in public at a dedicated Council meeting. It is also essential that all decisions made by the Council with regard to its governance and other improvements are taken in full cognisance of the report's findings and recommendations.

##### Publicising the Report

4.3 Following receipt of the Report, the Council is required to ensure that it is brought to the attention of public, elected members, its partner organisations and stakeholders.

4.4 At 5.40pm on 23 October 2020, a dedicated page was published on the Council's website that included the full Report, the formal public notice, further information about the Report, details on how to receive a copy of the report via the post and details on how to inspect a copy of the report at the Council's offices. The webpage can be found here - [www.croydon.gov.uk/democracy/budgets/report-in-the-public-interest?home=banner](http://www.croydon.gov.uk/democracy/budgets/report-in-the-public-interest?home=banner). As at 5 November 2020, the webpage had been viewed over 8000 times and the report had been downloaded over 5500 times. On the same day, the Council published the Your Croydon e-bulletin, which is delivered to over 80,000 registered email addresses, containing information about the report.

4.5 A formal public notice was also published in the Croydon Guardian on Thursday 29 October 2020, which was the first available edition of the paper in which the notice could be included.

4.6 The Council issued a press release to ensure that the report was brought to the attention of the press and public. To date, the Report has been covered by the Guardian, BBC News, BBC London Radio, Thornton Heath Chronicle, Croydon Guardian, Croydon Advertiser, Radio Jackie, My London, The Evening Standard, On London and a range of trade publications including the Municipal Journal and the Local Government Chronicle.

- 4.7 The Council has also proactively contacted partner organisations to share the report and the Council’s regulators, such as Ofsted.
- 4.8 Full copies of the report were also sent to all elected Members on 23 October 2020 as well as the Borough’s three Members of Parliament. The report was also sent to all members of the Council’s General Purposes and Audit Committee, including independent Members. All Council staff were contacted via email with a link to the report and extensive staff briefings have been given. At the time of publication of this report, over 2000 staff had discussed the Report in webinars with the Leader of the Council and the Chief Executive.
- 4.9 The report has also been shared with all of the Council’s subsidiary companies.
- 4.10 Grant Thornton has issued the Secretary of State of Housing, Communities and Local Government with a copy of this report.

#### Responding to the Report

- 4.11 Within a period of one month beginning with the day upon which the Council received the report, the Council is required to hold an Extraordinary Council Meeting (this meeting) to consider the report.
- 4.12 In considering this report, Members of the Council are asked to vote on the recommendations, response and action plan or amend these as they see fit.
- 4.13 A notice has been published on the Council’s website on 10 November 2020 providing all relevant details of this meeting to comply with Local Audit and Accountability Act requirements. The link can be found here: <https://www.croydon.gov.uk/democracy/budgets/report-in-the-public-interest?home=banner> and a further public notice was placed in the Croydon Guardian on Thursday 12 November 2020. In addition, the agenda and supporting papers have been published to comply with the usual Local Government Act 1972 requirements.
- 4.14 Following the Extraordinary Council Meeting, the Council is required to publish a public notice, approved by the external auditor, that summarises the outcome of the meeting. That notice will be published in both the local press and on the Council’s dedicated webpage following this meeting.

#### Other Considerations

- 4.15 In considering the Report and the proposed action plan, Members should also take into particular consideration their personal responsibilities, and the Council’s constitutional and legal responsibilities, under two further areas. These are the Seven Principles of Public Life, better known as the Nolan Principles, and the Council’s “best value” duty under the Local Government Act 1999.

- 4.16 Croydon has adopted the Nolan Principles as part of its constitution. They establish the ethical standards and framework for conduct for all those working and governing in the public sector. These standards are mandatory and lay the foundations to the Council's constitution.
- 4.17 The Nolan Principles are: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Croydon has expanded the honesty principle to also include truthfulness. These principles apply equally to elected Members as well as to officers. They frame the code of conduct that guides behaviour and governance practice in the Council's constitution.
- 4.18 The Local Government Act 1999 introduced the duty of "best value" for all local authorities. This duty requires Councils to "make arrangements to secure continuous improvement in the way in which its functions are exercised having a regard to a combination of economy, efficiency and effectiveness".
- 4.19 The Non-Statutory Rapid Review of the Council which is currently being undertaken (please see paragraph 8 for more details) is being conducted in line with the best value principles and duty under this Act.
- 4.20 In fulfilling that duty, the Council needs to be a learning organisation that focuses on improvement and development; a Council that is open to challenge and which is fully accountable to the people of Croydon.
- 4.21 When considering the recommendations and Action Plan, Members may find it helpful to reflect on the Council's overall governance practice in relation to its commitments to the Principles of Public Life and its best value responsibilities.
- 4.22 The Council will need to continue its very recent focus on learning and seeking support, advice, guidance and challenge from partners across the sector to ensure that the improvements it delivers reflect best practice nationally. The fourth LBC recommendation speaks to this area of work and seeks to create a new system of internal control and a new set of behaviours, accountabilities, role clarity and effective practice in the Council. This will be based on extensive staff engagement and consultation that ensures we can function as an efficient and effective environment, free from fear and built on trust and openness.

## **5. CROYDON'S ACTION PLAN**

- 5.1 The recommendations in the Report will be responded to by way of a detailed Action Plan as outlined in Appendix B to this report.
- 5.2 The Action Plan has been developed with support from colleagues drawn from across the Council, ensuring that it has benefitted from a blend of knowledge and expertise. Our thanks go out to the many staff who have contributed to the development of the Action Plan and we look forward to their continued involvement in its implementation.

- 5.3 In addition to the recommendations made by the external auditor, the Council is proposing four additional local recommendations to support its improvement work. These are listed as LBC1 to LBC4 within the Action Plan.
- 5.4 This report to Council also includes an additional recommendation to note that the LGA has been commissioned to undertake an independent initial investigation into senior management actions over the period covered by the Report in the Public Interest. This independent initial investigation will advise whether there is any formal action to be pursued through any relevant formal disciplinary process. The decision to undertake this independent initial investigation supports the Council's commitment to being open and fully accountable for the actions that have led to the report being issued. The investigation will report to the Interim Chief Executive in the first instance.
- 5.5 Overall accountability for the delivery of the Action Plan will jointly rest with the Leader of the Council, Councillor Hamida Ali and the Interim Chief Executive, Katherine Kerswell.
- 5.6 Accountability for individual recommendations in the Action Plan are clearly identified by Cabinet Member, and for individual actions by chief officers.
- 5.7 Following this Extraordinary Council Meeting, the Action Plan will be submitted to both the Scrutiny and Overview Committee on 8 December 2020 and the General Purposes and Audit Committee on 2 December 2020 to consider and review it from their different constitutional positions.
- 5.8 Those Committees will submit their feedback in the form of separate reports to Cabinet at its meeting on 18<sup>th</sup> January 2021. The report to Cabinet will also provide further detail on the recommendations, timelines and accountabilities, the delivery mechanism to support the improvement work and the costs associated with implementing the recommendations.

## **6. DELIVERING THE ACTION PLAN WITHIN THE CROYDON CONTEXT**

- 6.1 The Report has been published at a very challenging time for Croydon. In addition to managing the local response to the COVID-19 pandemic and the strain that has placed on delivering Council services, the Council is also responding to a number of other very serious issues relating to its financial position, financial governance and its overall efficiency and effectiveness as an organisation.
- 6.2 These issues include:
- i) The second national lockdown, supporting test and trace in addition to preparations for an emerging vaccine programme;
  - ii) The Council issuing a section 114 notice;
  - iii) Residents' concerns about their Council;
  - iv) Reputation, organisational confidence and staff morale;
  - v) Budget development to deliver in-year savings and savings required in future years;

- vi) The need to submit a request to the Ministry of Housing, Communities and Local Government for approval to capitalise the 2020/21 in-year budget deficit and for further capitalisation funds over the next three years to be able to safely and sustainably balance the budget;
- vii) The 75 recommendations made in the Croydon Finance Review - Phase One;
- viii) The limited assurance opinion and resulting actions specified by the Head of Internal Audit;
- ix) The Strategic Review of the Council's group of companies and entities.
- x) The MHCLG Rapid Review to advise the Secretary of State in regard to our capitalisation request and any actions / recommendations arising
- xi) The need for an overarching Improvement Programme that draws all this together

6.3 In responding to these issues, it will be necessary to reshape and resize the Council in order to ensure its resources are organised to fully support the resolution of these issues and to ensure its financial sustainability. The Council has to deliver its statutory duties and will then have to right size any further discretionary services within available funding.

6.4 Given the challenges that the Council currently faces, careful consideration will need to be given to whether the Council has the capacity and capability to undertake all of the improvements that are required within a very demanding timescale.

6.5 The Council will need to both rebalance its immediate priorities to ensure that sufficient capacity is focussed on delivering improvements at pace, as well as working to ensure that it has the necessary skills available to deliver that improvement.

6.6 This will require the Council to seek to secure those specialist skills where they do not currently exist within the Council, through a combination of seeking external support and providing opportunities to staff to be seconded and develop new skills in those roles.

6.7 The Council has already benefitted in recent months from external support, advice, guidance and challenge from a number of people and bodies. The Council is hugely grateful for the support that it has received from:

- Grant Thornton
- The Local Government Association
- Ian O'Donnell, Independent Financial Consultant
- Chris Buss, Independent Financial Consultant
- Members of the Financial Review Panel that includes:
  - o Duncan Whitfield, Strategic Director of Finance and Governance, London Borough of Southwark
  - o Debbie Warren, Chief Executive, Royal London Borough of Greenwich
  - o Matthew Kershaw, Chief Executive, Croydon Clinical Commissioning Group (CCG)
  - o Mike Sexton, Joint Chief Financial Officer, Croydon CCG

- PricewaterhouseCoopers
  - David Courcoux, London Borough of Tower Hamlets
  - CIPFA
- 6.8 The Council has also benefitted from the tireless work and contributions from staff right across the organisation. Through this report, the Council formally places on record its thanks and gratitude to staff, working under very difficult conditions for an extended period of time, for all their efforts to help improve the Council's position.
- 6.9 In considering the actions required to address the recommendations in the Report, it is important to note that the actions will require a change in culture and governance behaviour, as well as changes to processes and systems.
- 6.10 It will take some time to fully implement all of the changes required in the recommendations proposed in the Action Plan. The Council has already started to make changes that will support the required improvements. These include:
- New political and officer leadership that is prioritising new ways of working, with a focus on making the Council more open to learning and external support;
  - The strengthening of governance arrangements which will include monthly reporting of financial progress and performance;
  - A clearer requirement to evidence risk and benefits when programmes of work and business cases are presented for approval and during implementation;
  - A clearer understanding of risk that places greater focus on the Council's overall exposure to risks and monthly reporting;
  - Much more open and regular communication with staff; and
  - Beginning to build an awareness and understanding across the organisation with all our staff of the urgent need to change and improve our ways of working.

## **7. CROYDON RENEWAL PLAN OVERARCHING IMPROVEMENT BOARD**

- 7.1 Members will be aware that there are a number of reviews that have taken or are taking place in relation to the Council's financial position, its governance and its overall efficiency and effectiveness as an organisation.
- 7.2 Those reviews include:
- i) The Croydon Renewal Plan for financial recovery
  - ii) The Report in the Public Interest
  - iii) The Rapid Review
  - iv) Croydon Finance Review Phase One
  - v) The Strategic Review of the Council's Group of companies and entities
  - vi) The Centre for Governance and Scrutiny (CfGS) review of Scrutiny
  - vii) The Governance Review

- 7.3 A number of these already have their own reporting and governance arrangements which will need to be further reviewed. Council is now recommended to establish an independently chaired overarching Croydon Renewal Plan Improvement Board.
- 7.4 The independently chaired Board will have oversight of the overarching improvement plan for Croydon. It will support and challenge the delivery of the Council's improvement journey as it seeks to recover its financial position, strengthen its governance and ensure that it is an effective organisation that delivers value for money services.
- 7.5 The Improvement Board will submit a public report on its work to Council every three months.
- 7.6 Further details on the Board, including its terms of reference, detailed Membership, costs and the initial overarching Croydon Renewal Plan will be presented to a future meeting of Cabinet and subsequently to Council.
- 7.7 Attached at Appendix C is a diagram explaining at high level the key actions for Croydon Council's Improvement Plan.

## **8. NON-STATUTORY RAPID REVIEW OF CROYDON COUNCIL**

- 8.1 On 29 October 2020, the Ministry of Housing, Communities and Local Government confirmed that a non-statutory rapid review of the Council was to be conducted and would run until the end of November 2020.
- 8.2 The independent review is to give assurance to the Secretary of State, with particular reference to the Croydon Renewal Plan and to the Council's request for a capitalisation direction as per Council's decision on 28 September 2020.
- 8.3 The leadership of the Council has welcomed the review, recognising it as an important opportunity to share in detail with the Government the issues that Croydon currently faces and the work that has begun to ensure that Croydon operates in a more efficient and effective way, within a financially stable and balanced budget.
- 8.4 The findings of the Rapid Review will be presented to a future meeting of Council following its completion. Any recommendations for future action will be incorporated into the overarching improvement programme.

