

# Audit & Governance Committee Agenda



To: Dr Olu Olasode (Independent Chair)  
Councillor Matt Griffiths (Vice-Chair)  
Councillors Claire Bonham, Simon Brew, Endri Llabuti, Enid Mollyneaux,  
Nikhil Sherine Thampi and Sean Fitzsimons

Reserve Members: Kola Agboola, Alisa Flemming, Simon Fox,  
Mark Johnson, Stella Nabukeera and Helen Redfern

A meeting of the **Audit & Governance Committee** which you are hereby invited to attend, will be held **Thursday, 21 September 2023 at 6.30 pm. Council Chamber, Town Hall, Katherine Street, Croydon, CR0 1NX.**

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

Hannah Cretney, Democratic Services  
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If you require any assistance, please contact Hannah Cretney, Democratic Services as detailed above



## 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 7 - 14)**

To approve the minutes of the meeting held on 20 July 2023 as an accurate record of the proceedings.

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

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

**5. Audit & Governance Committee Action Log (Pages 15 - 16)**

**6. Audit & Governance Committee Work Programme 2023-24 (Pages 17 - 18)**

**7. Update on Cultural Transformation Programme**

To follow.

**8. Annual Head of Internal Audit Report (Pages 19 - 50)**

This report details the work completed by Internal Audit in 2022/23 and the overall level of assurance for the Council's internal control environment to support the Annual Governance Statement (AGS). The AGS is included on the agenda for this committee and will be published on the Council's website in due course alongside the final accounts.

From the Internal Audit work undertaken in 2022/23, it is the Interim Head of Internal Audit's opinion that Internal Audit can provide only **Limited Assurance** in relation to the system of internal control, and that the internal controls within financial and non-financial systems operating throughout the year were unsatisfactory in some cases.

The Audit and Governance Committee is asked to note the Head of Internal Audit Report 2022/23 (Appendix 1) and the overall Limited level of assurance of the Council's systems of internal control.

**9. Annual Treasury Management Report 2022-23 (Pages 51 - 78)**

This Report reviews the Council's Treasury Management activities for the year 2022/23. It is prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice in respect of capital finance and treasury management. The codes recommend that Members are advised of the treasury management activities for the whole of each financial year and of compliance with the various strategies and policies agreed by the Council. The report:

- Reviews compliance with the Treasury Management Strategy Statement and Annual Investment Strategy as agreed by full Council (Budget Council) on 7 March 2022 (Minute A6/21 applies);
- Reviews treasury borrowing and investment activity for the period 1 April 2022 to 31 March 2023; and
- Demonstrates compliance with agreed Treasury and Prudential Indicators (Appendix E) and the CIPFA 2017 Prudential Code for Capital Finance.

The Audit and Governance Committee is recommended to note the contents of the annual report on the treasury management activity for 2022/23.

**10. Dedicated Schools Grant (DSG) Deficit Management Plan (Pages 79 - 86)**

This report provides some important updates regarding the Dedicated Schools Grant (DSG) Deficit Management Plan which has been in place since 2019/20. The management plan had proved successful however there is a level of risks from increasing numbers of Children and Young People with complex Special Education Needs.

This report focuses on the overall performance of the DSG Deficit Management plan against key qualitative and quantitative performance metrics for the 2022/23 financial year as well as the outturn forecast as at period 2 of this financial year.

The Audit and Governance Committee is asked to note:

- a) The key performance targets set under the DfE Safety Valve agreement.
- b) The overall performance of the Deficit Recovery Plan against the target and challenges and risks of delivery.

- c) The impact on the accounting treatment of the DSG deficit as provided for in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146, as amended by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2022.

## **11. Independent Member Appointment (Pages 87 - 94)**

This report identifies the recommended candidate to be appointed as an independent co-opted non-voting Member on the Audit and Governance Committee.

The Audit and Governance Committee is asked to:

- Support the recommendation of the recruitment panel for the preferred candidate David Clarke to be appointed as an independent co-opted non-voting member of the Committee; and
- Recommend to Full Council that David Clarke be appointed as an independent co-opted non-voting member of the Audit and Governance Committee for an initial period of 1 year, to be extended thereafter for another 3 years and that said appointment be subject to standards of conduct which encompass the Nolan Principles.

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# Public Document Pack Agenda Item 3

## Audit & Governance Committee

Meeting of held on Thursday, 20 July 2023 at 6.30 pm in 1.01 & 1.02, 1st Floor, Bernard Weatherill House

### MINUTES

**Present:** Dr Olu Olasode (independent Chair);  
Councillor Matt Griffiths (Vice-Chair);  
Councillor Claire Bonham, Simon Brew, Enid Mollyneaux,  
Nikhil Sherine Thampi and Sean Fitzsimons

**Also Present:** Councillor Mark Johnson

**Apologies:** Councillor Endri Llabuti

### PART A

1/22 **Disclosure of Interests**

There were no disclosures of interest.

2/22 **Minutes of the Previous Meeting**

The Committee approved the minutes of the meeting on 20 April 2023 as an accurate record.

3/22 **Audit and Governance Committee Action Log 2022-23**

The Committee requested completed items to be removed from the Action log and noted RAG reporting would be included in the revised Annual Governance Statement reporting to Committee in Autumn.

4/22 **Urgent Business (if any)**

There were no items of urgent business.

5/22 **Update from the Chair of the Scrutiny & Overview Committee**

Cllr Rowenna Davis, Chair of the Scrutiny and Overview Committee thanked the Chair of the Audit and Governance Committee for their support and described the distinct and complementary roles of the Scrutiny and Audit and Governance Committees. Scrutiny's priorities were public money, public services and public voice. Scrutiny received the Council's monthly budget monitoring report as a standing agenda item

and the planned deep dive on contract procurement was suggested as an area on which the two committees could work together. The Scrutiny Sub-Committees (Homes, Children & Young People, Streets & Environment) had individual agendas but overall alignment to priorities. Due to the £36 million in savings required by the Council, the Sub-Committees would focus on how the cuts were conducted safely, whilst meeting the Council's statutory obligations to the most vulnerable and conduct deep dives into transformation projects in their areas of focus.

The Centre for Governance and Scrutiny (CfGS) guidance on best working practice for the two committees included the importance of ensuring no duplication of work and recognising opportunities for cross-committee referral. Cllr Davis advised of Scrutiny's interest in the Committee's upcoming financial outturn reports and the update on cultural transformation programme. The risk deep dives could also help inform Scrutiny's work. The ongoing working relationship between the Chair's along with engagement between all committee members would be important to ensure the recovery and improvements required for Croydon.

The Committee advised of its ongoing interest in cultural improvements and suggested this could be an area where both the assurance and reasons behind it could be considered by both Committees. Cllr Davis welcomed this use of the different perspectives, noting the challenge of measuring improvements in this area. There was an opportunity for sharing from the cultural transformation report and the updated people strategy which would be received by Scrutiny.

In response to questions Cllr Davis agreed that Value for Money would be important to ensure, particularly due to the latest increase in Council tax.

In response to questions Cllr Davis advised Scrutiny had support from two Democratic Services officers but was not as well-resourced as elsewhere. There had been discussion about an additional Scrutiny officer, but this had not been forthcoming yet. Communications support had also been requested; this was progressing slowly. Community engagement resource was needed, and the Council had no officer dedicated to this at present. Officers agreed to take these issues to the CMT, and the Committee would receive updates on the resourcing of the Scrutiny function via the Chairs' regular catch-up.

The CfGS and CIPFA guidance stated audit committees should not take on other responsibilities such as governance. Whether Croydon should move to follow this recommended practice was queried by the Committee. The Independent Chair advised in Croydon's situation and following the restructure of the Committee, governance had been identified as a gap and was therefore included in its remit. Grant Thornton advised Audit Committees worked in many ways and they would be most uncomfortable if an Audit Committee was becoming a Finance Committee.



The Committee queried whether Scrutiny had any best practice for sharing information effectively. Councillor Davis advised that learning had been conducted around this, which resulted in arranging a Chairs and Vice Chairs Away Day and having WhatsApp groups for member communication. Champions for focus areas within each committee e.g. resident voice, were being implemented and it was important to hold pre-meetings.

The Committee noted it was encouraged by the positive comments regarding risk management work in the ministerial statement and queried how the Committee could be assured Scrutiny would be supporting the housing improvements. Cllr Davis would be attending Scrutiny Homes Sub-Committees in her capacity as the chair of the Scrutiny and Overview Committee and had worked closely with the Chair of the Scrutiny Homes Sub-Committee and received all the relevant briefings.

The Committee thanked Councillor Davis for her time and presentation.

The Committee RESOLVED to:

1. Note the update provided by the Chair of the Scrutiny and Overview Committee.
2. Note the guidance from the Centre for Governance & Scrutiny – Audit Committees and Scrutiny Committees: Working Together

6/22

## **Financial Accounts 2019-20**

Jane West, Section 151 Officer and Ian Geary, Head of Finance, Corporate and Treasury Management introduced the 2019-20 unaudited accounts and accompanying report to the Committee. The accounts were an updated version of those published on the council website and a there had been a significant step forward in tackling Croydon's accounts backlog. These had been signed off by the S151 Officer and the final audited accounts were expected at the October Committee meeting. Due to the contention of the accounts, this version had been brought to the Committee for an initial review to help ensure Committee members understood the complexities and the opportunity to work through any issues. Officers offered support via workshops or one-to-one meetings.

Officers explained the most significant change was in the accounting of Croydon Affordable Homes (CAH) and Croydon Affordable Tenures (CAT). The Council had reviewed its judgement of the leases which were no longer being considered finance leases, meaning the Council owned the properties. Under the previous approach the properties were written out of the accounts and disposed of, generating a £75 million capital receipt. £73 million of this had been allocated to transformation expenditure within the general fund account. With this capital receipt no longer existed, so there was a £73 million shortfall which had been closed using a capitalisation direction from central government.

The amended accounts were now more aligned to the External Auditor's position. Sarah Ironmonger, from Grant Thornton, the council's external auditor, noted the complexity of resolving the issues, the progress which had now been made and the intention to begin auditing. Councillor Jason Cummings, Cabinet Member for Finance commented on the significance of these accounts being brought to the Committee and expected this set would be the most difficult to complete retrospectively. He thanked finance colleagues and the external auditors for their work to reach this position of agreement. The need for thorough and early understanding of how financial decisions would be accounted for in the future had been the biggest lesson learned. The Committee also noted the importance of the Finance team now having the requisite capabilities and resourcing.

The Committee noted the planned introduction of the International Financial Reporting Standards 16 (IFRS 16) lease accounting standard and the need to prepare for this. Implementation had been delayed for Local Government and there had been issues and delays to accounts during NHS implementation, which generally had more straightforward lease arrangements. Once the timeline for implementation was known, this would need to be an area of focus for the Committee.

The Committee asked if engagement with the external auditors could happen earlier in projects with financial risk implications and if accounting treatment errors arose, if engagement could happen more quickly. Grant Thornton noted the difficulty in understanding the rationale for decisions when errors were uncovered retrospectively, and officers had not been involved in the scheme setup. If the Council was evaluating whether to take an action, particularly if innovative or usual, it was paramount to have financial accounting advice in place at the early stages.

In response to questions officers advised the decisions made and subsequent issues regarding CAH / CAT had stemmed from the Council taking advice from those selling the product, without seeking independent advice. The importance of having independent legal and financial advice when making such decisions to ensure the model would work in practice was noted. Officers assured the Committee this approach was now being applied and independent advice could be seen in commercial decisions presented to Cabinet.

The Committee queried the council's risk reporting practices to Members and Cabinet and lessons learned, particularly around the identification and treatment of high impact risks. Grant Thornton noted the importance of Scrutiny in examining decisions and asking officers to explain proposals.

The Committee congratulated officers on the quality of the narrative provided within the report. In response to questions officers advised the external auditor's intervention focussed the council's attention on the

issues. Grant Thornton advised there had been plans to extend the scheme and the intervention had prevented this. The Committee would focus on the auditor's findings when the accounts were brought to Committee in the Autumn.

The Committee queried whether the Finance team was now adequately resourced. Officers advised the approach was to ensure enough resource was available to conduct the work required, to ensure officers asked for additional support as required and for this to be included in project costs.

The Committee RESOLVED to:

Note the updated 2019-20 unaudited Statement of Accounts attached as Appendix 1.

7/22

### **2018/19 Energy Recharges Recommendation Progress Report**

Allister Bannin, Deputy S151 Officer provided an overview of the report to the Committee.

The Committee noted the benefit of a strong internal audit function initially raising these issues. Councillor Jason Cummings commented that this was indication of the improvements being made within finance and the need for specific resourcing to support historic pieces of work. There had been conversations about the long-term structure of the finance team, and this would be reflected in the budget setting and Medium Term Financial Strategy (MTFS) going forward.

The Committee queried when it would receive assurance around the long-term resourcing and strength of the Finance team. Officers advised the restructure work was underway and interim staff would continue to support during this process. The final team was likely to be in place early in 2024, following internal recruitment which would leave gaps due to current vacancies, and then external recruitment. The quality of the current team was noted; however the intention was to move to having permanent staff and to develop trainees which would take time. Due to the improvement requirements, a higher level of resourcing would be requested in the coming years with the understanding this may be reviewed to lower base level in the future.

The Committee raised concerns about the absence of financial details in the Financial Implications section of the report and queried the amount of outstanding billing. Officers advised the work was ongoing and therefore an exact figure could not be given, the Council had received more than £250,000 so far. Officers agreed to include the monetary values in future reporting this financial year.

The Committee RESOLVED to:

Note the actions taken to date to address the recommendations of the 2018/19 Energy Recharges Internal Audit Report carried out by Mazars in June 2019.

8/22

### **External Audit Fees Update 2019-20**

Jane West, S151 Officer introduced the report for the Committee. It was a requirement of the Public Sector Audit Appointments (PSAA) process and an opportunity for the Committee to have sight of the scale of the fees. The Council had earmarked reserves which would fund this one-off rise.

In response to questions the representative from Grant Thornton confirmed they expected the future costs would return to circa £200,000, whilst noting that each year would have particular risks and these would be brought to the Committee in an audit plan. PSAA conducted a review process of external audits to ensure the work was completed. Officers reminded the Committee that the new PSAA contract was starting for 2023-24 and this would be more expensive, driven by the Financial Reporting Council (FRC) placing increased demands on the auditors. This had been reflected in the last tender exercise and the Council's fees had doubled. The Committee had previously received reporting and had approved this.

In response to questions the representative from Grant Thornton advised the accounts had to be audited chronologically and the timeline for this was regularly discussed with officers. Backlogs were an issue across the sector.

Officers advised they were anxious about National Audit Office proposals for local authorities to take shortcuts and the S151 Officer and Grant Thornton were having discussions to ensure this was avoided. The Committee supported the need for the audits to be completed in full.

The Committee RESOLVED to:

Note the proposed increased audit costs of £220,750 in relation to 2019-20, which would take Council audit fees to £597,352 for the year.

9/22

### **Independent Member Recruitment**

Dave Philips, Head of Internal Audit introduced the report to the Committee. The Committee had agreed the appointment panel to conduct interviews and approved the recruitment advert. There had been good candidates and the panel unanimously appointed David Clarke to the position. The Independent Chair advised the process had been thorough; however the panel decided to recommend the applicant based on a rolling 1 year appointment, despite the advert stating 4 years. This was not

stated in the report and the Independent Chair was not minded to go against the panel's recommendation unless it met to review the recommendation. It was requested for the paper to go back to panel to confirm and be brought back to the next Committee.

The Committee requested further information on the candidate to be circulated but noted the decision had been delegated to the appointment panel.

The Committee queried whether the candidate had been made aware of the proposal to alter the appointment term to that which had been advertised.

The Committee queried whether the report should have been exempt from the public.

The Committee RESOLVED to:

Agree the appointment panel would reconvene to discuss the recommendation of a 4 year appointment.

10/22

### **Audit and Governance Committee Draft Annual Report 2022-23**

The Independent Chair introduced the draft Committee report for comment ahead of its presentation to Council.

The Committee agreed to add narrative on roles of and relationship between the Committee and Scrutiny and the impact of the recent ministerial statement regarding government intervention.

The Committee RESOLVED to:

Review and approve for this report to be presented to Full Council.

11/22

### **Audit and Governance Committee Work Programme 2023-24**

The Committee queried how the government intervention and statutory footing of the Independent Assurance Panel aligned with the Committee's work programme.

Officers advised of the work being done with the Improvement and Assurance Panel to develop a two-year exit strategy. This document could be brought to the Committee to identify areas of focus.

In response to questions officers advised the Council Tax increase VFM would be included in the work programme, with initial framework reporting in November 2023 and the Grant Thornton recommendation report in June 2024.

In response to questions officers agreed to provide updates regarding the ongoing Fairfield Halls investigation with the Committee as they became available.

The Committee RESOLVED to:

Note, consider and comment on the work programme as detailed in this report.

