

Response to the referral from Scrutiny and Overview Committee on the 22 July 2020.

Lead Officer – Lisa Taylor, Director of Finance, Investment and Risk, S151 Officer

Cabinet Member – Simon Hall, Cabinet Member for Finance and Resources

Scrutiny and Overview Committee on the 22 July 2020 scrutinised two reports that were presented to the Cabinet on the 20th July 2020. They were Cabinet Agenda Item 6 Responding to the Local Government Financial Challenge and Agenda Item 7 July Financial Review.

A Call In has been received as follows:-

The two Cabinet reports, Agenda Item 6 and Agenda item 7, do not provide sufficient detailed information to allow the Scrutiny Committee to make a judgement as to whether the proposed recommendations will deliver the approved 2020/21 budget, and avoid the service of a Section 114 Notice.

The call-in of these two Agenda Items is restricted to the following recommendations in regards delivering the 2020/21 budget and it is not a call-in of the proposed changes to the Medium Term Financial Strategy.

Full details of the Call In are attached as an appendix 4 to the covering report.

This paper and its appendices will provide the information to the points raised in the section of the Call In document titled 'Information required to assist the Scrutiny and Overview Committee to consider the referral'.

- 1) *To provide information at a more granular level on the financial and workforce actions taken to help satisfy the Committee that the Council will deliver the approved 2020/21 Budget, including increasing level of general fund balances by £5 million.*

As detailed in the July Cabinet Report at Agenda item 6 – Responding to the Local Government Financial Challenge, these are challenging times for the whole of local government and very difficult choices are required if the Council is to maintain a balanced financial position in 2020/21 and future years, this includes a reduction in the workforce.

The 2020/21 Budget which was approved by Full Council in March 2020 contained an ambitious savings programme for all departments of the Council, this programme along with expenditure and income has been significantly impacted by Covid19.

The impact of Covid19 on the Council's budget was set out in the reports to Cabinet on the 20th July 2020. While, funding from Government has been made available it remains insufficient to cover all impacts. In London alone it is estimated that there is a shortfall of £1.4bn, after government funding of £587m.

It remains incredibly disappointing that the Rt Hon Robert Jenrick has not kept his

promise made early on in the pandemic where he told councils to spend what they needed to and that they would be reimbursed, a comment that has now been redacted.

Without more funding a large number of council's across the country face bankruptcy as already highlighted by a number of organisations supporting the sector, including London Councils, the Local Government Association, the County Councils network and a number of other large local authorities including Birmingham and Leeds City Council's. These concerns were also recently highlighted publically by Croydon MP Steve Reed.

In Croydon Covid19 funding from Government has now been in three tranches and has increased by £3.6m in July to £23.5m, however there still remains a significant financial gap this year, estimated at £44m for the general fund and £29m for the Collection Fund (Council Tax and Business Rates). The general fund needs to be managed this year to ensure a balanced budget is delivered by the year end. It is unclear if there will be more government funding available at the time of writing and the figures detailed in this report can only be based on funding received to date.

The Collection Fund impact is significant and in light of the financial impact to collection funds across the country CIPFA have agreed that Councils can spread the recovery over three years rather than the previous one year.

The government have also announced that they will provide support to Councils for lost income as a result of a reduction in sales, fees and charges and we are expecting an announcement of the full support package at the end of August.

At the time of writing this report the budget is currently not balanced and the Council is continuing to work hard to rectify this and therefore prevent the need to issue a S114 notice. Cipfa have issued guidance saying that councils who are struggling to balance their budgets need to be making their Cabinet members aware and be having conversations with MHCLG regarding their position. The Executive Leadership team in Croydon have been working closely with the Cabinet and the Cabinet have been fully briefed on the financial position and ongoing budget work including conversations with MHCLG.

Work being undertaken includes the finance review and implementation of 25 immediate measures projects being led by the Finance Review Panel and detailed later in this report at question 2. These plans along with discussions with MHCLG regarding in year funding and funding for the medium term are ongoing.

To help balance the budget this year a programme of Immediate Measures consisting of a number of money saving and income generating projects was implemented in May, these are listed in more detail in question 2, these measures include a review of staff.

Staff costs are significant at over £170m per annum, over half of our spending. The current Staff Reduction consultation under way is seeking to reduce the work force by 15%. Further details are included in the response to question 4 of this report.

Given all of the financial pressures we are facing it is extremely unlikely that we will be

able to make the planned £5m contribution to general fund reserves this financial year. This contribution to reserves does and must remain a very important plan in the three year Medium Term Financial Strategy that will be presented to Cabinet later this year.

- 2) *More information on the work of the Finance Review Panel, including its recommended short-term options to minimize spend and where possible to generate income, and the refreshed savings proposals to deliver in year 2020/21. Details of the mechanisms referenced in the cabinet report used by the financial review panel to ensure progress stays on track (dashboards and monitoring information).*

The Finance Review Panel was established in May 2020. The review panel has been commissioned in light of the Council's response to the Covid19 pandemic, the resulting issues in relation to the Council's budget, priorities moving forward and integration with health partners.