## **9. CONSULTATION**

- 9.1 In addition to the publicity and communications detailed in paragraphs 4.3 - 4.8 above, a briefing was held for all Members of the Council on the Report in the Public Interest on Thursday 22 October 2020, the day prior to its publication. This briefing was immediately followed by question and answer sessions with Members within their political groups.
- 9.2 Both political groups on the Council were offered further briefings following the publication of the report and these have taken place on 30 October 2020 (administration group) and 4 November 2020 (opposition group).

## **10. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 10.1 The recommendations in this report will help to ensure that the Council operates to best practice standards with regard to its financial governance and overall financial effectiveness.
- 10.2 Having stronger corporate and financial governance will help improve the underlying financial viability of the Council and the sustainability of its finances in the long term.
- 10.3 There will be costs associated with the implementation of the recommendations detailed within the report. These costs are currently unknown and an update regarding associated costs will be presented to the January 2021 meeting of Cabinet for consideration and approval.
- 10.4 Capacity and capability within the Council to deliver the recommendations is a key risk when considered against the other reviews and likely resulting recommendations and the overall improvement needed for the Council.

The impact of both forthcoming budget reductions and the reintroduction of COVID-19 restrictions preventing staff from attending the office will need to be carefully managed to ensure that it does not impair the delivery of the recommendations.

Approved by: Lisa Taylor, Director of Finance, Investment and Risk and Section 151 Officer

## **11. LEGAL CONSIDERATIONS**

- 11.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Report in the Public Interest ("the Report") is issued under the provisions of the Local Audit and Accountability Act 2014 ("the Act"). The Council must comply with the requirements of the Act in responding to the Report. At the time of writing this report, all of the relevant requirements of the Act have been fully complied with.

- 11.2 Under the provisions of the Act, the Council must decide whether the Report requires the authority to take any action or whether the recommendations are accepted. It must decide what action to take in response to the Report and its recommendations. The recommendations and proposed actions by the Council are set out in the body of this report and accompanying Action Plan.
- 11.3 After considering the Report and its response to it, the Council must notify the external auditor of its decisions, and publish a notice containing a summary of those decisions which has been approved by the external auditor.
- 11.4 The powers set out in the Act are without prejudice to the duties and responsibilities contained in sections 114 – 116 of the Local Government Finance Act 1988 and section 5 of the Local Government and Housing Act 1989 as regards reports which may be issued by the Council's Chief Finance Officer or its Monitoring Officer or indeed powers set out in Part I of the Local Government Act 1999 regarding Secretary of State intervention in a local authority.
- 11.5 The recommendations in this report focus on improving the governance of the Council. This is in line with the Council's own Constitution and seek to promote the Council's statutory duty of best value and continuous improvement.

Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer.

## **12. HUMAN RESOURCES IMPACT**

- 12.1 There are no human resource impacts arising directly from the recommendations in this report. However, there will be impacts associated with the delivery of the improvement plan. The improvement plan is part of a range of measures relating to improving the Council's financial position and it is inevitable that this will ultimately impact on the Council's workforce, when the Council's agreed Human Resources policies and procedures will be followed.
- 12.2 Human resources impacts will be appropriately reported to the relevant decision-making bodies as individual actions from the plan are implemented.

Approved by: Sue Moorman Director of Human Resources

## **13. EQUALITIES IMPACT**

- 13.1 There are no equality impacts arising directly from the recommendations in this report. As such, an equality analysis has not been undertaken following the initial response to the external auditor's report. However, there will be impacts associated with the delivery of the improvement plan. The improvement plan is part of a range of measures relating to improving the Council's financial position and it is inevitable that this will ultimately impact on the Council's workforce and the communities it serves.

- 13.2 Consideration will be given as each of the individual actions included in the Action Plan are implemented as to whether they are relevant to equalities and will require an equalities impact assessment undertaken to ascertain the potential impact on vulnerable groups and groups that share protected characteristics.
- 13.3 Any improvements to governance that arise from the implementation of the recommendations in the action must pay due regard to ensuring that all residents in Croydon are able to understand the actions the Council takes in their name, the decisions it makes to spend resources on their behalf, and who is accountable for that action.
- 13.4 Close attention will need to be paid to ensure the Council is as transparent as possible and is as open and engaging with all its local communities through this process of improvement and afterwards in the new governance practices that are established.

Approved by: Yvonne Okiyo, Equalities Manager

## **11. DATA PROTECTION IMPLICATIONS**

### **11.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

**NO**

*The Head of Democratic Services and Scrutiny comments that the recommendations of this report do not involve the processing of personal data and as such, there are no data protection implications arising from this report.*

*Approved by Elaine Jackson, Interim Assistant Chief Executive.*

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**CONTACT OFFICER:** Stephen Rowan, Head of Democratic Services and Scrutiny

### **APPENDICES TO THIS REPORT**

- Appendix A - Report in the Public Interest
- Appendix B - Action Plan
- Appendix C - High Level Improvement Diagram

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## London Borough of Croydon

Report in the Public Interest concerning the Council's financial position and related governance arrangements

# London Borough of Croydon

## Report in the Public Interest concerning the Council's financial position and related governance arrangements

### Summary

We are issuing this report as a Report in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. The Council is required to publish this report as soon as practicable, consider it at a meeting held in public within one month of the date of publication and provide a publicly available written response to us.

The London Borough of Croydon (the Council) has experienced deteriorating financial resilience for a number of years with spending pressures within both children's and adult social care and low levels of reserves which created a significant financial challenge in 2020/21. The size of the financial gap in 2020/21 has increased due to the additional financial pressures as a result of the covid-19 pandemic. The Council has reached the view that external support from the Ministry of Housing, Communities and Local Government (MHCLG) is required and a formal request has been made to allow the Council to treat some of the day to day expenditure as capital.

As the Council's external auditor, we identified concerns relating to the financial sustainability criteria of the value for money conclusion in 2017/18 and raised recommendations for improvements. The financial position deteriorated during 2018/19 and we issued an adverse qualification of our value for money conclusion. Our recommendations in 2017/18 and 2018/19 were not implemented and the financial position continued to deteriorate during 2019/20. The spending pressures identified in 2017/18 continued into 2020/21 and we wrote to the former Chief Executive in April 2020 setting out action we considered to be vital. At the end of August 2020, the Council had failed to produce a formal action plan or to respond to our audit recommendations effectively. A formal written response was received on 28 September 2020.

The Council has had an unsustainably low level of reserves for some time. The Council has had the lowest level of all London Boroughs of General Fund and Earmarked General Fund Reserves as a percentage of net service revenue expenditure and the reported level of reserves has continued to decrease in each of the previous three years. We reported the risk with low level of reserves to the Council and external parties such as the CIPFA Financial Resilience Index and the Institute for Fiscal Studies highlighted the risk. The Council has failed to adequately address the low level of reserves.

In the past three years, the Council has reported significant service overspends of £39.2 million within children's and adult social care. The Council used the flexibility granted by Government to apply capital receipts to transformation schemes in both children's and adult social care. Despite applying significant amounts of transformation monies (£73 million) in the past three years the Council continues to experience overspends in both departments and planned significant growth funding in the original 2020/21 budget. There is little evidence that the transformation monies have been used to achieve the Government's intended aims of this capital receipts flexibility, namely, reducing demand, delivering savings or reducing costs. The impact of the overspends has been masked by both the accounting treatment of the Dedicated Schools Grant deficit (which we disagree with) and the use of the flexible capital receipts. The Council has failed to deliver real savings in children's and adults' social care.

The budget monitoring reports during 2019/20 showed significant overspends, which reduced following 'corporate adjustments' of £17.7 million. The reports were accepted by Members without an appropriate level of challenge to continued service overspends, continued Unaccompanied Asylum Seeker Children (UASC) overspends or the validity of adjustments made to improve the outturn position. The Council set the 2020/21 budget in March 2020 prior to the covid-19 pandemic being declared. There was insufficient challenge from Members on the financial risks in the budget, credibility of the planned level of income from third parties and deliverability of the savings plan. The Council's governance over the budget setting and monitoring has not been good enough.

In response to both the growing financial gap and our letter, the Council established a Finance Review Panel in May 2020 and retained a Financial Consultant. The Financial Consultant has reviewed budget setting, monitoring and reporting processes and identified areas for improvement. Initial progress was swift and a budget gap for 2020/21 of £65 million was identified together with £21 million of in-year savings to narrow the gap if the savings were achieved. The position was reported to Cabinet in July 2020 and subject to Scrutiny and Overview Committee call-in in August 2020. Neither meeting referred the significant fact that the budget gap exceeded the available reserves, to Full Council. In our view this was a failure of governance and showed a lack of understanding of the urgency of the financial position. In September 2020, following the departure of the former Chief Executive and progress stalling on identifying deliverable savings, the Section 151 Officer drafted, but did not formally issue, a section 114 report which was discussed with the then Leader, the Deputy Leader, the then Interim Chief Executive and Monitoring Officer who agreed to amendments to the 2020/21 General Fund Budget via Cabinet and Full Council in September 2020.

The Council has increased the level of borrowing significantly in recent years (£545 million in three years) and used the borrowing to invest in companies it established and to purchase investment properties. The strategy for investing in properties was approved at Full Council using guillotine procedures meaning there was insufficient time to discuss and challenge the strategy and the first purchase was made two months prior to approving the strategy. The Council's approach to borrowing and investments has exposed the Council and future generations of taxpayers to significant financial risk. There has not been appropriate governance over the significant capital spending and the strategy to finance that spending.

The Council established a number of companies including wholly owned and part owned companies. The Council's governance and oversight of the companies shows insufficient rigor and control. Despite heavy investment from the Council, the Council has not yet received any significant return.

There has been collective corporate blindness to both the seriousness of the financial position and the urgency with which actions needed to be taken. The Council commissioned a review of its governance arrangements in March 2020 which concluded that improvements were needed to the culture around decision making. We agree with this recommendation and we note that we have not seen an improvement in the culture of decision making as it relates to financial sustainability. For a number of years the Council focused on: improvements in service delivery without sufficient attention to controlling the related overspends; investing in the Place area without addressing whether the investment delivered the intended outcomes; and financial governance was focused on lobbying government for additional funding which was not supported by actions to contain spending within the funding provided which was its statutory duty. Councils are statutory entities which must follow the law. The law is very clear on the legal requirement for councils to set a balanced budget. The Council's fragile financial position and weak underlying arrangements have been ruthlessly exposed by the impact of the Covid-19 pandemic.

Had the Council implemented strong financial governance, responded promptly to our previous recommendations and built up reserves and addressed the overspends in children's and adult social care, it would have been in a stronger position to withstand the financial pressures as a result of the Covid-19 pandemic. The Council needs to urgently address the underlying pressures on service spends and build a more resilient financial position whilst also addressing the long-term financial implications of the capital spending and financing strategy together with the oversight of the Council's group companies.

## Recommendations

This report makes a number of recommendations for the Council to address, with the high priority recommendations in bold.

- R1. *The Executive Directors need to address the underlying causes of social care overspends:***
- R1a *in children's social care and take effective action to manage both the demand and the resulting cost pressures***
- R1b *in adults social care and take effective action to manage both the demand and the resulting cost pressures***
- R2. *The Council (including Cabinet and Scrutiny and Overview Committee) should challenge the adequacy of the reserves assessment which should include a risk assessment before approving the budget.***
- R3. *The Chief Executive should oversee a review of the outcomes achieved from the use of transformation funding to demonstrate that the funding has been applied in accordance with the aim of the scheme.***
- R4. *The s151 officer should set out the strategy for applying capital receipts for transformation annually as part of the budget setting process.*

- R5. *The General Purposes and Audit Committee should receive reports on the actions being taken to address the DSG deficit and challenge whether sufficient progress is being made.*
- R6. *The Executive Director (Children's) needs to review the services provided to UASC and to identify options to meet their needs within the grant funding provided by the Home Office.*
- R7. *The Executive Director (Children's) needs to identify the capacity threshold for the numbers of UASC that it has the capacity to deliver safe UASC services to.*
- R8. *The Cabinet reports on the financial position need to improve the transparency of reporting of any remedial action taken to address in year overspends.*
- R9. *The Council (including Cabinet and Scrutiny and Overview Committee) need to show greater rigor in challenging underlying assumptions before approving the budget including understanding the track record of savings delivery.***
- R10. *The General Purposes and Audit Committee must challenge officers on the progress in implementing the Financial Consultant's recommendations to improve the budget setting, monitoring and reporting process and actions to address the Head of Internal Audit's concerns on internal controls.*
- R11. *The s151 officer needs to revisit the Growth Zone assumptions following the pandemic and make recommendations to Cabinet and Council for the continued investment in the scheme.*
- R12. *The s151 officer should review the financial rationale and associated risks and make recommendations to Cabinet and Council on whether the Revolving Investment Fund should continue.***
- R13. *The s151 officer should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen future due diligence arrangements.*
- R14. *The Cabinet and Council needs to re-consider the Treasury Management Strategy for ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.***
- R15. *The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term financial implications of matters reported within the Treasury Management Strategy.*
- R16. *The s151 officer should revisit the Minimum Revenue Provision policy to demonstrate that a prudent approach is being taken.*
- R17. *The Cabinet and Council should reconsider the financial business case for continuing to invest in Brick by Brick before agreeing any further borrowing.*
- R18. *The Cabinet and Council should review and reconsider the ongoing financial rationale for the Council in the equity investment arrangement with Brick by Brick.***
- R19. *The s151 officer and monitoring officer should monitor compliance with loan covenants with Brick by Brick and report any breaches to Members.*
- R20. *The Cabinet and Council should review its arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, the long-term impact of the subsidiaries on the Council's financial position and how the Council's and taxpayers interest is safeguarded.***

## Introduction

We are issuing this report as a Report in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. The Council is required to publish this report as soon as practicable, consider it at a meeting held in public within one month of the date of publication and provide a publicly available written response to us.