The meeting ended at 8.08 pm

**Audit and Governance Committee Action Log**

<b>Date of meeting</b>	<b>Action</b>	<b>Agenda ref.</b>	<b>Deadline</b>	<b>Progress</b>
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	October meeting	
19 January 2023	Benchmarking data on Whistleblowing incidences at other Councils to be included in future reporting.	29/22	February 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	September meeting	
02 February 2023	Previously shared dashboard style reporting illustrating the movement of risks to be brought to Committee.	34/22	October meeting	
02 February 2023	Agreed to consider adding Risk FIR0061 to the register as an ongoing risk.	34/22	By next report	Update September 2023: Risk Owner Allister Bannin, Dept S151 Officer has raised to Amber risk, but it is fully budgeted. Officers comfortable this is the correct risk level.
02 March 2023	Prioritisation of recommendations to be included in future opening the books reporting and action tracker.	40/22	October meeting	
02 March 2023	Covid funding including Sales, fees and charges grants reconciliation to be completed.	40/22	Ongoing	
02 March 2023	Committee to receive quarterly MTFS tracker to monitor budget variances.	41/22	September meeting	
02 March 2023	Development of process to involve the Cabinet Member for Finance in resolving recurrent internal audit actions whilst ensuring visibility to the Committee.	42/22	Ongoing	
20 April 2023	Report on 15% Council Tax VFM increase to External Auditor	49/22	June 2024	Option to bring draft to A&G Cttee to confirm format – expected November 2023 meeting

20 April 2023	Interim Auditors Reports Recommendations AGS reporting to include a breakdown of target setting and progress.	52/22	October meeting	
20 April 2023	Impact assurance to be provided via additional narrative to describe the effect of actions and provide assurance on the embeddedness of improvement activities within future AGS reporting.	52/22	October meeting	
20 April 2023	Risk movement and time spent as red to be included in future reporting. Ensure future control dates are not in the past.	53/22	October meeting	
20 July 2023	Officers agreed to raise Scrutiny resourcing issues at CMT. Committee to receive updates via the Chairs' regular catch up.	5/22	Ongoing	
20 July 2023	Officers agreed to include the monetary values in future Energy Recharges reporting.	7/22	By next report	
20 July 2023	Independent Member recruitment panel to review 4-year appointment recommendation. Officers to circulate applicant information to committee members.	9/22	September meeting	
13 October 2022	Officers to include RAG ratings against the 12 RIPI recommendations	14/22	October meeting	



Audit & Governance Committee Work Programme 2023-24		
Date of meeting	Agenda item	Officers
21-Sep-23	Internal Audit Update Report	Dave Philips, Head of Internal Audit
	Annual Treasury Management Report 22-23	Matt Hallett, Head of Treasury and Pensions
	DSG 2022-23 Financial Outturn	Charles Quaye, Acting Head of Finance
	Update on cultural transformation programme	Elaine Jackson, Interim Assisant Chief Executive
	Independent Member Appointment	Dave Philips, Head of Internal Audit
19-Oct-23	Corporate Risk Register 6 month report	Malcolm Davies, Head of antifraud, risk & insurance
	Anti Fraud Report 6 month report	Malcolm Davies, Head of antifraud, risk & insurance
	Oracle Update Report	Jane West, S151 Officer
	AGS (Update on Action Plan 21/22 & New 22/23)	Stephen Lawrence-Orumwense, MO
	Quarterly Whistleblowing Update	Stephen Lawrence-Orumwense, MO
	Financial Statements / Accounts 2019/20 - external audit report	Ian Geary, Head of Finance (Corporate and Treasury Management)
30-Nov-23	Revenue and Capital Monitoring Improvements	Allister Bannin, Director of Finance (Deputy S151)
	Risk deep dive	Malcolm Davies, Head of antifraud, risk & insurance
	Mid-Year Treasury Management Report 23-24	Matt Hallett, Head of Treasury and Pensions/ S151 Officer
	Financial Statements / Accounts 2020/21	Ian Geary, Head of Finance (Corporate and Treasury Management)
01-Feb-24	Risk deep dive	Malcolm Davies, Head of antifraud, risk & insurance
	AGS (Update on Action Plan 2022/23)	Stephen Lawrence-Orumwense, MO
	DSG 2023-24 Financial Update	Charles Quaye, Acting Head of Finance

	Quarterly Whistleblowing Update	Stephen Lawrence-Orumwense, MO
	Financial Statements / Accounts 2020/21 - external audit report	Ian Geary, Head of Finance (Corporate and Treasury Management)
14-Mar-24	Financial Statements / Accounts 2021/22	Ian Geary, Head of Finance (Corporate and Treasury Management)
	Revenue and Capital Monitoring Improvements	Allister Bannin, Director of Finance (Deputy S151)
11-Apr-24	Corporate Risk Register EoY report	Malcolm Davies, Head of antifraud, risk & insurance
	Anti Fraud Report EoY report	Malcolm Davies, Head of antifraud, risk & insurance
	Financial Statements / Accounts 2021/22 - external audit report	Ian Geary, Head of Finance (Corporate and Treasury Management)
	Financial Statements / Accounts 2022/23	Ian Geary, Head of Finance (Corporate and Treasury Management)
July 2023 - Agreed Officers to provide updates to Committee on Fairfield Halls as information becomes available.		

## LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>Audit and Governance Committee</b>	
<b>DATE OF DECISION</b>	<b>21 September 2023</b>	
<b>REPORT TITLE:</b>	<b>Annual Head of Internal Audit Report</b>	
<b>CORPORATE DIRECTOR / DIRECTOR:</b>	<b>Jane West, Corporate Director of Resources and S151 Officer</b>	
<b>LEAD OFFICER:</b>	<b>Dave Phillips, Head of Internal Audit</b> <a href="mailto:Dave.Phillips@croydon.gov.uk">Dave.Phillips@croydon.gov.uk</a>	
<b>LEAD MEMBER:</b>	<b>Cllr Jason Cummings</b>	
<b>KEY DECISION?</b> [Insert Ref. Number if a Key Decision]	<b>No</b>	REASON: N/a
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>No</b>	Public
<b>WARDS AFFECTED:</b>	<b>N/a</b>	

### 1. SUMMARY OF REPORT

- 1.1** This report details the work completed by Internal Audit in 2022/23 and the overall level of assurance for the Council's internal control environment to support the Annual Governance Statement (AGS). The AGS is included on the agenda for this committee and will be published on the Council's website in due course alongside the final accounts.
- 1.2** From the Internal Audit work undertaken in 2022/23, it is the Interim Head of Internal Audit's opinion that Internal Audit can provide only **Limited Assurance** in relation to the system of internal control, and that the internal controls within financial and non-financial systems operating throughout the year were unsatisfactory in some cases.

### 2. RECOMMENDATION

- 2.1** The Audit and Governance Committee is asked to note the Head of Internal Audit Report 2022/23 (Appendix 1) and the overall Limited level of assurance of the Council's systems of internal control.

### 3. REASONS FOR RECOMMENDATION

3.1 The Public Sector Internal Audit Standards require the Head of Internal Audit to prepare an independent annual written report to members that includes:

- an opinion on the overall effectiveness of the organisation's framework for governance, risk management and control;
- disclosure of any qualifications on that opinion; and
- any issues the Head of Internal Audit judges relevant to the preparation of the Annual Governance Statement.

### 4. BACKGROUND AND DETAILS

4.1 The Public Sector Internal Audit Standards require the Head of Internal Audit to prepare an independent annual written report to members that includes:

- an opinion on the overall effectiveness of the organisation's framework for governance, risk management and control;
- disclosure of any qualifications on that opinion; and
- any issues the Head of Internal Audit judges relevant to the preparation of the Annual Governance Statement.

4.2 Appendix 1 details the annual report for the period 2022/23. From the work undertaken, the Head of Internal Audit is giving a **Limited Assurance** in that the Council's framework for governance, risk management and control does not accord with proper practice in several cases.

4.3 The Limited level of assurance reflects that **65%** of individual audits received either No or Limited assurance levels. This is an increase over the previous year; however, it should also be noted that at the time of writing there were still a number reports in draft. There will be an update on these outstanding reports at the next meeting of this committee.

4.4 During the financial year 2022/23 the following key issues were identified, most of which had been raised in previous years:

- general compliance issues in basic areas of governance and control;
- a number of issues with contract letting, monitoring and management across the organisation;
- issues over information governance, including the role of the data protection officer and the process for responding to freedom of information requests;
- issues over budget monitoring and management, and
- issues over housing and temporary accommodation tenancies, including the allocation, recording and checking of these and arrangements for repairs and maintenance.

**4.5** The assurance levels of internal audits issued since the last annual report can be broken down as follows:

	<b>Full</b>	<b>Substantial</b>	<b>Limited</b>	<b>No</b>	<b>Total</b>
Key Financial Systems	0% (0)	0% (0)	100% (8)	0% (0)	8
ICT Systems	0% (0)	67% (2)	33% (1)	0% (0)	3
Operational and Departmental Systems	3% (1)	32% (12)	46% (17)	19% (7)	37
Schools	0% (0)	55% (6)	45% (5)	0% (0)	11
<b>Total</b>	2% (1)	34% (20)	53% (31)	11% (7)	59

**4.6** Internal audit has identified issues and risks and service managers have identified actions to mitigate those risks. The Council now needs to ensure that the action is taken to implement audit recommendations particularly in relation to priority one issues. The actions to address the most significant issues are set out in paragraph 3.8 below.

#### **Implementation of Audit recommendations**

**4.7** The Council has set targets for the implementation of audit recommendations. Implementation is assessed at the time of follow-up audits. The targets are 80% for all priority 2 & 3 recommendations and 90% for priority 1 recommendations. The table below shows achievement against these targets for the follow-up audits carried out to date.

#### **Implementation of agreed recommendations**

<b>Performance Objective</b>	<b>Target</b>	<b>Performance 2018/19 (to date*)</b>	<b>Performance 2019/20 (to date*)</b>	<b>Performance 2020/21 (to date*)</b>	<b>Performance 2021/22 (to date*)</b>	<b>Performance 2022/23 (to date*)</b>
Percentage of priority one recommendations implemented at the time of the follow up audit	90%	98%	99%	75%	50%	-
Percentage of all recommendations implemented at the time of the follow up audit	80%	94%	93%	82%	72%	54%

\* Audits are still being followed up for 2018/19, 2019/20, 2021/22 and 2022/23 and therefore the percentage is likely to change.

**4.8** Internal Audit continues to work with departments to help improve implementation timescales. This includes monthly reports to the CMT highlighting where recommendations are not being implemented and agreeing the way forward.

## **Significant Control Weaknesses**

- 4.9** Internal Audit is required to form an opinion on the quality of the framework for governance, risk management and control, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2022/23, 5 key issues were identified (detailed in paragraph 4.4 above). All 5 of these items have been carried forward to the Annual Governance Statement (AGS) and responses sought from relevant management.
- 4.10** Actions have been agreed to address these weaknesses and internal audit will be involved in further audit work in these areas.
- 4.11** In addition, to raise the profile of issues raised by internal audit and to address them earlier:
- All action plans to address individual audit findings are signed off by the relevant Corporate Director who is responsible for ensuring implementation.
  - Internal audit attends regular CMT and CMT audit focus meetings to report on outstanding audit reports and overdue follow up actions.
- 4.12** This report follows a period of changes flowing from the Reports in the Public Interest issued by the Council's external auditor and the complete change at the top of the organisation, amongst both politicians and officers.
- 4.13** There has been a good start made on changing the organisation's culture, but this is not a quick process and will take some time to embed. In particular, the Corporate Management Team (CMT) are much more focussed on governance issues, with regular Internal Audit updates being reported to CMT and with bi-monthly audit focus group meetings, where deep dives on key and outstanding audit issues are conducted. Work is still ongoing to embed good governance throughout the organisation, and includes mandatory training on key processes and increased compliance checks.

## **5. FINANCE IMPLICATIONS**

- 5.1.1** The fixed price for the Internal Audit contract was £369k for 2022-23 and there was adequate provision within the budget. There are no additional direct financial implications relating to this report.
- 5.1.2** Internal Audit's planning methodology is based on risk assessments that include using the Council risk register processes and ensure integration with the risk management framework.
- 5.1.3** Since the start of the financial year further strengthening of financial internal controls has taken place. A key improvement has been the formalisation of

the assurance meetings, which are chaired by the S151 Officer and CEO. This allows for detailed scrutiny in relation to in year budget delivery along with progress made with regards to MTFs savings.

**5.1.4** Financial systems have improved over the past two years and further work is ongoing to further strengthen these. The Council has embarked on a Financial System improvement programme and has recently secured a two year extension with its main provider to ensure stability and further development opportunities to better utilise the system to improve internal controls.

**5.1.5** The financial constraints that the Council is experiencing and the consequent savings that need to be achieved, will continue to make it challenging to maintain a robust system of internal control. Internal audit will need to maintain some flexibility in its work plan to accommodate new or increasing areas of risk.

**5.1.6** Comments approved by Allister Bannin, Director of Corporate Finance. (Date: 11/09/2023)

## **5.2 LEGAL IMPLICATIONS**

**5.2.1** The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Council should take steps to improve the Assurance level within the Council.

**5.2.2** There are various obligations upon the Council regarding ensuring that its business is conducted in accordance with the law and proper standards. This includes the duty (under the Local Government Act 1999) to make arrangements to secure continuous improvement, to have an Annual Government Statement and to undertake a review of the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards and guidance (Accounts and Audit Regulations 2015). The Committee should note that the Council is under a duty (s3(1) Local Government Act 1999) as a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

**5.2.3** On 20 July 2023 the Secretary of State for Levelling Up, Housing and Communities (SoS) issued Directions under section 15(5) of the Local Government Act 1999 arising from the Council's failure to meet the best value duty placed upon it. The SoS Directions require the Council to take a number of actions including a requirement to address the culture of poor financial management of the Authority and to secure as soon as practicable

that all the Authority's functions are exercised in conformity with the best value duty delivering improvements in services and outcomes for the people of Croydon. The Directions apply to all the governance and decision-making bodies of the Council including Full Council, Elected Mayor and Cabinet Members (Executive) and any committee or sub-committee. The Directions are expected to remain in force until 20 July 2025 but could be amended or revoked at an earlier date by the SoS, if appropriate.

**5.2.4** Further the Council's Financial Regulations, as part of the Constitution, require the preparation of an annual Head of Audit Report and an Annual Governance Statement.

**5.2.5** It is noted that the terms of reference of the Audit and Governance Committee enables it to consider the annual report of the Head of Internal Audit and make recommendations as appropriate to management, Cabinet and/or Full Council.

**5.2.6** In considering the recommendation in this report the Committee should have regard to the Council's overall governance and financial position. The Head of Internal Audit Report should also be carefully considered. In particular that there is a LIMITED level of assurance provided regarding the systems of internal control.

**5.2.7** Comments approved by Sandra Herbert, the Head of Litigation & Corporate Law on behalf of the Director of Legal Services and Monitoring Officer. (Date 04/09/2023)

### **5.3 HUMAN RESOURCES IMPLICATIONS**

**5.3.1** There are no immediate HR implications arising from the content of this report.

**5.3.2** Comments approved by Gillian Bevan, Head of HR Resources and Assistant Chief Executives Directorates on behalf of the Chief People Officer. (Date 04/09/2023)

### **5.4 EQUALITIES IMPLICATIONS**

**5.4.1** Under the Public Sector Equality Duty of the Equality Act 2010, the Council 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. These include areas in which internal audit provide assurance of the Council's systems and processes.



**5.4.2** 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.

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

**5.4.4** This report has no direct equality implications. The limited assurance rating has not highlighted any specific concerns about the internal controls in relation to the Council's process for equality impact assessments. However, this approach is regularly reviewed and the Equality, Diversity & Inclusion Internal Control Board has been established to monitor and strengthen the Council's activities in relation to equalities.

**5.4.5** Approved by: Naseer Ahmad for Equality Programme Manager. (Date 09/11//2023)

## **6. APPENDICES**

**6.1** Appendix 1 – London Borough of Croydon Head of Internal Audit Report 2022/23

## **7. BACKGROUND DOCUMENTS**

**7.1** None

## **8. URGENCY**

**8.1** There is none.

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# London Borough of Croydon Internal Audit Annual Report for the year ended 31 March 2023

## [Confidentiality and Disclosure Clause](#)

This report ("Report") was prepared by the Head of Internal Audit of London Borough of Croydon based on the internal audit work undertaken by Mazars LLP. The matters raised in this Report are only those which came to our attention during the internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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### 1. Introduction

The purpose of this report is to contribute to the Head of Internal Audit's annual reporting requirements set out in the UK Public Sector Internal Audit Standards (PSIAS). The standards advise that the report must:

- a) include an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control;
- b) disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets, and
- f) comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

### Head of Internal Audit Opinion on the Effectiveness of Internal Control

This opinion statement is provided for the use of London Borough of Croydon (Council) in support of its Annual Governance Statement for the year ended 31 March 2023.

### Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

### The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

### Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. Effectiveness of the system is also conveyed by executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports. In this context it should be noted that the external auditors Interim Reports issued in April 2023 for the financial years 2019-20, 2020-21 and 2021-22 pending completion of their final assessments found for 2019/20 an adverse conclusion; for 2020/21 'significant weaknesses identified', and for 2021/22 'significant weaknesses identified'.

## Head of Internal Audit Annual Opinion Statement

The Head of Internal Audit Annual Opinion (Opinion) is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2022/23 including our assessment of the Council's corporate governance and risk management processes and information technology governance.

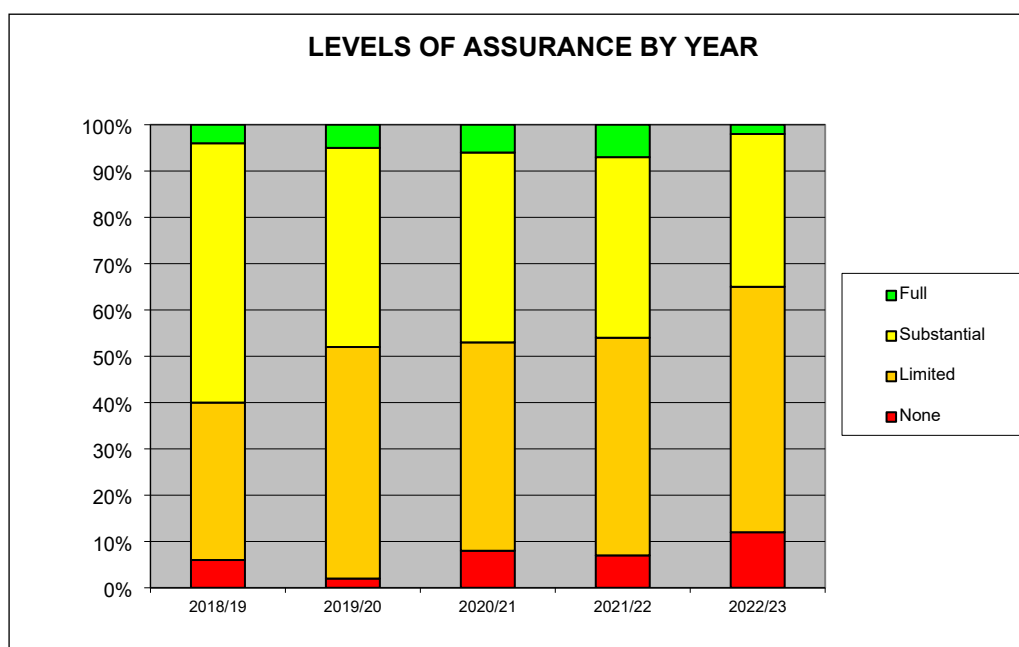
The internal audit plan for 2022/23 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

## Basis of Assurance

We have conducted our audits both in accordance with the mandatory standards and good practice contained within PSIAS and additionally from our Internal Audit's own internal quality assurance systems.

