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Audit & Governance Committee Agenda

To: Dr Olu Olasode (Independent Chair)
Councillor Matt Griffiths (Vice-Chair)
Councillors Claire Bonham, Simon Brew, Sherwan Chowdhury, Patricia Hay-Justice, Endri Llabuti and Nikhil Sherine Thampi

Reserve Members: Sean Fitzsimons, Simon Fox, Mark Johnson, Enid Mollyneaux and Stella Nabukeera

A meeting of the **Audit & Governance Committee** which you are hereby invited to attend, will be held **Thursday, 2 March 2023** at **6.30 pm. Council Chamber, Town Hall, Katherine Street, Croydon, CR0 1NX.**

Katherine Kerswell
Chief Executive and Head of Paid Service
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

Hannah Cretney, Democratic Services
hannah.cretney2@croydon.gov.uk
www.croydon.gov.uk/meetings

Members of the public are welcome to attend this meeting.

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AGENDA

1. **Apologies for Absence**

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

2. **Disclosure of Interests**

   Members are invited to declare any disclosable pecuniary interests (DPIs) they may have in relation to any item(s) of business on today's agenda.

3. **Minutes of the Previous Meeting** (Pages 5 - 14)

   To approve the minutes of the meetings held on 19 January 2023 and 2 February 2023 as an accurate record of the proceedings.

4. **Audit and Governance Committee Action Log 2022-23** (Pages 15 - 16)

5. **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.

6. **Opening the Books Review** (Pages 17 - 110)

   The Opening the Books project was launched by the Mayor in July 2022 to improve the Council's understanding of current financial risks and to work towards a sustainable financial future. The project has had a number of facets including the commissioning of a series of reviews by Worth Technical Accounting Solutions. The resulting reports were presented to Cabinet with the recommendation that the Audit and Governance Committee be asked to debate them at a future meeting. The reports are being shared in full under the Mayor's openness and transparency ethos with nothing hidden. The recommendations made by Worth TAS are accepted in their entirety by the Council and are set out in the action plan in Appendix F. It is recommended that progress against these recommendations is monitored by the Audit and Governance Committee through to completion.

7. **2023/24 Budget Assurance** (Pages 111 - 268)

   The purpose of this report is to inform the Audit and Governance Committee of the improvements that have been made to this year's budget setting process.

8. **Update on follow up audits for 2017/18, 2018/19, 2019/20 and**

2020/21 (Pages 269 - 276)

This report provides the update follow up position based on the updates received up to 20 February 2023 for the outstanding 2017/18, 2018/19, 2019/20 and 2020/21 action plans only.

9. Internal Audit Charter Strategy and Plan (Pages 277 - 294)

This report is for the Audit and Governance Committee to review and approve the Internal Audit Charter and the plan of audit work.

10. Dedicated Schools Grant Deficit Management Plan 2023 (Pages 295 - 308)

This report provides updates regarding the Dedicated Schools Grant (DSG) Deficit management plan put in place around 2019/20 to address the in-year overspend of £6.7m reported that year and the trend.

The report highlights the overall performance of the plan, governance requirements, risks, and recent Department for Levelling Up, Housing and Communities (DLUHC) regulation regarding extending the Statutory Override for the Dedicated Schools Grant for another three (3) years from 2023-24 to 2025-26.

Audit & Governance Committee

Meeting of held on Thursday, 19 January 2023 at 6.30 pm in Council Chamber, Town Hall, Katherine Street, Croydon, CR0 1NX

MINUTES

Present: Olu Olasode (Independent Chair);
Councillor Matt Griffiths (Vice-Chair);
Councillor Claire Bonham, Sherwan Chowdhury, Patricia Hay-Justice, Endri Llabuti and Nikhil Sherine Thampi

Also Present: Councillor Mark Johnson

Apologies: Councillor Simon Brew

PART A

23/22 **Disclosure of Interests**

There were no declarations of interest in relation to any agenda items.

24/22 **Minutes of the Previous Meeting**

The minutes of the meeting held on 24 November 2022 were approved by the Committee as an accurate record of proceedings.

25/22 **Minutes of Previous General Purposes and Audit Committee Meetings**

Councillor Hay-Justice abstained from agreeing the minutes.

The remaining members of the Committee approved the minutes of the following General Purposes and Audit Committee meetings:

- 10 June 2021
- 16 September 2021
- 20 October 2021
- 25 November 2021
- 16 February 2022 as accurate records of the proceedings.

26/22 **Urgent Business (if any)**

At the request of the Committee, the Corporate Director of Resources and Section 151 Officer provided an update on the current progress concerning the Section 114 Notice.

The Council was involved in ongoing discussion and working collaboratively with central government departments. It was awaiting a response on proposed plans to lift the S114 measures. The anticipated approach to achieving a balanced budget would be through a combination of potentially a higher council tax increase than the Referendum limit, a proposal to write off a proportion of debt and capitalisation directions.

In response to questions from members, Officers advised the likelihood of the debt write off was not yet known. The outcome of the proposals would be brought to Council on 1 March 2023. It was noted that spend control panels continued and had been in place since the first Section 114 notice was issued.

The Committee queried the impact of the Section 114 Notice on the Council's Pensions, HRA and Affordable Homes budgets. Officers explained that those budgets were protected to ensure continued function, the Pension Fund and HRA were healthy, and reporting would be brought to Committee soon.

The Committee requested an update on work with the Improvement Panel. Officers explained this continued to be collaborative and useful in identifying issues, and that the Improvement Panel recognised the scale of the requirement to reduce the budget so significantly.

The Committee raised concerns about staff morale following the S114 announcement. Officers explained that it was initially met with some frustration; however, a transparent approach had been taken and staff were now supportive of constructive steps to find solutions.

It was noted that the Committee would continue to receive updates concerning the S114 Notice and members could raise key areas with Officers to seek assurances and request reporting. A S114 Notice update report and presentation would be brought to the next Committee meeting on 2 February 2023.

27/22 **My Resources - Oracle Cloud Fusion**

Jane West, Corporate Director of Resources and Section 151 Officer, gave a presentation of the report for members. It was noted that Oracle was not currently being used to its full potential and Croydon was conducting a value assessment with Oracle and Mastek ahead of recommissioning the software in 2 years' time.

In response to questions officers explained some funds remained in the initial project budget. Any changes with cost implications recommended through the value assessment would be considered on an individual business case basis. Officers also explained the approach was now more business- and user-led, to improve usage, reduce externally held data and work through issues with business teams collaboratively. Part of the value assessment would look at Oracle’s capacity to connect with other council IT systems more effectively.

In response to questions officers explained that increased utilisation of the system would support the mitigation of risk and improve data discipline. A key aim of the value assessment was to improve the reporting produced by Oracle, enabling future decision-making to be based on reliable data. Officers also explained that Oracle was widely used by other local authorities. Croydon remained part of an historical network which shared best practice through which there may be an option for adoption of a shared support service in the future.

Members asked how the current risk of unreliable data was being mitigated. Officers explained that Internal Audit regularly provided advice on data input but there were areas where improvements could be made.

In response to questions Officers confirmed there had been a significant training roll out over the last year to support budget managers. The Committee noted teams such as HR and Finance would likely receive the most push back from staff who should be using the self-service capabilities. Officers agreed to raise the issue of increased training and support for these teams with the steering group.

In response to questions Officers noted the importance of all teams having a financial focus and greater understanding of the need to ensure money is well spent. Culture change was noted in social care teams supported by the implementation of the placement panel process. Data improvement was expected to further support this.

In response to questions Officers explained the structure of the programme delivery team and noted the corporate memory of longstanding officers involved in the programme. Officers also confirmed Oracle’s support function was included in the current contract and confirmed feedback was sought by all module owners from key users across the council as part of the relaunch process.

The Committee requested additional staff training be included in ‘way forward’ plans. In response to questions Officers confirmed that the system would provide clear and easy-to-interpret data.

RESOLVED, to:

1. Note the current status and known issues as regards My Resources and its adoption in the Council;
2. The planned approach and way forward; and,
3. The updated Audit Action Plan.

28/22 **Annual Governance Statement**

Stephen Lawrence-Orumwense, Director of Legal Services and Monitoring Officer (MO), gave a presentation of the report for members.

In response to questions officers highlighted the report refers to the Council's position in 2021 and whilst the current MO inherited a draft, a significant amount of due diligence was required to complete the report. Internal Audit is currently working towards the 2022 Annual Governance Statement (AGS) action plan.

Members raised concerns about the level of scrutiny in the Corporate Directors' Assurance Statement process. Officers explained the process required transparency and there was triangulation through the Assurance Statement process and additional testing undertaken by Internal Auditors.

The Committee requested updates on progress against Governance recommendations made. Officers noted the historical nature of the report and current collation of an updated action plan to be brought to committee soon.

RESOLVED, to:

Note the draft AGS 21/22 and the Action Plan.

29/22 **Update on the Whistleblowing Policy and Procedure**

Stephen Lawrence-Orumwense, Director of Legal Services and Monitoring Officer, gave a presentation of the report for members.

In response to questions officers advised the report had come to Committee for review and comments with the approval process to be explored and brought back to the committee.

It was noted that 3 Whistleblowing disclosures had taken place since July 2022. Members requested benchmarking against the incidences of whistleblowing disclosures at other Local Authorities. Officers confirmed this would be considered in future reporting.

Members noted it would be useful to have the amendments to the policy highlighted in the report.

In response to questions officers explained that the success of the process would continue to be measured through reporting to the Committee. Disclosures were anticipated to increase as work around this developed and best practice at other Councils would be considered.

Members requested assurances around the level of resources available to thoroughly explore whistleblowing cases and asked whether outsourcing had been considered. The committee noted the importance of ensuring the anonymity of staff who reported issues.

In response to questions officers confirmed all instances were registered in a tracker. Officers also explained there was a good level of staff awareness of the process following an internal campaign in May 2022 and the inclusion of Whistleblowing procedures in staff inductions.

The Committee asked whether support was available from the Local Government Association in relation to the AGS, Whistleblowing procedures and Council Assurance Framework. Officers confirmed Croydon had previously worked closely with the LGA on the Council's Assurance Framework development.

RESOLVED, to:

1. Consider and comment on the Council's Whistleblowing Policy and Procedure and the minor amendments made; and,
2. To note recent whistleblowing disclosures received and action taken.

30/22 **Council Assurance Framework**

RESOLVED, to note the Council's Assurance Framework.

The meeting ended at 8.45 pm

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Audit & Governance Committee

Meeting of held on Thursday, 2 February 2023 at 6.30 pm in Council Chamber, Town Hall, Katherine Street, Croydon, CR0 1NX

MINUTES

Present: Olu Olasode (Independent Chair);
Councillor Matt Griffiths (Vice-Chair);
Councillor Claire Bonham, Simon Brew, Patricia Hay-Justice and Endri Llabuti

Also Present: Councillor Sean Fitzsimons

Apologies: Councillors Sherwan Chowdhury and Nikhil Sherine Thampi

PART A

31/22 **Disclosure of Interests**

There were no declarations of interest in relation to any agenda items.

32/22 **Urgent Business (if any)**

There were no items of Urgent Business.

33/22 **Internal Audit Update**

Dave Philips, Head of Internal Audit introduced the report for Members.

In response to questions, Officers explained that the Corporate Management Team (CMT) had received the Internal Audit Update report and a CMT focus group to review longstanding audit actions was held the following week, to ensure completion where possible. It was noted that some actions with more complex issues took longer to resolve and could require additional resource to be brought in. It was also explained that the ideal target for recommendation follow ups would be for prior years to be cleared and only the current and previous year follow ups being actioned. Officers explained that follow ups would remain on the report until these were resolved or were no longer relevant due to a change in circumstance. Officers agreed that recommendations which continued to be blockers following the CMT focus group meeting could be escalated to the committee to encourage progress from lead officers. The Committee Chair requested an exception report from CMT regarding their response and actions to the longstanding Internal Audit recommendations.

The Committee raised concerns regarding the 2018/19 Energy Recharges recommendations, particularly in relation to schools' debt, the impact of this on the Council's budget and third parties' ability to pay. Officers explained this historical issue had been communicated to the third parties involved and resourcing was being brought in to complete this work. The Committee requested assurance on whether the schools and other third parties would be able to make the payments. Officers explained those conversations and negotiations would be part of the work programme, and that the project was expected to be completed within the next year. Officers agreed to bring quarterly reporting to the Committee to update on progress.

The Committee queried the Council's capability to complete the Lettings and Allocations Assessment recommendations which remained 33% resolved. Officers explained this had been picked up on by the Corporate Director for Housing, the data protection issues were being explored and the turnaround time recommendation was predicated on the launch of the new Housing I.T system expected in May 2023.

In response to questions Officers explained the 'Implementation of Priority 1 Recommendations and Follow up Table' for members, stating that it was usual for recent years to have lower completion percentages, increasing each year as follow ups were completed.

The Committee raised concerns about there not being a formal timeline target to achieve the 90% completion and suggested that it would be useful to have this. Officers agreed that a more aspirational target to achieve the 90% completion would be considered in next year's Internal Audit Service Plan.

The Committee raised concerns about the outstanding issues in Expense Claims audit follow up and requested the average value. Officers explained overall it had been approximately £250k per year and that following the Audit, the Expense Claim Auditor had been turned on within the expense approval software which routed approvals to a second approver from CMT, Internal Audit (IA) or HR. Officers advised a follow up Staff Expenses Audit would be included in the next year's Service Plan.

RESOLVED, to note the Internal Audit Report to 31 December 2022.

34/22 **Corporate Risk Register**

Malcolm Davies, Head of Insurance, Anti-Fraud and Risk introduced the report for Members.

In response to questions Officers confirmed that current risk ratings took account of the current control actions and the future risk ratings of future control actions. It was also noted that due to the nature of some risks, their future ratings inevitably remained high.

The Committee queried whether the 'future' risk rating point had a specific timeframe attached and if it was possible to have more structured parameters around this. Officers explained this was typically reviewed within a 12-month time frame, with future control actions expected to have realistic dates in place to manage their implementation.

The Committee requested the Lead Officer to bring back the previously shared dashboard which illustrated the movement of risks to the next meeting.

The Committee queried the relevance of the final impact narrative point attached to Risk CIC0005; Officers agreed to review this.

The Committee suggested Risk FIR0061 should be considered as a permanent risk due to the External Auditor's ability to review something that had previously been written off. Officers explained that if added to the Risk register as an ongoing risk it would unlikely be at a Red risk level and agreed to consider this addition to the register.

Paul Goddard, Interim Chief Digital Officer provided a Risk Deep Dive presentation for members on Risk CDS0003.

RESOLVED, to: note the corporate risk register as at January 2023 and receive the risk deep dive presentation.

35/22 **Section 114 Notice Assurance**

Jane West, Corporate Director of Finance and Section 151 Officer provided an overview of the S114 Action Plan (Appendix B) for Members.

Officers advised the Committee the Council was still awaiting a response from the Department for Levelling Up, Housing and Communities (DLUHC) regarding its proposals which would enable completion of the Budget setting process. It was noted the 2023/24 budget would be published on 14 February.

In response to questions Officers explained the Council Tax and Business Rates collection rates had been downgraded due to the anticipated impact of ongoing external economic difficulties. This would continue to be monitored monthly.

The Committee raised concerns regarding the financial assurances and reliability of figures, due to previous instances e.g. Croydon Affordable Homes (CAH) which despite having had internal and third-party assurances at the time, had financial issues later on. Officers explained that external auditors should not be used for assurances as their work is retrospective and regarding CAH not enough external involvement was sought at setup.

The Committee requested assurances on the resolution of the legacy financial issues and asked whether there were financial control issues yet to be found. Officers explained that the completion of the External Audit of previous years' Annual Accounts would provide greater assurance and noted the budget setting process had been completed in conjunction with directorate teams to ensure accuracy.

The Committee raised concerns about the transparency of the budget setting process, with no pre-decision scrutiny able to take place prior to its presentation to Cabinet and no year-round oversight of the budget monitoring processes. Officers explained the issues which caused delays in the budget setting process earlier in the year and advised of the intention to ensure the budget setting data would be circulated in January in coming financial years. It was also explained that the transformation plan being developed would provide a 3-year budget projection.

In response to questions Officers explained that if the information from DLUHC was not received an estimate would need to be submitted.

The Committee noted the intention to invite the Chair of the Scrutiny & Overview Committee to the Committee's Finance and Assurance Mapping training sessions.

RESOLVED, to note, consider and comment on the assurances provided by the Corporate Director of Resources in relation to the areas raised by the Independent Chair of the Audit and Governance Committee regarding the issuance of the S114 Notice.

The meeting ended at 8.35 pm

Audit and Governance Committee Action Log 2022-23

Date of meeting	Action	Agenda ref.	Deadline	Progress
13 October 2022	Officers separate operational budgeting and financial variances	11/22	By next Budget Monitoring report	Officers plan to incorporate this additional analysis I.e., showing separately the impact of unbudgeted balance sheet movements, from the Month 7 financial monitoring report.
13 October 2022	Officers include wording in the report about context around the process and consultation with the Assurance and Improvement Panel	11/22	As above	Reference is made to the process with the Assurance and Improvement Panel in the monthly monitoring reports. However, the report to Cabinet on 30 November 2022 covering the Medium Term Financial Strategy will go into more detail on the engagement with the Assurance and Improvement Panel.
13 October 2022	Officers to include RAG ratings against the 12 RIPI recommendations	14/22	By next report	
13 October 2022	Officers to include commentary on the movement of risk ratings to support members' understanding of the process – arrow indicator to be included to show the direction of travel risk had moved	16/22	By next report	Escalation and De-escalation of risks from red status now included in covering report (2 February 2023)
24 November 2022	Include an appendix with the Internal Audit Update with definitions for the significance of recommendations	19/22	2 February meeting	Included in Report Appendix, Appendix 9. (2 February 2023)
19 January 2023	Officers to include additional staff training in 'way forward' plans. Suggestion of training to include additional support for teams likely to be most impacted by self-service push back (HR, Finance) to be taken to Programme Steering Group.	27/22	By next report	

19 January 2023	Benchmarking data on Whistleblowing incidences at other Councils to be included in future reporting.	29/22	By next report	
02 February 2023	Exception report from CMT regarding their response and actions regarding the longstanding Internal Audit recommendations.	33/22	2 March meeting	
02 February 2023	Quarterly reporting on 2018/19 Energy Recharges Recommendation progress.	33/22	June meeting	
02 February 2023	Formal/aspirational timeline target to achieve the 90% completion of Internal Audit recommendations to be considered in 23/24 IA Service Plan.	33/22	2 March meeting	
02 February 2023	Previously shared dashboard style reporting illustrating the movement of risks to be brought to Committee.	34/22	By next report	
02 February 2023	Review relevance of final Impact Narrative on Risk CIC0005.	34/22	By next report	
02 February 2023	Agreed to consider adding Risk FIR0061 to the register as an ongoing risk.	34/22	By next report	

Completed Actions

Date of meeting	**Action**	**Deadline**	**Progress**	
13 October 2022	Chair requested an update on the plan to move out of the Limited level of assurance – actions to be included in the Annual Governance Statement	12/22	19 January	Update provided at 19 January meeting

LONDON BOROUGH OF CROYDON

REPORT:		**AUDIT AND GOVERNANCE**
DATE OF DECISION		**2 March 2023**
REPORT TITLE:		**Opening the Books – Reports from Worth Technical Accounting Solutions**
CORPORATE DIRECTOR / DIRECTOR:		**Jane West** **Corporate Director of Resources and Section 151 officer**
LEAD OFFICER:		**Jane West**
LEAD MEMBER:		**Councillor Jason Cummings** **Cabinet Member for Finance**
DECISION TAKER:		**N/A**
AUTHORITY TO TAKE DECISION:		**N/A**
KEY DECISION?	**No**	**REASON: N/A**
CONTAINS EXEMPT INFORMATION?	**No**	**Public**
WARDS AFFECTED:		**All**

1 SUMMARY OF REPORT

The Opening the Books project was launched by the Mayor in July 2022 to improve the Council's understanding of current financial risks and to work towards a sustainable financial future. The project has had a number of facets including the commissioning of a series of reviews by Worth Technical Accounting Solutions. The resulting reports were presented to Cabinet with the recommendation that the Audit and Governance Committee be asked to debate them at a future meeting. The reports are being shared in full under the Mayor's openness and transparency ethos with nothing hidden. The recommendations made by Worth TAS are accepted in their entirety by the Council and are set out in the action plan in Appendix F. It is recommended that progress against these recommendations is monitored by the Audit and Governance Committee through to completion.

2 RECOMMENDATIONS

The Audit and Governance Committee is recommended to:

2.1 Note the Worth Technical Accounting Solutions reports.

2.2 Agree to monitor the implementation of the recommendations from the reports.

3. BACKGROUND AND DETAILS

3.1 The Opening the Books project was launched by the Mayor in July 2022 to improve the Council's understanding of current financial risks and to work towards a sustainable financial future. The project has had a number of facets including the commissioning of a series of reviews by Worth Technical Accounting Solutions.

3.2 The following reviews have been completed by Worth TAS:

- London Borough of Croydon Capitalisation Direction
- London Borough of Croydon Managing Revenue Budgets
- London Borough of Croydon Budget Setting and Financial Management
- Review of Capital Spending Plans, Treasury Management Strategies, Debt Charges and Borrowing
- London Borough of Croydon Financial Reporting and Year End Close.

3.3 The full reports are attached in their entirety as Appendices A to E as part of the Mayor's commitment to openness and transparency.

3.4 The reviews provided important information over the summer and autumn of 2022 that has fed into the Council's Medium Term Financial Strategy, as reported to Cabinet in November 2022, and into setting the Council Tax. Areas that have been informed by this work include:

- The Council's increased use of capital receipts to repay its outstanding borrowing, including the revision to the Council's Asset Management Strategy.
- The setting of the Council's Minimum Revenue Provision for the repayment of borrowing, including an increase for earlier years that has been included in the Council's request to government for a Legacy Capitalisation Direction.
- The establishment of a new officer group to review all the debts owed to the Council, the approaches to collection, the requirements for debt write off and the required provision for bad debt. A large shortfall in the provision for bad debt was identified which has been included in the Council's request to government for a Legacy Capitalisation Direction.
- Recent improvements to financial modelling
- Recommended improvements in budget setting across the Council have identified the need to correct a range of budgets as part of the Council Tax Setting process. A significant number of budgets have been identified as being incorrectly calculated or even completely erroneous.

3.5 This work has been a significant contributor to identifying the Council's large and previously unrecognised budget gap, the need to issue the November 2022 S114 notice and the requirement for additional financial support from government. The reviewers support the direction of travel of the Council's Medium Term Financial Strategy and share the Council's view that the Council's current level of borrowing is financially unsustainable without extraordinary financial support from government.

3.6 A table listing all the reviewers' recommendations is presented as Appendix F, including details of the officer responsible for implementation. The recommendations which have already been fully implemented have been greyed out. Good progress has already been made against most recommendations.

3.7 In summary the reviews identify the following strategic actions required into the future:

- Focus on the Mayor's top priorities as identified in the Mayor's Business Plan in the context of what is affordable.
- Challenge established patterns of spending to generate more substantial savings and re-size revenue budgets by reducing non-priority services to non-priority groups and reviewing current methods for delivering core services
- Restrict capital spending to essential items only, focussing investment on operational assets in order to minimise new borrowing
- Maximise asset sales to repay borrowing and fund Capitalisation Directions. More asset sales should also reduce future debt charges as well as premises and utility costs.

3.8 In terms of processes, the reviews conclude that the Council needs to:

- Improve the clarity and consistency of key financial information
- Closely monitor levels of General Fund balances and reserves
- Ensure all savings plans are realistic and achievable
- Adopt realistic assumptions and consider 'worst case' scenarios
- Get year end accounts up to date
- Improve oversight of key financial processes.

4 ALTERNATIVE OPTIONS CONSIDERED

N/A

5 CONSULTATION

None

6. CONTRIBUTION TO COUNCIL PRIORITIES

The Opening the Books project aligns with the Mayor's core outcome of balancing the Council's books.

7. IMPLICATIONS

7.1 FINANCIAL IMPLICATIONS

7.1.1 As the report states, the findings of the Opening the Books project were reflected in the Council's Medium Term Financial Strategy reported to Cabinet in November 2022, and are reflected in the Council Tax Setting papers presented for the 2023/24 budget. The recommendations are accepted in full and progress on their implementation will be monitored.

Approved by: Alan Layton, Interim Head of Service, Finance on behalf of Corporate Director of Resources.

7.2 LEGAL IMPLICATIONS

7.2.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Audit and Governance Committee is required by its terms of reference to monitor the effective development and operation of the Council's risk management arrangements, the control environment and associated strategies, actions and resources, and to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment.

7.2.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective, and includes effective arrangements for the management of risk.

7.2.3 Separately, the effectiveness of the Council's internal control environment has a direct impact on the Council's ability to deliver its functions in a manner which promotes economy, efficiency and effectiveness. Therefore, the consideration of this report also seeks to demonstrate the Council's compliance with its Best Value Duty under the Local Government Act 1999.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer.

7.3 EQUALITIES IMPLICATIONS

7.3.1 Under the Public Sector Equality Duty of the Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others.

7.3.2 Section 149 of the Act requires public bodies to have due regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected characteristic and people who do not share it.

7.3.3 Protected characteristics defined by law include race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, and religion or belief.

7.3.4 Having due regard means there is a requirement to consciously address the three tenets of the Equality Duty within decision-making processes. By law, assessments must contain sufficient information to enable the local authority to show it has paid 'due regard' to the equalities duties; and identified methods for mitigating or avoiding adverse impact on people sharing protected characteristics. Where a decision is likely to result in detrimental impact on any group with a protected characteristic it must be justified objectively.

Approved by: Denise McCausland – Equality Programme Manager

7.4 HUMAN RESOURCES IMPLICATIONS

7.4.1 There are no immediate workforce implications arising from the recommendations in this report. Any mitigation on budget implications that may have effect on direct staffing will be managed in accordance with relevant human resources policies and procedures and where necessary consultation with our recognised trades unions.

Approved by; Dean Shoesmith, Chief People Officer.

8. APPENDICES

Appendix A: London Borough of Croydon Capitalisation Direction

Appendix B: London Borough of Croydon Managing Revenue Budgets

Appendix C: London Borough of Croydon Budget Setting and Financial Management

Appendix D: Review of Capital Spending Plans, Treasury Management Strategies, Debt Charges and Borrowing

Appendix E: London Borough of Croydon Financial Reporting and Year End Close

Appendix F: Worth Technical Accounting Solutions Recommendations Tracker

9. BACKGROUND DOCUMENTS

None

LONDON BOROUGH OF CROYDON CAPITALISATION DIRECTION

Peter Worth
peter@worth-tas.co.uk

Contents

1. Introduction and Summary

In July 2022, Worth Technical Accounting Solutions Limited were engaged by the London Borough of Croydon to support the Council's "Opening the Books" initiative. This work included a high-level review of the current approach to calculating and accounting for Capitalisation Directions.

Sometimes referred to as "exceptional financial support", a Capitalisation Direction (CD) from the Government does not provide any additional funding, but by allowing some revenue costs to be capitalised it does relieve the immediate pressure on General Fund balances and offers a time-limited opportunity to review spending plans and re-balance revenue budgets.

Croydon obtained CDs totalling £145m between 2020/21 and 2022/23, this initial CD application was based on budget pressures identified in 2020. Since then circumstances have changed significantly and the Council is now in the process of:

- developing new financial plans for 2023/24 and future financial years, and
- as part of this process, considering whether or not to request additional support from the Government.

This financial modelling needs to take account of:

- key budget assumptions affecting grant funding and taxation income,
- the potential impact of historical accounting issues
- expected levels of General Fund reserves and balances, and
- the longer-term revenue implications of any new CDs approved.

Calculations should be updated regularly and reported to members as part of budget monitoring reports.

The Council has correctly accounted for the previous CD as Revenue Funded from Capital Under Statute (REFCUS) in 2020/21 but our detailed report has highlighted that some consistency issues and additional disclosure requirements that may need to be addressed.

The 2022/23 Treasury Management Strategy assumed that the Council will use capital receipts to fund the current CD in full by 2024/25. Members have recently approved a more ambitious asset disposal strategy, with a view to ensuring that both the current CD and any additional CDs requested can be financed from capital receipts in full. We fully support this approach. However, if sufficient asset sales cannot be generated within anticipated timescales to meet these requirements, future years' revenue budgets may need to be adjusted to reflect the debt charges associated with any element of CD support not fully financed from capital receipts.

2. Calculation of Capitalisation Direction requests

In December 2020, the Council applied for a Capitalisation Direction (CD) from the Government. This action was taken following a section 114 report being issued by the then section 151 officer the previous month.

Section 114(3) of the Local Government Finance Act 1988 states that "the *chief finance officer of a relevant authority shall make a report under this section if it appears to him [or her] that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed resources (including sums borrowed) available to it to meet that expenditure".*

The s114 report identified a potential shortfall of £66m in the Council's General Fund revenue budget, resulting from:

- forecast overspends in the 2020/21 revenue budget totalling £30m,
- failure to deliver planned efficiency savings of £10m, and
- lower than expected dividend income from Council owned companies, totalling £26m.

It was therefore apparent that the Council could not deliver a balanced budget for 2020/21 as General Fund reserves and balances did not cover this projected overspend. The s114 report also referenced the fact that the Council had been experiencing financial pressures for a number of years, and that some (but not all) of these financial pressures had been caused or exacerbated by Covid-19.

Following a process of engagement with DLUHC Croydon received Capitalisation Directions as follows, and the s114 notice issued in November 2020 was formally revoked in March 2021:

	£m	
2020/21	70	confirmed by Direction March 2021
2021/22	50	confirmed by Direction March 2022
2022/23	25	approved in principle March 2022
Total	**145**	

Source: www.gov.uk/government/publications/exceptional-financial-support-for-local-authorities-capitalisation-directions

The statutory basis for providing a Capitalisation Direction is set out in section 16(2) (b) of the Local Government Act 2003 which states that "*the Secretary of State may, by direction, provide that expenditure of a particular local authorities shall be treated…as being, or as not being, capital expenditure".*

CDs are not cash-backed and do not provide any additional funding. However, by treating revenue spending as capital, they relieve pressure on General Fund reserves and working balances. This provides a time-limited opportunity to review spending plans and re-balance revenue budgets.

The total CD requested at Croydon was based on projecting current budget pressures going forward, and on the assumption that:

- these budget pressures would remain broadly the same over the next 2-3 years, and could be addressed over a similar period of time, mainly by identifying further spending reductions of over £70m in addition to the £80m of service reductions and efficiency savings already included in existing budgets

- service transformation would be built into the Council's recovery plans, initially driven by a target of reducing adult social care and children's services to average or below average cost.

The budgets and savings plans supporting the Council's initial CD request were included in a published Renewal and Improvement Plan, and in summary are set out below. It should be noted however that the CD of £5m for 2023/24, although included in current budget assumptions, has not yet been formally approved by the Government.

		Cumulative		
	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Initial budget gap identified	100	108	135	160
Existing service reductions and efficiencies	(30)	(43)	(65)	(81)
Revised budget gap	70	65	70	79
Additonal savings (financial recovery plan)		(15)	(45)	(74)
	70	50	25	5
Capitalisation requirement	**(70)**	**(50)**	**(25)**	**(5)**

Source: Croydon Renewal and Improvement Plan 2021

To date, ten local authorities have obtained CDs, but only Croydon and Slough have obtained CDs over £50m. Slough's CD application in 2022 was for a significantly larger amount – over £300m compared to Croydon's £145m – mainly because it included the following:

- historic accounting issues, such as the correction of errors identified in previous years accounts going back to 2016/17. This included, for example, correction of errors in prior years' Minimum Revenue Provision (MRP) calculations and revenue costs capitalised inappropriately,
- re-instatement of General Fund balances to 5% of spending
- increasing provisions to more prudent levels
- correction of unrealistic assumptions in Council Tax calculations, including assumptions on Council Tax growth and spending pressures on adult social care.
- future spending pressures on adult social care.

This approach was supported by DLUHC, CIPFA and DLUHC's appointed Commissioners.

We have explained to Council officers how CD calculations were prepared at Slough, for information as we believe this methodology provides a comprehensive assessment of the Council's financial position and also has the benefit of clearly differentiating between financial pressures which impact on the Council's cash flow, such as service costs, and those such as MRP calculations which do not.

The above comments are not intended to imply suggest any criticism of the Council's previous approach. Croydon was one of the first local authorities to issue a s114 Notice and seek Government support and the Council worked very closely with DLUHC to ensure that all of their requirements and requests for information were fulfilled. However, since at the date of writing this report (September 2022) the Council was considering the need to issue a further section 114 Notice and seek additional CD support, we considered that an awareness of how other local authorities have tackled similar issues might be helpful.

We also believe that a comprehensive assessment of financial pressures helps to identify underlying organisational issues (which are often connected) and facilitates a more holistic approach to reducing base budgets by challenging underlying service plans, as opposed to over-reliance on:

- ambitious savings targets which may not realistically be achievable, or
- accountancy-based solutions, such as reducing MRP charges to the General Fund and reducing provisions, which do not address underlying issues with service costs.

At the time of our initial review, the Council's Period 3 monitoring report for 2022/23 was forecasting a £12.4m overspend, partially mitigated by the release of contingencies. Medium-term financial forecasts for 2023/24 and future years have identified further budget gaps resulting from both service pressures and the need to revisit previous budget assumptions on inflation, grant funding, and taxbase growth.

The combined total of these budget shortfalls over the next four years was estimated at £52m as at August 2022. Actual out-turn will obviously change as the 2022/23 financial year progresses. Also when we carried out our review some financial pressures were still being quantified. For example:

- MRP (debt charge) calculations were in the process of being re-visited,
- as identified in recent Cabinet reports, some savings plans are now considered to be over-optimistic and may not be delivered,
- the impact of proposed Government changes to funding adult social care needed some refinement, and
- accounting issues relating to Brick by Brick and Croydon Affordable Homes had not yet been resolved.

Our own work has also identified that:

- interest rate increases are likely to be significantly more than the 2022/23 Treasury Management Strategy suggests, and
- some revenue items have historically been incorrectly capitalised as Transformation costs.

We have recommended that the Council develop a comprehensive process for identifying current and expected financial pressures, to inform consideration of any further need for Government Capitalisation Directions. Financial modelling should also consider:

- key budget assumptions affecting grant funding and taxation income,
- the correction of any historical accounting issues, and
- potential changes to expected levels of General Fund reserves and working balances.

New and emerging financial pressures identified should be reported to members as part of budget monitoring reports, together with a summary of their expected impact on future General Fund balances. This information should help to inform consideration of the Council's overall financial position and any potential requirement for further Government support. .

Recommendation

R1. A more comprehensive process for identifying current and expected financial pressures should be implemented, to take account of:

- **future spending pressures**
- **key budget assumptions affecting grant funding and taxation income,**
- **historical accounting issues**
- **expected levels of General Fund reserves and working balances**
- **MRP and interest implications of any new CDs approved.**

R2. New and emerging financial pressures identified from R1 above should be reported to members as part of budget monitoring reports, together with a summary of their expected impact on future General Fund balances. This information should help to inform consideration of the Council's overall financial position and any potential requirement for further Government support.

3. Accounting treatment

Section 4.6 of the CIPFA Code of Practice on Local Authority Accounting states that where revenue costs have been capitalised under Government direction in accordance with section 16(2) of the 2003 Act, these items should be accounted for as Revenue Expenditure Funded from Capital under Statute (REFCUS). Paragraphs 4.6.3 and 5.6.4 go on to state that any items identified as REFCUS should in the first instance, be charged to surplus or deficit on the provision of services in accordance with the general provisions of the Code, with:

- any relevant statutory over-rides applied by debiting the capital adjustment account and crediting the General Fund balance, thus showing as a reconciling item in the Movement in Reserves Statement, and
- REFCUS separately identified and included in the note on capital expenditure and financing,

The Council's accounting statements for 2021/22 have not yet been published, however the following items were identified in relation to the accounting treatment adopted for the CD in the published (but not yet audited) financial statements for 2020/21:

- The Council has correctly accounted for the CD as REFCUS, but the CD is not separately identified in any of the core statements in the 2020/21 Statement of Accounts. As a material, unusual, and highly complex item of account, separate disclosure is a Code requirement
- Note 5 (Material items) does however state that *"the Council applied £65.8m of Capital monies towards the overspend within its GF Revenue Account as approved by the Secretary of State for Ministry of Housing, Communities and Local Government, as part of the Council's Capitalisation Direction award"*.
- This total of £65.8m is £4.2m different from the CD of £70m approved by DLUHC for 2020/21. Whilst we recognise that the CD approval is an "up to" Direction and the Council is fully entitled to utilise a lesser amount, the financial statements refer to both amounts without explaining the reason for the difference between them
- Accounting policies for 2020/21 do not provide confirmation that the accounting treatment adopted for the CD meets Code requirements.
- There is no reference to either REFCUS in general or to the CD specifically in accounting policy disclosures, but a total of £65.8m is separately identified in the Capital Expenditure and Capital Financing disclosures (CFR - note 32) and in the summary of movements in the Capital Adjustment Account (CAA- note 23), in line with Code requirements
- Although the £65.8m, together with other items of REFCUS totalling £17.2m are referred to in notes 23 and 32, only £68m is identified as REFCUS in the Council's statutory adjustments disclosure (note 7) and it is not clear how the difference of £15m has been accounted for.

As a material item of account in 2020/21, we would expect that:

- If the CD adjustment in the financial statements is significantly different from the amount set out in the Direction for that financial year, the Statement of Accounts should explain why;
- the CD should be disclosed as a separate line item in the Movement in Reserves Statement and included in the disclosure note on material items of income and

expenditure. An example of how these disclosures have presented in other local authority financial statements has been provided to officers.

- the accounting treatment adopted for the CD and for other REFCUS transactions should have been disclosed in accounting policies;
- REFCUS adjustments which include the CD should be consistently stated between the CAA, the CFR and statutory over-ride disclosure notes.

Recommendations

R1. If the CD adjustment in the financial statements is significantly different from the amount set out in the Direction for that financial year, the Statement of Accounts should explain why.

R2. As CD adjustments represent material items of account they should be separately identified in the Movement in Reserves Statement and the material items note.

R3. The accounting treatment adopted for material CD adjustments should be set out in accounting policy disclosures.

R4. Disclosure notes which reference the CD should be internally consistent.

4. Capital Financing Implications

As it effectively increases capital spending, the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require CDs to be financed from permitted sources of capital funding, either external borrowing, capital receipts, capital contributions or direct funding from revenue.

If the CD is financed from external borrowing, Minimum Revenue Provision (MRP) must be set aside in line with current requirements. Statutory Guidance on the MRP (updated 2018) states that *"where expenditure has been capitalised by virtue of a direction under section 16(2) of the 2003 Act… the authority should calculate MRP in accordance with Option 3 (the asset life method), using a maximum asset life of 20 years".* Croydon's Direction Letters, received in March 2020 and March 2021, specifically confirm that this accounting treatment should be applied.

The Council's 2022/23 Treasury Management Strategy (TMS) correctly identifies the CD as an item of expenditure that needs to be financed from capital resources. The TMS does not, however, explain in detail how the CD will be funded or how any MRP arising as a result will be calculated.

Looking at the Council's more detailed MRP calculations, the following approach seems to have been adopted:

	£m 2020/21	£m 2021/22	£m 22/23	£m 2023/24
CD applied - year 1	65			
Less: MRP calculated on a straight line basis over 20 years		(3)		
MRP requirement at 1 April 2022			62	
Less: MRP calculated on an annuity basis over 20 years			(2)	
Plus: CD applied - year 2			50	
Less: Capital receipts applied			(62)	
MRP requirement at 1 April 2023				48
Plus CD applied - year 3				25
Less: capital receipts applied				(73)
MRP requirement at 1 April 2024				**0**

Source: Croydon MRP calculations 2020/21 onwards

This approach is in line with the Regulations, and as it prioritises the use of capital receipts to fund the CD it minimises future MRP charges to the General Fund. However, the total CD requirement of £140m (£65m + £50m + £25m) is £5m less than the CD of £145m approved by the Government and £10m less than the £150m included in the Council's current Renewal and Improvement Plan.

It is not clear why the Council changed from using a straight-line method as opposed to an annuity method in 2021/22 given that the Council moved to an annuity method for calculating MRP on all other types of unsupported borrowing back in 2015/16. Applying the annuity method to the MRP set-aside for CD adjustments in 2021/22 would reduce the charge to the General Fund by c£1m but, whichever method is adopted, detailed MRP calculations should be consistent with Treasury Management and budget reports.

More importantly, the above calculation assumes that £135m of capital receipts will be available for the purposes of funding the CD between 1 April 2022 and 31 March 2024.This would leave a shortfall of c£10m between available capital receipts and CDs currently approved by the Government, resulting in an additional MRP requirement of, on average c£0.5m pa until 2044.

Using capital receipts to fund the CD is clearly the preferred approach in terms of minimising future debt charges to the General Fund. The Chief Executive has confirmed to us that the Council will prioritise the use of capital receipts to fund current and future CDs, and members have recently approved a more ambitious asset disposal strategy to support this plan.

However, future budget forecasts and financial modelling may need to reflect the fact that if sufficient capital receipts are not generated within relatively short timescales, any CDs not funded from capital receipts would attract MRP at 5% for the next 20 years

Recommendation

R1. The Council's Treasury Management Strategy should be more transparent about:

- **how forecast capital receipts are being used to finance different types of capital expenditure,**
- **how CDs are funded, and**
- **how MRP charges are being calculated.**

R2. Detailed MRP calculations should be consistent with Treasury Management and budget reports.

R3. The Council is prioritising the use of capital receipts to fund current and future CDs and has recently approved a more ambitious asset disposal strategy to generate additional capital receipts. However, future budget forecasts and financial modelling may need to reflect the fact that if sufficient capital receipts are not generated within anticipated timescales, any CDs not funded from capital receipts would attract MRP at 5% for the next 20 years.

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LONDON BOROUGH OF CROYDON
MANAGING REVENUE BUDGETS

Peter Worth
peter@worth-tas.co.uk

Contents

1. Introduction and Summary

In July 2022, Worth Technical Accounting Solutions Limited were engaged by the London Borough of Croydon to support the Council's "Opening the Books" initiative. This aspect of our work is focussed on:

- the management of social care budgets and the Dedicated Schools High Needs Block, and
- risks associated with delivery of financial savings targets included in the current MTFS for 2021- 25.

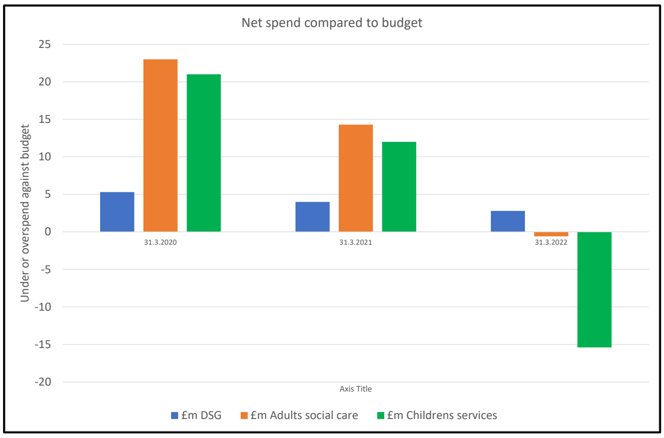
It supplements our high-level review of the Council's budget setting and financial management arrangements issued on 12th September 2022.

Between them adults and children's services account for almost two-thirds of the Council's net revenue budget requirement for 2022/23. Effective management of these budgets, and successful delivery of identified savings, is key to the Council's financial recovery.

In summary, we found that:

- historically, there has been a disconnect between corporate budget setting arrangements and the day-to-day management of social care services. Many of the previous budgets and savings targets were based on incorrect or out-of-date assumptions which has contributed to, but is not the sole cause of, the Council's current financial challenges

- since April 2021 there has been a systematic improvement in financial management within both adults and children's services. Budgets have been realigned and reset where necessary. As shown below, reported overspending in these services has significantly reduced over the past three years:



Source: LB Croydon published Statement of Accounts and budget monitoring reports

- plans are in place to reduce the annual deficit on High Needs education to zero over time, and DfE have agreed to pay Croydon additional grant funding in relation to accumulated deficits,

- good progress has also been made to date in delivering the current savings requirement for both adult and children's social care.

Whilst there are good reasons for the Council to feel positive about improvements made in these areas since 2021, some new skills and processes still need to become fully embedded in day-to-day service management.

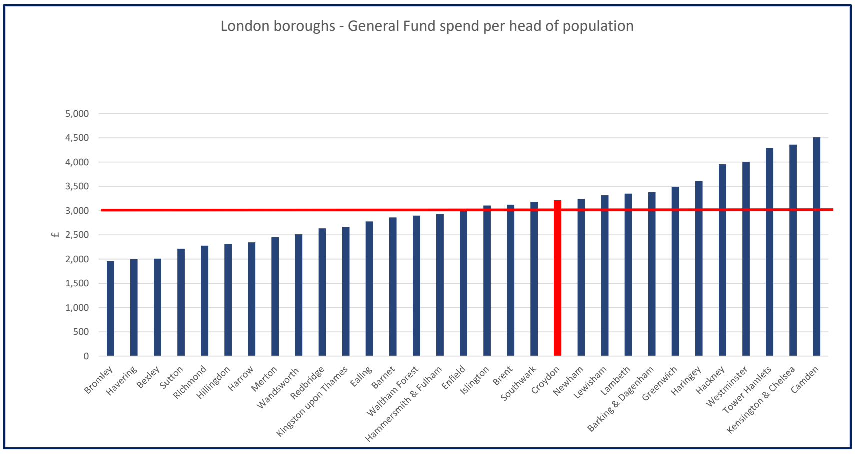
The Council also needs to remain cautious about the potential impact of activity and cost increases and make sure that future years' budgets are based on realistic assumptions about demand levels and unit costs. For example:

- forecast reductions in children looked after placement costs are not in line with national trends across the rest of the UK,

- joint work on demand modelling with NHS services should continue to ensure that current predictions of demand and activity levels in areas such as hospital discharge arrangements and services for children with disabilities are robust, and

- financial modelling is being used to predict the impact of proposed Government changes to adult social care and the Council's progress in this regard is in line with neighbouring local authorities, but current estimates will need to be kept under review and updated as further information becomes available.

Croydon's General Fund Net Cost of Services is, in overall terms, in line with other London authorities. Achieving a sustainable position primarily through efficiency savings might therefore be difficult to achieve:



Source: published Statement of Accounts for 2020/21. Red line denotes the London average.

The services we reviewed had already recognised these challenges and were developing a more transformational approach, by challenging established ways of doing things and current levels of service delivery. For example, the Council has reduced adolescent services, reviewed SEN provision, and is implementing new eligibility criteria for adult social care.

This approach is to be welcomed and should be further developed across all service areas. Longer-term changes will take time to implement but have the potential to generate more significant financial savings in future.

Adult Social Care

After the Section 114 notice was issued in November 2020, significant analysis was undertaken on adult social care services in the borough, supported by the Local Government Association (LGA). This analysis showed that:

- the volumes of activity and the unit cost of adult social care services in Croydon was higher than the average for other London Boroughs, and that

- this was not specifically due to need or demography, but to a combination of historically overly generous care packages (in particular for working-age adults), inconsistent use of eligibility criteria, and a lack of acumen in relation to providers.

The biggest challenge for adults' social care services since then has been to change this historic culture of overprovision, and to set challenging but achievable targets for activity and cost reductions. This cultural change is significant and will take time to implement successfully, but the current aim is to reduce caseload activity to the London Borough average for the 18-65 age range and to the national average for over-65's by 2025.

Continuing caseload analysis and modelling work from 2020 onwards has enabled the Council to arrive at a better understanding of current care costs and to forecast future spending pressures more accurately. Work has also been undertaken to realign social care budgets with current spending patterns, and the Council "reset" the revenue budget with an additional investment of £23m in 2021/22. This has put adult services on a much sounder footing.

Governance arrangements have also been strengthened to improve value for money:

- eligibility criteria have been reviewed to make sure that they are consistent with legislative requirements
- the assessment model has moved to a strengths-based approach, by establishing "what can you do for yourself, and what can family and friends do to help", before considering what should be provided by the Council (rather than the previous starting point of "what support is available")
- the cost of care packages is now agreed at a daily challenge panel, made up of operational heads of service, finance leads, commissioners and brokerage leads
- there is more joint funding in place with the NHS.

We found a strong commitment within the adult services' senior leadership team to delivering MTFS savings. Arrangements put in place include the following:

- a formalised "star chamber" process which is helping to develop a more widespread understanding on efficiencies and savings,
- new methodologies for benchmarking and financial modelling, introduced by the Council but supported and validated by the LGA, have underpinned savings delivery to date and, perhaps even more importantly, have helped to identify where planned savings might not be achieved in practice
- where expected savings have not been delivered, alternative savings plans are being identified and put in place.

Officers commented that there is now greater trust, enabling service departments and finance teams to have difficult conversations but still find ways forward, which has not always been the case in the past.

However, some process weaknesses still need to be addressed. For example:

- new systems introduced since 2020 have brought about a much better understanding of the cost component of social care revenue budgets, but the Council needs to embed the consistent use and application of these systems. This will help to minimise the use of inconsistent datasets and support a better collective understanding of how care charges and service-based grant income affects the net revenue budget and saving requirements.

- corporately delivered performance on invoicing and collecting adult social care recharges needs to be improved.

Good progress has been made to date in delivering the savings targets set out in the 2021-2025 MTFS. At the end of 2021/22 the directorate delivered savings of £11m and underspent against budget by £0.6m. This was largely due to staffing vacancies and savings from reviews of complex care packages (over 10 hours per week).

Other actions taken to date have included the following:

- expiring contracts have been reviewed and renegotiated.
- service delivery has been diversified to ensure residents can access services provided by the voluntary and community sector
- there has been an increased use of Direct Payments (currently 16%), and
- there has been more challenge around who pays for health-related costs and on assessing eligibility for continuing health care funding.

Saving requirements for 2022/23 are predominantly expected to come from reducing demand for services in three key areas – services for older people, for people with disabilities and for people with mental health needs. All existing care packages for these client groups are now being assessed and reviewed.

Looking forward however, the Council needs to remain cautious about MTFS savings delivery. At a local level, savings risks have been identified as follows:

- the level of savings that can be achieved from reviewing less complex care packages is likely to diminish and may not match the level of savings currently estimated or required. What is now being put in place, and what is normal at most authorities, is a strong focus on value for money and an assessment based on need based on reablement, maintaining independence and on providing a level of care which is in line with, but does not go beyond, legislative requirements.

- there are difficulties in the recruitment and retention of all social care staff (including social workers, occupational therapists, commissioners, health and wellbeing assessors). This has led to a significant reliance on agency staff. Although the shortage of experienced social care staff is a national problem it is particularly acute at Croydon where the reputation of the borough is a disincentive when recruiting. Instability in the workforce and capacity issues will potentially impact on both savings delivery and the quality of the service in general, therefore the Council should review its current workforce strategy and aim to become an employer of choice for workers in adult social care. Some of the arrangements put in place by exemplar authorities in this respect are listed in Appendix 1.

- financial modelling is being used to predict the impact of proposed Government changes to adult social care and the Council's progress in this regard is in line with neighbouring local authorities, but current estimates will need to be kept under review and refined and updated as further information becomes available.

External challenges could also lead to increased demand for services and cost increases which are not in the direct control of the Council. For example:

- a new national hospital discharge model is needed but has not yet been agreed or developed. In the meantime, the Council is part of a national pilot on this issue and is working to put local arrangements in place which will provide greater clarity on responsibility for discharge costs and processes

- waiting lists for Occupational Therapy are increasing and this is impacting on hospital discharges and reablement

- there is a national disconnect between care services and the NHS which results in cost shifting and disputes about who pays for continuing health care needs. The Council needs to ensure that healthcare providers and commissioners are fully engaged in caseload modelling and predictions of future demand and make appropriate contributions both to the funding of individual care packages and to the more strategic aspects of service delivery.

- higher than expected rates of inflation, coupled with cost-of-living increases, are likely to significantly increase the cost of both in-house and commissioned care services.

These external challenges will affect all local authorities but given the specific circumstances that exist in Croydon demand modelling and financial planning in these areas needs to be especially robust. Financial modelling needs to be integrated across the Council so that budget planning adequately considers the potential impact that savings in other service areas, particularly housing, might have on the demand for adult social services.

The current MTFS recognises that there is a limit to what efficiency savings are likely to achieve, and that there needs to be a more fundamental examination of the way the Council delivers social care services. This approach has already commenced with the review of eligibility criteria for adult social care, but may well need to be extended. Three other areas in particular have been identified where other local authorities have managed to identify and deliver significant cost savings:

- use of assistive care technology has increased but is still very limited. Extending this approach with an improved reablement offer could generate savings but will need upfront investment

- the Council has increased Direct Payments take-up to 16% which is line with the national average, but some local authorities have managed to increase take-up to over 25% and have found this to be a flexible and cost-effective way of providing care services.

- not much work has been done to date on comparing the cost and quality of different care provider models. Currently care management, hospital discharge and disability services are provided mainly in-house whereas home-based care, residential and nursing care are commissioned. Other local authorities have realised significant financial savings by changing their commissioning models, although it does take time to evaluate different options and to successfully implement change.

Recommendations

R1 **Improvements to the processes that support budget planning and management in adult social care services should be prioritized, to embed a consistent knowledge and use of systems; therefore minimizing in-consistent datasets, to better support service management and budget setting.**

R2 **Collective understanding about the cost components of adult social care budgets has significantly improved since 2021. This approach should now be extended so that the income element of the budget, particularly care charges and service-based grant income are equally well understood.**

R3 **Financial modelling used to predict the unit cost and demand for social care need to be kept under review to reflect Government changes and should be refined and updated as further information becomes available.**

R4 **Further work on demand modelling also need to be carried out across health and social services to ensure that current predictions of demand and future activity levels are robust.**

R5 **The Council needs to ensure that healthcare providers and commissioners make appropriate contributions both to the funding of individual care packages and to the more strategic aspects of service delivery.**

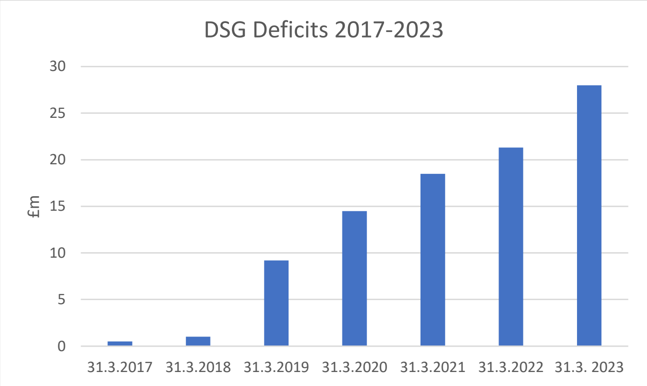
R6 **Financial modelling should be integrated across the Council, to recognize the potential impact that MTFS savings in other areas of spending (particularly housing) might have on the demand for adult social services.**

R7 **The Council should review its current workforce strategy and ensure that it becomes an employer of choice for adult services.**

R8 **Going forward, the MTFS may need to develop a more transformational approach which builds on the approach already adopted in the recent review of eligibility criteria for adult social care.**

2. Dedicated Schools Grant and High Needs services

In common with many other local authorities, the Council's Direct Schools Grant (DSG) funding position is in deficit, by overspending against DfE grant allocations. This deficit has been increasing over several years, rising from just under £0.5m at 31 March 2017 to (it is currently estimated) over £28m by 31 March 2023.



Source: LB Croydon, published Statement of Accounts plus officers' estimates

This deficit has arisen due to increasing demand for High Needs services, coupled with increasing unit costs for each pupil, not matched in recent years by additional grant funding. However, the Council is starting from a reasonably strong base in terms of service quality. In December 2021, services for children with special education needs (SEND) were inspected by OFSTED, with no serious weaknesses identified. The inspection concluded that *"leaders have a coherent and ambitious plan and are doing the right things in the right order…know what is working and what needs to improve".*

This is a significant achievement and is an indication that leadership in SEND services is effective. On this basis the Council can be reasonably confident that plans put in place to reduce costs can, in principle, be delivered once they have been agreed.

A plan to reduce the annual deficit to zero has been put in place and DfE have now agreed additional grant funding, via the Safety Valve programme, to fund the accumulated deficit. The existence of a grant funding agreement means that Croydon is better placed than many of its neighbouring authorities. However, it should be also remembered that the current statutory over-ride mechanism, which allows DSG deficits to be carried forward as debit balances on unusable reserves, will expire at 31 March 2025 so any remaining overspends at that point will need to be charged to the General Fund.

To ensure that deficits do not recur in future, the Council has put in place a High Needs Management Recovery Plan. This is based on four key principles, namely:

- introducing peer challenge meetings, regular case reviews and improved authorisation processes to confirm that support packages represent good value for money,

- increasing capacity. Addington Valley Academy is a new school in Croydon which by September 2023 will be offering places for up to 150 local children with autism and other complex needs. The Council is also increasing its take-up of placements at St Nicholas School in Chippenham, by at least 40 and potentially up to 55 additional places over the next five years

- ensuring that where possible, excluded students return to mainstream education, and

- improving educational opportunities for over-16 students through development of the Pathways Programme, in partnership with Coulsdon College.

These initiatives in total are expected to realise savings of up to £4m per annum but require upfront investment of over £2.5m over the next two years.

Detailed implementation plans are a requirement of the Safety Valve funding agreement and are necessary to clarify important issues such as:

- lead officers and accountability
- key tasks and project milestones
- key resource requirements (financial, staffing, IT, and other support requirements)
- expected timescales for delivery of savings and upfront investment.

Other local authorities which have successfully reduced High Needs spending have also found it beneficial to review the following areas:

Accuracy of data systems	The Council has significantly improved data on pupil cohorts, and this has been commended in the recent SEND inspection. Shortcomings in other IT systems are also being addressed.
Improved commissioning	Especially for speech and language therapies (SALT) and non-statutory Alternative Provision (AP) placements
Better contract management	To ensure that: • commissioning agreements set out eligibility criteria and the cost and quality of services to be provided, • regular contract monitoring takes place with all service providers

Recommendations

R1 Implementation of the High Needs Management Recovery Plan (HNMRP) needs to be kept under regular review.

R2 Corporate budgets and High Needs Management Recovery Plan implementation plans need to reflect the upfront investment required to realise longer term savings in High Needs provision.

R3 Commissioning processes and contract monitoring arrangements should be sufficiently challenging for all service providers, with contract documentation that clearly sets out:

- **the cost and quality of service the Council expects,**
- **eligibility criteria, and**
- **contract monitoring arrangements.**

4. Children's Services

The quality of children's services in Croydon has improved significantly since it was judged inadequate by Ofsted in 2017. In March 2020 these services were reinspected and judged to be Good. It is relatively rare for a children's services department to move from Inadequate to Good in less than three years and this provides a strong indication that leadership in children's services is now effective. Change has been achieved through a combination of factors, including:

- additional financial investment (c£30m)
- changes at senior management level
- establishment of an externally chaired improvement board, and
- responding positively to OFSTED recommendations.

These improvements have been sustained and, in some areas, accelerated in response to the council's financial challenges.

However, this operational improvement has not always been accompanied by transparent financial reporting. Children's Services overspent by £21m in 2019/20 and by over £12m in 2020/21, but in 2021/22 the same services delivered £9m savings and reported an end-of-year underspend of £15.4m against the revised budget.

Since April 2021, the appointment of a DfE-funded accountant with extensive experience in children services, together with significant work undertaken by the finance team and service leads, has led to:

- a better understanding of savings targets and of how delivering these savings might impact on operational service delivery
- a better understanding of how revenue budgets are arrived at, and an enhanced appreciation of the need to provide accurate and up-to-date information for budget setting purposes, and
- an improved approach to modelling and costing current and forecast case numbers. As previously mentioned, there is a need to integrate financial modelling across the Council to recognize the potential impact that savings in other service areas might have on the demand for social care.

Children's services now have more robust performance management arrangements which include a continuous improvement plan, an improvement board, and an annual self-assessment process. However:

- much of the detailed understanding of the revenue budget and savings plans still rests with a small number of individuals so if they leave, there is a risk that future savings may not be delivered in practice. To address this risk, the Council has recently put in place arrangements for the DfE Finance Adviser to provide an additional 12 months to support, to embed their expertise into the Children's Services team,
- some process improvements are only recently established and not yet fully embedded in day-to-day service management.

