

<b>REPORT TO:</b>	<b>General Purposes and Audit Committee</b> <b>7 October 2020</b>
<b>SUBJECT:</b>	<b>Croydon Finance Review – Phase 1 Report</b>
<b>LEAD OFFICER:</b>	<b>Lisa Taylor – Director of Finance, Investment and Risk</b> <b>Ian O'Donnell – Finance Consultant</b>
<b>FINANCIAL IMPACT</b>  The Project Initiation Document sets out a consultancy cost of £48,000 for Phase 1 of the Croydon Finance Review, with all other costs to be absorbed within existing budgets as part of business as usual.  The recommendations of the review will be considered for funding through the council's normal governance arrangements.	

## **1. RECOMMENDATIONS**

- 1.1 That the General Purposes and Audit Committee considers and comments upon the Croydon Finance Review Phase 1 report, which is attached (Appendix A).
- 1.2 That the General Purposes and Audit Committee considers and comments upon the Phase 1 Action Plan (In Priority Order), also attached (Appendix B).
- 1.3 That General Purposes and Audit Committee receive regular update reports on the Croydon Finance Review Action plan and progress on the delivery.

## **2. EXECUTIVE SUMMARY**

- 2.1 In response to the impact of the Covid19 pandemic on the council's financial position, its capacity to deliver its budget priorities moving forward, and integration with health partners, the council commissioned a full root and branch review of its financial governance, strategy and planning, leadership, decision making, management and group company structures (see Project Initiation Document, Appendix 3 of attached report).
- 2.2 The attached report concludes Phase 1 of the review. It deals with the high priority issues identified in the activity plan (see Appendix 1 of attached report), setting out findings and recommendations based upon research and analysis carried out by the finance consultant. The report will be followed by further reports covering other areas of financial management, which will be presented to the Finance Review Panel and to General Purposes and Audit Committee as the work is completed in subsequent phases.
- 2.3 The standards used as a benchmark for the review are the various statutory and professional standards that apply to financial management in local

authorities (see Appendix 4 of attached report), as presented in CIPFA's Financial Management Code and in other professional advisory publications.

- 2.4 Further work is required in relation to group and company structures. This work is already under way and will form a separate report to the Finance Review Panel and to General Purposes and Audit Committee.
- 2.5 The findings are summarised in the Executive Summary. In all there are 75 recommendations relating to the three priority areas of financial planning, budget setting, and budget monitoring.

### 3. KEY AREAS AND LINES OF ENQUIRY

- 3.1 The Project Initiation Document (see Appendix 3 of the attached report), sets out the deliverables in relation to the final report:

**Deliverable 1:** Final report with recommendations to be signed off by the Croydon Finance Review Panel. The report will address the following key lines of enquiry:

- Refreshed savings proposals for 2020/21.
  - The generation and implementation of additional options to minimise spend and where possible generate income in order to address in year overspending.
  - Review of all financial systems, structures, processes and decision-making.
  - Review all group and company structures to ensure that they are fit for purpose.
  - Revised medium term financial strategy (MTFS) in light of new normal, Covid19 implications, health integration work and state of property and commercial markets.
  - Any other issues emerging from the review.
- 3.2 The final report headings have been aligned with the CIPFA Financial Management Code. These, together with a brief description of the areas they cover, are set out below:

Financial Leadership	<ul style="list-style-type: none"> <li>• The role of Cabinet and the officer leadership team in good financial management and ensuring services provide VFM;</li> <li>• The role of the s.151 officer;</li> <li>• Finance staffing capability and capacity;</li> </ul>
Financial Governance	<ul style="list-style-type: none"> <li>• Framework for financial accountability;</li> <li>• Financial risk management;</li> <li>• Financial literacy of organisation;</li> </ul>

	<ul style="list-style-type: none"> <li>• Supporting strategic and operational planning;</li> <li>• Financial advice to members</li> <li>• Audit committee;</li> <li>• Activities of Internal Audit;</li> </ul>
Long to Medium Term Financial Management	<ul style="list-style-type: none"> <li>• Medium term financial strategy (MTFS)</li> <li>• Financial resilience assessment</li> <li>• Capital strategy</li> <li>• Compliance with prudential code on borrowing</li> <li>• Alignment of MTFS with service planning</li> <li>• Use of reserves</li> <li>• Group and company structures</li> <li>• Recharges and internal trading</li> </ul>
The Annual Budget	<ul style="list-style-type: none"> <li>• Budget Setting</li> <li>• Alignment with MTFS</li> <li>• Robustness of estimates and adequacy of reserves</li> </ul>
Stakeholder Engagement	<ul style="list-style-type: none"> <li>• Option appraisals;</li> <li>• Development of business cases;</li> </ul>
Monitoring Financial Performance	<ul style="list-style-type: none"> <li>• Budget monitoring</li> <li>• Use of financial systems and technology</li> <li>• Use of financial data, modelling</li> <li>• Revenue and capital projects</li> <li>• Key controls and reconciliations;</li> <li>• Responding to unforeseen developments</li> </ul>
External Financial Reporting	<ul style="list-style-type: none"> <li>• Statutory accounts and other returns</li> </ul>

- 3.3 The final report will be delivered in phases, in line with the activity plan reported to the Croydon Finance Review Panel (Appendix 2). This enables the production of the final report to align with the practical need to prioritise action to address the 2020/21 forecast overspend, which emerged in May as part of the work required to compile and submit the Covid19 spending data returns to the Ministry of Housing, Communities & Local Government (MHCLG). This action principally consisted of assembling and implementing a range of measures that could be taken quickly to remediate the budget position.
- 3.4 It has also been necessary to prioritise the commencement of work on the 2021/22 to 2023/24 MTFS and on the redesign of the annual budget setting process so that these processes could align with the council's budget cycle at an early stage.
- 3.5 A further urgent priority was to change the budget monitoring process to a full, in-depth monthly monitor in response to the risks concerning overspending.