Our Opinion is limited to the work carried out by Internal Audit during the year on the effectiveness of the management of those principal risks, identified within the organisation's Assurance Framework, that are covered by Internal Audit's programme.

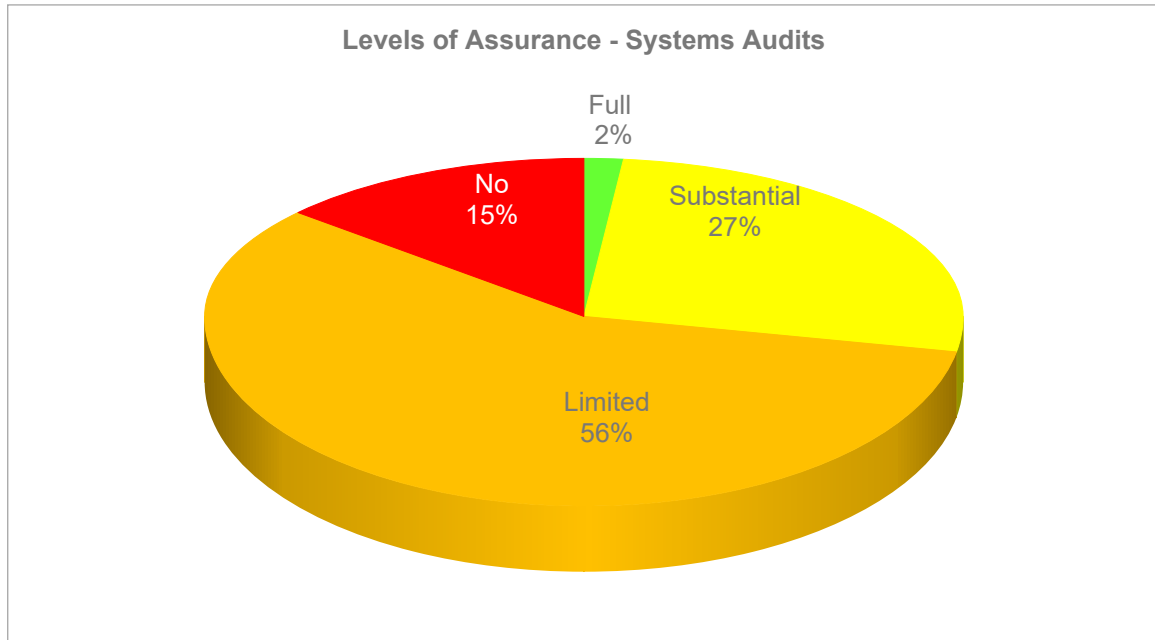
**Graph 1 – Assurance Levels**



	2018/19	2019/20	2020/21	2021/22	2022/23 *
Full Assurance	4%	5%	6%	7%	2%
Substantial Assurance	56%	43%	42%	39%	34%
Limited Assurance	34%	50%	44%	47%	53%
No Assurance	6%	2%	8%	7%	11%

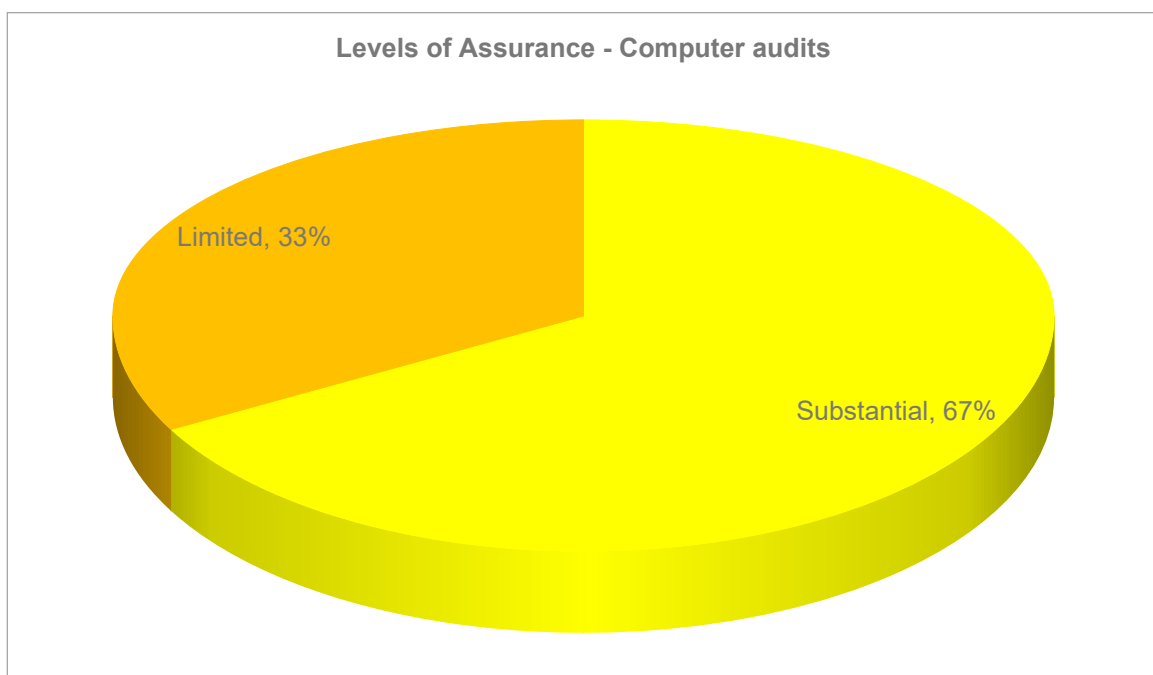
**Graph 1** and the corresponding table above shows the percentage of final audit reports issued per level of assurance over the past five years. As can be seen there has been a steady year on year increase in the number of limited and no assurance audits since 2018/19, with the number of limited and no assurance reports in 2022-23 at 64%. Details of these can be found in Appendix 1: Summary of Internal Audits 2022/23. Review of this appendix should also note that a significant number of audits remain in draft due to slow responses from auditees and a need to chase in order to finalise the reports.

**Graph 2 – Levels of Assurance – Systems Audits**



**Graph 2** above shows the percentage of final reports issued per level of assurance achieved on all the full systems audited. This shows that only 29% of the systems audited, including the core Council financial systems, achieved an assurance level of Substantial or Full. This is a deterioration in performance on 2021/22 which was 40%.

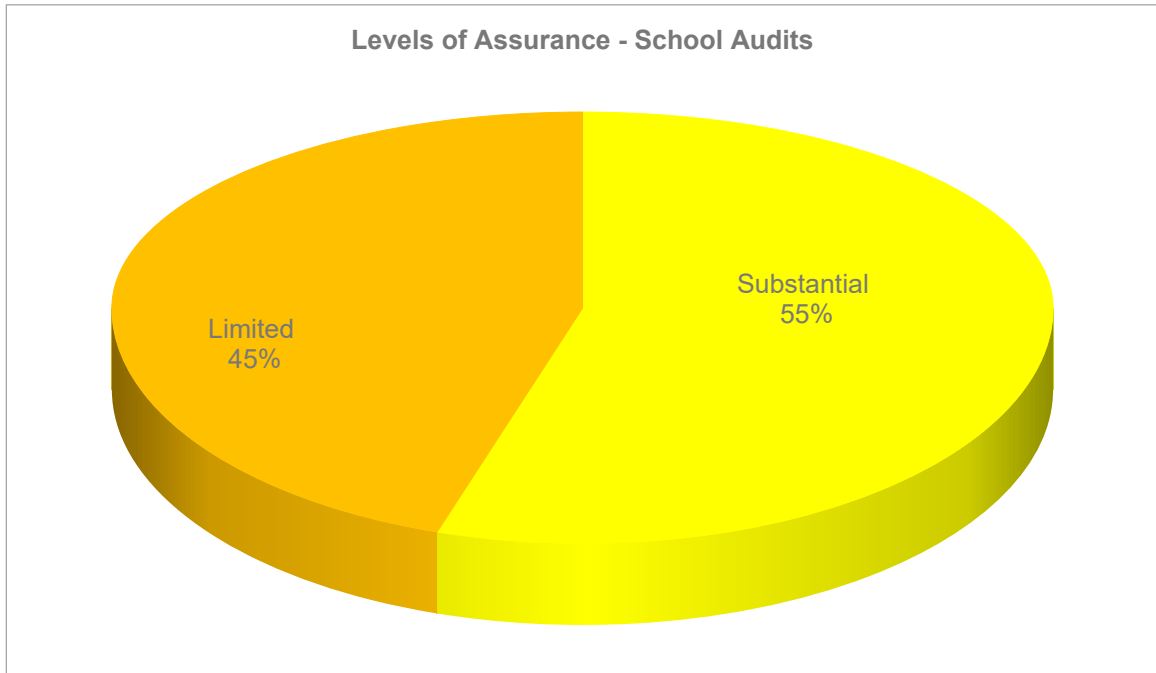
**Graph 3 – Levels of Assurance – Computer Audits**



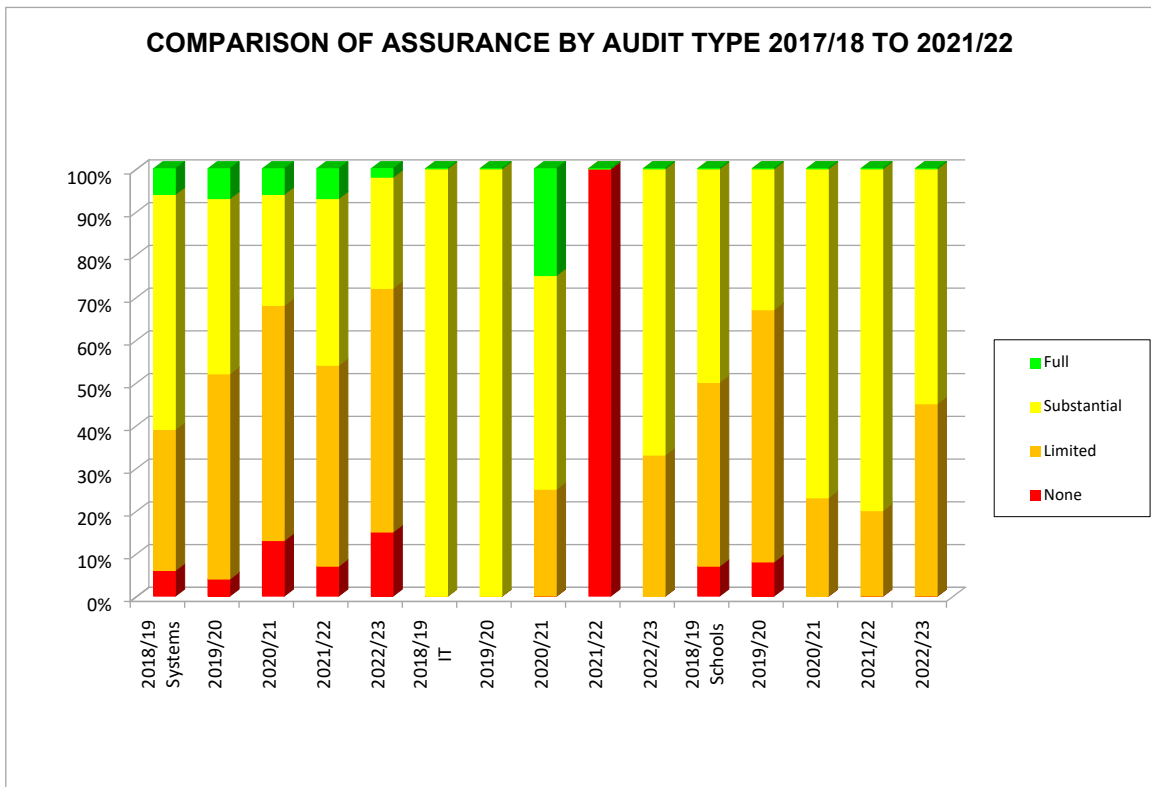
**Graph 3** above shows the percentage of final audit reports issued per level of assurance for the Computer audit programme of work. This shows that 67% (two audits) of the computer audits achieved an assurance level of Substantial Assurance and 33% (one audit) achieved an assurance level of Limited Assurance. This is an

improvement compared to 2021/22 where there was only one audit (due to auditee engagement issues) which achieved No Assurance.

**Graph 4 – Levels of Assurance – School Audits**



**Graph 4** shows the results of the school’s audit programme. A total of 45% of all locations visited resulted in a Limited Assurance. This is a deterioration on the performance in 2021/22 which was 20%. Whilst the number of schools audited is similar year on year, the work also resulted in a significantly higher number of recommendations year on year (104 in 2022/23 compared to 46 in 2021/22.)





# 2022/23 Year Opinion

## Internal Control

From the Internal Audit work undertaken in 2022/23, it is our opinion that we can provide **Limited Assurance** that the system of internal control that has been in place at London Borough of Croydon for the year ended 31 March 2023 accords with proper practice. Details of significant internal control issues are documented in the detailed report.

The assurance can be further broken down between financial and non-financial systems, as follows:



*In reaching this opinion, the following factors were taken into particular consideration:*

- The results of the internal audit work performed during the year, where 64% of the overall audits (38) undertaken were 'Limited' or 'No' assurance. From a systems audit sub-category, 71% of internal audits (32) were 'Limited' or 'No' assurance, whereas for the computer audit sub-category, of the two audits issued, one was 'Substantial assurance and one Limited assurance.
- The progress the Council has made in regard to achieving the recommendations set out by external auditor in the Report in the Public Interest October 2020 with 77 out of 99 actions being reported as complete at the Cabinet meeting held on 21 March 2022. (The remaining actions were subsequently amalgamated in the Council's 2021/22 Annual Governance Statement action plan reported to Audit and Governance Committee on 19 January 2023.)
- The Grant Thornton Interim External Auditor's Reports issued in April 2023 for the financial years 2019-20, 2020-21 and 2021-22 pending completion of their final assessments, which found for 2019/20 an adverse conclusion; for 2020/21 'significant weaknesses identified', and for 2021/22 'significant weaknesses identified'.
- The Section 24 Schedule 7 Local Audit and Accountability Act 2014 Recommendation Report, published by the Council's External Auditors Grant Thornton in March 2023, on the Council's historically inadequate arrangements and capacity in the financial years 2019/20, 2020/21 and 2021/22.
- The Independent Investigation Report by Richard Penn published in February 2023 which, amongst other issues, considered the culture, behaviours and practices of both chief officers and elected members that led to the Council's governance and financial collapse, and the Council's subsequent referral of these issues and the Kroll report to the police and professional bodies of these identified.
- The report issued under Section 114 (3) of the Local Government Finance Act 1988 by the Chief Financial Officer in November 2022 that the Council's available resources were unlikely to meet planned budgetary demands in the financial year 2023/24 and beyond.
- The Executive Mayor's 'Opening the Books' project, launched in July 2022, which identified substantial financial accounting corrections that have had a significant impact on the Council's budget and clarified how structural issues in the Council's finances were impacting the Council's financial recovery.
- The Parliamentary Under Secretary of State for Local Government and Building Safety, Lee Rowley MP, announcing in a written ministerial statement on 16 March 2023 that the Secretary of State was 'minded to' intervene in the London Borough of Croydon.

- The sixth report by the Improvement and Assurance Panel, dated 22 November 2022 (published 16 March 2023), which summarised the improvements the Council has been making in its governance structures.

## Corporate Governance

In our opinion the corporate governance framework of the Council complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on the sixth report by the Improvement and Assurance Panel, dated 22 November 2022 (published 16 March 2023), which summarised the improvements the Council has been making in its governance structures and the progress the Council has made in regard to achieving the recommendations set out by external auditor in the Reports in the Public Interest.

## Risk Management

In our opinion, we consider the risk management processes are effective and provide regular information on key risks and issues to the Council's Management and Executive Teams and through to Members. The assessment, evaluation and documentation of risks and controls were continued during the year so that risk registers are revised and updated for all Departments.

This is based on:

- Our 2019/20 audit (issued in October 2019) of the Risk Management process, for which a Substantial assurance was provided,
- The 'Enterprise Risk Management Health Check' commissioned from Zurich Resilience Services (reported to the Audit and Governance Committee on 24 November 2022), which had an overall assessment of 'in development', and
- Our on-going audits of the departmental risk registers as considered as part of internal audits conducted across departments within the plan.

## Information Technology

The three computer audits that have been reported on in the period achieved two 'Substantial' (Legal Services Case Management System Review and Azure Cloud Usage) and one 'Limited' Assurance (Vulnerability Management).

## Acknowledgement

We would like to take this opportunity to formally record our thanks for the cooperation and support we have received from the management and staff during the year, and we look forward to this continuing over the coming years.

## HEAD OF INTERNAL AUDIT

**Dave Phillips** (Head of Internal Audit, London Borough of Croydon)

August

2023

## DETAILED REPORT

### Introduction

This section is a report from Internal Audit detailing:

- Any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- Any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- The identification of work undertaken by other assurance bodies upon which Internal Audit has placed an assurance to help formulate its opinion;
- The management processes adopted to deliver risk management and governance requirements;
- Comparison of the work undertaken during the 2022/23 year against the original Internal Audit plans; and
- A brief summary of the audit service performance against agreed performance measures.