The CYPE Finance Team (supported by a DFE Finance Adviser) has completed a full rebasing exercise of the children's social care budget in October 2022. This exercise identified that baseline information used to calculate 2021/22 savings targets were not robust, however this exercise has provided a much improved platform for:

- accurately identifying further in-year savings for 2022/23, and
- to inform savings proposals for 2023/2.

The service is currently on track to deliver agreed savings for 2022/23, but 2023/24 savings targets are still being discussed and challenged. For example, the £2m savings target in relation to reductions in care costs may not be achievable, and there may be some double counting between savings already delivered in relation to care costs and services for children with disabilities.

Savings achieved to date have in some cases come from reducing or ending established patterns of service provision. For example, both adolescent services and early help services were reduced significantly between 2021 and 2023. The MTFS for 2021-25 is largely focused however on addressing previous weaknesses in setting and managing the budget, and on delivering savings by:

- reducing placement costs for children in care

- reducing payroll costs by removing a tier of management

- reducing the cost of children's disability services and

- reducing the number of unaccompanied asylum seeker children (UASC).

Each of these four areas has been considered in detail below:

- in 2021/22 the Children Looked After placement budget was increased by £7.4m to offset historic cost pressures, but at the same time the MTFS set a savings target of £3m to be achieved by 2025. The number of children in care has fallen significantly since 2019 and the weekly cost of care placements is now well managed, so officers are confident at present that this level of saving can be maintained. However, the number of children in care in England is increasing so the current assumption, that the costs relating to childcare placements in Croydon will drop by almost 10% between now and 2025 may be unrealistic.

- the Council is heavily dependent on the independent foster care market and there is a strong likelihood that the cost of these placements will increase. Typically, independent foster care costs 40-50% more than in-house care. The Council has a good sufficiency strategy in place for foster carers and a transformation project to increase in-house foster care is planned for 2023-24.

- a workforce modelling exercise in 2021 revealed that revenue budgets were not aligned to the current staffing establishments for Children's social care services. Work is underway to review all current posts, remove those that are no longer needed, and adjust budgets to actual salary levels rather than assuming that all staff are paid at the top of the relevant grade. Going forward, the Council needs to ensure that staffing this data, most of which is currently maintained on spreadsheets is securely stored and updated regularly so that HR, payroll, finance and children's services all use accurate and consistent data on staffing structures, pay rates and salary costs

- At the end of 2020/21 the Transition Service for young people aged 18-25 was transferred to Adult Services and the budget for the 0-17 CWD service was increased by £2.4m. The MTFS requires the service to achieve a total saving of £0.4m by 2025, mainly by providing more home-based care and reducing residential spend. The current Short Breaks service is also under review but as CWD numbers are increasing nationally, the Council needs to take account of the potential impact this will have on future demand for services. Further work on demand modelling needs to be carried out across both health and social care services so that a joint approach with the NHS can be developed.

- Croydon has had historic challenges in relation to UASC which resulted in significant budget pressures in recent years. One of the national asylum intake units is situated in the Borough, and the Council has a statutory responsibility for the care and support of unaccompanied children arriving there. Dispersal is now mandated nationally, with most UASC now placed in other parts of the country, so in future Croydon should only have the same scale of challenge as everywhere else, but currently 58% of looked after children are former UASCs and it will take some years before this level reduces that of other local authorities. Following receipt of a one-off grant from Government during 2021/22 and a reduction in UASC clients in 2022/23, however, budget pressures arising from new (as opposed to existing) UASC should now be reduced.

The current MTFS is very much focussed on areas where the Council has experienced overspending in the past. Whilst it was undoubtedly sensible to tackle these issues initially, three other areas might also benefit from further review:

- early help is underdeveloped and potentially under-utilised. More focused and better resourced early help and intervention should reduce demand for care placements later.
- there is Direct Payment policy in place for the 0-17 CWD service, but current take-up is relatively low. Expanding the use of Direct Payments may lead to additional costs initially, but many authorities have found that over the longer-term these schemes do realize financial savings.
- in common with many other local authorities, the Council has a lot of agency workers, and recruiting more permanent staff would reduce the overall pay bill.

Actions taken by other authorities to recruit permanent staff and reduce their reliance agency workers for social care are set out in Appendix 1, and the Council has already taken steps to implement this approach by:

- establishing a local Social Workers academy
- offering Step Up and Social Work placements and apprenticeships, and by
- developing strong and proactive links with Kingston University.

Together with refreshing the remuneration offer, overseas recruitment and other initiatives, the service has recruited 32 new permanent posts over recent months, and the agency take-up rate reduced from 30% in September 2021 to 20% 12 months later.

Recommendations

R1 **The Council has significantly improved its understanding of how demand for services influences the revenue budgets in Children's services, but it needs to keep forecasting models under review. For example:**

- **forecast reductions in placement costs for children in care are not in line with national trends across the rest of the UK,**
- **nationally, increases in reported numbers of children with disabilities (CWD) are also anticipated and the Council needs to work closely with local health services to model expected future demand**
- **demand is also increasing for statutory child protection and safeguarding services, which needs to be recognized in future budgets**
- **there needs to be a greater understanding about the impact that financial savings made in other parts of the Council, especially housing and homelessness services, might have on demand for children services.**

R2 **Recent improvements made in the working relationships between Children's services and the corporate finance team, and in the processes put in place to support effective budget management, need to become fully embedded in day-to-day service delivery. To facilitate this process, the Council has contracted directly with the DfE Financial Adviser for a further 12 months' support which should facilitate embedding their expertise into the Children's Services team.**

R3 **The Council should ensure that information in relation to staffing, budget management and forecasting is accurate and up-to-date, and is embedded in accessible and user-friendly systems so that common data sets can be shared between Children's services and support functions such as HR, payroll and finance.**

R4 **The Council should consider strengthening early help and prevention services, to help reduce demand for care placements in the borough.**

R5 **There is a well thought through sufficiency strategy for foster carers in the borough, and a transformation project to increase in-house foster care is now in place for 2023-24. A move to more in-house foster care could potentially reduce placement costs by 40 – 50%, so delivering this strategy should be a Council priority.**

R6 **There is now a Direct Payment policy for the 0-17 CWD service, but take-up is relatively low and could be expanded.**

Appendix 1 – Workforce Planning

Nationally, the social work profession is in crisis with more leavers than starters and more reliance on agency workers than ever before. This drives up cost and creates gaps and instability. In common with many other local authorities, Croydon is heavily dependent on agency staff. Arrangements put in place by exemplar authorities to help make them become an employer of choice include the following:

- slick practice in relation to marketing with a very flexible approach to responding to interest/applications
- having a dedicated role in the service with responsibility for attracting interest, proactive responses to any indication of interest, support in the application process,
- immediate interviewing and job offer,
- proactive pursuit of preemployment checks,
- continuous engagement with the new starter before day one to make sure they get staff newsletters, invitations to key events, and a prestart day welcome event to meet the team and their new boss,
- well organised induction on day one,
- post induction debriefs to examine "what did we do well what could we do better?"
- work protection until people are up to speed, monthly mini appraisals,
- good CPD and training arrangements.
- competitive conditions of service
- flexible working arrangements such as holiday bank and working from home,
- good use of programmes such as Step up to social work.
- proactive engagement with universities
- develop a social work academy to provide enhanced learning and recruitment opportunities.

The Council is already taking steps to implement this approach through the local Social Workers academy, by offering Step Up and Social Worker placements and apprenticeships and through strong and proactive links with Kingston University.

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LONDON BOROUGH OF CROYDON
BUDGET SETTING AND FINANCIAL MANAGEMENT

Peter Worth
peter@worth-tas.co.uk

Contents

1. Introduction and Summary

In July 2022, Worth Technical Accounting Solutions Limited were engaged by the London Borough of Croydon to support the Council's "Opening the Books" initiative. This work included a high-level review of the Council's budget setting and financial management arrangements. In summary, we identified that:

- budget setting spreadsheets were over-complicated and difficult to understand,
- 2023/24 budget reports should provide clearer and consistently presented information to decision-makers,
- savings plans should be rationalised and consolidated. All savings plans over £0.5m should have detailed business cases which are subject to robust scrutiny before being included in the budget, and
- there should be clearer links between items classified as transformation costs, savings plans and approved transformation initiatives.

We also recommended that:

- in the short term, all proposals for avoidable revenue growth should be re-considered,
- financial modelling should, as soon as possible, firm up estimates for spending pressures already identified but not yet quantified,
- financial modelling should also incorporate the correction of historical accounting issues as well as new financial risks,
- section 25 reports should be expanded to report specifically on the adequacy of General Fund balances and any proposed transfers to and from reserves,
- levels of reserves and balances must be accurately reported to members and kept under regular review,
- if a significant shortfall in General Fund balances is identified, the Council should as a priority either develop plans for bridging the gap or consider the need to request additional Government support

Looking forward, the Council should develop more ambitious improvement plans which deliver financial savings by reducing some elements of service provision and rationalising the current asset base. Whilst we have seen some good examples of transformation work in specific areas, there is scope for this approach to be developed and extended.

Since our initial review was completed, the Council has moved forward in a number of areas, which is to be welcomed. These include the following:

- the Mayor's business plan now includes specific objectives to "do less and do it better", and to tackle current financial challenges as a priority
- members have also approved more ambitious asset disposal plans,
- Treasury Management and capital investment plans are being reviewed with a view to minimising new borrowing
- the Council now reports monthly on levels of reserves and balances
- new financial models for budget-setting have now been developed and introduced.

We understand that the Council is now forecasting a balanced budget for 2022/23. In view of expected financial pressures identified for 2023/24, however, a Section 114 Notice was issued in November 2022, which (it is anticipated) will be followed by a further request for CD support.

2. Budget setting and medium-term financial plans

At Croydon, the Corporate Finance Team use a spreadsheet-based system to record and model the key financial assumptions which underpin annual budgets and medium-term financial plans. In our view this spreadsheet is over-complicated and difficult to understand, with 64 columns, over 470 rows and (currently) 24 separate iterations to monitor changes over time. We have provided the Council with examples of budget setting spreadsheets which are simpler and easier to use, and can be more readily summarised in financial reports to senior management and elected members.

The Council's current approach to budget setting and financial management is to focus on cost growth, funding changes and savings delivery, as set out in Appendix 1. We agree with this approach in principle, but the spreadsheet used to generate and model key financial information does not record these three different types of budget pressure consistently, and this lack of transparency is reflected in reports to members. For example:

- some items included in cost growth are in fact undelivered savings, but the 2022/23 budget report does not clearly set this out
- some funding increases e.g. New Homes Bonus, are included as savings, even where they are matched (or even exceeded by) expected spending
- changes to the Local Council Tax Reduction Scheme Support, which generated an additional £4.4m of income, was included as a saving, not as additional funding
- use of reserves and contingency budgets are recorded as either savings or growth
- some savings are matched by growth which makes both items seem larger than they really are and makes the spreadsheet harder to follow e.g. in Children's Services, re-focussing £0.3m of Public Health Grant funding is included as both a saving and as budget growth, as is £0.9m grant funding for Fair Cost of Care

In our experience, local authorities find it most helpful to clearly differentiate between cost growth, funding changes and savings delivery. These three categories of budget pressure can then be separately and consistently identified in financial modelling, annual budgets and in-year monitoring reports, which improves transparency.

Although we found the 2022/23 budget report to be comprehensive in scope, some of the detailed information was not clear. For example:

- we were unable to reconcile appendix B, which sets out the growth and savings proposals at Directorate level, with the summary of growth and savings included in the budget report itself
- we identified some instances of appendices including incorrect or out of date information, which raises concerns about version control and the quality of the consistency checks being carried out before key financial reports are being presented to members.

Going forward, 2023/24 budget reports should provide accurate and consistently presented information to decision-makers, with:

- key messages for members highlighted in the summary report and clearly spelled out in non-technical language
- savings and growth figures for each Directorate set out in separate appendices so that savings can be tracked more easily during the year
- assumptions about funding changes also dealt with in separate appendices, and
- control totals, consistency checks and version control techniques used to ensure that all of the appendices are consistent with the summary budget report.

By utilising a £145m Capitalisation Direction (CD) from the Government, the Council has been able to cover 2020/21 overspends, reinstate General Fund balances (see section 3), and to set balanced budgets for 2021/22 and 2022/23. Looking forward, work is currently under way to review key financial assumptions and to update the Council's medium-term financial plans.

As a minimum, financial plans should be extended to 2025/26 with the assumptions underpinning these plans updated and included in 2023/24 budget reports. Preparatory work for 2023/24 also needs to ensure that base budgets are correct for all key service areas. For example:

- some budgets, for example Housing Benefits, are clearly under-funded with no chance of delivery and have longstanding issues which need to be properly addressed
- some service areas which delivered under budget in previous years do not seem to have experienced corresponding reductions to funding in 2022/23.

Financial modelling completed to August 2022 had identified budget gaps currently estimated at £52m, although some cost pressures are still being quantified. For example:

- little work had been done on 2024/25 growth and savings
- financial modelling had been undertaken in response to proposed Government changes on funding for adult social care, in line with neighbouring local authorities. However this is a developing area and current estimates will need to be updated and refined as further information becomes available
- some accounting issues relating to Brick by Brick and Croydon Affordable Homes had not yet been addressed, and
- Minimum Revenue Provision (MRP) calculations were being reviewed.

In addition:

- interest rate charges are likely to increase significantly above the assumptions set out in the Council's Treasury Management Strategy for 2022/23
- some revenue costs have been incorrectly capitalised as Transformation expenditure, and
- budget reports have identified that some savings plans are unlikely to be achieved.

Any assessment of budget pressures will inevitably change over time as circumstances develop, but as a first step all financial modelling, and reports to members, need to include a comprehensive and realistic assessment of all spending pressures currently identified. Reports to senior officers and members also need to be clear about:

- spending growth which is beyond the Council's control, such as interest rate increases and changes to pension fund contribution rates. Budget reports should include a realistic assessment of the potential impact that unavoidable cost increases will have on future spending plans

- current cost pressures which have resulted from accounting errors, or incorrect decision-making, in previous years,

- demand-led growth in social care services and increases in items such as utility costs, which cannot be avoided altogether but can be managed and, to some extent, controlled. For example, in the light of recent fuel cost increases, many authorities are putting in place detailed energy management plans. The Council does have a number of energy management initiatives, including a12-month street lighting pilot, but could be developing more comprehensive plans for managing utility costs down to minimum levels.

- council-led increases such as IT projects and regeneration initiatives. Until the Council's financial position improves, council-led growth should be kept to a minimum.

Adopting this approach should help the Council to make a more accurate assessment of potential reductions in General Fund balances and the possible requirement for further CD support.

Recommendations

R1 **Budget setting spreadsheets and financial modelling tools should be understandable by staff outside the corporate finance team, easy to use and maintain, and link back readily to Council reports.**

R2 **Financial modelling and budget reports should be clearer about anticipated growth, funding changes and expected savings and should ensure that this information is accurately and consistently presented to decision-makers.**

R3 **2023/24 budget reports could be made easier to understand by:**

- **highlighting key messages for members in the summary report**
- **setting out savings and growth figures separately**
- **setting out assumptions about funding changes in appendices, and**
- **ensuring that all appendices are consistent with the summary report.**

R4 **Financial modelling already underway to quantify budget gaps for 2023/24 and future years should, as a minimum, be extended to 2025/26 and the updated assumptions underpinning these plans should be included in budget reports.**

R5 **Financial modelling should take account of account of all cost pressures identified, including historical accounting issues and new and emerging financial risks.**

R6 **2023/24 budget reports need to be clear about unavoidable spending growth and the plans in place to manage demand-led items e.g., social care and utilities budgets, down to unavoidable levels.**

R7 **Until the Council's overall financial position has stabilised, any other proposals for revenue growth should be reconsidered, unless there is a clear expectation that these can generate additional savings.**

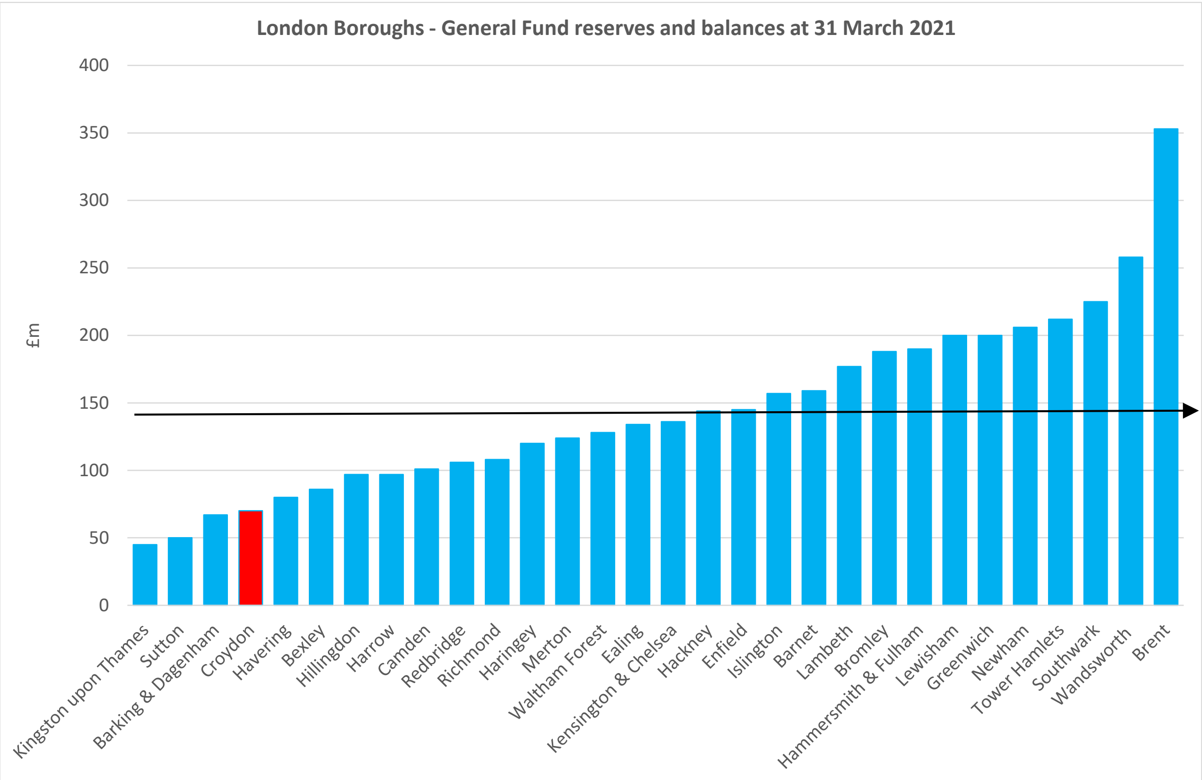
3. General Fund reserves and balances

Obtaining a CD has enabled the Council to reinstate General Fund reserves and working balances. The Statement of Accounts reported General Fund balances of £70m in total at 31 March 2021, comprising:

- £27m working balances, and
- £43m earmarked reserves.

The Council's 2021/22 outturn report to Cabinet (14 September 2022) confirmed that the in-year underspend of £2.4m would be added to General Fund working balances, creating a total of £30m at 31 March 2022.

This represents a significant improvement on the position at 31 March 2020 when the Council only held £5m in General Fund reserves in total, but £72m is still well below the average of £140m for London authorities at 31 March 2021, as shown below:



Source: published financial statements for 2020/21. Excludes Westminster and City of London councils whose reserves are so large they distort the analysis. Croydon is highlighted in red, and the black line represents the Council average.

There is no set formula for calculating appropriate levels of General Fund working balances but the s151 officer must be satisfied that they remain sufficient to cover budget overspends and other contingencies. [CIPFA research on reserves] indicates that at 31 March 2021 local authorities were holding between 5% and 10% of their net revenue expenditure as General Fund working balances. With a net cost of services of c£325m in 2020/21, equivalent figures for Croydon would be between £16m and £32m.

The reported General Fund balance of £30m at 31 March 2022 sits comfortably within this range, but we have seen no evidence of the Council's rationale for setting working balances at this level.

The Council's 22/23 budget specifically included a commitment to increase, if possible, General Fund working balances and reserves but as the position may change considerably during the current financial year, it is imperative that the expected level of General Fund balances at the year-end is accurately reported to members and kept under regular review.

Under section 25 of the Local Government Act 2003 there is a requirement for the Council's section 151 Officer to report specifically on the adequacy of the proposed level of reserves. Croydon's section 25 report for 2022/23 was included in the budget setting papers and refers to:

- a number of financial risks currently facing the Council, although some new and emerging risks were not referred to, and

- the possibility of a further CD request, additional asset sales, or the use of reserves balances, potentially being necessary to secure financial resilience going forward.

The section 25 report also included reference to the Council using capital receipts to fund the CD and to reduce borrowing levels. Given that CDs to date total £145m, expected asset sales are only £135m, and the Council also seems to be assuming that Transformation costs will be funded from capital receipts, the necessity of embarking on a much more ambitious disposal programme may be more immediate than this report suggests.

To meet current legal requirements, future section 25 reports should include clear statements about the following:

- expected levels of General Fund reserves at 31 March each year,
- how much of this total amount is to be retained as working balances,
- confirmation that this expected level of working balance is adequate,
- confirmation that working balances will be cash backed,
- whether or not any new earmarked reserves are to be established, and
- expected transfers to and from earmarked reserves.

Given its importance to the Council, having a stand-alone section 25 report might also be beneficial and we have provided officers with examples of such reports for information.

Monthly Monitoring Reports should also set out movements in General Fund reserves and balances during the year so that members are made aware of any changes as soon as they are identified and not just at the year end. These forecasts should be comprehensive and realistic and should reflect all of the spending pressures identified in section 3 above where these impact on General Fund balances and reserves.

More regular and more transparent reporting on forecast levels of General Fund balances would highlight any significant shortfalls at an earlier stage. This would enable the Council, as a priority, to either develop plans for bridging the gap, or consider the requirement for further Section 114 Notices and requests for additional Government support.

Recommendation

R1 Section 25 report should present a realistic assessment of the Council's current and expected financial position, and should be expanded to comply with the Local Government Act 2003 by reporting specifically on:

- **expected levels of General Fund balances and reserves,**
- **all identified spending pressures (which should be quantified),**
- **the s151 officer's opinion on the adequacy of those balances,**
- **the split between earmarked reserves and working balances,**
- **confirmation that working balances will be cash-backed,**
- **any new earmarked reserves which need to be established, and**
- **any proposed transfers to and from earmarked reserves.**

R2 To provide additional context for decision-makers, the section 25 report could also include information on levels of General Fund balances at neighbouring authorities, and CIPFA guidance on setting levels of balances and reserves.

R3 Monthly budget monitoring reports should clearly set out the Council's target level of General Fund working balances and compare this to expected balances at the year end. If a significant shortfall is identified, the Council should as a priority either:

- **develop plans for bridging the gap, or**
- **consider the requirement for additional Government support.**

4. Savings delivery

The Council currently has over 200 separate savings plans ranging from just £1,000 to c£10m. Each identified saving has a supporting document to explain what the saving relates to, but only a limited number have detailed business cases or identify the costs involved in achieving the savings anticipated. Savings delivery is key to the Council's financial recovery, so as a priority, savings plans need to be clear, comprehensive, realistic and up-to-date.

The savings schedule is large, confusing, and difficult to manage, which inhibits wider understanding and ownership of savings plans. We also found examples of duplication in the savings schedule, e.g., there are 10 separate savings targets for reducing homelessness and for reducing the costs of temporary accommodation. Current savings plans should be consolidated, with any duplication removed,

The approach to savings in the main is target driven, which means that in some areas it is difficult to determine how the saving is going to be delivered. Not all savings plans are clear about which individual member of staff is responsible for delivering them, which significantly reduces the likelihood of any real savings being achieved.

As a starting point a target-based approach is reasonable, but care must be taken to ensure that all savings included in the budget are deliverable and realistic. Recent budget reports have identified that a significant number of savings plans included in the 2022/23 budget are unlikely to be achieved because they represented either:

- top-down targets agreed by individuals who have now left the Council
- cross-cutting savings not allocated to specific individuals or departments
- adjustments that simply net down identified growth, and
- technical adjustments used as mechanism to balance the budget rather than make real efficiency savings or reductions in services.

Some specific examples are listed below:

- a 100% forecast increase in parking enforcement income (over £3m) is not supported by detailed implementation plans,
- 10 separate savings plans are aimed at reducing the cost of temporary accommodation but mostly appear to be duplication of the same or similar initiatives, and
- increasing digital service capacity is presented as a £3.0m reduction in ICT costs. In fact, these represent saving from reducing staffing across the Council which have not been quantified or agreed by Directorates where the reductions need to occur and therefore do not currently seem to be achievable.

Other examples are provided in section 2.

We recommend that all savings plans have nominated "owners" who are responsible for delivering the savings identified within specified timescales. Larger savings plans, say over £0.5m, should be supported by detailed business cases which are subject to robust scrutiny before being included in the budget and which include a realistic assessment of any additional cost requirements.

We have found at other local authorities that overview and scrutiny committees have a useful role to play in this regard by:

- challenging the realism of potential savings plans
- assessing the impact that identified savings will have on service delivery and Council functions, and
- monitoring delivery of agreed savings plans.

Given the Council’s current financial position, its approach to identifying and delivering savings may well need to be more radical in the future. Financial information taken from the Council’s 2022/23 budget report and set out in Appendix 1 suggested that in both 2023/24 and 2024/25 there was an expected net growth position of £10m and almost £14m respectively. To successfully address its financial challenges, the Council should be aiming to reduce net growth in revenue services.

This re-balancing cannot be achieved through efficiency savings alone, therefore the Council needs to embark on a more fundamental review of the services it is providing and what these cost. We have seen some good examples of transformation work in specific service areas, for example SEN provision, youth services and adults social care. However, this approach is not yet widespread across all Council services and needs to be developed and extended, for example by:

- challenging any provision of non-essential services, or services to non-priority groups
- identifying more cost-effective delivery models for essential services
- reducing the size of the capital programme so that it just provides for schemes covered by grant income or emergency health and safety works, and
- reducing the Council’s existing asset base, which would not only generate capital receipts to reduce borrowing but could also significantly reduce maintenance, repairs, and utility costs.

Recommendations

R1 **Current savings plans should be rationalised and consolidated, with any duplicated items removed. All savings plans should have nominated “owners” who are responsible for delivering the savings identified within specified timescales set out in budget reports.**

R2 **Larger savings plans, say over £0.5m, should have detailed business cases which clearly identify the cost of delivering these anticipated savings, and are subject to robust scrutiny before being included in the budget.**

R3 **Progress on the delivery of major savings initiatives should be regularly reported to members in addition to progress in delivering target savings overall.**

R4. **The Council has successfully implemented transformational change in a number of areas but may need to extend this approach in order to develop more ambitious savings plans.**

5. Transformation costs

Directions and statutory guidance from the Government, first published in 2016, permit local authorities to use capital receipts to fund the revenue costs of projects that will:

- reduce costs,
- generate additional income, or
- support a more efficient provision of services.

Guidance on what does (and does not) qualify as eligible expenditure is provided on:

[Guidance on flexible use of capital receipts - GOV.UK (www.gov.uk)]

Over £30m of staff costs and IT-related expenditure has been assumed by the Council to be transformational and therefore included in capital rather than revenue budgets between 2022/23 and 2024/25. Some of these items of expenditure clearly represent activities which are not transformational. For example, the Croydon Digital Service Team are providing an ongoing service that does not fit the definition of transformation but the costs of this team (£0.5m per annum) are being accounted for as capital expenditure.

The Council's external auditor (Grant Thornton) has also commented that the link between some items of Transformation expenditure, and the financial savings or service improvements generated, is not clear.

The approach to using transformation funding appears in some cases to be tactical rather than strategic, aimed primarily at transferring revenue costs into capital budgets rather than improving the financial position of the Council overall. Officers have explained that these were largely historical decisions and work is now under way to remove these items from capital budgets.

Looking forward, the Council needs to put in place a much clearer process for identifying and accounting for transformation costs, which:

- demonstrates a clear link between the items of expenditure capitalised, schedules of identified savings and transformation initiatives which are actually taking place
- only accounts for transformation costs as capital expenditure where they meet Government guidance criteria in full.

Any ICT costs which meet the definition of intangible assets should be capitalised and financed from borrowing in line with Section 4.5 of the CIPFA Code of Accounting Practice. Other costs should be charged to revenue budgets as appropriate.

It should also be borne in mind that:

- Government Guidance updated in August 2022 clarifies that the capital receipts used to finance Transformation costs must *be "derived from asset disposals by the local authority outside the "group" structure".* The wording of the Guidance suggests that this interpretation should have been placed on all Transformation funding capitalised since 2016. As we understand that the Council may have used intra-group capital receipts (from Croydon Affordable Homes) to finance Transformation costs in previous years. This accounting treatment will need to be revisited.

- any Transformation costs which are capitalised must be met from capital receipts and not from borrowing. The Council has recently approved more ambitious asset disposal plans, with a view to ensuring that sufficient capital receipts are generated to finance not only capitalised Transformation costs but also current (and any future) CD support.

Recommendation

R1. The Council needs to put in place a much clearer process for identifying and accounting for Transformation costs, which only treats such costs as capital expenditure where they meet Government guidance criteria in full.

R2. To meet current Government guidelines, the Council should also ensure that any Transformation costs which are capitalised are financed from capital receipts and not borrowing.

Appendix 1 – Approved Budget 2022/23 and current financial plans

Approved Budget 2022/23 and current plans 2023/24 - 2024/25				
Savings Proposals	**2022/23**	**2023/24**	**2024/25**	**Total 22/23-24/25**
	£m	**£m**	**£m**	**£m**
Children, Young People & Education	(9.5)	(3.1)	(1.6)	(14.2)
Adult Social Care & Health	(16.4)	(9.7)	0.0	(26.0)
Housing	(2.9)	(1.9)	0.0	(4.7)
Sustainable Communities, Regeneration & Economic Recovery	(12.4)	(4.4)	0.0	(16.8)
Assistant Chief Executive	(8.3)	3.3	(2.3)	(7.3)
Resources	(2.9)	(2.0)	(1.6)	(6.5)
Corporate	(27.8)	3.8	1.0	(23.0)
Total	**(80.1)**	**(14.0)**	**(4.5)**	**(98.6)**
Growth Proposals	**2022/23**	**2023/24**	**2024/25**	**Total 22/23-24/25**
	£m	**£m**	**£m**	**£m**
Children, Young People & Education	0.0	0.0	0.0	0.0
Adult Social Care & Health	8.5	6.9	0.7	16.2
Housing	2.1	0.0	0.0	2.1
Sustainable Communities, Regeneration & Economic Recovery	7.4	0.9	0.0	8.2
Assistant Chief Executive	1.5	(0.3)	0.0	1.2
Resources	0.3	0.0	0.4	0.7
Corporate	55.8	29.2	20.4	105.3
Total	**75.5**	**36.7**	**21.5**	**133.7**
Net Directorate Savings/Growth	**(4.6)**	**22.7**	**17.1**	**35.1**
Funding	(12.7)	(5.8)	(3.2)	(21.7)
Net Position	**(17.4)**	**16.9**	**13.9**	**13.4**
Reserves Movement	(7.6)	(6.9)	0.0	(14.5)
Approved Budget 2022/23 and current plans 2023/24 - 2024/25	**(25.0)**	**10.0**	**13.9**	**(1.1)**

REVIEW OF
CAPITAL SPENDING PLANS
TREASURY MANAGEMENT STRATEGIES
DEBT CHARGES AND BORROWING

Peter Worth
peter@worth-tas.co.uk

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1. Introduction and Summary

In July 2022, Worth Technical Accounting Solutions Limited was engaged by the London Borough of Croydon ("the Council") to review the Council's Treasury Management Strategies and capital spending plans as part of its ongoing "Opening the Books" review. Our work also compared the Council's current borrowing levels and spending plans with other London authorities.

Our initial review was carried out in July and August 2022, and this report sets out our findings and recommendations at that time. In summary, we identified that:

- The process for prioritising capital expenditure and in particular for revisiting planned capital expenditure in the light of the Council's current financial challenges needs to be reviewed. Restricting future levels of capital expenditure to essential items only would reduce pressure on future revenue budgets in terms of both debt charges and premises costs
- The Council should also take steps to reduce its dependence on borrowing to fund capital investment, by identifying sources of non-government grant funding, and generating additional capital receipts from asset sales,
- Although the Council had recently implemented an asset disposal strategy, this could be much more ambitious and there is scope to use capital receipts from sales of operational assets to reduce loan borrowing, fund recent Capitalisation Directions from the Government, and finance essential capital spending plans
- Historic reliance on external borrowing to fund ambitious capital spending plans means that the Council now has significantly higher levels of external loan debt than other London authorities. High levels of short term, variable rate borrowing represent a particular risk given expected increases to interest rates over the next 2-3 years. Driving down borrowing and interest charges should be a key priority for the Council.
- Current capital spending plans, treasury management and investment strategies do not meet CIPFA and Government guidance. These are key policy documents which need to be more transparent about future capital spending plans, how these plans will be funded, and the potential impact of current spending plans on revenue budgets going forward.
- Investment strategies and out-turn reports should set out actual and expected returns for all types of investment activities, including commercial property, council-owned companies, and third-party loans.
- MRP policies needed to be reviewed, to ensure that they reflected current Government guidelines and were consistently reflected in both detailed calculations and budget reports.

Since our initial review, the Council has taken steps to review both MRP calculations and its capital investment plans. Elected members have also approved much more ambitious asset disposal plans, in order to reduce premises costs and to generate additional capital receipts.

2. Capital spending plans

1. CIPFA's Prudential Code and Treasury Management Code require local authorities to publish both a capital strategy and a capital budget, following their approval by elected members at the start of each financial year. Both documents are considered in turn below.

2. The purpose of the capital strategy is to set out the long-term context within which investment decisions are made, giving due consideration to risk, reward, and the Council's priorities. The Council's Capital Strategy is set out in Appendix A of the Treasury Management Strategy (TMS), but at only two pages long this falls well short of the expectations set out in the Prudential Code. CIPFA have published Guidance on drafting the capital strategy which includes worked examples. Two good examples in London are Waltham Forest and Westminster, see links below:

   LB Waltham Forest Capital Investment Strategy 2021/22 to 2026/27

   Westminster City Council Capital Strategy 2022/23 to 2026/27

3. The purpose of the capital programme is to set out in more detail the major items of investment planned for each financial year, alongside expected cost and anticipated funding. Para 54 of the Prudential Code requires local authorities to report an estimate of the total capital expenditure for the current year and forthcoming next two years.

4. The Council did prepare a 3-year rolling programme for General Fund and HRA capital budgets in 2021. This covered the period from 1 April 2021 to 31 March 2024 and was approved by Full Council on 8 March 2021. Two points arise:

   - Whilst the three-year programme reported meets the minimum requirements of the Prudential Code, many local authorities operate a 5-10 year planning horizon; and

   - Although the 2022/23 TMS refers to a revised capital programme, it is not clear how (or when) these changes were approved by elected members as an updated capital programme was not presented to either Cabinet or Full Council alongside the 2022/23 revenue budgets and TMS in March 2022.

5. The HRA Business Plan approved by Cabinet on 21 March 2022 does however include a one-year budget for capital works of £23.6m. This is a reduction of £3.3m (over 12%) compared to the original budget of £26.9m approved in March 2021. At c2% of the net book value of Council dwellings, the revised budget represents a relatively low level of investment in the housing stock – at many other councils this figure would be between 5% and 10%. Although we understand that most of the housing stock already meets the Decent Homes Standard, lower capital investment at this stage may lead to pressure on HRA repairs and maintenance budgets in future years.

6. As discussed above, the status of the 2022/23 General Fund capital programme at the time of our initial review was not clear, however information presented to members in the 2022/23 TMS suggested a significant increase in planned capital spending.

7. It was not clear from our review of Cabinet reports how capital spend is prioritised or whether projects previously approved by members have been revisited in view of the Council's current financial position. For example:

- we were not clear about whether the spending controls which were initiated following the s114 notice are being applied to capital as well as revenue spending.
- many local authorities operate "gatekeeping" systems whereby proposals for new capital projects are prioritised based on value for money, potential for revenue savings or contribution to Council priorities.
- one Council currently in receipt of exceptional financial support is specifically restricting capital expenditure to essential maintenance works and grant-funded projects only. Another restricts borrowing to essential capital works.

8. As the Council is currently facing exceptional financial challenges, a significant increase in spending on new capital projects at this time would not be expected.

9. Historically, the Council's General Fund capital investment programme has largely funded from external or unsupported borrowing. However, the Council has recently approved a more ambitious asset disposal strategy aimed at realising capital receipts to:
   - fund capital investment,
   - repay loan debt,
   - finance Capitalisation Directions, and
   - finance capitalised Transformation costs.

10. Looking forward, the 2023/24 Treasury Management Strategy should be consistent with this new asset disposal strategy and clear about the intended use of future capital receipts income. It should also set out clearly the risks associated with any failure to generate expected asset sales and the assumptions underpinning expected capital funding streams.

11. Currently, all of the assumed grant funding in capital spending plans is expected to come from central government and there is no evidence of the Council successfully accessing funds from other funding agencies or charitable trusts. Many local authorities would expect a significant proportion of capital funding to come from these sources and devote considerable staff resource to identifying suitable projects and bidding for available funds. Alternatively, other councils have a policy of supporting community groups to access project-based funding not available to local authorities.

Recommendations

R1. The Council should develop a Capital Strategy in line with the current requirements of CIPFA's Prudential Code. This Strategy should clearly set out how capital investment is prioritised and include a requirement for projects previously approved by members to be revisited in the light of the current financial position.

R2. An updated version of the rolling three-year capital programme should be presented to members for approval as part of 2023/24 budget reports.

R3. **The Council's TMS should set out the assumptions and key risks underpinning expected changes to capital funding streams.**

R4. **The Council should aim to reduce its dependence on borrowing to fund capital investment, by:**

- **identifying sources of non-government grant funding, and**
- **generating additional capital receipts from asset sales.**

3. Treasury Management Strategies (TMS)

1. Treasury Management Strategies should bring together all of the Council's non-revenue spending plans and should explain, clearly and unambiguously, how these plans are to be financed, and the ongoing revenue implications of these plans.

2. The TMS needs to be consistent with the capital programme and capital strategy approved by elected members, to ensure that:

   - legislative capital financing requirements are complied with,
   - key financial indicators (Prudential Indicators) are correctly calculated, and
   - financial resources are available to fund capital investment as and when required.

3. We have already highlighted that the 2022/23 TMS seems to include some changes to Council's capital spending plans not separately approved by members. We also identified some inconsistencies within the 2022/23 TMS itself.

4. Potentially these discrepancies mean that the Council's CFR and Key Prudential Indicators may be incorrectly calculated. This creates a risk that the Could be over-borrowing and may not be able to afford increased debt charges as a result.

5. There are no performance indicators included in the 2022/23 TMS for any of the Council's commercial and equity-based investments which currently include the following:

   - a £99m investment property portfolio,
   - £175m of loans to third parties,
   - council-owned companies, which were reporting a net loss of £1.9m at 31/3/2021 according to Group accounts,
   - investment in the Real Lettings Property Fund, currently valued at £48m.

6. The DCLG Statutory Guidance on Local Government Investments (3rd edition published in February 2018) draws a clear distinction between treasury management investments and other investments, but paragraph 22 of the Guidance requires local authorities to:

   - disclose the contribution that all non-treasury investments make towards service delivery and financial objectives, and
   - develop and report on a range of indicators to explain performance for each type of investment and the extent of any additional debt costs taken on.

7. The non-treasury investments listed in above total £322m which is significant to the Council. The TMS should therefore include clear performance targets for each type of non-treasury investment covering security, liquidity and yield.

Recommendations

R1. Information contained within the TMS and used to calculate key prudential indicators should be consistent internally and with revenue budgets and capital spending plans approved by Full Council.

R2. The TMS should include up to date financial information and clear performance targets for all types of treasury and non-treasury investments in terms of security, liquidity and yield. For example:

- **regarding loans to third parties, security arrangements, due diligence processes, and the arrangements in place for monitoring repayment and assessing the possibility of default**

- **regarding investments in council companies, the arrangements for managing performance against financial and non-financial targets, and agreed exit strategies for non-performing companies**

4. Debt charges and borrowing

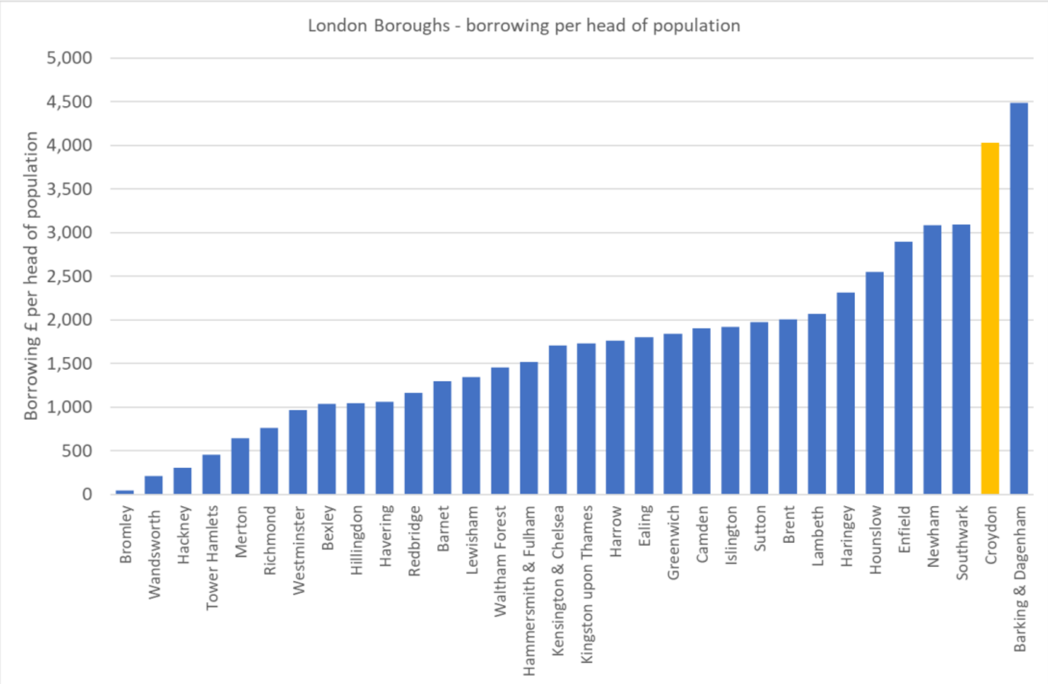
1. The Prudential Code requires affordability of borrowing to be measured in terms of overall borrowing levels, borrowing risk and total debt costs, comprising both interest charges and, where relevant, any amounts set aside for MRP (see below).

2. The Prudential Code also requires each local authority to operate within borrowing limits approved by members. The Council has recently increased its operational debt boundary to £1,637m and expects to be within 5% of this limit by 31 March 2025, as shown below:

	2020-21 £m	2024-25 £m	
Total expected borrowing	1,445	1,561	8% increase over 4 years
Borrowing for non-op purposes	99	94	remains stable at 6-7%
Operational debt boundary	1,520	1,637	actual borrowing = 95% of debt boundary
Authorised debt limit	1,570	1,687	actual borrowing = 92% of debt boundary

Source: Published TMS for 2022/23

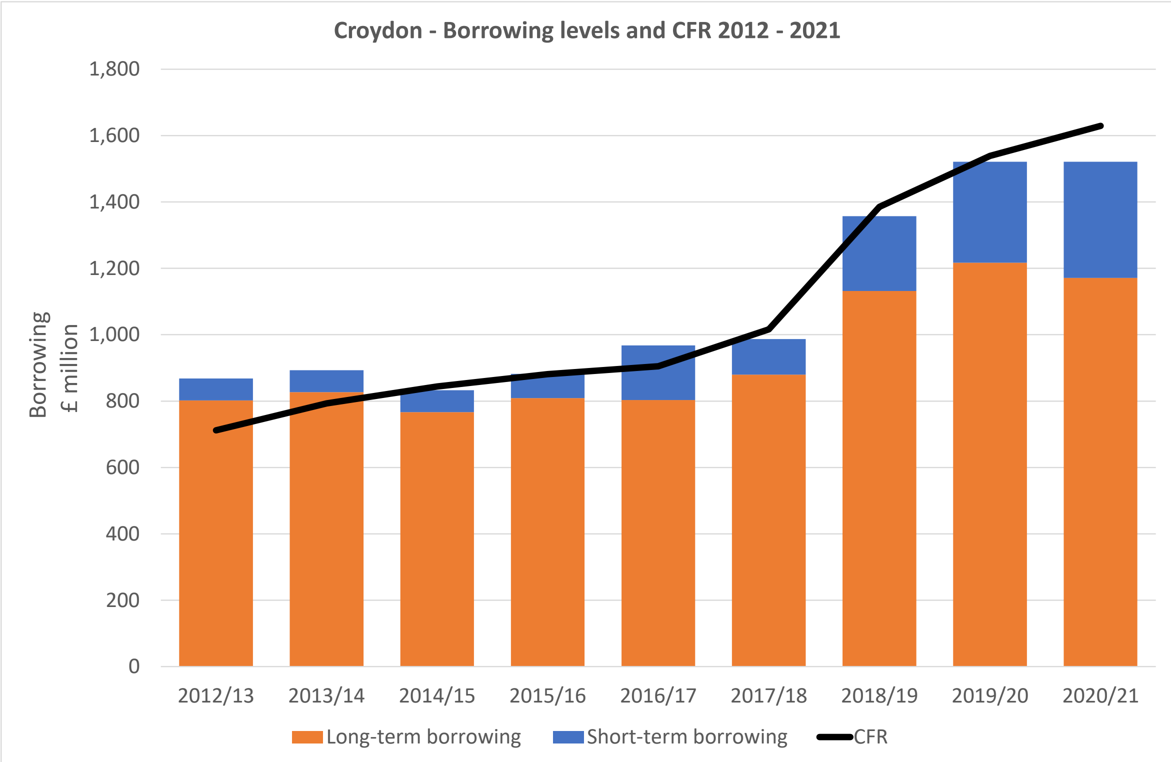
3. The Council has significantly increased its borrowing levels in recent years and now has the second highest level of borrowing per head of population in London:



Source: Published Statement of Accounts 2020/21

4. As well as the operational debt boundary, which measures borrowing in absolute terms, the Capital Financing Requirement (CFR) is another key indicator of financial resilience as it measures changes in the Council's underlying need to borrow over time. Key requirements of the Prudential Code are that external borrowing remains below the CFR overall, and that CFR calculations are based on the Council's year-end Balance Sheet.

5. The graph below confirms that in recent years the Council has been meeting these requirements. Total borrowing has been less than the CFR each year since 2018, and the CFR at 31 March 2021 reconciled to the Balance Sheet to within 1%.



Source: Published Statement of Accounts

6. However, the Council's CFR:

- is significantly higher than the other London boroughs,
- has increased from £710m to £1,630m between 2013 and 2021, and
- is expected to increase to c£1,750m by 2025.

7. This expected increase would reflect a 150% increase in borrowing in less than 10 years. Other local authorities experiencing significant financial difficulties have implemented debt reduction strategies as part of their DLUHC recovery plans. By implementing a more pro-active asset disposal strategy, capital receipts could then be used to reduce borrowing and debt charges.

8. The projected increase in borrowing of c£120m between 2021 and 2024 is consistent with the amended capital spending plans set out in the 2022/23 TMS. However, a £120m increase in external borrowing is not consistent with the expectation, set out in Appendix D of the TMS, that the ratio of financing costs as a percentage of the total revenue stream will remain stable at around 13% for the HRA, and reduce from 13% to c10% for the General Fund.

9. Financing costs as a percentage of the General Fund revenue budget will only reduce if a significant proportion of the capital programme is financed from the Council's own existing cash resources instead of new loan debt. This is sometimes referred to as unsupported or internal borrowing. Given however that the total of short-term investments and cash balances in the Council's Balance Sheet at 31 March 2021

totalled only £55m, it seems unlikely that the Council could fund all of the next 3-4 years' capital programme in this manner. It should also bear in mind that reserves balances held to cover unexpected overspends and contingencies should be cash backed.

10. To resolve these apparent inconstancies, as a first step all the various sections of the Council's TMS need to be based on a consistent set of assumptions which are more explicit (and realistic) about:

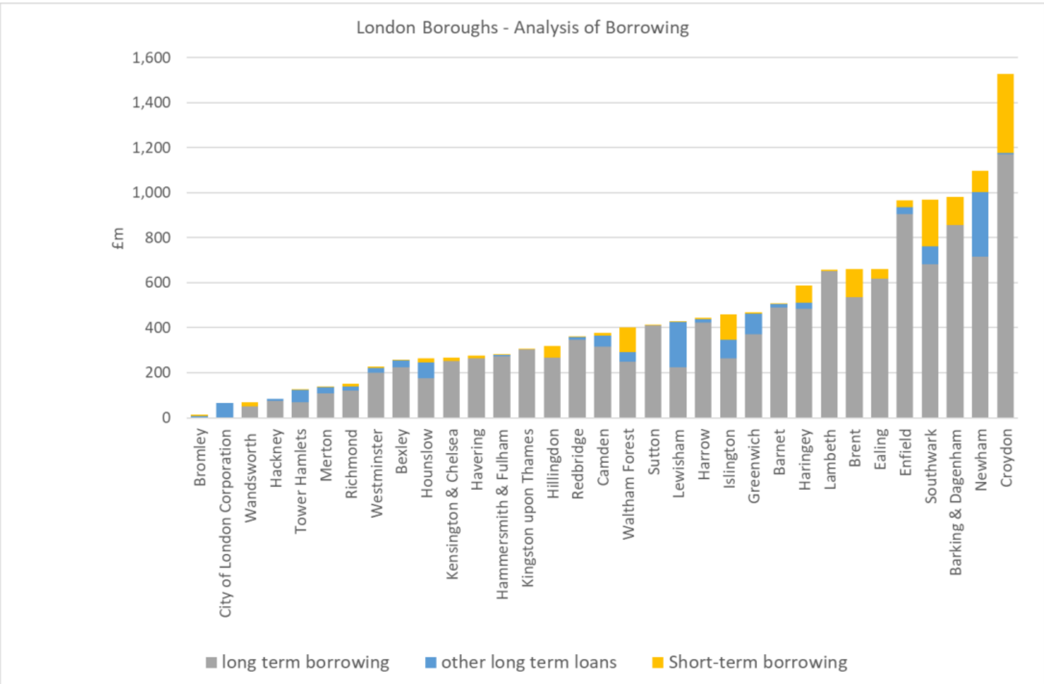
- whether new borrowing will represent external loans or utilisation of existing cash funds (unsupported borrowing), and
- the expected timing, duration, and borrowing costs, of any new external loan debt.

11. Realistically, if the Council continued with its previous capital programme it would need to incur additional external borrowing. Interest charges would then increase accordingly, and this would have an adverse impact on General Fund budgets.

12. Moreover, the current financing costs to revenue ratio has been calculated using an assumed interest rate of 0.25% rising to 1.25% by 31/3/2025 but:

- the OECD forecasts that UK interest rates will exceed 2% by January 2024;
- the Bank of England increased the base rate to 1.75% on 4/8/2022, and it seems highly likely that there will be further increases later this year.

13. Projected interest rate increases are especially relevant to Croydon because it has high levels of short-term borrowing, as shown below:



Source: published statements of accounts 2020/21

14. Using short term, variable rate borrowing has been an attractive option for many local authorities in recent years because while interest rates have been low and stable it has

generally been a cheaper and more flexible alterative to long-term borrowing at PWLB fixed term interest rates.

15. Low interest rates of under 1% since 2009 have limited the impact of increased borrowing on General Fund budgets, to the extent that some local authorities have regarded borrowing as a cost-free source of funding.

16. However, needing to regularly repay existing loans and renegotiate new ones is time-consuming for Council officers. Also, as borrowing rates are expected to rise in future so interest charges for this type of loan are likely to increase. A less risky strategy might be to match capital expenditure with long term, fixed rate loans with repayment profiles matched against the expected useful life of the asset.

Recommendations

R1. The Council's TMS needs to be more explicit, and more realistic about:

- **whether new borrowing will represent external loans or utilisation of existing liquid resources**
- **expected timings of any new external borrowing, and**
- **whether this borrowing will be long or short term**
- **the impact new loan debt will have on revenue debt charges and General Fund budgets in future years.**

R2. The Council should update its TMS, revenue budgets, and medium-term financial plans to reflect more up to date assumptions about future interest rates.

R3. Given the expected increase in UK interest rates going forward, the Council should also consider the potential benefits of:

- **a debt reduction strategy, and**
- **replacing short term, variable rate borrowing with long term, fixed rate loans where repayment profiles are matched against the expected useful life of the asset.**

5. Minimum Revenue Provision (MRP)

1. MRP is a legal requirement, specific to local authorities, which arises where General Fund capital expenditure has not been funded from either capital receipts, government grants, developer contributions or revenue financing. It requires an annual amount to be set aside from revenue budgets each year to reflect future repayments of this assumed new borrowing, irrespective of whether any actual new borrowing has taken place, or whether any loan repayments are in fact due.

2. Although the exact level of MRP charged each year is for the Council to decide, local authorities must "have regard to" statutory guidance issued by the Government. The current Statutory Guidance on MRP (2018 edition) sets out four options for calculating a prudent amount.

3. Para 23 of this Guidance does not preclude alternative calculation methods, but recent statements from DLUHC have re-emphasised that the Government expects this guidance to be followed and have clarified their expectation that MRP should be charged on all categories of capital expenditure including equity investments, commercial property and third-party loans.

4. Local authorities are required to publish their policy for calculating MRP which is then approved by elected members as part of the TMS. The published policy should:

   - explain the MRP framework and calculation options are as set out in current statutory and non-statutory guidance, and also

   - highlight any significant changes to the guidance since last year, and confirm that these requirements are being correctly applied.

5. Irrespective of the detailed method of calculation, in general terms MRP should:

   - be consistent with levels of external borrowing,

   - follow the trend of any changes in the Council's CFR, and

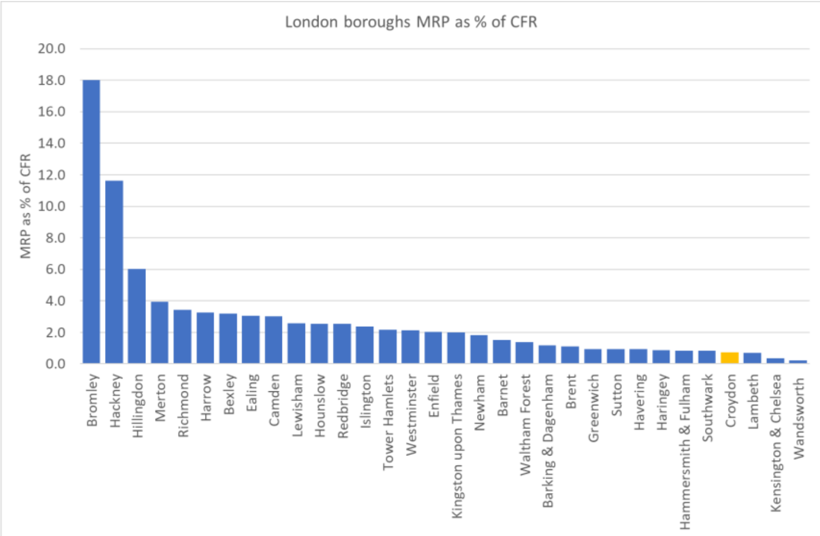
   - represent at least 2% of the closing CFR in any given financial year - this is external audit's current threshold for initiating more detailed review.

6. Our work confirmed that MRP calculations for 2018/19 through to 2022/23 are broadly in line with the published policy included set out in the TMS each financial year. However, in 2020/21, the Council's MRP charge of £12m was less than 1% of its CFR and 4th lowest of all London boroughs, as shown below. The Council has recently commenced a review of its MRP policy and underlying calculations, to confirm that:

   - the annual charge has been calculated in line with statutory and non-statutory guidance,

   - realistic levels of MRP have been built into General Fund budgets for future years, and that,

   - differences between the Council's level of MRP charges and those of neighbouring authorities can be justified and is clearly understood.



Source: published statements of accounts 2020/21

7. We have provided officers with examples of calculations prepared by other authorities which, in our view, comply with current Government expectations in full.

Recommendations

R1. The Council's published MRP policy should:

- **explain the MRP framework and calculation options are as set out in current statutory and non-statutory guidance,**
- **highlight any significant changes to the guidance since last year, and**
- **confirm that these requirements are being correctly applied.**

R2. The Council should review its MRP policy and underlying calculations, to confirm that the annual charge has been calculated in line with statutory and non-statutory guidance, and that realistic levels of MRP have been built into General Fund budgets.

LONDON BOROUGH OF CROYDON FINANCIAL REPORTING AND YEAR END CLOSE

Peter Worth
peter@worth-tas.co.uk

Contents

1. Introduction and Summary

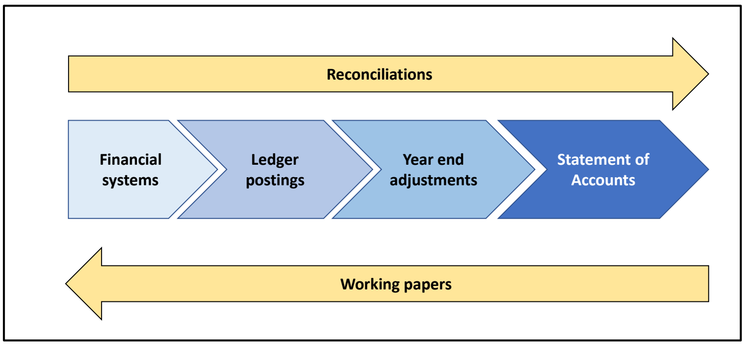
In July 2022, Worth Technical Accounting Solutions Limited were engaged by the London Borough of Croydon to support the Council's "Opening the Books" initiative. This aspect of our work is focussed on financial reporting and year end close.

Good quality financial reporting is based on a combination of:

- fit-for-purpose financial systems for recording everyday transactions,
- accurate postings to appropriate general ledger codes,
- effective arrangements for identifying and processing year-end adjustments, and
- good project management which supports timely production of financial information.

Underpinning this activity are:

- reconciliation controls, which ensure that data is transferred accurately from one stage of the process to the next, and
- comprehensive working papers which support the entries in financial statements.



Our report considers each of these areas in turn. Key recommendations are set out below:

- publication of financial statements was delayed in 2020/21 and 2021/22 as complex accounting issues were identified. Resolving these issues and finalizing and publishing 2021/22 financial statements is now a priority for the Council so that the current position on General Fund balances can be clearly established.
- capacity and resourcing issues have also affected completion of 2021/22 accounts. The Council should ensure that closedown plans, once agreed, are delivered in practice, with prompt action taken to address staffing problems or other delays.
- the corporate finance team does not have effective oversight of bank reconciliations and feeder system reconciliation work. New processes should be introduced to ensure that these reconciliations are carried out regularly throughout the year and adequately evidenced.
- bad debt provisions should be calculated on a consistent and prudent basis at the year end, and all debts which are considered not collectable should be written off.

2. Financial processes

1. It was not part of the agreed scope of this project to review individual financial systems in detail, or to confirm the accuracy of specific ledger balances. Instead, our work has been focused on a high-level review of the following:

    - ledger maintenance
    - bank reconciliations
    - other reconciliation controls
    - ledger maintenance, and
    - income collection, write offs and bad debts

2. Each has been considered in turn below.

Ledger maintenance

3. Most financial information is produced in the first instance from general ledger reports therefore it is of critical importance that this information is accurate and up to date. Our high-level overview was able to confirm that:

    - appropriate interfaces are in place for automatic postings between financial systems (which record-day-to-day transactions) and the ledger codes that these transactions relate to
    - balances on suspense, control and holding accounts are cleared as part of the annual closedown process.
    - where manual journals need to be raised to process information which is not posted automatically, these journals are well controlled and kept to a minimum, which reduces the risk of miscoding and other input errors
    - the ledger coding structure is, in general terms, fit for purpose and follows Code requirements. Year-end accounts can be prepared with the minimum amount of spreadsheet re-analysis, which reduces the risk of errors due to misclassification, poor version control or data loss.

Bank reconciliations

4. By agreeing all cash-based income and expenditure transactions back to third party confirmations (bank statements), bank reconciliations are arguably the single most important control over the integrity of ledger information. In our view all bank reconciliations should be completed weekly, with copies provided to the corporate finance team.

5. One part of the bank reconciliation process takes place on a micro level, by agreeing individual transactions listed in bank statements back to the Council's own financial records. But it is equally important that bank reconciliations operate at a macro level, by:

    - agreeing closing balances on each bank statement back to the relevant account code balance in the general ledger
    - ensuring that all suspense and holding account items have been cleared, and

- updating cash flow forecasts which are used to make treasury management and investment decisions.