- 3.6 The diagnostic outcomes and recommendations for these areas, which were identified as Priority 1 in the resourcing plan, and in relation to which the Finance Review Panel has already received reports proposing change, form the substance of this phase 1 report.

GPAC Appendix A

Croydon Finance Review – Phase 1

September 2020

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## 2 Executive Summary

2.1 This first report in a series looking at financial management in Croydon Council focuses on three important areas: long to medium term financial management; the annual budget; and monitoring financial performance. These areas have been prioritised because of the urgent need to address the council's financial position and their immediate importance in that regard.

2.2 The report sets out 75 recommendations for change. The most significant recommendations arising from the report can be summarised as follows:

- The council's financial governance is currently inadequate in relation to some areas of financial planning, budget setting and budget monitoring. Specific recommendations are set out in the report.
- The council must give specific attention to its financial resilience, introducing resilience assessment processes, improving risk management and strengthening contingency and reserves.

- The council should improve its long term financial planning, consolidating its long term plans into a long term financial strategy looking 20-30 years ahead.
- The council's capital spending plans must be reconsidered in the context of overall affordability.
- The council's medium term financial strategy (MTFS) should be revised annually and focus on the next 3-5 years.
- The council's budget setting process should be changed to ensure that it brings together well-evidenced proposals for savings and growth for the following three years that are based on a detailed understanding of costs and business practices and have clear delivery plans.
- The council should move to monthly budget monitoring and improve its budget monitoring systems, processes and data, ensuring prompt action is taken to address overspending.

### 3 Introduction

- 3.1 This root and branch review of the council's financial management arrangements (the Croydon Finance Review) was commissioned in response to a range of serious financial issues faced by the council. The accumulation of financial pressure over a long period of government funding reductions, historical government underfunding of certain activities, ongoing cost inflation, and increased demand for services had already placed the council, along with many other local authorities, in a difficult financial position. The Ofsted rating of inadequate for children's services in September 2017 was the beginning of a demanding recovery journey that required additional financial resources and a good deal of corporate focus. Finally, the Covid19 pandemic, which emerged as a significant issue in March 2020, impacted severely upon the council's income and ability to deliver planned savings, and also required the council to incur additional expenditure as it sought to support the community and local economy through the lockdown. The scale of the unfunded expenditure in relation to Covid19 was unprecedented, with the council forecasting in May 2020 expenditure rising to £62.7m over budget, net of additional government Covid19 funding in the 2020/21 financial year. At the time of writing there is no final picture yet concerning further additional government funding in relation to the pandemic.
- 3.2 The council's financial resilience had been severely eroded, and it recognised that in the circumstances it was necessary to take immediate action to bring spending back to an affordable level and avoid a s.114 notice. It also recognised the need to seek assurance that its financial management mechanisms, practice and culture were fit for purpose to enable it to recover and move forward.
- 3.3 In May 2020 the council appointed an appropriately qualified and experienced finance consultant to carry out the review of its financial management arrangements and support the delivery of its recommendations. This included supporting a programme of immediate spending reductions. To oversee the review programme and financial recovery the council set up the Croydon Finance Review Panel (the Panel), consisting of financial experts together with members of the cabinet and the council's executive leadership team, and attended by the council's external auditor.
- 3.4 Beyond the immediate action required to bring the budget under control in the current year, the approach to



identifying opportunities to improve financial management is to consider current practice against the best practice financial management standards for the industry. Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The CIPFA Financial Management Code (the Code) brings all of these standards together into a professional code that was introduced in October 2019, and is applicable from 1 April 2020. The Code is structured as a set of standards and principles, including organisational leadership, transparency, assurance and sustainability, and provides the benchmark for assessing current practice and identifying opportunities.

- 3.5 This report represents the conclusion of the first phase of the recovery journey, which is the identification and implementation of high priority opportunities to improve financial management. These opportunities are given a high priority because they have a significant impact and because there may be associated time constraints (e.g. the need to set a budget by March 2021). The phasing of the review in line with this prioritisation was previously endorsed by the Panel on 2 July 2020. Further reports to the Panel will identify opportunities to improve in other areas of financial

management where it has been feasible to apply a longer timescale.

- 3.6 The implementation of the recommendations of this report is considered to be of vital importance to Croydon as an organisation and will be an important step towards improved and sustainable financial health. The council has already taken some steps towards implementing the recommendations.