## Background

The London Borough of Croydon (the Council) has experienced deteriorating financial resilience for a number of years with service overspends being met through one-off actions including the release of reserves. Ofsted assessed children's services in Croydon as inadequate in September 2017 and the Council responded with additional investment in this service area impacting further on the in-year service overspend. The low level of reserves and unresolved spending pressures meant that the Council has struggled to respond to the financial challenges created by the Covid-19 pandemic. As a result of the existing financial position and the financial pressures from the pandemic, the Council has issued an amended budget in September 2020 in an attempt to avoid a section 114 report being served, and has formally engaged with MHCLG as per the CIPFA guidance

Prior to recent events we as the Council's external auditor have expressed concerns and raised recommendations in relation to the Council's financial sustainability and it is necessary to understand the sequence of events. The key points are set out below:

### 2017/18 value for money conclusion reporting and recommendations

We presented our 2017/18 Audit Findings Report to the General Purposes and Audit Committee in July 2018. Within our Value for Money Conclusion Report we identified concerns relating to the financial sustainability criteria and made recommendations to address the continued overspends within social care, the use of flexible capital receipts to fund transformation expenditure and the low level of reserves.

Our overall conclusion was:

*Your reserves are now at a very low position and you face a number of clear risks to your continued financial health.*

*You have plans in place to take appropriate action to manage cost pressures, increase income sources and address the level of your reserves. The progress and impact of your actions are vital to enable you to deliver a balanced budget over the medium term.*

*On the basis that you delivered a balanced budget in 2017/18 and can reasonably expect to do so in 2018/19, we concluded that the risk that we identified in respect of your budget position has been sufficiently mitigated and that you have proper arrangements.*

### 2018/19 value for money conclusion reporting and recommendations

We presented our 2018/19 Value for Money Conclusion to the General Purposes and Audit Committee in October 2019. We identified significant cost pressures from demand led services and specific cost pressures from Unaccompanied Asylum Seeker Children (UASC) together with the reported reserve position remaining low compared to other London Boroughs. We also reported that the overspend on the Dedicated Schools Grant (which had been excluded) should be considered within the reported reserves position as the forecast deficits in both 2019/20 and 2020/21 exceed the available general fund reserves in future years.

Our overall conclusion was:

*On the basis of the significance of the matters we identified with your levels of reserves and the matters relating to Children's Services raised by OFSTED, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.*

Adverse qualifications of the Value for Money Conclusion are not common within the Local Government sector with only 4 being issued to top tier authorities in 2017/18 (the latest data available).

Our 2018/19 report noted that the recommendations from 2017/18 had not been implemented and we raised two further recommendations on the need to manage the Dedicated Schools Grant within existing budgets and to manage the impact of Unaccompanied Asylum Seeker Children (UASC) costs and look to seek a long-term solution.

#### 2019/20 in-year financial position and 2020/21 budget setting

We continued to review the 2019/20 in-year financial position. The Quarter 2 outturn position (reported in November 2019) forecast an outturn deficit of £10.4 million which accounted for the majority of the existing General Fund reserve at 31 March 2019. We met with the s151 Officer (Director of Finance, Investment and Risk) and the Cabinet Member for Finance and Resources in December 2019 to discuss whether the Council had exhausted its reserve position. We received verbal representations that action was being taken to address the in-year financial position. The Quarter 3 outturn position (reported in January 2020) forecast an outturn deficit of £2.4 million, which was an improvement in the planned position of £8 million in three months. We requested an analysis of the movement between the reported in-year financial position to better understand the Council's financial position.

Based on our concerns regarding the 2019/20 forecast outturn position, we reviewed the 2020/21 budget and identified assumptions that we considered to be optimistic. Our meeting to discuss our concerns in March 2020 was delayed due to officers needing to respond to the pandemic. In early April we raised our concerns in meetings first with the s151 Officer and subsequently with the former Chief Executive, Executive Director of Resources (Monitoring Officer) and s151 Officer. It was evident that the pandemic had changed a number of the original 2020/21 budget assumptions. Based on the discussions of a worsening financial position and a very low reserve position we wrote to the former Chief Executive on 22 April 2020 setting out a number of areas where we wanted a written response.

This report sets out in more detail the areas of auditor concern identified in our letter to the former Chief Executive on 22 April 2020 and subsequent events.

#### **Previous recommendations**

As the external auditor we report our findings from our audit work to Those Charged with Governance, the General Purposes and Audit Committee. We raised matters of concern together with recommended action in 2017/18 and 2018/19 with the following recommendations.

##### 1. Address social care overspends in the Children, Families and Education and the Health, Wellbeing and Adult departments

In 2017/18 we recommended that the Council take action to address social care overspends. The budget for both Children's and Adult Social Care included growth items each year however the overspends continued in 2018/19 and 2019/20 and the Quarter 1 report for 2020/21 shows continued pressures on these budgets.

Based on the published outturn reports the net overspends reported were

Area	2016/17 £ million	2017/18 £ million	2018/19 £ million	2019/20 £ million	2020/21 (Q1) £ million
Children's social care	6.4	11	9.5	8.4	16.5
Adult social care	2.2	0	1.7	8.6	30.2
Other departments	1.8	-4.2	-4.2	-13.5	15.1
Non-departmental	-10.45	-8.1	-6.7	-12	7.5
Exceptional	0	6.3	5.1	8.7	3.3
MHCLG funding re COVID					-23.5
Reported overspend	(0.05)	5.0	5.5	0.2	49.1

The challenges of demand led services with both Children's and Adult Social Care impacts across the Local Government sector and the Council is not unique in facing pressures on these budgets. The Council has included growth items in the budgets and applied transformation funding for each area and the overspends continue indicating that any action taken has not addressed either the continuing demand or the cost of meeting that demand. Although the demand pressures differ between Children's and Adult Social Care services, the Council has not demonstrated that it can take effective action to either manage the cost pressures or establish appropriate budgets within Children's and Adult Social Care services.

R1. *The Executive Directors need to address the underlying causes of social care overspends:*

R1a *in children's social care and take effective action to manage both the demand and the resulting cost pressures*

R1b *in adults social care and take effective action to manage both the demand and the resulting cost pressures*

## 2. Maintain reserves at a sustainable level

The Council has the lowest level of all London Boroughs of General Fund and Earmarked General Fund Reserves (excluding schools) as a percentage of net service revenue expenditure. The reported reserves levels have continued to decrease in recent years in part due to the overspends.

Year	General Fund £ million	Earmarked reserves £ million	Total General Fund and Earmarked Reserves £ million	Change from prior year %
2015/16	10.7	47.5	58.2	
2016/17	10.7	33.4	44.1	24% reduction
2017/18	10.4	18.2	28.6	35% reduction
2018/19	10.4	18.0	28.4	0.7% reduction
2018/19 restated*	10.4	8.8	19.2	32% reduction
2019/20 draft	7.5	9.1	16.6	13% reduction

\* In 2018/19 we reported in our Audit Findings Report that the Council had not accounted for its Dedicated Schools Grant deficit correctly. The DSG deficit was £9.2 million but was treated as a debtor which we disagreed with. If the appropriate amendment had been made in 2018/19 the reported reserves position would have dropped to £19.1 million as at 31 March 2019. In the unaudited 2019/20 financial statements the Council has now made this adjustment.

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (CFO) to report on the robustness of the budget estimates and the adequacy of the planned reserves when the council tax decision is being made by the Council. This forms part of the statutory advice the Section 151 officer to the Council provides together with the advice throughout the year.

The reports to Council setting the Council Tax budget did include a statement from the Section 151 officer setting out the adequacy of the planned reserves together with any concerns. The budget reports set out both the Financial Strategy target level of reserves and the Section 151 Officer's assessment of adequacy.

	2017/18	2018/19	2019/20	2020/21
Level of General Fund balances as % of net operating expenditure	3.8%	4%	3.9%	3.9%
Financial Strategy target	5%	3 – 5%	3 – 5%	3-5%

The report setting the 2018/19 budget reduced the recommended level of reserves to a range without a detailed risk assessment. The budget was approved without evidence of challenge on whether the revised level of reserves was appropriate or whether the history of delivering services within the budget or delivering savings as planned had impacted on setting the appropriate reserves range.

In our reports presented to the General Purposes and Audit Committee in 2017/18 and 2018/19 we highlighted that the Council has the lowest level of reserves of all London Boroughs and gave an adverse qualification based on low reserves in 2018/19. External parties such as the CIPFA Financial Resilience Index and the Institute for Fiscal Studies have highlighted the low level of reserves at the Council. The 2020/21 budget was approved at Cabinet and Full Council without reference to the external auditor's adverse qualification of the value for money conclusion due to the level of reserves. The Section 151 officer included a £5 million contribution to reserves in setting the 2020/21 budget despite some resistance from Members. The Council did not display sufficient understanding of their reserve position relative to the financial challenges faced.

*R2. The Council (including Cabinet and Scrutiny and Overview) should challenge the adequacy of the reserves assessment which should include a risk assessment before approving the budget.*

### 3. Reduce reliance on use of capital receipts for transformation expenditure

The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure. The Direction allowed for expenditure to be treated as capital where conditions are met. The Council must consider the Statutory Guidance issued by the Secretary of State which requires authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy with the initial strategy being effective from 1st April 2016 with future Strategies included within future Annual Budget documents.

The guidance provided a definition of expenditure which qualifies to be funded from capital receipts. This is:

*Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.*

Cabinet in July 2016 agreed the approach for flexibility in the use of capital receipts to support transformation where officers and members believe this to be appropriate. The strategy was presented to Cabinet in December 2017 which set the intended usage of flexible capital receipts during 2017/18.

After the strategy was presented to Cabinet in December 2017 there have been narrative references to confirm that the capital receipts would continue to be used where appropriate to fund transformation schemes in both the 2018/19 and 2019/20 budget papers presented to Cabinet and Full Council. A detailed strategy has not been presented since December 2017.

There is limited evidence of challenge over where transformation funding was being applied or whether outcomes had been achieved. For a scheme that has invested £73 million over three years it is inadequate that the schemes receiving transformation funding were not subject to reporting and challenge by Members including whether the intended outcomes had been achieved.

The intention of the transformation funding was to generate ongoing savings, reduce demand or reduce costs. After three years of transformation funding we would expect to see a reduction in the growth required in the associated budget. The three areas receiving the majority of transformation funding continue to receive additional growth funding in the 2020/21 budget. The substantial budget growth for both children's and adults' social care together with the significant transformation funding indicates that the transformation funding may have been used to meet service overspends rather than to transform the services which is not an appropriate use of transformation funding and does not comply with the Secretary of State's Direction.

Area	Transformation funding 2017/18 to 2019/20	Growth in 2020/21 budget
	£m	£m
Digital transformation	15	2
Children's social care	28.9	10.1
Adult social care	21.1	21.2

The Council has not shown sufficient understanding of how the transformation funding has been applied or the impact the transformation funding has had in generating ongoing savings, reducing demand or reducing costs. We will need to formally consider whether the application of capital receipts in this manner has formally breached the regulations set by Government.

*R3. The Chief Executive should oversee a review of the outcomes achieved from the flexible use of capital receipts for transformation to demonstrate that the funding has been applied in accordance with the Statutory Guidance.*

*R4. The s151 officer should set out the strategy for applying capital receipts for transformation annually as part of the budget setting process.*

#### 4. Manage Dedicated Schools Grant (DSG) within existing budgets

Across London and other parts of the country there are increasing demands and pressures on the Dedicated Schools Grant (DSG) and in particular on the High Needs Block which covers children and young people with Special Education Needs. The Council has seen an increase in demand and costs in recent years and has provided additional funding in excess of the government grant to meet local needs. The specific account which the Council needs to maintain of its use of DSG has therefore fallen into deficit.

In 2018/19, the Council chose to account for the deficit amount as a debtor at the end of the financial year which we disagreed with as the Council's approach was based on the view that the Government ought to refund the excess spending rather than any evidence that this would be the case. The accounting treatment of any overspend on DSG has been subject to review with CIPFA and the Department for Education. Our current view is that any overspends against the DSG should be carried forward as a call against the schools' budget in future years and should form part of the un-earmarked general fund reserve.

From 1 April 2020 the Regulations provide local authorities with flexibility in dealing with deficits from prior funding periods when determining the individual schools budget and enables local authorities to deduct all, some or none of the historic deficit in determining schools' budgets. The Council's estimated DSG deficit exceeds the available school balances and therefore impacts on the un-earmarked general fund.

	2017/18	2018/19	2019/20
DSG deficit in year	0.9	8.3	5.3
Cumulative position	0.9	9.2	14.5

The Council has submitted a recovery plan to the Department for Education over a five-year period. MHCLG has drafted regulations to enable a statutory override for DSG deficits for three financial years from 1 April 2020. If approved the Council will have three years to recover the DSG deficit. The actions to manage expenditure within the existing budget envelope and recover the deficit and progress on delivery of the recovery plan should be reported to Members for challenge as the current deficit reduces further the unearmarked general fund reserves or will do in 2023/24 if the draft regulation is passed.