6. Our review confirmed that bank reconciliations were completed in full at 31 March 2022 with balances on holding codes and suspense accounts all cleared. However, bank reconciliations are not always kept up to date during the year. For example, in November 2022, copies of bank reconciliations could only be provided up to August.

Other reconciliation controls

7. Financial systems recording day-to-day transactions should be regularly reconciled to the ledger codes that they relate to. Reconciliation controls are essential not just to confirm the accuracy of year-end financial reporting, but also to ensure that in-year outturn reports and budget setting information is accurate.

8. The corporate finance team does not need to complete the reconciliations, but it does need to have effective oversight of the process and be confident that:

- all reconciliations are being undertaken on a regular basis throughout the year
- any reconciling items are investigated,
- all mis-postings have been corrected, and
- all suspense and holding account balances have been cleared.

9. Typically, this oversight is exercised through some form of "dashboard" reporting whereby:

- all the key reconciliations are listed together with target and actual dates for completion during the year (usually monthly)
- a nominated individual within the corporate finance team is assigned responsibility for obtaining copies of the reconciliations, reviewing them, and ensuring all relevant issues arising have been dealt with.

10. We could find no evidence of such processes being maintained at Croydon, and no corporate guidance on how often reconciliations should be carried out, or on how these key documents should be evidenced and prepared.

11. Other than for sundry debtors and creditor payment systems, our work suggested that reconciliations are not taking place regularly, or at least not being evidenced, throughout the year. The table below sets out the position at 30 November 2022:

	Most recent reconciliation
Creditor payments and Sundry debtors	October 2022
Payroll	August 2022
Council Tax income, Business Rates income and Fixed Asset Register	March 2022
Housing rents income and Housing Benefits	No reconciliations for 2022/23 provided to date

12. More regular reconciliation activity, and more effective processes to ensure that any issues identified were properly addressed, would have significant benefits in terms of both:

- reducing closedown workload at the year-end, and in

- ensuring that in-year reports to senior management and to members were accurate.

Income collection and provisions for bad and doubtful debts

13. The corporate finance team appears to have had, until recently, limited oversight of:

- income collection rates
- levels of bad debt write-offs, or
- the process for calculating year-end provisions for bad and doubtful debts.

14. A recent appointment has been made to co-ordinate and oversee income collection across all aspects of Council activity, reporting back to the section 151 officer. This is very much to be welcomed, however at the time of our fieldwork this individual was new in post. Currently, there appears to be no corporate guidance on how bad debt provisions should be calculated, and the information we received was presented in a range of different formats, supporting calculations made in different ways and based on varying assumptions.

15. Based on the information available for 31 March 2021, total gross debts, and bad debt provisions for the Council's main categories of income are shown below:

At 31 March 2021				
	Arrears	**Bad debt provisions**		
	£000s	**£000s**	**%**	
Housing Benefits Overpayments	37,187	(13,413)	36%	
Council Tax	59,881	(43,569)	73%	
Business rates	17,322	(9,815)	57%	
Current tenants arrears	4,257	(116)	3%	
Former tenants arrears	12,795	(994)	8%	
Sundry debtors	44,060	(7,806)	18%	
Total	**175,502**	**(75,713)**	**43%**	

16. Although the method of calculating each different category of provision varies, in general, only debts over 6 years old have been fully provided for and, again in most cases, no significant provision is being made at all until the debt is 2-3 years old. The Council is carrying a significant amount of debt which is more than 7 years old which is fully provided for. There is limited movement on such debt and best practice would be to write off most of these debts.

17. Based on our experience of calculations elsewhere, we have suggested that all debts over 5 years old should be written off and all debts over 2 years old should be at least partially provided for. This would increase the overall provision to between 50% and 75% of total debts at 31 March 2023, an increase of between c£10m and £55m.

18. The Council has responded promptly to this suggestion and has established a working group to review income collection processes, write-offs and provisions.

Recommendations

R1 Corporate guidance should be provided on key accounting areas such as the preparation and evidencing of:

- **bank reconciliations**
- **other key reconciliation processes**
- **bad debt write-offs, and**
- **calculation of bad debt provisions at the year-end.**

R2 Bank reconciliations should be completed weekly, with copies provided to the corporate finance team together with evidence confirming that:

- **each bank statement reconciles back to the ledger,**
- **all suspense and holding account items have been cleared, and that,**
- **cash flow forecasts used to make treasury management decisions have been updated as necessary.**

R3. A “dashboard” process (or equivalent) should be established to confirm that:

- **feeder system reconciliations are undertaken monthly throughout the year,**
- **any reconciling items are investigated,**
- **mis-postings have been corrected, and**
- **all suspense and holding account balances have been cleared.**

R4. Bad debt provisions should be calculated on a consistent basis, based on the age of the debt and a realistic assessment of collectability. As a general rule, based on practices that we have observed elsewhere, all debts over 5 years old should be written off and all debts over 2 years old should be at least partially provided for.

R5. The Council is carrying a significant amount of debt which is more than 7 years old and, although much of this is fully provided for, most of these debts should be written off.

3. Working papers

19. Working papers should be prepared to support all of the transactions, balances and disclosure notes in the accounts. They should be filed centrally, in well-signposted folders which are accessible to all Finance staff as well as the external audit team.

20. Working papers are key to the external audit process and the external audit team should be able to provide a list of working paper requirements (often referred to as the "Prepared by Client" list or PBC), well in advance of the year end. This list should be a key driver for closedown work and a copy of the PBC list cross-referenced to detailed working papers should be available at the start of the audit.

21. As well as using the PBC to ensure completeness, it is important that working papers are prepared to the required quality standard and on a broadly consistent basis. Many local authorities achieve this by using templates or a standard working -paper index. Examples of a working-paper index and a comprehensive file structure are provided in Appendix 1.

22. The Council already uses year-end templates for calculating and posting revenue and capital accruals and for requesting movements to and from reserves. This approach should be extended, as a minimum, to cover all year-end accruals, prepayments, provisions and receipts in advance.

23. Many local authorities adopt a "right first time" approach to working papers, by ensuring that all working papers are subject to detailed review before the draft financial statements are prepared. Usually this is done by including additional columns in the closedown plan for reviewer and preparer, with separate completion dates for preparation and review.

24. In addition to detailed reviews of individual working papers, analytical review should be completed to explain the reasons for material changes compared to the budget and the previous year. This is usually a core requirement of the audit team's PBC list.

25. The corporate finance team do complete an analytical review for the Net Cost of Services element of the accounts, by comparing net costs for each Directorate to the Quarter 4 out-turn report. This process should be extended to provide additional assurance by:

- comparing debt charges and investment income to Treasury Management reports, and
- comparing Balance Sheet assets and liabilities against previous years.

26. One area where audit expectations have increased significantly in recent years is the evidence provided for key accounting estimates. Revisions to *"ISA 540 - Auditing accounting estimates and related disclosures"* apply from 2020/21 onwards and require auditors to be much more challenging in areas such as land and building valuations, material provisions and IAS 19 disclosures.

27. Even where external experts have carried out these valuations, local authorities are now usually expected to explain in detail:

- how each material estimate has been calculated,
- how key assumptions have been arrived at,

- how financial modelling has been applied,
- what source data has been used,
- what work has been done to confirm that this information is accurate,
- any changes in the estimation method,
- how external specialists are appointed and utilised,
- how management judgement has been exercised, and
- any significant uncertainties which might affect the valuation.

28. The audit of accounting estimates was considered in detail at the CIPFA Local Authority Accounting Conference in July 2022. Appendix 2 provides copies of slides from that conference, setting out how working papers could be compiled to evidence new audit requirements on asset valuations and pension liabilities.

Recommendations

R1 A Prepared by Client (PBC) list should be obtained from the audit team and used to ensure that a comprehensive set of working papers is produced each year.

R2 Templates should be introduced to ensure that working papers are prepared to a consistent standard and support all transactions, disclosures and balances in the Statement of Accounts.

R3 Closedown work should include:

- **detailed review of year-end working papers at pre-audit stage**
- **analytical review on all material transactions, disclosures and balances.**

R4 Working papers should specifically address new audit requirements on key accounting estimates for:

- **land and property valuations**
- **IAS 19 disclosures, and**
- **any material provisions or accounting estimates.**

4. Project management

29. Publication of the Council's year-end financial statements has been delayed significantly since the Section 114 Notice was issued in November 2020. The 2020/21 accounts were not published until 31 August 2021 (4 months after the year-end and 1 month later than the COVID delayed statutory deadline of 31 July) and 2021/22 accounts had not been published as at 30 November 2022, when we originally reported and remain outstanding at 27 January 2023 (10 months after the year-end).

30. The Accounts and Audit Regulations 2015 require financial statements to be drafted and published by 31 July each year. Many local authorities do not achieve this in practice, but, as a minimum, accounts should be completed before budget setting preparations start in autumn each year.

31. Specific problems at Croydon which have led to these delays have included:

- disagreements about the correct accounting treatment for specific transactions, most notably Croydon Affordable Homes, and
- uncertainty over the availability of additional financial support from central Government
- resourcing and capacity issues, which have delayed, for example, production of the pension fund accounts and annual report for 2021/22.

32. Arguably, the production of year-end accounts has historically not always been seen as a priority in the context of the Council's other financial challenges. However, the Chief Executive has confirmed to us that the prompt closure of year-end accounts, and working effectively with Grant Thornton to expedite completion of the audit, is now a key priority for the Council.

33. In our view, timely production of financial statements forms an important part of the Council's financial recovery since, without this, accurate monitoring of General Fund reserves and balances cannot take place. It is also important, from a transparency and "building trust" perspective, that both in-year and year-end financial reporting is kept up to date.

34. Resolving complex accounting issues can take time, and where necessary, appropriate caveats and additional disclosures can be included in published financial information to explain the context and set out any specific areas of concern. We have provided officers with suggestions as to how this could be done, based on our experiences elsewhere.

35. The Section 151 officer has a key role to play by ensuring that:

- fit-for-purpose project management arrangements are in place,
- financial statements are published on or before 30 September each year,
- in-year financial reporting is up to date,
- the necessary skills and resources are available,
- speedy and informed decisions are taken to address any problems or delays, and

- financial information contains the necessary caveats where accounting or audit issues remain unresolved.

36. Project management arrangements for 2021-22 year-end close were adequate but there is scope for further development, as follows:

    - the current closedown plan identifies c320 tasks to be completed between 1st January and 30 June 2022. Closedown plans at similar-sized authorities are usually more detailed, typically listing 500-600 separate tasks and cross-referenced to Code and PBC requirements,
    - most tasks are allocated to a named individual. However almost 50 tasks were either allocated generically to spending departments or finance teams, so it was not clear exactly who would be responsible for completing these in practice,
    - the closedown plan only identifies c10% of tasks to be completed in advance of 31 March 2022. The Council should be aiming to complete early work wherever possible, for example by finalising the template Statement of Accounts in early January and by drafting revenue-based disclosure notes using Period 10 forecast outturn.

37. Year-end closedown work has traditionally been led, and largely delivered by just 3-4 people in the corporate finance team. Although over 30 individuals are listed in the closedown plan, the role of most of these staff is limited, and their contribution could be significantly enhanced. Many local authorities are moving towards a resourcing model whereby:

    - closedown work involves all service-based finance staff as well as Exchequer and Treasury Management personnel,
    - the role of the corporate finance team is focussed on liaison, review and general oversight, coupled with the provision of training and technical expertise.

38. This approach creates additional resilience, reduces key-person risk and can help to avoid delays. It should also facilitate speedier production of year-end accounts. To be successful however it does depend on staff who are new to financial reporting and audit being supported effectively in their new role. Usually this is done through a combination of the following:

    - staff training – a staff briefing was provided in 2021 covering issues such as year-end cut-off, working papers, recharges, and accruals. This approach should be developed and extended to include, for example, technical training on Code requirements and audit expectations,
    - providing written guidance and instructions. Appendix 3 sets out a list of potential issues where written guidance to Finance staff is provided by other authorities.

39. Project management should not only cover the processes leading up to the publication of the draft accounts each year but should also include processes for making sure that audit work is completed as quickly as possible, with all audit queries responded to promptly and comprehensively.

40. The Council's current target is to respond to audit queries within 2-5 days but there are no systematic processes in place to ensure that:

- target response times are being met,
- issues with a potentially material impact on the financial statements are given priority, and that,
- auditors are happy with the responses provided and do not require any further information to complete their work.

41. Given the increased level of audit work now necessary to meet regulatory requirements, and the consequent impact this has on practitioners, many local authorities are now finding it necessary to appoint a project manager with specific responsibility for managing the audit process as opposed to managing the production of the accounts. Other actions which local authorities use to keep the audit work on track include the following:

- regular meetings, at a senior level, between the Section 151 officer and the local external audit team, and
- audit progress being included as a standing item on Audit Committee agendas.

Recommendations

R1 Timely production of year-end accounts and in-year financial information should be a corporate priority going forward, with visible and effective leadership ensuring that:

- **financial statements are published by 30 September each year, and**
- **outturn reports are published on a regular basis throughout the year.**

R2 Closedown plans should be reviewed and updated to ensure that:

- **the key tasks identified reflect all Code and PBC requirements,**
- **all tasks are allocated to named individuals, and that,**
- **as much work as possible is completed in advance of 31 March each year**

R3 Closedown work should be less dependent on a small number of staff within the corporate finance team by involving all service-based finance staff as well as Exchequer and Treasury Management personnel.

R4 Staff briefings on year-end close should be developed and extended to include, for example, technical training on Code disclosures and audit requirements.

R5 Written guidance should be provided to all staff involved in year-end close.

R6 Project management arrangements should ensure that all audit queries are responded to promptly and comprehensively.

R7 Regular meetings between the Section 151 officer and the local external audit team, and regular progress reports to the Audit Committee, should be used to monitor both the production of year-end accounts and the progress being made by external audit.

5. Year-end financial statements

42. The Council's unaudited financial statements for 2020/21 were published in August 2021. We were not engaged, as part of this assignment, to carry out a technical review on these financial statements or to examine supporting working papers in detail, but we did complete a high-level review of Code requirements and key consistency checks, which is set out in Appendix 4.

43. The layout, format and overall presentation of the Council's draft financial statements is based on CIPFA's published example accounts and therefore should meet most Code requirements. Key disclosure issues that we identified were as follows:

    - the Statement of Accounts does not typically include an Annual Government Statement (AGS). At Croydon this statement is prepared and published separately from the rest of the accounts. Whilst the Code does not require a full AGS to be published as part of the accounts, it does require a summary statement to be included, or at the very least, clear signposting as to where a stand-alone AGS might be found.
    - 2021/22 draft accounts do not include the Council's pension fund accounts. We understand that these accounts were not prepared or published by 1 December 2022, despite this being a statutory requirement.
    - Note 1.2 (accounting policies) confirms that the going concern assumption has been applied but does not refer to either the Section 114 Notice issued in November 2020, or to ongoing Government support
    - there are no credit risk disclosures on trade and loan debts in the Financial Instrument disclosures, and no aged analysis of debtors or information on debts past due date not yet impaired. Note 17(debtors) discloses total credit loss allowances but there is no detail about how this has been calculated or the debt profile that it relates to.

44. In addition to the published example accounts, CIPFA also produce a detailed disclosure checklist each year. Many local authorities complete this checklist as part of their pre-audit review, to demonstrate that the draft accounts submitted for audit meet Code disclosure requirements in full.

45. An Excel workbook is used by the Corporate Finance team to carry out arithmetic, cross-referencing and consistency checks. Overall, this seems to work well, although there may be scope for further development. For example, in the Council's 2020/21 accounts, some movements on the Major Repairs Reserve, the Capital Adjustment Account and the Expenditure and Funding Analysis were not consistent with core statements and other disclosure notes.

46. The CIPFA publication "Streamlining the Accounts" contains a useful Section 151 checklist, setting out key consistency issues, and the CIPFA example accounts publication for LGPS pension schemes also includes a more detailed consistency checker for this section of the accounts.

47. In addition to the issues highlighted above, our other reports to the Council have considered specific accounting issues and disclosure requirements relating to:

- Croydon Affordable Homes
- Capitalised Transformation costs
- Capitalisation Directions obtained from the Government, and
- Minimum Revenue Provision (MRP) calculations.

48. Officers recognise that addressing these issues will require adjustments to unaudited financial statements for 2020/21 and 2019/20, and that external audit work in relation to either these financial statements or to 2021/22 is unlikely to progress until the relevant adjustments can processed and agreed.

49. Resolving these matters, some of which have been outstanding for several years, should therefore be addressed as a priority. This would enable the Council not only to progress external audit work but to obtain greater clarity about levels of General Fund balances, which will assist with budget setting for 2023/24 and future years.

Recommendations

R1 The published Statement of Accounts should either include the complete version of the Annual Government Statement, a summarised version to meet Code requirements, or, as a minimum, clear signposting as to where the AGS can be found.

R2 2021/22 pension fund accounts should be completed as soon as possible. The 2021/22 pension fund annual report should also be drafted and published as this is now overdue.

R3 Going concern disclosures in Note 1.2 should explain why the going concern assumption remains appropriate given the Council's current financial position.

R4 The Statement of Accounts should include credit risk disclosures on trade and loan debts, together with an aged analysis of debtors and summary information on debts past due date not yet impaired.

R5 To demonstrate that all relevant Code requirements have been met, the Council should complete CIPFA's detailed disclosure checklist each year.

R6 Spreadsheet-based cross-referencing and consistency checks should be extended to include cross-checks on:

- **movements in useable and unusable reserves**
- **the Expenditure and Funding Account, and**
- **the subjective analysis of Net Cost of Services in Note 1C.**

R7 Some complex accounting matters have been outstanding for several years. Resolving these matters, and making appropriate adjustments to prior year's financial statements, should be regarded as a priority.

Appendix 1 – Example working papers

File structure

01 Accounting policies	16 Grant income	31 Prior Period Adjustments
02 Balance Sheet	17 Group Accounts	32 Provisions
03 Borrowing	18 HRA and disclosure notes	33 Related Party Transactions
04 CFR and capital financing	19 Inventory	33 Subjective analysis
05 Cash	20 Leases	34 Short and long term investments
06 Cash Flow Statement and Notes	21 Material items	35 Trading and agency services
07 CIES	22 MIRS, Earmarked reserves and adjustments	36 Unuseable reserves
08 Collection Fund	23 Narrative report	37 Expenditure and Funding Analysis
09 Creditors	24 Non current assets and PPE	38 QA and consistency checks
10 Key judgements, assumptions and accounting estimates	25 member & officer remuneration	
11 Debtors	26 Other CIES disclosure notes	
12 External audit fees	27 PBSEs and contingencies	
13 IFRS 13 Fair Value	28 Pension costs and IAS19	
14 Financial Instruments	29 PFI schemes & service concessions	
15 Direct Schools Grant	30 Pooled budgets	

Working paper index

Working paper index	
WP 1. Draft disclosure note	Note 17'!A1
WP 2. GL report	GL '!A1
WP 3. Feeder system reconcilation	year end rec'!A1
WP 4 - 6. Other supporting information	accruals and RIA'!A1
WP 7. Year end adjustments	journals!A1
WP 8. Code disclosure checklist	disclosure checklist'!A1
WP 9. Analytical review	anaytical review'!A1
WP 10. Review sheet	Review sheet'!A1

Appendix 2 – Evidencing key accounting estimates

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Case study 2 - IAS19 reports

Working papers index	
1. QA to confirm that the data collection submission provided to the actuary is correct	WP1
2. Checks to confirm the accuracy of membership records via AR reconciliation controls	WP2
3. Emails to confirm the actuary is aware of pension prepayment and academy outsourcing	WP3
4. Emails to confirm the actuary has taken account of McCloud and other legal cases	WP4
5. Notes of meetings with actuary to discuss demographic and financial assumptions	WP5
6. Confirmation that the draft IAS 19 report includes the detailed information requested by auditors	WP6
7. Confirmation (via LGPS) that the actuary's terms of engagement meets all Code requirements	WP7

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Case study 2 – valuation reports

Working papers index	
1. Spot checks to confirm that the Fixed Asset Register info provided to valuers is correct	WP1
2. Checks to confirm the accuracy of floor area, rent income, tenancy length and voids	WP2
3. Emails to confirm arrangements for valuer site visits	WP3
4. Copies of property condition surveys and backlog reports	WP4
5. Notes of meetings with valuer to discuss content and layout of valuation reports	WP5
6. Confirmation of appointment process for valuers inc assessment of competence and experience	WP6
7. Confirmation that the valuer's terms of engagement meets all Code and Red Book requirements	WP7

Appendix 3 – Closedown Guidance Notes

Detailed guidance notes could include the following areas, depending on their significance to the Council:

Roll-over of prior year balances	Transfers to and from reserves
Year-end cut off	Identifying contingent assets
Calculating and posting revenue accruals	Identifying contingent liabilities
Calculating and posting capital accruals	Identifying post year end events
Calculating and posting provisions	Identifying RPT disclosures
Clearing suspense and holding accounts	Group accounts information
Clearing GRNI balances	IAS 19 disclosures
Calculating prepayments and RIA	LGPS investments reconciliation
Stock-taking procedures	LGPS contributions reconciliation
Petty Cash balances	LGPS benefits reconciliation
Year-end bank reconciliations	Analytical review
Calculating bad debt provisions and credit loss allowances	Reconciliation to Q4 out-turn reports
Accounting for grant income	Identifying post year end events
Accounting for section 106/CIL income	FI risk disclosures
AP and AR reconciliations	FI notes
Housing Benefit reconciliations	Fair Value disclosures
Payroll reconciliations	Staff cost disclosures
Council Tax reconciliations	Audit fee disclosures
Business rates reconciliations	Exit payments
Fixed Asset Register reconciliations	Drafting the Narrative Report
Housing rents reconciliation	
HMRC reconciliations	

Appendix 4 – Review of 2020-21 Statement of Accounts

Contents and Presentation	
Are all core statements included ie CIES, Balance Sheet, CFS, MiRS, HRA, Coll Fund, Group Acc's, AGS, Narrative Report and Glossary?	No AGS, otherwise yes
Comprehensive income and expenditure statement	
Does the reported surplus or deficit for each year match the corresponding entries in the MiRS?	YES
Is the reported surplus/deficit in the CIES consistent with the cash flow statement and the EFA?	YES
Is the statement cross referenced to relevant disclosure notes?	YES
Is NCOS analysis under 10 lines?	YES
Does the Total Comprehensive Income and Expenditure for the year equal the movement in net assets in the Balance Sheet?	YES
MiRS	
Are statutory adjustments consistent in total between the MIRS and the disclosure note?	YES
Are movements to and from earmarked and General Fund/HRA reserves consistent between the MiRS and disclosure notes ?	YES
Balance sheet	
Do reserves balances match the corresponding entries in the MiRS?	YES
Do cash and cash equivalent figures in the balance sheet agree to the cash flow statement?	YES
Is the statement cross referenced to relevant disclosure notes?	YES
Cash Flow Statement	
Is the statement cross referenced to relevant disclosure notes?	YES
Collection Fund	
transactions?	YES
Are CT and BR surpluses and deficits c/f and b/f separatelly disclosed?	YES
Has the basis for reallocating previous year's surplus or deficits been disclosed?	YES
Prior Period adjustments	
Where prior period adjustments have been identified, do core statements include additional lines/columns and disclosure note (s) as appropriate?	No PPAs disclosed on 2020-21 accounts
Group accounts	
Does the reported surplus or deficit for each year in the Group CIES match corresponding entries in the Group MiRS and Group Cash Flow Statement?	YES
Do Group accounts include additional disclosure notes for balances which are materially differnet from the single entity accounts?	No separate Group accounts disclosure notes - all cross-references are to single entity financial statements
Does the Total Comprehensive Income and Expenditure for the year equal the movement in net assets in the Group Balance Sheet?	YES
Does the Group Balance Sheet balance and is it consistent with the Group MIRS and Group Cash Flow Statement?	YES
Is the Group MIRS consistent with single entity accounts?	YES
Housing Revenue Account	
Are HRA core statements cross referenced to relevant disclosure notes?	YES
Does the HRA Movement on Balances statement agree to (1) the MiRS (2) the main statement statutory adjustments notes (3) the HRA I&E account?	YES
Do movements on MRR balance agreeee to MIRS and statutory adjustments note?	No - MIRS doesn't show the movements in and out on MRR balances each year and the Statement of Movement on HRA balances includes an adjustment of £437k which is reflected in the statutory adjustments note but is not reflected in the MRR note or the MIRS
Are HRA disclosure notes consistent with corresponding notes in the main statement of accounts?	YES
Accounting policies, critical judgements and assumptions	
Do accounting policies reflect expected transactions and balances ? Have they been updated to reflect new Code requirements on IFRS 9 and IFRS 15?	Note 1.2 confirms that the going concern assumptioin has been applied but not why and does not make reference to either the s114 Notice or ongoing reliance on DLUHC support. Neither is there an accounting policy to set out how the CD obtained from DLUHC has been applied and accounted for, the only (very brief) reference to the CD is in note 5
Have all critical judgements and significant estimates beeen correctly identified and disclosed?	Largely yes, although sensitivity analysis has not been provided for key accounting estimate disclosures in note 4 (apart from IAS 19).
Material items of income and expenditure	
Has a subjective analysis been provided and is this consistent in total with the CIES?	Analysis provided in Note 1C does not reconcile in total back to the CIES. Also a segmental analysis of income has been provided but this does not agree in total to either the subjective analysis or the CIES
Does disclosure note only relate to transasctions not covered elsewhere?	YES
Post balance sheet events, contingent assets and contingent liabilities	
Are disclosures correctly categorised between PBSEs, provisions and earmarked reserves?	YES
Transfers to and from earmarked reserves	
Has the Council provided an analysis of transfers to and from earmarked reserves?	YES
Is the nature and purpose of all earmarked reserves set out correctly in the disclosure note?	YES
Financial instruments and Fair Value	
Are Fair Value disclosures provided in line with Code requirements ie level 1-3 analysis plus disclosures on valuation? Have additional disclosures been provided for any level 3 assets or liabilities?	Yes for financial instrumens in note 16 and for non-FIs (investment property, surplus assets and assets held for sale) in note 12. all classed at level 1 or 2 so no level 3 assets or liabilities identified.

Does the format of FI notes reflect IFRS requirements ie (1) analysis of FI assets and liabilities (2) analysis of FI gains and losses (3) comparison of fair value and balance sheet value for Fis carried at cost?	Yes although note 16 should clarify that all FI liabilities are carried at amortised cost
Do FI risk disclosures cover credit risk (trade, loans and Treasury Management), liquidity risk, price risk and interest rate risk? Is there an analysis of borrowing by maturity date?	No credit risk disclosures on trade and loan debts, and no aged analysis of debtors or information on debts past due date not yet impaired.
Have credit loss allowances been identified and disclosed in line with IFRS 9 requirements (as part of FI risk disclosures)?	No evidence of credit loss adjustments in note 37. Note 17(debtors) includes a credit loss allowance but there is no detail about how this has been calculated or the debt profile that it relates to.
Capital expenditure and financing	
Are capital additions consistent between PPE and CFR notes?	YES
Are the sources of finance per CFR note consistent with movements on the CAA?	YES
Provisions	
Has the purpose of each provision been explained?	YES
Unuseable reserves	
Is the analysis of unuseable reserves consistent with the MiRS?	YES
Are movements on unuseable reserves consistent with the statutory adjustments note?	No direct read-across from Note 7 to CAA analysis in note 23.3 for adjustments not relating to capital financing and the CFR, otherwise OK.
Expenditure and Funding Analysis	
Is EFA consistent with the CIES and stat adjustments note?	Some consistency issues in EFA - 2019/20 surplus/deficit in EFA does not agree to CIES and stat adj total in EFA doesn't = MIRS and note 7 in both years.
Do b/fwd and c/fwd GF and HRA balances in the EFA agree to corresponding figures in the MIRS?	YES
Grant income	
Is the grant income analysis consistent with the CIES for non-service grant income and with the Balance Sheet for grants received in advance?	Yes but note 30 incorrectly includes Council Tax and NNDR income
Is the DSG note consistent with grant income disclosures?	YES
Leases, service concessions and PFI schemes	
Do notes identify the NBV of assets held under finance lease and PFI schemes, and the balance sheet liabilities that these relate to?	See separate report for consideration of CAH disclosures. Otherwise yes.
Do service concession/PFI and leasing notes notes disclosure the total of future payments due under the contract analysed between type of payment and date due (within 5 year bands)?	Yes, although providing overall totals would be helpful rather than just future payments for each individual scheme
Pensions	
Does pensions ressrve = pensions liability at 31 March each year?	YES
Do disclosure notes on LGPS liabilities meet IAS 19 requirements ie (1) analysis of pension fund assets and liabilities (2) analysis of pensions charges to CIES (3) analysis of pension fund investments (4) analysis of demographic and financial assumptions?	Yes for 1, 3 and 4 but no analysis of pensions charges to the CIES has been provided in note 31
Do LGPS accounts follow CIPFA example accounts format?	YES
Do Fund Account and Net Asset Statement balance?	YES
Are the Fund Account and Net Asset Statement cross-referenced to relevant disclosure notes?	YES
Do FI and FV disclosures meet Code requirements?	YES
Does the investments reconciliation in Note 13 agree to NAS and Fund Account disclosures?	YES

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Appendix F

Worth Technical Accounting Solutions Recommendations Tracker

Ref	Recommendation	Accountable Officer
1.	A more comprehensive process for identifying current and expected financial pressures should be implemented, to take account of: • future spending pressures • key budget assumptions affecting grant funding and taxation income, • historical accounting issues • expected levels of General Fund reserves and working balances • MRP and interest implications of any new Capitalisation Directions (CDs) approved.	Director of Finance
2.	New and emerging financial pressures identified from R1 above should be reported to members as part of budget monitoring reports, together with a summary of their expected impact on future General Fund balances. This information should help to inform consideration of the Council's overall financial position and any potential requirement for further Government support.	Corporate Director of Resources
3.	If the CD adjustment in the financial statements is significantly different from the amount set out in the Direction for that financial year, the Statement of Accounts should explain why.	Director of Finance
4.	As CD adjustments represent material items of account they should be separately identified in the Movement in Reserves Statement and the material items note.	Director of Finance
5.	The accounting treatment adopted for material CD adjustments should be set out in accounting policy disclosures.	Director of Finance
6.	Disclosure notes which reference the CD should be internally consistent.	Director of Finance
7.	The Council's Treasury Management Strategy should be more transparent about: • how forecast capital receipts are being used to finance different types of capital expenditure • how CDs are funded, and • how MRP charges are being calculated.	Head of Pensions and Treasury

8.	Detailed MRP calculations should be consistent with Treasury Management and budget reports.	Head of Pensions and Treasury
9.	The Council is prioritising the use of capital receipts to fund current and future CDs and has recently approved a more ambitious asset disposal strategy to generate additional capital receipts. However, future budget forecasts and financial modelling may need to reflect the fact that if sufficient capital receipts are not generated within anticipated timescales, any CDs not funded from capital receipts would attract MRP at 5% for the next 20 years.	Director of Finance
10	Improvements to the processes that support budget planning and management in adult social care services should be prioritized, to embed a consistent knowledge and use of systems; therefore minimizing inconsistent datasets, to better support service management and budget setting.	Director of Finance
11	Collective understanding about the cost components of adult social care budgets has significantly improved since 2021. This approach should now be extended so that the income element of the budget, particularly care charges and service-based grant income are equally well understood.	Director of Finance
12	Financial modelling used to predict the unit cost and demand for social care need to be kept under review to reflect Government changes and should be refined and updated as further information becomes available.	Director of Finance
13	Further work on demand modelling also need to be carried out across health and social services to ensure that current predictions of demand and future activity levels are robust.	Director of Finance
14	The Council needs to ensure that healthcare providers and commissioners make appropriate contributions both to the funding of individual care packages and to the more strategic aspects of service delivery.	Corporate Director of Resources
15	Financial modelling should be integrated across the Council, to recognize the potential impact that MTFS savings in other areas of spending (particularly housing) might have on the demand for adult social services.	Director of Finance
16	The Council should review its current workforce strategy and ensure that it becomes an employer of choice for adult services.	Corporate Director of Adult Social Care and Health
17	Going forward, the MTFS may need to develop a more transformational approach which builds on the approach already adopted in the recent review of eligibility criteria for adult social care.	Corporate Director of Resources

18	Implementation of the High Needs Management Recovery Plan (HNMRP) needs to be kept under regular review.	Corporate Director of Children's, Young People and Education
19	Corporate budgets and High Needs Management Recovery Plan implementation plans need to reflect the upfront investment required to realise longer term savings in High Needs provision.	Corporate Director of Children's, Young People and Education
20	Commissioning processes and contract monitoring arrangements should be sufficiently challenging for all service providers, with contract documentation that clearly sets out: • the cost and quality of service the Council expects, • eligibility criteria, and • contract monitoring arrangements.	Corporate Director of Children's, Young People and Education
21	The Council has significantly improved its understanding of how demand for services influences the revenue budgets in Children's services, but it needs to keep forecasting models under review. For example: • forecast reductions in placement costs for children in care are not in line with national trends across the rest of the UK, • nationally, increases in reported numbers of children with disabilities (CWD) are also anticipated and the Council needs to work closely with local health services to model expected future demand •demand is also increasing for statutory child protection and safeguarding services, which needs to be recognized in future budgets • there needs to be a greater understanding about the impact that financial savings made in other parts of the Council, especially housing and homelessness services, might have on demand for children services.	Corporate Director of Children's, Young People and Education
22	Recent improvements made in the working relationships between Children's services and the corporate finance team, and in the processes put in place to support effective budget management, need to become fully embedded in day-to- day service delivery. To facilitate this process, the Council has contracted directly with the DfE Financial Adviser for a further 12 months' support which should facilitate embedding their expertise into the Children's Services team.	Director of Finance
23	The Council should ensure that information in relation to staffing, budget management and forecasting is accurate and	Director of Finance

	up-to-date, and is embedded in accessible and user-friendly systems so that common data sets can be shared between Children's services and support functions such as HR, payroll and finance.	
24	The Council should consider strengthening early help and prevention services, to help reduce demand for care placements in the borough.	Corporate Director of Children's, Young People and Education
25	There is a well thought through sufficiency strategy for foster carers in the borough, and a transformation project to increase in-house foster care is now in place for 2023-24. A move to more in-house foster care could potentially reduce placement costs by 40 – 50%, so delivering this strategy should be a Council priority.	Corporate Director of Children's, Young People and Education
26	There is now a Direct Payment policy for the 0-17 CWD service, but take-up is relatively low and could be expanded.	Corporate Director of Children's, Young People and Education
27	Budget setting spreadsheets and financial modelling tools should be understandable by staff outside the corporate finance team, easy to use and maintain, and link back readily to Council reports.	Director of Finance
28	Financial modelling and budget reports should be clearer about anticipated growth, funding changes and expected savings and should ensure that this information is accurately and consistently presented to decision-makers.	Corporate Director of Resources
29	2023/24 budget reports could be made easier to understand by: • highlighting key messages for members in the summary report • setting out savings and growth figures separately • setting out assumptions about funding changes in appendices, and • ensuring that all appendices are consistent with the summary report.	Director of Finance
30	Financial modelling already underway to quantify budget gaps for 2023/24 and future years should, as a minimum, be extended to 2025/26 and the updated assumptions underpinning these plans should be included in budget reports.	Corporate Director of Resources

31	Financial modelling should take account of account of all cost pressures identified, including historical accounting issues and new and emerging financial risks.	Corporate Director of Resources
32	2023/24 budget reports need to be clear about unavoidable spending growth and the plans in place to manage demand-led items e.g., social care and utilities budgets, down to unavoidable levels.	Corporate Director of Resources
33	Until the Council's overall financial position has stabilised, any other proposals for revenue growth should be reconsidered, unless there is a clear expectation that these can generate additional savings.	Corporate Director of Resources
34	Section 25 report should present a realistic assessment of the Council's current and expected financial position, and should be expanded to comply with the Local Government Act 2003 by reporting specifically on: • expected levels of General Fund balances and reserves, • all identified spending pressures (which should be quantified), • the s151 officer's opinion on the adequacy of those balances, • the split between earmarked reserves and working balances, • confirmation that working balances will be cash-backed, • any new earmarked reserves which need to be established, and • any proposed transfers to and from earmarked reserves.	Corporate Director of Resources
35	To provide additional context for decision-makers, the section 25 report could also include information on levels of General Fund balances at neighbouring authorities, and CIPFA guidance on setting levels of balances and reserves.	Corporate Director of Resources
36	Monthly budget monitoring reports should clearly set out the Council's target level of General Fund working balances and compare this to expected balances at the year end. If a significant shortfall is identified, the Council should as a priority either: • develop plans for bridging the gap, or • consider the requirement for additional Government support.	Director of Finance
37	Current savings plans should be rationalised and consolidated, with any duplicated items removed. All savings plans should have nominated "owners" who are responsible for delivering	Director of Finance

	the savings identified within specified timescales set out in budget reports.	
38	Larger savings plans, say over £0.5m, should have detailed business cases which clearly identify the cost of delivering these anticipated savings, and are subject to robust scrutiny before being included in the budget.	Corporate Director of Resources
39	Progress on the delivery of major savings initiatives should be regularly reported to members in addition to progress in delivering target savings overall.	Corporate Director of Resources
40	The Council has successfully implemented transformational change in a number of areas but may need to extend this approach in order to develop more ambitious savings plans.	Corporate Director of Resources
41	The Council needs to put in place a much clearer process for identifying and accounting for Transformation costs, which only treats such costs as capital expenditure where they meet Government guidance criteria in full.	Director of Finance
42	To meet current Government guidelines, the Council should also ensure that any Transformation costs which are capitalised are financed from capital receipts and not borrowing.	Director of Commercial Investment & Capital
43	The Council should develop a Capital Strategy in line with the current requirements of CIPFA's Prudential Code. This Strategy should clearly set out how capital investment is prioritised and include a requirement for projects previously approved by members to be revisited in the light of the current financial position.	Director of Commercial Investment & Capital
44	An updated version of the rolling three-year capital programme should be presented to members for approval as part of 2023/24 budget reports.	Corporate Director of Resources
45	The Council's TMS should set out the assumptions and key risks underpinning expected changes to capital funding streams.	Head of Treasury and Pensions
46	The Council should aim to reduce its dependence on borrowing to fund capital investment, by: • identifying sources of non-government grant funding, and • generating additional capital receipts from asset sales.	Corporate Director of Resources
47	Information contained within the TMS and used to calculate key prudential indicators should be consistent internally and	Head of Treasury and Pensions

	with revenue budgets and capital spending plans approved by Full Council.	
48	The TMS should include up to date financial information and clear performance targets for all types of treasury and non-treasury investments in terms of security, liquidity and yield. For example: • regarding loans to third parties, security arrangements, due diligence processes, and the arrangements in place for monitoring repayment and assessing the possibility of default • regarding investments in council companies, the arrangements for managing performance against financial and non-financial targets, and agreed exit strategies for non-performing companies	Head of Treasury and Pensions
49	The Council's TMS needs to be more explicit, and more realistic about: • whether new borrowing will represent external loans or utilisation of existing liquid resources • expected timings of any new external borrowing, and • whether this borrowing will be long or short term • the impact new loan debt will have on revenue debt charges and General Fund budgets in future years.	Head of Treasury and Pensions
50	The Council should update its TMS, revenue budgets, and medium-term financial plans to reflect more up to date assumptions about future interest rates.	Head of Treasury and Pensions
51	Given the expected increase in UK interest rates going forward, the Council should also consider the potential benefits of: • a debt reduction strategy, and • replacing short term, variable rate borrowing with long term, fixed rate loans where repayment profiles are matched against the expected useful life of the asset.	Corporate Director of Resources
52	The Council's published MRP policy should: • explain the MRP framework and calculation options are as set out in current statutory and non-statutory guidance, • highlight any significant changes to the guidance since last year, and	Director of Finance

	• confirm that these requirements are being correctly applied.	
53	The Council should review its MRP policy and underlying calculations, to confirm that the annual charge has been calculated in line with statutory and non-statutory guidance, and that realistic levels of MRP have been built into General Fund budgets.	Director of Finance
54	Corporate guidance should be provided on key accounting areas such as the preparation and evidencing of: • bank reconciliations • other key reconciliation processes • bad debt write-offs, and • calculation of bad debt provisions at the year-end.	Director of Finance
55	Bank reconciliations should be completed weekly, with copies provided to the corporate finance team together with evidence confirming that: • each bank statement reconciles back to the ledger, • all suspense and holding account items have been cleared, and that, • cash flow forecasts used to make treasury management decisions have been updated as necessary.	Director of Finance
56	A “dashboard” process (or equivalent) should be established to confirm that: • feeder system reconciliations are undertaken monthly throughout the year, • any reconciling items are investigated, • mis-postings have been corrected, and • all suspense and holding account balances have been cleared.	Director of Finance
57	Bad debt provisions should be calculated on a consistent basis, based on the age of the debt and a realistic assessment of collectability. As a general rule, based on practices that we have observed elsewhere, all debts over 5 years old should be written off and all debts over 2 years old should be at least partially provided for.	Director of Finance

58	The Council is carrying a significant amount of debt which is more than 7 years old and, although much of this is fully provided for, most of these debts should be written off.	Corporate Director of Resources
59	A Prepared by Client (PBC) list should be obtained from the audit team and used to ensure that a comprehensive set of working papers is produced each year.	Director of Finance
60	Templates should be introduced to ensure that working papers are prepared to a consistent standard and support all transactions, disclosures and balances in the Statement of Accounts.	Director of Finance
61	Closedown work should include: • detailed review of year-end working papers at pre-audit stage • analytical review on all material transactions, disclosures and balances.	Director of Finance
62	Working papers should specifically address new audit requirements on key accounting estimates for: • land and property valuations • IAS 19 disclosures, and • any material provisions or accounting estimates.	Director of Finance
63	Timely production of year-end accounts and in-year financial information should be a corporate priority going forward, with visible and effective leadership ensuring that: • financial statements are published by 30 September each year, and • outturn reports are published on a regular basis throughout the year.	Director of Finance
64	Closedown plans should be reviewed and updated to ensure that: • the key tasks identified reflect all Code and PBC requirements, • all tasks are allocated to named individuals, and that, • as much work as possible is completed in advance of 31 March each year	Director of Finance
65	Closedown work should be less dependent on a small number of staff within the corporate finance team by involving all	Corporate Director of Resources

	service-based finance staff as well as Exchequer and Treasury Management personnel.	
66	Staff briefings on year-end close should be developed and extended to include, for example, technical training on Code disclosures and audit requirements.	Director of Finance
67	Written guidance should be provided to all staff involved in year-end close.	Director of Finance
68	Project management arrangements should ensure that all audit queries are responded to promptly and comprehensively.	Director of Finance
69	Regular meetings between the Section 151 officer and the local external audit team, and regular progress reports to the Audit Committee, should be used to monitor both the production of year-end accounts and the progress being made by external audit.	Corporate Director of Resources
70	The published Statement of Accounts should either include the complete version of the Annual Government Statement, a summarised version to meet Code requirements, or, as a minimum, clear signposting as to where the AGS can be found.	Corporate Director of Resources
71	2021/22 pension fund accounts should be completed as soon as possible. The 2021/22 pension fund annual report should also be drafted and published as this is now overdue.	Head of Pensions and Treasury
72	Going concern disclosures in Note 1.2 should explain why the going concern assumption remains appropriate given the Council's current financial position.	Head of Pensions and Treasury
73	The Statement of Accounts should include credit risk disclosures on trade and loan debts, together with an aged analysis of debtors and summary information on debts past due date not yet impaired.	Director of Finance
74	To demonstrate that all relevant Code requirements have been met, the Council should complete CIPFA's detailed disclosure checklist each year.	Director of Finance
75	Spreadsheet-based cross-referencing and consistency checks should be extended to include cross-checks on: • movements in useable and unusable reserves • the Expenditure and Funding Account, and • the subjective analysis of Net Cost of Services in Note 1C.	Director of Finance

76	Some complex accounting matters have been outstanding for several years. Resolving these matters, and making appropriate adjustments to prior year's financial statements, should be regarded as a priority.	Corporate Director of Resources

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LONDON BOROUGH OF CROYDON

REPORT:		**AUDIT AND GOVERNANCE**
DATE OF DECISION		**2 March 2023**
REPORT TITLE:		**Budget Assurance 2023/24**
CORPORATE DIRECTOR / DIRECTOR:		**Jane West** **Corporate Director of Resources and Section 151 officer**
LEAD OFFICER:		**Jane West**
LEAD MEMBER:		**Councillor Jason Cummings** **Cabinet Member for Finance**
DECISION TAKER:		**N/A**
AUTHORITY TO TAKE DECISION:		**N/A**
KEY DECISION?	**No**	**REASON: N/A**
CONTAINS EXEMPT INFORMATION?	**No**	**Public**
WARDS AFFECTED:		**All**

1 SUMMARY OF REPORT

The Council is currently going through its budget process in preparation for 2023/24. The Budget Council is set for the day before the Audit and Governance meeting on 1 March 2023. Given the complex government funding arrangements in respect of the Council's 2023/24 Budget, it is possible that the budget setting process will still be in train on 2 March 2023. The purpose of this report is to inform the Audit and Governance Committee of the improvements that have been made to this year's budget setting process.

2 RECOMMENDATIONS

The Audit and Governance Committee is recommended to note the improvements in the budget setting process outlined in this report.

3. BACKGROUND AND DETAILS

3.1 During the year, the Audit and Governance Committee has regularly considered the Council's position in relation to its 2022/23 Budget Monitoring and its progress against closing the 2019/20, 2020/21 and 2021/22 accounts. It has also reviewed the Council's progress against the two Reports in the Public Interest (RIPI 1 and RIPI 2) and its Annual Governance Statement for 2021/22.

3.2 The Audit and Governance Committee has been concerned about the lack of accuracy in previous year's financial accounts and in the 2022/23 Budget, as well as the wider cultural issues in relation to financial management across the Council. This report focusses on the accuracy of the 2022/23 Budget and the actions that have been taken to ensure that the 2023/24 Budget does not contain the same flaws.

3.3 This report includes as an Appendix the Revenue Budget and Council Tax Levels 2023/24 report that is currently going through the Cabinet and Council approval process. The report sets out the wide range of corrections that have had to be made to ensure that the 2023/24 Budget is accurate. These fit into the following categories:-

- Parking and traffic income budgets have been reduced by £10.6m and expectations built in last year of a further increase of £3.4m have been removed as unachievable
- Housing Benefit is under recovering grant and net growth of £7.5 (£9m less potential Transformation savings of £1.5m) has needed to be built into the budget for 2023/24
- Charges to the Housing Revenue Account have been overstated by £9.5m and other recharges were overstated by £7.7m
- Erroneous income budgets of £7.3m were identified that had no foundation (excluding parking and traffic income)
- In total £49m has needed to be built into the budget for legacy errors.

3.4 It should be noted that some of these issues have also been holding up the closure of the accounts from 2019/20 onwards eg recharges from the General Fund to the Housing Revenue Account.

3.5 Measures have been taken to improve financial modelling of future pressures, although it is acknowledged that there is more to do in this area. Areas of improvement have included the Parking and Moving Traffic Income projections and revised budgets which are now modelled monthly to take into account past trends and actual income being received monthly through Ringo for Pay and Display charges. Previous over-estimates of income have been identified and reversed. Social care expenditure modelling has also been improved by analysing activity and unit cost data on different placement types. Housing activity data is beginning to be routinely reconciled to income received but this is at an early stage and is identifying gaps in the data that need to be resolved before better modelling can be introduced. The Scrutiny Sub-Committees are being briefed on the improvements being made in the areas they cover.

3.6 The table below sets out a summary of the additional budgets built into the 2023/24 budget.

Department	Demand Pressures £'000s	Legacy Budget Corrections £'000s	**Total** **£'000s**
Children, Young People and Education	0	5,188	**5,188**
Adult Social Care and Health	7,621	1,648	**9,269**
Housing	0	5,286	**5,286**
Sustainable Communities Regeneration and Economic Recovery	1,180	14,759	**15,939**
Assistant Chief Executive	1,230	2,001	**3,231**
Resources	1,195	11,271	**12,466**
Corporate	57	8,884	**8,941**
Total	**11,283**	**49,037**	**60,320**

3.6 Additional challenge has also been applied to proposed savings to ensure they are deliverable. This is the reason for the reduction in savings proposals between the Medium Term Financial Strategy Update report that went to Cabinet in November 2022 from £44m to £36m in the Revenue Budget and Council Tax Levels 2023/24 report.

3.7 The Committee's attention is drawn in particular to Section 11 of the Revenue Budget and Council Tax Levels 2023/24 report which sets out the S151 Officer's view on the robustness of the budget estimates. This outlines a wide range of measures employed to improve accuracy.

3.8 A report on the outcomes of the Opening the Books project is also included on this Audit and Governance agenda. The Opening the Books project was launched by the Mayor in July 2022 to improve the Council's understanding of current financial risks and to work towards a sustainable financial future. The project has had a number of facets including the commissioning of a series of reviews by Worth Technical Accounting Solutions.

3.9 The following reviews have been completed by Worth TAS and are to be found in full elsewhere on this agenda:

- London Borough of Croydon Capitalisation Direction
- London Borough of Croydon Managing Revenue Budgets
- London Borough of Croydon Budget Setting and Financial Management
- Review of Capital Spending Plans, Treasury Management Strategies, Debt Charges and Borrowing
- London Borough of Croydon Financial Reporting and Year End Close.

3.10 The reviews provided important information over the summer and autumn of 2022 that has fed into the Council's Medium Term Financial Strategy, as reported to Cabinet in November 2022, and the Council Tax Setting papers that are presented elsewhere on this agenda. Areas that have been informed by this work include:

- The Council's increased use of capital receipts to repay its outstanding borrowing, including the revision to the Council's Asset Management Strategy.

- The setting of the Council's Minimum Revenue Provision for the repayment of borrowing, including an increase for earlier years that has been included in the Council's request to government for a Legacy Capitalisation Direction.
- The establishment of a new officer group to review all the debts owed to the Council, the approaches to collection, the requirements for debt write off and the required provision for bad debt. A large shortfall in the provision for bad debt was identified which has been included in the Council's request to government for a Legacy Capitalisation Direction.
- Recent improvements to financial modelling
- Recommended improvements in budget setting across the Council have identified the need to correct a range of budgets as part of the Council Tax Setting process. A significant number of budgets have been identified as being incorrectly calculated or even completely erroneous.

3.11 In terms of processes, the reviews conclude that the Council needs to:

- Improve the clarity and consistency of key financial information
- Closely monitor levels of General Fund balances and reserves
- Ensure all savings plans are realistic and achievable
- Adopt realistic assumptions and consider 'worst case' scenarios
- Get year end accounts up to date
- Improve oversight of key financial processes.

3.12 All the recommendations of the Worth TAS reports are being accepted by the Council and a report elsewhere on this agenda proposes that the Audit and Governance Committee monitor progress against these recommendations.

3.13 The Committee will also continue to receive regular updates on the Oracle Improvement Programme and the financial cultural change programme being rolled out in conjunction with CIPFA.

4 ALTERNATIVE OPTIONS CONSIDERED

N/A

5 CONSULTATION

None

6. CONTRIBUTION TO COUNCIL PRIORITIES

The improvements to the budgeting process aligns with the Mayor's core outcome of balancing the Council's books.

7. IMPLICATIONS

7.1 FINANCIAL IMPLICATIONS

7.1.1 As the report states, the findings of the corporate budget process for the 2023/24 budget setting and the from the Opening the Books project are reflected in the budget setting papers presented for the 2023/24 budget.

Approved by: Alan Layton, Interim Head of Service, Finance on behalf of Corporate Director of Resources.

7.2 LEGAL IMPLICATIONS

7.2.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Audit and Governance Committee is required by its terms of reference to monitor the effective development and operation of the Council's risk management arrangements, the control environment and associated strategies, actions and resources, and to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment.

7.2.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective, and includes effective arrangements for the management of risk.

7.2.3 Separately, the effectiveness of the Council's internal control environment has a direct impact on the Council's ability to deliver its functions in a manner which promotes economy, efficiency and effectiveness. Therefore, the consideration of this report also seeks to demonstrate the Council's compliance with its Best Value Duty under the Local Government Act 1999.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer.

7.3 EQUALITIES IMPLICATIONS

7.3.1 Under the Public Sector Equality Duty of the Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others.

7.3.2 Section 149 of the Act requires public bodies to have due regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;

- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected characteristic and people who do not share it.

7.3.3 Protected characteristics defined by law include race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, and religion or belief.

7.3.4 Having due regard means there is a requirement to consciously address the three tenets of the Equality Duty within decision-making processes. By law, assessments must contain sufficient information to enable the local authority to show it has paid 'due regard' to the equality's duties; and identified methods for mitigating or avoiding adverse impact on people sharing protected characteristics. Where a decision is likely to result in detrimental impact on any group with a protected characteristic it must be justified objectively in a full Equalities impact assessment. Equality analysis has been undertaken to identify the equality impact of the overall budget.

Approved by: Denise McCausland Equality Programme Manager

7.4 HUMAN RESOURCES IMPLICATIONS

7.4.1 There are no immediate workforce implications arising from the recommendations in this report. Any mitigation on budget implications that may have effect on direct staffing will be managed in accordance with relevant human resources policies and procedures and where necessary consultation with our recognised trades unions.

Approved by; Dean Shoesmith, Chief People Officer

8. APPENDICES

Appendix A Revenue Budget and Council Tax Levels 2023/24 Report – Cabinet 22 February 2023

9. BACKGROUND DOCUMENTS

None

LONDON BOROUGH OF CROYDON

REPORT:	**Cabinet**
DATE OF DECISION	**22 February 2023**
REPORT TITLE:	**Revenue Budget and Council Tax Levels 2023/24**
CORPORATE DIRECTOR / DIRECTOR:	**Katherine Kerswell, Chief Executive** **Jane West, Corporate Director of Resources (Section 151 Officer)**
LEAD OFFICER:	**Jane West, Corporate Director of Resources**
LEAD MEMBER:	**Councillor Jason Cummings Cabinet Member for Finance**
KEY DECISION?	**NO.** The recommendations set out below are not executive decisions and therefore are not key decisions. The final decisions are to be recommended to Full Council for consideration at the meeting scheduled for 1 March 2023.
CONTAINS EXEMPT INFORMATION?	**No**
WARDS AFFECTED:	**All**

1. **SUMMARY OF REPORT:**

1.1 On 22 November 2022 the Council's Section 151 Officer issued a Section 114 notice to make it clear to all Members of the Council that it faced a financial situation of an extremely serious nature with significant estimated unfunded financial deficits forecast from 2023/24 onwards. Alongside the S114 Notice, the Council's Medium Term Financial Strategy was published and subsequently presented to Cabinet on 30 November 2022 which set out in detail the financial projections for the Council through to 2025/26. It also identified that there were still legacy gaps in the Council's open financial accounts going back to 2019/20 estimated at £74.6m for which government support needed to be sought.

1.2 The MTFS Update report demonstrated significant gaps in the Council's budget each year for 2023/24, 2024/25 and 2025/26. Previously the government had assisted the Council by granting Capitalisation Directions of £150m over the period from 2019/20 to 2023/24 of £70m, £50m, £25m and £5m which allowed the Council to finance ongoing annual revenue spend from capital resources including borrowing, an action which goes against normally accepted good financial practice. The MTFS Update report identified that the impact of the Capitalisation Direction approach is to continue to push up the Council's debt into the future. Continuing to use the Capitalisation Direction approach was one of the major reasons that the Council's fundamental financial unsustainability was continuing to grow. The report noted that the Council was facing an existential question. With the existing government model of extraordinary financial support for local councils, can the Council ever reach financial sustainability given its borrowing commitments and levels of negative equity now and in the future?

1.3 The report proposed that consideration be given to approaching the government for a new model of extraordinary financial support. It set out a number of alternative solutions which were, in order of priority:-

- The write off of Croydon's debt – the MTFS Update report said that the preference was for the government to write off all the Council's debt as it had done for the NHS debt at the start of the Covid pandemic. The report suggested that if this was not possible, then the request was for a write off of the Council's debt by the amount that will reduce Croydon's debt management costs to a 'proportion of net budget' more usual across local government. The reasoning behind this was that, due to poor governance and decision making in the past, the Council holds a lot of toxic debt which is not asset backed and is in effect 'negative equity'. As such it can never escape from this.
- Spreading any MRP (principal repayments) for the Capitalisation Directions over a longer period than the 20 years currently specified by government.
- Reducing the interest rate charged by the Public Works Loan Board on the capitalisation directions by at least the 1% surcharge but preferably further.
- Reallocation nationally of asylum seekers currently housed in Croydon by government departments which are creating a disproportionate and unfunded strain to the Council's budgets.
- Reduction in the number of ex-offenders currently housed in Croydon by government departments, a practice which is creating a disproportionate and unfunded strain to the Council's budgets
- Permission to increase Council Tax beyond the national cap.
- Permission to use the Growth Zone business rates more flexibly within the designated area eg to cover clearing graffiti, all street cleaning and bin collection, all community safety work.
- Capitalisation Directions to deal with legacy issues.
- Capitalisation Directions to smooth the transition to financial and operational sustainability.
- Reform of local government funding to fully reflect demographic demand in Croydon.

1.4 The subsequent work on budget setting from November 2022 onwards identified a fixed annual budget gap of £60m which was impossible to resolve without a level of savings that would hollow out Council services to residents and put vulnerable people at risk. Following discussions with government over the following months, the ask of government was refined to:

- Consideration to be made by government of a council tax increase of up to 10% beyond the Referendum Cap of 5% in 2023/24, so 15% in total providing £22m per annum additional income
- Agreement to a write off of £540m of the Council's debt during 2023/24 to restore financial sustainability by reducing the annual cost of the Council's debt by £38m thus reducing the council's debt levels to be in line with other councils, (albeit still at the upper end of that comparison) .
- As it was very unlikely a debt write off could be achieved by mid February 2023 in time for the Council to set the Council Tax, the request was for a bridging Capitalisation Direction in 2023/24 of £63m to allow the Council to set a balanced budget (the base model £85m gap reduced by the 15% Council Tax proposed above)

1.5 The request noted that should the Council Tax increase of 15% and the 2023/24 debt write off be agreed, no further Capitalisation Directions would be required for future years as the Council would be able to become financially sustainable.

1.6 A request has also been made of government to provide the Council with a Capitalisation Direction of £161.6m to cover the historic finance issues that have been revealed through the Opening the Books programme. The Council needs to correct a range of misstatements in its legacy accounts from 2019/20 which are currently still not fully closed. This was more than the £74.6m previously identified in the MTFS Update report in November 2022. The Council's Provision for Bad Debt was found to be understated by £46m rather than the £20m previously assumed and a decision was made to include the potential £70m gap in the accounts caused by wrongful accounting for Croydon Affordable Homes and Tenures, instead of the £9m previously assumed. With three years of accounts still open, there remains a risk that further legacy issues will be uncovered.

1.7 The government has announced that the Council can increase its Council Tax by 10% above the Referendum Limit of 5% ***and the Council is expecting confirmation by the end of February that the government are minded to issue a Capitalisation Direction of £63m to deal with the remaining budget gap in 2023/24, plus a Capitalisation Direction of up to £161.6m in relation to the outstanding legacy issues facing the Council.*** Discussions are ongoing between government and the Council in relation to all the other options that could be deployed as set out in 1.3 above.

1.8 The Council's financial position is completely unsustainable without new action being taken. There has to be a shared solution between government, the Council and residents as council tax payers and as service recipients and this is being worked through, initially with the limited tools available such as significant savings proposals, increased council tax levels and capitalisation directions. The Council will continue to speak with government about alternative forms of government support that reduce the huge and ongoing financial cost of the Council's debt burden such as the write off or the award of an annual exceptional grant equivalent to the ongoing debt charges generated by the toxic negative equity. The Council is also committed to reducing its operating costs at more than twice the rate of other London Boroughs. It recognises the financial pressures that council tax payers are facing in this period of economic challenge and therefore the impossibility of the full solution being from increases in Council Tax.

1.9 The Government appointed Improvement and Assurance Panel (IAP) have been briefed throughout the process on the Council's financial assumptions and ask of Government, The IAP have been supportive of the Council's direction of travel and the need to request additional financial support from Government given the scale of the challenge facing Croydon.

1.10 There has been well documented poor judgement and flawed decision making that has created the financially unsustainable position the Council is currently in. The Council is anticipating it will be able to publish new reports in the near future that explain in greater detail than previously possible, what went wrong and the actions it intends to take to hold individuals to account.