## 4 Areas of Financial Management Addressed in this Report

4.1 The Work Plan at Appendix 1 sets out the full range of areas of financial management that will be covered by the review and the agreed prioritisation approach. This report covers the Priority 1 areas, which are as follows:

- Long to Medium Term Financial Management
  - Long/Medium term financial strategy (MTFS)
  - Alignment of MTFS with service planning
  - Financial resilience assessment
  - Use of reserves
  - Group and company structures
- The Annual Budget
  - Budget Setting
  - Alignment with MTFS
  - Robustness of estimates and adequacy of reserves
- Monitoring Financial Performance
  - Budget monitoring
  - Use of financial data, modelling

4.2 The Work Plan also identifies three other specific priority 1 issues, which are dealt with as follows:

- Support the design and implementation of any measures immediately required to stabilise and secure the council's financial position – *Immediate Measures Programme set in place May 2020 and reported to the Finance Review Panel fortnightly.*
- Support preparatory work on a revised Medium Term Financial Strategy for the council – *the recommendations arising from this work are included in the Long to Medium Term Financial Management section of this report.*
- Respond to concerns raised by the council's external auditor – *addressed through the work of the Finance Review Panel and throughout this report.*

## 5 Long to Medium Term Financial Management

### 5.1 Long to Medium Term Financial Management – Standards

- 5.1.1 The Code sets out a requirement for local authorities to look beyond the statutory one year budget cycle in order to demonstrate their financial sustainability. Whilst this is more challenging in the absence of multi-year funding settlements from the government, the Code asserts that sound financial management and sound governance are best served by strong medium term and long term financial planning. Indeed, the greater the uncertainty about future central government policy, the greater the need to demonstrate the long term financial resilience of the authority given the risks attached to its core funding.
- 5.1.2 The Code introduces the concept of the **Financial Resilience Assessment**, which tests the sensitivity of the authority's financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. Having carried out a credible and transparent Financial Resilience Assessment is now a requirement. Founded upon analysis of the latest audited financial statements, the assessment tests financial resilience against best and worst case scenarios which cover a wide range of financial demographic and social challenges, and uses independent

objective quantitative measures to assess the risks to financial sustainability. The assessment should also encompass consideration of the risks associated with the organisation's most significant business partners.

- 5.1.3 The authority's over-arching strategic vision of how it intends to deliver outputs and achieve the outcomes for which it is responsible, articulated in the **Corporate Plan**, should be underpinned by a **Long Term Financial Strategy**, informed by the risks identified in the Financial Resilience Assessment. This strategy should evidence the financing arrangements for long term commitments as well as allowing for demand trends and proposals for which detailed implementation plans have yet to be developed.
- 5.1.4 A key component of this long term planning is the **Capital Strategy**, required under CIPFA's Prudential Code - which the authority must comply with in any case - but now also a standard in the Financial Management Code. The Capital Strategy deals with the management of assets and liabilities to support service delivery, and must be aligned to the Long Term Financial Strategy. The Capital Strategy will be accompanied by a treasury management strategy and investment plan.
- 5.1.5 Another key component, also now a requirement of the Code, is the authority's **Asset Management Plan**, which

should review the condition, sufficiency and suitability of assets in the light of business needs and the ambitions set out in the Corporate Plan.

- 5.1.6 The Long Term Financial Strategy is not considered to be sufficiently detailed for the purposes of budget setting, and so the Code requires the authority to produce a **Medium Term Financial Strategy** (MTFS). This document connects the annual budget setting process to the Long Term Financial Strategy and enables recent successes and/or failures in delivering financial objectives to be taken into account in the annual budget process. The MTFS should be rolled forward every year, ensuring that budget setting is informed by the latest developments. It balances the financial implications of objectives and policies against constraints in resources and provides the basis for decision making, so it should identify all the significant factors affecting the financial sustainability of the authority over the medium term, including specific quantitative and qualitative organisational targets and constraints.
- 5.1.7 Financial and operational plans must be demonstrably aligned to the strategy at all levels. Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources. It is therefore a

requirement of the code that the authority has sustainable **service plans** that are consistent with its Long Term Financial Strategy and MTFS.

- 5.1.8 Integrated financial and service planning requires costings and other financial analysis to enable the leadership team to identify financial implications, assess and manage risk and promote the effective implementation of the financial strategy. The MTFS should also make reference to **other organisational plans** (e.g. workforce planning) and performance measures to demonstrate an alignment between service and financial planning.
- 5.1.9 The use of **comparative data** is essential to inform the development of credible service plans. The code requires that the authority should benchmark the performance of its services against appropriate comparators.
- 5.1.10 To ensure savings are delivered, the authority needs to develop in its Medium Term Financial Plan a single, consolidated, living document that tracks and evidences its saving plans – including what has been agreed and how much progress has been made. The **savings tracker** should be formally provided to elected members and formally approved by Council.