The Terms of reference of the Finance Review are included at Appendix A to this report.

The council's current level of spending is very substantially outside the envelope of what can be paid for with existing available resources. Whilst the cause of this is mainly the Covid19 crisis, some of the pressure also comes from historic underfunding and from an increasing population with higher needs and expectations. Whilst most councils are in a similar position, Croydon because of these historic issues has a comparatively low level of general fund reserves that could be deployed, in the region of £10m. Whilst further funding may materialise from central government towards the Covid19 burden, and the council will continue to lobby on historical underfunding issues, these possibilities cannot be relied upon to close the gap. This means that in order to recover its position the council must take immediate action to reduce revenue expenditure or increase income now.

The Finance Review Panel support the design and implementation of any measures immediately required to stabilise and secure the council's financial position.

The Croydon Finance Review Panel meets every 2 weeks to receive progress report and provide input to the programme.

Details of the Immediate Measures Programme and individual project were presented to the Finance Review Panel on the 30th July 2020 and are attached at appendix B.

- 3) *Information on the six projects areas (Staffing, Cross-Cutting Areas, Assets, Contracts, Income, and Demand Management), and their expected in-year financial contributions. It should include key milestones, risks and interdependencies.*

The Immediate Measures Programme is categorised in to 6 areas and a programme progress paper is presented to every Finance Review Panel, the last paper presented is attached at appendix B.

- 4) *Workforce Information, including financial, of the 15% Workforce Reduction proposals, at department and service level. Detail of changes to service delivery, including reduction or stopping of any service. Information on any services (including outputs) that will be outsourced to new or existing providers. Information on level of risks to delivery of statutory duties and information on how not only existing demand but future demand (expected to increase within the financial year) will be managed (in case of localized outbreaks, further lockdown, end of furlough schemes etc.). Proposed departmental structures, including information on the Children's and Adults Social Care departments. We seek re-assurance that deletion of posts, previously filled by contractors, do not denude those teams of skills and experiences to deliver an effective service.*

As previously detailed staff costs are a significant amount of council expenditure and it was deemed essential that a reduction was needed quickly if we were to have any chance of reducing expenditure and getting the budget on track.

A structure Chart of the Senior Leadership is included at Appendix C.

The reduction of the Council's head count by 15% will reduce costs but not fundamentally change the structure of the Council, this will be carried out as part of the Medium Term Financial Strategy.

The consultation to reduce the staff head count by 15% is currently underway. It was launched on the 6th July and is due to close after a 45 day consultation period on the 21st August 2020. The detailed timetable is listed below,

Staff Consultation

- 6th July - consultation formally started with trade unions in line with our collective bargaining process and procedure
- 21st August - consultation ends
- 24th August – offers of voluntary severance and hours reduction made
- 9th September - formal meeting with trade unions to close consultation after full consideration of the feedback

Redundancy selection

- 14th – 25th September - representative panels take place
- 28th September - notice of redundancy given based on contractual notice

In accordance with the Equality Act 2010 and the council's commitment to diversity and inclusion, we will consider and take account of the equalities implications of any proposals for change. Equalities assessments have been completed for the proposals at council wide and departmental level and a review of this assessment will be undertaken prior to notice for compulsory redundancy being issued.

The Chief Executive in her role as Head of the Paid Service is responsible for the way the Council's staff is organised, the council's staffing needs and for the co-ordination of the way in which the authority's functions are discharged. This is a non-executive function.

All decisions will be made in accordance with the Council's approved Pay Policy 2020/21, its Constitution, relevant Schemes of Delegation and in line with the Council's duties under the Equalities Act 2010 and related legislation.

The table below details the proposed reduction in staff, this is alongside a reduction in agency staff and the deletion of vacant posts. Full details of the proposed reductions by department are in appendix D.

Details of the current staffing reductions are:-

Summary of staffing proposals and savings reduction on revenue budget

Department	FTE reduction	Savings proposed (£000)
Children, Family & Education	36.3 fte	4,058
Health, Wellbeing & Adults	69.3 fte	4,717
Place	44.0 fte	5,098
Resources	25.5 fte	3,173
Total	175.1 fte	17,046

- 2021/22 full year savings (in year figure will be lower due to in year spend related to redundancy costs)
- FTE reduction does not include vacant posts or agency staff (235.4 posts)

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No staff employed directly by the Council have been furloughed.

- 5) *Capitalisation (details of revenue costs already capitalized referenced in the report and assessment of impact of further capitalization on longer term financial strategy), Overall Debt, and revenue implications. Concerns have been expressed over the overall level of debt, and a more detailed explanation that the current level and revenue costs are sustainable.*

Investment in capital projects is an important element of the Council's financial strategy and each year a significant amount of money is invested in capital projects. For 2019/20 this was £231m and included investment in leisure centres, highways, housing, schools and ICT.