1.11 The Council is obliged to set a balanced budget and council tax charge in accordance with the Local Government Finance Act 1992. The 2023/24 revenue budget proposals are set out regarding:

- A council tax increase of 12.99% and a 2% increase in the adult social care precept levy.
- Proposed savings, demand pressures, and inflation.

- Legacy financial issues and budget corrections
- Fees and charges
- Budget risks, reserves and balances
- An update on discussions with government.

2. RECOMMENDATIONS

The Executive Mayor in Cabinet is asked to:

2.1 Consider the responses to the budget engagement with residents and businesses as set out in Section 10 and Appendix I.

2.2 Consider and have due regard to the equalities impact assessment undertaken on the budget proposals as set out in Section 15.

2.3 Approve the responses to the Scrutiny and Overview Committee recommendations (to follow) on the budget proposals as set out in Section 20.

2.4 Approve that Directors be authorised to implement their service plans for 2023/24 in accordance with the recommendations within this report, the Council's Constitution, Financial Regulations, relevant Schemes of Delegation and undertake any further consultation required regarding the Equalities Impact Assessment

2.5 Propose to Full Council for approval an increase in the Croydon element of the 2023/24 council tax charge by 12.99% (Band D £203.95).

2.6 Propose to Full Council for approval a 2% increase (Band D £31.40) in the 2023/24 Adult Social Care precept levy.

2.7 Note, based on the Mayor of London's draft consolidated budget, a 9.7% (Band D £38.55) increase regarding the Greater London Authority precept.

2.8 Propose to Full Council for approval the calculation of budget requirement and council tax as set out in Appendix G and note that the inclusion of the GLA precept will result in a total increase of 13.93% (Band D £273.91) in the overall Croydon council tax bill.

2.9 Propose to Full Council for approval the setting of the Council's own total net expenditure budget for 2023/24 at £340.911m.

2.10 Propose to Full Council for approval the detailed programme of revenue savings, income, demand pressures and legacy budget corrections, by directorate, as set out in Appendix C.

2.11 Propose to Full Council the proposed £10m budget in 2023/24 to support delivery of the transformation programme.

2.12 Propose to Full Council for approval that the Corporate Director of Resources be authorised to collect and recover National Non-Domestic Rate and council tax in accordance with the Local Government Finance Act 1988 (as amended), the Local Government Finance Act 1992.

2.13 Note the revenue budget assumptions detailed in the report and budget projections to 2025/26 made by the Corporate Director of Resources in agreement with the Chief Executive and with the Corporate Management Team.

2.14 Note the Council's request for a capitalisation direction from the Department of Levelling Up, Housing and Communities [DLUHC] of up to £300.6m (£161.6m in 2022/23 regarding legacy finance issues and £139m regarding 2023/24 to 2025/26, annually £63m, £38m and £38m respectively).

2.15 Note that all Directors will be required to report on their projected financial position compared to their revenue estimates in accordance with the 2023/24 monthly financial performance reporting timetable.

2.16 Note the statement (section 11 of the Report) of the Corporate Director of Resources, under Section 25 of the Local Government Act 2003, regarding the adequacy of reserves and robustness of estimates.

2.17 Note that the provisional Dedicated Schools Grant allocation for 2023/24 will increase by £26.310m to £427.688m (section 12 of the Report).

3. BACKGROUND

3.1 Croydon's finances, and those of the wider local government sector, are under strain from the sharp upturn in inflation, the impact of cost-of-living pressures on local communities and an increase in demand for essential social care and welfare services. The financial challenge for Croydon is compounded by significant, and independently well documented, local legacy (governance, financial, service delivery and structural) issues.

National Background

3.2 The Chancellor of the Exchequer gave an update on the state of the public finances and the performance of the economy in the Autumn Statement[1] 2022. The economic and fiscal outlook set out in the Statement included:

- A forecast increase in interest rates to levels not seen since the 2008 financial crisis.
- A forecast increase in Consumer Price Index (CPI) inflation to a 40-year high of 11% in Quarter 4 2022 before dropping sharply in 2024.
- A forecast rise in national unemployment of 505,000 from 3.5% to a peak of 4.9% in Quarter 3 2024.
- A material worsening in the medium-term fiscal outlook over the past year due to the weaker economy, higher interest rates and higher inflation

1 Autumn Statement - HM Treasury 17 November 2022

3.3 The uncertain national financial environment makes local authority financial planning (including detailed forecasting and modelling) and good financial management more difficult. The rise in the cost of living will increase demand for needs based local services, such as homelessness prevention, impact on income collection rates and increase pay and supplier costs. These impacts are embedded within the 2023/24 Croydon budget proposals with £32.9m set aside as an inflation provision – an increase of £4m from the 2022/23 provision - and a provision of £5.5m for additional economic demand pressures. A range of departmental demand pressures are also met and incorporated within the proposed budget.

3.4 The Government's Autumn Statement recognized some of these issues by raising the referendum cap for council tax increases to 3% (from 2%) and letting social care authorities levy an additional 2% (from 1%) adult social care precept. The government have also delayed their expected Adult Social Care reforms to 2025 and this has enabled some additional funding to be made available. This has also prevented further additional costs needing to be funded at present. In total government grant funding has increased by £7.1m from 2022/23 to 2023/24.

3.5 On publication of the Final Local Government Finance Settlement (LGFS)[2] the Government acknowledged the specific financial pressures faced by Croydon by announcing that the referendum cap for this authority is for a council tax increase of 12.99% and 2% for the adult social care precept. The Croydon budget provides for the maximum available tax increase of 14.99% which will generate £32.3m of additional income - an extra £21m compared to the 4.99% increase set out in the Autumn Statement. The Croydon budget proposals include an increase in support of £2m to protect those low income households that cannot afford to pay their council tax.

3.6 More broadly the Local Government Association, in response to the Autumn Statement, have emphasised that essential local services such as social care, planning, waste and recycling collection and leisure centres, continue to face an uncertain future. Demographic growth and an increased complexity of need are adding to social care and other service pressures. These issues are impacting locally and this budget provides an additional £7.6m for adult social care and health demand pressures and as well as recognizing pressures on other council services.

Local Legacy and Structural Issues

3.7 The Council's Executive Mayor has made clear that his number one priority is to "balance the books" and make Croydon a financially and operationally sustainable council which listens to residents and provides good quality services. One of Mayor Perry's first acts was to launch an 'Opening the Books' review to assess the Council's balance sheet and all financial assumptions and deal with any outstanding legacy accounting issues.

3.8 The 'Opening the Books' review identified substantial legacy accounting corrections that have one off and ongoing implications for the Council's budget and revealed how fragile the Council's level of resilience is to withstand any

. 2The LGFS was published on 6 February 2023 changes to its forecast budget assumptions over the Medium-Term Financial Strategy period. It also highlighted how structural issues in the Council's finances, such as its level of non-asset backed debt (or negative equity), and disproportionately high level of debt, are preventing the Council's recovery.

3.9 The seriousness of the Council's financial position resulted in the Corporate Director of Resources and S151 Officer deciding that Croydon Council's budget is not financially sustainable for the next financial year and issuing a Section 114 Notice from 2023/24 onwards. The section 114 Notice was issued on 22 November 2022. A report was presented to Cabinet on 30 November 2022 and a further report was presented to Council on 12 December 2022, both of which set out the reasons why the S151 Officer has reached this conclusion.

3.10 The 30th November 2022 Cabinet report detailed the immediate measures required under the S114 Notice. It also concluded that the Council cannot solve its financial issues on its own and set out a range of requests of government for extraordinary financial and other support.

3.11 Subsequent to the issuing of the Section 114 notice the Council has continued to hold discussions with the Department of Levelling Up, Housing and Communities (DLUHC).

3.12 To date the specific financial pressures faced by Croydon have been recognized by DLUHC through the announcement that the referendum cap for this authority is for a council tax increase of 12.99% and 2% for the adult social care precept.

3.13 The discussions with DLUHC include a request for capitalisation directions of. £300.6m. ***This is under consideration and the current budget proposals assume that this will be agreed***. £161.6m of the requested capitalisation directives relates to legacy financial issues that predate 2023/24 whilst £139m is concerned with the financial years 2023/24 to 2025/26 (£63m, £38m, and £38m respectively).

3.14 A budget is now proposed for 2023/24 that includes:

- Savings and change proposals of £33.1m
- Budget increases of £11.3m to meet demand pressures
- Budget corrections of £49m to correct structural and legacy issues.
- Additional income of £28m from a 12.99% council tax increase
- Additional income of £4.3m from the application of a 2% adult social care precept levy increase.
- A provision of £32.9m for inflationary pressures (pay and contract).
- A request for the government to issue capitalisation requests of £316.6m (including £161.6m regarding legacy issues) over the next 3 years.
- Setting aside £3.7m of new Adult Social Care grant funding pending clarity from government on how it can be used.

3.15 The budget proposals also include measures to strengthen the Council's future financial resilience:

- Investment of £10m is proposed in 2023/24 and £5m per annum from 2024/25 onwards in transformation work to change the way the Council operates
- A provision of £5.5m regarding economic demand pressures
- Creating a new Hardship Fund of £2m to provide additional support for low income households that cannot afford to pay their council tax.
- The set aside of £5m per annum as a contingency budget to manage financial pressures.

4. THE 2023/24 BUDGET AND COUNCIL TAX REQUIREMENT

4.1 The determination of Croydon's 2023/24 net budget requirement of £340.911m and council tax requirement of £247.759m is set out in Table 1. The medium-term forecast, to 2025/26, is set out in Appendix A with a departmental and subjective budget summary for 2023/24 provided in Appendix B (to follow for Budget Council). Beyond 2023/24 the medium term forecast highlights a potential budget deficit of £4.277m for 2024/25 and £0.802m in 2025/26. This will inform the financial strategy developed for setting the 2024/25 budget.

Table 1 – 2023/24 Budget and Council Tax Requirement

	£'m
Expenditure base budget rolled forward from 2022/23	**316.109**
Inflation	32.946
Economic demand pressures	5.500
Council tax – hardship support	2.000
Demand pressures	11.283
Budget correction of legacy issues	49.037
Savings and change proposals	-33.098
Transformation programme	10.000
Contingency funding	5.000
Net cost of borrowing (including new capitalisation directions)	57.919
Reserve set aside of new adult social care grants (pending clarity on their use)	3.734
Gross Budget Requirement	**460.430**
Core Grants	-38.651
Increase in Adult Social Care Grants	-3.734
Section 31 grant for under indexing the business rates multiplier	-12.419
Government capitalisation directive (£5m existing & £58m new)	-63.000
Use of earmarked reserves (council tax income guarantee)	-1.715
Net Budget Requirement (as per the budget book)	**340.911**
Prior year collection fund deficit	1.986
Revenue Support Grant	-16.711
Business rates (local income and top-up Grant)	-78.427
Council Tax Requirement (including the adult social care precept)	**247.759**

5 BUDGET ASSUMPTIONS

5.1 Budget estimates are exactly that, estimates of spending and income at a point in time. The key assumptions that underpin the 2023/24 budget estimate are set out below.

Inflation and Economic Demand Pressures.

5.2 Inflationary pressures have increased markedly over the past year with the December 2022 Consumer Price Index (CPI), the measure targeted by the Bank of England, standing at 10.5%. Whilst this has eased since the October 2022 peak of 11.1% inflation has not been at this level since 1981.

5.3 The drivers behind the sharp upturn in inflation are varied but include the upsurge in energy prices following the Russian invasion of Ukraine, disruption as the world and UK economy recovers from the Covid-19 pandemic and labour shortages.

5.4 In the medium-term the government's central economic forecast, contained in the 2022 Autumn Statement, predicts that 2023 CPI will remain significantly above trend at 7.4% before dropping in 2024. The forecast reduction is due to the anticipated impact of national monetary policy and an easing of the current drivers.

5.5 For Croydon an inflation provision of £32.9m is proposed for 2023/24. This is considered prudent given the current, and forecast, rate of inflation and uncertain national economic background. The provision consists of:

- Catch-up inflation of £1.3m to fully fund 2022/23 pay and contract pressures.
- An allowance of £11.2m for the 2023 pay award. This is consistent with the 2022 pay award and assumes a flat rate increase of £2,226 per full-time equivalent employee plus an increase in relevant national insurance and employer contributions. This equates to an approximate increase of 6.5% in current employee budgets.
- An allowance of £20.4m for contract inflation. This is unchanged from 2022/23 given the government forecast that 2023 CPI inflation will remain significantly above trend.

5.6 The use of the 2023/24 inflation provision will be controlled corporately and drawn down in accordance with the national pay award and agreement of specific departmental pressures. The latest report[3] of the Bank of England Monetary Policy Committee highlighted downside and upside risks to their latest inflation forecast, for example the downside impact if geopolitical tensions and supply disruption ease more quickly, or upside risk if there is a sharper-than-expected tightening in global financial conditions. For Croydon the risk that actual inflationary pressures will be significantly more, or less, than budgeted will be closely monitored with updates provided within the monthly Cabinet financial performance reports

5.7 For 2024/25 the forecast budget allows for a lower inflation provision of £17m with a provision of £12m per annum thereafter. This assumes that inflationary pressures ease in line with government forecasting.

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3 November 2002

5.8 An increase in inflation does not only affect council costs. For example, the rising cost of living may have a broader impact on:

- A greater demand for council services, such as social care, homelessness prevention.
- Reduced income streams, e.g from council tax, parking or leisure.
- Contract negotiations with key suppliers and requests for additional funding.
- The need to provide additional short-term support to residents.

5.9 A £5.5m provision is set aside within the 2023/24 budget proposals in recognition of the potential impact of economic demand pressures on Croydon. The funding will be held corporately and any use reported through the monthly Cabinet financial performance reports in line with the Council's Scheme of Delegation. A budget of £2m is also set aside as a new Council Tax Hardship Fund to protect low income households that find themselves in financial difficulty due to the increase in the Council Tax.

Demand Pressures and Legacy Budget Corrections

5.10 Budget increases are necessary to meet demand pressures, such as those arising from demographic growth, and to correct legacy issues. The 'Opening the Books' review identified substantial legacy accounting corrections that have one off and ongoing implications for the Council's budget. A summary of the proposed budget changes, by department, is set out in Table 2 with the individual proposals set out in Appendix C.

Table 2 – 2023/24 Demand Pressures and Budget Corrections

Department	Demand Pressures £'000s	Legacy Budget Corrections £'000s	**Total £'000s**
Children, Young People and Education	0	5,188	**5,188**
Adult Social Care and Health	7,621	1,648	**9,269**
Housing	0	5,286	**5,286**
Sustainable Communities Regeneration and Economic Recovery	1,180	14,759	**15,939**
Assistant Chief Executive	1,230	2,001	**3,231**
Resources	1,195	11,271	**12,466**
Corporate	57	8,884	**8,941**
Total	**11,283**	**49,037**	**60,320**

5.11 The Opening the Books project was launched by the Mayor in July 2022 to improve the Council's understanding of current financial risks and to work towards a sustainable financial future. Extensive work has been done on the Council's budgets and accounts to establish its true financial position.

5.12 The latest estimate is that legacy financial failures will cost £161.6m to the end of 2022/23. The adjustments required are:

- £70m for the correction to Croydon Affordable Homes/Croydon Affordable Tenures (this issue is not yet concluded with the Council's external auditors but the maximum adjustment is being assumed for the purpose of setting the 2023/24 budget)
- £40m (£10m per annum) for corrections from 2019/20 to 2022/23 regarding the realignment of the HRA, General Fund and Capital programme recharges
- £5.6m for the historic minimum revenue provision debt repayment correction
- £46m regarding the historic bad debt provision shortfall.

5.13 The council is seeking extraordinary financial support from government, also known as a capitalisation directive, of £161.6m to finance all the legacy adjustments prior to 2023/24.

5.14 There is an on-going impact of these legacy adjustments in 2023/24 and beyond. Namely:

- £9.6m per annum regarding the realignment of HRA and General fund recharges
- £2m regarding salaries wrongly capitalised
- £2.6m regarding the increase in MRP. This is shown as an increase in the net cost of borrowing.

There are also debt financing costs regarding the capitalisation directive of £161.6m. Overall debt financing costs[4] are budgeted to increase by £13.6m from 2022/23 to 2023/24.

5.15 The monthly 2022/23 budget monitoring and the Opening the Books work have identified further examples of inaccurate budgeting across the Council. These are now corrected. Most notably pressures of £19m (6.8% of the net budget requirement) arose in the setting of three specific budgets for 2022/23:

- Parking income – the reduction in demand for parking in the borough following the pandemic should have been better reflected in the assumptions for projected activity in 2022/23
- New traffic income projections were included with insufficient contingency built in to reflect the operational challenges of implementing new traffic schemes
- A deficit in the Housing Benefit budget for 2021/22 was only picked up at the very end of the 2021/22 financial year and therefore was not built into the 2022/23 budget.

5.16 The proposed budget corrections for legacy issues are detailed in Appendix C. In total they amount to £49m, 14% of the net budget requirement, for 2023/24.

4 Interest payable and the minimum revenue provision

5.17 As well as correcting legacy and 2022/23 budget issues the 2023/24 budget proposals respond to local and national pressures. These amount to £11.3m and include:

- £7.6m for demographic and cost pressures in Adult Social Care.
- £1.1m regarding Croydon's contribution towards the cost of TfL's freedom pass. This is due to higher costs charged by the transport operators and higher usage as part of Covid recovery.
- £1.0m regarding the impact of the 2022 rates revaluation on properties held by Croydon.

Savings and Transformation

5.18 Given Croydon's financial challenges, the Council must reduce its expenditure significantly over the medium-term. That will mean difficult decisions on the services the council provides and ultimately, as set out in the Mayor's Business Plan, the council will need to do less and spend less in the future.

5.19 Although unable to identify sufficient savings to meet the projected budget gap for 2023/24, £36.2m of savings are proposed for 2023/24. The proposed savings were developed through a series of Star Chambers over the summer. They also incorporate confirmed future year savings that were put forward in the March 2022 General Fund Budget Report. The proposed savings are detailed in Appendix C and summarised by department in Table 3.

Table 3 – Proposed 2023/24 Budget Savings and Change proposals by Department

Department	£000s
Children, Young People and Education	6,920
Adult Social Care and Health	12,243
Housing	2,305
Sustainable Communities Regeneration and Economic Recovery	1,859

Assistant Chief Executive	2,924
Resources	6,347
Corporate	500
Total (Appendix C)	**33,098**
Debt financing saving from asset disposals[5]	3,000
Overall	**36,098**

5.20 Rather than leave services hollowed-out, the future savings programme will consider stopping some areas of discretionary spend entirely whilst focusing on the Mayor's priorities.

1. The Council balances its books, listens to residents and delivers good, sustainable services.

2. Croydon is a place of opportunity for business, earning and learning.

3. Every child and young person in Croydon has the chance to thrive, learn and fulfil their potential.

4. Croydon is a cleaner, safer and healthier place, a borough to be proud of.

5. People can lead healthier and independent lives for longer.

5.21 Examples of early savings being delivered through Transformation in 2023/24 include:

- A programme of asset disposals to generate capital receipts that will partially mitigate the Council's increasing reliance on external borrowing. The current modelling allows for annual receipts of £50m per annum from 2022/23 to 2025/26 and incremental estimated revenue savings of £3m per annum. Despite this saving the overall net cost of borrowing is budgeted to increase by £24m by 2025/26. This increase is mainly driven by the need to use new capitalisation directions.
- A saving of £1.483m from a review of the housing benefits service

5.22 The Mayor asked officers to draw up a programme of cross-directorate transformation savings to drive the Council's financial recovery. The initial programme, and current estimated cost, is set out in Appendix D and already consists of over 30 projects. Expenditure of £5.934m is currently forecast of which £4.622m is due to be charged against the 2022/23 Capital Programme under the government's Flexible Use of Capital Receipts programme. The balance of £1.312m, and other 2023/24 costs, will be charged against the newly established £10m revenue budget for delivering transformation. Providing capacity to deliver the transformation plans safely and sustainably is a key priority. Work is underway to resource this.

5.23 The Government appointed an Improvement and Assurance Panel (IAP) to provide external advice, challenge and expertise to the Council, along with providing assurance to the Secretary of State that the Council was delivering against the previously agreed Croydon Renewal Plan.

5 This saving is reported through the net cost of borrowing budget.

5.24 Discussions have continued with the IAP regarding the pace of change that can be sustainably delivered. It was advice from the IAP that led to the £10m transformation revenue budget being established for 2023/24. This is included in the MTFS, although it is reduced to an ongoing budget of £5m from 2024/25 onwards. The IAP also advise the Council that the target level of savings deliverable each year beyond 2024/25 should not exceed £20m as continuing to deliver £40m in savings each year, in line with the last two years and plans for £36m next year, is not sustainable. This £20m target is modelled within the MTFS for 2024/25 and beyond.

Net Cost of Borrowing

5.25 Historic decisions regarding the capital programme mean that the Council's outstanding General Fund debt is disproportionately high compared to most councils. The revenue cost of financing that debt represented 14% of the Council's original 2022/23 net budget when most councils are in the range of 5-10%.

5.26 As well as having a high level of debt Croydon's future borrowing costs are impacted by:

- The need for the Council to ensure a prudent sum is set aside each year, within the revenue budget, for the long-term repayment of debt. This sum is known as the 'minimum revenue provision (MRP)' and it is recognised as prudent practice for a Council's MRP to be at least 2% of its underlying need to borrow (known as the Capital Financing Requirement). The proposed agreement of a new MRP strategy that will meet the minimum 2% threshold is recommended in the Treasury Management Strategy Report (due to be considered as part of the suite of Finance Reports going to Budget Council). On an on-going basis the new MRP strategy will add £2.6m per annum to the original 2023/24 budget estimate.
- The Council's General Fund external debt was £1.3 billion at April 2022. Of this sum £346m (33% of the brought forward total) is redeemable in year. The average interest at which the £346m was originally borrowed was 0.7% compared to current long-term borrowing costs in excess of 4%. The interest payable on external debt is budgeted to cost £7m more per annum in 2023/24.

5.27 Overall an increase of £17.5m is made in the 2023/24 budget for the net cost of borrowing. This takes account of the increase in MRP, additional loan refinancing costs and impact of the additional capitalisation directions, movement in the 2023/24 capital programme and adjustments to the investment income earned by the Council. This takes the proportion of the Council's net budget spent on borrowing costs to 17%.

Government Grant and Business Rates Funding

5.28 The Final Local Government Finance Settlement (LGFS) was announced by a written Ministerial statement on 6th February 2023. The core grant and revenue support grant funding receivable by Croydon in 2023/24 is set out in in Appendix E. There is a net increase of £3.383m from 2022/23 in general grants and an extra £3.734m regarding adult social care.

5.29 The provisional local government finance settlement confirmed that the government are pushing back their planned reforms regarding the 'fair cost' of adult social care to 2025. The government funding that was set aside for this reform is now released, alongside other resources, for the following adult social care grants:

- £1.399m regarding a new adult social care discharge fund
- An increase of £2.335m in the market sustainability and improvement fund (this replaces the previous market sustainability and fair cost of care funding).

5.30 The terms and conditions regarding the additional adult social care grants are not yet confirmed but are expected to be for improvements to adult social care and to address discharge delays, social care waiting times, low fee rates and workforce pressures in the adult social care sector.

5.31 For budget purposes it is assumed that the additional social care grants will be set aside as a reserve prior to 'passporting them' to adult social care. Clarity is required from government on the use of the additional funding and what sum, if any, can be used to meet existing adult social care growth and inflationary pressures.

5.32 The Council received a New Homes Bonus Grant allocation of £1.646m in 2023/24. This grant has reduced significantly in recent years and the 2023/24 payment is the last 'legacy' payment due in respect of prior government commitments. The future of the grant is uncertain in 2024/25 and is not included within the future Croydon grant forecast. No other major reforms are expected to the grant distribution methodology in 2024/25 with a government review expected in time for 2025/26.

5.33 The business rates forecast is summarised in Appendix F. It is based on the annual government return (NNDR1) submitted by Croydon by the 31 January 2023 deadline. The 2023/24 forecast includes a drawdown from the business rate relief reserve (which was funded from government grant) of £12.1m that offsets a prior year adjustment made for rate reliefs granted during the covid-19 pandemic.

5.34 A complication regarding business rates is that a revaluation, the first since 2017, is effective from 1 April 2023 that will change the rates payable for all businesses in Croydon. The impact of the revaluation on the income receivable by Croydon is expected to be neutral as compensating adjustments should be made through the business rates system.

5.35 Table 4 sets out, using draft data[6], a high-level analysis of the underlying impact of the revaluation on different types of business within Croydon. Whist

6 Issued by the Valuation Office Agency (a government executive agency) in November 2022. The revaluation will come into effect on 1 April 2023 based on rateable values from 1 April 2021.

the average increase is 7.5% there are marked differences between property types. Transitional arrangements will apply to 'smooth' the impact of those values that increase. The Croydon increase of 7.5% is above the England average of 7.3% and below the Outer London average increase of 11.3%.

Table 4 – Increase in Rateable Values Since 2017

Category	Percentage change in rateable value since 2017
Treasury Retail	-13%
Industry	+42%
Office	+23%
Other	+5%
Average	**+7.5%**

5.36 The increase in rateable values will impact on Croydon as a business ratepayer. A provision of £1.0m is included within the 2023/24 growth proposals for this purpose and a further £0.75m in 2024/25

6. REQUEST FOR GOVERNMENT SUPPORT

6.1 The scale of the financial challenge facing Croydon Council means that it cannot become financially and operationally sustainable without significant, new and different central government assistance.

6.2 The Council is in dialogue with central government over the type, and level, of such support. Previous government support involved the award of Capitalisation Directions which allowed the Council to charge revenue costs to capital. This meant in-year running costs in 2020/21, 2021/22, 2022/23 and 2023/24 of £70m, £50m, £25m and £5m respectively could be funded from either selling assets or through borrowing with the costs spread over 20 years.

6.3 The current MTFS modelling sets out the full scope of what government support may be required to bridge the estimated annual shortfalls of £63m for 2023/24 and £38m for 2024/25 and 2025/26. This report has also set out in 5.12 above that there is a need for a £161.6m legacy adjustment for which a Capitalisation Direction is also being requested. This is higher than estimated in November 2022 as, for the purposes of budget setting, the assumption has been made that a charge of £70m will need to be made to reserves in respect of Croydon Affordable Homes/Tenures in 2019/20 even though this issue is not yet concluded with the Council's external auditors.

Table 5 – Request for Government Support

	£'m
Legacy issues to 2022/23	161.6
2023/24 - Existing	5.0
2023/24 - New	58.0
2024/25	38.0
2025/26	38.0
Total government support	**300.6**

6.4 Allowance has been made within the budget forecast for the additional flexibility granted within the LGFS for Croydon to increase Council Tax by 12.99% and the Adult Social Care precept by 2%. For financial planning purposes it is assumed that the remaining government assistance will again be provided through capitalisation directives. This requires this debt to be repaid over 20 years and interest charged on the debt at a 1% surcharge over normal local government borrowing costs. This cost is included in the 2023/24 budget and future MTFS. By 2025/26 it is estimated that the external interest payable on the Council's debt and sum set aside for revenue debt repayment (MRP) will be £65.2m which is an estimated 19% of the net budget requirement. Most other local authorities have debt revenue financing costs in the range of 5-10%.

6.5 The Council is making the case to central government that the Extraordinary Financial Support model they have in place with its sole reliance on Capitalisation Directions has hindered Croydon's return to financial sustainability. The debt repayment burden this generates requires the Council to deliver a disproportionately high and unsustainable level of savings in order to fund the annual cost of repayment. As an example, had the previous £150m in Capitalisation Directions had not been required, it is estimated that the current debt financing costs would be £9m per annum lower.

6.6 As well as the greater flexibility regarding council tax levels, requests from the Council include spreading the debt repayment over a longer period (say 100 years), reducing the 1% surcharge on local government borrowing and most importantly the write-off of historic council debt of £540m. Such a write-off would re-establish debt on a par with other councils and deliver an estimated saving of £38m per annum in debt financing costs and would mean the Council becomes financially sustainable.

6.7 The budget forecast will be updated in accordance with the on-going discussions with central government.

7. COUNCIL TAX BASE AND CHARGE

7.1 The determination of the tax base is delegated to the Corporate Director of Resources (S151) Officer and is 137,230.9 Band D equivalents for 2023/24. This is an increase of 860 Band D equivalent households from 2022/23 to 2023/24. The report agreed by the Corporate Director of Resources (S151) Officer is attached as Appendix G with the main changes summarised below:

- An uplift of 1.13% in the assumed number of properties in accordance with the average Croydon growth over the past 5 years.
- A reduction, due to current year trend data and concern over the the impact of increasing cost-of-living pressures, in the assumed collection rate from 98.5% to 97.5%.

7.2 The Band D council tax charge for Croydon is calculated by dividing the council tax requirement by the council tax base. The figures for 2023/24 are:

A	Croydon Council Tax Requirement	£247,759,412
B	Tax Base (Band D equivalent)	137,230.9
A / B	Band D Charge	£1,805.42

7.3 This represents an increase in the Croydon element of the council tax charge of 12.99% and a 2% levy for the adult social care precept. The weekly increase in the Band D charge for the Croydon element of council tax is £4.51 (annual £235.35 and daily £0.64)

7.4 As part of the Localism Act 2011, the Government replaced the power to cap excessive budgets and council tax increases with compulsory referenda on council tax increases above limits it sets. For 2023/24 the relevant basic amount of council tax of Croydon London Borough Council has been determined by government as being excessive only 'if the authority's relevant basic amount of council tax for 2023-24 is 15% (comprising 2% for expenditure on adult social care, and 13% for other expenditure), or more than 15%, greater than its relevant basic amount of council tax for 2022-23'.

8 PRECEPTOR'S COUNCIL TAX REQUIREMENTS

8.1 The Greater London Authority's (GLA) precept is also funded from council tax. The following table analyses the total amount to be funded and the resulting proposed overall Band D council tax level.

A	GLA Council Tax Requirement	£59,577,423
B	Tax Base (Band D equivalent)	137,230.9
A / B	Band D Charge	£434.14

8.2 The Mayor for London has proposed a Band D charge of £434.14. This is subject to formal approval by the Mayor for London following the London Assembly meeting of 23 February 2023. The proposed charge represents an increase of £38.55, or 9.7%, compared to 2022/23.

9 TOTAL 2023/24 COUNCIL TAX REQUIREMENT

9.1 The overall amount to be met from the council tax, subject to confirmation of the GLA precept, is £285.792m.

A	Croydon Council Tax Requirement	£247,759,412
B	GLA Council Tax Requirement	£59,577,423
C	Total Council Tax Requirement	£307,336,835

9.2 In accordance with the Local Government Finance Act 1992, the Council is required to calculate and approve a council tax requirement for its own budgetary purposes (section 9) and then add the separate council tax requirements for each of the preceptors (section 10). The requisite calculation is set out in Appendix H.

9.3 The Council must then set the overall council tax for the Borough. These calculations must be carried out for each of the valuation bands, A to H. The amount per Band D equivalent property is calculated as follows:

A	Total Council Tax Requirement	£307,336,835
B	Tax Base (Band D equivalent)	137,230.9
A/B	Band D Charge	£2,239.56

Prior year Collection Fund adjustments

9.4 The Local Government and Finance Act 1988 requires that all council tax and non-domestic rates income is paid into a Collection Fund, along with payments out regarding the Greater London Authority precept, the business rates retention scheme and a contribution towards a Council's own General Fund. Adjustments are made to future years for the difference between the actual, and budgeted income collected.

9.5 For Croydon a net council tax collection fund deficit of £2.428m is estimated for 2022/23 (after allowance for the government regulation that allowed the 2020/21 estimated deficit due to the impact of Covid-19 to be spread over three years). The Croydon share is estimated at £1.986m. Croydon currently holds an earmarked reserve established during Covid, that was established to offset future council tax or business rate income adjustments. The 2023/24 Budget provides for £1.715m of this reserve to be used regarding the Croydon share of the prior year deficit.

10. BUDGET ENGAGEMENT

10.1 An update on the Medium-Term Financial Strategy 2023/24 to 2025/26 was considered by Cabinet on 30 November 2022. It was agreed that there should be a period of public engagement on the proposals for returning the Council to financial and operational sustainability that included:

- The savings options
- The transformation programme
- The list of assets for disposal.
- The closure of Whitehorse Day Centre.
- The closure of Cherry Orchard Garden Centre

10.2 The Council recognizes that it is very important that there is an opportunity for Croydon's residents, businesses, partners, voluntary and community sector and other interested parties to ask questions on these matters and to feedback their views and concerns.

10.3 A public engagement programme was launched with residents, businesses, partners, the voluntary and community sector and other interested parties on the revenue budget and capital programme proposals set out in the 30 November 2022 Cabinet Report.

10.4 Change of this degree is also unsettling for the Council's staff on whom we rely on to deliver the Council's services. Staff have been communicated with about the Council's financial situation and staff and trade unions will be formally consulted as required.

10.5 The Budget Engagement programme ran from 1 December 2022 to 8 January 2023 on the Council's online platform. The results on the consultation are set out in Appendix I.

11 VIEWS OF THE DIRECTOR OF FINANCE

The robustness of the budget estimates

11.1 Under Section 25 of the Local Government Act 2003, the Corporate Director of Resources (Section 151 Chief Finance Officer) is required to include, in the budget report, her view of the robustness of the 2023/24 estimates.

11.2 Budget estimates are exactly that, estimates of spending and income at a point in time. This statement about the robustness of estimates cannot give a guaranteed assurance about the budget but gives Members reasonable assurances that the budget has been based on the best available information and assumptions. For the reasons set out below, the Corporate Director of Resources is satisfied with the accuracy and robustness of the estimates included in this report:

- The budget proposals have been developed following guidance from the Corporate Director of Resources and have been through a robust process of development and challenge with the Executive Mayor, Scrutiny and Cabinet Members, the Chief Executive and the Corporate Management Team, service directors and managers.
- The ‘Opening the Books’ review has identified substantial accounting corrections that have one-off and on-going implications for the Council’s budget. These are recognized in the proposed 2023/24 Budget and Medium-Term Financial Strategy to 2025/26.
- Constructive dialogue has been undertaken with central government and the Improvement and Assurance Panel with Croydon gaining additional flexibility to increase 2023/24 council tax by upto 14.99% (including 2% for adult social care expenditure)
- An increased provision of £32.9m is set aside for inflation and takes reasonable account of potential future pay awards and the government forecast[7] for continued inflationary pressures.
- A £5.5m provision has been set aside regarding economic demand pressures.
- The revenue budget proposals provide for the Council to hold an unallocated contingency of £5m to meet unforeseen budget pressures.
- Service managers have made reasonable assumptions about growth pressures which, following corporate challenge were not manageable within current budgets, and have resulted in additional essential investment
- Rigorous mechanisms are in place to monitor sensitive areas of expenditure with regular assurance meetings held to ensure that all proposals within the medium-term financial strategy are managed well and that budgets remained on track during the year.
- The use of budget monitoring in 2022/23 to re-align budgets where required with mitigating actions identified to meet budget pressures and growth provided when needed. As a result of the stringent approach to monitoring, the latest Month 8 Financial Performance Report predicts that the Council is likely to be able to balance its in-year budget pressures.
- Key risks have been identified and considered.
- Prudent assumptions have been made about interest rates payable and the budget proposals comply with the requirements of the Prudential Code and Treasury Management Strategy. The revenue effects of the capital

7 Autumn Statement 2022 – Inflation forecast to be 7.4% in 2023.

programme are reflected in the budget with an increase of £17.5m in the revenue net cost of borrowing.

- Allowance is made for the debt financing costs that will arise from the requested additional capitalisation directions.
- Fees and charges have been reviewed and the recommendations made are incorporated within the budget
- Corporate and Directorate Management Teams have been involved in the detailed development of the proposed savings and have confirmed their deliverability.
- Cabinet Members have reviewed and challenged all budget proposals. In addition, the relevant Scrutiny Committees have considered the budget proposals they wished to.
- A prudent approach has been adopted on the local share of business rates income and council tax income receivable with detailed financial modelling used to support the forecast.
- A new Hardship Fund of £2m has been set aside to protect those low income households that find themselves in financial difficulty due to the increase in Council Tax.
- Regular benchmarking is undertaken against ‘statistical neighbour councils’ to ensure budgets are not unreasonable.

Risk, revenue balances and earmarked reserves

11.3 Under Section 25 of the Local Government Act 2003, the Corporate Director of Resources (Section 151 Officer) is required to include in budget reports, her view of the adequacy of the balances and reserves the budget provides for in light of the medium-term risks facing the authority.

11.4 Reserves play a crucial role in good public financial management. They enable investment in service transformation and provide resilience against unexpected events or emergent needs. As one-off resources they can only be spent once. The Council has a well documented history of the imprudent use of reserves to balance its budget. It is the view of the Corporate Director of Resources that next year’s budget proposals only include prudent and appropriate use of reserves to meet one off costs.

11.5 Croydon faces a range of substantial financial risks that may require the use of reserves. These include:

- Key departmental financial risks as set out in Appendix J
- The outcome of discussions with central government on the Council’s request for additional capitalisation direction / assistance of £300.6m.
- A further upturn in inflation and impact of the rising cost of living. Against this risk the Council has set aside an inflation provision of £32.9m and a £5.5m provision regarding economic demand pressures on services.
- Addressing pent-up demand as part of the Covid-19 recovery.

- Hospital discharge delays and pressures in the adult social care sector regarding social care waiting times, fee rates and workforce capacity.
- There is a risk that the number of children in care or the number of homeless families in the borough increases beyond what can be accommodated within existing budgets
- The risk of recession and impact on demand for council services and income streams, such as business rates, council tax or parking charges.
- Additional financial issues coming to light as part of the Opening the Books project and the continued external audit of the past 3 years of the Council's annual accounts.
- It has been concluded that monies received by the Council in relation to Croydon Affordable Homes were incorrectly treated and needs to be reversed in the 2019/20 accounts. This report assumes that the impact is a £70m charge to the Council's reserves but discussions are not yet concluded with the External Auditor, Grant Thornton, and therefore the charge may be larger, or smaller. This is a prudent assumption.
- The impact of the wider economy on major Council development projects and future capital receipts.
- The future impact on London of the government's 'levelling-up' agenda and wider local government finance reform (such as business rates).
- A significant upturn in interest rates. This would impact on both the core borrowing undertaken to finance the historic capital programme and future borrowing regarding the use of capitalisation directives.
- The impact of, and costs of tackling, climate change.
- The challenge of identifying further significant future savings that balance the budget over the longer-term. The current MTFS modelling identifies a target for new savings of £20m per annum beyond 2023/24. However, there is an annual £38m shortfall driven by the cost of that debt in the Council's ongoing annual budget which is currently assumed to be funded from annual Capitalisation Directions from government, which in turn will generate more cost pressures form their annual MRP payments. This is not a sustainable financial position and needs to be resolved.

11.6 Over the past 3 years Croydon has taken robust action to restore reserves from a negative base. The legacy Capitalisation Direction request will also maintain existing reserves at an adequate level as a cushion against further unpredicted events or emergencies.

Table 7 – Reserves Carried Forward to 2022/23

	Balance 1st April 2022 £'m
Earmarked Reserves	65.6
Restricted Reserves	46.7

Sums set aside regarding business rate rebates	19.6
Balances held by Schools	8.1
General Fund Balances	27.5
Total	**167.5**

11.7 Croydon holds reserves for the following main purposes.

- As a contingency to cushion the impact of unexpected events or emergencies – this forms part of general balances. The Council's general fund balance was £27.5m at the start of 2022/23 and is not anticipated to change prior to the start of 2023/24. The Corporate Director of Resources is of the view that this should be the minimum level of general fund balance that the Council holds given its scale, complexity as a unitary council and historically high risk profile.
- To build up funds for known or predicted requirements; these specific reserves are known as earmarked reserves. The balance at the start of 2022/23 was £65.6m.
- Restricted reserves are also earmarked but there are more constraints, such as grant terms and conditions, on how the council can use such funding. The largest restricted reserve is £23.1m relating to business rates income ringfenced for use in the Croydon growth zone.
- Specific reserves relating to school balances and the funding of business rate rebates as part of the government's Covid measures. As set out in Appendix F the 2023/24 business rates income forecast includes a drawdown from the business rate relief reserve (which was funded from government grant) of £12.1m that offsets a prior year adjustment made for rate reliefs granted during the covid-19 pandemic.

12. DEDICATED SCHOOLS GRANT

12.1 Dedicated Schools Grant (DSG) is paid to the Council by the Secretary of State under Section 14 of the Education Act 2003. DSG is provided outside of the local government finance settlement and must be allocated, in line with the associated conditions of the School and Early Years Finance Regulations, to the schools' budget in the year in which it is paid.

12.2 As shown in Table 8 Croydon's provisional DSG allocation for 2023/24 will increase by £26.310m to £427.688m. The key growth areas are the High Needs, Early Years and Schools Block.

Table 8 – Croydon DSG Allocations

Financial Year	Schools Block	Central Services Block	High Needs Block	Early Years Block	Total DSG
	(£'m)	(£'m)	(£'m)	(£m)	(£m)
2022/23	285.662	5.302	82.205	28.208	**401.378**
2023/24	302.879	4.728	89.704	30.377	**427.688**
Change	**17.217**	**-574**	**7.499**	**2.169**	**26.310**

12.3 **Schools Block** - The Schools Block of £302.9m funds mainstream schools from reception class to Year 11 (nursery and sixth-form funding are excluded). Croydon has 109 schools with 50,476 pupils according to the most recent Department for Education (DfE) data.

12.4 Whilst local authorities allocate the school's block budget the DfE is moving towards implementing a National Funding Formula. For 2023/24 local authorities must move their local formula factor values at least 10% closer to the NFF, except where their local factor is already mirroring the NFF.

12.5 Croydon local factors have largely mirrored the NFF in recent years and the current changes are not expected to have any significant impact. There may be a small benefit for secondary schools.

12.6 Table 9 sets out the funding breakdown of the Schools Block across primary and secondary schools and the percentage grant change from 2022/23.

Table 9 – Schools Block

	2022/23 (A)	2023/24 (B)	Total Change (C) = (B) - (A)	Value change	Percentage Change
	(A)	(B)	(C)		
Primary School Rate of Funding (£'s)	4,944.68	5,199.40	254.72	£8,000,755	5.15%
Primary School Pupil Numbers (no)	31,410.00	31,280.50	-129.50	-£673,322	-0.41%
Primary Block Funding (£'s)	**155,312,398**	**162,639,831**	**7,327,432**	**7,327,432**	**4.74%**
Secondary school Rate of Funding (£'s)	6,628.19	7,029.36	401.17	£7,583717	6.05%
Secondary school Pupil Numbers (No)	18,904.00	19,195.50	291.50	£2,049,058	1.54%
Secondary Block Funding	**125,299,303**	**134,932,079**	**9,632,776**	**9,632,776**	**7.59%**

Premises (£; s)	3,092,041	3,243,546	151,505	151,505	4.90%
Growth (£'s)	1,958,648	2,063,504	104,856	104,856	5.35%
Overall Total	**285,662,391**	**302,878,961**	**17,216,570**	**17,216,570**	

12.7 Primary school numbers have fallen by 129 pupils (31,410 - 31,281), whilst secondary school numbers have increased by 291 (18,904 - 19,195). Several primary schools are facing financial challenges due to a reduction in their pupil numbers over recent years. Schools Forum have indicated that they will consider the fall in roll issue at a future date when much information is available on the numbers of school affected.

12.8 The funding formula factors used to determine each individual school budget allocation are set by the DfE and this was shared with Croydon on the 8th of August 2022. The funding rates and local factors were reviewed and thereafter recommended by Croydon Schools Forum on 7th November 2022 and received subsequent Cabinet approval on 25th January 2023..

12.9 **High Needs Block (HNB**) – This grant supports all special education needs (SEN) provision including, maintained special schools, independent special schools and SEN support in mainstream schools. The HNB national funding factors are largely based upon historical factors.

12.10As set out in Table 10 there is a 9.12% increase in 2023/24 HNB funding. This is in line with the DfE approach to increase the grant to reflect the growing demands and cost of meeting the needs of the pupils. This includes the minimum funding requirements for special schools highlighted in the 2023/24 DfE operational guide.

Table 10 – High Needs Block

Financial Year	Basic Allocation	Other elements	Import / Export	Hospital education, AP, Teachers pay/pension and supplementary funding factor	Additional high needs allocation (£s)	Total
	(£'s)	(£'s)	(£'s)	(£'s)	(£'s)	(3's)
2022/23	73,484,936	7,055,654	-2,775,000	1,408,945	3,030,941	82,205,476
2023/24	80,165,501	7,199,777	-2,775,000	1,433,437	3,680,676	89,704,391
Change	6,680,565	144,123	0	24,492	649,735	7,498,915

12.11The £7.498m funding increase partially recognises that, over the past 10 years, HNB funding has not kept pace with the rise in pupil numbers, inflationary pressure or greater demand for SEN support. The funding pressures have become more acute since the introduction of the Children and Families Act 2014 and the need to meet the needs of 18- to 25-year-old students. For Croydon there was a budget gap of £3.2m last year.

12.12 Many local authorities have a HNB deficit due to the demands referred to above. If an authority has an overall DSG deficit of one per cent or more at the end of the previous financial year it is required to submit a deficit recovery plan. Croydon has a deficit of £27.6m and has submitted a recovery plan. The Council continues to liaise with the DfE on the plan progress and is engaged with the DfE ‘safety valve’ (SV) programme. This initiative is designed to assist local authorities with the very highest percentage of cumulative DSG deficits on their balance sheet to reduce the deficit and bring it into a balanced position within 5 years. The government recently confirmed that extension the of Statutory Override for the Dedicated Schools Grant for the next 3 years from 2023-24 to 2025-26. This recent decision by the government means that the DSG deficit is not an immediate financial risks to the local authority.

12.13 **Early Years Block** – This block covers funding for pupil’s free entitlement across all early year’s settings. There is a universal free entitlement of 15 hours per week, but some pupils are eligible for 30 hours. The funding allocations for 2023/24, compared to 2022/23 are shown in Table 11.

Table 11 – Early Years Block

	2022/23	2023/24	Total Change
3&4 Year Old Funding Rate (£'s)	5.44	5.78	0.34
3&4 Year Old (Hours)	7,919.62	7,919.62	0.00
15 hrs * 38weeks	570.00	570.00	0.00
3&4 Year Old Funding (£'s)	**24,557,157**	**26,091,980**	**1,534,822**
2 Year Old Funding Rate (£'s)	6.03	6.63	0.60
2 Year Old Funding Rate (Hours)	849.16	849.16	0.00
15 hrs * 38weeks	570.00	570.00	0.00
2 Year Old Funding (£'s)	**2,918,647**	**3,209,060**	**290,412**
Early years pupil premium	163,408	168,855	5,447
Disability access fund	125,600	134,136	8,536
Initial supplementary funding allocation	443,609	773,262	329,653
Total Funding	**28,208,422**	**30,377,293**	**2,168,871**

12.14 An Early Years National Funding Formula was introduced in April 2017. It aims to ensure that all early years settings are funded at the same rates within each local authority. The main risk with this block is the challenges faced by the two Maintained primary schools in deficit due to fall in rolls. The service is working with these schools on their three years deficit recovery plan.

12.15 **Central Services Schools Block** - The Central Services Schools Block (CSSB) consists of two parts – on-going functions and historic commitments.

12.16 For 2023/24 the DfE have reduced funding for historic commitments by 20%. This is in addition to last year’s 20% reduction. The DfE have indicated that will protect any local authority should their total historic commitments funding fall below their 2023/24 expenditure on relevant prudential borrowing costs and termination of employment costs. The 2023/24 CSSB allocations are set out in Table 12.

Table 12 – Central Services Schools Block

	CSSB Unit of Funding	CSSB Pupil Count	On-going Commitments	Funding for Historic Commitments	Total Central School Services Block
	(£'s)		(£'s)	(£'s)	(£'s)
Year 2022/23	54.29	50,314	2,731,547	2,570,400	5,301,947
Year 2023/24	52.93	50,476.	2,671,694	2,056,320	4,728,014
Change	**-1.36**	**162**	**-59,852**	**-514,080**	**-573,932**

12.17 On-Going Commitments.

The main expenditure type under on-going responsibilities includes:

a) licences negotiated centrally by the Secretary of State for all publicly funded schools (sch 2, 8)
b) Schools Admissions Remission of boarding fees at maintained schools and academies and Servicing of school's forums.
c) Finance, Internal Audit cost and management salaries related to education functions

The reduction in grant by £0.059m will be met by savings within the service

12.18 Historic Commitments. The 20% funding reduction is £0.514m. This grant reduction places an extra budget pressure on the General Fund and is taken account of within the grant forecast reported in Appendix E. The gradual reduction of the historical Teachers Pension cost may help offset the grant reduction.Review is on-going to clarify if Croydon may receive some protection regarding historic prudential borrowing costs.

13 FINANCIAL IMPLICATIONS

13.1 As set out throughout this report

14 LEGAL IMPLICATIONS

Setting the Council Tax

14.1 The Local Government Finance Act 1992 ("The Act") sets out the statutory framework for the setting of Council Tax. Section 1 ('Council tax in respect of dwellings') provides for the Council, as a billing authority, each financial year, to levy and collect Council Tax in respect of dwellings within its areas.

14.2 Section 30 ('Amounts for different categories of dwelling') sets out how the Council should calculate the amount of Council Tax by taking the aggregate of-

a) the amount which, in relation to the year and the category of dwellings, has been calculated (or last calculated) by the authority in accordance with sections 31A, 31B and 34 to 36

(b) any amounts which, in relation to the year and the category of dwellings have been calculated in accordance with sections 42A, 42B and 45 to 47 below and have been stated (or last stated) in accordance with section 40 in precepts issued to the authority by major precepting authorities.

14.3 Section 31A ('Calculation of council tax requirements by authorities in England') provides that the Council must calculate in the year the aggregate of—

> "a) the expenditure which the authority estimates it will incur ... in performing its functions and will charge to a revenue account…,
>
> b) such allowance as the authority estimates will be appropriate for contingencies in relation to amounts to be charged or credited to a revenue account ..,
>
> c) the financial reserves which the authority estimates it will be appropriate to raise ..for meeting its estimated future expenditure,
>
> d) such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for,
>
> da) any amounts which it estimates will be transferred …from its general fund to its collection fund in accordance with regulations under section 97(2B) of the 1988 Act,
>
> e) any amounts which it estimates will be transferred …from its general fund to its collection fund in accordance with section 97(4) of the 1988 Act, and
>
> f) any amounts which it estimates will be transferred from its general fund to its collection fund pursuant to a direction under section

98(5) of the 1988 Act and charged to a revenue account ...” (Section 31A(2))

14.4 In addition, the Council must calculate in the year the aggregate of—

“a) the income which it estimates will accrue to it… and which it will credit to a revenue account…..,

aa) any amounts which it estimates will be transferred .. from its collection fund to its general fund in accordance with regulations under section 97(2A) of the 1988 Act,

b) any amounts which it estimates will be transferred…. from its collection fund to its general fund in accordance with section 97(3) of the 1988 Act,

c) any amounts which it estimates will be transferred from its collection fund to its general fund pursuant to a direction under section 98(4) of the 1988 Act and will be credited to a revenue account….., and

d) the amount of the financial reserves which the authority estimates it will use in order to provide for the items mentioned in subsection (2)(a), (b), (e) and (f) above.” (Section 31A(3))

14.5 Section 31A(4) provides that if the aggregate calculated under subsection (2) above exceeds that calculated under Section 31A(3) above, the authority must calculate the amount equal to the difference; and the amount so calculated is to be its council tax requirement for the year. This is in effect the duty to set a balanced budget.

14.6 When estimating under Section 31A(2)(a) referenced above, the authority must take into account—

a) the amount of any expenditure which it estimates it will incur in the year in making any repayments of grants or other sums paid to it by the Secretary of State, and

b) the amount of any precept issued to it for the year by a local precepting authority and the amount of any levy or special levy issued to it for the year. (section 31A(6))

However, except as provided by regulations under section 41 below or regulations under section 74 or 75 of the 1988 Act, the authority must not anticipate a precept, levy or special levy not issued. (Section 31A(7)) The relevant council tax setting calculations for Croydon are set out in Appendix H.

14.7 Section 30(7) provides that no amount may be set before the earlier of the following-

a) 1st March in the financial year preceding that for which the amount is set;

b) the date of the issue to the authority of the last precept capable of being issued to it (otherwise than by way of substitute) by a major precepting authority for the financial year for which the amount is set.

14.8 Furthermore, no amount may be set unless the Council has made in relation to the year the calculations required by the Act (Section 30(8)). Any purported setting of an amount, if done in contravention of subsection (7) or (8) above, shall be treated as not having occurred (Section 30(9)). Therefore, the statutory budget calculation set out in the 1992 Act must be adhered to. If not, the Council Tax resolution may be invalid and void.

14.9 Any amount to be set as Council Tax must be set before 11th March in the financial year preceding that for which it is set (i.e., before 11th March 2023), but is not invalid merely because it is set on or after that date (Section 30(6) and Section 31A (11)). The rider in Sections 30(6) and 31A(11) ("but they are not invalid merely because they are made on or after that date") should not be seen as permission to make the calculations later, but merely as a means of limiting the scope of legal challenges to the budget if an authority breaches the duty to set the Council Tax before 11th March 2023. A delay to agreeing the budget may also have significant financial, administrative, and legal implications.

14.10 Section 66 of the 1992 Act provides that the setting of the budget (and this includes the failure to set or delay in setting the budget) can be challenged by an application for judicial review, with either the Secretary of State or any other person with sufficient interest (which could include a council taxpayer) able to apply.

14.11 Section 52ZB ('Duty to determine whether council tax excessive') requires the Council to determine whether its relevant basic amount of council tax for a financial year is excessive. If it is excessive, then there is a duty under s.52ZF - s.52ZI to hold a referendum. Section 52ZC ('Determination of whether increase is excessive') provides that determining whether the Council Tax is excessive must be decided in accordance with a set of principles determined by the Secretary of State and approved by a resolution of the House of Commons. The Referendums Relating to Council Tax Increases (Principles)(England) Report 2023-24 sets out the principles for the financial year beginning on 1st April 2023, and for Croydon it provides that *"For 2023-24, the relevant basic amount of council tax of Croydon London Borough Council is excessive if the authority's relevant basic amount of council tax for 2023-24 is 15% (comprising 2% for expenditure on adult social care, and 13% for other expenditure), or more than 15%, greater than its relevant basic amount of council tax for 2022-23."*

14.12 Section 65 ('Duty to consult ratepayers') provides for the Council to consult with representatives of non-domestic ratepayers about the proposed revenue and capital expenditure before the budget requirement is calculated. An update on the consultation response for Croydon is provided in Appendix I.

14.13 Section 67 ('Functions to be discharged only by authority') provides that the functions described above to set the Council Tax budget shall be discharged only by Full Council.

14.14 Section 25 of the Local Government Act 2003 ("LGA 2003") ('Budget calculations: report on robustness of estimates etc) provides that the Council's Chief Finance Officer must report to it on the following matters-(a) the robustness of the estimates made for the purposes of the calculations, and (b) the adequacy of the proposed financial reserves. The Council shall have regard to the report when making decisions about the budget calculations. The views of the Director of Finance are set out in section 11 of this report.

14.15 Section 26 LGA 2003 ('Minimum reserves') requires that when setting the budget requirement, the reserves include a minimum level for controlled reserves - this minimum level is determined by the Chief Finance Officer.

14.16 Section 27 LGA 2003 ('Budget calculations: report on adequacy of controlled reserve') requires that the Chief Finance Officer to report on the inadequacy of controlled reserves - i.e., when it appears that the level of a controlled reserve is inadequate or likely to become inadequate and action required to prevent such a situation arising in the financial year under consideration. The views of the Director of Finance on risk, revenue balances and earmarked reserves are set out in section 11 of this report.

14.17 Members will be aware of the requirement to consider the Council's obligations under the Equality Act 2010 as detailed more fully in the Equalities Considerations, at Section 15 below.

Members' Common Law Duties

14.18 When considering the budget proposals, the Council (and its Members), as well as having a duty to ensure that the Council acts in accordance with its statutory duties, must act reasonably and must not act in breach of its fiduciary duty to its ratepayers and Council Tax payers.

14.19 In reaching decisions on these matters, Members are bound by the general principles of administrative law. Local authority decisions need to be rational, prudent, and made in accordance with recognised procedures. A local authority's discretion must not be abused or fettered, and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must be one which only a reasonable authority, properly directing itself, could have reached. The resources available to the Council must be deployed to their best advantage.

14.20 There is an overriding legal duty on Members to act prudently, responsibly, in a business-like manner and in the best interests of the general body of local taxpayers. In deciding upon expenditure, the Council must fairly hold a balance between recipients of the benefits of services provided by the Council and its local taxpayers. Members should note that their fiduciary duty includes consideration of future local taxpayers as well as present local taxpayers. Fiduciary duty is also likely to include acting in good faith with a view to complying with statutory duties and financial prudence in the short and long term.

14.21 The obligation to set a lawful balanced budget each year is shared equally by each individual Member. The budget must not include expenditure on items which would fall outside the Council's powers. Expenditure on lawful items must be prudent, and any forecasts or assumptions such as rates of interest or inflation must themselves be rational. Power to spend money must be exercised bona fide for the purpose for which they were conferred, and any ulterior motives risk a finding of illegality.

14.22 In determining the Council's overall budget requirement, Members are bound to have regard to the level of Council Tax necessary to sustain it. Essentially the interests of the Council Taxpayer must be balanced against those of the various service recipients.

14.23 In approving the respective budget envelope, Full Council is not making decisions as to the implementation, form, or detail of service delivery. These are by law matters for the Executive. In making subsequent decision on service provision changes to achieve savings or budget reduction, the Executive must comply with statutory requirements including consultation obligation and equalities duties.

Constitution (Budget and Policy Framework Procedure Rules)

14.24 Under Regulations 4 (Paragraphs 9 to 11) of The Local Authority (Functions and Responsibilities) (England) Regulations 2000 the Executive is responsible for preparing and submitting to Full Council estimates of the amounts to be aggregated for the purposes of Council Tax calculations, and to undertake any reconsideration of those estimates that Full Council require. As a consequence of Section 67 Local Government Finance Act 1992, the function of making or approving the required calculations – and, in that sense, approving the budget – remains one for the Full Council itself. That function is non-delegable.

14.25 The Budget and Policy Framework Procedure Rules in Part 4.C of the Constitution sets out the process to be followed in developing the budget proposals. The Procedure provides for the following: a) the responsibility of the Executive for the preparation of budget proposals; b) consideration of the responses from Scrutiny and Overview Committee by the Executive in drawing up budget proposals for submission to Full Council; c) the option available to political groups to prepare an alternative or amended budget proposals and the notice and Chief Finance Officer certification requirements on any motions to amend the Executive proposals; and d) the dispute resolution process in the event that Full Council objects to the Executive budget proposals.

14.26 The Procedure defines the budget as: The identification and allocation of financial resources for the following financial year(s) by the Full Council including:

- Revenue Budgets;
- Capital Budgets;
- The Council Tax base;
- The Council Tax level;
- Borrowing requirements;
- Prudential indicators;
- The Medium-Term Financial Strategy; and
- The level of Uncommitted Reserves.

Arrears of Council Tax and Voting

14.27 In accordance with section 106 of the 1992 Act ('Council tax and community charges: restrictions on voting'), where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the Member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a meeting: (a) Any decision relating to the administration or enforcement of Council Tax. (b) Any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax. (c) Any recommendation, resolution or other decision which might affect the making of the Annual Budget calculation. The requirement applies to all committee meeting including the meeting of Full Council and the Executive. A breach is a criminal offence.

Approved by: Director of Legal Services and Monitoring Officer.

15 EQUALITIES IMPACT

15.1 Under the Public Sector Equality Duty of Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others.

15.2 Section 149 of the Act requires public bodies to have due regard to the need to:
- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected characteristic and people who do not share it.

15.3 Protected characteristics defined by law are race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, and religion or belief and marriage and Civil Partnership.

15.4 Having due regard means there is a requirement to consciously address the three tenets of the Equality Duty within decision-making processes. By law, assessments must contain sufficient information to enable the local authority to show it has paid 'due regard' to the equalities duties; and identified methods for mitigating or avoiding adverse impact on people sharing protected characteristics. Where a decision is likely to result in detrimental impact on any group with a protected characteristic it must be justified objectively. Report authors have been guided towards ensuring that there is sufficient mitigation when a service has been changed to ensure that there is no detrimental impact on service users as a result of the change.