- 5.1.11 Local authorities are directed by statute to have regard to the **level of reserves** when considering their budget requirement. It is the responsibility of the Chief Finance Officer to advise the local authority on the appropriate level of reserves. The assessment of the appropriate level of reserves is considered to be a cornerstone of the Code. The authority must publish its plans for the use of reserves over the period of the MTFS, and the level of reserves at 31st March in any one year should not fall below the level previously agreed.
- 5.1.12 The performance of **group and company structures** may have a significant bearing upon the financial health of the local authority parent and requires financial and risk management at the level of the group entity and not just at the level of the local authority parent. The suitability and sustainability of such arrangements should be kept under review. The Code requires that there are appropriate arrangements in place for reporting and managing the financial performance of each of the organisation's delivery partnerships and collaborative arrangements. Although not part of the CIPFA Financial Management Code, the COSLA/Accounts Commission 'Following the Public Pound' Code is also helpful in setting out the principles.

## 5.2 Long to Medium Term Financial Management - Current Practice and Recommendations

5.2.1 Best practice concerning the key elements of long to medium term financial management is set out in the tables on the following pages. Current practice is presented alongside with recommendations for improvement.

5.2.2 Financial Resilience Assessment – Analysis of Current Practice.

Best Practice Approach	Current Practice	Recommendations
BP 1 - Financial resilience is tested against best and worst case scenarios that cover a wide range of financial demographic and social challenges.	The authority assesses the key variables in relation to the budget and makes a forecast having considered the risks.	The authority should conduct a scenario based financial resilience assessment to support the Long Term and Medium Term Financial Strategies.
BP 2 - The authority uses independent objective quantitative measures to assess the risks to its financial sustainability.	The authority makes use of forecasts of interest rates, population and demography, economic activity, and other measures produced independently by credible sources to assess risks to its financial sustainability. The authority participates in a budget stress testing exercise conducted by London Councils and considers the information arising as part of the overall financial management approach.	The authority should make greater use of independently verified comparative data in assessing its financial resilience and ongoing financial sustainability.
BP 3 - Decision making by the authority demonstrates a sound understanding of the	All cabinet reports contain a section with the heading: 'Financial and Risk Assessment	Risks identified in relation to strategic partners (and captured on the corporate risk

## Best Practice Approach

risks associated with its strategic business partners.

## Current Practice

Considerations'. A sample of cabinet reports published between March and July 2020 evidenced that financial and risk assessment implications were provided in each case. The sample provided broad evidence of close working with strategic partners on Covid19 issues, and the establishment of the Croydon Sustainable Renewal Board, which draws membership from key strategic partners such as the GLA, Coast 2 Capital Local Economic Partnership, Croydon Health Services NHS Trust, Croydon BME Forum, Croydon Business Improvement District (BID), London South Bank University, and Gatwick Airport Limited. Risks associated with strategic business partners are captured in the corporate risk register, which is reported to the General Purposes & Audit Committee and to ELT on a regular basis.

## Recommendations

register) should be explicitly considered when taking decisions in connection with those strategic partnerships.

Source: CIPFA Financial Management Code (2019)

## 5.2.3 Long Term Financial Strategy – Analysis of Current Practice

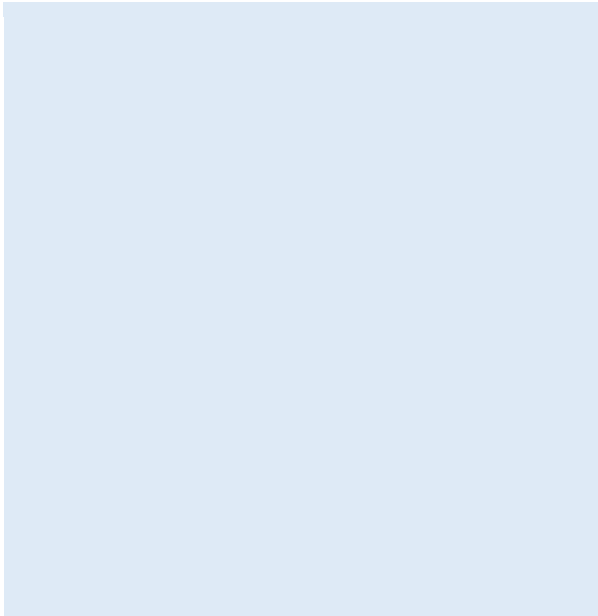
Best Practice Approach	Current Practice	Recommendations
BP 4 - There is an over-arching strategic vision of how the authority intends to deliver outputs and achieve the outcomes for which it is responsible – i.e. a corporate plan.	The authority has published a Corporate Plan for the period 2018-2022. This sets out at a high level the outcomes the organisation has prioritised and the operating model	None.
BP 5 - The authority has a Long Term Financial Strategy that matches the need for a strategic approach to service planning arising from key cost drivers (e.g. age profile of population, level of infrastructure investment, PFI contracts, local authority housing).	The authority plans for the long term through a range of financial strategies and plans including the Capital Strategy, the Asset Investment Strategy, the 40 year business plan for the HRA, and the Treasury Management Strategy.	The authority should bring together the elements of its long term financial plans – i.e. the Capital Strategy, the Asset Management Plan, the Asset Investment Strategy, the 40 year business plan for the HRA, and the Treasury Management Strategy together with any other relevant long term financial planning information – in a Long Term Financial Strategy document.
BP 6 - Transformation programmes are subject to adequate due diligence so that risks are managed	The recent transformation of Children's Services from an 'Inadequate' Ofsted rating to a rating of 'Good' demonstrates Croydon's capability to undertake transformation work successfully. However, there is a track record in several other areas (e.g. budget savings 'sprints' conducted	Transformation activity should be supported by the council's strengthened programme management function to provide assurance that risks are managed and projects are delivered on time.