*R5. The General Purposes and Audit Committee should receive reports on the actions being taken to address the DSG deficit and challenge whether sufficient progress is being made.*

#### 5. Manage the impact of Unaccompanied Asylum Seeker Children (UASC) expenditure and look to seek a long-term solution

The Home Office building located within Croydon results in the Council being a gateway authority for Unaccompanied Asylum Seeker Children (UASC). There is a national transfer scheme for UASC however this scheme does not appear to have worked as intended as the number of UASC children that remain the Council's responsibility has increased in the past three years.

The Home Office provides funding however the Council has not been able to contain expenditure on UASC within the funding provided and therefore additional overspends have been incurred.

	2017/18 £ million	2018/19 £ million	2019/20 £ million	2020/21 (Q1) £ million
Home Office funding received for UASC	15	19.2	16.9	
UASC costs in excess of Home Office funding – Croydon	2.9	10.6	8.7	3.3

The funding is received on the basis of an amount per child per night. The Council is not able to control the numbers of children it is responsible for. The Council, with other similarly impacted authorities, has lobbied for an increase in the rate per child. The latest rate was increased in June 2020 to £143 per child per night. The focus of the Council's effort has been on increasing the daily rate.

The daily cost of the services provided by the Council exceeds the daily rate received. There is a need for the Council to review how services can be delivered within the funding provided. The overspends from meeting UASC needs beyond the funding provided by the Home Office have contributed to the reduction in reserves.

As the number of UASC continues to increase the Council needs to consider where the capacity threshold is at which the service can no longer deliver safe care.

*R6. The Executive Director (Children's) needs to review the services provided to UASC expenditure and to identify options to meet their needs within the grant funding provided by the Home Office.*

*R7. The Executive Director (Children's) needs to identify the capacity threshold for the numbers of UASC that it has the capacity to deliver safe UASC services to.*

## 2019/20 outturn

The 2019/20 forecast position has been reported to the Cabinet throughout the year and this highlighted continued in-year overspends. The reduction in the forecast outturn overspend of £8 million between quarter 2 and quarter 3 is unusual and based on Cabinet minutes the explanation provided that this related to one-off initiatives was accepted without challenge. In an environment of financial pressures with low reserve levels, the Council did not display sufficient understanding of the urgency of the financial position during the financial year.

Area	Quarter 1 Forecast Variance £ million	Quarter 2 Forecast Variance £ million	Quarter 3 Forecast Variance £ million	Outturn Variance £ million
Children's, families and education	0.1	1.1	0.9	8.4
Health, Wellbeing and Adults	5	9.1	9.9	8.5
Place	0	0	-2.5	-4.8
Gateway, Strategy and Engagement	1.2	0.2	1	0.5
Resources	1	0	-4.5	-9.4
Corporate items	-7.3	-8.6	-10.6	-12.1
UASC	9.4	8.6	8.2	8.7
Total overspend	9.4	10.4	2.4	0.2

The key elements of the overspend (Children and adult social care plus UASC) total £25.6 million in 2019/20. All three areas were subject to previous auditor recommendations however insufficient action was taken to prevent the overspends continuing.

The change in the forecast overspend between quarter 2, 3 and the outturn report indicates either there were errors in the forecast or that action has been taken. The movement between reports was accepted at Cabinet without challenge. The outturn report presented to the Finance Review Panel highlighted £17.7 million of one-off corporate adjustments were made to be able to report the outturn as a £0.2 million overspend.

The one-off corporate adjustments are a matter of management judgement and as such carry a degree of risk. The presence of one-off corporate adjustments was not easily identifiable in the report to Cabinet making it more difficult for Members to challenge the validity of the one-off corporate adjustments.

We will be challenging the adjustments during the audit and the table below sets out the corporate adjustment with the initial auditor commentary.

Area	Amount Auditor Commentary £ million
Covid-19 grant	-0.6 One off nature
Reject carry forward requests	-0.8 Routine approach to budgetary management
Release of earmarked reserves	-2.9 Routine approach to managing an overspend with auditor expectation that this should have been clearly identified in the outturn report
MRP review	-0.2 Subject to auditor challenge regarding treatment of Brick by Brick borrowing in respect of MRP
Housing benefit bad debt provision released	-7.6 Subject to auditor challenge as auditor expectation is that the bad debt provision would increase in an economic downturn
Allocation of transformation funding	-5.6 Subject to auditor challenge on whether this meets the definition of transformation funding
<b>Total</b>	<b>17.7</b>

Our work on the auditor challenge of corporate adjustments will be completed following receipt of the draft financial statements on 16 October 2020 (these were due on 31 August 2020) and we will report our findings in the Audit Findings Report. Where the auditor challenge is not satisfied there is a risk that the reported overspend may increase with a resulting reduction in reserves.

*R8. The Cabinet reports on the financial position need to improve the transparency of any remedial action taken to address in year overspends*

## 2020/21 original budget setting

The original budget was presented to Cabinet in February 2020 and our review of the budget identified that the total amount of savings and additional income planned had doubled from the previous year to £65 million (£41 million savings with £24 million increased income). In assessing the credibility of any savings plan we consider the previous track record together with a more detailed review of the schemes.

The growth and savings identified each year are reported as part of the budget setting process. Thereafter the in-year financial reporting focuses on the outturn against budget. There is no reporting of the progress against individual savings schemes or the extent to which savings have been delivered overall. As a balanced budget is set, any overspend we have considered to be a notional shortfall in the savings plan. Based on our notional assessment of savings delivered the Council has an annual track record of achieving between £10 and £15 million of savings. A full year savings and additional income plan of £65 million was therefore not credible.

As part of approving the budget, we would expect challenge from Members on whether a significant savings plan was deliverable. The in-year financial reports do not identify progress against the savings plans agreed as part of the budget setting process and it is difficult to determine how Members reached the view that the savings plan within the budget being approved was achievable. We do not consider the Council's governance over the setting of the original 2020/21 budget to be good enough.

	2017/18 £ million	2018/19 £ million	2019/20 £ million	2020/21 £ million
Growth items	16.4	18.8	28.8	65.1
Savings and income items	-19.5	-17.5	-27.9	-65.1
Outturn for the year	5	5.5	0.1	
Notional savings delivered (savings less overspend)	14.5	12	10.1*	

\*after £17.7 million of adjustments

The savings plan in February 2020 included additional income sources that were in our view optimistic including £3 million dividend from Brick by Brick, a company the Council has already lent almost £200 million to and for which the Council has yet to receive any dividend or any interest owing on loans; additional income from property investments of £4 million and additional income from car parking and enforcement of £3.7 million. These items were included within the papers presented to Cabinet and Full Council as part of budget setting however there is limited evidence of challenge. We believe that once again, in financial matters, the Council was found wanting and has not protected council taxpayers funds to the standards expected of local authorities.

*R9. The Council (including Cabinet and Scrutiny and Overview Committee) needs to show greater rigor in challenging underlying assumptions before approving the budget including understanding the track record of savings delivery.*

## 2020/21 financial position to date

The Covid-19 pandemic changed the underlying assumptions of the 2020/21 budget with increased expenditure requirements, reduced ability to achieve income and a need to focus operational capacity on responding to the pandemic at the expense of delivering savings programmes. The pressures the Council face are not unique to Croydon however the scale of the pressure is exacerbated by both the optimism shown in the original budget setting and the low level of reserves.

Our initial concerns on the 2020/21 budget setting led us to consider issuing statutory recommendations which would require consideration at a public meeting. Following our discussions with the then Chief Executive, Monitoring Officer and S151 Officer in April 2020 we paused the statutory process as in our view issuing statutory recommendations in April 2020 during a peak of Covid-19 related deaths was not appropriate. There were actions we considered vital for the Council to take and we wrote to the former Chief Executive on 22 April 2020. Whilst a formal written response was not received from the former Chief Executive, a number of actions were taken and regular verbal updates on progress were provided to us. A formal written response was received from the Interim Chief Executive on 28 September 2020.

The actions taken included appointing a Financial Consultant and establishing a Finance Review Panel. The Financial Consultant was an experienced ex local government finance director and the Finance Review Panel (the Panel) membership included the Executive Leadership Team, two Cabinet members and three external professionals: a Director of Finance from another London Borough; a Chief Executive from another London Borough; and the Chief Executive of the local NHS Trust.

Initial progress was swift with the first meeting of the Panel on 21 May 2020 where the infrastructure to provide governance was established over the proposed actions to address the financial position. The size of the financial gap was identified as £65 million, which exceeds both the Council's level of reserves and the Council's track record of delivering in-year financial savings.

	£ million
Additional expenditure	26.3
Unachieved savings	31.7
Lost income	27.3
<b>Total gap in 2020/21</b>	<b>85.3</b>
Funding from government	19.9
<b>Remaining budget gap for 2020/21</b>	<b>65.4</b>

The Panel received reports on the broad areas for savings in May 2020 and by the June meetings had quantified savings of £21 million from actions during 2020/21 to narrow the gap. The most significant elements were:

- £2 million on staffing from a recruitment freeze, reduction of agency staff and review of layers and spans of control which was in the original 2020/21 budget to provide £1.7 million of savings
- £2.6 million from applying further transformation funding
- £2 million reduced revenue costs from reducing additional borrowing and avoiding further debt servicing costs
- £7.6 million from partnership working with the NHS of which £2.5 million is recurring. The original 2020/21 budget included £6 million of savings from this partnership
- £3 million from review of contracts

The July 2020 Cabinet paper 'Responding to the Local Government Challenge' set out the scale of the financial gap, high level actions being taken and statements from the former Head of Paid Service, Section 151 Officer and the Monitoring Officer. The Section 151 Officer highlighted that if the planned actions were not delivered then a section 114 report would be required. The written and verbal presentations to Cabinet did not refer to the concerns raised by the external auditor or to the Panel decision on 2 July 2020 to make an informal request to MHCLG to allow the Council to treat some of the day to day expenditure as capital.

During July and August 2020, the actions being taken within the Council did not increase the quantified savings being reported to the Panel: with some variation the expected savings remained between £21 and £23 million. The Scrutiny and Overview Committee on 25 August 2020 called in the Cabinet reports 'Responding to the Local Government Funding Challenge' and 'July Financial Review' and raised a number of pertinent questions. In response to member questions the Section 151 Officer confirmed that she could not guarantee that a section 114 report would be avoided. Members of the Scrutiny and Overview Committee accepted the responses received and did not refer the matter to Full Council. In our view this did not demonstrate an understanding of the urgency of the financial position.

The Panel on the 27 August 2020 highlighted that progress had stalled in July and August 2020. Renewed focus was observed during the meeting including a change in focus for the risk ratings for savings plans from being based on whether programme management documents were in place to being based on confidence in the delivery of the saving. There was also clarity that senior officers were focused on solutions with 'business as usual' activities being delegated within appropriate teams.

Following the former Chief Executive's departure in late August and the latest update to the Panel showing only £11 million of the identified £20 million savings were assessed as deliverable, the Section 151 Officer drafted her section 114 report. The draft section 114 report was discussed with the then Leader, the Deputy Leader, the then Interim Chief Executive, the Monitoring Officer and external auditor on 1 September 2020. In response the Cabinet arranged an amended budget meeting on 21 September 2020 with the intention of taking amended budget proposals to Full Council in October 2020. Cabinet identified a number of actions to close the gap in year and the Section 151 Officer agreed to reconsider her draft section 114 report dependent on the outcome of the 21 September Cabinet meeting on the emergency budget.

The pace of the actions in September and October 2020 was significantly more focused than during July and August and early indications suggest that the underlying cause of the continued overspend in both children's and adults social care is now being addressed. In our view the Council missed opportunities to take substantive action earlier to address the in-year budget gap indicating a lack of understanding of the urgency of the financial situation.

The Head of Internal Audit indicated at the 17 March 2020 General Purposes and Audit Committee that he was proposing a limited assurance opinion for 2019/20 indicating concerns on the operation of internal controls. The Financial Consultant's brief included a review of the underlying budget setting process, budget monitoring and reporting process together with proposals for an improved medium-term financial planning process. The Financial Consultant's report presented to the Panel concluded that the financial governance is currently inadequate in relation to some areas of financial planning, budget setting and budget monitoring and identified 75 recommendations for change. During the drafting period of this report the Financial Consultant's report and the Head of Internal Audit's Limited Assurance Opinion were reported formally to the General Purposes and Audit Committee on 7 October 2020. The Head of Internal Audit's report was subject to detailed questioning by Members and a dedicated meeting scheduled for 20 October 2020 to discuss the Financial Consultant's report in more detail. The progress in October 2020 indicates a more robust approach is being taken to matters of concern raised to the General Purposes and Audit Committee.

During the drafting of this report the Council has taken a number of actions including

- Agreeing an in-year savings plan of £27.9 million
- Formally seeking support from MHCLG to balance both the in-year budget and to transition to a sustainable budget over the next three years
- In-year review of the capital programme
- A strategic review of Council owned companies

*R10. The General Purposes and Audit Committee must challenge management on progress in implementing the Financial Consultant's recommendations to improve the budget setting, monitoring and reporting process and actions to address the Head of Internal Audit's concerns on internal controls.*

## Other auditor concerns

As part of the audit we have also identified further areas of concern which impact on the Council's financial sustainability.