The cost of borrowing for capital projects is spread over a significant number of years and the table below illustrates the borrowing undertaken, and proposed borrowing for future years based on the capital programme that was agreed at Full Council in March 2020 as part of the annual budget report.

The table illustrates the potential growth (based on the budget agreed in March 2020) in the cost of borrowing to support the Capital Programme over the next 3-year period. It shows that the cost of General Fund debt will potentially increase

from the current level of £25 million to just over £39 million, an increase of £14 million. The likeliest outcome would be a lower figure for the following reasons: as debt matures over this period and is re-financed the average interest rate will fall, slippage and underspend will reduce the need to borrow; and it is possible that new debt will be cheaper than the overall average figure. Typically inflation would also play a role by eroding the value of these loans but this is not currently the case. It should also be noted that these loans would be taken over periods stretching out to 50 years, with virtually all of our borrowing being long term and fixed rate to minimise interest rate exposure. Finally, if the overall budget of the Council continues to shrink, the cost of debt as a proportion will grow – broadly speaking, over this period the cost of debt will grow from around 3% of the gross budget, to nearly 5%, not allowing for a reduction in the size of the overall budget. Hence a level that is considered sustainable now but will need to be kept under review for the future.

	Actual Borrowing as per accounts 31.03.2020	New borrowing over 3 years	CFR forecast position 31.03.23
		£m	£m
From 2010	280	-	280
BWH + Davis House	150	-	150
Assets acquisition*	70	100	200
Education	200	-	200
Housing and RIF*	250	200	450
Growth Zone*	-	80	80
HRA*	338	25	345
Other General	158	95	325
Other long term liabilities (PFI)	78	- 3	75
Total	1,523	497	2,105
Cost of debt HRA	12		12
Cost of Debt General Fund	24.5		39.3
	36.5		51.3
Cost of borrowing (exclude PFI)	2.53%		2.53%
* these schemes have their own income streams that service the debt			

6) *A copy of full unredacted return submission to MHCLG, broken down by section.*

Since April MHCLG have on a monthly basis collected a series of data from all Councils to help them better understand the financial impact of COVID19. Data collected has included additional costs, lost income and progress on the delivery of planned savings and the impact on the delivery of these plans as a result of Covid19. As well as the financial impact on the Collection Fund (Council Tax and Business Rates) from Covid19. These returns are very detailed at over 20 pages long. Like most Council's in London we decided early on to provide a summary to elected

members rather than the whole document and will continue to provide this summary. Attached at appendix E is a summary of our July 2020 return, submitted on the 31.7.20.

7) *A copy of the corporate risk register updated in relation to new transformation programme objectives/work streams.*

The Council's Risk Register is reviewed and presented regularly. Attached as appendix F to this report is a copy of the Council's Risk Register showing all the Red risks. While the Risk Register is updated regularly but it must be appreciated that Council risks are rapidly moving especially in the current pandemic and therefore some of the risks could already be slightly out dated, these will be updated in time for the next General Purposes and Audit Committee in October 2020 where the risk register is presented as a standard item on every agenda.

Also attached at appendix G is the Risk Register for the all of the risks regardless of score for the Immediate Measures Programme, this Register was presented to the Finance Review Panel on the 15th July 2020 and is presented to the panel on a regular basis.

Like the Council's Risk Register this register is regularly updated and work has been ongoing in the last month since this was presented to the Finance Review Panel to review all risks and measures and controls. The updated register will be presented at the Finance Review Panel on the 10th September.

8) *Any other information that will help provide the re-assurance the committee is seeking that the Council will deliver the 2020/21 approved budget.*

At the time of writing this report, I as the S151 Officer for Croydon Council cannot give full assurance that the Council will be able to deliver a balanced budget in 2020/21 or future years. This is as detailed above, due to a number of different factors and financial pressures that have impacted the Council since the start of the COVID19 pandemic in March 2020.

I can confirm that the Executive Leadership Team and Cabinet are working together supported by the work of the Financial Review Panel and external partners including MHCLG and CIPFA to manage the budget and balance it. This work and the development of these plans at the current time mean that as per the CIPFA guidance I have not had to issue a S114 notice. However, if at any time I do not feel that these plans are developing at the right pace or are actually not deliverable I will have no choice but to issue a S114 notice.

The Cabinet Member for Finance and Resources:-

Managing the budget is extremely challenging and difficult choices need to be made both in year and as part of the Medium Term Financial Strategy.

The Council needs to reduce costs and to do this there needs to a different organisational structure and model which will need to focus on delivering services to those in need with early intervention and localities being at the heart, along with a

focus on sustainability and the use of digital.

19/8/2020.