Best Practice Approach	Current Practice	Recommendations
	early in 2020, the Localities programme) of poor programme management and delivery failure. The council has recently strengthened its programme management capability to address this issue.	
BP 7 - The authority has a capital strategy aligned to its long term financial strategy (see section below) accompanied by a treasury management strategy and investment plan.	The authority approved its capital strategy along with its treasury management policy statement, MRP policy statement, and annual investment strategy at Cabinet on 24 <sup>th</sup> February 2020 and for the previous year on 25 <sup>th</sup> February 2019.	None (but see 5.2.4 below).
BP 8 - The authority has an asset management plan that reviews the condition, sufficiency and suitability of assets in the light of business needs and ambitions (see section below).	The authority has asset management plans for Housing (Housing Asset Management Plan 2019-2028), Highways (Highways Asset Management Plan May 2015), and Schools (The Education Estates Strategy, Cabinet January 2020).	The authority should maintain an up to date suite of asset management plans aligned with the corporate plan, including an asset management plan for property (see also BP 24).
BP 9 - The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	Council dwellings are recorded on OHMS; other property information is held on the Technology Forge asset register. A register of capital expenditure on intangible assets is held in corporate finance, as is a summary	None.

Best Practice Approach	Current Practice	Recommendations
	<p>level record of heritage assets (with more detailed records held by the museums team). The highways team maintains a register of highways assets. The information on asset numbers and values is reconciled and presented in the annual accounts. The audit of the accounts includes checks on the reconciliations, including changes in asset numbers, valuations and checks of property deeds. The auditors have accepted the records and processes for the purpose of financial reporting. Internal audit also provides assurance on asset recording through the rolling annual audit programme.</p>	
<p>BP 10 - The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities</p>	<p>The authority sets out its capital strategy, treasury management strategy, MRP policy and annual investment strategy in an annual report to cabinet and subsequently to council. The report explains how the authority complies with a range of codes and guidance issued by CIPFA and by MHCLG. This includes the prudential code. The prudential code aims to ensure that the</p>	<p>The authority should review its MRP policy to ensure that it adequately provides for debt repayment and matches its appetite and capacity for managing risk, particularly in relation to arm's length entities and commercial investments.</p> <p>The authority should manage its capital programme and associated funding</p>

## Best Practice Approach



## Current Practice

capital investment plans of an authority are affordable, prudent and sustainable. It sets out a number of indicators that the authority must publish. These indicators were published in the council's annual budget report 2020/21 and in previous years. Due to changes to the capital programme the authority exceeded the forecast capital financing requirement in 2018/19 and in 2019/20. The prudential indicators published at Cabinet on 24 February 2020 forecast that the ratio of financing costs to net revenue streams for the general fund would climb to 16.73% by 2022/23.

## Recommendations

arrangements within the forecast CFR and associated prudential indicators

The authority should consider the affordability of its borrowing plans in the context of its overall budget risk and in particular the ongoing impact on the general fund of social care pressures.

Source: CIPFA Financial Management Code (2019)

## 5.2.4 Capital Strategy – Analysis of Current Practice

Best Practice Approach	Current Practice	Recommendations
BP 11 - Applies a long-term approach – 20-30 year Capital Strategy	The Capital Strategy Statement approved by Cabinet on 24th February 2020 states that it “sets out how capital investment supports the delivery of the council’s objectives. It describes the main objectives for the council over a 4 year horizon.” The document references other more detailed strategy documents with different time horizons – e.g. the Brick by Brick 20-21 Business Plan (4 years), the Education Estates Strategy (2 years), Asset Investment Strategy 2018 (unspecified but published as appendix to 3 year MTFS). Resources relating to the housing revenue account (HRA) fall outside the scope of the strategy (paragraph 3.7 of Capital Strategy Statement).	The Capital Strategy should have a time horizon of 20 to 30 years.
BP 12 - Explores external influences e.g. Combined Authority, Local Enterprise Partnership, City Deal	The Capital Strategy Statement identifies external influences such as grant funding administered by the Education & Skills Funding Agency, Educations Basic Needs grants, TfL grants, and NHS funding. It	The Capital Strategy should explore external influences in more depth and consider how these affect the requirement and scope for capital investment over the long term (20-30 years).