### **Treasury management**

Local authorities may borrow monies for any purpose relevant to its functions or for the purpose of the prudent management of financial affairs. The Prudential Code and Treasury Management Code set out requirements for local authorities including the need to prepare a Treasury Management Strategy. Looking at the Council's Treasury Management Strategies, the amount of borrowing has increased in recent years with further borrowing planned for future years.

	2016/17 actual £ million	2017/18 actual £ million	2018/19 actual £ million	2019/20 forecast £ million	2020/21 estimate £ million	2021/22 estimate £ million	2022/23 estimate £ million
Borrowings	968	987	1,357	1,513	1,791	1,989	2,035
Increase in borrowing		19	370	156	278	198	46
% change on previous year		2%	37%	11%	18%	11%	2%

The large increase in borrowings was for four purposes: Revolving Investment Fund; Growth Zone; Asset Investment Strategy; and General Capital Programme. The Growth Zone borrowing is estimated to be £121 million by the end of 2020/21 and the underlying assumptions and actions will need revisiting following the impact of the pandemic.

#### *Revolving Investment Fund*

The Revolving Investment Fund (RIF) aims to support the delivery of the Council's strategic aims specifically for housing and other developments. The RIF is the mechanism by which the Council lends money to developments and the RIF is funded by Council borrowing. The RIF lending is shown below:

Revolving investment fund	2017/18 £ million	2018/19 £ million	2019/20 £ million estimate	2020/21 to 2022/23 £ million Estimate
Total – RIF	45.7	119.7	218.7	223.2

The significant elements of the RIF have been invested in three schemes: Brick by Brick; Croydon Affordable Homes; and Taberner House. All three schemes involve complex commercial transactions and individual business cases have been taken to Cabinet however there is little evidence of challenge by Members in meetings (Full Council or Cabinet) on the deliverability of the schemes or the impact of each scheme on the long-term financial position of the Council. Increased borrowing to the schemes within the RIF is reported however there is no evidence of challenge on whether previous borrowing to the scheme has delivered the intended benefits or whether the third parties' financial position remains sound before agreeing further borrowing. A scheme of the value of the RIF should have a risk assessment which is updated regularly to reflect changes in market conditions. No such risk assessment has been undertaken. In our view this is another example of a lack of financial rigour being exercised by Members. The risk management of the RIF needs to be considered before agreeing further loans.

The principle of the RIF was to lend on at commercial rates whilst borrowing at lower rates with the net returns contributing to the Council's financial position. The interest receivable amounts continue to increase however the outstanding debtors indicate that Brick by Brick has not made any interest payments with £5 million owing at 31 March 2019.

#### *Asset Investment Strategy*

The Medium-Term Financial Strategy for Croydon 2018 – 2022 established an Asset Acquisition Fund of £100 million to invest in property to generate an ongoing income stream for the Council.

*'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 future revenue income and enable expenditure on services.'*

*'The Council will be 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.'*

The original Asset Investment Strategy set out the criteria for assessing each proposed investment property and was approved by Full Council in October 2018. The meeting had reached the time specified in the constitution for it to conclude before there was discussion of the medium-term financial strategy to establish the £100 million asset acquisition fund or the Asset Investment Strategy. The guillotine procedure was therefore used to close the meeting and the reports were approved without further discussion. This procedure is in line with the Council's constitution however a significant strategy such as the medium term financial strategy and asset investment strategy should have been re-considered at a time where Members had sufficient time to challenge whether the risk assessment and management within the strategy was sufficient and again indicates a lack of urgency in understanding the Council's financial position. It also indicates again the level of scrutiny and challenge by Members in respect of significant expenditure was not good enough in terms of challenging decisions that were high risk in the context of the Council's financial position.

During 2018/19 two purchases were made using the Asset Investment Strategy: The Colonnades with an asset value of £46 million in November 2018 and the Croydon Park Hotel with an asset value of £30 million in August 2018. The Croydon Park Hotel was purchased by Leader decision in August 2018 under delegated powers agreed at the July 2018 Cabinet meeting and reported to the September 2018 Cabinet meeting. The decision was subject to Scrutiny and Overview Committee call-in during September 2018 and the strategy covering the purchase was approved in October 2018.

Minutes of the Scrutiny Committee *noted that the paper (explaining the Council's proposed decision-making matrices) was produced after the first bid had been lodged and with this paper it would not have been possible to judge the soundness of the acquisition.* Whilst opportunities can arise at short notice, good governance would require the strategy to be approved prior to the first purchase.

The Covid-19 pandemic restrictions reduced the income from these investments as The Colonnades (a retail park) was closed and in June 2020 the Croydon Park Hotel operator went into administration.

The minutes also show that the Scrutiny and Overview Committee raised queries and received assurances which were accepted. From the Autumn 2020 perspective some of the queries raised at the Scrutiny and Overview Committee appear pertinent and the Council should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen the due diligence undertaken for any future purchases. The investments in The Colonnades and Croydon Park Hotel were not grounded in a sufficient understanding of the retail and leisure market and have again illustrated that the Council's strategy to invest its way out of financial challenge rather than pay attention to controlling expenditure on core services was inherently flawed.

#### *Affordability*

The Treasury Management Strategy is presented at Cabinet prior to being approved at Full Council. The strategy includes Prudential Indicators which enable officers and elected members to make decisions on the affordability of the proposed strategy. There is little evidence of Members challenging the safe use of borrowing powers when approving the Treasury Management Strategy reports in particular:

- The Capital Financing Requirement (CFR) continued to increase, and was breached in 2017/18, 2018/19 and the outturn CFR presented in the 2020/21 Treasury Management strategy indicates that £10 million more borrowing was taken out than required
- The Authorised Borrowing Limit indicator was breached by £2 million in 2018/19
- The General Fund impact of Prudential Borrowing on Band D Council tax levels shows the cumulative impact of increased borrowing between 2017/18 and 2020/21 being an increase of £124.35 on a Band D council tax.

The key prudential indicators show an increasing level of debt that is at or just above the levels considered prudent. This is a complex area and the lack of challenge from Members may indicate that specific training in this area is needed to enable Members to provide an appropriate level of challenge on the affordability of the Treasury Management Strategy.

The Council is required by statute to make a prudent provision for the repayment of its debt and to have regard to MHCLG guidance in calculating the Minimum Revenue Provision (MRP) and to publish its policy annually. (Statutory guidance issued under section 21 (1A) of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003). The Council made changes to its 2019/20 MRP policy in respect of how much MRP is charged for borrowing related to loans to third parties and loans to purchase investment properties. The policy indicates that loan repayments from third parties and income from investment properties leads to no MRP being set aside. Earlier we noted that there were significant loans to Brick by Brick which have not been repaid and to date the Council has not received any dividends from Brick by Brick and we noted that the Croydon Park Hotel had entered administration resulting in a significant reduction in investment income and increased costs. Taken together it is difficult to see how the Council's approach of no MRP for loans to third parties and for investment properties is prudent.

	2016/17	2017/18	2018/19	2019/20	2020/21
	£ million				
Interest payments	36.8	37.0	40.2	37	43
MRP	7.4	8.0	8.9	10	11

*R11. The s151 officer should revisit the Growth Zone assumptions following the pandemic and make recommendations to Cabinet and Council for the continued investment in the scheme.*

*R12. The s151 officer should review the financial rationale and associated risks and make recommendations to Cabinet and Council on whether the Revolving Investment Fund should continue.*

*R13. The s151 officer should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen future due diligence arrangements.*

*R14. The Cabinet and Council needs to re-consider the Treasury Management Strategy for the ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.*

*R15. The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term financial implications of matters reported within the Treasury Management Strategy.*

*R16. The s151 officer should revisit the Minimum Revenue Provision policy to demonstrate that a prudent approach is being taken.*

### **Subsidiary companies**

In recent years the Local Government sector has seen a number of subsidiary companies being established. The Council has established a number of subsidiary companies with the aim of generating additional income. The governance of the subsidiaries, whether wholly or partially owned by the Council, is vital to both understand whether the arrangement is delivering the intended benefits and to safeguard the Council's interests held by the subsidiary. The Council has established a complex group structure and we found little evidence that the complexity and associated risk to the Council's financial position is understood by members or officers based on two specific examples.

#### *Brick by Brick Croydon Limited*

Brick by Brick Croydon Limited (Brick by Brick) was set up as a limited company with the Council being the sole shareholder to deliver housing development aiming to address the shortage of housing and the initial business case was presented to Cabinet in September 2014 with the governance arrangements being reported to Cabinet in June 2016. By the 2020/21 Budget, the governance arrangements had been strengthened through the Shareholder Investment Board and a Client Monitoring Group.

As the sole shareholder of Brick by Brick the Cabinet receives the annual business plan from Brick by Brick which based on a review of the Cabinet minutes is subject to a limited level of challenge. We would expect the Council to have clear governance arrangements on how its interests (as sole shareholder) are safeguarded and the extent to which the original aims of the business plan are being achieved. We would also expect a formal reporting mechanism from the Council nominated Directors back to the Council. Examples where the Council has not shown sufficient scrutiny of its wholly owned company include:

- The initial intention was for a proportion of the houses developed to be affordable housing through Shared Ownership. In January 2020, when potential purchasers were unable to obtain mortgages for the properties, the Council became aware that Brick by Brick had not registered Brick by Brick as a Shared Ownership Provider. This failure indicates a lack of understanding of the requirements and how the regulatory context developed over time.
- The original business case approved by Cabinet in March 2015 included the recommendation that the key legal and structural components of the company will not be more than 50% financed by the Council. By the 2017/18 business plan, the funding mechanism was 75% borrowing and 25% equity. The ongoing financial rationale for the Council to provide 25% equity should be reviewed from the perspective of the Council's financial position.
- The annual business plans continue to extend the time that Brick by Brick will be able to utilise receipts against future funding requirements or will repay the loans. The delay in the company being self-financing and repaying loans should be reviewed to determine whether the Council can continue to afford its investment in Brick by Brick

Business Plan year	Year Brick by Brick will cover funding from receipts	Year Brick by Brick will repay loans
2018/19	2019/20	2020/21
2019/20	2021/22	2021/22
2020/21	2022/23	2024/25

- The Council agrees individual loan agreements for each scheme with Brick by Brick which include loan covenants. Based on the loan agreements, we have reviewed a number of loans where covenants have not been met. The Council should be monitoring compliance with loan covenants and reporting breaches to Members. For example
  - a covenant requiring audited accounts within 90 days of the year end. At the end of August 2020 (153 days after the year-end) the audited accounts for Brick by Brick were not available.
  - a covenant requiring loan interest to be paid at the completion of the scheme. At 31 March 2020, the Council is yet to receive loan interest payments from Brick by Brick of £14.4 million of which £5 million was outstanding at 31 March 2019.
  - The loan agreement sets out the loan repayment date. At 31 March 2019 of the £221 million loan agreements between the Council and Brick by Brick, £99 million had been drawn down with a further £94 million drawn down in 2019/20. Based on our review of the loan agreements, £110 million of those loans were due for repayment by the date of this report and had not yet been received by the Council. Repayment dates can be varied by written consent however we have been unable to obtain confirmation from the Council that written consent was formally requested or provided to vary the loan agreement repayment date. Brick by Brick's annual business plan updates the expected date when all loans will be repaid and the Cabinet approval of the annual business plan has been considered by Brick by Brick to imply consent. As the loan agreements are legal documents it would be reasonable to expect any variation to be formalized. The Council has confirmed that its opinion is that any variation of the loan repayment date would require formal documentation. The Council should take action to clarify the existing loan repayment position with Brick by Brick and agree formal processes for any future variation in loan repayment date.
- The initial business case approved by the Council expected Brick by Brick would build and sell properties and pay dividends to the Council from the profit generated. The slippage in progress in building and selling properties has delayed Brick by Brick making a profit and no dividends were received by the Council adding further pressure to the Council's financial position.
- Brick by Brick set up its own internal trading arm, Common Ground Architecture. The first reference to this is in Brick by Brick's business plan for 2018/19 presented to Cabinet in February 2018. By February 2019, the 2019/20 Business Plan refers to the trading arm taking on external clients. We have found no evidence that the Council, sole shareholder of Brick by Brick, considered the impact on the Council's interests or the risks inherent in establishing a trading arm that takes on external clients or whether the trading arm is in line with the Council's strategic intention for Brick by Brick.

- At the Cabinet in July 2020, the Council made a decision to incur an additional £30 million of borrowing to purchase properties from Brick by Brick to increase the affordable housing supply available. This is not in line with the original business case for Brick by Brick approved by Members in March 2015. The most recent business plan presented to Cabinet states Brick by Brick *'will offer first refusal on all of our homes to the local authority in order to help address local housing need'*. The underlying financial case from the Council's perspective for the purchase of these properties did not address the circular nature of the Council taking out borrowing to lend to Brick by Brick to build the properties and then the Council taking out additional borrowing to purchase properties from Brick by Brick. This should be urgently reviewed.

The continuing financial business case from the Council's perspective for Brick by Brick should be urgently reviewed before agreeing any further borrowing.

#### *London Borough of Croydon Holdings LLP*

As part of the Revolving Investment Fund, the Council has lent money to schemes designed to support the supply of housing. Two of the schemes that had £55.1 million of loans outstanding at 31 March 2019 were Croydon Affordable Homes LLP and Taberner House LLP. The Council has a 10% holding in each company and the Council's holding is held by a company, Croydon Holdings LLP, which itself is wholly owned by the Council.