### Significant Control Weaknesses

Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise.

During the financial year 2022/23 the following key issues were identified across our work, most of which had been raised in previous years:

- general compliance issues in basic areas of governance and control;
- a number of issues with contract letting, monitoring and management across the organisation;
- issues over information governance, including the role of the data protection officer and the process for responding to freedom of information requests;
- issues over budget monitoring and management, and
- issues over housing and temporary accommodation tenancies, including the over the allocation, recording and checking of these and arrangements for repairs and maintenance.

The Council has action plans to address these issues and Internal Audit will be involved in further audits of these areas.

### Qualifications to the opinion

Internal Audit had unfettered access to all areas and systems across the Council and in the main received appropriate co-operation from officers and Members. However, there were some audits where there was either a lack of and/or slow and limited engagement with the internal audit process. These included:

- Housing Disrepairs
- Legal Services
- CAH Contract Management
- Facilities Management
- Children leaving Care

Our Internal Audit plans were based on an assessment of risk, including using the Council's risk register and were supported by the members of the Executive and Corporate Leadership Teams individually for their departments and divisions. Based on the work we have undertaken plus our knowledge of the Council, we have no other qualifications to raise as a result of our work programme.

While our audits were performed remotely, we were able to obtain all relevant documents required to complete the reviews. We acknowledge the ongoing pressures on the Council and the challenges it faces. As a result, Internal Audit has adopted new processes to try and drive greater engagement in 2023/24, such as the Head of

Internal Audit attending CMT meetings, feeding back on status of draft reports and follow up work, and escalating audits for which there has been no or limited progress. In addition, our planning approach for 2023/24 has been amended to provide more advance notice of upcoming audits, including scheduling the fieldwork stages directly into auditees' diaries. Whilst at the early stage of this approach, this does appear to be achieving improved engagement.

## Other assurance bodies

In formulating the overall opinion on internal control, the Head of Internal Audit also took into account the work conducted by Ofsted as considered through our School audits, the MCHLG rapid non statutory reviews and the external auditor.

## Governance Processes

The key features of the framework for Corporate Governance within the Council are outlined below:

- Corporate objectives and targets have been established and are monitored;
- Implemented structures and processes;
- Standards of conduct and a Code of Conduct are in place for Members and officers;
- The Constitution, which was adopted by the Council on 21 May 2012 and subsequently amended in July and October 2012, January and July 2014, May 2015, January, May and September 2016, January, June and September 2017, May, July, November and December 2018, February, April and August 2019, January, March, April and June 2020 and February, March, August and September 2021, May and September 2022, and April 2023;
- The Council's Tenders and Contract Regulations, which form part 4.1 of the Constitution of the London Borough of Croydon and were adopted by the Council on 23 March 2022;
- Financial Regulations are reviewed and revised on an annual basis under delegated authority (by the Corporate Director of Resources and S151 Officer). The current version of the Financial Regulations was issued during June 2020 and last amended on 13 December 2021. Day to day guidance is provided via the Financial Procedures maintained by the Governance Team;
- Mandatory training on key processes at prescribed intervals, including that information management, good governance awareness and cyber security.
- Challenge and review by the Audit and Governance Committee (AGC);
- Monthly internal audit updates to the CMT (Corporate Management Team) and monthly CMT internal audit focus group meetings; and
- Quarterly Statutory Officer meetings;

## Risk Management Process

The principal features of the risk management process are described below:

Members: The AGC receives regular reports on risk issues including 'deep dives' on specific risk entries and 'Red rated' Strategic, Governance and Operational Corporate Risks are formally reviewed on a quarterly basis by AGC. All Cabinet members are briefed on risks by the respective Corporate Directors. All major risks are aligned to specific categories of risk to enable further analysis for example risks related to Technology, Human Resources, Finance etc.

Corporate Management Team: Regular risk updates are provided to CMT by the Head of Insurance, Anti-Fraud and Risk.

Departmental Leadership Team: All risks appear on DLT (Departmental Leadership Team) meeting agendas on a quarterly basis facilitated by a member of the Risk team.

Head of Insurance, Anti-Fraud and Risk: Responsibility for developing, introducing and maintaining Risk Management rests with the Head of Insurance, Anti-Fraud and Risk. They have taken the lead on developing

and introducing risk registers, defining processes, documentation and standards, and providing the drive for its implementation. The JCAD Risk computer system is used to facilitate this process.

This includes:

- Quarterly risk challenge through Departmental Leadership Teams is provided, supported by the Risk function;
- Support for self-service on the JCAD Risk computer system is provided to Directors/Corporate Directors and their Executive Support Officers to embed risk management in the organisation and ensure on-going review, updating and dynamic usage; and
- The running of risk workshops by agreement with Project and internal control Boards and at Departmental Team Meetings to support robust Programme and Project Management standards.

A Risk Management toolkit is available on the intranet providing an information source for all Council staff.

## Internal Audit Plan

The Internal Audit Plan (Plan) for 2022/23 was compiled using the Council's Risk Registers as the key drivers in developing audit coverage, as well as detailed discussions with CMT members and departmental management teams. The Plan 2022/23 was presented to the Audit and Governance Committee on 7 July 2022.

Although there was a knock-on impact on the Plan in the previous year, following the Covid-19 lockdown restrictions, internal audit activity has caught up during 2022/23, although there were a number of in-year changes to the Plan as summarised in the following Table 1.

**Table 1**

	Original Plan 2022/23	Amended Plan 2022/23
Key financial systems	8	8
Corporate risk audits	6	4
Departmental risk audits	39	33
Computer audits	6	3
Contract audits	3	1
School audits	11	11
<b>Total</b>	<b>73</b>	<b>60</b>

The reduction in number of audits in the Plan was due to:

- consolidation of the planned computer audits. Whilst the original Plan included six computer audits, it was decided during the year to do three for operational reasons.
- Consolidation of the three contracts audits planned to deliver one larger fact finding audit.
- Consolidation of the 'Use of Legal Services in SCRER: Knowledge Management and Lessons Learned' and the 'Legal Recharges' into one single audit.
- Deferring the 'Savings Plan Proposals: Assumptions, Calculations and Timelines', 'Children Leaving Care', 'Budgeting Children Looked After', 'Facilities Management Contracts (including Off Contract Spending)', 'Borough of Culture – project Management' and the 'Supported Living' audits into 2022/23 for operational reasons.
- Splitting the Adult and Children Social Care Payment process audit into two separate audits.
- Narrowing the focus of the Housing Repairs audit to Housing Disrepair
- Removing the Programme Management audit.

There were no material scope impairments or restrictions on internal audit in 2022/23, except for some audits where there was either a lack and/or limited engagement with the audit process.

The amended Plan 2022/23 is provided in **Appendix 1** for information. This also shows the number of recommendations raised in each audit during 2022/23 where a report has been issued, as well as the details of the 2022/23 audits reported during the year. *(Please note that the names of the departments have been abbreviated in the schedules as follows: ACE – Assistant Chief Executive; SCRER – Sustainable Communities, Regeneration and Economic Recovery; CYP&E – Children Young People and Education; ASC&H; Adults, Social Care & Health).*

## Internal Audit Performance

Table 2 below sets out the pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against any targets that were set.

**Table 2**

Performance Measure	Target	Actual
Percentage of the Plan 2022/23 completed	100%	100%
Percentage of staff with full qualifications used to deliver the service	40%	40%
% of draft reports issued within 2 weeks of exit meeting with the Client	85%	86%
Number of 2022/23 draft reports	61	61

The Council's internal and external auditors co-operate and liaise where possible to aid greater harmonisation of internal and external audit work, with a view to external audit placing reliance on the work of internal audit.

## Council's Performance with respect to Internal Audit

Under the internal audit follow-up protocol, follow-up audits are undertaken to establish whether the issues identified have been successfully resolved according to the action plans agreed with the service managers. The Council's minimum target for audit issues resolved at the time of the follow-up audit is 90% for priority 1 issues and 80% for all Priority 2 & 3 issues.

In order to carry out follow up reviews, management are requested to provide an update on their responses to the original audit reports and proposed actions. It should be noted that implementation of management action plans is predominantly assessed on management responses provided by the service and not on supporting documentary evidence.





Table 3 sets out the performance for the Council's response to Internal Audits. The table shows the actual performance achieved against any targets that were set in advance.

**Table 3**

Performance Objective	Target	Performance 2018/19 (to date*)	Performance 2019/20 (to date*)	Performance 2020/21 (to date*)	Performance 2021/22 (to date*)	Performance 2022/23 (to date*)
Percentage of priority one issues resolved at the time of the follow up audit	90%	98%	99%	75%	50%	-
Percentage of all issues resolved at the time of the follow up audit	80%	94%	93%	82%	72%	54%

\* The results of those 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23 audits that have been followed up are included in Appendices 2, 3, 4, 5, and 6 respectively.

The progress of each of the follow ups in the appendices has been RAG rated as follows:

	- Follow up target achieved and no further follow up action planned
	- Good progress has been made and is ongoing to resolve issues
	- Limited progress has been made, but actions are ongoing to resolve issues
	- No or inadequate progress has been made

## Quality and Compliance with the Public Sector Internal Audit Standards

Internal Audit has comprehensive quality control and assurance processes in place and operates in accordance with the PSIAS. This provides an independent assurance of the performance, quality and effectiveness at both the individual audit level and the internal audit service as a whole.

The statement of compliance with the PSIAS is detailed in the covering report by the Head of Internal Audit.

## Appendix 1 – Summary of Internal Audit reports for 2022/23

2022/23 Audit Plan	Department	Assurance	Issues			Total Raised
			Priority			
			1	2	3	
<b>KEY FINANCIALS/ IAS 315 REVIEWS</b>						
Adult Social Care Payment Processes (in draft)	Resources	Limited	2	1	2	5
Children's Social Care Payment Processes (in draft)	Resources	Limited	1	1	2	4
Parking Enforcement (inc. Budget Modelling and Reconciliations (in draft)	Resources	Limited	2	1	2	5
Payments to Schools (Include Licensed Deficit Process) (in draft)	Resources	Limited	2	2	1	5
Continuous Auditing Q1/Q2 (two audits)	Resources	Limited	9	5	0	14
Continuous Auditing Q3/Q4 (two audits)	Resources	Limited	8	6	0	14
<b>Total Issues Raised</b>			<b>24</b>	<b>16</b>	<b>7</b>	<b>47</b>

<b>CORPORATE RISK AUDITS</b>						
Agency Use and IR35	(Lead Dept. – ACE)	Limited	3	0	0	3
Capital Spend Projections and Monitoring	(Lead Dept. – Resources)	Substantial	0	2	1	3
Journals: Impact on Budget Management	(Lead Dept. – Resources)	No	3	3	0	6
Health and Safety: Incident Reporting (in draft)	(Lead Dept. – Resources)	No	2	2	1	5
<b>Total Issues Raised</b>			<b>8</b>	<b>7</b>	<b>2</b>	<b>17</b>

<b>DEPARTMENTAL RISK REGISTER AUDITS</b>						
DBS Renewals	ACE	Substantial	0	2	2	4
Information Governance: SARs/Fols (in draft)	ACE	Limited	2	2	0	4
IT Services – Project Management (in draft)	ACE	Limited	4	5	0	9
Members / Officer Protocol – Staff Training (in draft)	ACE	Substantial	0	2	2	4
Mental Health / Staff Wellbeing (Processes and Procedures)	ACE	Full	0	0	0	0
The Role of the DPO (in draft)	ASC&H	Limited	5	2	0	7
Adult Social Care Transportation Costs: Recordkeeping (Recording) and Allocation (in draft)	ASC&H	Substantial	0	3	1	4
CES – Banking Compliance (in draft)	ASC&H	Limited	1	1	0	2
SUFMT – Appointeeships/ Deputyships	ASC&H	Substantial	0	2	1	3
Brokerage (Quality of Care Market) (in draft)	ASC&H	Limited	1	6	2	9
SGO Allowances (in draft)	CYPE	Limited	3	6	1	10
Children' Services: Performance Management Data Quality	CYPE	Substantial	0	2	1	3
Fostering: Governance over Foster Carers	CYPE	Substantial	0	2	0	2
NRPF: Assessments of Finances (in draft)	CYPE	Substantial	0	3	0	3
Safeguarding – Partnerships & LADO	CYPE	Limited	0	8	1	9
School Admissions (Including Appeals) (in draft)	CYPE	Limited	3	2	0	5



2022/23 Audit Plan	Department	Assurance	Issues			Total Raised
			Priority			
			1	2	3	
Traded Services – Education (in draft)	CYPE	Limited	1	2	1	4
HEAT – Assessment Management (Emergency Accommodation Assessment) (in draft)	Housing	No	4	1	1	6
Housing – Leaseholder Service Charge	Housing	Limited	1	4	2	7
Housing – Tenancy Checks (in draft)	Housing	No	5	1	0	6
Housing Register – Assessments (in draft)	Housing	Limited	3	6	0	9
Housing Rents – Tenant Service Charge Calculations	Housing	Substantial	0	0	1	1
Housing Disrepairs (in draft)	Housing	No	3	7	0	10
Fire Safety (FRAs) (in draft)	Housing	Limited	4	5	2	11
CAH – Contract Management (Croydon Affordable Homes) (in draft)	Resources	No	5	3	0	8
Legal Recharges	Resources	No	2	6	0	8
Anti-Social Behaviour: Referrals and Case Management (in draft)	SCRER	Limited	3	2	1	6
CALAT – Finance Planning	SCRER	Substantial	0	1	0	1
Food Safety – FSA Reporting (Food Standards Agency)	SCRER	Substantial	0	3	0	3
Planning Enforcement – DM Systems Link to Systems and Processes in Enforcement (in draft)	SCRER	Limited	2	3	0	5
SEN Transport – Resilience and Demand Management (in draft)	SCRER	Substantial	0	2	0	2
SLWP Income Collection and Payment of Funds (in draft)	SCRER	Limited	2	0	0	2
TFL Reclaims (in draft)	SCRER	Limited	3	2	2	7
<b>Total Issues Raised</b>			<b>57</b>	<b>96</b>	<b>21</b>	<b>174</b>

COMPUTER AUDITS						
Azure Cloud Usage (in draft)	ACE	Substantial	0	2	0	2
IT Vulnerability Management (in draft)	ACE	Limited	1	2	0	3
Legal Services Case Management System Review (in draft)	Resources	Substantial	0	2	2	4
<b>Total Issues Raised</b>			<b>1</b>	<b>6</b>	<b>2</b>	<b>9</b>

CONTRACT AUDITS						
PMI General Building Works (Mullalleys)	Housing	N/a - Fact finding review				
<b>Total Issues Raised</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

SCHOOLS AUDITS						
Crosfield Nursery School and Children's Centre (in draft)	CYPE	Limited	7	7	5	19
All Saints' C of E Primary School	CYPE	Limited	1	9	9	19
Beulah Junior School	CYPE	Substantial	0	2	4	6
Couldson C of E School I (in draft)	CYPE	Limited	1	6	8	15
Heavers Farm Primary School	CYPE	Substantial	0	1	5	6
Regina Coeli Primary School	CYPE	Substantial	0	2	1	3

Winterbourne Junior Girls' School	CYPE	Substantial	0	2	5	7
Thomas More Catholic School	CYPE	Limited	1	4	2	7
Coloma Convent Girls' School	CYPE	Limited	3	9	2	14
Priory School	CYPE	Substantial	0	3	1	4
Bensham Manor School	CYPE	Substantial	0	2	1	3
<b>Total Recommendations</b>			<b>13</b>	<b>47</b>	<b>43</b>	<b>103</b>

## Appendix 2 - Follow-up of 2018/19 audits (incomplete only)

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Implemented / Resolved	
					Total	Percentage
<b>Non School Audits</b>						
2018/19	Air Quality Strategy, Implementation and Review	SCRER	Limited (6 <sup>th</sup> follow up in progress)	8	6	75%
<b>Grand Total:</b> Issues/Recommendations and resolution/implementation from internal audits that have had responses				<b>364</b>	<b>342</b>	<b>94%</b>
<b>Grand Total:</b> Priority 1 Issues/Recommendations and resolution/implementation from internal audits that have had responses				<b>51</b>	<b>50</b>	<b>98%</b>

## Appendix 3 - Follow-up of 2019/20 audits (incomplete only)

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Implemented / Resolved	
					Total	Percentage
<b>Non School Audits</b>						
2019/20	Lettings Allocations and Assessments	Housing	Limited (3 <sup>rd</sup> follow up in progress)	3	1	33%
				One priority 1 issue not yet resolved		
2019/20	Placements in Private Housing Accommodation	Housing	Limited (5 <sup>th</sup> follow up in progress)	4	2	50%
2019/20	Freedom of Information and Subject Access Requests	ACE	Limited (4 <sup>th</sup> follow up in progress)	3	2	66%
2019/20	IT Policies Review	ACE	Substantial (4 <sup>th</sup> follow up in progress)	5	1	20%
<b>Grand Total: Issues /Recommendations and resolution/implementation from internal audits that have had responses</b>				<b>337</b>	<b>314</b>	<b>93%</b>
<b>Grand Total: Priority 1 Issues/Recommendations and resolution/implementation from internal audits that have had responses</b>				<b>69</b>	<b>68</b>	<b>99%</b>