Best Practice Approach	Current Practice	Recommendations
	<p>discusses the Growth Zone (ring fencing of business rates to fund infrastructure investment), and MHCLG’s approach to flexibility in using capital receipts. It also refers to other more detailed strategy documents that discuss these influences in more detail.</p>	
<p>BP 13 - Explores internal influence e.g. Corporate Plan, Local Plan, Asset Management Plan</p>	<p>The Capital Strategy Statement references the corporate plan in paragraph 3.1 and detailed delivery strategies including the Education Estates Strategy, Brick by Brick’s Business Plan, and other strategies and plans. The HRA is deemed to be out of scope.</p>	<p>The Capital Strategy should consider and model the long term (20-30 year) impact of internal influences such as the Asset Management Plan, the Education Estates Strategy, the Asset Investment Strategy, Digital Strategy, and other strategic documents and plans that concern the acquisition, disposal or use of assets.</p> <p>The Capital Strategy should include consideration of all of the council’s capital-related strategies and plans including the HRA.</p>
<p>BP 14 - Examines commercial activity / ambition</p>	<p>The capital strategy references the Asset Investment Strategy 2018. This document sets out the council’s ambitions concerning</p>	<p>The Capital Strategy should include consideration of risks and mitigations in</p>

Best Practice Approach	Current Practice	Recommendations
	<p>commercial investment and the scale of the proposed activity (a £100m+ asset acquisition fund set up in 2018/19 increased to £300m in the 2020/21 budget report). The Asset Investment Strategy provides the criteria for acquisition of investment properties. Due to the opportunistic nature of investments the capital programme reflects the financial commitment in an estimated profile until transactions are completed.</p>	<p>relation to the council's asset investment strategy.</p>
<p>BP 15 - Determines implications of Investment Strategy (i.e. the full capital programme).</p>	<p>The capital programme and capital strategy, taken together with the treasury management strategy, set out the financial implications of capital-related decisions for the current year and also look three years ahead. This includes defining the capital financing requirement, the minimum revenue provision, and setting prudential indicators.</p>	<p>The Capital Strategy should consider the long term financial implications of capital investment decisions (i.e. modelled over a 20-30 year period).</p>
<p>BP 16 - Ensures corporate plan priorities drive identified capital investment ambition</p>	<p>The Capital Strategy Statement states that <i>"Capital projects are assessed and prioritised according to their fit within the</i></p>	<p>None (but see BP 23 below).</p>

Best Practice Approach	Current Practice	Recommendations
	<p><i>strategic context. The Council will invest in programmes and projects in line with statutory and core functions with priority for funding being given to those schemes along with invest to save projects. The return on investment helps to prioritise some schemes.”</i> The detailed practice in this regard is set out in BP 23 below.</p>	
<p>BP 17 - Examines available resources and capacity to deliver</p>	<p>The annual budget report and the treasury management strategy set out the available funding.</p>	<p>The Capital Strategy should include consideration of the organisation’s capacity to secure the forecast funding (e.g. capital receipts) and the associated risks, with particular regard to arm’s length bodies.</p> <p>The Capital Strategy should consider the organisation’s capacity to deliver the planned capital programme and evaluate the associated risks (e.g. impact and likelihood of slippage).</p>
<p>BP 18 - Assesses affordability against ambition and addresses any gap</p>	<p>The authority’s process for resolving the gap between ambition and funding is the annual budget setting process. Financial Regulations state that “<i>Full Council must</i></p>	<p>Assessment of affordability should take into account the council’s revenue position and the full range of risks associated with the proposed capital programme.</p>

Best Practice Approach	Current Practice	Recommendations
	<p><i>agree the overall capital programme as part of the Council Tax and budget setting report each year". The capital budget 2020-2023 was set out in section 11 of the General Fund and HRA Budget report to Cabinet of 24<sup>th</sup> February 2020 and its affordability was assessed in the Treasury Management Strategy on the same Cabinet agenda, the gap being filled by borrowing deemed to be affordable with reference to the prudential code.</i></p>	
BP 19 - Identifies capital financing principles	<p>The Capital Strategy Statement states that: <i>"The revised CIPFA Prudential and Treasury Management Codes (the Codes) require that all local authorities must prepare a Capital Strategy Statement, which provides the following: a high-level long term 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."</i> It goes on to give an overview of the framework</p>	None.



Best Practice Approach	Current Practice	Recommendations
	<p>established by the codes, sets out the different types of funding and a structure for categorising projects for funding by borrowing: Revolving Investment Fund – normally for housing and on-lent at a commercial rate where debt is repaid on completion of the project; Growth Zone – debt is repaid from future business rates growth; Asset Investment Strategy – Borrowing decisions made in line with the agreed strategy and where the asset generates a positive net return. Debt would be repaid in future from asset value; and General – Any other priority capital schemes that cannot be funded from external sources. Further information about capital financing principles is set out in the annual Treasury Management Strategy.</p>	
BP 20 - Demonstrates integration with other strategies and plans	<p>The Capital Strategy Statement references the corporate plan in paragraph 3.1 and detailed delivery strategies including the Education Estates Strategy, Brick by Brick's Business Plan, and other strategies and plans.</p>	None.