The increasing complexity of the group structures, the interaction between different subsidiaries, the longer-term financial impact for the Council and how to safeguard the Council's interests is not clearly understood. The subsidiaries are covered by Companies Act legislation and there is a knowledge and experience gap which puts the Council at risk of unintended consequences. For example, the Council does not have direct access to Croydon Affordable Homes LLP despite providing significant loans and the Council's representation is through London Borough of Croydon Holdings LLP. In December 2019, London Borough of Croydon Holdings LLP was dissolved by compulsory strike off by Companies House for a failure to comply with filing financial accounts and the assets of this company were transferred to the Crown. The Council is taking action to recover the company and associated assets but was unable to quantify the assets and liabilities of this company (£100) until late October 2020.

Having a company dissolved by compulsory strike off is a failure of governance and we have not identified evidence that the dissolution of London Borough of Croydon Holdings LLP has been reported to Cabinet or the General Purposes and Audit Committee. The Council has failed to establish adequate arrangements to govern its interests in subsidiaries and there is therefore not an appropriate mechanism for members to challenge either the arrangements or the continued extension of establishing additional companies.

*R17. The Cabinet and Council should reconsider the financial business case for continuing to invest in Brick by Brick before agreeing any further borrowing.*

*R18. The Cabinet and Council should review and reconsider the ongoing financial rationale for the Council in the equity investment arrangement with Brick by Brick.*

*R19. The s151 officer and monitoring officer should monitor compliance with loan covenants with Brick by Brick and report breaches to Members.*

*R20. The Cabinet and Council should review the arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, the long-term impact of the subsidiaries on the Council's financial position and how the Council's and taxpayers interest is safeguarded.*

During the drafting of this report the Council has engaged with the matters raised and has taken a number of actions including

- Engaged external consultants to undertake a strategic review of the Council's group of companies and entities
- Commissioned external support to prepare accounts for all seven companies that form part of the Croydon Affordable Housing company structure including preparing a set of financial statements to enable London Borough of Croydon Holdings LLP's registration to be reinstated

## Governance

The Council commissioned a Governance Review Panel to review governance arrangements and the final report was presented to Full Council in March 2020. The Introduction to the report states:

*'it is clear that there is nothing fundamentally wrong with how Croydon takes its decisions... But there was nevertheless considerable dissatisfaction with the present arrangements.'*

*'The Panel does not believe that the answer lies in structural change to governance... but rather lies in improving the current culture around decision making.'*

It is clear that there are improvements needed in the culture of decision making as it relates to financial sustainability. The Council's Financial Position has deteriorated to the level where external support from MHCLG is required. Whilst the covid-19 pandemic has created significant financial pressures for local government, the depth of the issues facing Croydon existed prior to the pandemic. The Council has shown collective corporate blindness in missing opportunities to tackle its financial position across three key areas:

- 70% of the Council's spend is on demand led services (children's and adult social care) where the focus has been on improvements in service delivery without sufficient focus on controlling the related costs
- The 'Place' area of Croydon became an area of high focus with significant financial resources invested to deliver the Council's vision but this was not supported by good governance and assessment of risk on how the resources were invested to deliver the intended outcomes
- Financial governance during the austerity period was focused on lobbying government which of itself is for the Council to decide, the Council should have taken actions to contain spending within the funding provided.

There have been opportunities in recent years where the Council could and should have taken action to mitigate the financial pressures that have led to the 2020/21 in-year pressures exceeding the Council's reserve position. Examples include:

- The Council failed to address the underlying causes of service overspends which during 2017/18, 2018/19 and 2019/20 had a combined overspend of £59.3 million. The overspends were reported in budget monitoring reports but there is little evidence of Member challenge or holding officers to account for the underlying reasons for the overspends or for taking action to address and mitigate the impact in future years.
- When UASC service costs were seen to exceed the funding available, the Council's response was to lobby government for increased funding. Whilst of itself this is appropriate action, the lobbying should have been combined with action to contain service delivery costs within the funding available. The financial pressure created by large numbers of UASC was clearly understood and reported however there is little evidence of challenge by Members of the appropriateness of the costs being incurred either at the budget setting or budget monitoring stage.
- Auditor concerns on the low level of reserves were reported to officers and Members of the General Purposes and Audit Committee in July 2018. The resulting recommendations remained outstanding at the end of August 2020 indicating a lack of urgency.
- The adverse qualification of the value for money conclusion was reported by the external Auditors to the General Purposes and Audit Committee in October 2019. Adverse qualifications are not common in local government and there was limited challenge of the auditor or officers at the meeting and no evidence that meaningful action was taken to address auditor concerns or to escalate the significance of the auditor concerns to the wider members of the Council.
- The 2019/20 Quarter 2 financial position reported to Cabinet in November 2019 showed an in-year overspend of £10.4 million. There was no indication that Members understood the implication of using the remaining general fund reserve on in-year pressures and this in our view contributed to the lack of urgency.
- The 2019/20 Quarter 3 financial position reported to Cabinet in January 2020 reduced the in year overspend by £8 million. This is an unusual movement and there was limited explanation in the report and no evidence of challenge to understand the validity of the adjustments to achieve the revised position.

- The outturn report for 2019/20 was reported to Cabinet in July 2020 and showed movements from the position reported previously. There was no evidence of Members challenging the movements. The outturn report presented to the Financial Review Panel in June 2020 highlighted service overspends that indicated poor budget management and set out corporate adjustments of £17.7 million to reach the outturn position. None of the officers or Members present at both the Financial Review Panel and the Cabinet drew attention to the significant in-year corporate adjustments. The challenge of the outturn figures was limited and, in our view, contributed to the lack of urgency in addressing the financial position.
- The outturn report did include a statement from the Section 151 officer that referred to the challenges identified in the budget together with commentary that if the proposed actions were not sufficient a section 114 report would be required. Given the size of the financial gap, the Scrutiny and Overview Committee reviewed the report on 25 August 2020 where in response to a question the Section 151 officer confirmed she was not confident that a section 114 report could be avoided. The Committee raised pertinent questions in relation to the financial position but chose not to refer the reports back to Full Council. The seriousness of the financial position would in our view have warranted a Full Council discussion.
- The 2020/21 budget was presented at both Cabinet and Full Council in early 2020. The budget included a larger savings target than previously delivered and some optimistic income assumptions. From a review of the minutes there was limited challenge on the credibility of the budget and no evidence that members who were aware of the adverse auditor qualification brought this knowledge to challenge the proposed reserves position indicating a lack of understanding of the financial position.
- The Treasury Management Strategy aimed to deliver the Council's ambitious vision and involved a significant increase in borrowing with increasing risk to the Council. The longer-term risk to the financial position associated with the borrowing was not clearly set out nor was there challenge to the reported prudential indicators which show that the Council's approach to borrowing was at or above prudent levels.
- The Medium Term Financial Strategy for Croydon 2018-2022 established the Asset Acquisition Fund and the Asset Investment Strategy. The first purchase under the strategy was Croydon Park Hotel in August 2018 which was before the strategy was approved by Full Council in October 2018 using guillotine procedures. Good governance would require a strategy to be approved prior to the first purchase indicating a lack of transparency in the decision-making process.
- The Treasury Management strategy included the approach for the Council to borrow to fund the Revolving Investment Fund where significant amounts are invested through groups and subsidiaries. There was a lack of understanding of the complexity of the arrangements, the risk associated with the arrangements, how to safeguard the Council's investments, whether the increased borrowing achieved the intended outcomes or the impact of increased borrowing on the Council's future revenue position. The continued approval of the expansion of the Revolving Investment Fund showed a collective corporate blindness to the risks the Council is exposed to.
- London Borough of Croydon Holdings LLP was dissolved by compulsory strike off due to a failure to file accounts. The facts or progress in remedying the situation have not been reported to Members or subject to scrutiny.

The missed opportunities represent deficiencies in financial planning, financial management, risk assessment, communication between officers and Members and challenge from Members before approving the strategies and plans that have led the Council needing in-year external financial support. Action must be taken to restore the Council to a sound financial position supported by effective governance.

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## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

1. The Council has fully accepted all recommendations made by the external auditor (R1-R20)
2. The Council has added additional recommendations LBC1-4
3. There are 9 high priority recommendations from the external auditor for the Council to urgently address:

R1a Children's Social Care	R12 Revolving Investment Fund
R1b Adult Social Care	R14 Treasury Management
R2 Adequacy of Council Reserves	R18 Ongoing investment in Brick by Brick
R3 Use of Transformation Funding	R20 Governance of subsidiaries
R9 Budget Challenge/Rigour	

### Overall accountability for the action plan rests with the Interim Chief Executive

#### Recommendation 1a – HIGH PRIORITY

The Executive Director Children Families and Education needs to address the underlying causes of social care overspends in children's social care and take effective action to manage both the demand and the resulting cost pressures.

**Cabinet Member Accountability:** Councillor Flemming, Cabinet Member for Children, Young People and Learning

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Action	Deadline	Accountability
i) Develop a strategy for managing demand and expected impact / outcome and set up panels to manage activity and cost: <ul style="list-style-type: none"> <li>- Weekly care panel to divert children from care</li> <li>- Bi-weekly Children Looked After review panel to identify children who can be supported to be reunited with families from care, and to systematically review higher cost placements</li> </ul>	February 2021	Director, Early Help and Children's Social Care
ii) Develop a monthly Corporate Finance, Performance and Risk report to progress, track and measure activity. Specifically for Children's social care, this will monitor the effectiveness of actions to reduce the number of local children in care.  This progress report will bring together data on the monthly movement in numbers of children in care, the achievement of care outcomes, the financial impact including full year forecast, and benchmarking against best practice.	Monthly Departmental Leadership Team (DLT) meetings whilst Corporate Finance, Performance & Risk report is developed with	Interim Executive Director, Children Families and Education

### ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

	target date for March 2021	
iii) The progress report will be routinely presented to the Children's Improvement Board, Executive Leadership Team, Cabinet, General Purposes and Audit Committee and Scrutiny & Overview Committee which will bring a greater level of control and transparency (see Recommendation 5 which will also be incorporated into this process).	March 2021	Interim Executive Director, Children Families and Education
iv) Secure independent external challenge through the Partners in Practice programme to enable valid judgements to be made about the correct level of funding to meet the needs of Croydon's children in care.	January 2021	Interim Executive Director, Children Families and Education

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 1b – HIGH PRIORITY

The Executive Director Health, Wellbeing and Adults needs to address the underlying causes of social care overspends in adults social care and take effective action to manage both the demand and the resulting cost pressures.

**Cabinet Member Accountability:** Councillor Campbell, Cabinet Member for Families, Health and Social Care

Action	Deadline	Accountability
i) Commission a diagnostic of spend and opportunities to be carried out by the Local Government Association (LGA) National Care & Health Improvement Adviser Finance and Risks to inform future shape of transformation opportunities.	<b>COMPLETED</b> October 2020	Executive Director Adult Social Care
ii) Review the current service delivery models of adult social care and gateway services to right size the budget and delivery model to benchmark with comparator Councils in relation to population and service outcomes	December 2020	Executive Director Adult Social Care
iii) To create a placements board to challenge the Council on current cost of placements, managing demand for new placements and ensuring value for money in procurement of placements	January 2021	Executive Director Adult Social Care
iv) Use the output from the diagnostic review to remodel financial implications to help shape the Medium Term Financial Strategy (MTFS)	December 2020	Director of Finance, Investment & Risk
v) Develop a monthly Corporate Finance, Performance and Risk report to progress, track and measure activity. This will include monitoring of the new service delivery model to track progress and challenge effectiveness of the plan.	Monthly DLT meetings whilst wider Finance, Performance & Risk Report is developed with target date for March 2021	Executive Director Adult Social Care
vi) Progress will be governed by reporting to the Executive Leadership Team, Cabinet, General Purposes and Audit Committee and Scrutiny & Overview Committee which will bring a greater level of control and transparency.	March 2021	Executive Director Adult Social Care

**ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST**

vii) Ensure that cost of care tool is used effectively to track all case expenditure to improve financial control, identify areas of focus for further improvement and to enable better decision making.	December 2020	Executive Director Adult Social Care

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 2 – HIGH PRIORITY

The Council (including Cabinet and Scrutiny and Overview Committee) should challenge the adequacy of the reserves assessment which should include a risk assessment before approving the budget.

**Cabinet Member Accountability:** Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) Develop a reserves strategy as part of the Medium Term Financial Strategy (MTFS) and present it for approval with the Budget reports to Cabinet and Full Council. This needs to incorporate a clear assessment of risks and liabilities that demonstrate all current and future exposure has been thought through and factored into the recommendations.	February /March 2021	Director of Finance, Investment and Risk
ii) In considering future budget reports, Cabinet will assure itself that all risks and liabilities have been properly considered by requesting that the Scrutiny & Overview Committee and the General Purposes and Audit Committee review the adequacy of the strategy and its relationship to the MTFS prior to Cabinet taking a decision.	February/March 2021	Director of Finance, Investment and Risk

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

**Recommendation 3 – HIGH PRIORITY**

The Chief Executive should oversee a review of the outcomes achieved from the use of transformation funding to demonstrate that the funding has been applied in accordance with the aim of the scheme.