## Appendix 4 - Follow-up of 2020/21 audits (incomplete only)

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
<b>Non School Audits</b>						
2020/21	Banking	Resources	Limited (2 <sup>nd</sup> follow up in progress)	4	3	75%
2020/21	Creditors – Procure to Pay	Resources	Limited (2 <sup>nd</sup> follow up in progress)	12	3	25%
				Four priority 1 issues not yet resolved		
2020/21	Out of Borough Placements	ASC&H	Limited (1 <sup>st</sup> follow up in progress)	5	-	-
2020/21	Clinical Governance	ASC&H	Limited (4 <sup>th</sup> follow up in progress)	6	3	50%
				One priority 1 issue not yet resolved		
2020/21	Temporary Accommodation: Standards in Private Sector	Housing	Limited (4 <sup>th</sup> follow up in progress)	6	1	17%
				Two priority 2 issues not yet resolved		
2020/21	Cyber Security	ACE	Limited (5 <sup>th</sup> follow up in progress)	9	5	56%
2020/21	End to end Placements – Children with Disabilities	CYP&E	Substantial (1 <sup>st</sup> follow up in progress)	3	-	-
2020/21	Corporate Estate Building Compliance	Resources	Substantial (6 <sup>th</sup> follow up in progress)	6	4	67%
<b>Non-School Audits Sub Total: Issues and resolution from internal audits that have had responses</b>				<b>93</b>	<b>68</b>	<b>73%</b>
<b>Non-School Audits Sub Total: Priority 1 Issues and resolution from internal audits that have had responses</b>				<b>24</b>	<b>17</b>	<b>71%</b>
<b>School Audits Sub Total: Recommendations and implementation from audits that have had responses</b>				<b>83</b>	<b>77</b>	<b>93%</b>
<b>School Audits Sub Total: Priority 1 recommendations and implementation from internal audits that have had responses</b>				<b>4</b>	<b>4</b>	<b>80%</b>
<b>Grand Total: Issues/Recommendations and resolution / implementation from internal audits that have had responses</b>				<b>176</b>	<b>145</b>	<b>82%</b>
<b>Grand Total: Priority 1 Issues/Recommendations and resolution / implementation from internal audits that have had responses</b>				<b>28</b>	<b>21</b>	<b>75%</b>

## Appendix 5 - Follow-up of 2021/22 audits

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
<b>Non School Audits</b>						
2021/22	Parking Enforcement - Pay and Display	SCRER	Limited (1 <sup>st</sup> follow up in progress)	4	-	-
2021/22	Service Based Monitoring – Across the Organisation	Resources	Limited (2 <sup>nd</sup> follow up in progress)	5	2	40%
				One priority 1 issue not yet resolved		
2021/22	Fees and Charges	Resources	Limited (3 <sup>rd</sup> follow up in progress)	6	3	50%
				One priority 1 issue not yet resolved		
2021/22	Staff Expenses – Compliance Checks	Resources	Limited (3 <sup>rd</sup> follow up in progress)	8	6	75%
2021/22	Community Fund: Contracts	ACE	Limited (No further follow up)	4	4	100%
2021/22	Information Management	ACE	Limited (3 <sup>rd</sup> follow up in progress)	3	0	0%
				One priority 1 issue not yet resolved		
2021/22	HRA Accounting	Housing	Limited (2 <sup>nd</sup> follow up in progress)	5	0	0%
				Two priority 1 issues not yet resolved		
2021/22	Business Rates and Business Grants	Resources	Substantial (1 <sup>st</sup> follow up in progress)	1	-	-
2021/22	Early Help and Parenting	CYP&E	Substantial (1 <sup>st</sup> follow up in progress)	3	-	-
2021/22	Unaccompanied Asylum Seeking Children (UASC) – Value for Money	CYP&E	Substantial (1 <sup>st</sup> follow up in progress)	3	-	-
2021/22	Youth Offending	CYP&E	Substantial (No further follow up)	3	3	100%
2021/22	Children with Disabilities – Placement Costs and Spend Review	CYP&E	Substantial (No further follow up)	3	3	100%
2021/22	CALAT Income Collection	SCRER	Substantial (No further follow up)	3	3	100%
2021/22	Traffic Management	SCRER	Substantial (1 <sup>st</sup> follow up in progress)	2	-	-
2021/22	Contract Management – Work and Health Programme	SCRER	Substantial (No further follow up)	2	2	100%
<b>Non-School Audits Sub Total: Issues and resolution from audits that have had responses</b>				<b>42</b>	<b>26</b>	<b>62%</b>
<b>Non-School Audits Sub Total: Priority 1 Issues and resolution from audits that have had responses</b>				<b>10</b>	<b>5</b>	<b>50%</b>
<b>School Audits</b>						
Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2021/22	Purley Nursery	CYP&E	Substantial (No further follow up)	5	5	100%

London Borough of Croydon

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
2021/22	Beaumont Primary School	CYP&E	Substantial (No further follow up)	3	3	100%
2021/22	Downsview Primary School	CYP&E	Substantial (No further follow up)	2	2	100%
2021/22	Elmwood Junior School	CYP&E	Substantial (No further follow up)	3	3	100%
2021/22	Gresham Primary School	CYP&E	Substantial (No further follow up)	7	6	86%
2021/22	Howard Primary School	CYP&E	Substantial (No further follow up)	2	2	100%
2021/22	Norbury Manor Primary School	CYP&E	Limited (1 <sup>st</sup> follow up in progress)	14	-	-
2021/22	Rockmount Primary School	CYP&E	Substantial (2 <sup>nd</sup> follow up in progress)	2	-	0%
2021/22	St John's C of E School	CYP&E	Substantial (No further follow up)	3	3	100%
<b>School Audits Sub Total: Recommendations and implementation from internal audits that have had responses</b>				<b>27</b>	<b>24</b>	<b>89%</b>
<b>School Audits Sub Total: Priority 1 recommendations and implementation from internal audits that have had responses</b>				<b>0</b>	<b>0</b>	<b>0</b>
<b>Grand total: Issues / Recommendations and resolution / implementation from internal audits that have had responses</b>				<b>69</b>	<b>50</b>	<b>72%</b>
<b>Priority 1 Issues / Recommendations and implementation / resolution from internal audits that have had responses</b>				<b>10</b>	<b>5</b>	<b>50%</b>

## Appendix 6 - Follow-up of 2022/23 audits

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
<b>Non School Audits</b>						
2022/23	Safeguarding – LADO and Partnerships	CYP&E	Limited (3 <sup>rd</sup> follow up in progress)	9	5	56%
2022/23	Housing - Leaseholder Service Charges	Housing	Limited (1 <sup>st</sup> follow up in progress)	7	3	43%
2022/23	DBS Renewals	ACE	Substantial (1 <sup>st</sup> follow up in progress)	4	-	-
2022/23	Appointeeships and Deputyships	ASC&H	Substantial (1 <sup>st</sup> follow up in progress)	3	-	-
2022/23	Performance Management Data Quality – Children’s Services	CYP&E	Substantial (1 <sup>st</sup> follow up in progress)	3	-	-
2022/23	Fostering – Governance over Foster Carers	CYP&E	Substantial (1 <sup>st</sup> follow up in progress)	2	-	-
2022/23	Tenant Service Charges	Housing	Substantial (2 <sup>nd</sup> follow up in progress)	1	0	0%
<b>Non-School Audits Sub Total: Issues and resolution from audits that have had responses</b>				<b>17</b>	<b>8</b>	<b>47%</b>
<b>Non-School Audits Sub Total: Priority 1 Issues and resolution from audits that have had responses</b>				<b>-</b>	<b>-</b>	<b>-</b>
<b>School Audits</b>						
Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2022/23	Beulah Junior School	CYP&E	Substantial (1 <sup>st</sup> follow up in progress)	6	1	20%
2022/23	Heavers Farm Primary School	CYP&E	Substantial (1 <sup>st</sup> follow up in progress)	6	-	-
2022/23	Winterbourne Junior Girls’ School	CYP&E	Substantial (2 <sup>nd</sup> follow up in progress)	7	4	57%
2022/23	Priory School	CYP&E	Substantial (No further follow up)	4	4	100%
2022/23	Bensham Manor	CYP&E	Substantial (1 <sup>st</sup> Follow up in progress)	3	3	100%
2022/23	Thomas More Catholic School	CYP&E	Limited (1 <sup>st</sup> follow up in progress)	7	-	-
2022/23	Coloma Convent Girls’ School	CYP&E	Limited (1 <sup>st</sup> follow up in progress)	14	-	-
<b>School Audits Sub Total: Recommendations and implementation from internal audits that have had responses</b>				<b>20</b>	<b>12</b>	<b>60%</b>
<b>School Audits Sub Total: Priority 1 recommendations and implementation from internal audits that have had responses</b>				<b>-</b>	<b>-</b>	<b>-</b>
<b>Grand total: Issues/Recommendations and resolution/implementation from internal audits that have had responses</b>				<b>37</b>	<b>20</b>	<b>54%</b>



Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
Priority 1 Issues/Recommendations and implementation/resolution from internal audits that have had responses				-	-	-

## Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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## LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE OF MEETING</b>	<b>21 September 2023</b>
<b>REPORT TITLE:</b>	<b>ANNUAL TREASURY MANAGEMENT REVIEW 2022/23</b>
<b>CORPORATE DIRECTOR / DIRECTOR:</b>	<b>Jane West, Corporate Director of Resources and S151 Officer</b>
<b>LEAD OFFICER:</b>	<b>Matthew Hallett, Acting Head of Treasury and Pensions</b>
<b>LEAD MEMBER:</b>	<b>Councillor Jason Cummings, Cabinet Member for Finance</b>
<b>KEY DECISION?</b>	<b>No</b>
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>NO</b>
<b>WARDS AFFECTED:</b>	<b>All</b>

### 1 SUMMARY OF REPORT

1.1 This Report reviews the Council's Treasury Management activities for the year 2022/23. It is prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice in respect of capital finance and treasury management. The codes recommend that Members are advised of the treasury management activities for the whole of each financial year and of compliance with the various strategies and policies agreed by the Council. The report:

- Reviews compliance with the Treasury Management Strategy Statement and Annual Investment Strategy as agreed by full Council (Budget Council) on 7 March 2022 (Minute A6/21 applies);
- Reviews treasury borrowing and investment activity for the period 1 April 2022 to 31 March 2023; and

- Demonstrates compliance with agreed Treasury and Prudential Indicators (Appendix E) and the CIPFA 2017 Prudential Code for Capital Finance.

## **2 RECOMMENDATION**

- 2.1** The Audit and Governance Committee is recommended to note the contents of the annual report on the treasury management activity for 2022/23.

## **3 DETAIL**

### **3.1 Purpose**

3.1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23.

3.1.2 CIPFA have issued two Codes of Practice (both in December 2021) which apply to the Treasury Management function in 2022/23:

- The Prudential Code for Capital Finance in Local Authorities (Prudential Code); and.
- Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Code of Practice).

3.1.3 This report meets the requirements of both the Prudential Code and the Code of Practice.

3.1.4 During 2022/23 the Council adhered to the minimum reporting requirements and members received the following reports:

- an annual treasury management strategy in advance of the year [Council 7 March 2022 (Minute A6/21 applies)] which can be found via this link <https://democracy.croydon.gov.uk/documents/s36285/7.1%20TMSS%20202223%20draft%20as%20at%2023%20February%202022%20v6.pdf>;
- a mid-year, (minimum), treasury update report [Audit and Governance Committee 24 November 2022 (Minute 20/22 applies)] which can be found via this link <https://democracy.croydon.gov.uk/documents/s41542/TREASURY%20MANAGEMENT%20202223%20MID%20YEAR%20REVIEW.pdf>
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

## **3.2 Background**

### **3.2.1** The primary requirements of the Code of Practice are:

- The creation and maintenance of a Treasury Management Strategy Statement which sets out the policies and objectives of the Council's treasury management activities;
- The creation and maintenance of Treasury Management Practices which set out the manner in which the Council seeks to achieve those policies and objectives;
- To provide Council with an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;
- The delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. These functions are delegated to the Corporate Director of Resources, Section 151 Officer and through her to the Head of Treasury and Pensions; and
- The delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For the Council the delegated body is the Audit and Governance Committee.

### **3.2.2** Additionally, under the Code of Practice, all local authorities are required to prepare a Capital Strategy which is to provide the following:

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- An overview of how the associated risk is managed; and
- The implications for future financial sustainability.

### **3.2.3** This year-end report has been prepared in compliance with the Code of Practice and best practice and covers the following topics:

- An economic update of the 2022/23 financial year (Section 3.3);
- Summary of interest rate movements in the year and a medium-term interest rates forecast (Section 3.4);
- The Council's capital activity during the year as set out in the Capital Strategy, and Prudential Indicators and its impact on the Council's underlying indebtedness (Sections 3.6 and 3.7);
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness and the impact on investment balances (Sections 3.8 – 3.10);
- A review of the Council's borrowing strategy and controls and detailed debt activity (Section 3.8);

- A review of any debt re-scheduling undertaken (Section 3.9);
- A review of the Council’s investment strategy and detailed investment activity (Section 3.10);
- Treasury and Prudential Limits (Section 3.11);
- Treasury Management Outturn (Section 3.12).

### 3.3 Economic update

3.3.1 A commentary entitled Economic Update provided by the Council’s independent treasury advisers Link Treasury Services Ltd (Link) is included as Appendix A.

### 3.4 Interest rate movements

3.4.1 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. The CPI measure of inflation was between 9-11% throughout the year which increased the pressure to raise interest rates. This led to interest rates moving from 0.75% to 4.25% during the year, with expectations of further rises during 2023-24.

3.4.2 In Appendix B Link provide a commentary on PWLB maturity rates for the year to 31 March 2023

3.4.3 As regards 2023/24 and onwards Link provide updated forecasts of key interest rates on a regular basis and their most recent is in Table 1 below. These forecasts will be updated during the remainder of 2023/24 and will inform decisions as to the timing and duration of borrowing decisions.

**Table 1: Interest Rate Forecasts June 2023 to June 2026**

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
<b>BANK RATE</b>	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

### 3.5 Treasury Management Strategy Statement and Annual Investment Strategy

3.5.1 The Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 were approved by full Council [Council 7 March 2022 (Minute A6/21 applies)].

### 3.6 Capital Expenditure and Prudential Indicators

3.6.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

3.6.2 Capital expenditure forms one of the required prudential indicators. Tables 2 and 3 below show the actual capital expenditure and how this was financed.

3.6.3 Table 2 shows:

- Actual outturn for 2021/22;
- Original budget for 2022/23, as agreed by full Council (Budget Council) on 7 March 2022 (Minute 6/21 refers);
- Revised budget for 2022/23; and
- Provisional outturn for 2022/23.

**Table 2: Capital Expenditure**

Service	2021/22 Actual Outturn £m	2022/23 Original Budget £m	2022/23 Revised Budget £m	2022/23 Provisional Outturn £m
Housing (GF)	1.9	3.5	4.4	2.3
Adult Social Care and Health		1.7		0.7
Children, Young People and Education	10.7	16.0	7.9	3.3
Assistant Chief Executive	3.8	14.0	7.0	5.4
Sustainable Communities, Regeneration and Economic Development	20.4	45.1	36.3	22.8
Resources	1.5	4.6	8.3	3.0
Corporate	0.3	2.5	4.0	4.0
Capitalisation Direction*	50.0	25.0	186.6	190.8
HRA	56.7	23.7	27.4	37.8
<b>Total</b>	<b>145.3</b>	<b>136.1</b>	<b>281.9</b>	<b>270.1</b>

*\*Capitalisation Direction is a device of Government that allows expenditure to be treated as capital expenditure when it would otherwise be charged to the Council's revenue budget. The Secretary of State has granted the sums shown for 2021/22 and 2022/23. Under the conditions of a Capitalisation Direction any further borrowing required to finance the Council's increase to the Capital Financing Requirement (CFR) must be borrowed from the Public Works Loan Board at a premium of 1% over the standard interest rate. Since the first Capitalisation Direction was obtained the Council has reduced its external borrowing.*

3.6.4 Table 3 details the funding sources of the capital programme. The need to borrow to finance capital investment increases the underlying need to borrow for capital purposes by way of the CFR, although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

**Table 3: Financing of Capital Expenditure**

<b>Financing of Capital Expenditure</b>	<b>2021/22 Actual Outturn £m</b>	<b>2022/23 Original Budget £m</b>	<b>2022/23 Revised Budget £m</b>	<b>2022/23 Provisional Outturn £m</b>
Capital receipts	53.6	27.5	55.0	55.0
Capital grants	31.3	33.7	18.3	9.7
Major Repairs Allowance	13.9	13.7	22.1	31.5
Capital reserves	0.5		5.3	6.3
Growth Zone reserves			6.9	1.4
Revenue				
HRA revenue	8.8	14.1	1.7	1.1
Community Infrastructure Levy	6.5	7.5	2.8	1.4
Section 106 payments	0.5	2.9	0.6	1.1
<b>Total financing</b>	<b>115.1</b>	<b>99.4</b>	<b>112.7</b>	<b>107.5</b>
<b>Borrowing requirement – General Fund</b>	<b>20.7</b>	<b>36.7</b>	<b>169.2</b>	<b>162.6</b>
<b>Borrowing requirement – HRA</b>	<b>9.5</b>			

### 3.7 Capital Financing Requirement (CFR)

3.7.1 The Council's underlying need to borrow for capital expenditure is termed the CFR. This figure is a measure of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for it. It represents the 2022/23 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.7.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Treasury Management service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the Local Authority market), or utilising temporary cash resources within the Council.

3.7.3 The Council's General Fund underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

3.7.4 There is no statutory requirement to reduce the Housing Revenue Account CFR.

3.7.5 The total CFR can also be reduced by:



- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision.

3.7.6 The Council's 2022/23 MRP Policy, (as required by Secretary of State Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 by full Council (Budget Council) on 7 March 2022 (Minute 6/21 refers);

3.7.7 The Council's CFR for 2022/23 is shown below, and represents a key prudential indicator. It includes development loans, PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the relevant contracts.