15.5 The budget proposals have been assessed in line with the Council's equality impact analysis processes (EIA), as part of a risk-based approach to analyse potential equalities impact of budget proposals. Budget holders have identified where proposals are likely to have an impact on those with protected characteristics (i.e. race, sex, disability, religion or belief, sexual orientation, pregnancy and maternity, age, gender identity and marriage and civil partnership). Where necessary, the potential for mitigating measures are explored. The EIA process continues alongside the development of policy and operational changes and during their implementation.

15.6 The recent pressures caused by higher inflation has been identified in a number of the equality assessments. Nationally it is recognised that households have struggled with rising bills and more are reliant on support. Fuel inflation has had a particularly challenging impact over the last 12 months.

15.7 As at July 2022, there were 7,028 low income families in Croydon where their monthly income is below their estimated costs. This figure represents households that claim benefits through Croydon Council. If costs were increased by £19.62 a month (this is the 14.99% increase on a Croydon Band D house) then there would be 7,290 households with a monthly income below their estimated costs.

15.8 As a result, particular consideration has been given in the equality analysis to proposals which include increases in fees/charges, and the proposed increase in Council Tax. The evidence from both internal and external sources was gathered to consider the impact, as well as considering the responses from the budget engagement activity.

15.9 Intelligence from our Council Tax Support Scheme EQIA gives us the following data which highlights the equality characteristics most affected by the increase:

- 31% of council tax claimants are disabled and will be more affected
- 28% of council tax claimants are disabled and not in work so would be more affected.
- 85% of claimants are single
- 16,260 of the claims made by single people are females, and 6,263 are from males
- 38 active claims where the claimant or partner are in receipt of maternity pay.

15.10 The impact of any council tax changes will of course be mitigated either entirely or in part should a resident be eligible for an exemption from council tax or for a reduction in their council tax eg from the Council's Council Tax Support Scheme. In addition, the Council has prepared mitigation to support residents affected by the proposed increase in council tax by providing a Hardship Fund for residents who experience financial difficulties due to the council tax increase. The fund will be set at £2 million and will be available on an annual basis.

15.11 Eligibility for this fund will be determined against criteria set by the council. It will be administered in a manner that will leave flexibility for residents impacted by the council tax increase who are in extenuating circumstances including: job losses, increases debts from utilities along with debts in other areas such as housing costs. The eligibility for this fund will be significantly different from the existing council tax support scheme and will not use the same income based criteria. This should provide support for residents affected by in work poverty.

15.12 Existing mitigation for residents as will also remain in place (such as discounted rates for residents with disabilities, carers, as well as existing hardship schemes, such as in Housing).

15.13 The Council will continue to commission external independent information, advice & guidance service for residents, with a particular focus on debt management, increasing income and avoiding homelessness. Residents can also contact Croydon Council Money Advice Service for advice on paying your bills and debt worries. All advice is independent and confidential.

15.14 In delivering against the Mayor's Business Plan, the Council will also seek to identify opportunities to improve services and work with partners and communities to minimise any adverse impacts of decisions, particularly in regard to groups that share protected characteristics. In doing so the Council will focus on another core priority to focus on providing the best quality core service we can afford, in particular social care for the most vulnerable people and providing opportunities children and young people, along with opportunities to learn.

15.15 In respect of specific proposals, it is likely that some proposals may result in new policies or policy or service changes. In this instance each proposal will be accompanied by a further equality analysis which will inform the final proposal and its implementation, on a case by case basis. In addition, any decisions which need to be taken in furtherance of the budget proposals will be undertaken in accordance with the duty set out in Section 149 of the Equality Act 2010 and where appropriate further Equality Assessments will be undertaken and form part of the decision-making process.

Approved by Gavin Handford – Director of Policy, Programmes and Performance

16 ENVIRONMENTAL IMPACT

16.1 None direct from the budget report specifically, but will be considered as part of the implementation of any of the proposals contained in this report.

17 CRIME AND DISORDER REDUCTION IMPACT

17.1 As set out in the body of the report and appendices.

18 DATA PROTECTION

18.1 None direct from the budget report specifically, but will be considered as part of implementation of any of the proposals contained in this report

19 HUMAN RESOURCES IMPACT

19.1 The implementation of the savings proposals will, in a number of instances, have a staffing impact. The Council has a legal and policy obligation to seek to avoid compulsory redundancy, where possible. Where organisational change is proposed which impacts on structure, such as through restructures or transfers, this will be managed in accordance with the Council's policies and procedures, including consultation with those staff potentially impacted upon and their trade union representatives, and application of the Council's redeployment scheme, where appropriate.

Approved by: Dean Shoesmith, Chief People Officer.

20. OVERVIEW AND SCRUTINY COMMITTEE

20.1 The budget proposals are due to be considered by Overview and Scrutiny Committee on the 16th of February. An update on any recommendations made by the Committee will be provided to Cabinet and the Cabinet response noted.

LIST OF APPENDICES

A Summary of the 2023 Medium-Term Financial Strategy forecast
B General Fund Departmental and Subjective Budget summary (to follow)
C General Fund growth and savings proposals
D Draft Transformation programme and funding
E Government Grant
F Business Rates Forecast
G 2023/24 Croydon Tax Base (to follow)
H Recommendations for Council Tax Requirement 2023/24 and Council Tax charge by Band. (to follow)
I Budget Proposals for 2023/24 – Feedback from Survey
J Financial Risks

BACKGROUND DOCUMENTS

Mayor's Business Plan Council 14th December 2022
Cabinet report 30th November 2022

London Borough of Croydon - Medium Term Financial Plan

	2023/24	2024/25	2025/26
	£'m	£'m	£'m
Base Budget (Departmental)	317.055	317.055	317.055
Base Budget (Corporate Items)	-0.946	-0.946	-0.946
Demand Pressures	11.283	19.161	24.985
Legacy Budget Corrections	49.037	49.537	50.037
Planned Savings	-33.098	-40.400	-41.114
Future Savings target	0.000	-20.000	-40.000
Provision for inflation	32.946	49.946	61.946
net cost of borrowing (interest, MRP & investment income)	57.919	64.432	63.461
Risk/contingency provision	5.000	10.000	15.000
Set aside of new adult social care grants	3.734	6.319	6.319
Economic Demand Pressures	5.500	5.500	5.500
Council Tax - Hardship Support	2.000	2.000	2.000
Transformation Investment	10.000	5.000	5.000
Gross Budget Requirement	**460.430**	**467.604**	**469.243**
Use of earmarked reserve (Council tax income guarantee)	-1.715	0.000	0.000
Core grant funding	-38.651	-42.648	-42.648
Additional Adult Social Care Grants	-3.734	-6.319	-6.319
Use of the capitalisation directive	-63.000	-38.000	-38.000
Business Rates - compensation grant for underindexing the business rates multiplier	-12.419	-12.419	-12.419
Net Budget Requirement (as per the budget book)	**340.911**	**368.218**	**369.857**
Financing			
Government Grants:			
Revenue Support Grant	-16.711	-17.628	-17.628
Croydon Resources			
Business rates top-up grant	-35.921	-37.864	-40.005
Business rates income	-42.506	-45.388	-45.388
Council tax (4.99% increase modelled in 2024/25 and a freeze in 2025/26)	-247.759	-263.061	-266.034
Prior year collection fund deficit	1.986	0.000	0.000
Total Financing	**-340.911**	**-363.941**	**-369.055**

Budget deficit/(surplus)	0.000	4.277	0.802

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Appendix B

RECOMMENDATIONS FOR COUNCIL TAX REQUIREMENT 2023/24

The Cabinet has considered a report in respect of the level of Council Tax for 2023/24 and the setting of the Council's Revenue and Capital Budgets for the forthcoming financial year. In summary the Cabinet recommends for 2023/24 a Band D charge of £1,805.42 for the Croydon element of Council Tax:

	2022/23	2023/24	Increase	Percentage increase
Council Tax	£1,384.36	£1,588.31	£203.95	12.99% of the 2022/23 Band D charge of £1,570.07
Adult Social Care levy	£185.71	£217.11	£31.40	2% of the 2022/23 Band D charge of £1,570.07
Total Croydon Element	**£1,570.07**	**£1,805.42**	**£235.35**	**14.99%**
Greater London Authority Precept	£395.59	£434.14	£38.55	9.74%
Overall Band D Charge	**£1,965.66**	**£2,239.56**	**£273.90**	**13.93%**

Following detailed consideration, the Cabinet recommends that the Council should:

(1) Approve the 2023/24 net budget requirement of £340.911m.

(2) Approve the 2023/24 Council Tax Requirement of £247.759m.

Appendix B

Calculation of Council Tax Requirement		£'000	£'000	£'000
(A)	Expenditure and other charges (as set out in section 31A(2) (a) to (f) of the Act)			
(i)	expenditure on Croydon's services, local precepts and levies		1,057,364	
(ii)	allowance for contingencies		5,000	
(iii)	transfer to General Reserves		0	
(iv)	transfer to Earmarked Reserves		0	
(v)	transfer from the General Fund from the Collection Fund in respect of prior year deficit on the Collection Fund,		1,986	
				1,064,350
	Less			
(B)	Income and other credit items (in Section 31A(3) (a) to (d) of the Act)			
(i)	Income from services		601,934	
(ii)	Transfer to the General Fund from the Collection Fund in respect of prior year surplus on the Collection Fund,			
(iii)	Income from Government			
	Capitalisation Directions	63,000		
	Core and unallocated Social Care Grants	42,385		
	Business Rates Top Up Grant	35,921		
	Business Rates Income	42,710		
	Revenue Support Grant	16,711		
(iv)	transfer from Earmarked Reserves	13,930		
			214,657	816,591
	Equals			
(C)	The Council Tax Requirement, i.e. the amount by which the expenditure and other charges exceed the income and other credits.* This is (A) above less(B) above (as per Section 31A(4) of the Act)			247,759
Calculation of basic amount of council tax				
(C)	Council Tax Requirement			247,759
	Divided by			
(D)	The Council's Tax base			137,230.9
	Equals			
(E)	The Basic amount of Council Tax (i.e., the Council Tax for a Band D property to which no relief or exemption is applicable) for services charged to Croydon's General Fund (This is (C) above divided by the tax base at (D) as per Section 31(B) of the Act)			1,805.42

*** The exact figure is** **£247,759,411.48**

(F) The tax for different bands calculated as follows (as per Section 36(1) of the Act):

Council Tax for Croydon for 2023/24	
Band A	6/9 x £1,805.42 = £1,203.61
Band B	7/9 x £1,805.42 = £1,404.22
Band C	8/9 x £1,805.42 = £1,604.82
Band D	**9/9 x £1,805.42 = £1,805.42**
Band E	11/9 x £1,805.42 = £2,206.62
Band F	13/9 x £1,805.42 = £2,607.83
Band G	15/9 x £1,805.42 = £3,009.03
Band H	18/9 x £1,805.42 = £3,610.84

(G) to which is added the following precept (issued by the Mayor of London, in exercise of the powers conferred on him by sections 82, 83, 85, 86, 88 to 90, 92 and 93 of the Greater London Authority Act 1999 ("the 1999 Act") and sections 40, 47 and 48 of the Local Government Finance Act 1992 ("1992 Act")

GLA Precept For 2023/24	
Band A	289.43
Band B	337.66
Band C	385.90
Band D	**434.14**
Band E	530.62
Band F	627.09
Band G	723.57
Band H	868.28

(H) That, having calculated the aggregate in each case of the amounts at (F) and (G) above the Council, in accordance with section 30(2) of the local government finance act 1992, hereby set the following amounts as the amounts of council tax for the year 2023/24 for each of the categories of dwellings shown below:-

Total Council Tax For 2023/24	
Band A	1,493.04
Band B	1,741.88
Band C	1,990.72
Band D	**2,239.56**
Band E	2,737.24
Band F	3,234.92
Band G	3,732.60
Band H	4,479.12

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Summary of Departmental Budget Proposals

Savings and Change Proposals

Figures are incremental

	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Children, Young People & Education	-6,920	-2,022	-142
Adult Social Care & Health	-12,243	0	0
Housing	-2,305	-1,989	-589
Sustainable Communities Regeneration & Economic Recovery	-1,859	-145	17
Assistant Chief Executive	-2,924	0	0
Resources	-6,347	-1,646	0
Corporate / Council wide	-500	-1,500	0
Total	**-33,098**	**-7,302**	**-714**

Demand Pressures

Figures are incremental

	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Children, Young People & Education	0	0	0
Adult Social Care & Health	7,621	740	0
Housing	0	0	0
Sustainable Communities Regeneration & Economic Recovery	1,180	1,000	2,500
Assistant Chief Executive	1,230	4,932	3,324
Resources	1,195	1,150	0
Corporate / Council wide	57	56	0
Total	**11,283**	**7,878**	**5,824**

Legacy Budget Corrections

Figures are incremental

	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Children, Young People & Education	5,188	0	0
Adult Social Care & Health	1,648	0	0
Housing	5,286	0	0
Sustainable Communities Regeneration & Economic Recovery	14,759	0	0
Assistant Chief Executive	2,001	0	0
Resources	11,271	500	500
Corporate / Council wide	8,884	0	0
Total	**49,037**	**500**	**500**

Net Budget Movement

Figures are incremental

Savings, demand pressures & legacy budget corrections	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Children, Young People & Education	-1,732	-2,022	-142
Adult Social Care & Health	-2,974	740	0
Housing	2,981	-1,989	-589
Sustainable Communities Regeneration & Economic Recovery	14,080	855	2,517
Assistant Chief Executive	307	4,932	3,324
Resources	6,119	4	500
Corporate /Council wide	8,441	-1,444	0
Total budget change	**27,222**	**1,076**	**5,610**

Children, Young People & Education

Savings and Change proposals

Figures are incremental

Reference	Service	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New savings identified in the 2022/23 Medium Term Financial Plan				
1	Children's Social Care Division	Improve practice system efficiency	-385		
2	Social Work with Children Looked After and Care Leavers	Reduce spend on Children Looked After placements	-1,715	-330	
3	Social Work with Children Looked After and Care Leavers	Review support for young people whose appeal rights are exhausted	-142		
4	Commissioning and Services to Schools	Increase the Education Traded Offer	-65		
5	Children's Social Care Division	Service efficiencies through hybrid and flexible working	-972		
6	Early Years Team	Refocusing public health funding - parenting programmes	-465		
7	Early Years Team	Develop family support centres and introduce external funding		-1,300	
	Incremental/New savings identified in the 2023/24 Medium Term Financial Plan				
8	Social Work with Children Looked After and Care Leavers	Growth reduction	-1,200		
9	Social Work with Children Looked After and Care Leavers	Reduce demand for legal services	-570		
10	Access, Support and Intervention	Restructure of the Youth Engagement Team	-202		
11	Quality, Commissioning and Performance Improvement Division	Staff vacancy factor of 5% across Quality, Commissioning and Performance Improvement	-253		
12	Quality, Commissioning and Performance Improvement Division	Non-staffing spend across Quality, Commissioning and Performance Improvement	-36		
13	CYPE Integrated Commissioning and Procurement	Increase Health contribution to the Integrated Commissioning Team	-57		
14	Education Division	Service redesign across education to fully utilise grant funding	-44		
15	Systemic Clinical Services and Workforce Development	Income generation in Systemic and Clinical Practice	-45		
16	Social Work with Families and 0-17 Children with Disabilities	Reduce spend on Children with Disabilities care packages	-324		
17	Quality Assurance and Safeguarding	Local authority contribution to the safeguarding partnership	-20		
	Transformation Projects				
18	Access, Support and Intervention	Sustaining demand management at the front door	-200		
19	Directorate wide	Review all joint funding arrangements across education, health and care		-250	
20	Social Work with Children Looked After and Care Leavers	Fostering transformation	-225		
21	Social Work with Families and 0-17 Children with Disabilities	Calleydown – increasing capacity and reducing respite costs		-142	-142
	Total of Planned Savings		**-6,920**	**-2,022**	**-142**

Legacy Budget Corrections

Figures are incremental

Reference	Service	Description	2023/24 £000	2024/25 £000	2025/26 £000
22	Performance and Business Improvement	Adjustment re prior year capitalisation of children and families systems team costs	216		
23	Early Years Team	Refocusing public health funding - parenting programmes savings correction	309		
24	Children's Social Care Division	Capitalisation income budget correction	784		
25	Social Work with Children Looked After and Care Leavers	Rebasing the income budget for Unaccompanied Asylum Seekers Children	3,879		
	Total of legacy budget corrections		**5,188**	**0**	**0**

Net Budget Movement

Figures are incremental

	Children, Young People & Education	2023/24 £000	2024/25 £000	2025/26 £000
	Proposed savings	-6,920	-2,022	-142
	Legacy budget corrections	5,188	0	0
	Net Budget Movement	**-1,732**	**-2,022**	**-142**

Adult Social Care & Health

Savings and Change proposals

Figures are incremental

Reference	Service	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New savings identified in the 2022/23 Medium Term Financial Plan				
1	Disabilities	Disabilities operational budget	-5,277		
2	Mental Health	Mental health operational budget	-834		
3	OBC Commissioning	Contracts review	-275		
4	Localities and LIFE	Older People operational budget	-3,019		
5	Transitions	Transitions operational budget	-260		
6	All	Contracts review	-75		
7	Integrated Contracts & Performance	Review of staffing portfolio across C&P Services (Procurement, Hwa, Place, Cfe And P&B)	-100		
8	***Incremental/New savings identified in the 2023/24 Medium Term Financial Plan***				
9	Provider Services	Active Lives staffing efficiency	-60		
10	All ASC Operations	Fees and Charges increase in line with DWP	-150		
11	Provider Services	Closure of the Cherry Orchard Garden Centre	-180		
12	Provider Services	Close Whitehorse Day Centre (facilities management cost only)	-38		
13	Integrated Contracts & Performance	PPE growth hand-back and swap with COMF money.	-325		
14	All ASC Operations	The managing demand programme will deliver a revised operating model for Adult Social Care & Health.	-150		
15	All	Staff vacancy factor of 5%	-1,000		
16	All ASC Operations	Absorption of inflation within existing budgets	-500		
	Total of proposed savings		**-12,243**	**-**	**-**

Demand Pressures

Figures are incremental

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
17	All ASC Operations	Care packages/placements - inflation above corporate allowance	1,479		
18	All ASC Operations	Demographic & cost pressures re care packages/placements	5,065		
19	OBC Commissioning	Cost inflation on Care UK contract	275		
20	OBC Commissioning	Demographic & inflation pressures to the pooled equipment budget.	61		
21	ASC Improvement	Transformation funding ends for project management costs		740	
	Incremental/New growth identified in the 2023/24 Medium Term Financial Plan				
22	Transitions	Transitions Service cost of care growth	278		
23	Transitions	Transitions Service Demographic growth	463		
	Total Demand Pressures		**7,621**	**740**	**-**

Legacy Budget Corrections

Figures are incremental

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
24	Cross departmental	Refocusing of public health funding - budget correction	1,380		
25	Commissioning/business support	Realignment of budgets between the Housing Revenue Account and General Fund	268		
	Total Legacy budget corrections		**1,648**	**-**	**-**

Net Budget Movement

Figures are incremental

	Adult Social Care & Health	2023/24 £000	2024/25 £000	2025/26 £000
	Proposed savings	-12,243	0	0
	Demand pressures	7,621	740	0
	Legacy budget corrections	1,648	0	0
	Net Budget Movement	**-2,974**	**740**	**0**

Housing

Savings and Change proposals

Figures are incremental

Reference	Service	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New savings identified in the 2023/24 Medium Term Financial Plan				
1	Emergency and Temporary Accommodation	Housing Needs restructure including Dynamic Purchasing System implementation	-625	-625	
2	Emergency and Temporary Accommodation	Temporary Accommodation occupancy checks	-400	-300	
3	Emergency and Temporary Accommodation	Temporary Accommodation case review (discretionary cases)	-600	-450	
4	Emergency and Temporary Accommodation	Data cleanse & rent accounts (income collection)	-300	-200	
5	Emergency and Temporary Accommodation	Repurpose general needs voids for emergency accommodation		-175	-175
6	Department wide	Vacancy factor	-302		
7	Emergency and Temporary Accommodation	Demand Management		-239	-414
	Transformation Projects				
8	Homelessness & Assessments	Housing association liaison, recharges and nominations	-78		
	Total proposed savings		**-2,305**	**-1,989**	**-589**

Legacy Budget Corrections

Figures are incremental

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New growth identified in the 2023/24 Medium Term Financial Plan				
9	Department wide	Housing legacy structural budget deficit, first identified in the Medium Term Financial Strategy report in November and subsequently managed down from £5.2m	3,286		
10	Department wide	HRA recharges staffing corrections	1,500		
11	Temporary Accommodation	Inclusion of the leased properties for Concord Sycamore & Windsor within the General Fund (part of the HRA/GF realignment)	500		
	Total legacy budget corrections		**5,286**	**0**	**0**

Net Budget Movement

Figures are incremental

	Housing	2023/24 £000	2024/25 £000	2025/26 £000
	Proposed savings	-2,305	-1,989	-589
	Legacy budget corrections	5,286	0	0
	Net Budget Movement	**2,981**	**-1,989**	**-589**

Sustainable Communities Regeneration & Economic Recovery

Savings and Change Proposals

Figures are incremental

Reference	Service	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New savings identified in the 2022/23 Medium Term Financial Plan				
1	Highways and Parking	Parking charges increase	-200		
2	Independent Travel	Review and reduction of the Neighbourhood Operations Team (NSO)	-150		
3	Independent Travel	Adult travel assistance - joint review	-50		
4	Independent Travel	Bus re-tender contract savings	-80		
5	Skills & Economic Development	Economic development team streamlined service	-46		
6	Community safety	Anti Social behaviour charging	-6		
7	Community safety	CCTV merger	-4		
8	Community safety	CCTV footage charge for insurance claims	-2		
9	Community safety	Review CCTV control room and functions following council telephony upgrade	-152		
	Incremental/New savings identified in the 2023/24 Medium Term Financial Plan				
10	Arts, Entertainment & Culture	Reduced museum activity	-71		
11	Independent Travel	Muster points	-8		
12	Independent Travel	Coach income (from bus hires)	-20		
13	Leisure	Redesign leisure sports development service	-45	-45	
14	Directorate	Fund the General Fund element of the Croydon Museum through the Growth Zone fund for a period of 2 years whilst transforming the service delivery model	-200		
15	Planning and sustainable regeneration	The charging of a percentage of salaries in Planning and Regeneration to income sources other than General Fund eg Growth Zone, Community Infrastructure Levy and external grants	-115		17
16	Planning and sustainable regeneration	Further use of Community Infrastructure Levy instead of General Fund funding where appropriate	-250		
17	Highways and Parking	Removal of a school crossing patrol budget that is no longer required	-60		
18	Departmental wide	One-off investment of public health grant in libraries (£0.200m) and physical activities (£0.200m)	-400	400	
	Transformation Projects				
19	Building Control	Building control		-300	
20	Highways and Parking	Parking Policy		-200	
	Total of proposed savings		**-1,859**	**-145**	**17**

Demand Pressures

Figures are incremental

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New growth identified in the 2023/24 Medium Term Financial Plan				
21	Independent Travel	Increase in Special Education Need pupil numbers requiring transport	680		
22	Waste & Recycling	Refuse contract	500		2,500
23	Highways and Parking	Highways maintenance growth - previous planned growth delayed by 1 year to 2024/25.		1,000	
	Total of demand pressures		**1,180**	**1,000**	**2,500**

Legacy Budget Corrections

Figures are incremental

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New growth identified in the 2022/23 Medium Term Financial Plan				
24	Arts, Entertainment & Culture	Fairfield Halls management fee	-119		
	Incremental/New growth identified in the 2023/24 Medium Term Financial Plan				
25	Building Control	Building control stabilisation	900		
26	Development Management	Correction to legacy income budget in Development Management that is unachievable	1,000		
27	Environmental Health	Loss of Public Health Grant contribution to Food Safety Team budget	293		
28	Environmental Health	Reversal of unachievable income budget in relation to the previously proposed Selective Licensing Scheme, if this scheme goes ahead in the future the income will be required to fund the operation of the scheme	1,586		
29	Community safety	Correction of legacy shortfall in budget	215		
30	Public Realm	Correction of legacy shortfall in budget	299		
31	Highways and Parking	Parking and traffic - unachievable savings from prior years.	10,585		
	Total legacy budget corrections		**14,759**	**0**	**0**

Net Budget Movement

Figures are incremental

	Sustainable Communities Regeneration & Economic Recovery	2023/24 £000	2024/25 £000	2025/26 £000
	Proposed savings	-1,859	-145	17
	Demand pressures	1,180	1,000	2,500
	Legacy budget corrections	14,759	0	0
	Net Budget Movement	**14,080**	**855**	**2,517**

Draft Officer Papers for Discussion - Strictly Private and Confidential

Assistant Chief Executive

Savings and Change proposals

All figures are incremental

Reference	Service	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New savings identified in the 2022/23 Medium Term Financial Plan				
1	Croydon Digital Service	Extensions of procurements for CORE IT contracts	-250		
2	Human Resources	Reduction in previously agreed growth	-51		
3	Croydon Digital Service	Workforce restructure	-1,000		
4	Croydon Digital Service	Deletion of legacy oracle financials	-60		
5	Human Resources	Human Resources management team reorganisation	-210		
6	Policy, Programme and Performance	Contract Review	-800		
	Incremental/New savings identified in the 2023/24 Medium Term Financial Plan				
7	Assistant Chief Exec	Delete Director of Service Quality, Improvement & Inclusion Post	-122		
8	Croydon Digital Service	New graves site at Mitcham Road and Queens Road	-91		
9	Croydon Digital Service	Visual Tribute system at Croydon Crematorium	-31		
10	Mayor's Office	Reduced support	-40		
11	Human Resources	Corporate Learning and Development budget	-100		
12	Human Resources - but Council wide	Reduce non-contractual overtime and non-essential overtime.	-97		
13	Bereavement and Registrars	Additional income from fees and charges	-72		
	Total of proposed savings		**-2,924**	**0**	**0**

Demand Pressures

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New growth identified in the 2023/24 Medium Term Financial Plan				
14	Croydon Digital Service	Increase in the Croydon contribution to the TfL freedom pass scheme	1,230	4,932	3,324
	Total demand pressures		**1,230**	**4,932**	**3,324**

Legacy Budget Corrections

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New growth identified in the 2023/24 Medium Term Financial Plan				
15	Policy, Programme and Performance	Reinstatement of an elections canvass budget	65		
16	Croydon Digital Service	Decapitalise employee costs	1,130		
17	Coroners	Rebase the Croydon contribution in line with actual costs	558		
18	Department wide	Budget correction regarding the charge made to Public Health for the provision of support services	248		
	Total legacy budget corrections		**2,001**	**0**	**0**

Net Budget Movement

	Assistant Chief Executives	2023/24 £000	2024/25 £000	2025/26 £000
	Proposed Savings	-2,924	0	0
	Budget Pressues	1,230	4,932	3,324
	Legacy budget corections	2,001	0	0
	Net Budget Movement	**307**	**4,932**	**3,324**

Resources - Budget Proposals

Savings and Change proposals

Figures are incremental

Reference	Service	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New savings identified in the 2022/23 Medium Term Financial Plan				
1	Finance	ICT operational savings	-47		
2	Commercial Investment	Savings on building closures/disposals	-12		
3	Commercial Investment	Review and release of additional space in Bernard Weatherill House or disposal with part sale and leaseback option	-315		
4	Finance	Restructure technical support & development teams	-30	-30	
5	Finance	Finance staffing review	-125	-125	
	Incremental/New savings identified in the 2023/24 Medium Term Financial Plan				
6	Finance	Premier supplier commission	-200	-100	
7	Finance	Improvement costs met from reserves	-250		
8	Commercial Investment	Saving from duplicated interest budget	-2,445		
9	Commercial Investment	Base budget adjustment regarding fees & charges, landlord income, and HRA mast income (partially offsets the saving in the duplicated interest budget)	809		
10	Finance	Recovery of housing benefit overpayments	-663		
11	Commercial Investment	PMI Contract Manager - Invest to Save proposal	79	-79	
12	Finance	Reduction in running costs in Finance including Revenues, Benefits, Business Rates and the Debt Team	-100		
13	Finance	Additional Court Cost income	-500		
14	Insurance, Risk & Anti Fraud	Additional HRA recharge for insurance	-500		
15	Commercial Investment	Additional commercial rental income	-150		
16	Pensions	Reduction in banking contract budget	-22		
17	Pensions	Contribution from pensioners budget being underspent	-40		
18	Finance	Vacancy factor to be deducted from the General Fund salary budget	-308		
19	Finance	Forecast increase in street naming income	-45		
	Transformation Projects				
20	Finance	Housing benefit review	-1,483	-1,312	
	Total of proposed savings		**-6,347**	**-1,646**	**0**

Demand Pressures

Figures are incremental

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
21	Commercial Investment	Increase in business rates payable by Croydon in line with the 2022 Rates Revaluation	1,000	750	
22	Finance	Forecast shortfall in land charges income	195		
23	Insurance, Risk & Anti Fraud	Insurance Fund growth		400	
	Total of Demand Pressures		**1,195**	**1,150**	**0**

Legacy Budget Corrections

Figures are incremental

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
24	Finance	Housing Benefit Subsidy - Loss on HB Payments with Care Package Element	9,000	500	500
25	Procurement / Commissioning	Decapitalisation of employee costs	150		
26	Investment & Assets	Rebasing of prior year income budgets	90		
27	Legal	Budget correction regarding legal recharges	1,600		
30	Commercial Investment	Reversal of legacy unachievable income	431		
	Total legacy budget corrections		**11,271**	**500**	**500**

Net Budget Movement

	Resources	2023/24 £000	2024/25 £000	2025/26 £000
	Proposed Savings	-6,347	0	0
	Demand Pressures	1,195	1,150	0
	Legacy Budget Corrections	11,271	500	500
	Net Budget Movement	**6,119**	**1,650**	**500**

Corporate / Council wide - Budget Proposals

Savings and Change proposals

Figures are incremental

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New savings identified in the 2023/24 Medium Term Financial Plan				
1	Council wide	Customer access (council wide)		-1,500	
2	Council wide	Consider new structures through layers and spans review	-250		
	Transformation Projects				
3	Council wide	Business Intelligence	-250		
	Total of proposed savings		**-500**	**-1,500**	**-**

Demand Pressures

Figures are incremental

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
	Incremental/New growth identified in the 2022/23 Medium Term Financial Plan				
4	Corporate Items	Increase in external levies	42	43	
5	Corporate Items	Apprenticeship levy	15	13	
	Total demand pressures		**57**	**56**	**-**

Legacy Budget Corrections

Figures are incremental

Reference	Division	Description	2023/24 £000	2024/25 £000	2025/26 £000
6	Council wide	Realignment of Housing Revenue Account and General Fund Budgets. Total budget £9.544m of which £2.268m is so far shown within departmental growth. £8.237m of the growth represents a saving to the Housing Revenue Account	7,276		
7	Council wide	Realignment of employee overhead budgets (national insurance and superannuation/pension contributions)	1,608		
	Total legacy budget corrections		**8,884**	**-**	**-**

Net Budget Movement

Figures are incremental

	Corporate / Council Wide	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**
	Proposed Savings	-500	-1,500	0
	Demand Pressures	57	56	0
	Legacy Budget Corrections	8,884	0	0
	Net Budget Movement	**8,441**	**-1,444**	**0**

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Appendix D
Transformation Plan

1. Background

In late 2020, the Council approved the Croydon Renewal Plan. This comprehensive plan drew together a wide range of improvement actions and projects which had been identified through external and internal reviews, with a particular focus on improving the Council's governance systems, structures and processes and a savings programme to address the serious financial challenges.

The plan was developed at a time when the Council was subject to a S114 notice, where expenditure far exceeded the available budget. The External Auditors had also issued a Report in the Public Interest, identifying a range of failings in the Council's governance and financial structures.

The Croydon Renewal Plan enabled the Council to secure Government support in the form of a capitalisation direction. This allowed the Council to utilise up to £120m of capital funding to support revenue costs over a period of three years. The Government appointed an Improvement and Assurance Panel to provide external advice, challenge and expertise to the council, along with assurance to the Secretary of State that the council was delivering against the renewal plan.

The new Executive Mayor has made clear that his number one priority is to balance the books and make Croydon a financially sustainable Council which listens to residents and provides good quality services. One of Mayor Perry's first acts was to launch an 'Opening the Books' review to assess the Council's financial assumptions and outstanding historic accounting issues. Despite progress being made across the renewal plan, the scale of the financial challenge facing Croydon should not be underestimated. The 'Opening the Books' review has identified substantial accounting corrections that have one off and ongoing implications for the Council's budget.

It is crucial that the Council begins to take a transformational approach rather than continuing to salami slice budgets; this Transformation Plan, with a programme of cross-directorate transformation projects, sets out this new approach to a more modern way of working, that is cost effective and responds to different needs from different residents. Ultimately Croydon Council will become smaller, doing less but – crucially – doing it well.

The programme is being developed but already consists of over 30 projects, many of which require careful reform of the large budget services providing vital adult and children's social care support

2. Progress on transformation to date

Over the past two years the Council has delivered numerous improvements in its governance and financial management. This has included making over £90m in savings in 2021/22 and generating £50m in asset sales.

Implementation of a new telephony system, providing improved reliability, adaptability and data

The Housing Improvement Board has launched, which is overseeing the improvement programme for our tenants

Launched improved financial reports alongside internal training

Implementing an Adults Improvement Plan

Establishing a Children's Improvement Board

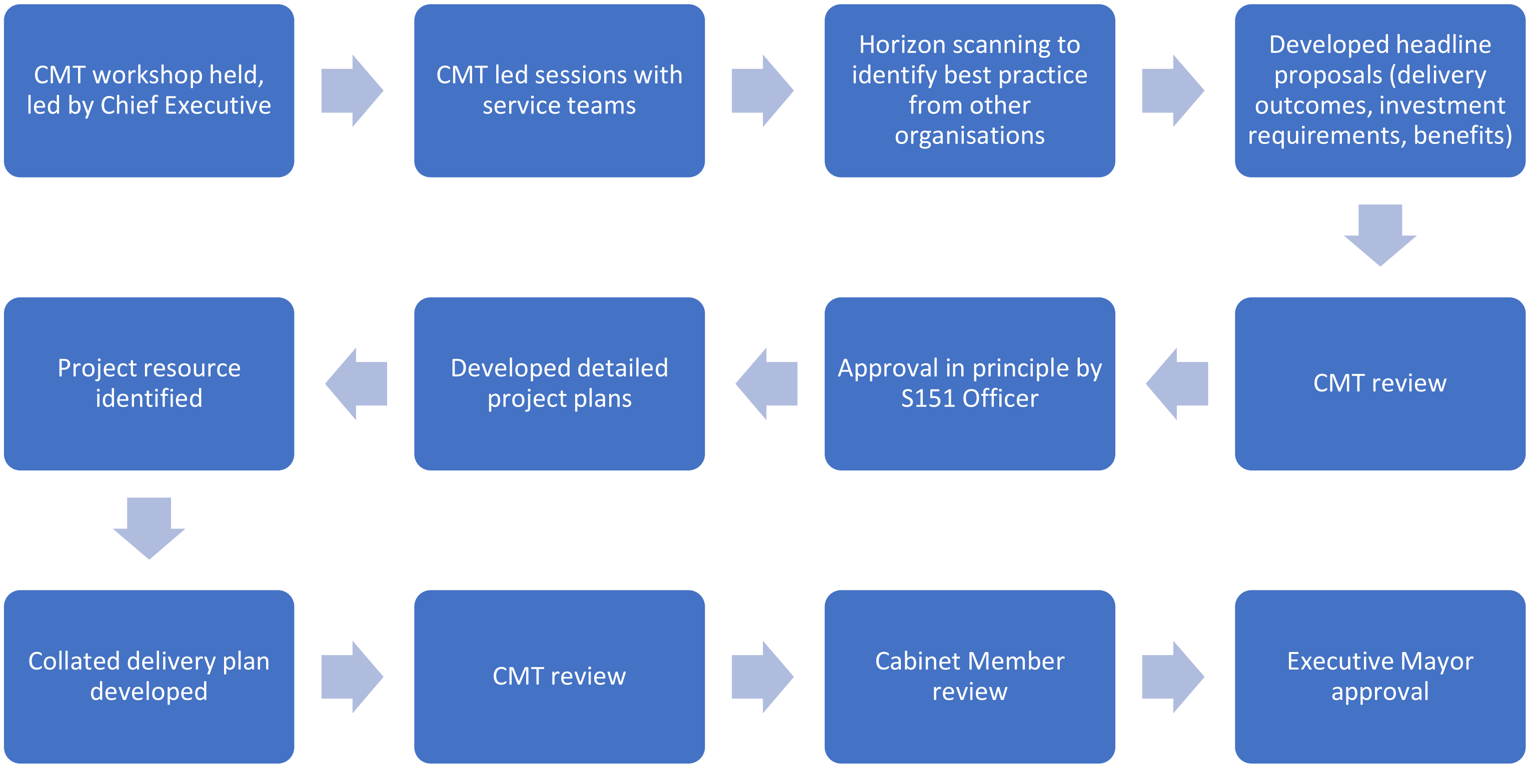
Rationalising our ICT infrastructure, whilst improving use of digital opportunities in services

Implemented improved governance structures

£90m savings deliver over two years

3. The process for developing the transformation plan

This Transformation Plan is about taking a new approach to change in Croydon Council. Change needs to happen across service silos, looking at redesigning services, processes and structures to be more cost effective and to better respond to our residents different needs. Transforming Croydon Council will result in a smaller organisation that does less – but does it well for the benefits of our residents. This approach has to be owned across the organisation, delivered collectively and the plan has been developed in the same way.



4. Summary of projects

There are 39 individual programmes across 7 transformation portfolios. Further details of each programme are set out in the appendix.

Cross Cutting Projects	
Community Equipment Services – Financial Viability and Options	Income and Debt Review - Fees, Charges & Debt Management Review
Business Intelligence Review	Workforce Transformation – HR Transformation
Family Justice Service review	Continuing Care Review
Croydon Campus	Customer Access Review
Commercial & Income Opportunities	Passenger / SEN Transport transformation
Resilient Communities and Community Hubs	Strategic Planning & Commissioning
Voluntary Sector review	

Housing
Temporary Accommodation Case Review
Housing Occupancy Checks
Housing Needs Restructure
Rent Accounts & Data Cleanse
Dynamic Purchasing System - Emergency Accommodation
Housing Association Recharges
Supported Housing Review

Sustainable Communities
Building Control Transformation
Parking Policy 2022
Planning & CIL transformation

Children, Young People & Education
Managing Demand at the Front Door
Shared costs of care and education
Reduction in spend on children and young people in care
SEND review

Assistant Chief Executive
Digital Workforce Review

Adults Social Care
Transitions Commissioning
Domiciliary Care Re-model
Reablement & Hospital Discharge
Review Social Care Placements
Mental Health S117 project

Resources	
Supported Exempt Accommodation Review	MTFS – PFMI Contract Manager
Asset review	Housing Benefit review

5. Governance

As set out in the appendix, each programme has the following in place to ensure successful delivery:

- Senior accountable officer
- Senior responsible officer
- Project manager

The **Senior Accountable Officer (SAO)**, is ultimately accountable and has a Yes/No say or, the right to veto

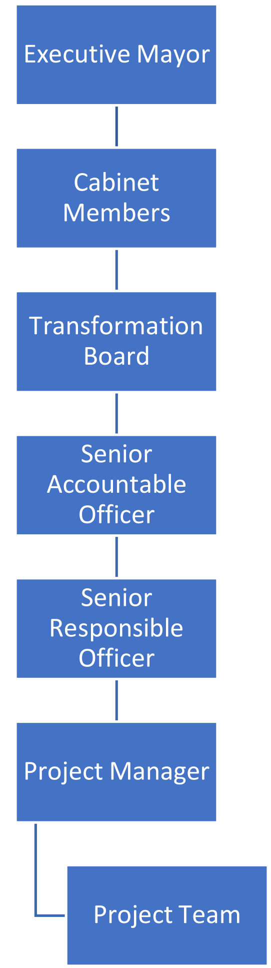
The **Senior Responsible Officer** is the individual responsible for ensuring that a programme or project meets its objectives and delivers the projected benefits. The **(SRO)**: is the visible owner of the overall business change and should be recognised throughout the organisation

Project managers plays the lead role in planning, executing, monitoring, controlling, and closing out the project. They are responsible for the entire project, the project team and resources, the project budget, and the success or failure of the project – in some instances the SRO and PM are one and the same.

In addition to the project roles, an organisation wide portfolio management resource is in place within the Assistant Chief Executive's directorate.

A new Transformation Board will be established to receive highlight reports for all projects and programmes. This will ensure that:

- Progress against key milestones are monitored
- Progress against agreed outcomes are monitored, with project teams accountable for delivery
- Resources requirements are understood and prioritised to the most important areas and to ensure that there is capacity to deliver transformation in additional to BAU activities
- Project risks are escalated where additional action is required



Annex: Transformation Projects

Name of project	Description	Invest	Efficiency Target
Cross Cutting			
Community Equipment Services – Financial Viability and Options	Review Community Equipment Services to establish management model	Nil	TBC
Business Intelligence Review	Better use of in-house data to improve income	Nil	£1m
Family Justice Service review	To explore alternative funding models for domestic violence services	£100k	£350k per annum from 2024/25
Croydon Campus	To reconfigure Croydon Campus including Town Hall, BWH and Davis House introducing a Community Hub to improve customer experience	£250k (only £125k required in 2022/23)	TBC
Commercial & Income Opportunities	To maximise income from a range of commercial and trading services. Look at income performance and opportunities for growth	TBC	TBC
Resilient Communities and Community Hubs	Use library buildings as multi-use community hubs to provide an improved service offer in one location and free up assets	£250k (only £100k required in 2022/23)	£430k (deliverable from 24/25) capital of receipt target of £2m

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Name of project	Description	Invest	Efficiency Target
Strategic Planning & Commissioning	Manage demand for statutory services by planning and commissioning new models of delivery	£290k over 2 years (only £90k required in 2022/23)	Add detail here
Customer Access Review	Develop a customer service model that uses digital, voice and face to face in the most efficient way.	£200k	Delivers previous savings of £2.5m already built into the Medium Term Financial Strategy in March 2022.
Voluntary Sector review	Reshape the voluntary sector expenditure to commission locally where possible, provide support and reset relationships	Nil	£2m
Income and Debt Review - Fees, Charges & Debt Management Review	To correctly price fees and charges and improve management of demand	£50k	£500k
Workforce Transformation – HR Transformation	Review target operating model and support organisational change, reduce requirement on agency staff	£78k	TBC
Passenger/SEN Transport transformation	To review the approach to providing passenger transport to SEN children and adults - that includes consideration of personal travel plans and new commissioning approach	£100k	£600k per annum from 24/25 Cost avoidance only
Assistant Chief Executive's			
		£80k	£1m

Name of project	Description	Invest	Efficiency Target
Digital Workforce Review	To establish future workforce model that reflects a smaller council delivering statutory services in the most cost-effective way & satisfies the need to deliver services to the council		
Adult Social Care and Health			
Transitions Commissioning	Develop pathway across Children's & Adults to commission enabling services	£82k	TBC
Domiciliary Care Re-model	Remodel end to end process for provision of Domiciliary Care	£110k	TBC
Reablement & Hospital Discharge	Establish community reablement service	£60k	TBC
Review Social Care Placements	Review all care packages	£605k (only £300k required in 2022/23)	TBC
Mental Health S117 project	Improved processes and procedures for meeting the Section 117 after-care needs, reviewing cases, with an expectation there will be saving opportunities linked to the disproportionate share of funding between the council and health.	178k	TBC
Adult Social Care Transformation	The final year of the ongoing Adult Social Care transformation programme.	£1,100k	Savings of £9,665k in 2023/24 per the March 2022 MTFS
	TBC	TBC	TBC

Name of project	Description	Invest	Efficiency Target
Strategic Operating Model Design Partner			
Children, Young People and Education			
CSC managing demand at the front door	Maintain reduction in demand for statutory services	£110k	£200k
Review joint funding arrangements across education, health and care	Review all joint funding arrangements across education, health and care	£110k	£250k from 2024/25
Fostering service transformation	Develop a new approach to in-house Foster Care	£92k	£225K
Transformation of Calleydown respite centre	TBC	TBC	TBC
Extend locality SEND support	More children with SEND attend local schools	£240k	TBC
Housing			
Temporary Accommodation Case Review	To review circumstances of households placed in temporary accommodation on a discretionary basis and to formulate an exit plan for those to whom the Council does not owe a main housing duty.	£291k	£1.05m

Name of project	Description	Invest	Efficiency Target
Housing Occupancy Checks	Approximately 2000 statutory homeless households are in emergency and temporary accommodation. Currently, no regular checks are carried out in relation to occupancy or welfare. Conducting occupancy checks will enable LBC to end the homelessness duty to approximately 100 households.	£291k	£700k
Housing Needs Restructure	The Housing Needs service must be restructured to improve the Council's early intervention and demand management. To deliver the savings, a transformation lead must be recruited.	£60k	£300k
Rent Accounts & Data Cleanse	Recruitment of a data cleanse officer will ensure the Housing directorate has accurate information on the reasons for accommodating households in temporary accommodation. The officer will enable accurate reporting of temporary accommodation numbers to the government which will positively impact the Homelessness Prevention Grant (HPG).	£26k	£0k (N.B. GF data cleanse will facilitate the delivery of the Housing Occupancy Checks efficiencies below)
		£92k	£250k

Name of project	Description	Invest	Efficiency Target
Dynamic Purchasing System - Emergency Accommodation (Requires further work, was re-submitted 13/09/22)	An emergency accommodation DPS with a framework of providers will formalise arrangements, ensure best value and compliance, and make the Council more effective.		
Housing Association Recharges (Approved)	Transformation request for a Housing Liaison officer who will be focused on the governance of all relevant contracts and nomination agreements to maximise properties the Council can use to move households out of emergency and temporary accommodation.	£59k	£78k
Supported Housing Review (Requires further work and has not been re-submitted)	A senior commissioning lead should be recruited to carry out the review of the Council's housing related contracts across the Housing and ASC&H directorates to formalise arrangements, ensure best value and compliance, and address areas of overlap in provision.	£80k	TBC
	Review SEA and establish occupation and charging principles	TBC	TBC

Name of project	Description	Invest	Efficiency Target
Supported Exempt Accommodation Review			
Resources			
Asset Review	Reprofile asset portfolio	TBC	TBC
MTFS – PFMI Contract Manager	Introducing & improving PFI Contract management	TBC	TBC
Housing Benefit Review	Reduction in Benefit payments	TBC	£1m
Sustainable Communities			
Building Control Transformation	Develop a new operating model to meet current and new statutory obligations	£350k in year one + (£100k capital investment for IT investment) (only £100k is required in 2022/23)	£300k per annum once transformation programme delivered
Croydon Museum Transformation	To determine the best future and funding model for Croydon Museum to ensure its long-term stability and funding	TBC	TBC
Parking Policy 2022	Develop a new Parking & Enforcement Strategy	£200k	400k per annum
			£250k per annum from 2024/25

Name of project	Description	Invest	Efficiency Target
Planning & CIL Transformation	Transformation of Planning Service e.g. CIL & S106 Strategy, including digital/ICT automation	£200k £100k investment in ICT (only £100k is required in 2022/23)	
	Total	**£5.934m** **(only £4.604m of funding is required in 2022/23)**	

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Croydon - Grants Forecast based on the 2023/24 Final Local Government Finance Settlement

	Budget	Final LGFS	Future Forecast		Comments
	2022/23	2023/24	2024/25	2025/26	
	£'m	£'m	£'m	£'m	
Lower Tier Service Grant	0.681		-	-	Grant ended in 23/24.
Improved Better Care Fund	9.978	9.978	9.978	9.978	
Services Grant	5.104	2.994	0		
New Homes Bonus	4.115	1.646	0	-	
EFA Education Services Grant	1.967	1.967	1.967	1.967	Not yet confirmed
Local C/Tax Support Admin Grant	0.448				Grant rolled into RSG.
DWP Hsg Benefit Admin Grant	1.350	1.350	1.350	1.350	Not yet confirmed
Social Care Grant	11.120	18.999	28.257	28.257	
Independent Living Fund*		-0.960	-0.960	-0.960	Grant rolled into Social Care Grant
Centrally Retained DSG**	2.570	2.056	2.056	2.056	Subject to review against actual commitments
One-off Business Rates levy surplus distribution 2022 to 2023		0.621			New allocation announced in the Final 2023/24 LGFS. Payable in 2022/23 but assumed for use in 2023/24
Core Grant Funding	**37.333**	**38.651**	**42.648**	**42.648**	Budgeted for Corporately
New Adult Social Care discharge fund	-	1.399	2.331	2.331	Budgeted for within Adult Social Care
Market sustainability and Improvement fund	0.946	3.281	4.934	4.934	Budgeted for within Adult Social Care
Adult Social Care Grants	**0.946**	**4.680**	**7.265**	**7.265**	
Revenue Support Grant	14.646	16.711	17.628	17.628	
Total All Grants	**52.925**	**60.042**	**67.541**	**67.541**	
Net movement against the prior year					
Core Grants		1.318	3.997	0.000	
Revenue Support Grant		2.065	0.917	0.000	
General Grants		3.383	4.914	0.000	
Adult Social Care		3.734	2.585	0.000	
		7.117	**7.499**	**0.000**	

* The Independent Living Fund grant is budgeted for within Adult Social Care.
The grant forms part of the social care grant allocation for 2023/34. To equalise the base 2023/24 position it is shown as a deduction from core grants as this funding will need to offset the ASC pressure.

** Local authorities can apply for protection if their historical prudential borrowing costs exceed the 2023/24 grant allocation Review is in progress to establish if Croydon may receive such protection. The current forecast assumes it does not.

*** The 2024/25 forecast is based on analysis by London Council's (22 December 2022)
A grant freeze is assumed for 2025/26 pending any update on fair funding and other reforms.

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Business Rates - Forecast

	2023/24	2024/25	2025/26	
	£'m	£'m	£'m	
Section 31 grant for underindexing the business rates multiplier	12.419	12.419	12.419	In line with the NNDR1 Return for 2023/24
Business Rates-top-up grant	35.921	37.864	40.005	2023/24 as per the LGFS. 2024/25 uprated in line with London Councils modelling
In-Year Business Rates Income	32.168	33.909	33.909	Croydon 30% share of business rates income collected. Estimate based on the 2023/24 NNDR1.
Other section 31 grants (for business rate reliefs)	10.338	11.479	11.479	Based on NNDR1 for 2023/24. Future years updated
Prior Year Adjustments	-12.215	0	0	Arising from prior year rebates
Draw down from business rates reserve	12.215	0	0	Reserve c/fwd to 23/24 of £19.633m funded from section 31 grants received for covid business rate reliefs. This is matched against the prior year adjustments.
Total - All Business Rates	**90.846**	**95.671**	**97.812**	

Croydon Budget Presentation

Section 31 grant for underindexing the business rates multiplier	12.419	12.419	12.419
Business Rates Income	78.427	83.252	85.393
Total	**90.846**	**95.671**	**97.812**

Notes:
1. A business rates revaluation is effective from 1 April 2023.
The impact should be neutral but the split between income and the top-up grant may change.
Transitional reliefs may also apply and change the level of section 31 grants.

2. This forecast is based on the NNDR1 submitted in January 2023.

3. The business rates system is due to be rebased from 2025/26.
For the purpose of this forecast the impact is assumed to be neutral.

4. Croydon will carry forward a business rate relief reserve of £19.633m to 2023/24
This was funded from government section 31 grant received in respect of business rate reliefs provided during Covid.
The reserve is now matched against the prior year business rate adjustments arising from the impact of Covid.

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REPORT TO:	Corporate Director of Resources – Jane West
SUBJECT:	**Calculation of the Council Tax Base 2023/24, and Determination of the 2022/23 Collection Fund Deficit for Council Tax**
LEAD OFFICER:	**Andrew Lord – Interim Finance Consultant**

1. Recommendations

1.1 Note that the Local Council Tax Reduction (Support) Scheme (CTS) is revised following review and due regard to the statutory consultation feedback from 1st April 2023.

1.2 The Executive Mayor in Cabinet will recommend to full Council to agree to remove the minimum income floor for disabled working claimants, change the amount the income bands are to be increased to match the increase in Council Tax and to introduce non-dependant deductions for disabled not working claimants, excluding cases where the non-dependant is in receipt of carers allowance for the claimant.

Delegated Approval

1.3 By the delegation granted to the appointed S151 Officer by the Corporate Services Committee on 7th January 2004, I determine that the 2023/24 Council Tax Base for the London Borough of Croydon be **137,230.9 Band D equivalent properties**.

1.4 That the forecast Council Tax Collection Fund deficit for the financial year 2022/23 is estimated to be **£2,427,987 – of which the Council's share would be £1,985,867, and the GLA's share would be £442,120**.

- Dated: January 31 2023

Jane West
Corporate Director of Resources (section 151 officer)

2. Purpose of Report and Executive Summary

2.1 Section 33 of the Local Government Finance Act (2012) and the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 require the Council as the Billing Authority to calculate a Council Tax Base for its area after 30th November and before 31st January in the previous financial year and duly notify precepting authorities (the GLA) within the same timescales.

2.2 In calculating the tax base regard is given to the number of hereditaments (properties) existing on the taxbase at the time of determination; anticipated future changes over the course of the remaining current financial year and throughout the future financial year; impact of discounts and exemptions (either nationally determined or locally set); premia (as relating to long-term empty hereditaments); anticipated collection rates; and prescribed proportions of property for each Council Tax Band in relation to a standard Band D charge.

2.3 The annual determination of the taxbase is by necessity an *"estimate"* for the forthcoming financial year and will differ from that experienced over the next year. Regulations require that as well as calculating the future year taxbase, a forecast surplus or deficit against the in-year Collection Fund position is calculated and reported to precepting bodies.

2.4 The calculations set out in the body of this report estimate a council tax base of **137,230.9 Band D equivalent** properties for 2023/24. This is an increase of 860 Band D equivalents over that approved for 2022/23 and, at the £1,570.07 Band D charge approved by Croydon Council, for 2022/23, represents a positive **movement against base budget of £1.350m** (this being prior to a Council decision on setting the 2023/24 Band D charge).

2.5 The detailed tax base calculation is shown by component and individual banding in Appendix 1. The calculation is based on data provided by Croydon to the Department for Housing Levelling-Up and Communities in the October 2022 CTB1 return with an allowance made for an increase of 2,108 in the number of new dwellings. The underlying increase in the 2023/24 tax base is 1.13% which is in line with the historic 5-year average increase.

2.6 The latest data is used to model the estimated discounts provided through the CTS with allowance made for a trend increase of 10 Band D equivalents per month. When the Council set the 2022/23 budget an incremental saving of £1.2m was modelled for 2023/24 regarding previously approved changes to the CTS. The updated CTS is now in operation and reflected within the CTS discount figures set out in Appendix 1. The CTS discounts now modelled for 2023/24 are 16,393 compared to 16,955 in 2022/23 – a benefit of 562 properties equivalent to saving of approximately £0.9m.

2.7 The forecast collection rate for 2023/24 is modelled at 97.5% compared to 98.5% for 2022/23. The increase in the cost-of-living is impacting on the current in-year collection rate and this trend is likely to continue in 2023/24. The 1% reduction in the collection rate is equivalent to a reduction of 1,387 Band D equivalents.

2.8 A summary of the movement in the forecast 2023/24 taxbase is set out below:

	Band D Equivalents
2022/23 Council Tax Base	**136,370.8**
Allowance for new dwellings	2,108
Reduction in forecast collection rate from 98.5% to 97.5%	-1,387
Other movements including discounts and exemptions	139.1
2023/24 Council Tax Base	**137,230.9**

Prior Year Collection Fund Deficit

2.9 Due to the Covid-19 pandemic national council tax collection rates were less than expected in 2020/21. In a measure designed to help local authorities the government announced that local authorities could spread their estimated 2020/21 collection fund deficit over 3 years rather than, as normal, just the following year. 2023/24 will be the last year that this historic deficit will need to be written out and the Croydon share is £2.504m with the GLA share £0.572m.

2.10 At the end of 2021/22 the actual deficit on the collection fund was £1.239m compared to a forecast deficit of £1.887m. This net improvement of £0.648m will partially offset the deficit relating to the final year of the Covid deficit. For 2022/23 in-year collection is on target and no additional surplus or deficit is estimated.

2.11 The net position regarding the prior year collection fund deficit is set out below:

	Croydon	GLA	**Total**
Third Year of the spreading adjustment re the forecast Covid deficit	£2,503,201	£572,466	**£3,075,667**
Surplus regarding the 2021/22 collection fund outturn (deficit less than previously forecast)	(£517,334)	(£130,346)	**(£647,680)**
In-Year forecast 2022/23 collection fund deficit	£0	£0	**£0**

Total Prior Year Collection Fund Deficit chargeable to 2023/24	**£1,985,867**	**£442,120**	**£2,427,987**

Appendix 1 – Council Tax Base for 2023/24

2023/24 Council Tax Base	Disabled *(no.)*	Band A *(no.)*	Band B *(no.)*	Band C *(no.)*	Band D *(no.)*	Band E *(no.)*	Band F *(no.)*	Band G *(no.)*	Band H *(no.)*	Total *(no.)*
Dwellings as per CTB1	-	4,150	23,611	51,438	41,268	23,689	11,768	7,494	654	164,072
Allowance for new dwellings		53	303	661	530	304	151	96	8	2,108
Less Exemptions	-	(64)	(376)	(697)	(463)	(312)	(100)	(56)	(7)	(2,075)
Chargeable Dwellings	-	4,140	23,538	51,402	41,335	23,681	11,819	7,535	655	164,105
Disabled Adjustments (Net)	1	16	124	87	13	(88)	(31)	(94)	(27)	0
Single-Person Discounts (25%)	-	(563)	(3,250)	(4,903)	(2,644)	(1,214)	(502)	(257)	(14)	(13,347)
Other Discounts (50%)	-	(1)	(4)	(13)	(13)	(9)	(14)	(21)	(11)	(84)
Family Annexe Discount	-	(4)	(0)	-	-	-	-	-	-	(4)
Empty Dwellings Premium	-	33	110	146	125	33	19	21	4	493
Local C/Tax Reduction Scheme	-	(882)	(4,526)	(6,021)	(3,527)	(1,074)	(261)	(99)	(3)	(16,393)
Net Chargeable Dwellings	1	2,739	15,993	40,698	35,289	21,330	11,029	7,086	604	134,769
Prescribed Band D Proportion	5/9ths	6/9ths	7/9ths	8/9ths	9/9ths	11/9ths	13/9ths	15/9ths	18/9ths	9.40/9ths
Total Relevant Amount	1	1,826	12,439	36,176	35,289	26,070	15,931	11,810	1,208	140,750
Assumed Collection Rate	97.50%	97.50%	97.50%	97.50%	97.50%	97.50%	97.50%	97.50%	97.50%	97.50%
Council Tax Base 2023/24	**0.5**	**1,780.7**	**12,127.7**	**35,271.6**	**34,407.2**	**25,418.1**	**15,532.8**	**11,514.3**	**1,178.0**	**137,230.9**

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Budget 2023/24: we want to hear from you

Feedback from public survey

26 January 2023

CROYDON
www.croydon.gov.uk

Executive Summary

This report summarises the responses received to the budget 2023/24 proposals survey. The survey was launched following the approval of the 2023-24 budget update, Medium Term Financial Strategy and savings proposals at Cabinet on 30 November 2022.

1,467 responses were received to the survey which ran between 1 December 2022 and 8 January 2023. This is a very positive response rate when compared to similar engagement exercises.

The survey suggested that respondents gave greatest priority to support for elderly and vulnerable residents, services for children young people, families and education, and rubbish and recycling collections. The lowest ranked service areas, according to respondents, were libraries and culture and leisure and sports facilities.

However, when we look at the comments made in later questions, when respondents talked about specific services, it tended to be those that were ranked lower in terms of priority. This inconsistency is not unusual in surveys of this type. It is also worth noting that the comments about individual services are consistently from a small proportion of the overall survey sample.

In answering how the budget proposals will affect them, the key themes of concern were (number of responses is shown in brackets):

- Increase in council tax (250)
- Cuts and reductions in services (135)
- Vulnerable groups i.e. disabled and elderly residents (82)
- Cost of living (79)

When asked if respondents had any further comments on the proposals, the largest group of responses highlighted the importance of governance and transparency (121) from the council, as well as reference to staff and councillors.