Best Practice Approach	Current Practice	Recommendations
BP 21 - Produces a 10-year capital investment plan – with actions, timescale, outputs and outcomes	The authority publishes a three year capital investment plan (i.e. capital programme).	The authority should produce a 10-year capital investment plan (i.e. capital programme) – with actions, timescale, outputs and outcomes.
BP 22 - Captures risks and mitigating factors	Risks are captured at individual capital project level in the documentation relating to that project, which sits outside the Capital Strategy.	The Capital Strategy should capture and take into account the significant risks and mitigations in relation to the capital programme.
BP 23 - Outlines governance and monitoring processes and procedures	The arrangements for determining that a capital investment (i.e. a capital project) should receive funding and enter the capital programme are set out in the Financial Regulations: <i>“Full Council must agree the overall capital programme as part of the Council Tax and budget setting report each year. Quarterly financial monitoring of the capital programme, including spend to date, projected spend for the financial year and slippage will be presented to Cabinet as part of the financial monitoring report. Programme and Project managers along with the relevant Executive Director must ensure that any variances to budget are</i>	<p>The authority should ensure that its governance arrangements concerning capital are fit for purpose and clearly set out in the Capital Strategy and the council’s Financial Regulations.</p> <p>The authority should ensure that capital decisions are made in compliance with the agreed governance arrangements.</p>

## Best Practice Approach

## Current Practice

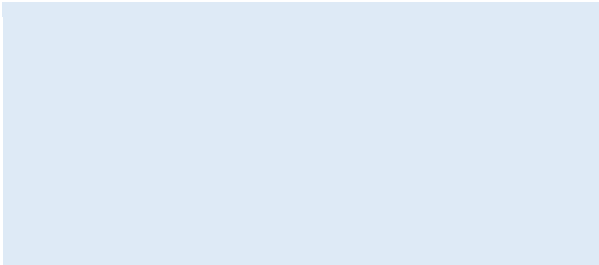
## Recommendations

*reported as soon as they are aware of them. The Growth Board is the Officer control mechanism by which all non IT and FM capital expenditure is managed and assured. Details on its role are contained in the Growth Board terms of reference. ICT and FM capital expenditure is approved through their own Officer boards. All of these boards must be presented with a business case that details the expenditure to be incurred and the timing of that expenditure to ensure accurate financial management and monitoring.”* In practice the Growth Board no longer meets and its function is performed in part by the Asset Board, which serves as a gateway for any proposals for the acquisition or disposal of land and property that have been formulated by the Asset Working Group and approved by the Council’s Executive Leadership Team and which exceed £500,000 in value before they go to Cabinet. This board consists of a mix of cabinet members and officers.

**Best Practice Approach**

**Current Practice**

**Recommendations**



The Asset Investment Strategy outlines the governance and reporting arrangements in respect of commercial investments. Capital proposals were agreed as part of the capital programme at the annual Budget Council on 2 March 2020.

Checklist source: Link Asset Management – July 2018

## 5.2.5 Asset Management Plan – Analysis of Current Practice

Best Practice Approach	Current Practice	Recommendations
BP 24 – The authority maintains an up to date suite of asset management plans aligned with the organisation’s strategic choices as set out in the corporate plan.	The authority sets out its strategic approach to the use of assets in the Housing Asset Management Plan 2019-2028, the Highways Asset Management Plan May 2015, The Education Estates Strategy (Cabinet, January 2020) and the Asset Strategy 2014-2019.	The authority should maintain an up to date asset management plan for operational property (see also BP 8).
BP 25 – In relation to property management, the authority should meet best practice standards - for example Government Functional Standard GovS 004: Property	The authority’s asset management plan in relation to operational property is out of date and does not meet current best practice standards.	The authority’s asset management plan for operational property should meet best practice standards.

## 5.2.6 Medium Term Financial Strategy (MTFS) – Analysis of Current Practice

Best Practice Approach	Current Practice	Recommendations
<p>BP 26 - The Medium Term Financial Plan is rolled forward annually to ensure that it reflects the latest detailed information.</p>	<p>The authority has been operating a two year cycle for the MTFS, with full MTFS reviews carried out in July 2016 and July 2018. In between these full reviews, the MTFS has been updated in July, and the assumptions for the following year revised each February as part of the budget setting process.</p>	<p>The MTFS should be rolled forward annually in July and updated in February as part of the budget setting process.</p>
<p>BP 27 - Forecasts all the significant factors affecting the financial sustainability of the authority over the medium term (next 3-5 years). It includes specific quantitative and qualitative organisational targets and constraints.</p>	<p>The MTFS 2018-2022 (Cabinet - July 2018) forecast the significant factors affecting the authority over the period. These included government funding, population and demography and the demand for services, inflation, the capital programme, and income from council tax, business rates and fees and charges. It discussed Brick by Brick and the revolving investment fund, asset investment, and improvements in children's and adults' social care services. The document was backed by a detailed financial model. The assumptions were updated annually in July and revised each February as part of the budget setting process, with a full review every two years.</p>	<p>The MTFS should forecast 3-5 years ahead. A three year MTFS allows the council to plan its operations three years ahead, and this means that targets can be set for growth and savings for three years rather than one. This permits projects with a longer implementation timescale or with greater complexity to be planned and approved in advance.</p>

## Best Practice Approach

BP 28 - Contains or is supported by high quality plans; usually achieved through a 'bottom up' approach to developing savings and growth proposals, starting from a detailed understanding of current costs and business practices.

## Current Practice

The medium term forecast horizon moves from three years in year 1 to two years in year 2 due to the two year MTFS cycle.

In 2019/20 the value of new savings proposals was £27.9m. The value of those savings actually delivered in 2019/20 is not available as a separate figure but non-delivery of savings has been identified as a contributing factor to departmental overspends. The authority's plans for savings and growth in 2020/21 were approved by Council in March 2020. The council's budget setting process included a call for proposals from departments. The June 2020 return to MHCLG predicted that £31.747m of the £40.249m of savings would not be delivered; the extent to which this is entirely attributable to Covid19 is not clear.