**Table 4: Capital Financing Requirement (General Fund)**

	2021/22 Actual Outturn £m	2022/23 Original Budget £m	2022/23 Revised Budget £m	2022/23 Provisional Outturn £m
Opening balance	1,274.5	1,364.5	1,268.7	1,268.7
Add unfinanced	20.7	36.7	169.2	162.6
Less Minimum Revenue Provision	24.3	21.0	25.4	45.8
Less Development Loans etc repaid	2.2			19.0
<b>Closing balance</b>	1,268.7	1,380.2	1,412.5	1,366.5

**Table 5: Capital Financing Requirement (Housing Revenue Account)**

	2021/22 Actual Outturn £m	2022/23 Original Budget £m	2022/23 Revised Budget £m	2022/23 Provisional Outturn £m
Opening balance	354.0	363.5	363.5	363.5
Add unfinanced	9.5			
<b>Closing balance</b>	363.5	363.5	363.5	363.5

### 3.8 Borrowing

3.8.1 In order to ensure that borrowing levels are prudent over the medium term, and only for capital purposes, the Council must ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

3.8.2 The relationship between borrowing and the CFR is a Prudential Indicator and, in 2022/23, it allowed the Council some flexibility to borrow in advance of its immediate capital needs. The Council has approved a policy for borrowing in advance of need as required although it has not done so since 2020 and did not do so in 2022/23. The table below highlights the Council's gross borrowing

position against the CFR and shows that it has complied with the Prudential Indicator.

**Table 6: Gross Borrowing against Capital Financing Requirement**

	2021/22 Actual Outturn £m	2022/23 Original Budget £m	2022/23 Revised Budget £m	2022/23 Provisional Outturn £m
Gross borrowing	1,364.5	1,556.1	1,556.1	1,345.5
Capital Financing Requirement	1,632.2	1,743.7	1,776.0	1,730.0
(Under)/over funding of CFR	(267.7)	(187.6)	(219.9)	(384.5)

3.8.3 There are two further prudential indicators relevant to the capital programme and its borrowing implications. These are the Operational Boundary, the expected borrowing position, and the Authorised Limit, the limit beyond which borrowing is prohibited. Table 7 below shows the limits as agreed by full Council (Budget Council) on 7 March 2022 (Minute 6/21 refers).

3.8.4 As regards the Operational Boundary, there is some flexibility in that periods where the actual position is over the Boundary are acceptable subject to the Authorised Limit not being breached.

3.8.5 The Authorised Limit is the “affordable borrowing limit” required by S3 of the Local Government Act 2003. It includes a buffer of £50m to cover unexpected cash flow shortages. Once it has been set, the Council does not have the power to borrow above this level.

3.8.6 Table 7 demonstrates that during 2022/23 the Council has maintained gross borrowing within both its Operational Boundary and its Authorised Limit.

3.8.7 Actual financing costs as a proportion of net revenue stream is the Indicator which identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

**Table 7:**

	£m
Authorised limit	1,674.6
Maximum gross borrowing position during the year	1,435.5
Operational boundary	1,624.6
Average gross borrowing position	1,385.4

3.8.8 The Council’s borrowing and investment activity is organised by the Treasury Management service in order to ensure adequate liquidity for revenue and capital purposes and security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting as discussed above and through officer activity detailed in the Council’s Treasury Management Practices.

3.8.9 The level of the Council's borrowing, which is measured against the limits discussed above, was £1,435.5m on 1 April 2022 and £1,345.5m on 31 March 2023

3.8.10 Table 8 shows the monthly movement of the actual debt during the year. During the year the Council repaid £87.0m of external debt by use of internal borrowing.

**Table 8: Actual debt during 2022/23**

End of Month	PWLB	Market debt	Temporary borrowing	TOTAL BORROWING	Development loans / PFI and other	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
March (2022)	887,426	160,575	316,500	1,364,501	71,005	1,435,506
April	887,426	160,575	304,500	1,352,501	71,005	1,423,506
May	867,926	160,575	291,500	1,320,001	71,005	1,391,006
June	863,926	160,575	307,500	1,332,001	71,005	1,403,006
July	863,926	160,575	291,500	1,316,001	71,005	1,387,006
August	863,926	145,575	304,000	1,313,501	71,005	1,384,506
September	863,926	145,575	316,000	1,325,501	71,005	1,396,506
October	860,926	153,575	316,000	1,330,501	71,005	1,401,506
November	860,926	153,575	283,000	1,297,501	71,005	1,368,506
December	860,926	153,575	281,000	1,295,501	71,005	1,366,506
January	860,926	153,575	268,000	1,282,501	71,005	1,353,506
February	860,926	143,575	278,000	1,282,501	71,005	1,353,506
March (2023)	860,926	143,575	273,000	1,277,501	67,960	1,345,461

3.8.11 Long term loans drawn, repaid or transferred to short term during the year are shown in Table 9 below.

**Table 9: Long term loans drawn, repaid or transferred to short term loans during 2022/23**

Loans drawn	Loans repaid or transferred to short term	Principal £m	Interest rate %	Maturity period	Start Date
	Elmbridge Borough Council*	5.0	1.85	3 years	06/07/20
	Brighton and Hove City Council*	5.0	1.85	3 years	06/07/20
	West of England Combined Authority*	5.0	0.60	2 years	27/07/21
	Cornwall County Council*	10.0	1.00	3 years	28/01/21
Argyll and Bute Council		5.0	4.10	2 years	10/10/22
Great Yarmouth Borough Council		3.0	0.40	2 years	14/10/22
	PWLB – folio 13	19.5	1.45	3 yrs 1m	01/04/19
	PWLB – folio 12	4.0	7.25	25 yrs 1m	28/05/97
	PWLB – folio 9	3.0	7.25	25 yrs 5m	28/05/97

\*Loans with outstanding maturity of under one year transferred to short term

3.8.12 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need (CFR), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

3.8.13 The Council has continued to pay off as much external debt as it is able to in order to reduce the increased cost of refinancing its short term debt. During the year the Council repaid £87m of maturing debt to the PWLB (26.5m) and other local authorities (£60.5m). The Council refinanced £277m of loans for a further year at an average rate of 1.42%. The Council will look to further reduce its reliance on external debt over the next couple of years as it continues with its asset disposal plan.

3.8.14 In the immediate future borrowing will be taken up as required based on a continuing analysis of actual and projected expenditure over the different components of the capital programme and interest rates forecasts. It is likely that the Council will use a mixture of long term borrowing from the PWLB and the wider market and continue to make use of internal borrowing. Borrowing will be undertaken to change the Council's existing debt maturity profile to move towards a more even distribution of maturities. Appendix B shows the movements in PWLB interest rates for various loan periods during the last year.

3.8.15 The Council's effective interest payable on all debt currently stands at 2.82% with the maturity profile detailed in the table below and Appendix C.

**Table 10: Maturity Structure of the debt portfolio**

	31.3.22 actual	31.3.23 actual
Under 12 months	£342.5m	£281.5m
12 months and within 24 months	£30m	£26m
24 months and within 5 years	£43.5m	£22m
Over 5 years	£948.5m	£948m

### **3.9 Repayment of Debt and Debt Rescheduling**

3.9.1 Opportunities for debt rescheduling have been limited in the current economic climate. With high premiums being attached to the premature repayment of existing debt, opportunities for debt restructuring were minimal and none were taken. For example, the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

### **3.10 Investment**

- 3.10.1 As discussed in paragraph 3.8.8 above the Council's investment activity is organised by the Treasury Management service in order to ensure adequate liquidity for revenue and capital purposes and security for investments and to manage risks within all treasury management activities.
- 3.10.2 From time to time, under Section 15 (1) of the Local Government Act 2003, the Secretary of State issues statutory guidance on local government investments to which local authorities are required to "have regard." This guidance was taken into account in the investment policy parameters set within the Council's Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as approved by full Council (Budget Council) on 7 March 2022 (Minute 6/21 refers). This report does not take into account any non-treasury investments
- 3.10.3 This Strategy sets out the approach for choosing investment counterparties and, in addition to having regard to the guidance, is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).
- 3.10.4 The current guidance defines investments as "Specified" and "Non-specified"
- 3.10.5 An investment is a specified investment if all of the following apply:
- the investment and any associated payments or repayments are denominated in sterling;
  - the investment has a maximum maturity of one year;
  - the investment is not defined as capital expenditure; and
  - the investment is made with a body or in an investment scheme described as high quality or with the UK Government, a UK local authority or a parish or community council.
- 3.10.6 A non-specified investment is any investment that does not meet all the conditions in paragraph 3.10.5 above.
- 3.10.7 All investments are managed in-house and it is the Council's priority when undertaking treasury activities to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Investment instruments identified for use by the Council during 2022/23 as included in the current Treasury Management Strategy are detailed in Appendix D.
- 3.10.8 During the year it was considered appropriate to keep investments short term to cover cashflow needs and to seek out value available in periods of up to twelve months. Investments were only made with high credit rated financial institutions.
- 3.10.9 Investment activity during 2022/23 conformed to the approved strategy. The Council has experienced no liquidity issues with an average monthly balance of £107m being maintained in temporary investments. Part of this sum is made up

of core balances such as provisions and reserves set aside and cash balances that can, if necessary, be invested for longer periods to take advantage of favourable interest rates and to limit exposure to the risk of future rate movements.

3.10.10 As shown in Table 10 below, throughout the year the Treasury Management Team managed substantial balances with the month-end position only once being below £100m and, occasionally, being around £150m. Total investments outstanding at 31 March 2023 were £145.65m invested as follows: £40m with UK local authorities and £105.65m with AAA rated Money Market Funds. None of these investments were for periods in excess of 4 months.

**Table 11: Month end balances**

Month	General Fund £m	Pension Fund £m	Total £m
April	115.00	40.00	155.00
May	74.20	40.00	114.20
June	83.20	40.00	123.20
July	80.90	35.00	115.90
August	64.85	35.00	99.85
September	83.85	43.61	127.46
October	102.50	42.30	144.80
November	69.29	40.00	109.29
December	100.10	40.00	140.10
January	92.60	34.30	126.90
February	88.25	48.00	136.25
March	99.75	45.90	145.65

3.10.11 The Corporate Director of Resources confirms that the approved Counterparty limits within the Annual Investment Strategy were not breached during the year.

### **3.11 Compliance with Treasury and Prudential Limits**

3.11.1 As required by statute the Council has complied with its Prudential Indicators on its authorised borrowing limit, operational boundary and borrowing maturity structure. The approved Treasury and Prudential Indicators, (affordability limits) as included in the Treasury Management Strategy Statement are detailed in Appendix E.

### 3.12 Treasury Management Outturn

3.12.1 The Treasury Management outturn position is summarised in the table below.

**Table 12: Borrowing costs and investment income**

	<b>Budget £m</b>	<b>Outturn £m</b>	<b>Variance £m</b>
<b>GENERAL FUND</b>			
Borrowing costs	26.739	23.947	-2.792
Investment income	-0.150	-1.786	-1.636
<b>TOTAL</b>	26.589	22.161	-4.428
<b>HRA</b>			
Borrowing costs	12.120	11.972	-0.148
Investment income	n/a	-0.373	-0.373
<b>TOTAL</b>	12.120	11.599	-0.521

## 4. ALTERNATIVE OPTIONS CONSIDERED

4.1 N/A

## 5. CONSULTATION

5.1 This report has been prepared using advice from the Council's Treasury Adviser, Link Treasury Services Ltd.

## 6. CONTRIBUTION TO COUNCIL PRIORITIES

6.1 Sound financial management: the report asks the Committee to note the contents of the annual report on the treasury management activity for 2022/23 as part of the proper financial administration of the Council.

This supports the Council priority of OUTCOME 1 'Balances the books, listens to residents and delivers good, sustainable services.'

## 7. FINANCIAL CONSIDERATIONS

7.1 There are no additional financial considerations arising from this report.

**Approved by:** Allister Bannin on behalf of Jane West, Corporate Director of Resources (S151 Officer) 11/09/23.

## 8. HUMAN RESOURCES CONSIDERATIONS

8.1 There are no immediate workforce implications arising from this report. In the event that the council's financial position requires a reduction in budgets that impact upon the workforce the council will ensure appropriate consultation with the

affected staff and their trade union representatives in accordance with the established HR policies and procedures.

**Approved by:** Dean Shoesmith, Chief People Officer, 30/8/2023

## **9. LEGAL CONSIDERATIONS**

- 9.1 The Council is required by the Local Government Act 2003 and regulations issued thereunder to produce an annual treasury management review of activities for the whole of each financial year and compliance with the various strategies and policies agreed by the Council.
- 9.2 The Committee is responsible for the review and scrutiny of treasury management policies and activities and this report is important as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 9.3 Separately, the Council has a duty in section 3(1) of the Local Government Act 1999 as a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. On 20 July 2023 the Secretary of State for Levelling Up, Housing and Communities (SoS) issued Directions under section 15(5) of the Local Government Act 1999 arising from the Council's failure to meet the best value duty placed upon it. The SoS Directions require the Council to take a number of actions including a requirement to address the culture of poor financial management of the Authority and to secure as soon as practicable that all the Authority's functions are exercised in conformity with the best value duty. The Directions apply to all the governance and decision-making bodies of the Council including Full Council, Elected Mayor and Cabinet Members (Executive) and also any committee or sub-committee. The Directions are expected to remain in force until 20 July 2025 but could be amended or revoked at an earlier date by the SoS, if appropriate.
- 9.4 The recommendations in this report comply with the Council's statutory minimum reporting requirements and support the actions required under the SoS Directions.

**Approved by:** Sandra Herbert, Head of Litigation and Corporate Law on behalf of Stephen Lawrence-Orumwense, Director of Legal Services and Monitoring Officer. 12/09/23.

## **10. EQUALITIES CONSIDERATIONS**

- 10.1 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:
- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
  - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;



- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

10.2 There are no Customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

**Approved by:** Naseer Ahmad for the Equalities Manager, (08/09/2023)

## **11. OTHER CONSIDERATIONS**

11.1 There are no Customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

## **12. FREEDOM OF INFORMATION**

12.1 This report contains only information that can be publicly disclosed.

## **13. DATA PROTECTION IMPLICATIONS**

13.1 Will the subject of the report involve the processing of 'personal data'?

No.

Has a data protection impact assessment (DPIA) been completed?

No. This report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

**Approved by: Allister Bannin on behalf of** Jane West, Corporate Director of Resources (S151 Officer)

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### **CONTACT OFFICER:**

Matthew Hallett, Acting Head of Pensions and Treasury,

### **BACKGROUND DOCUMENTS:**

None

### **APPENDICES:**

A Economic update April 2023

B PWLB maturity rates for the year to 31 March 2023

C Debt maturity profile

- D Investment Instruments
- E Treasury and Prudential Indicators

### Economic update (as prepared by Link Treasury Services Ltd in April 2023)

#### UK Economy

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	<b>UK</b>	<b>Eurozone</b>	<b>US</b>
<b>Bank Rate</b>	4.25%	3%	4.75%-5%
<b>GDP</b>	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
<b>Inflation</b>	10.4%/y/y (Feb)	6.9%/y/y (Mar)	6.0%/y/y (Feb)
<b>Unemployment Rate</b>	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove

just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17<sup>th</sup> of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20<sup>th</sup> February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20<sup>th</sup> February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

## **USA**

The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a

further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the ongoing concerns about some elements of niche banking provision are in the rear-view mirror.

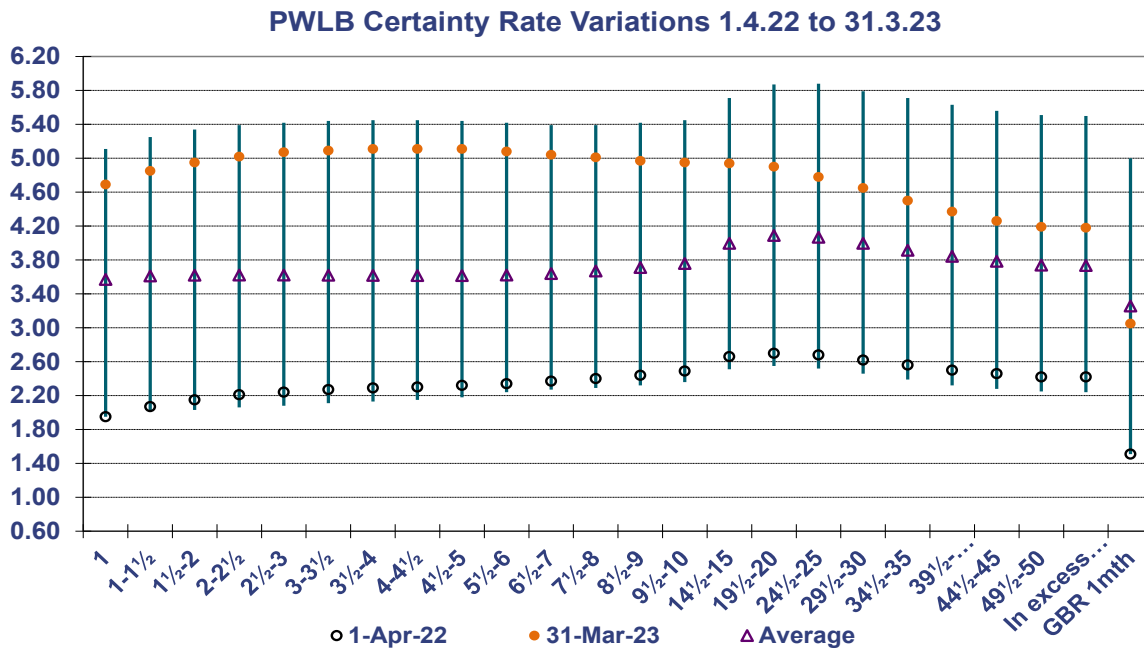
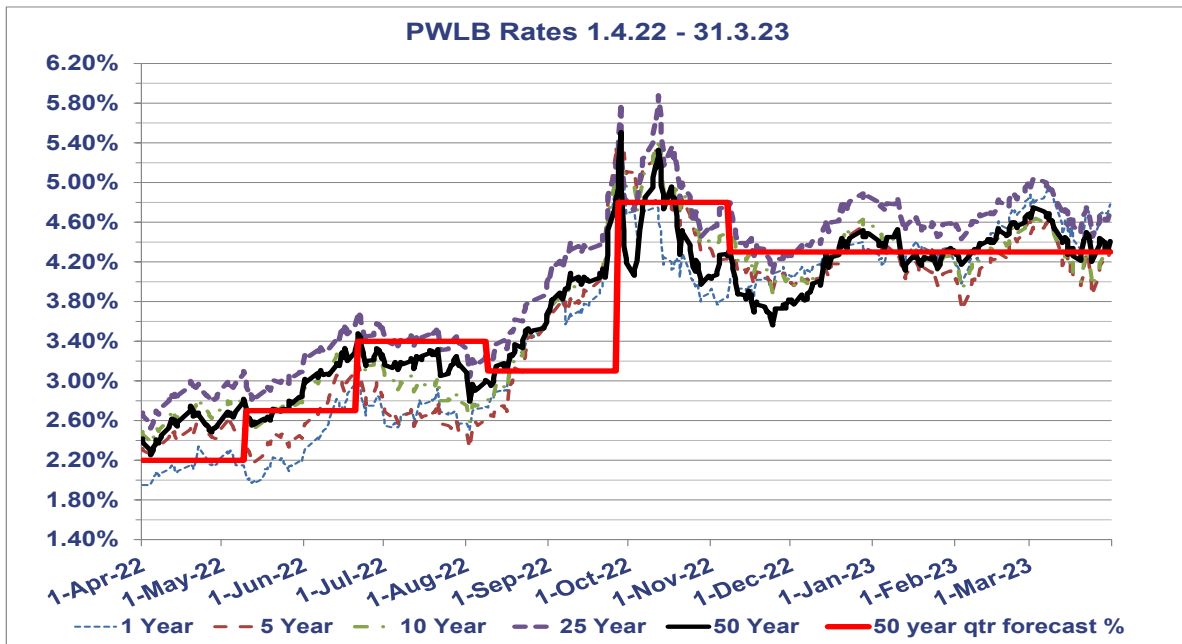
As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