821 respondents provided comments on where the Council should spend more/less, and areas that we could do differently. The majority of comments (155) were around the importance of keeping streets clean and safe.

The theme of clean and safe streets is replicated in the responses to where the council should be looking to bid for external funding with safer communities (89.58%) and cleaner streets (84.32%) coming out top.

Engagement methodology

Following the Cabinet meeting on 30 November 2022, the council launched a five-week budget engagement to seek feedback on the proposals.

A survey was available on the council's resident engagement platform, Get Involved, and widely promoted across council channels and accessible from the front page of the council's website.

The survey design was similar to previous budget engagement surveys used in recent years. Questions utilised different responses structures, with some seeking to understand agreement / disagreement and others having free text responses for people to provide any comments or feedback. The survey was designed to be relatively short in order to maximise the response and completion rate.

Councillors, partners and community groups were encouraged to spread the word and share the survey with their communities. We advised that paper copies/easy read and alternate language versions were available if required, and this was also communicated to key partners and councillors to support any residents unable to access digital channels.

The survey was promoted through all council channels throughout the engagement. This included:

- Press release
- Your Croydon weekly e-bulletin
- Business e-bulletin
- Mayors weekly message and Chief Executive's staff message
- Social media posts (Twitter, Facebook and Instagram)
- Intranet article, plus update asking staff to share with their networks
- Our Croydon e-newsletter
- Communications in libraries and children's centres – library staff briefed to support residents and print out copies of the budget engagement if required
- Email to 561 community and voluntary contacts via the council's VCS team
- All councillor emails
- Shared with youth council and via the youth engagement teams
- Shared with community safety networks
- Facebook post shared with local groups
- Contact centre available to take residents views over the phone if required.

In the week before the survey closed, a further round of communications was undertaken to encourage responses. These included:

- Press release
- Social media posts
- Intranet article
- Reminder to all community groups and councillors
- Message to schools
- Mayor's weekly message and Chief Executive's staff message

Analysis of responses

1,467 responses were received to the survey which ran between 1 December 2022 and 8 January 2023. This is a very positive response rate when compared to similar engagement exercises.

In addition to the specific engagement questions, respondents were asked to provide responses to equality and diversity questions to provide a breakdown of the responses compared to the borough profile.

The communications activities included messages to children's centre and schools. However, the response rate for people aged 0-19 was lower than other age groups. This is, however, similar to other engagement surveys both in Croydon and other areas. Other age groups were well represented.

Respondents came from a wide range of ethnic groups, although no weighting has been applied to the results. The largest response group identified as White English/Welsh/Scottish/Northern Irish/British (61%). This is higher than the borough profile from the 2021 Census, where 48.4% of the population identified as White. Black, Asian and Mixed ethnic groups were underrepresented in the response rate compared to the Census 2021 profile for Croydon.

11.6% of respondents identified as having a disability. This is slightly below the boroughwide level identified in the 2021 Census of 14%.

In relation to faith, the largest groups of respondents were those that identify as Christian (45%) which is very similar to the Census 2021 level. The next highest response group was those with no religion and this was also similar to the borough profile according to the 2021 Census data. However, the response rate for those identifying as Muslim was lower than the borough profile.

In relation to sex, the proportion of respondents identifying as female was very similar to the borough profile. Male respondents were slightly underrepresented compared to the borough profile.

In relation to partnership status, 53.1% of respondents were married. This is an over representation compared to the 2021 Census profile, where 32.8% were married. There was also a higher response rate from those in a registered civil partnership compared to the borough profile.

Full details of the response rates by demographics are provided in the appendix.

The remainder of this report provides a summary of the results and analysis of the feedback. Analysis is provided against each question of the survey.

Analysis

Question 1: The council spends £300m a year providing hundreds of local services to 390,800 people. Please rank these services in order of importance to you, with 1 being the most important and 9 being the least important:

All 1,467 respondents completed this question.

The table and chart below show how the services were prioritised according to the average ranking given by respondents.

The two largest services, by budget, were ranked first and second in the order of priority: support for elderly and vulnerable adults (Adult Social Care) and services for children, young people, families and education (Children, Young People & Families).

The next group of services, ranked 3rd and 4th on average, were universal services: rubbish and recycling collection, and keeping streets safe and clean.

The average ranking then shows a clear gap, from 3.99 to 5.09. Housing, parks and open spaces and economic growth scored between 5.09 and 5.71 on average.

Libraries and culture and leisure and sport facilities received the lowest average rank.

The Mode ranking is also provided – showing the most common ranking provided. This can be useful where averages sometimes mask variation in scoring.

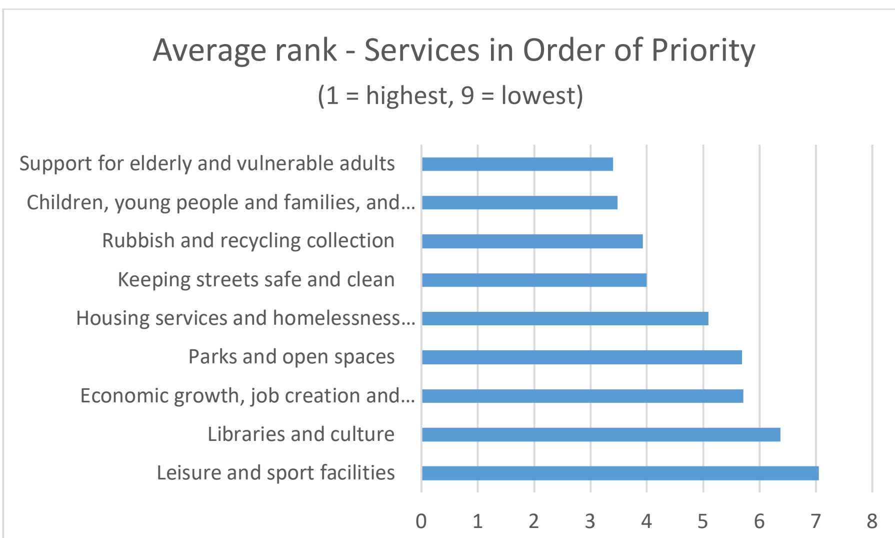
For example, although housing services and homelessness prevention had an average rank of 5.09, the most common ranking was actually 3. Meaning a large number of respondents ranked housing services higher than the average suggests.

The reverse is true for economic growth. Whilst the average score was 5.71, placing it above libraries in the priority order, the most common rank was 9. The most common score for Libraries, however, was 7.

Table 1:

Order of priority	Service	Average rank	Mode (most common rank)
1 (most important)	Support for elderly and vulnerable adults	3.40	1
2	Children, young people and families, and education	3.48	1
3	Rubbish and recycling collection	3.92	3
4	Keeping streets safe and clean	3.99	4
5	Housing services and homelessness prevention	5.09	3
6	Parks and open spaces	5.69	7
7	Economic growth, job creation and regeneration	5.71	9
8	Libraries and culture	6.37	7
9 (least important)	Leisure and sport facilities	7.05	9

Chart 1:



Question 2: Do you think our budget proposals will impact you and if so, how?

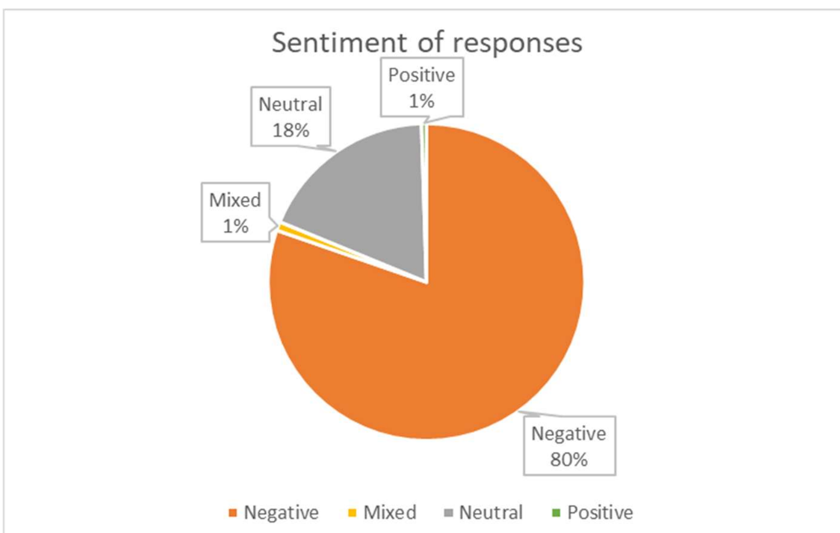
As part of the budget engagement, we wanted to understand if residents felt that the budget proposals would impact on them. We also asked residents to indicate how, and within the analysis have categorised these responses as having a positive, neutral or negative impact. For example, some respondents suggested that the increase in Council Tax would have a negative impact on them because of the financial impact this would have on them.

941 people responded to this question:

- 730 (77.6%) indicated that the budget proposals ***will*** have an impact
- 54 (5.7%) indicated that the budget is ***not likely*** to have an impact
- 157 (16.7%) did ***not clearly state*** whether the proposal will have an impact on them.

The chart below demonstrates how residents indicated the budget proposals would impact on them.

Chart 2:



Further analysis of the responses to this question was undertaken to identify which budget proposals people identified as impacting on them.

The table below provides a breakdown of the key proposals that were identified by respondents as having an impact. The table highlights those where 5%+ of respondents (47) commented.

Table 2:

Area (number of responses)	**Description**
Council tax (240)	The respondents expressed their worries about any council tax increase and its impact. In particular there were comments that Council Tax was increasing when services were poorly performing or reducing.
Service cuts and reduction (135)	The respondents were worried that any cuts to, or reduction in services might affect them. These covered multiple budget proposals and/or included general statements about service reductions.
Libraries (103)	Libraries was identified as a specific service area where respondents indicated that they or the community would be affected. The responses were concerned about reductions in the service.
Vulnerable groups (82)	The respondents were worried that vulnerable groups (pensioners, disabled, elderly etc.) may be particularly affected by the cuts and additional costs. Comments in this area included concerns about the impact on the voluntary and community sector, which supports vulnerable residents as well as the direct services provided by the Council.
Cleanliness and maintenance (79)	The respondents indicated that further cuts may affect the cleanliness and maintenance of the streets and community spaces.
Cost of living (79)	The respondents indicated that their standard of living might decrease due to the proposed changes, with the budget proposals coming alongside the wider cost of living changes and inflationary pressures facing households.
Safety (47)	The respondents indicated that safety (both crime and environmental risk e.g. flood) might be affected by the budget proposals.

In addition to the numerical analysis, a sampling of the responses is provided for context.

Examples of responses:

Leisure and arts are nice to have rather than essentials. I don't think they should be paused indefinitely but focusing on getting the basics right should come first - regeneration and new investment, clean and safe streets, vulnerable people in the community and maintaining social housing.

Reducing education support including library services feeds a vicious downwards spiral of ambition, achievement, and community, thereby increasing crime and unsociable behaviour.

Will have to pay more council tax and will get less for it. For the past two years streets, parks and the green spaces looked really shabby. Grass cut x 2 year, rubbish everywhere, hedges and trees not cut (danger to road and public paths users due to overgrown tree branches), bus shelters taken away and never reinstated. Libraries and children centre services cut.

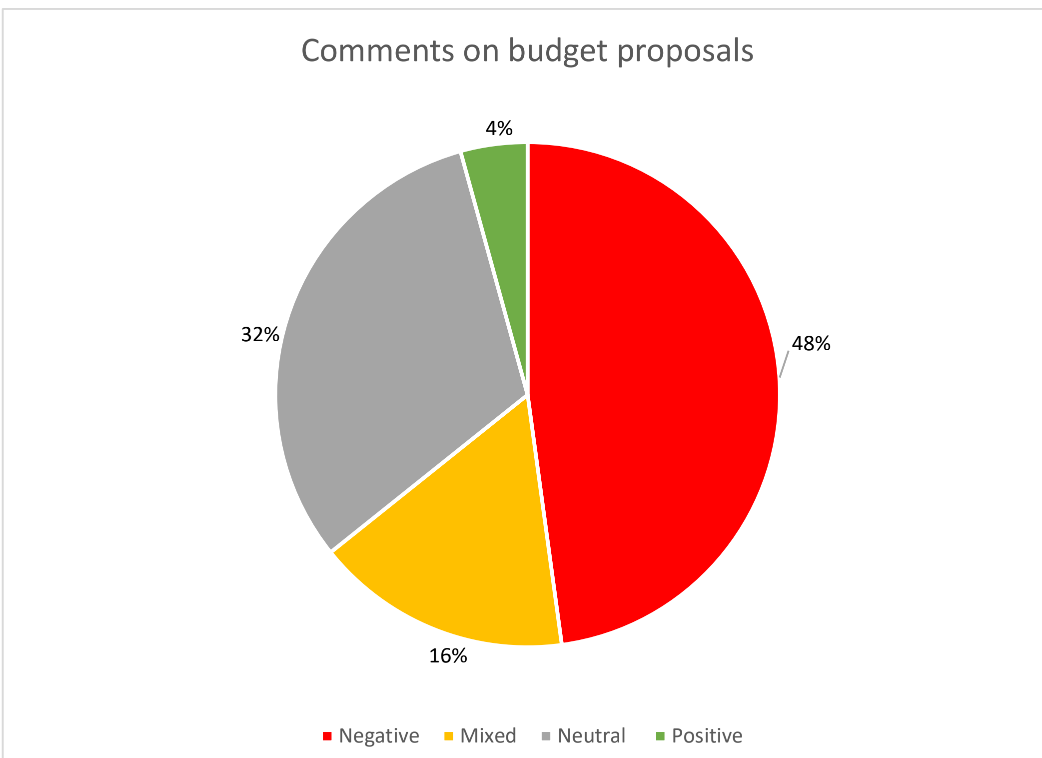
Question 3: Do you have any further comments on our proposals?

Within the engagement survey we wanted to give respondents every opportunity to give their feedback, and not be limited to only closed choice questions. Respondents were therefore invited to provide any further comments through a free text format.

690 respondents provided comments. In analysing these comments, we have coded the comments in two ways. Firstly, each response was identified as positive, negative or neutral. Some comments gave both positive and negative comments – these were coded as mixed responses

As shown in the chart below, 48% of the respondents expressed negative opinions about the budget proposals. 32% of the respondents expressed neutral feelings towards the proposals. Only 4% of the comments to this question were positive about the budget proposals.

Chart 3:



The second stage of analysis was to code the comments according to the issues or themes raised by the respondent. As this was a free text response, there was significant variety in the comments.

The table below provides a breakdown of the key themes raised by respondents. The table highlights those where 5%+ of respondents (35) commented.

Table 3:

Theme (number of responses)	**Summary**
Council / staff / governance (121)	The respondents indicated themes around senior pay, councillor allowances, us of consultants/agency staff and being more transparent in relation to expenditure and decision making. References were also made to historic matters, such as commercial investments and projects
Local Businesses and Economic Regeneration (56)	The respondents indicated the importance of innovation and investing in local businesses, town centres and open spaces
Libraries (47)	The respondents indicated that they or the community would be affected by the library cuts
Clean streets / safety (49)	The respondents indicated that safety in Croydon should be considered when discussing budget proposals. The respondent indicated concerns about street/town centre/neighbourhood cleanliness

In addition to the numerical analysis, a sampling of the responses is provided for context.

Examples of responses:

Too many fly tipping in our streets. In my opinion people are flying tipping for 2 reasons: 1. they don't want to pay for bulky waste collection. 2. they don't have a car and can't go to the recycling centre. Results: people leave their rubbish on the streets and you have to send a team to clean it.

We should prioritise people, health and wellbeing, and make sure the poor and vulnerable are looked after. In the current situation, it's less important to spend money on removing graffiti, cutting the grass, sweeping the streets every day or improving district centres. We should also prioritise working with communities to improve their own situation locally, and promote volunteering and group activities to get things done where there is no money to pay for services.

I was struck during the pandemic at just how many people wanted to volunteer or for example, take Ukrainians into their homes. It was a massive response. Could we harness that goodwill and potential in Croydon more? If we had a safe, credible way of linking volunteers with targeted projects to help schools, libraries, assuming seekers etc. People want Croydon to be successful. Also develop a pool of ambassadors who have Croydon roots to inspire people that Croydon really is a great place to live, work, raise a family and enjoy your older years. Good luck and thanks for the survey- nice to be given the chance to have our view on such important subjects.

Question 4: If the council has opportunities to bid for external funding to invest in any of the following areas, to what extent would you support or not support each of the following?

The Mayor's Business Plan has emphasised the importance of working in partnership, and supporting these partnerships to secure external funding and investment into Croydon.

The budget engagement survey therefore sought to understand where respondents would prioritise external funding against different service areas. Against each area, respondents were asked to state how much they would support, or not support, investment.

1,467 responses were provided to this question.

A 5-point scale was used for the responses, with respondents indicating how strongly they agreed or disagreed.

The table below summarises the responses. All areas received support for external funding being invested.

Table 4:

Investment areas	Strongly support and somewhat support	Strongly do not support and somewhat do not support
Safer Communities	**89.58%**	**1.43%**
Cleaner Streets	**84.32%**	**3.07%**
Improving our town and district centres	**83.30%**	**3.61%**
Protecting young people and helping them to reach their full potential	**83.30%**	**3.89%**
Supporting older people to live longer healthier live	**82.48%**	**4.09%**
Investing in our parks and open spaces	**79.13%**	**4.64%**
Raising standards in council homes	**65.37%**	**7.57%**
Public sports and leisure facilities	**65.03%**	**9.95%**
Community projects or services that support communities	**64.82%**	**10.64%**

Question 5: Is there anything that we currently spend money on that you think we should not, or anything that you think we could do differently?

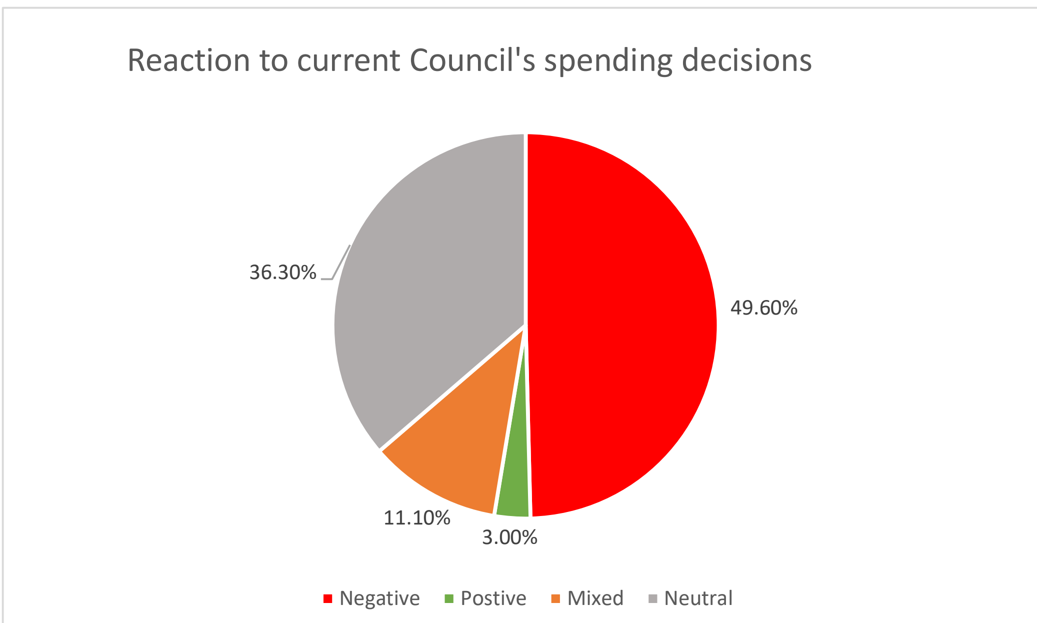
As part of the engagement survey, it was important that respondents were not limited to only comment on the budget proposals that had been identified in the Cabinet report. This question sought general feedback on any areas that the Council should change its expenditure on. The response format was a free text answer.

There were 821 comments responses and a wide range of reactions to the spending decisions of the council.

Similar to other free text answers, the first stage of analysis was to code the comment as to whether it was positive, negative, mixed or neutral.

Most of the respondents (49.6%) felt negative about the spending decisions, but a considerable proportion (36.3%) of responses were neutral towards these decisions. The chart below provides a summary.

Chart 4:



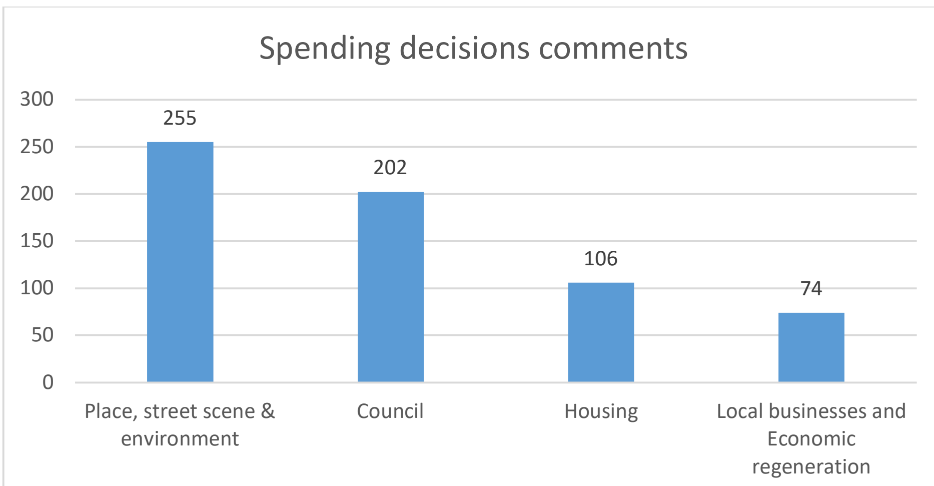
The next stage of analysis was to code the response according to the theme(s) of the comments. These included grouping according to a service area, or to a corporate wide matter such as transparency of spend, councillors or staff generally. Similar to previous questions, this report summarises the key themes raised where 5%+ of respondents (42) commented.

The analysis also identified some misconceptions, such as “stop all the bonuses for top management”, when the Council’s pay policy does not include provision for bonuses.

As can also happen in these types of surveys, there were opposing views in the responses. For example, some comments were arguing for the removal of low traffic neighbourhoods and enforcement cameras; other comments were seeking for enforcement to be strengthened and expanded.

The main themes identified in the responses is summarised in the chart below, with further details then provided on each theme.

Chart 5:



Place, street scene and environment (255 responses)

The main themes that were identified in this category were in relation to street scene and cleanliness, and roads. The respondents emphasise the importance of increasing general appeal of the borough.

Table 5:

Tag	Description
Appearance and Clean Streets (110)	The respondents indicated the importance of cleaner streets, graffiti removal and protecting green spaces. There were suggestions to utilise more volunteers and to invest more funding in these services to improve the appearance of towns and spaces across the borough.
Roads (67)	The respondents indicated the importance of keeping the roads clean and streets made more accessible for pedestrians. There were a range of views in relation to things like cycle lanes and

Tag	Description
	traffic enforcement. Some wanted increases in these areas, others wanted these to reduce or be removed.

Council (202 responses)

Within this theme the categories were broader, covering a range of different aspects. Themes included:

- Staff salary and performance, particularly in relation to senior salaries and the use of consultants, with the general theme being that these should be reduced
- Mayor/Councillors, with comments about the role of Mayor and Civic Mayor, and costs involved, as well as the salary and allowances for Councillors, with the general theme being these should be lower
- Staff retention / concern about the impact of the Council's financial situation on staff

Across the Council based comments there were also comments to previous activities and the need for increase transparency with stronger audits and more information sharing.

Housing (106 responses)

Whilst there was a significant proportion of comments about housing, the themes were extremely varied. Comments highlighted the need for investment in housing stock, with reference to ensuring the empty or underused buildings were a priority. There were also competing views in many areas (more housing vs less housing). There was concern about the wider economic position and the impact this would have on housing and homelessness.

Local business and Economic Regeneration (74 responses)

Within this area a key theme was in relation to previous activities or schemes. The largest theme, and only one with more than 5% of responses, was made in relation to town centre/regeneration, with reference to Westfield not proceeding and the need for a clear vision to improve the town centre.

Community Engagement (43 responses)

Comments in this theme focused on creating a sense of community, getting the public involved in community matters, including community projects. References were made to supporting the voluntary and community sector, as well as opportunities for greater volunteering.

Examples of responses:

Sell the leisure facilities off, they'd be better run by private gyms.

Why has Croydon council got such an enormous and palatial new office building? Presumably you can get people working at home more and downsize. That place must cost a fortune. Maybe some of the answers to the financial problems lie close to home? Will tough decisions be made about that building or will it be libraries and arts facilities that get thrown on the bonfire instead?

Spend it on streets cleans off graffiti and litter

There's no point in saving pennies by, for example, turning the lights off, or cutting teams size down by a few members. Big projects need to be created that will bring significant wealth to Croydon, but that's so easy to say and I have no idea what such projects might consist of…

Stop wasting money on traffic calming measures like the 20mph zones

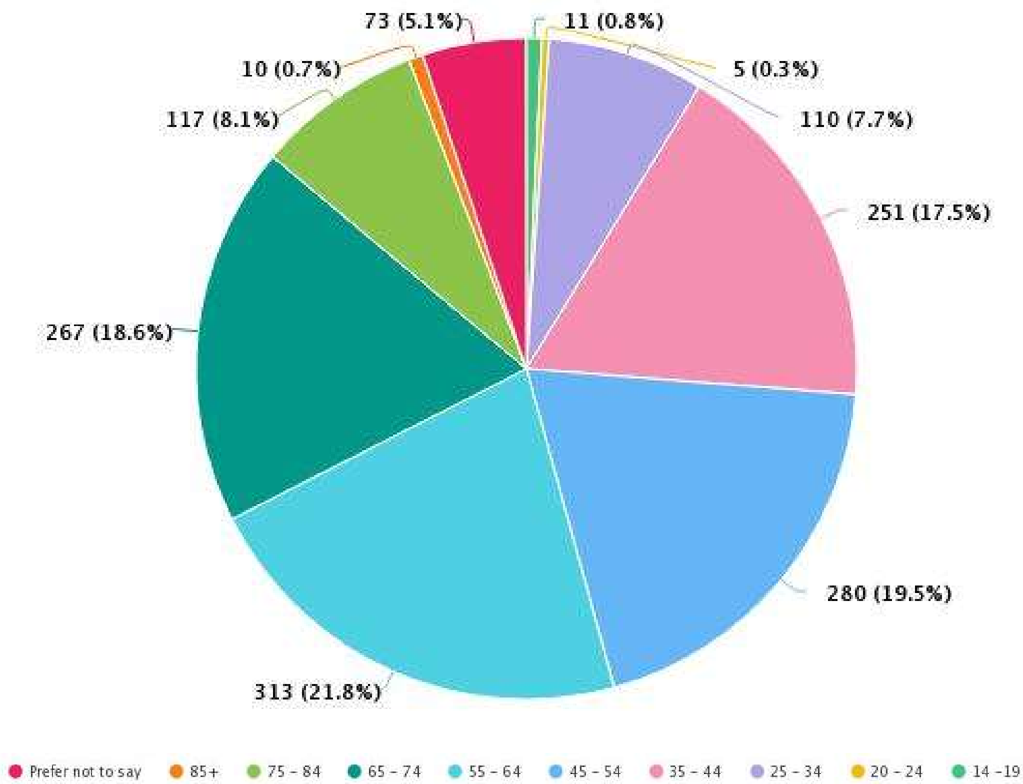
Spend the reserves paying of more debt will decrease the amount of interest payable if there is no money left so be it. That's how normal people have to operate.

Financially supporting community schemes should be something only to be considered during "years of plenty". While the council is cash-strapped, local communities will need to rely much more on their own resources and ingenuity

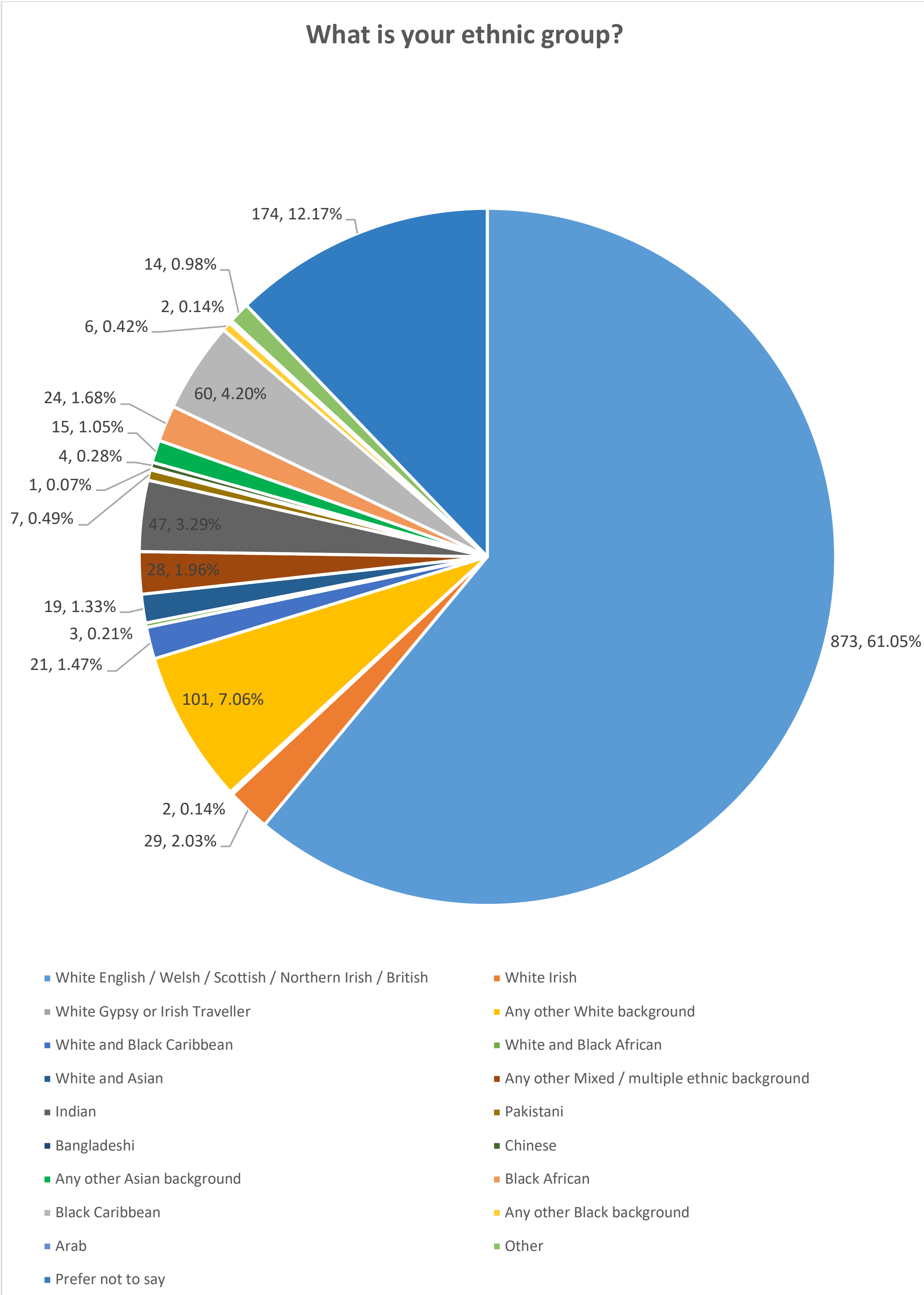
More money should be spent in improving current housing conditions and helping the vulnerable with living conditions

Appendix – Demographic analysis

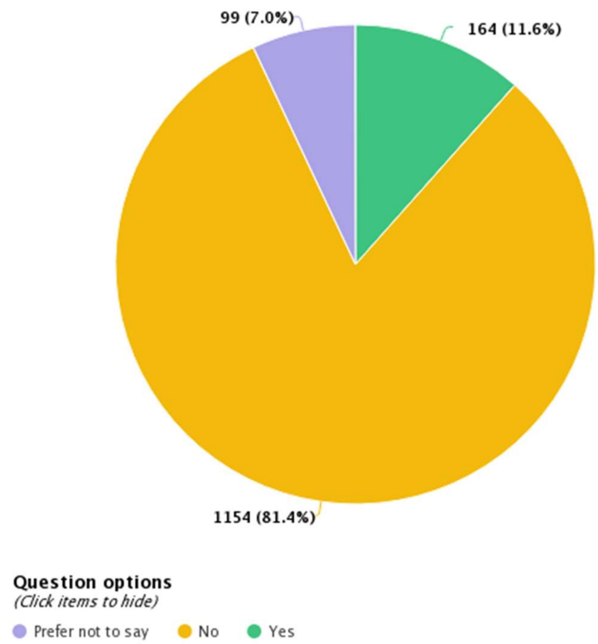
Age – Which age group applies to you?



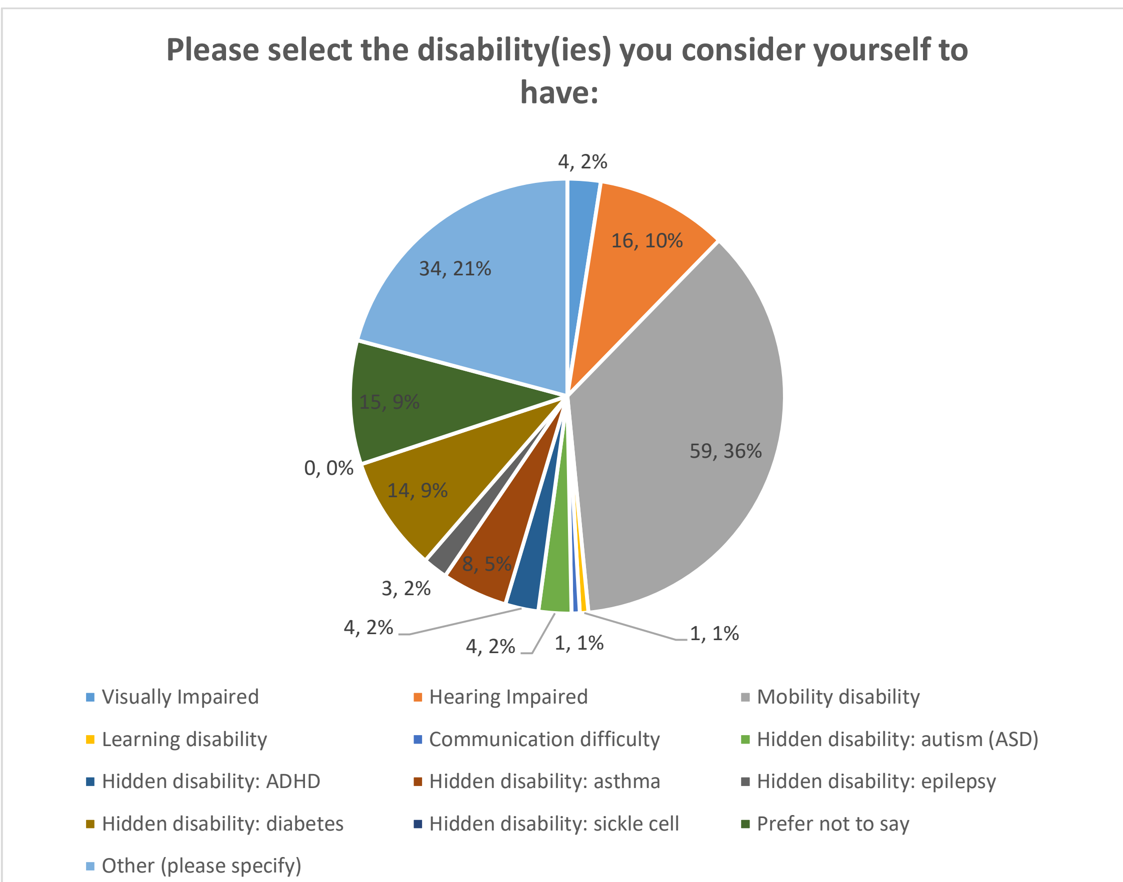
Ethnic group – What is your ethnic group?



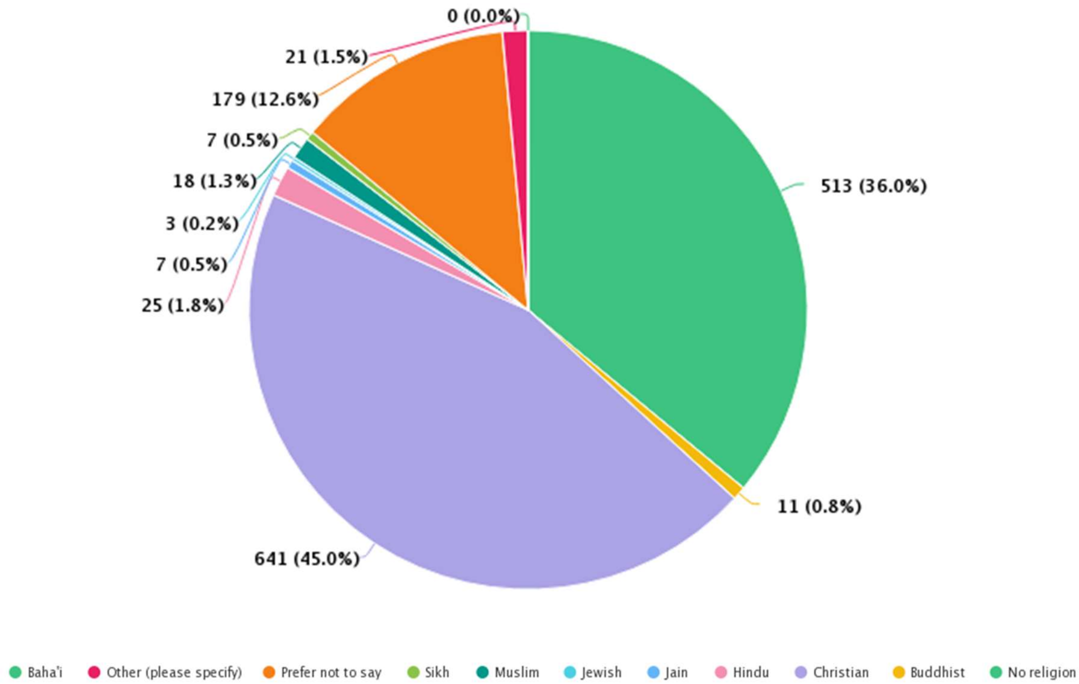
Disability – Do you consider yourself to have a disability?



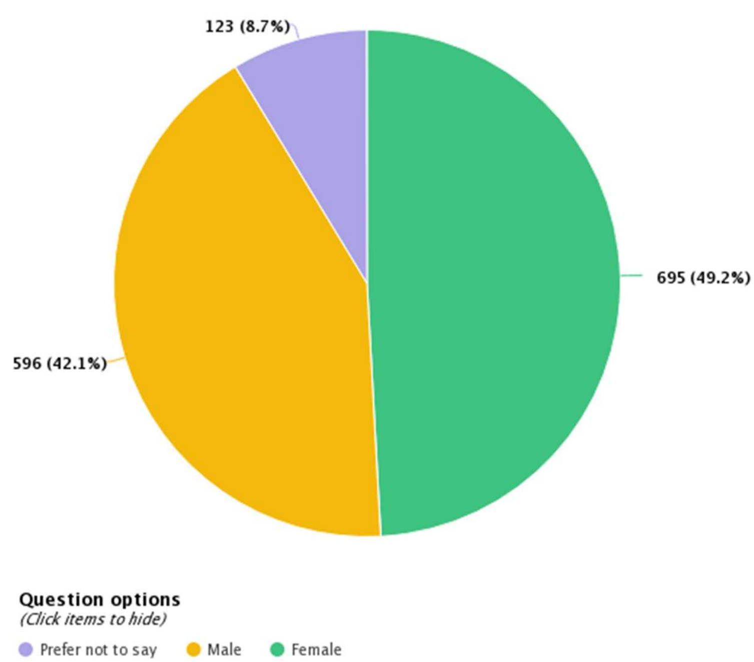
Disability – Please select the disability(ies) you consider yourself to have:



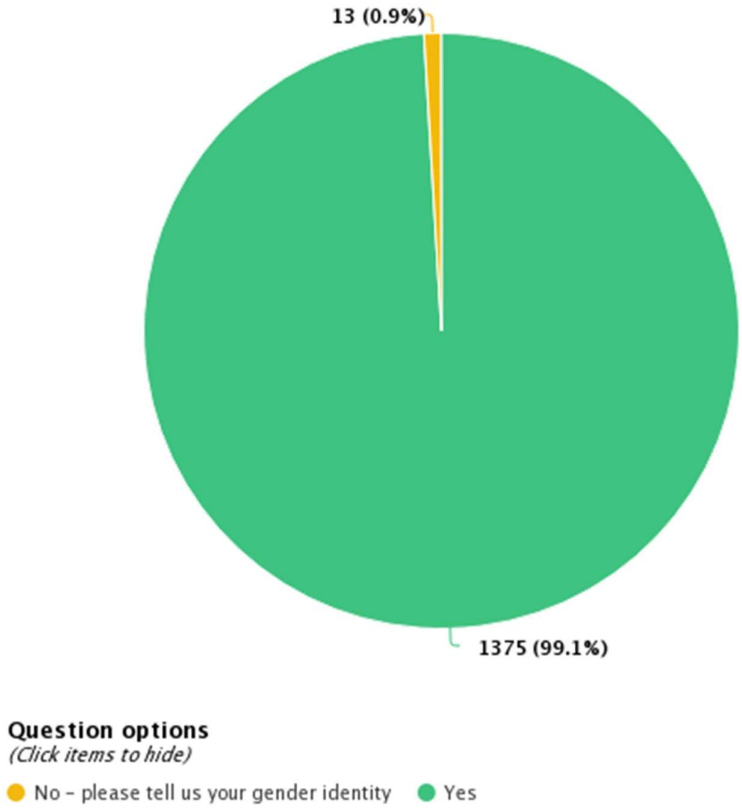
Religion – What is your religion?



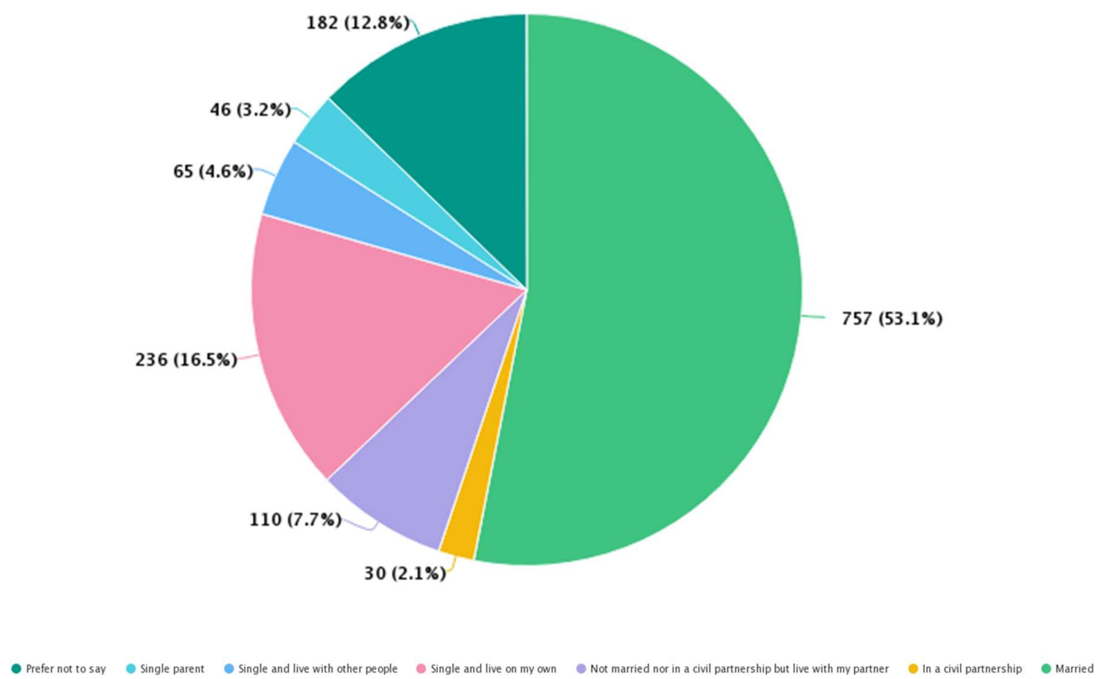
Sex – What is your sex?



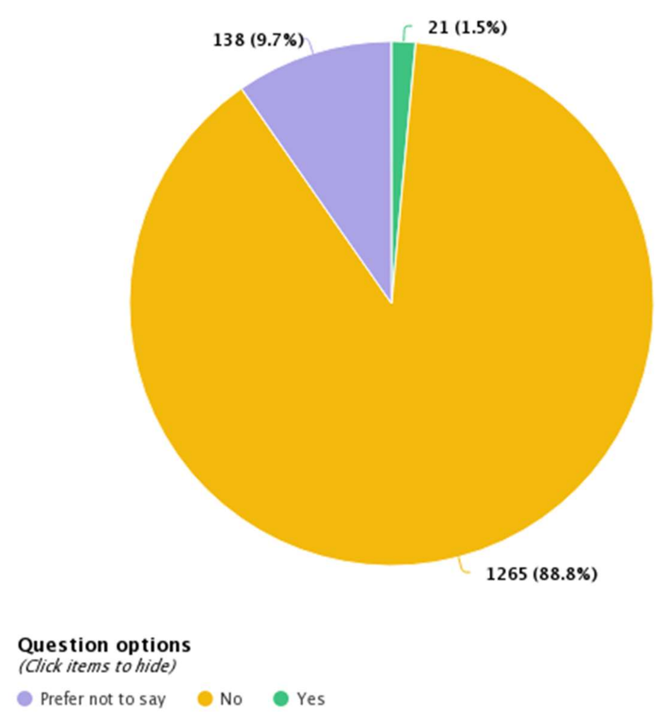
Gender – Is the gender you identified with the same as your sex registered at birth?



Legal status – What is your legal marital or registered partnership status?



Pregnancy – Are you or your partner pregnant?



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Financial Risks

Adult Social Care & Health

Service Area	Short description of risk	Risk 2023/24 £000s	Risk 2024/25 £000s	Risk 2025/26 £000s	Potential Mitigation
All Care	**Market sustainability and Fair Cost of Care (FCoC)**. The government has recognised that the state of the care market is due, in part, to the rates paid by local authorities (LA). They have introduced reforms which are designed to bring current LA rates paid to a fair cost over a 3 year period. This is also in line with the authorities duties under the Care Act 2014. A nationwide exercise started in 2022 with the results being made public 01/02/23. This is likely to cause significant noise. Risk shown is the current best guess of the impact spread equally across 3 years, however its likely that this will increase in subsequent as the FCoC is based on 22/23 rates so is likely outdated before its fully met. If the grant funding is not available to the department either the likely grant conditions will not be met of the departmenrt will overspend.	3,500	3,500	3,500	Use of Market Sustainability grant
All Care	**Hospital Discharge 1** In late 2022 the ASC Discharge Grant was introduced to relieve pressures in the healthcare system. The grant was awarded to LAs and ICBs and was managed via the Better Care Fund S75 agreement. The grant has strict conditions and requires fortnightly activity reporting. This grant has been extended to 23/24, no further guidelines have been issued but it is highly likely to have the same or similar conditions. In addition the introduction of the FCoC will increase the costs of care for discharges.	3,000-5,000	TBA	TBA	Use of the 2023/24 ASC Discharge grant and manage volume of patients being discharged.
All Care	**Hospital Discharge 2** It was announced 9 January 23 that the Department of Health & Social Care (DHSC) are to spend £250m buying residential care beds. This has a number of potentially unfortunate consequences for LAs. This will likely increase the cost of residential care further, one providers have publicly stated that they consider this to be a high cost service. Part of the issue with discharge is the lack of therapy services available. Using these care home beds is not going change this situation and is highly likely to lead to care dependency for which the LA is liable to fund. There is no clarity around how these patients care will actively be managed. The worse case is that there are essentially "warehoused" which is inappropriate for the patient and potentially costly for the LA. As these plans have only just been announced and no guidance has been issued, the above is a best guess until we have further information	TBA	TBA	TBA	https://www.gov.uk/government/news/up-to-250-million-to-speed-up-hospital-discharge
All Care	**Inflation** Inflation has been budgeted for at up to 9%, however providers are currently approaching commissioners for increases of between 12 and 25%. These requests are outside the Fair Cost of Care exercise. In some instances the departmant may need to pay inflationary increases to ensure provider stability.	0 - 1000			

Childrens and Young People

Service Area	Short description of risk	Risk 2023/24 £000s	Risk 2024/25 £000s	Risk 2025/26 £000s	Potential Mitigation
Children's Social Care Division	Underfunding of employee pension budget	1,198	1,198	1,198	Covered from in-year vacancies
Social Work with Children Looked After and Care Leavers	Increased children looked after numbers and/or clients existing/new young people in high-cost placements	1,200	1,200	1,200	Early intervention to mitigate the number of children becoming children looked after

Housing

Service Area	Short description of risk	Risk 2023/24 £000s	Risk 2024/25 £000s	Risk 2025/26 £000s	Potential Mitigation
Homelessness	Availability of private rental properties is low leading to high inflation and increased use of nightly paid accommodation	3,000	2,000		Budget for inflationary pressures Implement savings measures as planned including restructure; use of HRA stock; occupancy review etc. Use financial data to target most cost effective property as homelessness accommodation
Temporaryand Emergency Accommodation	External pressures from other public bodies such as the increased need to provide services to asylum seekers housed in Croydon by the Home Office, large numbers of people being housed in Croydon by other London Boroughs and people housed in Croydon by the Probation service.	TBA			
Homelessness	Service disruption due to restructure of housing resource	1,000			Considered use of agency staff to cover gaps

Sustainable Communities Regeneration & Economic Recovery

Service Area	Short description of risk	Risk 2023/24 £000s	Risk 2024/25 £000s	Risk 2025/26 £000s	Potential Mitigation
Highways and Parking	Income Risk for Penalty Charge Notices (PCN) due to delays in Conduent Contract for Automatic Number Plate Recognition	TBA			
Highways and Parking and Strategic Transport	There is a risk given the current financial situation at TFL that anticipated funding for infrastructure projects may be delayed or rescinded which may result in additional capital borrowing needed by the council be that to cover loss of income or to complete projects.	TBA			
Development Control	Continued down turn in the number of planning applications impacting ability to achieve income budgets.	TBA			
Highways and Parking	Although there has been a rightsizing of the Parking Budget the current cost of living crisis, continued changes in the number of people working from home since the pandemic and other economic factors may affect the number of people using Parking in Croydon. This will affect both Pay & Display and PCN Income.	TBA			

All Areas	Given the current rate of inflation the there is a risk that continuation of this economic factor may affect further contractual prices and create additional budgetary pressures. This is most likely in connection with fuel, energy and services with a large sub contracted workforce	TBA			
All Areas	Given the current cost of living crisis and inflationary pressures on both residents and businesses within the borough there is likely to be a knock affect on various income streams with the Services, as people and businesses tighten the purse strings or regrettably in some cases cease trading.	TBA			
All Areas	Given the current financial situation of the council and a highly competitive external market (cost wise) in direct competition with some of our services recruitment and retention issues are risk that needs to be taken into account which may affect some of the services we deliver	TBA			
Development Management Building Control and Licensing	There is currently consideration being given or already in place reagarding statutory requirements and statutory legislation in these areas which are likely to be realised in the next financial year. There is a risk that changes may affect income or costs for these services.	TBA			
Public Realm	A new statutory duty on public bodies and large organisations to physically protect public spaces ("Martyn's law) is due to be published in Spring 2023. This is expected to place several statutory duties on the council, which will not be funded from central government. Measures could range from Hostile Vehicle Mitigation to organisational policy, CCTV, recruitment and other changes. Where existing sites are owned by the council the cost of retrofitting measures are potentially significant.	TBA			Work will be undertaken with counter-terrorism police to identify potential sites although until the draft bill is released it is not possible to fully determine the criteria for vulnerable locations (which will directly affect the quanta of financial risk). A Protect Board will oversee this work across departments and the partnership, and co-ordinate activity. This will also ensure that any changes to planning policy and regulatory policy can be embedded in practice to mitigate future costs

Assistant Chief Executives and Resources

Service Area	Short description of risk	Risk 2023/24 £000s	2024/25 £000s	2025/26 £000s	Potential Mitigation
Resources- Investment & Assets	Disposal programme of assets will lead to reduction of income in revenue	TBA			Take account of any income loss within any decision to dispose of assets. Adjust the MTFS accordingly.
Elections	National changes occuring	TBA			Offset against any additional government funding for new burdens
Elections - Local	Reserve for local election	TBA			Review the future contributions to the reserve to spread any forecast cost increase.

CORPORATE

Service Area	Short description of risk	2023/24 £000s	2024/25 £000s	2025/26 £000s	Potential Mitigation
Council Wide	Upturn in inflation - pay award and contract inflation 1% higher than currently modelled	6,000			Review and management of contracts. Potential offset against the cost of living contingency.
Council Wide	1% increase in borrowing costs (due to interest rate rises)	1,880			Review in-year Treasury Management Strategy
Business Rates	Reduction in income due to business closure/lower economic activity	0	8,600	0	The impact will be in future years. The risk shown would reduce rates income to the minimum level (safety net threshold) guaranteed by the government.
	Total Risks Quantified (mid-point taken when a range identified)	**22,278**	**16,498**	**5,898**	

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LONDON BOROUGH OF CROYDON

REPORT:	**Cabinet**
DATE	**22 February 2023**
REPORT TITLE:	**Report of the Scrutiny and Overview Committee:** **Budget Scrutiny 2023-24**
LEAD OFFICER:	**Stephen Lawrence-Orumwense** **Director of Legal Services & Monitoring Officer** **Adrian May** **Interim Head of Democratic Services**
LEAD MEMBER:	**Councillor Rowenna Davis** **Chair of Overview and Scrutiny**
ORIGIN OF ITEM:	As part of the consideration of the Council Tax and Budget Report, the Cabinet is required to consider feedback from the Scrutiny & Overview Committee. In accordance with the Council's Constitution, the Scrutiny & Overview Committee scrutinises the entirety of the budget proposals and reports its findings to Cabinet as part of the budget setting process. The findings of the Committee, together with the response of the Administration will be presented at the Budget Council meeting.
KEY DECISION?	No
PUBLIC/EXEMPT:	Public
WARDS AFFECTED:	All

1. THE BUDGET SCRUTINY REPORT

1.1. The Scrutiny & Overview Committee is required in the procedure rules set out in the Council's Constitution to report to the Cabinet the findings from its scrutiny of the budget setting process. This report is being provided to Cabinet alongside the Budget papers to respond to the conclusions and recommendations of the Committee. Both this report and the response of the Cabinet will be included in the budget papers to be considered by Council on 1 March 2023.

1.2. The level of scrutiny given to the process for setting 2023-24 budget has been in line with the expanded scope conducted for the 2022-23 budget, as it was found that this approach allowed the members of the Scrutiny & Overview Committee to have a greater understanding of the potential risks to the delivery of the budget. A summary of the budget process is set out in section 2 of this report.

1.3. The Scrutiny & Overview Committee had a final opportunity to review the budget proposals at its meeting on 16 February 2023. It was at this meeting that the Committee, taking account of its work over the preceding months, reached its conclusions on the budget. These conclusions are set out for the consideration of the Cabinet in section 3 of this report. It should be noted that the Committee did not make any specific recommendation on the proposed budget.

2. BUDGET SCRUTINY PROCESS 2023-24

2.1. Although the Scrutiny & Overview Committee first considered a report on the setting of the 2023-24 budget at its meeting on 6 December 2023, the Committee had prioritised monitoring the delivery of 2022-23 budget earlier in the year. The Financial Monitoring Reports prepared for Cabinet have also been considered at meetings of the Scrutiny & Overview Committee, in addition to a report on the 'Opening the Books' process commissioned by Mayor Perry. This has allowed the Committee to identify key areas of risk it wanted to scrutinise in greater detail and provided reassurance that the Council was effectively managing its in-year budget.

2.2. In advance of the first budget scrutiny meeting on 6 December 2022, members of the Committee received two training sessions on best practice for budget scrutiny, delivered by the Centre for Governance and Scrutiny and the Local Government Association respectively. The Committee also received a briefing from the Council's Section 151 Officer on the key budget principles and the approach to setting the budget prior to the meeting on 29 November 2022.

2.3. At the Scrutiny & Overview Committee on 6 December 2022, consideration was given to the 2023-24 Budget and the Three Year Medium Term Financial Strategy report. From its discussion of the information provided, the Committee identified a number of areas for further investigation, including reviewing the support provided by the Council to the voluntary & community sector and a deep dive on transformation projects to provide reassurance that a robust framework was in place for these projects and that they were properly resourced.

2.4. The Scrutiny & Overview Committee met again on 30 January 2023, to receive these reports on Transformation Project Deep Dives, and Voluntary Community & Faith Sector Support. The Committee welcomed confirmation from both the Council and Croydon Voluntary Action of their commitment to building a deeper relationship between the Council and the voluntary, community, and faith sector in the borough. However, serious concern was raised about whether new ways of working would be in place in time to support organisations with the transition away from the Community Fund when it ended in March 2023. In conclusion, the Committee stressed that tangible support plans needed to be a priority and treated with urgency to prevent the risk to services and activities being lost.

2.5. On the Transformation item, the Committee concluded it would like to see further evidence of the transformation programmes being mapped out with key milestones and timelines, once available. For example, the two projects reviewed by the Committee were still in their infancy and in the process of being mapped out. This meant that any assurance on these projects would need to be reserved until further information was available. Given the urgent and important role transformation needs to play in helping turn the Council around, more work needs to be done to create concrete delivery plans behind the aspirations.

2.6. The Committee welcomed confirmation that the Programme Management Office was leading a project to introduce a new project management system, as it was agreed that improved reporting was essential to ensuring there was a robust system in place to monitor the various transformation projects. Members were also supportive of the decision not to include savings targets, attributed to the transformation projects in the 30 November 2022 Cabinet report, in the 2023-24 budget unless it was clear how they would be delivered in the next year.

2.7. The four scrutiny Sub-Committees (Children & Young People, Health & Social Care, Streets & Environment, and Homes) each met with the respective Cabinet Members and Corporate Directors for their relevant remits to identify key areas of risk to review at their meetings in January/February 2023. The areas scrutinised were:-

Meeting	**Budget Challenge Items**
Scrutiny & Overview Committee Link to Committee papers: Tuesday, 6th December, 2022	2023-24 Budget Update, Medium Term Financial Strategy and Savings Proposals
Children & Young People Sub-Committee Link to Sub-Committee papers: Tuesday, 17th January, 2023	• The review of care packages for children with disabilities aged 0-17 • The impact of the reduction in spend on the adolescent service • Impact of the review of the Front Door and practices
Health & Social Care Sub-Committee	• 2022/23 Period 7 (October 2022) budget and savings position.

Meeting	Budget Challenge Items
Link to Sub-Committee papers: Tuesday, 24th January, 2023	• 2023/24 indicative savings (as of 10 January 2023). • The Council's position in relation to the benchmarked key performance indicators.
Scrutiny & Overview Committee Link to Committee papers: Monday, 30th January, 2023	Voluntary, Community & Faith Sector Support Transformation Project Deep Dives
Streets & Environment Sub-Committee Link to Sub-Committee papers: Tuesday, 31st January, 2023	• Parking Services (including information on the Parking Policy review) • Planning Service (including information on the Planning Transformation programme) • Building Control (including a short update on the Building Control transformation programme)
Homes Sub-Committee Link to Sub-Committee papers: Monday, 6th February, 2023	• Housing Revenue Account P7 outturn position. • Housing Revenue Account Business Plan key headlines. • Housing General Fund budget. • Housing General Fund P7 outturn position.

2.7. The Chairs of the Sub-Committees reported the findings from their respective budget challenge items to the main Committee at the meeting on 16 February 2023. From the feedback provided there was a reasonable level of assurance given the respective Cabinet Members and officers had a good understanding of their budgets and the potential risks to delivery. There was a reoccurring concern across the Sub-Committees about the capacity of the organisation to deliver the level of transformation planned in services, which was exacerbated by the challenges with recruiting and retaining staff. Reassurance was that this had been acknowledged and assurance was given that capacity restraints had been calculated into the process.

2.8. The Chairs of Children & Young People Sub-Committee and the Health & Social Care Sub-Committee advised that they had been reasonably reassured following their budget sessions, that that the services had a firm handle on their budgets and would be able to deliver the proposed savings without significantly increasing the potential risk to the safety of service users.