**Cabinet Member Accountability:** Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) A review of all schemes previously funded from transformation capital receipts be undertaken and a report produced that assesses whether the funding has been applied in accordance with the scheme.	January 2021	Director of Finance, Investment & Risk

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

**Recommendation 4**

The s151 officer should set out the strategy for applying capital receipts for transformation annually as part of the budget setting process.

**Cabinet Member Accountability:** Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) A strategy for funding transformation to be incorporated into the budget setting process using the current Ministry of Housing, Communities and Local Government (MHCLG) Flexible Use of Capital Receipts Scheme. Note: information at the time of writing this report is that this scheme is coming to an end.	January 2021	Director of Finance, Investment & Risk
ii) In the absence of any national capital receipts for transformation scheme, the strategy for funding transformation will set out how future schemes will be funded using invest to save principles using rolling investment that is set aside and supported by business cases that demonstrate return. Any business case will have to demonstrate governance of the programme to assure the section 151 officer and Cabinet that the deliverables are being met.  All schemes approved for funding under this strategy will be assessed individually and against the overarching risk exposure and affordability for the Council.	February 2021	Director of Finance, Investment & Risk
iii) There will be an annual report to the Scrutiny & Overview Committee on the use of transformation funding and the delivery of schemes.	December 2021	Director of Finance, Investment & Risk

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 5

The General Purposes and Audit Committee should receive reports on the actions being taken to address the Dedicated Schools Grant deficit and challenge whether sufficient progress is being made.

**Cabinet Member Accountability:** Councillor Flemming, Cabinet Member for Children, Young People and Learning

Action	Deadline	Accountability
i) The Dedicated Schools Grant recovery plan should be presented to General Purposes and Audit Committee and Scrutiny and Overview Committee for review and agreement to ensure that it is adequate to meet objectives and timelines that have been set.	February 2021	Interim Director of Education
ii) Special Educational Needs Finance Board to be established and chaired by the interim Director of Education to oversee the delivery of the Dedicated Schools Grant recovery plan.	<b>COMPLETED</b> October 2020	Interim Director of Education
iii) Implement the 'New Approach to Special Educational Needs delivery' strategy working with schools to ensure that more of our Special Educational Needs pupils are educated in mainstream provision to include: <ul style="list-style-type: none"> <li>• Developing more capacity within the post-16 provision</li> <li>• Opening of new Special Educational Needs free schools</li> </ul>	Early adopter Locality areas from September 2020  Ongoing discussions with current provider (Croydon College) for 2020/21 academic year  Opened September 2020 in temporary location and from September 2021 in substantive location	Interim Director of Education

### ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

<p>iv) Progress against the recovery plan to be included in the monthly budget monitoring report to Children's, Families and Education Department Leadership Team, the Executive Leadership Team, the Children's Improvement Board and the quarterly Cabinet, General Purposes and Audit Committee and Scrutiny &amp; Overview Committee which will bring a greater level of control and transparency.</p>	<p>Period 7 report to Department Management Team November 2020</p> <p>Period 7 report to Extended Leadership Team December 2020</p> <p>Quarter 3 report to Cabinet February 2021</p>	<p>Interim Executive Director, Children Families and Education Head of Finance - CFE</p>
<p>v) Progress on Dedicated Schools Grant recovery plan to be reported to the Schools' Forum on a termly basis</p>	<p>December 2020</p>	<p>Interim Head of Finance, Children, Families and Education</p>

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

<b>Recommendation 6</b>		
The Executive Director Children, Families and Education needs to review the services provided to UASC and to identify options to meet their needs within the grant funding provided by the Home Office.		
<b>Cabinet Member Accountability:</b> Councillor Flemming, Cabinet Member for Children, Young People and Learning		
<b>Action</b>	<b>Deadline</b>	<b>Accountability</b>
i) Complete a forensic review of grant income against the total expenditure for unaccompanied asylum seeking children and care leavers over the past 3 years, including the co-ordination of pan-London arrangements	December 2021	Interim Head of Finance, Children, Families and Education
ii) Negotiate with the Home Office and Department for Education to secure the same financial support provided to other port of entry authorities such as Kent and Portsmouth to cover the exceptional overhead costs caused by the volume of unaccompanied asylum seeking children received in the Borough. <ul style="list-style-type: none"> <li>• Full cost recovery for exceptional overheads provided by Croydon such as age assessments, the social care duty service at Lunar House and legal fees. Due to volumes in the Borough from its port of entry position, these cannot be absorbed within normal overhead cost as per all other local authorities.</li> <li>• Increased funding for children cared for over and above the voluntary national rate to match the funding of Croydon's children in care.</li> </ul>	Initial meeting end November 2020	Interim Executive Director, Children Families and Education
iii) Work with London local authorities to safely transfer responsibility for an agreed number of children in Croydon's care to reduce disproportionate burden on Croydon.	Initial meeting held October 2020	Interim Executive Director, Children Families and Education
iv) Introduce a needs based approach to withdrawing services to young people whose appeal rights are exhausted alongside earlier, robust triple planning as part of their pathway at 16 plus. This will assist and support a planned, safe voluntary return when all legal routes to remain have been exhausted and avoid a forced detention and removal when young people have no recourse to public funds, limited access to NHS and education and cannot work legally in UK.	December 2020	Director Early Help and Children's Social Care

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

**Recommendation 7**

The Executive Director Children, Families and Education needs to identify the capacity threshold for the numbers of UASC that it has the capacity to deliver safe UASC services to.

**Cabinet Member Accountability:** Councillor Flemming, Cabinet Member for Children, Young People and Learning

Action	Deadline	Accountability
i) Draw on the analysis and review at 6 (i) to develop options to establish a capacity threshold for Croydon for unaccompanied asylum seeking children that is commensurate with other Local Authorities and in line with the nationally agreed standards and funding.	December 2020	Interim Executive Director, Children Families and Education
ii) Present options for the Council to deliver safe services within the capacity threshold to the Children's Improvement Board, Cabinet and General Purposes and Audit Committee and Scrutiny & Overview Committee to increase levels of control and improve transparency.	February 2021	Interim Executive Director, Children Families and Education

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

**Recommendation 8**

The Cabinet reports on the financial position need to improve the transparency of reporting of any remedial action taken to address in year overspends.

**Cabinet Member Accountability:** Councillor Young, Cabinet Member for Resources and Financial Governance and Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) A review of financial reporting best practice be undertaken and the results used to design reports and a system of reporting that will improve its approach to managing finance, performance and risk to introduce a greater level of transparency and better grip of expenditure. All departments will be required to report against their budgets to the Departmental and Executive Leadership Teams on a monthly basis.	September 2021	Director of Finance, Investment & Risk
ii) The Council will develop a new corporate framework for monthly reporting that includes finance, performance and risk. This will report to the Executive Leadership Team, Cabinet, General Purposes and Audit Committee and Scrutiny and Overview Committee as appropriate.  The new framework will include progress against service delivery, departmental actions plans, savings opportunities and actions contained within the Croydon Renewal Plan. All actions will be assigned to an accountable person and will be tracked through a central reporting team to ensure that the process is joined up, consistent and timely. This will be a recognised Programme Management Office function using savings and actions trackers.	April 2021	Interim Chief Executive
iii) A review of the capacity within the Finance Team to ensure there is adequate support for departmental cost centre managers to fulfil their responsibilities as budget holders.	November 2020	Director of Finance, Investment & Risk

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 9 – HIGH PRIORITY

The Council (including Cabinet and Scrutiny and Overview Committee) need to show greater rigor in challenging underlying assumptions before approving the budget including understanding the track record of savings delivery.

**Cabinet Member Accountability:** Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) To support the Annual Budget setting process Budget Development Meetings will be held for each department and will be attended by Executive Directors, Corporate Leadership Team and Members with accountability for their service area and staff who are responsible for service delivery that understand what impact growth and savings plans will have on the services. To support this process Members will be provided with a clear set of proposals that demonstrate cost pressures (growth) and savings opportunities with narrative and comparators on budget and outcomes delivered to describe the impact of the decisions that are required to be taken.	October / November 2020	Director of Finance, Investment & Risk
ii) To support the budget exercise the Council will seek external support to test the draft budget proposals, seek ideas and good practice and will take the same approach by seeking support for the scrutiny process.	December 2020	Director of Finance, Investment & Risk
iii) Develop a budget savings tracker that profiles savings by month to enable Members to track that savings are on target. This will need to correlate with the finance, performance and risk reporting that Council will introduce.	January 2021	Director of Finance, Investment & Risk
iv) To increase understanding of the choices Cabinet Members are making with regards to the emerging budget and to effectively challenge budget assumptions, Scrutiny and Overview Committee Members to receive regular briefings on the progress of budget setting.	January 2021	Director of Finance, Investment & Risk
v) To review the budget setting-timetable to ensure that the Scrutiny & Overview Committee has the time to digest and review the budget proposals and underlying assumptions and for Cabinet to respond fully to any challenge or comments and for Cabinet to be able to consider changing its proposals.	April 2021	Director of Finance, Investment & Risk

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 10

The General Purposes and Audit Committee must challenge officers on the progress in implementing the Financial Consultant's recommendations to improve the budget setting, monitoring and reporting process and actions to address the Head of Internal Audit's concerns on internal controls.

**Member Accountability:** Councillor Karen Jewitt, Chair of General Purposes and Audit Committee

Action	Deadline	Accountability
i) Delivery of the Financial Consultant's recommendations and the Head of Internal Audit's recommendations will be reported to the General Purposes and Audit Committee and to the Improvement Board as part of the Croydon Renewal Plan.	Underway	Executive Director of Resources

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

**Recommendation 11**

The s151 officer needs to revisit the Growth Zone assumptions following the pandemic and make recommendations to Cabinet and Council for the continued investment in the scheme.

**Cabinet Member Accountability:** Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) The Council have commissioned PwC to undertake a strategic review of the Growth Zone with completion expected November 2020. The report with recommendations on a way forward will be discussed with Cabinet and agreed by Members.	December 2020	Director of Finance, Investment & Risk
ii) Revised financial model profile to be presented alongside budget review in February 2021 to Cabinet, General Purposes and Audit Committee and the Scrutiny and Overview Committee.	February 2021	Director of Finance, Investment & Risk
iii) Cabinet paper with revised profile and recommendations to be issued March 2021.	March 2021	Director of Finance, Investment & Risk

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

**Recommendation 12 – HIGH PRIORITY**

The s151 officer should review the financial rationale and associated risks and make recommendations to Cabinet and Council on whether the Revolving Investment Fund should continue.

**Cabinet Member Accountability:** Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) The Council have commissioned PwC to undertake a strategic review of the Revolving Investment Fund with completion expected in November 2020. The report with recommendations on a way forward will be discussed with Cabinet and agreed by Members.	December 2020	Director of Finance, Investment & Risk
ii) Recommendations to be presented alongside budget review in Feb 2021 to Cabinet, General Purposes and Audit Committee and Scrutiny and Overview	February 2021	Director of Finance, Investment & Risk
iii) Cabinet paper with recommendations be issued March 2021.	March 2021	Director of Finance, Investment & Risk

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

**Recommendation 13**

The s151 officer should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen future due diligence arrangements.

**Cabinet Member Accountability:** Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) The Council have commissioned PwC to undertake a strategic review of assets that have been purchased with completion expected in November 2020. The report with recommendations on a way forward will be discussed with Cabinet and agreed by Members.	December 2020	Director of Finance, Investment & Risk
ii) Recommendations, including lessons learned, will inform changes required to governance arrangements and training/development that might be required. These recommendations to be presented alongside budget review in February 2021 to Cabinet, General Purposes and Audit Committee and Scrutiny and Overview.	January 2021	Director of Finance, Investment & Risk
iii) Review and re-write the asset investment strategy that was approved by Cabinet in October 2018 incorporating advice from each of the Strategic Reviews. The review will explicitly consider best practice from the sector and lessons learned from other local authorities, the external auditor and the National Audit Office on effective investment practice.	March 2021	Director of Finance, Investment & Risk/ Executive Director of Place
iv) Cabinet paper with recommendations to be issued March 2021.	March 2021	Director of Finance, Investment & Risk/ Executive Director of Place

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 14 – HIGH PRIORITY

The Cabinet and Council needs to re-consider the Treasury Management Strategy for ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.

**Cabinet Member Accountability:** Councillor Young, Cabinet Member for Resources and Financial Governance and Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) The Treasury Management Strategy will be reviewed as part of the budget setting for 2021/22 and will take into consideration the outcome of the strategic reviews to factor in the overall financial position and best practice from other local authorities. The report with recommendations on a way forward will be discussed with Cabinet and agreed by Members.	February 2021	Director of Finance, Investment & Risk
ii) The outcome of the strategic reviews that the Council have commissioned will inform the Treasury Management Strategy for 21/22 onwards and any changes in governance that may be required.	February 2021	Director of Finance, Investment & Risk

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 15

The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term financial implications of matters reported within the Treasury Management Strategy.

**Cabinet Member Accountability:** Councillor Young Cabinet Member for Resources and Financial Governance

Action	Deadline	Accountability
i) Members to attend training sessions facilitated by the Local Government Association to cover treasury management to enable better and effective financial leadership.	January 2021	Interim Chief Executive

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 16

The s151 officer should revisit the Minimum Revenue Provision policy to demonstrate that a prudent approach is being taken.