## **EU**

Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

## APPENDIX B

### PWLB maturity rates for the year to 31 March 2023 (as prepared by Link Treasury Services Ltd in April 2023)



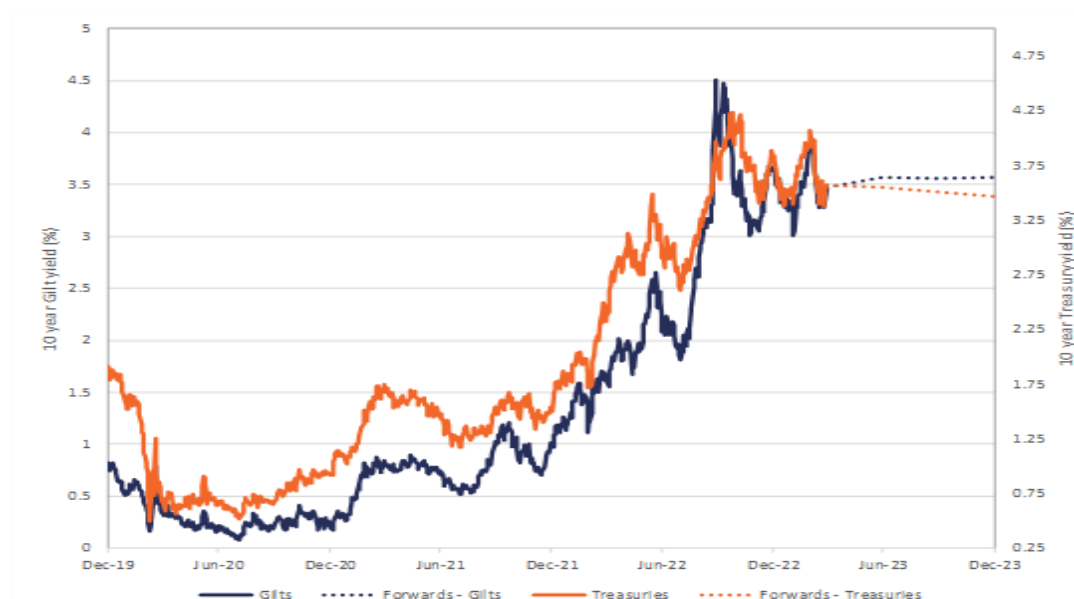
## HIGH/LOW/AVERAGE PWLB RATES FOR 2022/23

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.45%	5.88%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
<b>Average</b>	3.57%	3.62%	3.76%	4.07%	3.74%
<b>Spread</b>	3.16%	3.26%	3.09%	3.36%	3.26%

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

## Graph of UK gilt yields v. US treasury yields



Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.

At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

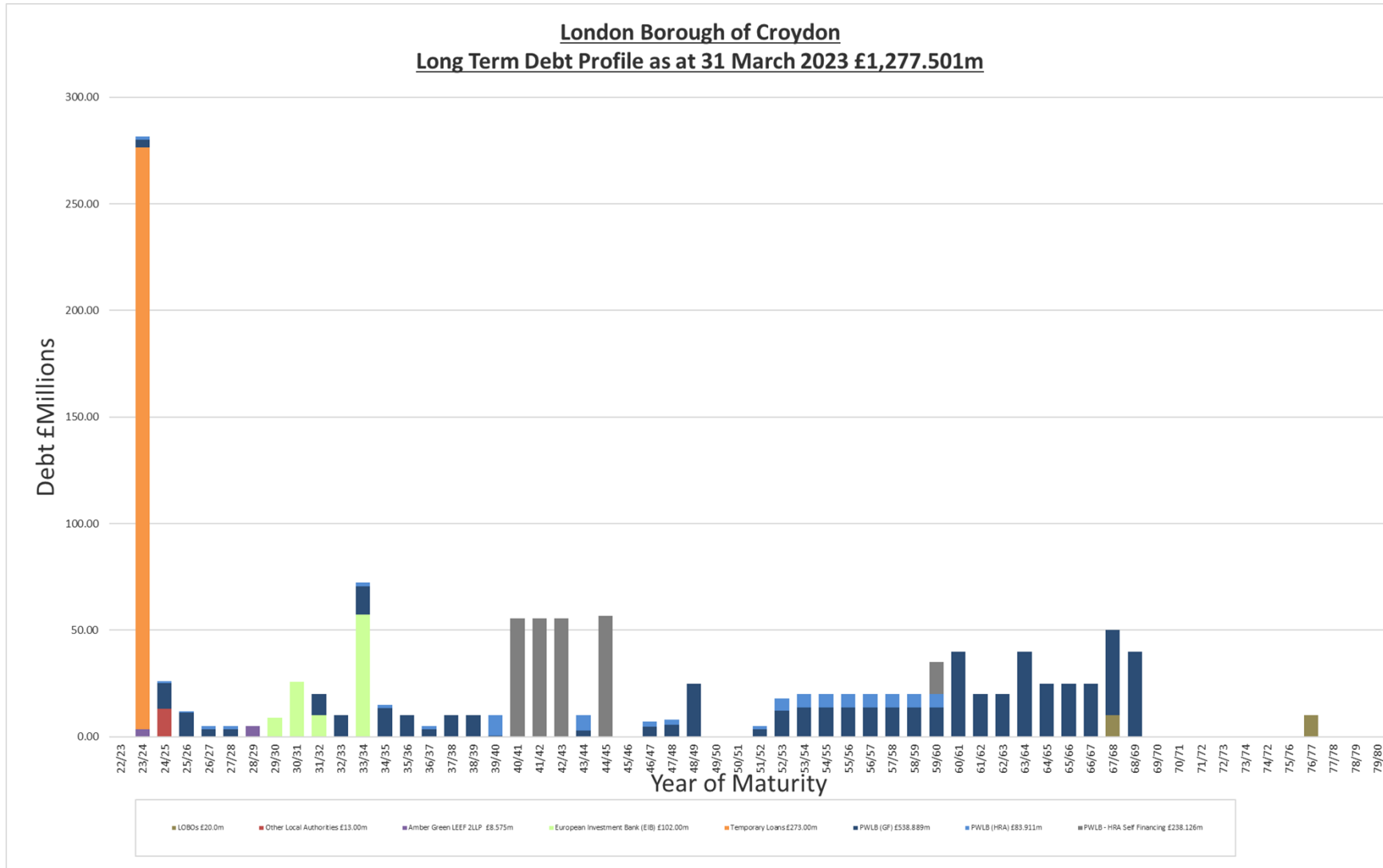




# Debt maturity profile

# APPENDIX C

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## APPENDIX D

### Investment instruments identified for use by the Council during 2022/23

#### Specified investments

AAA rated money market funds - limit £20m

Debt Management Office – no limit

Royal Bank of Scotland\* – limit £25m

Duration of up to one year.

\*Royal Bank of Scotland is included as a specified investment since it is the Council's banker and the UK Government holds a majority stake.

#### Non-specified investments

All institutions included on Link weekly "Suggested Credit List" – limit £10m

All UK local authorities – limit £10m

Duration to be determined by the "Suggested Credit List" from Link

## APPENDIX E

### Prudential and Treasury Indicators for 2022/23

Treasury Indicators	Treasury Management Strategy Statement £m	Actual  £m
<b>Authorised limit for external debt</b>		
Borrowing	1,606.1	1,277.5
Other long term liabilities	68.5	68.0
<b>TOTAL</b>	<b>1,674.6</b>	<b>1,345.5</b>
<b>Operational boundary for external debt</b>		
Borrowing	1,556.1	1,277.5
Other long term liabilities	68.5	68.0
<b>TOTAL</b>	<b>1,624.6</b>	<b>1,345.5</b>
<b>Maturity structure of fixed rate borrowing - upper and lower limits</b>		
Under 12 months	0-30%	22.1%
12 months to 2 years	0-20%	2.0%
2 years to 5 years	0-30%	1.7%
5 years to 10 years	0-30%	5.5%
10 years and above	0-100%	68.7%

Prudential Indicators	Treasury Management Strategy Statement £m	Provisional Outturn  £m
<b>Capital expenditure</b>		
General Fund	87.4	41.5
Commercial Activities / non-financial investments		
Capitalisation Direction	25.0	190.8
HRA	23.7	37.8
<b>TOTAL</b>	<b>136.1</b>	<b>270.1</b>
<b>Capital Financing Requirement (CFR)</b>		
General Fund	1,380.2	1,366.5
HRA	363.5	363.5
<b>TOTAL</b>	<b>1,743.7</b>	<b>1,730.0</b>
<b>Annual change in CFR</b>		
General Fund	15.7	97.8
HRA		
<b>TOTAL</b>	<b>15.7</b>	<b>97.8</b>
<b>In year borrowing requirement</b>	<b>36.7</b>	<b>162.6</b>



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# Agenda Item 10

<b>REPORT:</b>	<b>Audit and Governance Committee</b>	
<b>DATE OF DECISION</b>	<b>21 September 2023</b>	
<b>REPORT TITLE:</b>	<b>Dedicated Schools Grant (DSG) Deficit Management Plan</b>	
<b>CORPORATE DIRECTOR / DIRECTOR:</b>	<b>Debbie Jones, Interim Corporate Director of Children, Young People &amp; Education</b>	
<b>LEAD OFFICER:</b>	<b>Shelley Davies Director, Education and Youth Engagement</b>	
<b>LEAD MEMBER:</b>	<b>Cllr Gatland – Cabinet Member for Children, Young People &amp; Learning</b>	
<b>AUTHORITY TO TAKE DECISION:</b>	<b>To note the updates on the (DSG) Deficit Management Plan on performance, risks, and governance.</b>	
<b>KEY DECISION?</b> [Insert Ref. Number if a Key Decision]	<b>NO</b>	<b>REF. NO: Not Applicable</b>
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>NO</b>	<b>Public</b>
<b>WARDS AFFECTED:</b>	<b>All</b>	

## 1 SUMMARY OF REPORT:

- 1.1 This report provides some important updates regarding the Dedicated Schools Grant (DSG) Deficit Management Plan which has been in place since 2019/20. The management plan had proved successful however there is a level of risks from increasing numbers of Children and Young People with complex Special Education Needs.
- 1.2 This report focuses on the overall performance of the DSG Deficit Management plan against key qualitative and quantitative performance metrics for the 2022/23 financial year as well as the outturn forecast as at period 2 of this financial year. These important metrics are:
- Ensuring all governance requirements under the DSG grant conditions are met.
  - Meeting the agreed DfE Safety Valve Financial and non-financial targets.
  - Confirmation that the accounting treatment of the DSG grant and budget allocation are compliant with the annually issued Department for Education (DfE) Operational guidance and the School and Early Years Finance (England) Regulations 2022.
  - Assurance and robustness of the Special Education Need and Disability (SEND) budget monitoring process.

## **2 RECOMMENDATIONS**

2.1 Audit and Governance Committee is asked to note:

- a) The key performance targets set under the DfE Safety Valve agreement.
- b) The overall performance of the Deficit Recovery Plan against the target and challenges and risks of delivery.
- c) The impact on the accounting treatment of the DSG deficit as provided for in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146, as amended by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2022.

## **3 REASONS FOR THE RECOMMENDATIONS**

3.1 Reporting on the progress of the Deficit Management Plan to this committee and to School Forum is a critical governance requirement as part of the DSG grant conditions for individual local authorities that have an overall deficit on their DSG account.

3.2 The 2022/23 grant conditions require any 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 about its plans for managing its DSG account in the 2022 to 2023 financial year.
- b) Provide information as and when requested by the department about pressures and potential savings on its high needs budget.
- c) Meet with officials of the department as and when they request to discuss the authority's plans and financial situation.
- d) Keep the Schools Forum regularly updated about the authority's DSG account and plans for managing it, including high needs pressures and potential savings.

3.3 In addition to the above the Council is required to meet with the DfE Safety Valve team to discuss how the Council has demonstrated its compliance with the funding regulations and to address any concerns.

3.4 The Secretary of State (SoS) reserves the right to impose more specific conditions of grant on individual local authorities that have an overall deficit on their DSG account, where SoS believes that they are not taking sufficient action to address the situation.

## **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 DfE which demonstrates how the Local authority plans to recover the deficit within five years.

4.2 The Council successfully signed a "Safety Valve" (SV) agreement with the (DfE) early this year to receive a cash intervention of £27.4m. This agreement forms part of the initiatives 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. The final cash intervention allocated to the Local Authority excludes capital.



## 5. KEY CROYDON (SV) AGREEMENT WITH DfE AND UPDATES

- 5.1 The cash intervention under the SV agreement with the DfE is payable to the Council over a period of 5 years as shown in line 3 of table 1 below. The first instalment is £10.960m, followed by three instalments of £3.290m with a final payment of £6.580m in 2026/27.
- 5.2 Financial Target under the DfE SV agreement: Table 1 below shows the annual payment expected from the DfE cash intervention award which the Council received £10.960m in March 2023. A further payment of £3.290m was paid this year after Council demonstrated that it is on target to deliver the 2023/24 set financial targets showed in line 2 of table 1.
- 5.3 These financial targets were agreed and signed under the SV agreement. Table 1 below is useful in understanding the direct correlation between the Council receiving the cash intervention (Line 3) from the DfE and the financial targets set to reach is shown in Line 2. Croydon forecast / actual performance is presented in line 1.

**Table 1. DfE High Needs Overspend target under the Deficit Management Plan.**

Ref.	High Needs Outturn Variance Forecast	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Line 1	Croydon Actual Outturn / Forecast £m	5.477	3.468	2.025	0.655	0.569	-0.113	-0.121
Line 2	DfE Projected Overspend (Target) £m	4.472	4.105	1.813	0.724	0.569	-0.113	-0.121
Line 3	DfE Cash Intervention £m	0.000	0.000	-10.960	-3.290	-3.290	-3.290	-6.560

- 5.4 Unlike other local authorities the Council did not commit to provide any cash injection from its General Fund budget or transfer from reserves to reduce the overall DSG deficit. This was due to a Section 114 notice being in place at the time which meant that such a commitment would not have been viable having regard to the Council's resources.
- 5.5 Non-Financial DfE targets signed under the SV agreement: The main non-financial targets set within the SV agreement are:
- 5.4.1. Completely implement the local authority's (LA's) "Locality Special Educational Needs and Disabilities (SEND) Support" model with early intervention for SEND pupils.
  - 5.4.2. Increase leadership capacity in schools to support pupils with SEND and their families.
  - 5.4.3. Develop partnerships and networks that support school-led improvement and inclusive practice.
  - 5.4.4. Increase SEND local provision which includes increasing capacity in Addington Valley Academy, St Nicholas Primary School and across Croydon's education estate.
  - 5.4.5. Increase usage of Alternative Provision (AP) by right sizing the commissioning of placement numbers at Croydon's pupil referral unit (PRU) and other AP
  - 5.4.6. Develop a combined work of local SEND College Pathways for 19–25-year-old students delivered in partnership between Coulsdon College Croydon and Waddon Youth Disability Service
- 5.6 All the non-financial targets listed in paragraphs 5.4.1 to 5.4.6 are on target with significant milestones reached.

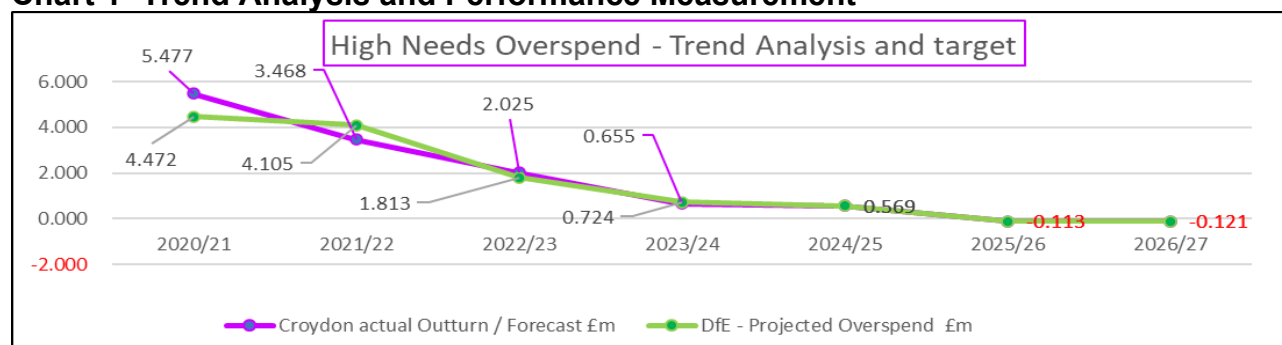
This includes all the relevant staff needed to provide support to the "Locality Special Educational Needs and Disabilities" (SEND) Support services referred to in paragraph 5.4.1.