2.9. The Chair of the Health & Social Care Sub-Committee provided further reassurance, highlighting that the Council has benefitted from a good working relationship with Croydon Health Service NHS Trust, which meant that many of the challenges facing other councils and local NHS hospital trusts such as bed blocking or long waits for operations were not such a threat locally. That said, threats to Croydon remain, especially workforce issues within the health and care system, with a sustainable workforce plan needed.

2.10. A full summary of the conclusions reached by the Scrutiny Sub-Committees, along with those from earlier budget scrutiny items considered by the Scrutiny & Overview Committee can be found attached at Appendix A.

2.11. As it was known that the report on the Administration’s budget would not be available until 14 February 2023 (two days before the Committee meeting) a briefing was arranged for the Committee members with the Section 151 Officer on 15 February to provide an overview of the budget and answer questions arising from the Committee. The Committee appreciates the difficulty of circulating a budget before hearing from third parties about settlements, but it was emphasised that in future the chance to at least look at drafts would help the Scrutiny process do a better job.

2.12. On 15 February 2023 the Committee held an online Question and Answer session for members of the public, which gave residents the opportunity to question the budget proposals. The purpose of this session was to allow the Committee to learn about the main concerns of the public on the proposed budget, which could then be used to inform the questions of the Committee at its Budget Scrutiny meeting on 16 February 2023. From the session with the public the following common themes were noted: -

- Why was a 15% Council Tax increase being proposed and how had the Council been allowed to make the increase without the normal requirement for a referendum on increases above 5%?
- Why should the residents of Croydon have to pay to rectify the mistakes of others?
- What was being done to hold those responsible to account?
- What support would be available for those unable to afford the increased payments, with concern about the use of enforcement.

2.13. The Committee would like to give its thanks to the Cabinet Member for Finance, Councillor Jason Cummings and the Corporate Director of Resources and Section 151 Officer, Jane West, for giving up their time to attend this meeting and answer the public’s questions.

2.14. The final meeting in the budget scrutiny cycle was held on 16 February 2023. At this meeting, the Committee considered the budget report presented before Cabinet to finalise its conclusions on what was proposed. The conclusions of the Committee are set out in the next section of this report.

3. CONCLUSIONS OF THE SCRUTINY & OVERVIEW COMMITTEE ON THE BUDGET 2023-24 PROPOSALS

3.1. At the meeting on 16 February 2023, the Committee had the opportunity to question Croydon's Mayor, Jason Perry, the Cabinet Member for Finance, Councillor Jason Cummings, the Chief Executive, the Corporate Director for Resources and other Members of the Corporate Management Team on the Mayor's budget proposals. The questioning of the Committee focused on five key themes, which were the Council Tax increase, Debt, Risks, Savings & Safety and Transformation. From its questioning, the Committee was looking to reach a conclusion on the following areas:

1. Are the savings deliverable, sustainable and an acceptable level of risk?
2. Is the impact on service users and the wider community understood?
3. Have all reasonable alternative options been explored and do no better options exist?

3.2. From its consideration of the budget there was a consensus that in the short term, the proposed budget for next year had been based on prudent assumptions, that it was conservative with a small "c" and from the information provided, it was reasonable to conclude that it was deliverable. It was agreed that it could be taken as a positive example of the changing culture of the Council, that its development had been based upon a worst case scenario approach, rather than being planned with an optimism bias of delivery. The Committee noted that there are still outstanding issues that might present a significant risk to the delivery of the budget for next year, particularly the three years of outstanding accounts.

3.3. The Committee was reasonably reassured that the budget proposed was safe and that there were sufficient controls within the Adult and Children's services to mitigate as far as possible any potential risk to service users. It was accepted that there would always be a certain level of risk within these services that required active monitoring and management on an ongoing basis.

3.4. The biggest risk to 2023-24 budget at the time of the meeting was that the Government had not given any indication on whether it would be granting the Council's request for capitalisation. Given the Council has a statutory deadline of 11 March 2023 by which it must have agreed its budget, it was far from ideal that there had not been any indication received from Government on the outcome, particularly as this would determine the Council's ability to set a balanced budget for 2023-24. It was appreciated that further assurance on this could not be provided by those present and this was the reason why the Committee had extended an invite for a representative from the Department of Levelling-up, Homes and Communities to attend the meeting, which had disappointingly not been taken up.

3.5. Although it was concluded that the proposed budget was built on coherent and sensible assumptions that built in contingencies for risks over the next year, concerns were acknowledged about the Council's long term debt problem and its sustainability as a local authority, which could not be solved by this budget or by the Council alone. Key to this was the Government's response to the request to write-off part of the Council's debt, as without this being agreed the cost of servicing the debt placed an unsustainable burden on the general fund revenue budget. The reassurance given by the Mayor that both the political and officer leadership of the Council were actively engaging with Government on this issue was welcomed. However, given it was acknowledged that there was currently no legal framework for writing off local authority debt and no indication had been given that it would be permitted, the debt would remain a serious risk to the long-term health of the Council and its ability to become financially sustainable.

3.6. One of the main areas of discussion for the Committee was the proposed 15% Council Tax increase. Half the members of the Committee, including the Chair, had outstanding concerns about whether increasing Council tax by the full 15% was the only option, especially when other local authorities given permission to exceed the Council Tax cap would not be setting rates this high. It was accepted that some increase in Council Tax may well be needed to help the Council balance its budget, but some members of the Committee did not feel that the report presented sufficient justification as to why it had to be 15%.

3.7. The other half of the members of the Committee felt that they had been presented with reasonable justification for the proposed increase and that given the circumstances facing the Council there were no other viable alternatives.

3.8. Given the Council had only received confirmation from the Government that it would be allowed to make a 15% increase to Council Tax on 6 February 2023, it was accepted that there had been little time to engage with residents on the increase. However, it needed to be acknowledged that the proposed increase would have significant financial consequences for Croydon residents already struggling in a cost of living crisis and that they may feel unfairly punished for past mistakes that were not theirs.

3.9. As there had only been a short period of time to analyse the impact from the proposed 15% Council Tax increase, the Committee concluded that further analysis was urgently needed to understand the potential scale of this impact. It was also suggested that some mention of an increase in Council Tax could have been mentioned in the Council's formal survey given it was one of the options being considered. Residents from Scrutiny's public Q&A repeatedly stressed that they felt their views had not been taken into account.

3.10. As the criteria for the £2m Hardship Fund, that was being introduced to mitigate against the potential impact of the Council Tax rise, was in development, the Committee welcomed confirmation that there would be an opportunity for it to review the proposed scheme before it is launched to gain reassurance that it would be able to reach the residents who needed it the most. Confirmation from the Cabinet

Member for Finance that the scheme would continue to be closely monitored and reviewed to ensure it was targeted correctly was welcomed.

3.11. It was highlighted that some of the residents who would most need to access the Hardship Fund could also be the hardest to reach. As such careful consideration needed to be given as to how the availability of the fund was communicated to residents and the routes to access the fund needed to be made as straightforward as possible, with a preference towards automatic entitlement rather than the need to go through applications.

3.12. In reaching the above conclusions on the proposed budget, the Committee would like to highlight that their views have been based upon the assumptions set out in the Cabinet report, including that there would be a positive outcome to the Council's request for capitalisation from the Government. The Committee would ask for the opportunity to revisit its recommendations should the Government's response significantly vary from the assumptions made in the budget report.

4 APPENDICES

4.1. Appendix A: Conclusions from Previous Budget Scrutiny items considered by the Scrutiny & Overview Committee & Sub-Committees

5 BACKGROUND DOCUMENTS

5.1. None

Appendix A

Scrutiny & Overview Committee

16th February 2023

Budget Scrutiny 2023-24: Conclusions from Previous Budget Scrutiny items considered by the Scrutiny & Overview Committee & Sub-Committees

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Scrutiny & Overview Committee – 6 December 2022

2023-24 Budget Update, Medium Term Financial Strategy and Savings Proposals

1. The Committee was highly concerned that the Council had the potential to become stuck in a 'debt trap' and agreed that it endorsed the efforts of the political and administrative leadership in focussing on reducing the Council's debt with support from national government, as without support in this area it was difficult to envision how the Council could become a sustainable authority in the long term.

2. The Committee was concerned that this year's budget was being drafted on a series of Microsoft Word and Excel documents, and strongly welcomed the Council's intention to move towards a more professional system of budget recording next year, which it believes is imperative.

3. The Committee noted that work continued towards the integration of the full range of functionality within the Fusion finance system, to ensure it was delivering the maximum benefit for the Council.

4. The Committee wanted to see more detail about the transformation projects proposed, as the projects listed often felt more like 'salami slicing' rather than true transformation. The Committee also wanted more reassurance that the Council would be able to meet the scale of transformation needed to achieve financial sustainability with the capacity constraints that it currently has.

5. The Committee agreed that it would look in further detail at one or two of transformation projects proposed in the Cabinet report, at its January meeting to provide reassurance that a robust framework was in place for these projects including ensure they were properly resourced and at their conclusion could provide a definitive evaluation of their success.

6. Although the Committee accepted the rationale for and the explanation of the timeline leading up to the Section 151 Officer issuing the Section 114 notice for 2023-24 budget year, some Members of the Committee felt there could have been additional emphasis placed on highlighting the potential risk of the Council needing to issue another Section 114 earlier in the year as contributory risks materialised.

7. The Committee welcomed confirmation that the Council would be engaging with the Audit Reporting and Governance Authority to provide reassurance that the Council was taking a best practice approach to its financial processes.

8. The Committee also welcomed confirmation that the Council had started to engage with London Councils on using London-wide data to inform modelling of future parking income.

Scrutiny & Overview Committee – 30 January 2023

Voluntary, Community & Faith Sector Support

1. The Committee welcomed confirmation from both the Council and Croydon Voluntary Action of their commitment to building a deeper relationship between the Council and the important voluntary, community and faith sector in our borough.

2. There were serious concerns flagged about the risk that the new ways of working with the voluntary, community and faith sector would be in place in time to support some of the organisations with the transition away from the funding provided by the Community Fund when it ended in March 2023. Given the risk that some community groups may not be able to adapt to the new arrangements in time, the need to implement tangible support plans needed to be a priority and treated with urgency to prevent the risk to services and activities being lost.

3. The Committee welcomed the commitment to looking at creative ways of providing support to the sector, particularly reviewing the use of social value in contract arrangements.

Transformation Project Deep Dives

1. It was accepted that the two projects reviewed by the Committee were still in their infancy and in the process of being mapped out. This meant that any assurance on these projects would need to be reserved until further information was available.

2. The Committee would like to see further evidence of the transformation programmes being mapped out with key milestones and time lines, once available. This will provide reassurance that processes are being followed and enable the Committee to hold people to account through timetabling further scrutiny at the appropriate time.

3. The Committee welcomed confirmation that work was underway to map out the Council's contracts, as this was an area of work that had previously been flagged as a concern by Scrutiny.

4. Confirmation that that the Programme Management Office was leading a project to introduce a new project management system was welcomed, as improved reporting was essential to ensuring there was a robust monitoring system in place.

5. Confirmation was welcomed that the savings targets attributed to the transformation projects in the 7 December 2022 Cabinet report had not been included the 2023-24 budget unless it was clear how it would be delivered.

6. It was agreed that a range of intended outcomes for the transformation projects, beyond purely financial savings, needed to be set out during the mapping phase of each project to ensure clarity of purpose.

Children & Young People Sub-Committee – 17th January 2023

Budget Scrutiny Challenge

1. The Sub-Committee were reassured by the answers provided by officers during the meeting.

2. The Sub-Committee welcomed the possibility of a transformation project looking at expanding the offer at Calleydown Residential Home.

3. The Sub-Committee acknowledged the demand led nature of the services provided by the Children, Young People and Education Directorate and were reassured that officers were managing this well with the information that was available.

4. The Sub-Committee were encouraged by the work being done in the three areas that had been presented but acknowledged that services were in new territory as recovery from COVID continued.

5. The Sub-Committee were hopeful that the departments succeeded in delivering the budget and intended savings for 2022/23 and 2023/24 and were encouraged that this was on track from the discussion in the meeting.

Health & Social Care Sub-Committee – 24 January 2023

Adult Social Care & Health Directorate - Budget & Performance

1. The Sub-Committee were of the view that the Adult Social Care and Health directorate were in a reasonably strong position in managing its budget.

2. The Sub-Committee were of the view that the Corporate Director for Adult Social Care and Health had a good understanding of the risks involved in delivering the 2022/23 and 2023/24 budgets.

3. The Sub-Committee were confident that the Adult Social Care department were on track to deliver the 2022/23 budget.

4. The Sub-Committee were of the view that, as discussions on other options were ongoing, they could not reach a view on whether better options for savings existed.

5. The Sub-Committee were of the view that the Cabinet Member and department understood the impact of savings proposals on service users and the wider community.

6. The Sub-Committee were of the view that proposed budget for 2023/24 appeared to be deliverable, sustainable and did not present an unacceptable risk.

Streets & Environment Sub-Committee – 30th January 2023

Budget Scrutiny Challenge

1. The Sub-Committee thanked officers for the detailed report and responses to Members questions in the meeting.

2. The Sub-Committee acknowledged that adequate staffing and resourcing in all three department areas covered in the report was vital to ensure that there was sufficient capacity to deliver transformation plans alongside statutory duties.

3. The Sub-Committee were of the view that officers and Cabinet Members had a good understanding the risks in delivering the 2023/24 budget and that sufficient mitigations and risk management was in place.

4. The Sub-Committee acknowledged that difficulty in recruiting to posts across all three service areas impacted on service delivery.

5. The Sub-Committee were of the view that they would like to scrutinise how fee income targets were calculated at a future meeting.

Homes Sub-Committee – 6 February 2023

Update on the Housing Revenue Account and Housing General Fund Budget

The conclusions of the Homes Sub-Committee were reported to the Scrutiny & Overview Committee during the meeting on 16 February 2023.

Homes Sub-Committee meeting on 6 February 2023

1. The Sub-Committee concluded that there was insufficient budgetary detail provided in the report to enable it to reach a decision on whether it was reassured on the deliverability of the budget.

2. As such, it was agreed that a briefing would be arranged for the Sub-Committee to seek further assurance on the budget. The outcome from this session would be reported to the Scrutiny & Overview Committee on 16 February 2023, to inform its consideration of the wider Council budget.

Briefing – 14 February 2023

3. Although it was noted that there was a current overspend of £4.6m the Housing Revenue Account (HRA) revenue budget, the Sub-Committee agreed that the Service had a good understanding of the reasons for this, which included rising utility costs, increased in legal disrepair costs and void rents.

4. Due to the work on the HRA recharging issue the revenue budget was likely to be balanced at the year end. However, without the recharge correction, it was reasonable to assume that reserves would have been used to cover the overspend. As the current level of reserves held for the HRA are healthy, this could have been managed as a one-off.

5. The Sub-Committee was reassured that most of the above causes of the overspend had been incorporated within the HRA revenue budget over the three year period of the Medium Term Financial Strategy, but there was a concern about the possibly optimistic assumption made for inflation on expenditure from April 2023 being set at 8% and at 3% from April 2024, given current levels of inflation exceeded 10%.

6. The Sub-Committee recognised that a significant amount of work had been invested in understanding the full scale of the issues related to the historic recharging to the HRA and the Sub-Committee understood the reasons for the readjustment included rightsizing corporate costs. However, further work was required to ensure that costs had been properly recharged from individual services’ service level agreements, with a further update requested by the Sub-Committee on this work.

7. The Sub-Committee accepted that the future budgets presented to them adequately accounted for the future needs of the service, including the planned transformation work. However, there remained a concern about whether there was sufficient capacity within the Service to deliver the scale of transformation planned.

8. The Sub-Committee accepted that while not ideal, the current HRA Business Plan including its capital programme was based on a 5% sample of housing stock as an initial starting point and focussed on clear priorities such as buildings at the end of life, large panel systems and large scale disrepair. Confirmation was welcomed that going forward the Business Plan would be informed by an ongoing programme of stock condition surveys.

9. The Sub-Committee welcomed the approach not to pursue further borrowing over the next couple of years, considering the healthy reserve balance. It was also reassured that the future capital programme included a healthy budget to manage the upcoming legislative building safety changes.

10. The Sub-Committee questioned whether, considering the rising cost of utilities, further resources could have been allocated to the Net Zero workstream beyond the £1m allocated in the capital budget.

11. The Sub-Committee recognised that Housing General Fund activities, mainly homelessness and temporary accomodation services faced significant challenges with demand outweighing supply.

12. The Sub-Committee noted that the Council had been facing a significant reduction in its Homelessness Prevention Grant, but following lobbying from London Councils, this decision had been reversed and an additional winter pressures grant provided, which had helped to minimise the overspend for these services.

13. The Homelessness Prevention Grant was below the needs of the Council and as the Winter Pressures Grant was a one-off, it was agreed that the Council should continue to lobby Government for additional support to manage the homelessness pressures in the borough.

14. The Sub-Committee recognised the placement by other boroughs of people in to temporary accomodation in Croydon created a significant cost pressure for the Council and welcomed confirmation that the Council was actively engaging with these authorities to manage this issue.

15. The Sub-Committee welcomed the strand of the Transformation Programme which aimed to refocus the Service towards homelessness prevention, as this would help to reduce expenditure on temporary accomodation. However, due to the wider issue of poor quality data in the service, which was being addressed, it was recognised that some of the assumptions could not be more robust.

16. The Sub-Committee welcomed confirmation of one-off Public Health funding to allow the service to take a more holistic approach to alcohol and substance abuse issues. Confirmation of a Government grant to support the Council to meet its statutory duties towards domestic abuse victims was also welcomed, particularly as Croydon had one of the highest levels of domestic abuse in London.

Equality Analysis : Revenue Budget and Council Tax Levels 2023/24

1. Introduction

1.1 Purpose of Equality Analysis

The Council has an important role in creating a fair society through the services we provide, the people we employ and the money we spend. Equality is integral to everything the Council does. We are committed to making Croydon a stronger, fairer borough where no community or individual is held back.

Undertaking an Equality Analysis helps to determine whether a proposed change will have a positive, negative, or no impact on groups that share a protected characteristic. Conclusions drawn from Equality Analyses helps us to better understand the needs of all our communities, enable us to target services and budgets more effectively and also helps us to comply with the Equality Act 2010.

An equality analysis must be completed as early as possible during the planning stages of any proposed change to ensure information gained from the process is incorporated in any decisions made.

In practice, the term **'proposed change'** broadly covers the following:-

- Policies, strategies and plans;
- Projects and programmes;
- Commissioning (including re-commissioning and de-commissioning);
- Service review;
- Budget allocation/analysis;
- Staff restructures (including outsourcing);
- Business transformation programmes;
- Organisational change programmes;
- Processes (for example thresholds, eligibility, entitlements, and access criteria.

2. Proposed change

Directorate	**All**
Title of proposed change	**Revenue Budget and Council Tax Levels 2023/24**
Name of Officers carrying out Equality Analysis	Gavin Handford, Denise McCausland, Felisha Dussard, Laura McCartney

2.1 Purpose of proposed change

The Council is obliged to set a balanced budget and council tax charge in accordance with the Local Government Finance Act 1992.

This equalities impact assessment relates to the 2023/24 revenue budget proposals regarding:

- A council tax increase of 12.99% and a 2% increase in the adult social care precept levy.
- Proposed savings, demand pressures, and inflation.
- Legacy financial issues and budget corrections
- Fees and charges (only brief summary is given in this EQIA, as a separate EQIA has been prepared in relation to fees and charges)
- Budget risks, reserves and balances.
- An update on discussions with Central Government.

Context for Change

Changing Demographics

Data from the 2021 census shows that Croydon's population has grown by 7.5% since the 2011 census to 390,800. This is slightly lower than the increase for London (7.7%). Other comparative data from 2021 Census:

- Croydon ranked 16th for total population out of 309 local authority areas in England.
- Croydon has the highest population in London.
- The number of households has increased to close to 160,000 compared to 145,000 recorded in Census 2011.
- Croydon is the 10th least densely populated of London's 33 local authority areas

In Croydon,

- 52% of the population are female.
- 19.3% of the population are under 15 and 13.6% over 65

Based on the age bandings for delivering services in Croydon:

- 23.1% of residents in Croydon are aged 0-17 years
- 63.3% are aged between 18 and 64 years
- 13.6% are aged 65 years or over

A number of the proposals within the Revenue Budget may impact council officers directly, data presented to the council's Equality Diversity and Inclusion Board in January 2023 provided an overview of the officer make up of various protected groups. This is included in the appendix.

A council tax increase of 12.99% and a 2% increase in the adult social care precept levy.

On Monday 06 February 2023 the Local Government Settlement was published by the Department for Levelling Up, Homes, and Communities (DLUCH). As part of that settlement announcement, DLUHC set the level of increase in council tax, or, set the council tax cap that councils can consider charging. For most councils in the country the cap is a 4.99% increase to council tax bills.

However, the Government has given Croydon Council (along with Slough, and Thurrock) permission to increase council tax above the 4.99% cap. Because of the seriousness of the financial situation, Croydon has been given permission to increase council tax above that national 4.99% cap by 10% to 14.99%.

Without this proposed increase the council would need to identify and deliver a further £20 million in savings, in addition to the £36 million that are already being put forward within the budget that this EQIA accompanies.

The council have so far made savings of £90m to service budgets over the last two years, and the DLUCH appointed Improvement and Assurance Panel have been clear that we cannot continue to make cuts at this level.

The council recognises that this is a significant increase, and that the scale of our financial problems means that we must look at every option possible to protect vital services. In addition, it is important that all residents are supported to pay the council tax due for their households. The council has a Council Tax Support Scheme in place to support those on low incomes and has proposed as part of this budget an additional £2m Hardship Fund from 2023/24 onwards which will be available for households struggling to pay the council tax increase to access. The council takes an ethical approach to council tax collection focussing on collecting debts swiftly from households that can pay and supporting households that are struggling to make ends meet. In response to questions from the Scrutiny and Overview Committee, details of the council's approach to debt collection are attached as Annex A to this EQIA.

As of July 2022, there were 7,028 low-income families in Croydon where their monthly income is below their estimated costs. (This figure represents households that claim benefit through the council, only). If costs were increased by £19.62 a month for these households (this is by working out a monthly 15% increase on a Croydon band D house) then there would be a further 262 households with a monthly income below their estimated costs. There are mitigations being put in place to support these households, and those like them, which can be found in section 5 of this Equality Impact Assessment.

Proposed savings, demand pressures, and inflation.

Adult Social Care accounts for more expenditure at Croydon than any other service (31% of net budget). The pressures in this area are felt across the country. However, we know that our cost base is too high and we can learn from other Councils. Working closely with an external LGA Adults and Finance expert, we have reviewed every aspect of our savings and transformation plan, and modelled these based on LGA recommendations.

The service offer remains the same, and as outlined in the principles below:

- Our adult social care services reflect the relevant legislation underpinning social care and health through the Care Act (2014).
- All packages are assessed or reviewed, proportionately, through a strengths based approach, considering safeguarding, to meet the needs of the individual and carers.
- Residents can access appropriate services provided in-house or commissioned by the Council, or delivered independently by the voluntary and community sector.
- Where people have the financial means to pay a contribution, or to pay for their care in full, this will be in line with the self-funding legislations outlined in the Care Act and wider National policy.

Within Council services supporting Children, Young People, Families and Education there are a range of proposals to improve the effectiveness of services, with practices improvements, restructures and service efficiencies. These are not expected to have an impact on residents/clients. Where there are restructures, separate EQIAs will be undertaken to understand the impact on staff, and this will be shared with trade unions and affected staff.

Legacy financial issues and budget corrections

The legacy financial issues that Croydon Council are facing are well documented, and form part of the rationale behind both the proposed Council Tax increase, and the proposed savings already referred to. Within the Revenue Budget there are also a number of accounting proposals to ensure that services are funded at the appropriate level, from the appropriate budget(s).

A significant proportion of the budget proposals are accounting corrections and amendments. Whilst these have an impact on the budget overall, they do not directly impact on service changes, and therefore do not impact on protected characteristics.

Fees & Charges: See separate EQIA

Residents and customers currently pay specific fees and charges for a wide range of activities and services such as building control services, planning application, land charges fees, leisure activities, care related charges etc. Some of these fees and charges are set nationally and the council is legally required to adopt these levels, whilst other fees and charges are set at levels using the council's discretion. The Council has a need to balance its budget which an increase in fees would support. The Council is also mindful of the impact of an increase on the residents that it delivers its services to may have.

A separate EQIA has recently been completed solely focusing on Fees and Charges.

There are mitigations in place which the Council currently provide to support those in need and these are detailed in section five of this Equality Impact Assessment.

Conversations with Central Government

DLUHC and the Improvement and Assurance Panel have been fully involved in the discussion around the council tax increase and agree that this is the next step to take, along with Central Government continuing to support the council financially.

3. Impact of the proposed change

Important Note: It is necessary to determine how each of the protected groups could be impacted by the proposed change. Who benefits and how (and who, therefore doesn't and why?) Summarise any positive impacts or benefits, any negative impacts and any neutral impacts and the evidence you have taken into account to reach this conclusion. Be aware that there may be positive, negative and neutral impacts within each characteristic.
Where an impact is unknown, state so. If there is insufficient information or evidence to reach a decision you will need to gather appropriate quantitative and qualitative information from a range of sources e.g. Croydon Observatory a useful source of information such as Borough Strategies and Plans, Borough and Ward Profiles, Joint Strategic Health Needs Assessments http://www.croydonobservatory.org/ Other sources include performance monitoring reports, complaints, survey data, audit reports, inspection reports, national research and feedback gained through engagement with service users, voluntary and community organisations and contractors.

3.1 Deciding whether the potential impact is positive or negative

Table 1 – Positive/Negative impact

	For each protected characteristic group show whether the impact of the proposed change on service users and/or staff is positive or negative by briefly outlining the nature of the impact in the appropriate column. If it is decided that analysis is not relevant to some groups, this should be recorded and explained. In all circumstances you should list the source of the evidence used to make this judgement where possible. PLEASE NOTE: As this report covers a wide range of Council services, the equalities impact caused by a change in charges will differ in line with the service in question, and the demographics of those individuals &/or communities who use or benefit from the service. This EQIA addresses the general impact of a review of fees and charges, along with any planned mitigations to the impact on groups and individuals that share protected characteristics and utilises data currently available. The fees and charges subject to increase will impact on all residents that use those services, some fees and charges will have more of an impact on some characteristics than others and are detailed below. Mitigating actions are in place for all of these and detailed in later in the EQIA.		
Protected characteristic group(s)	Negative Impact	Positive impact	Source of evidence
Age	The Revenue Budget and Council Tax Levels 2023/24 may have an impacts that vary across this protected characteristic	The budget seeks to reduce spend on looked after children placements. Less children will be exposed	Croydon's population continues to age with those over 65 increasing by 19.7% since the 2011 Census. The

	group. In some cases the impact may be significantly greater than for other residents. The mitigations for any potential negative impacts listed below are laid out in section five of this report. As set out in the separate EQIA, there are fees that may affect younger / older residents more. However, the impact is considered to be low as the fee increase is below overall inflation levels. In relation to adult social care, financial assessments are in place for these services. Savings are proposed from placement costs for looked after children. This is primarily achieved through gatekeeping controls on costs at the point of identifying suitable placements; ensuring effective support is provided to enable children to remain living at home or within their wider family network. Proposed savings may impact upon provision for 18-25 year olds with no recourse to public funds, with an All Rights Exhausted immigration status. The approach is to ensure that accommodation and subsistence is provided to former UASC young people in line with legislation and home office guidance. Savings are proposed through the removal of Non-Contractual Overtime (NCO) – there is a possibility that NCO is largely undertaken by certain roles within the council which may impact some groups more than others. For example, NCO is less common in senior roles. Therefore this may have a negative impact on some of our	to the negative impacts of being ‘in care’. Changes to the fostering service will see fostering hubs set up around the borough to support foster carers better, as well as the children in their care. Foster carers are being included in the information gathering stages to inform this.	median age also increased by two years, from 35 to 37 years of age. The borough data regarding age is as follows: • 97,900 0-19 year olds. This is the highest in London. (2021 Census) • 239,700 20-64 year olds. This is the highest in London. (2021 Census) • 53,100 65+ year olds. This is the 3rd highest in London. (2021 Census)

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<td>junior colleagues, who – on average – are younger.

Proposed changes to Youth Services may see a reduction in provision for young people.</td>
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<tr>
<td>Disability</td>
<td>The Revenue Budget and Council Tax Levels 2023/24 may have an impact on this protected characteristic group that is significantly greater than any other resident.

Where a claimant or partner are disabled and not working a deduction may be introduced for any other adult living in the property.

For Disabled claims where the claimant or partner are working they may be impacted, along with all other working age claims by the final outcome on the proposal to change the rate by which the income bands are increased

The mitigations for any potential negative impacts listed below are laid out in section five of this report.

External factors mean some disabled residents face higher costs in areas such as energy use, which may in turn impact their ability to meet any increased costs proposed by Croydon Council.

In terms of Council Tax increases it is reasonable to expect those already in receipt of Council Tax Support to be further impacted by a rise in Council Tax, the mitigating factors shown later in the EQIA will therefore be essential to supporting this group of residents.</td>
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<table>
<tr><th>Disability</th><th>Croydon</th></tr>
<tr><td>Total: All usual residents</td><td>390,719</td></tr>
<tr><td>Disabled under the Equality Act</td><td>54,852</td></tr>
<tr><td>Disabled under the Equality Act: Day-to-day activities limited a lot</td><td>23,716</td></tr>
<tr><td>Disabled under the Equality Act: Day-to-day activities limited a little</td><td>31,136</td></tr>
<tr><td>Not disabled under the Equality Act</td><td>335,867</td></tr>
<tr><td>Not disabled under the Equality Act: Has long term physical or mental health condition but day-to-day activities</td><td>21,978</td></tr>
<tr><td>Not disabled under the Equality Act: No long term physical or mental</td><td>313,889</td></tr>
</table>

Employment rates for disabled people, across all ages, are significantly lower than those of non-disabled people.

The employment of disabled people 2021 - GOV.UK (www.gov.uk)

In 28% of Council Tax Support claims either the claimant or partner are disabled and neither are in work, and 3% of claims are classified as disabled working claims meaning either the claimant or partner are disabled and either are in work.

(Source: Croydon Council Tax Support Scheme EQIA, 2023)
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	The proposed closures of the Cherry Hub garden centre and Whitehorse centre are likely to have a negative impact on people with a learning disability: The service provides a specialised opportunity in the form of supported volunteering which may be difficult to replicate even in alternative volunteer opportunities such as charity shops. The proposed closure may affect the needs of carers / family of those attending if the alternative offered is not accepted or transition to a new service is not successful.		
Sex	The Revenue Budget and Council Tax Levels 2023/24 are unlikely to have any impact on this protected characteristic group that is greater than any other resident unless a service is utilised by one sex one sex more than another. A separate EQIA has been completed in relation to fees and charges, where there may be some impact on this protected characteristic.		203,000 (51.9%) residents in Croydon are female and 187,600 are male (48.1%). (Source 2021 Census) Of 16,260 Council Tax Support single claims by females, 11,795 are from working age claimants and of the 6,263 male claims 4,187 are working age. These claimants will be effected by the change to the amount the income bands will be increased. (Source: Croydon Council Tax Support Scheme EQIA, 2023)
Gender reassignment/ identity	The Revenue Budget and Council Tax Levels 2023/24 are unlikely to have any impact on this protected characteristic group that is greater than any other resident. A separate EQIA has been completed in relation to fees and charges, where there may be some impact on this protected characteristic.		According to the ONS Census 2021, of all the Croydon residents aged 16 years and over who responded, 91.6% stated that their gender identity was the same as their sex registered at birth. 7.5% of those who responded did not answer the gender identity question Only 0.9% stated that they had a different gender identity.

Marriage or Civil Partnership	The Revenue Budget and Council Tax Levels 2023/24 are unlikely to have any impact on this protected characteristic group that is greater than any other resident. The changes in registrars' fees will impact on individuals from all characteristics who have with the intention of entering into marriage or civil partnership. This is detailed in the separate Fees and Charges EQIA.		Wedding costs – source: https://www.compareweddinginsurance.org.uk/blog/average-cost-uk-wedding.php The borough data on marital status is as follows: • 32.8% Married • 34.1% Single • 8.5% Divorced or Separated3.7% Widowed • 20.6% No response to question 493 people were registered in a same sex civil partnership 279 people were registered in an opposite sex civil partnership. (Source: Census 2021) 4107 (15%) claims of Croydon's Council Tax Support Scheme current case load are those made by couples, the remaining 22,559 (85%) are from single claimants. Whether or not the couples are married or in a civil partnership, or are unmarried partners does not affect the way the claims are calculated. We do not hold specific details regarding if a couple are married or not as we do not ask that specific question in our application form, rather if they have a partner. (Source: Croydon Council Tax Support Scheme EQIA, 2023)
Religion or belief	The Revenue Budget and Council Tax Levels 2023/24 are unlikely to have any impact on this protected characteristic group that is greater than any other resident. The changes in bereavement fees may impact residents based on their religion or belief. This is detailed in the separate Fees and Charges EQIA. The fee increases are below inflation and the percentage		The predominant religion of Croydon is Christianity. According to the 2021 census, the borough has over 190,880 Christians (48.9%), 40,717 Muslims (10.4%) and 23,145 Hindu (5.9%) residents. 101,119 (25.9%) Croydon residents stated that they are atheist or non-religious in the 2021 Census. 6.9% did not answer the question on religion.

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<tr>
<td></td>
<td>change between burial and cremation is consistent.</td>
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<td>Race</td>
<td>The Revenue Budget and Council Tax Levels 2023/24 may have an impact on this protected characteristic group that is significantly greater than any other resident.

Residents who identify as Black are the largest group in receipt of Council Tax support (although nearly half of recipients have not declared).

In respect of Housing Benefit support, the risk that the resident or landlord does not meet the criteria and that they can no longer stay in the property is more likely to affect Black African and Black Caribbean claimants as they make up the largest percentage of the caseload (excluding the unknown category)

The proposal to reduce Non-Contractual Overtime (NCO) may impact officers sharing this protected characteristic as there is a possibility that NCO is largely undertaken by certain roles within the council which may impact some groups more than others. For example, workforce data shows that our workforce is less diverse in more senior roles. NCO is less common in senior roles. Therefore this may have a negative impact on Global Majority officers. however this will be mitigated in appropriate planning, reviews and consultation. Risks and issues associated with this will be managed within the appropriate project resource</td>
<td></td>
<td>Broad Ethnic Group Changes in Croydon from Census 2011 to Census 2021

<table>
<tr><th></th><th>White</th><th>Black</th><th>Asian</th><th>Mixed</th><th>Other</th></tr>
<tr><td>2011</td><td>55.1%</td><td>20.2%</td><td>16.4%</td><td>6.6%</td><td>1.8%</td></tr>
<tr><td>2021</td><td>48.4%</td><td>22.6%</td><td>17.5%</td><td>7.65</td><td>3.9%</td></tr>
</table>

In 2021, 22.6% of Croydon residents identified their ethnic group within the "Black, Black British, Black Welsh, Caribbean or African" category, up from 20.2% in 2011. The 2.5 percentage-point change was the largest increase among high-level ethnic groups in this area.

Across London, the percentage of people from the "Black, Black British, Black Welsh, Caribbean or African" ethnic group increased from 13.3% to 13.5%, while across England the percentage increased from 3.5% to 4.2%.

In 2021, 48.4% of people in Croydon identified their ethnic group within the "White" category (compared with 55.1% in 2011), while 17.5% identified their ethnic group within the "Asian, Asian British or Asian Welsh" category (compared with 16.4% the previous decade).

The percentage of people who identified their ethnic group within the "Mixed or Multiple" category increased from 6.6% in 2011 to 7.6% in 2021.

Languages in Croydon</td>
</tr>
</table>

A separate EQIA has been completed in relation to fees and charges, where there may be some impact on this protected characteristic. However, the impact is considered to be low.

Where service data is held there is not currently a proposal within the revenue budget that negatively impacts on racial group over any other.

According to the Census 2021,

- 84.0% of the residents who can speak in Croydon speak English as their first language.
- 7.8% speak a European language.
- 6.3% speak an Asian language.

[Mayor urges Government to tackle the cost of living crisis | London City Hall]

[December 2022 - GLA YouGov Cost of living poll results.pdf (airdrive-secure.s3-eu-west-1.amazonaws.com)]

Where a Council Tax Support Scheme claimant has provided their race this has been recorded and the current caseload is broken down as follows:

	Number	% of caseload
Asian or Asian British: Bangladeshi	162	1%
Asian or Asian British: Indian	387	1%
Asian or Asian British: Pakistani	546	2%
Asian or British : Any other Backgrnd	571	2%
Black-Black British:African	2098	7%
Black-Black British:Caribbean	2426	8%
Black-Black British:Other	2433	8%
Chinese	55	0%
Mixed :Any other mixed background	252	1%
Mixed: White and Asian	235	1%
Mixed: White and Black Caribbean	460	2%
White: British	4755	17%
White: Any other White background	1203	4%
Not Known	13077	46%
Total	28660	

(Source: Croydon Council Tax Support Scheme EQIA, 2023)

Sexual Orientation	Our data does not identify that any of the proposed changes are anticipated to impact this protected characteristic group more than other residents with regard to the majority of services. However we are improving our data collection and usage in this area to ensure that our services pay due regard to sexual orientation.		According to the ONS Census 2021, of the residents aged 16 years and over who responded to the survey: • 87.8% self-classified as Straight or Heterosexual. • 1.5% stated they were Gay. • 1.2% stated they were Bi-Sexual • 0.4% stated All other sexual orientations • 9.1% did not respond to the question Within the current Council Tax Support Scheme case load there are 4107 claims made by couples, of those 29 are from couples where each partner is of the same sex. We do not ask for details of claimants sexual orientation as part of the application process, so are unable to identify the breakdown for those who have made a single application form. (Source: Croydon Council Tax Support Scheme EQIA, 2023)
Pregnancy or Maternity	The Revenue Budget and Council Tax Levels 2023/24 may impact residents that are pregnant or on maternity if they are not working. However, additional benefits are provided for residents in this situation and therefore the proposed changes are expected to have minimal impact. Due regard will be taken to ensure that any proposed organisational restructure in early years support considers impact on pregnancy/maternity through a separate equality impact assessment.	A proposal to create Family Hubs – bringing services closer to families may provide benefit to those on maternity.	Maternity leave: Cost of living crisis highlights need for support (personneltoday.com) There were 5,252 births in Croydon in 2020. An estimated 30,000 women lose their jobs as a result of pregnancy every year, according to the Equality and Human Rights Commission (EHRC). We currently have 38 active Council Tax Support Scheme claims where the claimant or partner are in receipt of maternity pay which is recorded on our system. We do not record if someone is pregnant at the time of application. (Source: Croydon Council Tax Support Scheme EQIA, 2023)

	Note: Data disaggregating level of service use by protected characteristic group is unavailable or available in sufficient granularity to draw conclusions in many cases. This will be explored and refined iteratively to inform mitigating strategies wherever practical to do so. **Important note:** You must act to eliminate any potential negative impact which, if it occurred would breach the Equality Act 2010. In some situations, this could mean abandoning your proposed change as you may not be able to take action to mitigate all negative impacts. See Mitigations and data held in Appendix 3. When you act to reduce any negative impact or maximise any positive impact, you must ensure that this does not create a negative impact on service users and/or staff belonging to groups that share protected characteristics. **Please use table 4 to record actions that will be taken to remove or minimise any potential negative impact**

3.2 Additional information needed to determine impact of proposed change

Table 2 – Additional information needed to determine impact of proposed change

If you need to undertake further research and data gathering to help determine the likely impact of the proposed change, outline the information needed in this table. Please use the table below to describe any consultation with stakeholders and summarise how it has influenced the proposed change. Please attach evidence or provide link to appropriate data or reports:

Additional information needed and or Consultation Findings	Information source	Date for completion
The council's current data collection of protect characteristics is weak in some areas and rich in others. We are currently carrying out a project to tackle this imbalance with the support of the Head of Profession for Business Intelligence and the Equalities Manager as well as analysts and services across the organisation. The Corporate Management Team and the Equality, Diversity and Inclusion Board are the driving force behind this work stream. Currently an 'as is' exercise is taking place to identify areas of weakness in collection that needs to be addressed. This will be followed by a 'to be' looking at the information across the council that we will want to collect and how we go about doing this. Due to having to implement new process for collection this project will take place in phases.	Index of Deprivation by Lower Layer Super Output Areas (gov.uk). Other data sources to be identified and investigated.	Iterative

For guidance and support with consultation and engagement visit https://intranet.croydon.gov.uk/working-croydon/communications/consultation-andhttps://intranet.croydon.gov.uk/working-croydon/communications/consultation-and-engagement/starting-engagement-or-consultationengagement/starting-engagement-or-consultation

3.3 Impact scores

<u>Example</u>
If we are going to reduce parking provision in a particular location, officers will need to assess the equality impact as follows;

1. Determine the Likelihood of impact. You can do this by using the key in table 5 as a guide, for the purpose of this example, the likelihood of impact score is 2 (likely to impact)
2. Determine the Severity of impact. You can do this by using the key in table 5 as a guide, for the purpose of this example, the Severity of impact score is also 2 (likely to impact)
3. Calculate the equality impact score using table 4 below and the formula **Likelihood x Severity** and record it in table 5, for the purpose of this example - **Likelihood** (2) x **Severity** (2**) = 4**

Table 4 – Equality Impact Score

Severity of Impact	3	3	6	9
	2	2	4	6
	1	1	2	3
		1	2	3
		Likelihood of Impact		

Key

Risk Index	**Risk Magnitude**
– 9	High
– 5	Medium
– 3	Low

Equality Analysis

Table 3 – Impact scores

Note: The data to populate is table is not available to inform the Equality Impact Score. Evidence for the above is drawn from the Index of Deprivation Score for the 5% most deprived areas in the country and should not be used to draw conclusions. Further research is planned to develop a more reliable indicator. And as stated previously, individual fee changes will require their own assessment, the table below represents a generic view:

The scores below have been taken on the basis of the Council Tax decision impacting on all residents, and therefore impacting on residents with protected characteristics. These scores are not intended to suggest that protected characteristic groups will be impacted more than others.

Column 1 **PROTECTED GROUP**	**Column 2** **LIKELIHOOD OF IMPACT SCORE** Use the key below to **score** the **likelihood** of the proposed change impacting each of the protected groups, by inserting either 1, 2, or 3 against each protected group. **1 = Unlikely to impact** **2 = Likely to impact** **3 = Certain to impact**	**Column 3** **SEVERITY OF IMPACT SCORE** Use the key below to **score** the **severity** of impact of the proposed change on each of the protected groups, by inserting either 1, 2, or 3 against each protected group. **1 = Unlikely to impact** **2 = Likely to impact** **3 = Certain to impact**	**Column 4** **EQUALITY IMPACT SCORE** Calculate the **equality impact score** for each protected group by multiplying scores in column 2 by scores in column 3. Enter the results below against each protected group. **Equality impact score = likelihood of impact score x severity of impact score.**
Age	**3**	**2**	**6**
Disability	**3**	**2**	**6**
Sex	**3**	**2**	**6**
Gender reassignment	**3**	**2**	**6**
Marriage / Civil Partnership	**3**	**2**	**6**
Race	**3**	**2**	**6**
Religion or belief	**3**	**2**	**6**
Sexual Orientation	**3**	**2**	**6**
Pregnancy or Maternity	**3**	**2**	**6**

Equality Analysis

4. Statutory duties

4.1 Public Sector Duties

Tick the relevant box(es) to indicate whether the proposed change will adversely impact the Council's ability to meet any of the Public Sector Duties in the Equality Act 2010 set out below.

Advancing equality of opportunity between people who belong to protected groups	X ☐
Eliminating unlawful discrimination, harassment and victimisation	☐
Fostering good relations between people who belong to protected characteristic groups	X ☐

Important note: If the proposed change adversely impacts the Council's ability to meet any of the Public Sector Duties set out above, mitigating actions must be outlined in the Action Plan in section 5 below.

5. Action Plan to mitigate negative impacts of proposed change

Important note: Describe what alternatives have been considered and/or what actions will be taken to remove or minimise any potential negative impact identified in Table 1. Attach evidence or provide link to appropriate data, reports, etc:

Mitigations

Residents currently pay Council Tax, and specific fees and charges for a wide range of activities and services such as building control services, planning application, car parking, leisure activities, care related charges etc. An increase in Council Tax will impact all residents who pay, and an increase in fees will affect all those in, and out of the borough, who pay to use specific service(s). It appears that there is no significant disproportionate impact on groups or individuals that share one or more protected characteristic. With regard to the increase in Council Tax there are four specific key mitigations:

- The council's Council Tax Support Scheme for those with a low income
- The Revenue Budget proposals include plans to introduce a new hardship fund to support residents who are not eligible for Council Tax Support but who are finding it hard to make ends meet in these difficult times.
- A dedicated hub to help with the rising cost of living has also been set up on the Council's website
- The council's ethical approach to council tax collection.

With regard to the wider increase in fees & charges the Council has in place various schemes to support residents who experience financial difficulty, some of whom will fall within the protected characteristic groups and may be affected by the proposed increases, to help mitigate impact. Listed below are some examples of what support is currently available, taken from a wide range of support schemes across the council.

- The council in partnership with Nimbus Disability offer a discount card to all children and young people on our disability register. The card is free and is part of a national access card scheme, giving benefits and discounts to facilities and activities across the country, such as leisure, sports and fitness, cinema etc.
- There are discounted rates for all leisure centre activities for Croydon residents with disabilities. If a disabled person needs a carer with them in order to access leisure centre services, the carer is entitled to free entry.
- Croydon council Leisure Centres offer discounted rates for residents Seniors 60+ years and Juniors 4-15 years
- Croydon Council Money Advice Service for advice on paying your bills and debt worries. All advice is independent and confidential.
- Council tax discount for care leavers, single person occupier, residents with disabilities, full-time students.
- Healthy Homes is Croydon Council's free energy advice service aimed at Croydon residents on low incomes, and those more vulnerable to the effects of living in a cold home (especially families with young children, older residents, and residents with pre-existing medical conditions).
- The council has a statutory duty to protect those on low or, or no income, and supports with claims for Council Tax support, Housing Benefit, Universal Credit.
- Adult Social Care users are subject to a means tested financial assessment which will assess affordability to contribute to, or not, to service provision required (as defined by the Care Act 2014).

Equality Analysis

The review of Discretionary Housing Placements may impact residents, however a lack of data regarding protected characteristics means it is not currently possible to identify any impact to groups sharing protected characteristics at this stage. Further work will be undertaken by the service to improve data collection. In terms of mitigation, every household will be given the appropriate financial support or advice to help them move into alternative private rented sector accommodation.

In respect of specific proposals, it is likely that some proposals may result in new policy or service changes. In this instance each proposal will be accompanied by an equality analysis and / or consultation which will inform the final proposal and its implementation, on a case by case basis.

Complete this table to show any negative impacts identified for service users and/or staff from protected groups, and planned actions mitigate them.

Protected characteristic	Negative impact	Mitigating action(s)	Action owner	Date for completion
Age	1. Savings are proposed from placement costs for looked after children – specific impacts are unknown due to the long term nature of some of these proposals, and the consultations that will be required before agreeing a definitive course of action. 2. Proposed savings may impact upon provision for 18-25 year olds with no recourse to public funds, with an All Rights Exhausted immigration status. 3. Savings are proposed through the removal of Non-Contractual Overtime (NCO) – there is a	1. The Council will continue to meet needs and statutory duties, and the gatekeeping of such services will be governed by policy and procedures that ensure fair treatment of protected groups 2. Human rights assessments ensure that young people are supported in the appropriate pathways, provision of accommodation subsistence is provided appropriately to those in need. 3. This will be mitigated in appropriate planning, reviews and consultation. Risks and issues associated with this will be	1. Debbie Jones 2. Sherry Coppin 3. Dean Shoesmith	1. Proposal specific EQIAs from 28/02/23 2. Proposal specific EQIA due 30/04/23 3. TBC

Equality Analysis

Complete this table to show any negative impacts identified for service users and/or staff from protected groups, and planned actions mitigate them.				
Protected characteristic	**Negative impact**	**Mitigating action(s)**	**Action owner**	**Date for completion**
	possibility that NCO is largely undertaken by certain roles within the council which may impact some groups more than others. For example, NCO is less common in senior roles. Therefore this may have a negative impact on some of our junior colleagues, who – on average – are younger.	managed within the appropriate project resource.		
Disability	1. The closure of the Cherry Hub garden centre and Whitehorse centre services is likely to have a negative impact on people with a learning disability. 2. Council Tax Scheme Where a claimant or partner are disabled and not working a deduction may be introduced for any other adult living in the property For Disabled claims where the claimant or partner are working they may be impacted, along with all other working age claims depending on the outcome in relation to the proposal to change	1. The mitigation for affected users and their cares will be offered through consultation to re assess their needs ensure that the remaining two services are able to meet their needs or whether an alternative service needs to be commissioned and through the exploration of alternative service which service users could be signposted to. 2. Council Tax Scheme Proposal is to exclude any non-dependents who are receiving carers allowance for the claimant or partner	1. Annette McPartland 2. Jane West	1. Proposal specific EQIA due end of Feb 2023 2. April 2023

Equality Analysis

Complete this table to show any negative impacts identified for service users and/or staff from protected groups, and planned actions mitigate them.				
Protected characteristic	**Negative impact**	**Mitigating action(s)**	**Action owner**	**Date for completion**
	the rate by which the income bands are increased.	A hardship fund is available for those affected by the changes to support with the reduction in support		
Sex	1. Council Tax Of the 16,260 single claims by females, 11,795 are from working age claimants and of the 6,263 male claims 4,187 are working age. These claimants may be affected by the change to the amount the income bands will be increased depending on the final decision reached by Council.	1. Council Tax A hardship fund is available for those affected by the changes to support with any reduction in benefit. It will help to provide transitional support to bridge the gap between residents old and new entitlement.	N/A	N/A
Gender reassignment / identity	N/A	N/A	N/A	N/A
Marriage / Civil Partnership	N/A	N/A	N/A	N/A
Sexual orientation	N/A	N/A	N/A	N/A
Race	1. The proposal to reduce Non-Contractual Overtime (NCO) may impact officers sharing this	1. This will be mitigated in appropriate planning, reviews and consultation. Risks and issues	1. Dean Shoesmith	1. TBC

Complete this table to show any negative impacts identified for service users and/or staff from protected groups, and planned actions mitigate them.				
Protected characteristic	**Negative impact**	**Mitigating action(s)**	**Action owner**	**Date for completion**
	protected characteristic as there is a possibility that NCO is largely undertaken by certain roles within the council which may impact some groups more than others. For example, workforce data shows that our workforce is less diverse in more senior roles. NCO is less common in senior roles. Therefore this may have a negative impact on Global Majority officers 2. Council Tax: Residents who identify as Black are the largest group in receipt of Council Tax support (although nearly half of recipients have not declared). 3. Housing Benefit Review The risk that the resident or landlord does not meet the criteria and that they can no longer stay in the property is more likely to affect Black African and Black Caribbean claimants as they make up the	associated with this will be managed within the appropriate project resource. 2. Council Tax Scheme A hardship fund is available for those effected by the changes to support with the reduction in benefit. It will help to provide transitional support to bridge the gap between residents old and new entitlement. 3. Housing Benefit Review We will work with providers to support them to get up to standard and maintain their supported accommodation classification. We have sign off to recruit to a new team		

Equality Analysis

Complete this table to show any negative impacts identified for service users and/or staff from protected groups, and planned actions mitigate them.

Protected characteristic	Negative impact	Mitigating action(s)	Action owner	Date for completion
	largest percentage of the caseload (excluding the unknown category)	who will be solely focused on these claims and will be able to work with providers. If we can't classify a provider as supported, or a tenant is deemed to no longer require this accommodation we will work with Housing to look for alternative accommodation and the tenant will be able to claim universal credit to support with their housing costs.		
Religion or belief	N/A	N/A	N/A	N/A
Pregnancy or maternity	N/A	N/A	N/A	N/A

Table 6. Decision on proposed change

Based on the information outlined in this Equality Analysis enter **X** in column 3 (**Conclusion**) alongside the relevant statement to show your conclusion.		
Decision	**Definition**	**Conclusion - Mark 'X' below**
No major change	Our analysis demonstrates that the policy is robust. The evidence shows no potential for discrimination and we have taken all opportunities to advance equality and foster good relations, subject to continuing monitoring and review. **If you reach this conclusion, state your reasons and briefly outline the evidence used to support your decision.**	
Adjust the proposed change	We will take steps to lessen the impact of the proposed change should it adversely impact the Council's ability to meet any of the Public Sector Duties set out under section 4 above, remove barriers or better promote equality. We are going to take action to ensure these opportunities are realised. **If you reach this conclusion, you must outline the actions you will take in Action Plan in section 5 of the Equality Analysis form** Whilst changes in fees and charges may impact in some cases, this impact is considered to be minimal as set out in the information above. Mitigations and adjustments are already in place to support residents that may help them manage debt or financial vulnerability detailed. This includes signposting and discretionary support. Service departments will need to collate data on their service users to monitor impact. Some departments will have existing service level data regarding some protected characteristics and not others. Where data does not currently exist, each service must create an action around collecting data across all protected characteristics. As data is received the EQIA should be updated, demonstrating data and evidence where change has been made. Residents should be provided with details of support organisations in both digital and non-digital formats	X

Equality Analysis

Continue the proposed change	We will adopt or continue with the change, despite potential for adverse impact or opportunities to lessen the impact of discrimination, harassment or victimisation and better advance equality and foster good relations between groups through the change. However, we are not planning to implement them as we are satisfied that our project will not lead to unlawful discrimination and there are justifiable reasons to continue as planned. **If you reach this conclusion, you should clearly set out the justifications for doing this and it must be in line with the duty to have due regard and how you reached this decision.**	
Stop or amend the proposed change	Our change would have adverse effects on one or more protected groups that are not justified and cannot be mitigated. Our proposed change must be stopped or amended.	

Will this decision be considered at a scheduled meeting? MAB / Cabinet	Meeting title: Cabinet and Council Date: Cabinet: 22 February; Council: 1 March

7. Sign-Off

Officers that must approve this decision	
Equalities Lead	**Name: Gavin Handford** **Date**: 15 Feb 2023 **Position: Director of Policy, Programmes & Performance**
Corporate Director	**Name: Jane West** **Date: 20 February 2023** **Position: Corporate Director of Resources**

Equality Analysis

Appendix: Deprivation data

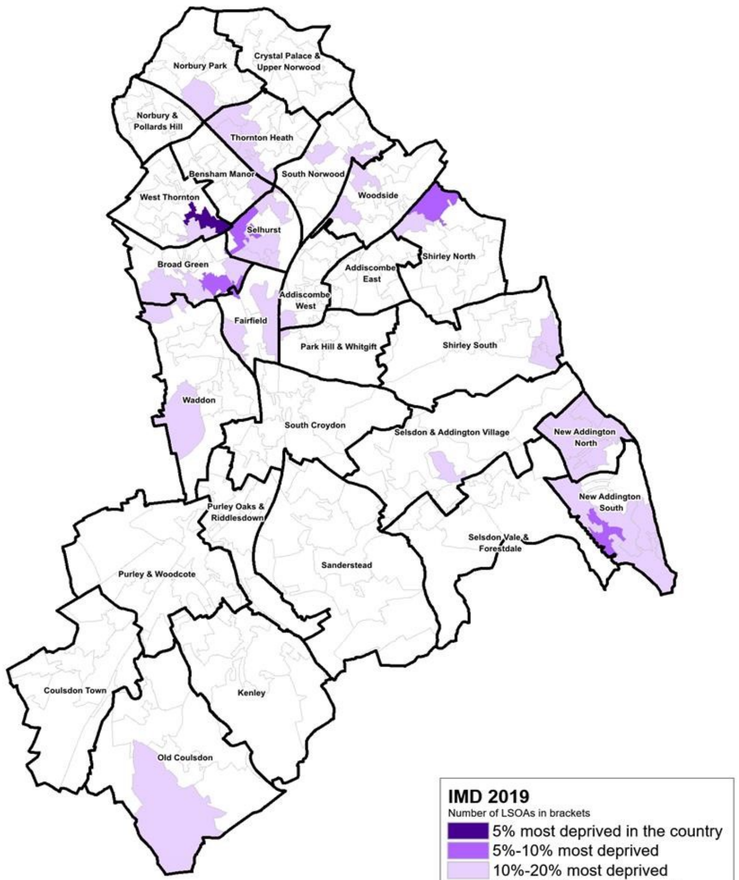
INFOGRAPHIC 1

In Croydon, 1567 people live amongst the 5% most deprived in the country (Dark Blue)

In this area,

50% are male	(Croydon 49%)
27% are 0-15	(Croydon 22%)
30% are White ethnic group	(Croydon 55%)
35% are Black / African / Caribbean / Black British ethnic group	(Croydon 20%)
24% are Asian / Asian British ethnic group	(Croydon 16%)
7% are Mixed / multiple ethnic group	(Croydon 7%)
4% are Other ethnic group	(Croydon 2%)

Indices of Deprivation 2019
Croydon Lower Super Output Areas (LSOAs)



Equality Analysis

Appendix: Croydon Council staff data

Ethnicity							
Directorate	**Any other**	**Asian Group**	**Black Group**	**Mixed Group**	**Undisclosed**	**White Group**	**Grand Total**
Adult Social	0.36%	1.37%	4.95%	0.74%	2.67%	2.23%	12.31%
Assistant	0.33%	1.88%	3.35%	0.58%	2.82%	3.10%	12.06%
Children	0.61%	3.48%	8.71%	1.85%	5.94%	7.62%	28.21%
Housing	0.10%	1.37%	3.55%	0.69%	2.97%	2.13%	10.81%
Resources	0.13%	1.22%	1.80%	0.46%	1.40%	1.27%	6.27%
Sustainable	0.84%	5.92%	5.76%	1.68%	6.80%	9.34%	30.34%
Grand Total	**2.36%**	**15.23%**	**28.13%**	**5.99%**	**22.59%**	**25.69%**	**100.00%**

Sex					
Directorate	**Female**	**Male**	**Undisclosed**	**Prefer to self-describe**	**Grand Total**
Adult Social	7.39%	2.59%	2.34%	0.00%	12.31%
Assistant	6.25%	3.58%	2.23%	0.00%	12.06%
Children	17.39%	5.74%	5.03%	0.05%	28.21%
Housing	4.72%	3.63%	2.44%	0.03%	10.81%
Resources	2.77%	2.28%	1.19%	0.03%	6.27%
Sustainable	14.24%	9.93%	5.94%	0.23%	30.34%
Grand Total	**52.75%**	**27.75%**	**19.17%**	**0.33%**	**100.00%**

Disability				
Directorate	**No**	**Yes**	**Undisclosed**	**Grand Total**
Adult Social	10.26%	1.09%	0.96%	12.31%
Assistant	9.98%	0.84%	1.24%	12.06%
Children	23.48%	1.90%	2.82%	28.21%
Housing	9.06%	0.58%	1.17%	10.81%
Resources	5.23%	0.46%	0.58%	6.27%
Sustainable	24.75%	2.36%	3.22%	30.34%
Grand Total	**82.76%**	**7.24%**	**10.00%**	**100.00%**

Sexual Orientation							
Directorate	**Bi-sexual**	**Gay man**	**Hetrosexual /straight**	**Lesbian/gay woman**	**Other**	**Undisclosed**	**Grand Total**
Adult Social	0.20%	0.15%	8.89%	0.00%	0.08%	3.00%	12.31%
Assistant	0.20%	0.10%	8.66%	0.15%	0.05%	2.89%	12.06%
Children	0.71%	0.38%	20.31%	0.33%	0.18%	6.30%	28.21%
Housing	0.20%	0.20%	7.51%	0.03%	0.03%	2.84%	10.81%
Resources	0.10%	0.05%	4.52%	0.03%	0.08%	1.50%	6.27%
Sustainable	0.84%	0.74%	19.98%	0.33%	0.38%	8.07%	30.34%
Grand Total	**2.26%**	**1.62%**	**69.87%**	**0.86%**	**0.79%**	**24.60%**	**100.00%**

Age Range											
Directorate	**20 or**	**21-25**	**26-30**	**31-35**	**36-40**	**41-45**	**46-50**	**51-55**	**56-60**	**61 or older**	**Undisclosed**	**Grand Total**
Adult Social	0.18%	1.35%	1.35%	1.17%	1.17%	1.27%	1.07%	1.12%	0.69%	0.28%	2.69%	12.31%
Assistant	0.36%	1.85%	1.83%	1.29%	0.84%	1.04%	0.81%	0.74%	0.53%	0.18%	2.59%	12.06%
Children	0.33%	3.94%	4.95%	3.76%	2.77%	2.16%	1.90%	1.52%	0.58%	0.48%	5.81%	28.21%
Housing	0.18%	1.55%	1.83%	1.62%	1.27%	0.71%	0.30%	0.43%	0.20%	0.05%	2.67%	10.81%
Resources	0.08%	1.09%	1.02%	0.53%	0.74%	0.48%	0.33%	0.30%	0.23%	0.13%	1.35%	6.27%
Sustainable	1.14%	4.57%	4.01%	3.35%	2.59%	2.21%	2.13%	1.88%	1.37%	0.58%	6.50%	30.34%
Grand Total	**2.26%**	**14.34%**	**14.98%**	**11.73%**	**9.37%**	**7.87%**	**6.55%**	**5.99%**	**3.60%**	**1.70%**	**21.60%**	**100.00%**

LONDON BOROUGH OF CROYDON

REPORT:		**Audit and Governance Committee**
DATE OF DECISION		**2 March 2023**
REPORT TITLE:		**Update on follow up audits for 2017/18, 2018/19, 2019/20 and 2020/21**
CORPORATE DIRECTOR / DIRECTOR:		**Jane West, Corporate Director of Resources and S151 Officer**
LEAD OFFICER:		**Dave Phillips, Head of Internal Audit** **Dave.Phillips@croydon.gov.uk**
LEAD MEMBER:		**Cllr Jason Cummings**
KEY DECISION? [Insert Ref. Number if a Key Decision]	**No**	REASON: N/a
CONTAINS EXEMPT INFORMATION?	**No**	Public
WARDS AFFECTED:		**N/a**

1. SUMMARY OF REPORT

1.1 This report provides the update follow up position based on the updates received up to 20 February 2023 for the outstanding 2017/18, 2018/19, 2019/20 and 2020/21 action plans only.