**Cabinet Member Accountability:** Councillor King Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) Link Asset Management has been commissioned to carry out a review of the Minimum Revenue Position policy. The report with recommendations will be discussed with General Purposes and Audit Committee and then on to Cabinet.	December 2020	Director of Finance, Investment & Risk

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 17

The Cabinet and Council should reconsider the financial business case for continuing to invest in Brick by Brick before agreeing any further borrowing.

**Cabinet Member Accountability:** Councillor King Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) PwC has been commissioned to undertake a strategic review of Brick by Brick with completion expected in November 2020. The report with recommendations regarding the financial business case will be reviewed by the Scrutiny and Overview Committee prior to being presented to Cabinet.	December 2020	Interim Chief Executive

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 18 – HIGH PRIORITY

The Cabinet and Council should review and reconsider the ongoing financial rationale for the Council in the equity investment arrangement with Brick by Brick.

**Cabinet Member Accountability:** Councillor King Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) PwC has been commissioned to undertake a strategic review of Brick by Brick. The report and recommendations will consider the ongoing financial rationale and equity invested and will detail options for the Council that will be considered by the Scrutiny & Overview Committee Cabinet prior to being presented to Cabinet.	December 2020	Interim Chief Executive

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

**Recommendation 19**

The s151 officer and monitoring officer should monitor compliance with loan covenants with Brick by Brick and report any breaches to Members.

**Cabinet Member Accountability:** Councillor King Cabinet Member for Croydon Renewal

<b>Action</b>	<b>Deadline</b>	<b>Accountability</b>
<p>i) Loan covenants are within scope of the PwC strategic review and will be considered as part of the overall recommendations.</p> <p>A review of the existing loan covenants and their governance is to be undertaken. Learning from this review, a new system of control for all loan agreements entered into by the Council will be presented to Members and this will form part of the new Corporate Finance, Performance and Risk reporting system.</p> <p>The review and the proposed new system for loan covenants will be presented to the Scrutiny and Overview Committee prior to being presented to Cabinet for approval.</p>	January 2021	<p>Executive Director of Resources</p> <p>Director of Finance, Investment &amp; Risk</p>

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### Recommendation 20 – HIGH PRIORITY

The Cabinet and Council should review its arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, and the long-term impact of the subsidiaries on the Council's financial position and how the Council's and taxpayers' interest is safeguarded.

**Cabinet Member Accountability:** Councillor Young Cabinet Member for Resources and Financial Governance

Action	Deadline	Accountability
i) An audit of the Council's approach to membership of each subsidiary board will be undertaken. The audit will involve officers of the Council and any Chairs/Members of company boards.	March 2021	Executive Director of Resources
ii) As part of this review the membership balance of the boards will be considered in aggregate in regard to best practice for achieving diversity, skill set, sectoral knowledge and Croydon Council representation.	March 2021	Executive Director of Resources
iii) External guidance on best practice will be sought. Roles, responsibilities and legal requirements for local authority company directors and guidance on skill set will be sought and this will include the best way to assess the competence of Members and Chief Officers for these roles.	March 2021	Executive Director of Resources
iv) Process for identifying gaps in knowledge and or experience will be brought forward to include training considerations. If necessary interim arrangements will be made to remove risks and ensure effective governance.	March 2021	Executive Director of Resources
v) Essential mandatory training will be undertaken on an annual basis and the retention of the director role for each Councillor and Council official will rely on completion of the recommended training.	March 2021	Executive Director of Resources
vi) The impact of these changes will need to be reflected in the Council's Constitution and relevant protocols.	March 2021	Executive Director of Resources
vii) Support for the effective governance of the Council's subsidiaries and retaining a corporate overview of activity of individual companies and the whole group of companies is to be developed.	March 2021	Executive Director of Resources

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### LBC Recommendation 1

Given the challenges ahead there will need to be improvement of the Council's approach to risk management to enable a satisfactory turnaround of the financial position.

**Cabinet Member Accountability:** Councillor King Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) An externally led review of the Council's appetite for risk needs to be undertaken with Members and Officers to ensure that the council's financial capacity for managing risk is fully understood.	January 2021	Director of Finance, Investment & Risk
ii) Corporate Finance, Performance and Risk management to be combined into one reporting function to remove silo thinking and increase the rigour to enable delivery of services, savings plans and the overarching Improvement Plan. This will require one new unified system of corporate reporting.	February 2021	Executive Director of Resources
iii) Risk considerations to be made at the outset of all new decisions will ensure the Council has capacity, capability and financial resources needed to deliver. The assessment of risk is on the individual decision and its impact on the whole of the Council.	November 2020	All Executive Directors
iv) Develop training for Members and Officers to understand effective risk management.	January 2021	Executive Director of Resources
v) The Council to review the terms of reference in regards the General Purposes and Audit Committee and Scrutiny & Overview Committee with regards to risk management to ensure there are no gaps in governance, to remove silo thinking and that both committees have a clear understanding of their responsibilities. This will include new guidance and joint training.	March 2021	Executive Director of Resources

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

<b>LBC Recommendation 2</b> Clarifying member and officer roles to support good governance arrangements		
<b>Cabinet Member Accountability:</b> Councillor Young Cabinet Member for Resources and Financial Governance		
<b>Action</b>	<b>Deadline</b>	<b>Accountability</b>
i) The Council will need to undertake a review to consider its operating model to ensure it has capacity and specialist skills required to deliver the financial and operational improvements that are needed to deliver.	February 2021	Interim Chief Executive
ii) The Member/Officer protocol is to be reviewed to ensure that it gives clarity on the respective roles and responsibilities for both Members and officers. The protocol should also explicitly place the seven principles of public life, known as the Nolan principles, at its heart. <a href="https://www.gov.uk/government/publications/the-7-principles-of-public-life">https://www.gov.uk/government/publications/the-7-principles-of-public-life</a> .  Training will be held for all Councillors and senior officers to develop good practice.	March 2021	Executive Director of Resources
iii) A review of the member and officer Codes of Conduct will be undertaken to incorporate any learning from recent events and to ensure that they explicitly include the seven principles of public life, known as the Nolan principles, as the basis of the ethical standards expected of elected and appointed public office holders.	March 2021	Executive Director of Resources
iv) Development sessions for Members and officers to better understand each other's respective roles.	March 2021	Executive Director of Resources
v) Review the level of support and advice Scrutiny & Overview Committee and the General Purposes and Audit Committee receives from the Head of Paid Services, Section 151 Officer and Monitoring Officer to ensure that the advice is in line with their statutory responsibilities.	March 2021	Executive Director of Resources
vi) Review the capacity of the organisation to support the Scrutiny & Overview Committee and the General Purposes and Audit Committee so that activity is prioritised within the financial resources for these functions.	Commenced October 2020	Executive Director Social Care

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

LBC Recommendation 3		
Ensuring that Members are appropriately trained across all aspects of the Council's financial duties and responsibilities		
Cabinet Member Accountability: Councillor Young, Cabinet Member for Resources and Financial Governance		
Action	Deadline	Accountability
i) A detailed training and development programme is being designed to enable all Members to fulfil their roles in regard to their role with sufficient rigour. The programme being developed will cover: <ul style="list-style-type: none"> <li>• Financial management to include the importance of effective budget setting, a robust Medium Term Financial Strategy and rigorous budget monitoring</li> <li>• Understanding funding sources, eg general fund, housing revenue account and direct schools grant</li> <li>• The role of Audit and the external auditor</li> <li>• Treasury management and capital strategies and the Council's approach to subsidiaries</li> <li>• Risk assessment</li> <li>• Commercial Investment</li> <li>• Mentoring</li> </ul>	December 2020	Interim Chief Executive and the Executive Director of Resources
ii) Further work on Cabinet development will be undertaken to support members to explore priorities for the new Cabinet, agree how the Members will work together to make the most of shared skills and consider individual and collective leadership styles and ways of working.	December 2020	Executive Director of Resources
iii) Target support to be provided for Cabinet Members, Scrutiny & Overview Committee Members and General Purposes and Audit Committee Members to strengthen the approach to reviewing the emerging plans, actions and risks that are being developed as part of the Croydon Renewal Plan, Financial recovery and progress against the Report in the Public Interest. In particular the training will include: <ul style="list-style-type: none"> <li>• The role of Scrutiny and Overview in relation to finance and General Purposes and Audit Committee</li> <li>• Developing an effective culture of scrutiny and key questioning skills</li> <li>• Maintaining a 'big picture' view of the financial pressures affecting the council</li> <li>• Assessing effectively budget and financial plans, budget monitoring, reserves approach</li> <li>• Challenging how resources are allocated</li> <li>• Scrutinising partnership arrangements</li> <li>• Key finance issues for Scrutiny and Overview Committee to consider</li> </ul>	December 2020	Executive Director of Resources

## ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

### LBC Recommendation 4

The Council develops an improvement programme that has the necessary elements for it to function effectively and within its financial resource.

Cabinet Member Accountability: Councillor Hamida Ali, Leader of the Council

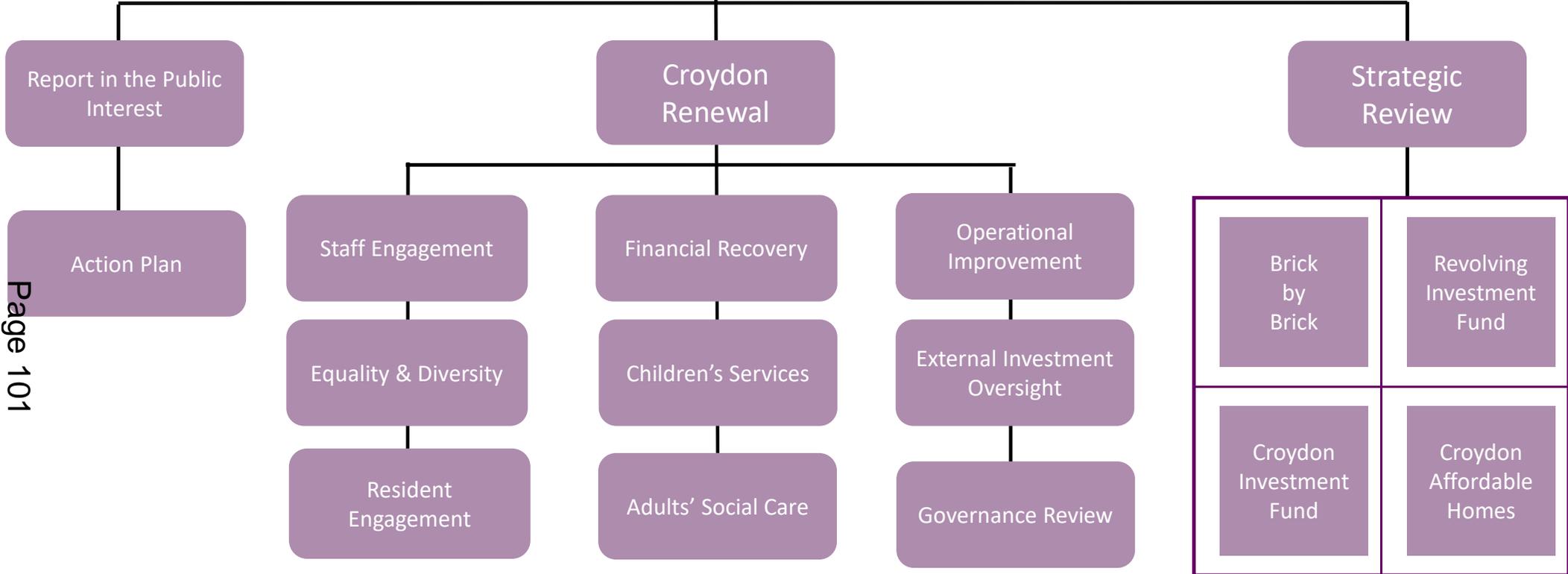
Action	Deadline	Accountability
i) Implement new Council management arrangements that ensure: <ul style="list-style-type: none"> <li>• the delivery of high quality statutory services</li> <li>• finances are appropriately managed and controlled</li> <li>• a sound understanding of risk management is at the heart of the organisation</li> </ul>	April 2021	Executive Director of Resources
ii) Working with local residents, rebuild the trust with their local Council by focussing on effective delivery of core services, responding promptly and appropriately to queries and complaints and learning from good practice as well as failures and from each other.	April 2021	Executive Director of Resources
iii) Introduce a new system of internal control focussed on finance, performance and risk to manage financial expenditure, risk management, service performance and the delivery of Council priorities. This will follow a monthly cycle of Departmental Leadership Teams, Executive Leadership Team, Cabinet and Scrutiny & Overview as appropriate.	April 2021	Executive Director of Resources
iv) Building on the work done to date and listening to staff concerns about equality and diversity in the workplace, co-create a working environment that respects and values all our staff and take positive action to ensure that this is the case.	April 2021	Executive Director of Resources
v) Create a new system of staff performance appraisal, co-created with staff and agreed with the trade unions.	April 2021	Executive Director of Resources
vi) By working with Council staff, co-create an environment that is open to listening, free from fear, built on trust and openness and reflects the diverse borough that we serve.	Commenced with appointment of Interim Chief Executive	Led by Interim Chief Executive

**ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST**

vii) Agree a training programme for Council staff that includes finance for non-financial managers, Business Case Development, understanding risk, project management and the Council's own governance processes.	January 2021	Executive Director of Resources
viii) Ensure the actions contained in this plan are supported by a corporate programme office that can provide assurance to Members.		

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# Croydon Renewal Improvement Board



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