Their role also involves training, peer reviews and support to school leaders. There is evidence of greater commitment from both special schools and mainstream headteachers to the DSG Deficit Management plan when it was presented at Schools Forum due to clearer and shared understanding as mentioned in paragraph 5.4.3.

## 6. PERFORMANCE OF THE DSG MANAGEMENT PLAN

6.1 The final outturn of the High Needs for 2022/23 was £2.025m overspend. This represents a much better position when compared to previous years. The performance chart below shows continued improvement. See chart 1 below.

**Chart 1- Trend Analysis and Performance Measurement**



6.2 The final DSG deficit at the end of 2022/23 was £15.383m. This represents a significant reduction from £21.295m at the end of the previous year. Table 2 shows the agreed cash intervention from the DfE Safety Valve team. The success of the management plan so far is driven by clear vision for the support needed to effectively manage current and emerging needs through robust strategic planning and budget monitoring.

6.3 Line number 11 in table 2 shows that the overall deficit is expected to extinguish by 2026/27. The cash intervention (line 8 in table 2) payments expected from the DfE depend on the LA meeting the in-year target shown in line 5. The service has done well to accomplish most of the strategies and financial targets set by the DfE in line 5 as shown in table 2.

6.4 This includes, delivering key strategic work streams agreed with the Department for Education (DfE), demand management initiatives, regular review of cost of provision and supply management using the High Needs Provision Capital Allocations to create new educational provisions in line of the DSG Deficit Management Plan. This includes the expansion in Enhanced Learning Provisions in the borough.

**Table 2 - DfE Safety Valve Cash Intervention and Performance Measurement**

Ref.	5 Years DSG Deficit Strategy	2022/23	2023/24	2024/25	2025/26	2026/27
Line 1	Actual Outturn / Forecast	5.049	0.655	0.569	-0.113	-0.121
Line 2	Balance B/Forward	21.295	26.344	26.999	27.568	27.455
Line 3	Cumulative Reserves SV Forecast	26.344	26.999	27.568	27.455	27.334
Line 4	5 Years DSG Deficit Strategy	2022/23	2023/24	2024/25	2025/26	2026/27
Line 5	DfE Safety Valve Team forecast	5.020	0.724	0.569	-0.113	-0.121
Line 6	Balance B/Forward	21.295	26.315	27.039	27.608	27.495
Line 7	Cumulative Reserves SV Forecast	26.315	27.039	27.608	27.495	27.374
Line 8	SV grant payable to LA - Agreement	-10.960	-3.290	-3.290	-3.290	-6.580
Line 9	Cumulative Reserves SV Forecast	-10.960	-14.250	-17.540	-20.830	-27.410
Line 10	Current Deviation from target (Line 2 – Line 5)	0.029	-0.040	-0.040	-0.040	-0.040
Line 11	Cumulative DSG Deficit (Line 3 – Line 7)	15.384	12.749	10.028	6.625	-0.076

## **7. ACCOUNTING TREATMENT AND ALLOCATION OF DSG - COMPLIANT WITH SCHOOL AND EARLY YEARS FINANCE (ENGLAND) REGULATIONS**

- 7.1 The Local Authority has validation checks built into its chart of account and budget process that ensures compliant with the School and Early Years Finance (England) Regulations 2022 regarding expenditure type funded from the DSG. These validation checks ensures that cost is allocated to the right expenditure type under the DfE Section 251 guidelines and definition. Local authorities are required under section 251 of the Apprenticeships, Skills, Children and Learning Act 2009 to prepare and submit to the Secretary of State for Education an education and children and young people's services budget statement no later than 29 April 2022 for the period 1 April 2022 to 31 March 2023 and by no later than 28 April 2023 for the prescribed period of 1 April 2023 to 31 March 2024.
- 7.2 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 have been amended (in 2020 and again in January 2023) to provide that any DSG deficit in relation to accounts prepared for the financial years falling within the period beginning with 1st April 2020 and ending with 31st March 2026. must not be charged to a general fund but must be charged to a separate fund established, charged, and used solely for the purpose of recognising deficits in respect of the school's budget. This has the effect of separating any such deficit from a local authority's general fund.

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

- 8.1 The financial considerations are incorporated above and within the DSG Deficit Management Plan.
- 8.2 The risk related to the statutory override has been extended for another 3 years. 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.
- 8.3 The LA is monitoring the EHCP assessment processes and thresholds to ensure they are timely and in line with statutory duties. The continued rate of requests to assess presents a challenge and is increasing the caseload per EHCP coordinator to above 200. It is critical that we have the most current robust (SEND) pupil data to ascertain existing and emerging needs since that underpins the robustness of the forecast and reduces the risks.
- 8.4 The governance arrangement rooted within the DfE Deficit Management process ensures an extended oversight by the SEND Board, Schools Forum and Council Corporate 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 and Governance Committee 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 Public Interest issued in 2020.
- 8.6 The budget monitoring reporting is based on a DfE robust financial monitoring template which contains a separate risk section split into required and optional information which the DfE considers as best practice for discussion with the Safety Valve team. These monitoring reports are submitted to the DfE in line with set deadlines.

Approved by Allister Bannin, Director of Finance (Deputy S151). 14/08/2023

## **9. LEGAL IMPLICATIONS**

- 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 The 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 for the financial year 2022/23 and The Schools and Early Years Finance (England) Regulations 2023 for the financial year 2023/24.
- 9.3 The Education and Skills Funding Agency Guidance on DSG: Conditions of grant 2022- 2023 place a number of requirements on a council with an overall deficit on its DSG account, including the requirement 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.
- 9.4 Regulation 30 L of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146, as amended by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2022 set out provisions which apply to any Local authority which has a deficit in its Schools Budget prepared for the financial years falling within the period beginning with 1st April 2020 and ending with 31st March 2026. In these circumstances, the authority –
- (a) must not charge to a revenue account an amount in respect of that deficit; and
  - (b) must charge the amount of the deficit, calculated in accordance with paragraph (4) or (5) of Regulation 30L, to an account established, charged, and used solely for the purpose of recognising deficits in respect of its school's budget.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Legal Services and Monitoring Officer. (29/08/2023)

## **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: Naseer Ahmad – Interim Senior Equality Officer 07/08/2023.

## 12. ENVIRONMENTAL 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**

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## LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>Audit and Governance Committee</b>	
<b>DATE OF DECISION</b>	<b>20 July 2023</b>	
<b>REPORT TITLE:</b>	<b>Audit and Governance Committee Independent Member Recruitment</b>	
<b>CORPORATE DIRECTOR / DIRECTOR:</b>	<b>Jane West, Corporate Director of Resources and S151 Officer</b>	
<b>LEAD OFFICER:</b>	<b>Dave Phillips, Head of Internal Audit</b> <a href="mailto:Dave.Phillips@croydon.gov.uk">Dave.Phillips@croydon.gov.uk</a>	
<b>LEAD MEMBER:</b>	<b>Cllr Jason Cummings</b>	
<b>KEY DECISION?</b> [Insert Ref. Number if a Key Decision]	<b>No</b>	REASON: N/a
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>No</b>	Public
<b>WARDS AFFECTED:</b>	<b>N/a</b>	

### 1. SUMMARY OF REPORT

1.1 This report identifies the recommended candidate to be appointed as an independent co-opted non-voting Member on the Audit and Governance Committee.

### 2. RECOMMENDATION

2.1 The Audit and Governance Committee is asked to:

- Support the recommendation of the recruitment panel for the preferred candidate David Clarke to be appointed as an independent co-opted non-voting member of the Committee; and
- Recommend to Full Council that David Clarke be appointed as an independent co-opted non-voting member of the Audit and Governance Committee for an initial period of 1 year, to be extended thereafter for another 3 years and that said appointment be subject to standards of conduct which encompass the Nolan Principles.

### **3. REASONS FOR RECOMMENDATION**

- 3.1** The Council Constitution provides for the Audit and Governance Committee to have an non-elected non-voting independent member on the Committee. This co-opted non-voting Member can provide the Committee with outside knowledge, experience and skills that can inform the Audit work of the Audit and Governance Committee and supplement the role of Members.
- 3.2** The independent member position has not been filled since the Audit and Governance Committee was set up in 2022.

### **4. BACKGROUND AND DETAILS**

- 4.1** The membership of the Audit and Governance Committee is seven, including an independent, suitably qualified Chair; and one independent, suitably qualified co-optee (independent member). Co-opted Members will usually be invited to serve for a term of office of four years as provided for in the Council's Scheme of Co-optation at Part 6D of the Constitution.
- 4.2** At its meeting on July 7<sup>th</sup> 2022, this committee gave a delegation to the Chair to commence recruitment by inviting applications for the vacant post. Once a suitable candidate was identified following the interview process, this was to be reported back to the committee to enable a recommendation to be made to Full Council for the appointment to be confirmed.
- 4.3** It is hoped that a new independent co-opted non-voting Member of the committee would commence their duties at the September 2023 meeting of the committee.
- 4.4** After advertising the role on the Council's website, in the Council's e-newsletter 'Your Croydon' in the local press and on LinkedIn followed by an interview process, a suitable candidate has been identified.
- 4.5** The Committee is asked to recommend to Full Council, the appointment of David Clarke as an independent co-opted non-voting member of the Audit and Governance Committee, in relation to Audit only functions. Such appointment is to be subject to standards of conduct which encompass the Nolan Principles.. David is a resident of the borough. Professionally he is a member of the Chartered Institute of Public Finance and Accountancy.
- 4.6** The Panel also considered the tenure of the Independent member and agreed, rather than being for 4 years, that this should be initially for a year and then thereafter extended for another 3 years.
- 4.7** In the event that the committee and Full Council agree the recommendation a letter of engagement will then be sent to the successful candidate setting out details of the Nolan Principles and other standards of conduct expected together



with the agreed term of office, basis upon which the appointment may be terminated and any other relevant or applicable conditions.

## **5. FINANCE IMPLICATIONS**

**5.1.1** There are no financial implications it is not a paid position.

**5.1.2** Comments approved by Lesley Shields, Head of Corporate Finance. (Date: 10/02/2023)

## **5.2 LEGAL IMPLICATIONS**

**5.2.1** The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the power to co-opt persons who are not councillors onto committees appointed by the Council under section 102(1) of the Local Government Act 1972 ('the 1972 Act'), is set out in section 102(3) of the 1972 Act. A Committee appointed under section 101 of the 1972 Act, other than a committee for regulating and controlling the finance of the local authority or of their area, may subject to section 104 of the 1972 Act, include persons who are not members of the appointing authority.

**5.2.2** Section 104 of the 1972 Act will apply to any proposed appointment under section 102(3) above and provides that a person who is disqualified under Part V of the 1972 Act from being elected or being a member of a local authority shall be disqualified from being a member of a committee (including a sub-committee) of that authority, or being a representative of that authority on a joint committee (including a sub-committee) of the authority and another local authority, whether the committee or joint committee are appointed under this Part of this Act, or under any other enactment. Part V of the Act deals, in section 80 with disqualifications from serving as a member of the Council and these requirements are applied to co-optees by virtue of Section 104 so that if any of the circumstances in Section 80 apply (or subsequently apply) to a co-optee they are disqualified from being a co-optee.

**5.2.3** By virtue of section 13(1) of the Local Government Act 1989, any co-opted member of a committee appointed under section 102(1) of the 1972 Act shall, for all purposes, be treated as a non-voting-member of that committee.

**5.2.4** Separately the Council's Constitution provides in Part 3: Responsibility for functions that membership of this committee will include '1 independent suitably qualified Chair who may not be a Member or officer of the Council and 1 independent suitably qualified co-optee'.

**5.2.5** In addition, at Part 6D of the Constitution the Council has adopted a Scheme of Co-option in relation to all co-optees.

**5.2.6** *Approved by:* Head of Litigation and Corporate Law on behalf of Stephen Lawrence-Orumwense Director of Legal Services and Monitoring Officer (12/7/2023)

### **5.3 HUMAN RESOURCES IMPLICATIONS**

**5.3.1** There are no immediate HR implications arising from the content of this report.

**5.3.2** Comments approved by Gillian Bevan, Head of HR Resources and Assistant Chief Executives Directorates on behalf of the Chief People Officer. (Date 07/07/2023)

### **5.4 EQUALITIES IMPLICATIONS**

**5.4.1** 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.

**5.4.2** Though the committee member is not a member of the council, they will be undertaking council functions and as such will be required to pay due regard to the Public Sector Equality Duty.

**5.4.3** Approved by: Denise McCausland Equality Programme Manager. (Date 11/07/2023)

## **5 APPENDICES**

Appendix 1 – Copy of ‘Audit and Governance Committee - Independent Member’ advertisement.

## **6 BACKGROUND DOCUMENTS**

None

## **7 URGENCY**

**There is none.**

## **Audit and Governance Committee - Independent Member**

The London Borough of Croydon is delivering a wide-ranging programme of corporate governance and financial controls improvement. As part of that commitment, in 2022 Croydon Council established an Audit & Governance Committee. Chaired by an Independent Member, the Committee provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards within the Council. The Committee's main purposes being to:

- Provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment;
- Oversee internal and external audit, helping to ensure that efficient and effective assurance arrangements are in place;
- Provide independent review of the Council's governance, risk management and control frameworks
- Oversee the financial reporting and annual governance processes, and;
- Provide independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment.

There's currently a vacancy for an Independent Member to join the Committee and become part of Croydon's improvement and strengthening of good governance. Ideally the independent member would bring to the committee a wide range of skills and experience – possessing knowledge of financial controls and management, risk, and possibly have an audit background.

You cannot be considered for appointment if you:-

- Are currently a Member, Co-opted Member, or an employee or a consultant to the authority in any capacity;
- Have been either an employee or Elected Member of the Council in the last five years;
- Are related to, or are a close friend of, any Councillor or senior officer of the Council.
- In addition to be eligible for appointment, a person must not be disqualified from holding office as a Member of the Council.
- Accordingly, any person who is recommended for appointment will be required to confirm that he/she is not disqualified.

The successful applicant will be appointed for a four-year period and ideally live or work in the borough. As co-option is a way of ensuring that all voices are

represented on Council committees, we particularly encourage applicants from historically underrepresented backgrounds and communities to apply.

The estimated time commitment will vary but generally will involve attendance at seven evening meetings (6:30 pm start) per year held at Croydon Town Hall. You will also need time commitment to read the agenda papers in advance of the meetings.

Please note, there's no annual allowance associated with the position. If you are interested in serving and gaining experience of local government governance and committees, we would be delighted to hear from you. Please send your CV and supporting statement outlining how your skills and experience relate to the role to: [democratic.services@croydon.gov.uk](mailto:democratic.services@croydon.gov.uk)

Deadline for applications is Monday, 23<sup>rd</sup> January 2023.

### **What is audit and governance?**

The London Borough of Croydon is committed to delivering and promoting good financial control and governance. As part of that commitment, the Council has established an Audit and Governance Committee to provide independent oversight of the adequacy of the Council's risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes.

### **What is an independent member?**

An independent member is a member of the general public, aged 18 or over, who works alongside the six councillors and an independent chair, on the Audit and Governance Committee. They contribute to the work of the Committee by bringing specialist knowledge and skills to the process and providing an element of external challenge and support.

Ideally, the independent member should offer a range of different skills and experience. The ideal candidate will have knowledge of local government finance, experience of financial control and management, possibly with an audit background. They must also demonstrate an ability to establish good working relationships with councillors and officers. An independent member is objective and politically independent with an ability to analyse information.

An independent member is expected to attend formal meetings of the Audit and Governance Committee and to prepare for each meeting by reading the agenda papers and supporting information in order to be familiar with the issues for discussion.

### **What skills and qualities does an independent member need?**

We are looking for people who have:

- A high level of integrity and inspire public confidence.
- Ability to be objective, independent and impartial.
- Knowledge and understanding of public sector finances, risk management, corporate governance and the roles of internal and external audit.

- Good analytical skills and the ability to scrutinise financial information and processes and to challenge appropriately.
- Good communication skills and ability to contribute to discussions.
- The ability to work effectively within a team and build good relations with others in a committee setting.
- A respect for confidentiality.
- The ability to deal with issues of a sensitive nature in a diplomatic manner.
- Knowledge/experience of local government or some other aspects of the public sector and/or of large, complex organisations at a senior level.
- An awareness of the issues currently facing local government and the key priorities for the borough.

### **Role description - What will you be expected to do?**

- To actively promote good governance, risk management and control in the delivery of the Council's functions.
- Attend and participate in formal committee meetings, providing external challenge, scrutiny and support in relation to reports presented to the committee.
- Prepare for each meeting by reading the agenda papers and additional information to familiarise yourself with the issues under discussion and consider the questions you may wish to put to officers.
- At the meetings listen carefully and ask questions in a way which is non-judgemental and respects confidentiality.
- Keep up to date with key issues for the Council and the Borough; to develop your understanding of the key priorities and initiatives being pursued.
- Contribute to achieving open, accountable and transparent local democracy in Croydon.
- To abide by the Council's Constitution and Members' Code of Conduct.

### **What level of commitment is required?**

The successful applicant will be appointed for a four year period. The estimated time commitment will vary but generally will involve attendance at seven evening (6:30 pm start) meetings per year. These last approximately three hours and are held in Croydon Town Hall. You will also need to read the agenda papers in advance of the meetings.

### **Disqualifications**

You cannot be considered for appointment if you:-

- Are currently a Member, Co-opted Member, or an employee or a consultant to the authority in any capacity;
- Have been either an employee or Elected Member of the Council in the last five years;

- Are related to, or are a close friend of, any Councillor or senior officer of the Council.
- In addition to be eligible for appointment, a person must not be disqualified from holding office as a Member of the Council. Accordingly, any person who is recommended for appointment will be required to confirm that he/she is not disqualified.