2. RECOMMENDATION

2.1 The Audit and Governance Committee is asked to note the progress since the last Committee meeting on the status of prior year follow up audits.

3. REASONS FOR RECOMMENDATION

3.1 At the meeting of the Audit and Governance Committee held on 2 February 2023, the Committee requested that an update be provided to the meeting to be held on 2 March 2023 on the status of prior year follow up audits. This was so that the Committee could assess the effectiveness of the ‘audit focus’ workshop being held by the Corporate Management Team on the 9 February 2023 in progressing older follow ups.

4. BACKGROUND AND DETAILS

4.1 Follow-up audits are undertaken to ensure that all the recommendations/issues raised have been successfully implemented/resolved according to the action plans agreed with the service managers. The Council's target for internal audit recommendations/issues to be resolved at the time of the follow-up audit is 80% for all priority 2 & 3 recommendations/issues and 90% for priority 1 recommendations/issues.

4.2 In order to help progress long outstanding and significant agreed actions arising from internal audits, a series of 'audit focus' workshops were set up by the Corporate Management Team. The first such meeting was held on 19 January 2022, with meetings being held each subsequently each month until 26 October 2022 when a break occurred due to the S114 notice being issued, budget setting and the Christmas period. These resumed again on 9 February 2022.

4.3 At the 'audit focus' workshop held on the 9 February 2023, it was agreed that Internal Audit would re-circulate all outstanding 2017/18, 2018/19, 2019/20 and 2020/21 action plans, along with copies of the original audit reports, so that each Corporate Director could fully assess each of these and then provide a detailed update to Internal Audit.

Detailed report

4.4 Performance against the Council's target for internal audit recommendations/issues for 2017/18, 2018/19, 2019/20 and 2020/21 action plans is detailed in the table below:

Performance Objective	**Target**	**Performance (to date)**			
		2017/18	2018/19	2019/20	2020/21
Percentage of priority one actions implemented at the time of the follow up audit	90%	100%	98%	94%	75%
Percentage of all actions implemented at the time of the follow up audit	80%	91%	93%	91%	81%

4.5 The detailed results of 2017/18, 2018/19, 2019/20, 2020/21 audits that have been followed up are included in Appendixes 1, 2, 3 and 4 respectively.

4.6 Appendix 1 shows the one incomplete 2017/18 follow-up audit. For 2017/18, 91% of the total recommendations/issues were found to have been implemented and 100% of the priority 1 recommendations/issues which have been followed up have been implemented.

There is no change from the position reported to the 2 February 2023 Audit and Governance Committee.

4.7 Appendix 2 shows the status of the three incomplete 2018/19 follow-up audits For 2018/19, 93% of the total recommendations/issues were found to have been implemented and 98% of the priority 1 recommendations/issues which have been followed up have been implemented. The outstanding priority 1 issue is detailed below:

Audit Title	Assurance Level	Summary of recommendations/issues arising in outstanding priority 1 recommendations/issues
Energy Recharges	No	A priority 1 issue was raised as no energy costs for 2017/18 had been invoiced and some were still outstanding for 2016/17 amounting to over £4m. In addition, no costs had yet been invoiced for 2018/19. <u>Position reported to the 2 February 2023 Audit and Governance Committee:</u> The response to the follow up detailed that, '*Provision has now been made in the 2019/20 accounts for c£4.5m as it is clear that the previously stated debt of £6.5m is incorrect. This provision is against debt up to 2018/19 and invoicing post this date has not been made.* *A process has been agreed for tackling the schools' debt and work is underway to engage additional resource to help deal with this.*' **The subsequent update provided is that the resource has been engaged and should be commencing work during the week beginning 20 February 2023.**

Although there is no overall change from the position reported to the 2 February 2023 Audit and Governance Committee, updates to the individual actions for both the Energy Management and Air Quality follow ups have been provided.

4.8 Appendix 3 shows the status of the seven incomplete 2019/20 follow-up audits. For 2019/20, 90% of the total recommendations/issues were found to have been implemented and 94% of the priority 1 recommendations/issues which have been followed up have been implemented. The outstanding priority 1 recommendations/issues are detailed below:

Audit Title	Assurance Level	Summary of recommendations/issues arising in outstanding priority 1 recommendations/issues
Lettings Allocations and Assessments	Limited	A priority 1 issue was raised as the application forms (on line and in hardcopy) in use were not compliant with the Data Protection Act 2018 or the General Data Protection Regulation. <u>Position reported to the 2 February 2023 Audit and Governance Committee:</u> A new Head of Service is now in place. Her response to the follow up was that, '*I will speak to digital and information services as well as interim operational manager to find out where we are with this and update with my findings and hopefully sign off.*' **The subsequent update provided was that, *'We have to collect data around the protected characteristics as set out in the Equality Act 2010 so we can demonstrate we are carrying our Public Sector Equality Duty. So we do need the data, although it is not compulsory for applicants to fill out and is totally optional. In this regard, the application form is currently being revised to***

Audit Title	Assurance Level	Summary of recommendations/issues arising in outstanding priority 1 recommendations/issues
		reflect this, (i.e. to make sure it is compliant with the UK GDPR and the Data Protection Act 2018.).'
Wheelchair Service – Community Equipment Service	Limited	A priority 1 issue was raised as the follow up of the recommendations raised in the 2017 ad hoc report identified that the recommendation relating to the BACs files being open to amendment had still not been implemented, meaning that any of the BACs payments during the last 2 years may have been manipulated. As about £1m of payments is made per month, this is a significant issue. Position reported to the 2 February 2023 Audit and Governance Committee: Actively working on completing all activities included in the timeline, this comes on top of normal BAU activities making it really challenging. The first payment run using the new process is expected to be done in W/C 7/11/22. (Please note: The 2022-23 Internal Audit Plan includes an audit 'CES Banking Compliance' which will supersede this issue.) **The subsequent update provided was that the payment run failed and that the Service is working through the issue, which is yet to be resolved. A meeting with Internal Audit is scheduled for 23 February 2023 to consider the way forward on this.**
Enforcement Agents - Procurement	No	A priority 1 issue was raised as an individual scoresheet and the record of moderation are missing for the tender evaluation of January 2018. Contemporaneous records of the reasons and reasoning for the allocation of scores in moderation for both lots of the tender evaluations of August 2019 could not be provided. Attempts have also been made to recreate the reasons and reasoning at a later date. Position reported to the 2 February 2023 Audit and Governance Committee: No change. The review and update of the Procurement handbook is within the Procurement Improvement Plan, and the person that will undertake this has only just started with the Council. A priority 1 issue was raised as a number of formal agreements extending the arrangements with the service providers could not be provided. Position reported to the 2 February 2023 Audit and Governance Committee: The commissioning framework and procurement handbooks have not yet been reviewed. This is in our project pipeline for Q1/Q2 of 2021/22. Pending this, we are undertaking additional management action, such as: • introducing bite-size training sessions to provide additional training and support for procurement officers – the first session covering Procurement Do's and Don'ts. • increased oversight at CCB • Improved Quality Assurance of award reports, with weekly pre-meets in advance of CCB with Head of Commissioning and Procurement and legal services. **No subsequent update has yet been provided.**

There has been a change to the overall position reported to the 2 February 2023 Audit and Governance Committee (which was 8 outstanding follow ups), with the Peoples ICT Application follow up being cleared in month. Updates to the individual actions for the Wheelchair Service – Community Equipment Service and the Lettings, Allocations and Assessments follow ups have also been provided.

4.9 Appendix 4 shows the status of the eight incomplete 2020/21 follow-up audits. For 2020/21, 82% of the total recommendations/issues were found to have been implemented and 75% of the priority 1 recommendations/issues which have been followed up have been implemented. The outstanding priority 1 recommendations/issues are detailed below:

Audit Title	Assurance Level	Summary of outstanding recommendations/issues arising in priority 1 recommendations/issues
Creditors – Procure to Pay	Limited	Priority 1 issues were raised as: • Examination of the documentation retained for a sample of 17 transactions identified that, for five of these, the order was raised either after delivery or after the invoice date. • Examination of the documentation retained for a sample of 17 transactions identified that, for four of these, the goods or services received check preceded actual delivery. • Examination of the documentation retained for a sample of 17 transactions identified that five of the invoices included client names (including children in care) thus potentially breaching the Data Protection Act 2018. • As at 28 September 2020, the Council had invoices totalling £25,757,492 on hold, of which £7,220,978 related to previous financial years (i.e., 2019/20 and prior) with oldest invoice on hold dated 8 May 2014. Position reported to the 2 February 2023 Audit and Governance Committee: A working party chaired by the Assistant Chief Executive was set up in August 2022 to deal with the above and other issues ranging from supplier set up through to the payment of invoices. This working party meets monthly. **No subsequent update has yet been provided, although Internal Audit is aware that it is intended that Oracle Value Assessment and the Value Based Analytics work by Mastek will incorporate reporting, which will include exception reporting to help address the above issues.**
Clinical Governance	Limited	A priority 1 issue was raised as there was no evidence of an overall clinical governance policy being in place for the Council and consequently the clinical governance framework and systems in place were unclear. Workshop being organised to coordinate pulling together all the relevant information to produce a clinical governance policy. Stakeholders include Commissioners, Public Health, Designated Safeguarding leads and SWL CCG. Position reported to the 2 February 2023 Audit and Governance Committee: The last update provided in January 2022 was that ‘*Draft document to be presented at Adult Social Care (ASC) SMT; with the recommendation that a task and finish group is established from the One Croydon Risk Working Group. This group will ensure that the LA policy is linked to other key partners/ stakeholders policies and procedures where joint working arrangements are in place for certain ASC services and PH contracts*.’ **The subsequent update provided was that, ‘*Some of our previous governance structures no longer exist, but new structures are being developed to ensure that the relevant oversight and escalation is in place for our contracts and provision – such as the re-introduced tiered system for contract management and levels of reporting for categorised services which range from platinum – silver. A handbook to support this procedure is currently in development but reporting is already being to happen, which any platinum categorised services are reported corporately to the Mayor and CMT.* *Naturally for Public Health, Adult Social Care and Children services the links with our Health colleagues are imperative and a true clinical governance policy should link to a system-wide approach given the interdependencies. We have managed to find a South West London Governance Handbook which although doesn’t refer ‘clinical’ governance the handbook does cover most of the domains of clinical governance.’*** **A meeting has been scheduled with Internal Audit for 24 February 2023 to discuss the above further.**
Temporary Accommodation: Standards in Private Sector	Limited	Priority 1 issues were raised as: • Electrical, gas and energy certificates were not located for some of the sample of Croybond properties and most of the sample of Croylease properties checked. • ‘Decent Homes Inspection’ reports were not available for eight of the sample of 15 property records checked. Position reported to the 2 February 2023 Audit and Governance Committee:

Audit Title	Assurance Level	Summary of outstanding recommendations/issues arising in priority 1 recommendations/issues
		• An update provided in May 2022 detailed, for each of the above respectively, that: • ‘The procedure has now been completed and is being rolled out to the team. The next step is to set up the checking procedure for the Quality team. A percentage of cases will be checked and any issues noted and reported back to the team and the manager. The cases will continue to be checked until the correct documentation is in place.’ • ‘The procedure has now been revised and the Quality team will now introduce periodic checks with the new Head of Service and team manager. Also discussed will be the periodic visits made to Croylease properties to check on any issues with the property which will then be reported through for any repairs issues noted.’ Internal Audit has asked for confirmation of checks and visits being in place before closing this follow up. **No subsequent update has yet been provided.**

There has been a change to the overall position reported to the 2 February 2023 Audit and Governance Committee (which was 11 outstanding follow ups), with three of the follow up being cleared in month. This was the SEN transport safeguarding and the Banking follow ups where the last outstanding actions were cleared and Thomas More Catholic High School which is now superseded by a 2022/23 audit.

In addition an update to the individual actions for the Clinical Governance follow up was provided.

5. APPENDICES

5.1 Appendix 1 – Follow up of 2017/18 Audits (incomplete follow ups only)

5.2 Appendix 2 – Follow up of 2018/19 Audits (incomplete follow ups only)

5.3 Appendix 3 - Follow up of 2019/20 Audits (incomplete follow ups only)

5.4 Appendix 4 - Follow up of 2020/21 Audits (incomplete follow ups only)

6. BACKGROUND DOCUMENTS

6.1 None

7. URGENCY

7.1 There is none.

Appendix 1 - Follow-up of 2017-18 audits (incomplete follow ups only)

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
Non School Internal Audits						
2017/18	Admitted Bodies (Response due 21/01/2022)	Resources	Substantial (5th follow up in progress)	4	3	75%
Issues and resolution from internal audits that have had responses				431	392	91%
Priority 1 Issues from internal audits that have had responses				47	47	100%

Appendix 2 - Follow-up of 2018/19 audits (incomplete follow ups only)

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
2018/19	Energy Recharges	Resources	No (2nd follow up in progress)	7	4	57%
				One priority 1 issue not yet resolved		
2018/19	Air Quality Strategy, Implementation and Review	SCRER	Limited (6th follow up in progress)	8	6	75%
2018/19	Council Investment and Operational Properties – Income Maximisation	Resources	Substantial (7th follow up in progress)	4	3	75%
Issues and resolution from internal audits that have had responses				364	339	93%
Priority 1 Issues from internal audits that have had responses				51	50	98%

Appendix 3 - Follow-up of 2019/20 audits (incomplete follow ups only)

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
Non School Internal Audits						
2019/20	Lettings Allocations and Assessments	Housing	Limited (3rd follow up in progress)	3	1	33%
				One priority 1 issue not yet resolved		
2019/20	Placements in Private Housing Accommodation	Housing	Limited (5th follow up in progress)	4	2	50%
2019/20	Wheelchair Service – Community Equipment Service	ASC&H	Limited (11th follow up in progress)	3	2	67%
				One priority 1 issue not yet resolved		
2019/20	Freedom of Information and Subject Access Requests	ACE	Limited (4th follow up in progress)	3	2	66%
2019/20	Enforcement Agents - Procurement	Resources	Limited (6th follow up in progress)	6	3	50%

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
				Two priority 1 issues not yet resolved		
2019/20	IT Policies Review	ACE	Substantial (3rd follow up in progress)	5	0	0%
2019/20	Uniform IT Application	ACE	Substantial (9th follow up in progress)	4	1	25%
Issues/Recommendations and resolution/implementation from internal audits that have had responses				337	306	91%
Priority 1 Issues/Recommendations from internal audits that have had responses				69	65	94%

Appendix 4 - Follow-up of 2020/21 audits

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
Non School Internal Audits						
2020/21	Creditors – Procure to Pay	Resources	Limited (2nd follow up in progress)	12	3	25%
				Four priority 1 issues not yet resolved		
2030/21	Out of Borough Placements	ASC&H	Limited (1st follow up in progress)	5	-	-
2020/21	Clinical Governance	ASC&H	Limited (4th follow up in progress)	6	3	50%
				1 priority 1 issue not yet resolved		
2020/21	Temporary Accommodation – Standards in Private Sector	Housing	Limited (4th follow up in progress)	6	1	17%
				2 priority 1 issues not yet resolved		
2020/21	Right to Work Checks	ACE	Limited (3rd follow up in progress)	3	2	66%
2020/21	Cyber Security	ACE	Limited (4th follow up in progress)	9	4	44%
2020/21	End to End Placements – Children with Disabilities	CF&E	Substantial (1st follow up in progress)	3	-	-
2020/21	Corporate Estate: Building Compliance	Resources	Substantial (5th follow up in progress)	6	4	57%
Issues/Recommendations and resolution/ implementation from internal audits that have had responses				**177**	**144**	**81%**
Priority 1 Issues/Recommendations from internal audits that have had responses				**28**	**21**	**75%**

LONDON BOROUGH OF CROYDON

REPORT:	**Audit and Governance Committee**	
DATE OF DECISION	**2 March 2023**	
REPORT TITLE:	**Internal Audit Charter, Strategy and Plan**	
CORPORATE DIRECTOR / DIRECTOR:	**Jane West, Corporate Director of Resources and S151 Officer**	
LEAD OFFICER:	**Dave Phillips, Head of Internal Audit** **Dave.Phillips@croydon.gov.uk**	
LEAD MEMBER:	**Cllr Jason Cummings**	
KEY DECISION? [Insert Ref. Number if a Key Decision]	**No**	REASON: N/a
CONTAINS EXEMPT INFORMATION?	**No**	Public
WARDS AFFECTED:	**N/a**	

1. SUMMARY OF REPORT

1.1 This report is for the Audit and Governance Committee to review and approve the Internal Audit Charter and the plan of audit work for 2022/23 in line with the requirements of the Public Sector Internal Audit Standards.

2. RECOMMENDATION

2.1 The Audit and Governance Committee is asked to approve the Internal Audit Charter (Appendix 1), Strategy (Appendix 2) and the plan of audit work for 2022/23 (Appendix 3).

3. REASONS FOR RECOMMENDATION

3.1 In line with the Public Sector Internal Audit Standards, the Head of Internal Audit must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the Audit and Governance Committee for review and approval.

3.2 The Public Sector Internal Audit Standards also require the Head of Internal Audit to report periodically to senior management and the Audit and Governance Committee on the internal audit activity's purpose, authority and responsibility.

4. BACKGROUND AND DETAILS

4.1 In England, specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

4.2 The UK Public Sector Internal Audit Standards which apply to local and central government, the NHS and the three devolved governments came into force from 1st April 2013 and were further revised in 2016 and 2017. Compliance with these satisfies the requirements of the Accounts and Audit Regulations.

4.3 To help with the Council's compliance with these standards the Council's internal audit charter (appendix 1) and strategy (appendix 2) have been reviewed and are attached for approval. These will be reviewed and brought back for approval each year to ensure that these remain up to date and relevant. Also attached for approval is the work plan for internal audit for 2022/23 (appendix 3).

4.4 The work plan for 2022/23 follows a similar format to previous years and its make-up is as set out in the audit strategy. It aims to maximise the value from the internal audit resource available and to provide sufficient evidence to enable the Head of Internal Audit to give an opinion on the effectiveness of its risk management, control and governance processes.

4.5 The Council's Corporate Management Team has reviewed and supports the work plan.

4.6 FINANCE IMPLICATIONS

4.6.1 The fixed price for the Internal Audit Contract is £0.365m for 2023/24 and there is adequate provision within the budget to cover this cost. The breakdown of the various audits, as advised within Appendix C, along with their daily charge out rates is indicated within the table below. There are no additional financial considerations relating to this report.

Daily Charge Rate Type	Charge Rate	Total Cost
Total Key Financials Audits	£404	£ 41,964
Total Corporate Risk Audits	£404	£ 40,350
Total Departmental Risk Register Audits	£404	£185,610
Total Computer Audits	£577	£ 29,427

Total Contract Audits	£491	£ 12,263
Total Schools Audits	£404	£ 34,298
Total Contingency	£404	£ 8,070
Total Admin and Management	£404	£ 9,684
Grand Total		**£361,665**

4.6.2 Internal audit plays a key role aiding the improvement of internal controls of the organisation and ensuring Council's resources are managed well. Internal Audit's planning methodology is based on risk assessments that include using the Council risk register processes.

4.6.3 Comments approved by Lesley Shields, Head of Corporate Finance. (Date: 10/02/2023)

4.7 LEGAL IMPLICATIONS

4.7.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that information provided in this report is necessary to demonstrate the Council's compliance with requirements imposed by Regulation 5 of the Accounts and Audit Regulations 2015. The Council is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

4.7.2 Under its terms of reference, Audit and Governance Committee is "to oversee internal and external audit, helping to ensure that efficient and effective assurance arrangements are in place" and "to review (but not direct) internal audit's risk-based strategy, plan and resource requirements".

4.7.3 Comments approved by Sandra Herbert, the Head of Litigation & Corporate Law on behalf of the Director of Legal Services and Monitoring Officer. (Date 09/02/2023)

4.8 HUMAN RESOURCES IMPLICATIONS

4.8.1 There are no immediate HR impacts arising from this report for Council employees or staff. Should any matters arise, this will be managed in accordance with the Council's HR policies and procedures.

4.8.2 Comments approved by Gillian Bevan, Head of HR Resources and Assistant Chief Executives on behalf of the Chief People Officer (09/02/2023)

4.9 EQUALITIES IMPLICATIONS

4.9.1 The Council is required to comply with the Public Sector Equality Duty [PSED], as set out in the Equality Act 2010. The PSED requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out their activities. Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

4.9.2 When Internal Audit is developing the Annual Audit Plan or individual audit programmes the impacts of the issues above are considered depending on the nature of the area of service being reviewed. Issues relating to these impacts would be reflected in the audit reports and recommendations.

4.9.3 Comments approved by Denise McCausland Equalities Programme Manager 20 February 2023.

5. APPENDICES

5.1 Appendix 1 – Internal Audit Charter

5.2 Appendix 2 – Internal Audit Strategy

5.3 Appendix 3 - The Plan of Internal Audit Work for 2023/24

6. BACKGROUND DOCUMENTS

6.1 None

7. URGENCY

7.1 There is none.

Internal Audit Charter

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the mandatory UK Public Sector Internal Audit Standards.

The Charter will be reviewed annually and presented to the General Purposes & Audit Committee for approval.

Purpose

The Institute of Internal Auditors' International Professional Practices Framework (IPPF) defines internal audit as '*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance proces*ses.'

In a local authority internal audit provides independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT)[1] and in particular to the Chief Financial Officer to help with discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service. In line with the regulations, Internal Audit provides independent assurance on the adequacy of the Council's risk management, control and governance processes.

The Institute of Internal Auditors (IIA) defines assurance as '*services that involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor*.'

Mission and Core Principles

The IPPF's overarching 'Mission' for Internal Audit services is: *'…to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*.'

The 'Core Principles' that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Be objective and free from undue influence (independent);

1 Fulfil the role of senior management - Public Sector Internal Audit Standards

- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

Authority

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Internal audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge its responsibilities.

Responsibility

The Council's Head of Internal Audit[2], is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit and Governance Committee[3] (AGC), on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.

[2] Fulfils the role of the Chief Audit Executive – Public Sector Internal Audit Standards
[3] Fulfils the role of the board – Public Sector Internal Audit Standards

- To provide advice and support to management to enable an effective control environment to be maintained

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

The remit of Internal Audit covers the entire control environment of the organisation. Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations in which it has a significant controlling interest, such as Local Authority Trading Companies. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

Internal Audit may undertake consulting activities. The Institute of Internal Auditors (IIA) defines consulting as '*Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training*.'

Reporting

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Corporate Management Team (CMT) directly and then presented to the AGC for formal approval annually.
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of CMT and other senior officers. It is then presented to CMT and AGC annually for noting and comment.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the AGC. The approach to providing resource is set out in the Internal Audit Strategy.

- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the GB and the AGC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AGC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to AGC.
- The appointment or removal of the Head of Internal Audit must be reported to and approved by CMT.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to the GB and the AGC and will be included in the Head of Internal Audit's annual report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

Independence

The Head of Internal Audit has free and unfettered access to the following:

- Chief Financial Officer
- Chief Executive
- Chair of the AGC
- Monitoring Officer
- Any other member of the CMT.

The Head of Internal Audit is line managed by the Chief Financial Officer. Independence is further safeguarded by ensuring that their annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Corporate Director of Resources and the Chair of the AGC contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the Internal Audit Service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed. Auditors are also frequently rotated to prevent over-familiarity or complacency which could influence objectivity.

In addition, both the Council and the audit contractor have stringent procedures in place relating to the acceptance of gifts and hospitality and the prevention of bribery.

To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months. Nor will any member of audit staff be involved in any audit work for any area in which they have had operational responsibility within the past 12 months.

The Head of Internal Audit has no additional Council responsibilities in addition to internal audit thereby ensuring the absence of any conflicts of interest.

Due Professional Care

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards (2017);
- The CIPFA Local Government Application Note (LGAN);
- The codes of ethics for any professional body that internal auditors are members of;
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Internal Audit is required to hold a professional qualification (CCAB or IIA) and be suitably experienced.

The Head of Internal Audit will ensure that the internal audit service has access to an appropriate range of knowledge, skills, personal attributes, qualifications, experience and competencies required to perform and deliver its responsibilities.

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Internal Audit Strategy

This Strategy sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter.

The Strategy will be reviewed annually and presented to the Audit and Governance Committee for approval.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT)[1] and in particular to the Chief Financial Officer to support the discharging of their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost effective internal audit service.

Internal Audit's Remit

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit[2] the service will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the Audit and Governance Committee[3] to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;

[1] Fulfil the role of senior management - Public Sector Internal Audit Standards
[2] Fulfils the role of the Chief Audit Executive – Public Sector Internal Audit Standards
[3] Fulfils the role of the board – Public Sector Internal Audit Standards

- Work closely with other assurance providers to share information and provide a value for money assurance service, and
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit must ensure that it is not involved in the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will, however offer advice on the design of new internal controls in accordance with best practice.

Service Delivery

The Service will be delivered by the Council's strategic internal audit partner (currently Mazars) under the direction of the Council's Head of Internal Audit and supported by an in-house Governance Officer. This provides flexibility of resource and mitigates many of the risks associated with delivering a professional internal audit service.

To ensure that the benefits of the Internal Audit service are maximised and shared as best practice, Croydon has established the APEX Audit & Anti-Fraud Partnership to work with other local authorities. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services. (To help mitigate any independence risks while the current Interim Head of Internal Audit in in post, this is currently being overseen by the Head of Fraud, Risk & Insurance).

Internal Audit Planning

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's Corporate Management Team (CMT), Directors and other management;
- The Council's Risk Register;
- The Council's priorities and Corporate Plan;
- Outputs from other assurance providers (e.g. Ofsted or the External Auditor);
- Requirements as agreed in the joint working protocol with External Audit;
- Local and national issues and risks.

The Internal Audit Plan 2022-23 is composed of the following:

- **Risk Based Systems Audit**: Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.

Internal Audit planning is already significantly based on the Council's risk register and upon risks identified by management. Internal audit will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process to form a 'virtuous circle'.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit requires annual assurance as part of their external audit work programme.

- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.

- **Computer Audit:** The review of Digital infrastructure and associated systems, software and hardware.

- **Contract Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.

- **Action Plan Verification:** Testing of reported attainment of key actions or milestones in the various action plans developed to support council renewal.

- **Fraud and Ad Hoc Work:** A contingency of audit days are set aside to cover any fraud and irregularity investigations arising during the year and additional work due to changes or issues arising in-year.

The internal audit plan for 2022-23 covers a period of twelve months. However, Croydon Council and local government as a whole is being subjected to continuous change and financial pressures that may result in changed priorities during the course of the year. Where this happens the Head of Internal Audit may need to flex the internal audit plan; any proposed significant changes to the plan will be reported to the senior management and the Audit and Governance Committee.

Follow-up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the Audit and Governance Committee on a regular basis.

Where progress is unsatisfactory or management fails to provide a satisfactory response to follow up requests, Internal Audit will implement the agreed escalation procedure.

Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a regular basis. Summary reports are also provided to the Audit and Governance Committee at least four times per year. This includes the Head of Internal Audit's annual report that contributes to the assurances underpinning the Annual Governance Statement of the Council.

2022/23 Annual Audit Plan	Dept	Check	Audit Days
KEY FINANCIAL SYSTEMS REVIEWS			
Bank Accounts	Resources	1	10
Business Rates	Resources	1	15
Fees and Charges	Resources	1	10
General Ledger	Resources	1	10
Parking Income: Debt Collection	Resources	1	10
Payroll	ACE	1	10
Sundry Debtors	Resources	1	10
Supplier Set Up and P2P compliance	Resources	1	15
Follow-up of audits			14
Total Key Financials Audits		**8**	**104**
CORPORATE RISK AUDITS			
Contract Formalities, Scanning, Storage and Retrieval	Corporate	1	10
Data Protection Act 2018 / UK GDPR: Central oversight	Corporate	1	10
Grant Funding received: Compliance with Grant Conditions and Reporting	Corporate	1	10
Mandatory Training	Corporate	1	10
Staff Expenses	Corporate	1	10
Staff H&S : Staff Risk assessments, Home Working and H&S Audits	Corporate	1	15
Staff Sickness	Corporate	1	15
Starters and Leavers	Corporate	1	10
Follow up of audits			10
Total Corporate Risk Audits		**8**	**100**
DEPARTMENTAL RISK AUDITS			
Cemetries: Income and H&S	ACE	1	10
Data Protection Act 2018 / UK GDPR: ACE	ACE	1	10
New Election Requirements: Readiness	ACE	1	10
Public Health Contracts - Governance	ACE	1	10
Registrars Income	ACE	1	10
Starters and Leavers	ACE	1	10
Voluntary Organisations: Leases and Premises Management	ACE	1	10
CES Stock Management	ASC	1	10
Data Protection Act 2018 / UK GDPR: ASC	ASC	1	10
Disabled Facilites Grants	ASC	1	10
Financial Assessment: Timeliness	ASC	1	10
Hospital Discharges: Data Quality	ASC	1	10
LGL Complaints: Embedding Subsequent Actions	ASC	1	10
Provider Payments Team - Timeliness	ASC	1	10
Statutory returns: Data Analysis and Understanding	ASC	1	10
Adoptive Allowances	CYPE	1	10
Care Leave Accomodation: Quality and Standards	CYPE	1	10
Caseload Management	CYPE	1	10
Data Protection Act 2018 / UK GDPR: CYPE Complianace	CYPE	1	10
Front Door Demand Management	CYPE	1	10
No Recourse to Public Funds: Children	CYPE	1	10
SEND	CYPE	1	10
Virtual School	CYPE	1	10
Croylease / GRS etc payments	Housing	1	10
Data Protection Act 2018 / UK GDPR: Housing	Housing	1	10
Emergency and Temporary Accomodation: Income Collection	Housing	1	15
Housing Assets: Data Management and Mapping	Housing	1	10
Housing Repairs: In-house Contact Centre	Housing	1	10
Premises Health & Safety: Water Tanks and Boosters, Lightning Conductors, spinklers, etc.	Housing	1	10
Sycamore House: Implementation of Lessons Learned	Housing	1	10
Visiting Team	Housing	1	10
Voids	Housing	1	10
Croydon Companies: Governance and Companies House Compliance	Resources	1	10

Community Hubs/ Libraries - Compliance checks	SCRER	1	15
Contract Management in SCRER	SCRER	1	15
Dangerous Structures: Resilience and how we make good	SCRER	1	10
Data Protection Act 2018 / UK GDPR: SCRER	SCRER	1	10
HMO Licensing	SCRER	1	10
Parking Permits on the Highway	SCRER	1	10
Parks (and Playground) Inspections, Insurance and Maintenance	SCRER	1	10
Follow up of audits			45
Total Departmental Risk Register Audits		**37**	**460**
COMPUTER AUDITS			
IT Audit Needs Assessment	ACE	**1**	6
Audits to be determined	ACE	**4**	40
Follow up of audits			5
Total Computer Audits		**5**	**51**
CONTRACT & PROJECT MANAGEMENT AUDITS			
Two project management audits to be determined	Various	**2**	20
Follow-up of audits			5
Total Contract Audits		**2**	**25**
SCHOOLS AUDITS			
Nursey			
Tunstall Nursery	CYPE	**1**	6
Thornton Heath Early Years Centre	CYPE	**1**	6
Pirmary and Junior			
Christ Church C of E School	CYPE	**1**	6
Forestdale Primary School	CYPE	**1**	6
Parkhill Infants and Juniors	CYPE	**1**	6
Ridgeway Primary School and Nursery	CYPE	**1**	6
Selsdon Primary School	CYPE	**1**	6
Secondary and Special			
St Mary's Catholic High School	CYPE	**1**	8
Archbishop Tenisons	CYPE	**1**	8
St Giles	CYPE	**1**	7
Red Gates	CYPE	**1**	7
Follow-up of Schools audits			13
Total Schools Audits		**8**	**85**
CONTINGENCY			
Contingency for Grant Claims, etc.			20
Total Contingency			**20**
ADMIN AND MANAGEMENT			
Attendance at meetings, discussions, Audit Committee etc			24
Total Admin and Management			**24**
GRAND TOTAL BUDGET		**68**	**849**
Total Key Financials Audits		**8**	**104**
Total Corporate Risk Audits		**8**	**100**
Total Departmental Risk Register Audits		**37**	**460**
Total Computer Audits		**5**	**51**
Total Contract Audits		**2**	**25**
Total Schools Audits		**8**	**85**
Total Contingency		**0**	**20**
Total Admin and Management		**0**	**24**
Grand Total		**68**	**869**

Daily Charge Rate Type		Charge Rate	Total Cost
Total Key Financials Audits		£ 404	£ 41,964
Total Corporate Risk Audits		£ 404	£ 40,350
Total Departmental Risk Register Audits		£ 404	£ 185,610
Total Computer Audits		£ 577	£ 29,427
Total Contract Audits		£ 491	£ 12,263
Total Schools Audits		£ 404	£ 34,298
Total Contingency		£ 404	£ 8,070
Total Admin and Management		£ 404	£ 9,684
Grand Total			**£ 361,665**

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Agenda Item 10

REPORT:	**Audit and Governance Committee**	
DATE OF DESISION	**March 2023**	
REPORT TITLE:	**Dedicated Schools Grant (DSG) Deficit Management Plan**	
CORPORATE DIRECTOR / DIRECTOR:	**Debbie Jones, Interim Corporate Director of Children, Young People & Education**	
LEAD OFFICER:	**Shelley Davies Director, Education and Youth Engagement**	
LEAD MEMBER:	**Cllr Gatland – Cabinet Member for Children, Young People & Learning**	
AUTHORITY TO TAKE DECISION:	**Audit and Governance Committee to note the updated DSG Management plan in terms of performance, risks, and updates on Government policy on the DSG**	
KEY DECISION? [Insert Ref. Number if a Key Decision] .	**NO**	**REF. NO: Not Applicable**
CONTAINS EXEMPT INFORMATION?	**NO**	**Public**
WARDS AFFECTED:	**All**	

1 SUMMARY OF REPORT:

1.1 This report provides some significant updates regarding the Dedicated Schools Grant (DSG) Deficit management plan put in place around 2019/20 to address the in-year overspend of £6.7m reported that year and the trend. There has since been significant fall in the in-year overspend over the last few years to a reported position of £3.47m at the end of 2021/22 and an outturn forecast overspend of £1.65m for 2022/23 as at the end of December 2022.

The success of the management plan is driven by robust strategic budget monitoring, key strategic work streams, demand management initiatives, regular review of cost of provision, supply management through alternative service provision and efficient resource utilisation across the SEND sector with a strong project management team.

1.2 The report highlights the overall performance of the plan, governance requirements, risks, and recent Department for Levelling Up, Housing and Communities (DLUHC) regulation regarding extending the Statutory Override for the Dedicated Schools Grant for another three (3) years from 2023-24 to 2025-26. This regulation reduces the overall financial risks posed by the deficit falling on the council unearmarked general fund reserves.

2 RECOMMENDATIONS

2.1 Audit and Governance Committee is asked to note the overall performance of the delivery of the Deficit Recovery Plan which is being undertaken by the local authority to address the historical DSG deficit and the progress report including risks and opportunities.

3 REASONS FOR THE RECOMMENDATIONS

3.1 Reporting on the progress of the Deficit Recovery plan to this committee and to School Forum is an essential governance requirement as part of the DSG grant conditions for individual local authorities that have an overall deficit on their DSG account.

The grant condition requires all local authorities with an overall deficit on its DSG account at the end of the financial year to meet the following requirements.

a) Provide information as and when requested by the Department for Education (DfE) about its plans for managing its DSG balance as well as information on pressures and potential savings on its High Needs budget.
b) Meet with officials from DfE as and when they request to discuss the LA's plans and financial position on its Deficit Management Plan.
c) Expected to keep School's Forum updated regularly about the Local Authority's DSG account and plans for managing it, including high needs pressures and potential savings.

4. BACKGROUND AND UPDATES

4.1 Under the current DSG grant conditions, Local Authorities with an overall deficit on its DSG Account at the end of the financial year or whose DSG surplus has significantly reduced during the year is expected to submit a plan (DRP) to the ESFA which demonstrates how the Local authority plans to recover the deficit within three year or how it intends to manage it.

4.2 The Department for Education (DfE) introduced an additional intervention project called the 'Safety Valve' (SV) programme. This initiative is designed to assist local authorities with the very highest percentage of cumulative DSG deficits on their balance sheet. The rationale is to inject cash in a form of both capital and revenue to fund the provision of more school places for children with special educational needs and disabilities (SEND) as well as clear the agreed historical deficits. This intervention will be implemented once the local authority reaches an agreement with the DfE

4.3 This (SV) intervention programme expects those affected local authorities to develop substantial saving plans with reforms to their high needs systems and budget processes. The DfE will provide support and challenge, aimed at helping the Local Authority to reach sustainable high needs spend using two key areas: These are:

(i) Demand management through the EHCP assessment processes.

(II) Well-managed placement of education provision in a cost-effective way as well as effective resource utilisation

4.4 Croydon Council reported an overall net cumulative DSG deficit of £21.295m for 2021/22. Table 1. below shows the overall DSG Balances at the end of the financial year 2021/22 as well as post end of year adjustment after discussions and recommendations from the DfE Safety Valve team.

4.5 The local authority recently triggered S114 hence would not be in the position to use any general funds to eliminate any part of the deficit, or otherwise to add general funds to its schools budget which may require it to apply to the Secretary of State under regulation 31(1)(b) to disregard the requirement to carry deficits forward under regulation 8(7), to the extent of the amount of general funds that it wishes to use.

Table 1. Revised Cumulative DSG position.

Details	Balance b/d 31/03/2022	DfE	Commitment /accrued	Balance b/d post Safety Valve
DSG Reserves	Total £m	Total £m	Total £m	Total £m
High Needs Block	27,688	-3,186*	0	24,502
Early Years	-2,982	612	2,370	0
Schools Block	-3,411	2,574	837**	0
Balance b/d	**21,295**	**0**	**3,207**	**24,502**

DfE agreed in principle for those commitments to be actioned. * Payment for the agreed spot purchase of therapies **

5. CROYDON DSG MANAGEMENT PLAN

5.1 The purpose of the management plan as per the DfE guidance is to:

- Comply with DSG conditions of grant.
- Monitor how DSG High Needs funding is being spent and compare data on high needs spend with other Local Authorities
- Highlight areas where Local Authorities may wish to review spending to improve future strategic plans for the provision of children and young people with special education needs and disabilities.
- Part of the overall desire to reduce both the in-year cumulative DSG overspend before the government ends the Statutory Override (Accounting Treatment to ring fence the deficit from general fund reserves) for the Dedicated Schools Grant.
- To provide assurances that Local Authorities are achieving value for money from their DSG spend and are fully cognisant of and capture all the potential operational and financial risks.

5.2 The DfE uses a special template that contains comparative data on special provision and placements, Section 251 budget and outturn data and High Needs National Funding Formula illustrative allocations.

5.3 The local authority is required to complete the template. The competed plan is then reviewed by a team from the DfE (Safety Valve Team). An extract from that complex formula driven forecast template was presented to the High Needs Working Group and referred to table 3 below and appendix 1 in this report.

5.4 School Forum was briefly updated on the plan on the 6th of February 2023,

5.5 The Director of Children's Services (DCS) and the Section 151 Officer (CFO), in accordance with the expected timetable have had the opportunity to review the most recent plan submitted to the Safety Valve team.

5.6 The Council officers have been meeting with officers from the ESFA throughout this year to review the plan.

6. PERFORMANCE OF THE DSG MANAGEMENT PLAN

6.1 The current in-year High Needs overspend forecast as of December 2022 (Period 9) is £1.65m. The current position shows how robust the Deficit Recovery Plan is. The in-year position represents significant improvement over the last two years in producing some tangible savings as shown at table 2 below. Detailed performance analysis and charts are presented in appendix 1.

Table 2. Trend Analysis- Plan Vs Actual over the years

Performance Measurement	2019-20 £,000	2020-21 £,000	2021-22 £,000	Forecast 2022-23 £,000
Deficit Recovery Plan - Projections	5,635	4,472	4,105	1,285
Actual Outturn	5,434	5,744	3,468	1,695
Deviation from target	-201	1,272*	-637	410

The £1.2m deviation from the plan in 2020/21 was due unexpected historical funding in dispute and £410k deviation at P9 is due to additional funding for some complex cases in 2 special schools.

6.2 The local Authority has identified 6 key service strategies / deliverables projects aimed at reducing the overall DSG deficit over a 5-year period and finally bring it in line with grant funding by 2026/27.

Table 3 – Extract from the DfE Deficit Management Plan Template (6th October 2022) Version

	2021-22 £,000s	2022-23 £,000s	2023-24 £,000s	2024-25 £,000s	2025-26 £,000s	2026-27 £,000s
Planned DSG position (surplus)/deficit	£24,502	£25,785	£26,764	£27,489	£27,478	£27,462
Unmitigated expenditure forecast		£401,710	£422,810	£439,084	£454,973	£469,975
Savings forecast		-£643	£708	£4,602	£8,214	£9,818
Mitigated expenditure forecast		£402,353	£422,102	£434,482	£446,759	£460,157

6.3 The above table demonstrates the overall movement in the DSG deficit over the next few years under the plan submitted to the DfE on the 6th of October 2022.

7. DEPARTMENT OF EDUCATION VIEW ON HISTORIC DSG DEFICIT BALANCES

7.1 The department recognises that some local authorities will still not be able to pay off their historic deficit from the DSG over the next few years regardless of their best efforts in implementing a robust deficit recovery plan. Two approaches taken by the government is the statutory override rule as well as the “Safety Valve” intervention programme.

7.1 There has been recent government decision announcing an extension to the Statutory Override for the Dedicated Schools Grant for the next 3 years from 2023-24 to 2025-26. This reduces the overall financial risks of the deficit falling on the council unearmarked general fund reserves.

7.2 The “Safety Valve” initiative introduced by the DfE was initially intended to help local authorities with the very maximum percentage of cumulative DSG deficits on their balance sheet. The rationale is to introduce cash in a form of both capital and revenue to fund the provision of more school places for children with special educational needs and disabilities (SEND) as well as clear the agreed historical deficits of almost £27.4m at the end of 2025/26 as shown in table 3 above.

7.3 The Council had already undergone some robust financial and SEND data validation process with the “safety Valve” team from the DfE to ensure there the local authority qualifies for the funding. The next stage is confirmation of funding in exchange of an agreement to meet all the financial targets specified in the 5 years Deficit Delivery Plan.

8. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

8.1 The financial considerations are incorporated above and within the DSG Management Plan.

8.2 Based on the current plans, a deficit would remain at the end of 2026/27 of approximately £27.4m if not covered by the Safety Valve intervention.

8.3 The risk related to the statutory override has been extended for another 3years. This implies that external auditors will not expect the deficit remaining to be recovered in full or held against unearmarked general fund reserves for the next three years to financial year 2025-26.

8.4 The governance arrangement rooted within the DfE deficit plan monitoring process ensures, extended oversight by the SEND Board, Schools Forum, Council Executive Directors including transparency and opportunity to challenge the progress against the Recovery Plan.

8.5 The regular reporting requirement to all the above stakeholders including the Audit Committees provides another layer for challenge and opportunity for improvement. This assurance process was highlighted as a recommendation by the external auditor’s report in the information for Public Interest issued in 2020 when the Local Authority issued S114.

Approved by: Interim Head of Service, Finance on behalf of the Corporate Director of Finance and Section 151 Officer.

9. LEGAL CONSIDERATIONS

9.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Local Government Finance Act 1992 section 31A (calculation of council tax requirement) places the Council under a statutory duty to set a balanced budget and section 28 (budget monitoring: general) of the Local Government Act 2003 requires the Council to review its calculations from time to time during the year and to take such action, if any, as it considers necessary to deal with any deterioration in its financial position..

9.2 Dedicated Schools Grant (DSG) is paid to the Council by the Secretary of State under the Education Act 2002 section 14 (power of Secretary of State to give financial assistance for purposes related to education or children etc.). It is a ring-fenced specific grant provided outside the local government finance settlement. The formal terms of the grant require it to be used in support of the schools budget for purposes defined in regulation 6 and schedule 2 of The Schools and Early Years Finance (England) Regulations 2022.

9.3 The Education and Skills Funding Agency Guidance on DSG: Conditions of grant 2021-2022 require any local authority with an overall deficit on its DSG account to present a Plan to the DfE for managing their future DSG spend and to keep the schools forum regularly updated about the authority's DSG account and plans for handling it including high needs pressures and potential savings.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Legal Services and Monitoring Officer.

10. HUMAN RESOURCES IMPACT

10.1 There are no direct Human Resources considerations arising from this report. If there are subsequent proposals that affect the workforce as a result of the budget limit set, consultation and planning must be in line with HR policies and procedures and HR advice must be sought from the school's assigned provider. Council HR should be kept informed of proposals.

Approved by: Debbie Calliste, Head of HR for Children, Families and Educations on behalf of the Director of Human Resources

11. EQUALITIES IMPACTS

11.1 The Council has a statutory duty, when exercising its functions, to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must, in the performance of its functions, therefore have due regard to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

11.2 The funding allocations and formulae are set nationally and are therefore already subject to an equality assessment. The Council is also committed to the government's vision - an education system that works for everyone. No matter where they live, whatever their background, ability or need, children should have access to an excellent education that unlocks talent and creates opportunity. We want all children to reach their full potential and to succeed in adult life.

11.3 In setting the Education Budget 2021/22, the Council has taken into account the need to ensure targeted funding is available for work on raising the attainment of disadvantaged pupils who are likely to share a "protected characteristic" (as defined in the Equality Act 2010) and close the gap between them and their peers.

11.4 The Council will ensure that the system for distributing funding is fair in order to support the life chances of our most vulnerable children and young people; a fairer funding system will help provide all schools and all areas with the resources needed to provide an excellent education for all pupils irrespective of their background, ability, need, or where in the country they live.

11.5 This will help the Council meet its equality objective “to improve attainment levels for white working class and Black Caribbean heritages, those in receipt of Free School Meals and Looked after Children, particularly at Key Stage 2 including those living in six most deprived wards.”

Approved by: Denise MacCausland, Equality Programme Manager

12. ENVI-RONMENTAL IMPACT

12.1 There are no direct implications contained in this report.

13. CRIME AND DISORDER REDUCTION IMPACT

13.1 There are no direct implications contained in this report.

14. DATA PROTECTION IMPLICATIONS

14.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF ‘PERSONAL DATA’?

NO

CONTACT OFFICER: **Charles Quaye** (Interim) Head of Finance

Children, Families and Education

APPENDICES TO THIS REPORT

1. Dedicated Schools Grant (DSG) Deficit Management Plan

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Appendix 1

ITEM x
Dedicated Schools Grant (DSG) Deficit Management Plan – January 2023

High Needs Working Group – 19th January 2023

Summary and recommendation:

This paper sets out:

The updated position audit on Croydon's DSG (High Needs Block) management plan based on the latest information.

High Needs Working Group are asked to:

Note the progress to date on the Recovery Plan as well as the DfE Safety Valve work with the local authority and its implications.

1. Background

1.1 The Department of Education (DfE) has clearly specified that all Local authorities with an overall deficit on its DSG account at the end of the financial year or whose DSG surplus has substantially reduced during the year are expected to co-operate with the DfE in handling that situation as part of the grant condition.

1.2 The Secretary of State may also impose specific conditions of grant on individual local authorities that have an overall deficit on their DSG account, where it appears that the local authority is not taking sufficient action to address the situation.

Other grant conditions include:

a) Provide information as and when requested by the Department for Education (DfE) about its plans for managing its DSG balance as well as information on pressures and potential savings on its High Needs budget;
b) LA is Required to meet with officials from DfE as and when they request to discuss the LA's plans and financial position on its Deficit Management Plan;
c) Expected to keep School's Forum updated regularly about the Local Authority's DSG account and plans for managing it, including high needs pressures and potential savings.

1.3 This paper aims to update High Needs Working Group, and subsequently Schools Forum and Cabinet (General Purposes & Audit Committee Members) with the Quarter 3 forecast (2022/23) position as part of the grant conditions.

1.4 The paper will further provide some useful updates on the High Needs Deficit Recovery Plan on which the LA has been communicating with the DfE Safety Valve Team. This paper will finally highlight some useful context underlying this whole exercise.

2 Context and Trend Analysis – Outturn from 2020/21 – Forecast 2022/23.

2.1 Until recently, the High Needs Block has reported significant overspend. The block for example reported a £6.7m and £5.7m overspend in 2019/20 and 2020/21 respectively with an accumulative deficit of £27.9m at the end of 2021/22 prior to the DfE post year-end adjustments. The final outturn variance for 2021/22 was £3.47m representing a significant improvement over the last three years. Chart 1 below provides some trend analysis

Chart 1 - Trend analysis – In year overspend and cumulative position

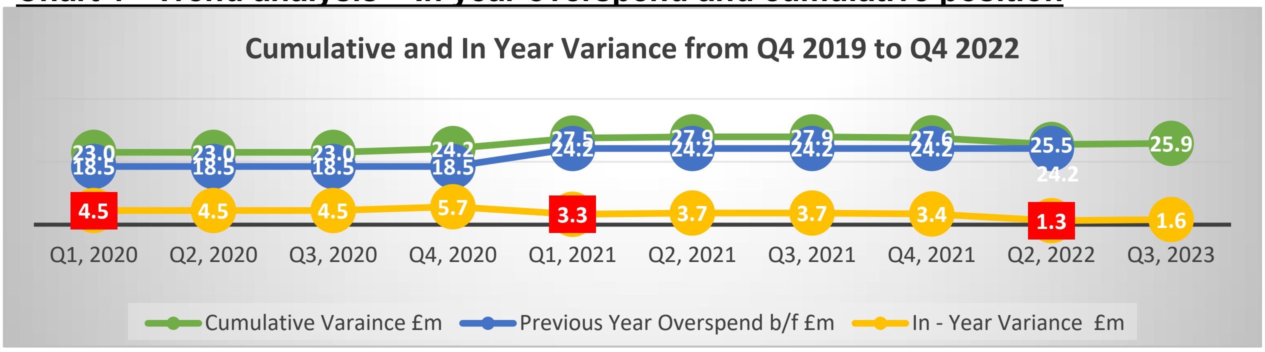


Table 1 Trend of High Needs variance over the four years and nine months.

High Needs Overspend	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	£'m	£'m	£'m	£'m
Financial Year 2019/20	6.7	6.6	7.1	6.7
Financial Year 2020/21	4.4	4.6	4.6	5.7
Financial Year 2021/22	3.5	3.6	4.1	3.47
Financial Year 2022/23	1.3	1.3	1.6	1.6

3 Position Audit - Croydon DSG Management plan

3.1 The current in-year High Needs overspend forecast as of December 2022 (Period 9) is £1.65m. The current position shows that the deficit recovery plans are robust and delivering some tangible savings as shown in table 1 above and table 2 below.

Table 2. Trend Analysis- Plan Vs Actual over the years

Performance Measurement	2019-20 £,000	2020-21 £,000	2021-22 £,000	Forecast 2022-23 £,000
Deficit Recovery Plan - Projections	5,635	4,472	4,105	1,285
Actual Outturn	5,434	5,744	3,468	1,695
Deviation from target	-201	1,272*	-637	410

The £1.2m deviation from the plan in 2020/21 was due unexpected historical funding in dispute which was resolved that year.

3.2 The main reason for the adverse movement is the increasing demands related to complex and severe needs cases as well as FE colleges and Out of Borough placements.

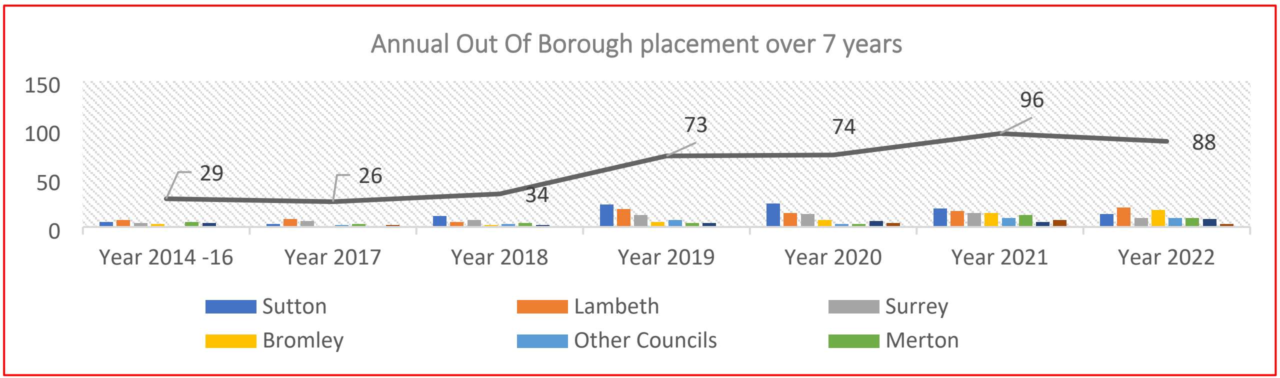
3.3 The local authority has done significant work over the last two years on reducing the reliance on independent and out of Borough placements. They represent high-cost placements compared to local placements and difficult to negotiate top up rates. There is additional SEND transport cost to the Local Authority. Table (1) below represents the most recent (estimated) data provided on Croydon Out Of Borough Placements.

Table 3. Out Of Borough placements over the years

Local Authority	Year 2014 -16	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Total
Sutton	5	3	11	23	24	19	13	98
Lambeth	7	8	5	18	14	16	20	88
Surrey	4	6	7	12	13	14	9	65
Bromley	3	1	2	5	7	14	17	49
Other Councils	1	2	3	7	3	9	9	34
Merton	5	3	4	4	3	12	9	40
Wandsworth	4	1	2	4	6	5	8	30
Southwark		2			4	7	3	16
Total	29	26	34	73	74	96	88	420

3.4 The trend below shows that 2021 was the highest peak regarding placement of pupils in other local authorities. There are significant financial risks associated with Out of Borough placements to both the General Fund and the High Needs DSG.

Chart 2. Current Out of Borough placements.



4 Department for Education (DfE)

4.1 The Department for Education (DfE) recently introduced an additional intervention project called the ‘safety valve’ (SV) programme. This initiative is designed to assist local authorities with the very highest percentage of cumulative DSG deficits on their balance sheet. The rationale is to inject cash in a form of both capital and revenue to fund the provision of more school places for children with special educational needs and disabilities (SEND) as well as clear the agreed historical deficits. This intervention will be implemented once the local authority reaches an agreement with the DfE.

4.2 The local authority has meet all the DfE requirement needed for the consideration for the cash intervention to extinguish the historical DSG deficit of approximately £27.6m. Table 2 below shows a five-year strategic forecast of the overall DSG deficit. This table is an extract from the approved plan submitted to the DfE late 2022.

Table 4 Overview of Croydon Deficit Recovery Plan

Metrics	Baseline	Target 31.3.23	Target ** 31.3.24	Target 31.3.25	Target 31.3.26	Target 31.3.27
HNB DSG Allocation - 5%/3%	-73.28	-82.29	-86.41	-89.00	-91.67	-94.42
HNB spend	76.75	83.58	87.39	89.72	91.66	94.40
Totals invest / (Savings)	5.41	1.95	6.79	-2.76	-3.63	-4.66
In year Overspend /(Underspend)	2.77	1.28	0.98	0.72	-0.01	-0.02
Cumulative DSG surplus/deficit	24.50	25.79	26.76	27.49	27.48	27.46
Cumulative DSG - Do Nothing Option	26.78	27.42	29.11	34.43	42.63	52.44

** **The** recent published indicative allocation for 2023 is higher than £86.41m

5 Management Plan – Work Streams

5.1 The local Authority has identified 6 key service strategies / deliverable projects aimed at reducing the overall DSG deficit over a 5 year period and finally bring it in line with grant funding.

5.2 **Demand Management and High-Cost Placements** - The strategic aim is to reduce the in-year overspend and bring the High Needs spending in line with the DSG grant funding within five years. This will be done through effective demand management at the EHCP assessment stage and using effective resource utilization of commissioned places and type of education provision. (Reducing the need for out of borough independent high-cost places)

5.3 **Contract Management** - The final strategic objective is cost savings through effective contract management in the provision of therapies aimed at a more sustainable service with positive outcomes and value for money. The Local Authority is in discussions with Schools Forum to support the provision of therapies at all the schools including the mainstream schools in order to motivate them to accept more Special Education Needs pupils through the use of school's block (growth) budget. This will be an excellent strategic fit and a win for all stakeholders.

5.4 **Update on Assumptions and implications-** It should be noted that the in-year deficit may not be reduced to nil by the end of year 3 due to potential financial risk associated with the overall deficit plan linked to the ESFA / DSG funding methodology. Reference table 2 above.

- whilst the 2022/23 total income reflects confirmed allocations, future High Needs Block allocations have assumed a 5% estimated adjustment for inflation in 2023/24 and 3% thereafter.
- transfers from the school block not expected in 2023/24
- Any additional grant from the DfE will be used to fund unexpected rise in complex and severe cases.

5.5 **Update on Governance** - The SEND Board continue to undertake annual reviews of all the SEND Transformation Strategies to ensure they continue to meet the needs of the Children and Young People as outlined in the Children and Family Act 2014. This may lead to potential operational changes to the strategies and priorities possibly leading to a gap in the expected savings. Quarterly reports will be shared with all stakeholders including Schools Forum, SEND Board, and General Purposes & Audit Committee Members.

5.0 Current identified risks

- Potential impact the DfE SEND review may have on the current strategies
- More than expected number of EHCP cases in future years as forecasting model based on current demographic information hence has limitations in forecasting accurate future data of pupils with EHC plans.
- Likely demand from Special Schools for an increase in top up funding due to increasing needs and cost of services
- Change in the Special schools funding methodology
- Budget management under the locality model and synergy issues with staffing and processes
- Ensuring that pupil (EHCP) data recorded on the systems (Capital One) used in analysing education provision placements are up to date due some manual intervention regarding adding the provision manually due to non-automatic rollover.

5.1 Key Opportunities includes:

- Strong working relationship between the local Authority and Schools forum in all the various Recovery strategies including the recent funds allocated to therapies.

- The DfE recently published the 2023/24 High Needs DSG allocations with additional grants and the introduction of a minimum funding guarantee of 3% over the 2021/22 funding to special schools.

- Croydon could also deploy a DSG disapplication request through the DfE Satiety Valve Team to keep the 2023/24 additional grant to offset some of the accumulative deficit. Otherwise, the Local Authority may invest the additional funds in commissioning places in special schools for severe and complex cases to forestall the ever-increasing dependence on Out of Borough and independent placements.

Summary and recommendation:

This paper sets out:

The updated financial and organisational position of Croydon’s High Needs Block management plan based on the latest information.

High Needs Working Group is asked to:

Note the progress to date on High Needs Recovery Plan and recent updates regarding discussions with the DfE Safety Valve Team and finally the above potential risks and opportunities