## Recommendations

The council's budget setting process should bring together well-evidenced proposals for savings and growth that are based on a detailed understanding of costs and business practices and have clear delivery plans (see 6.2.2 below).

The robustness and deliverability of budget proposals is a major issue. A longer timescale for departments to work on proposals before submitting them will help with this, but the process itself must also foster greater focus on deliverability and should do so by providing templates for submissions that require more information about delivery and risk.

## Best Practice Approach

BP 29 - Balances the financial implications of objectives and policies against constraints in resources and provides the basis for decision making.

BP 30 - Financial and operational plans (e.g. service plans) are demonstrably aligned to the MTFS at all levels through costings and other financial analysis linked to performance targets.

BP 31 - The authority has benchmarked the performance of its services against appropriate comparators.

## Current Practice

The MTFS forecasts the budget requirement based on delivering the administration's policies priorities and the gap between that and the forecast level of resources. This provides the basis for developing growth and savings proposals. The council operates a 2 year MTFS cycle.

The authority has an easily accessible and comprehensive library of service plans, which it divides into 'delivery plans' and 'business as usual (BAU) plans'. Delivery plans are associated with corporate plan themes, whilst the BAU plans are associated with the departmental structure. The plans cover a one year period, and the last time they were updated is for the financial year 2019/20. The plans typically contain a range of performance targets

External benchmarking of service performance is used in some service areas.

## Recommendations

The budget report should reconcile the annual MTFS forecast budget gap to the proposed budget.

Service plans should be kept up to date and linked to the MTFS, in particular with regard to significant savings, growth, demand management and cost control matters.

The authority should introduce systematic benchmarking of service performance with other organisations and with its own performance over time as part of its performance regime.



### Best Practice Approach

BP 32 - There is a single document (Savings Tracker) tracking progress in delivering planned savings over the period of the Medium Term Financial Plan.

BP 33 – References the Chief Finance Officer’s advice to the local authority on the appropriate level of reserves and contains a clear statement on the planned and actual use of reserves. The level of reserves at 31<sup>st</sup> March in any one year should not fall below the level previously agreed.

### Current Practice

The authority monitors income and expenditure against budget through quarterly budget monitoring.

The foreword to the MTFS 2018-2022 (Cabinet – July 2018) by the Executive Director of Resources (p5) sets out the planned level of reserves at 5% (of net spend).

### Recommendations

The authority should track progress in delivering planned savings through a savings tracker that should be reported with the monthly budget monitoring statement.

The MTFS should contain analysis of the use of reserves against plan in the recent past, and the planned use of reserves over the MTFS period. The analysis should be underpinned by an analysis of financial risk.

Source: CIPFA Financial Management Code 2019

## 5.2.7 Group and Company Structures – Analysis of Current Practice

Best Practice Approach	Current Practice	Recommendations
BP 34 - The authority is clear about the reasons for its involvement in any arm's-length funding arrangement.	The authority's principal arm's length funding arrangements are with Brick by Brick and with Croydon Affordable Housing group. The case for creating a wholly owned housing company (Brick by Brick) was set out in a report to Cabinet on 29 <sup>th</sup> September 2014: "Wholly Owned Housing Company – an Option for Tackling the Shortage of Homes in Croydon". This was further developed in a report to Cabinet of 16 March 2015: "Homes – Our Ten Priorities", in which delegated authority was sought to establish the company that would subsequently be named Brick by Brick. The case for Croydon Affordable Housing was set out in a report to Cabinet on 19 <sup>th</sup> June 2017: "The Delivery of Affordable Housing" and further developed in a report of 17 <sup>th</sup> July 2017; "Increasing Housing Supply".	The council should review group and company structures to ensure they are necessary and fit for purpose at regular intervals or when there is a significant change in the regulatory or funding framework.
BP 35 - The extent of the financial commitment and the nature of the financial	The extent of the authority's financial commitment to Brick by Brick is set out in the reports to cabinet seeking approval of	This will be the subject of a further report following detailed consideration of the extent and nature of the financial

Best Practice Approach	Current Practice	Recommendations
relationship is clearly specified and understood at a detailed level.	<p>specific schemes. These reports include a report to Cabinet on 20 June 2016, “Brick by Brick Croydon Limited – Property and Financial”, and the annual Brick by Brick business plans (e.g. Brick by Brick Annual Business Plan 2020/21 – Cabinet, 24 Feb 2020)</p> <p>With regard to Croydon Affordable Housing, the report of 17th July 2017, “Increasing Housing Supply” sought approval for the LLP (Croydon Affordable Homes) to be granted £30m in retained right to buy receipts. In addition, the report sought delegated authority to “agree and enter into ‘arm’s length loans with respective limited liability partnership at appropriate market normative rates”. Although the maximum amount to be loaned was not specified in the report, the maximum was implied.</p>	commitment to both Brick by Brick Ltd and Croydon Affordable Housing.
BP 36 - Appropriate financial and performance monitoring and reporting arrangements are in place from the start.	This will be the subject of a further report following detailed consideration of the financial monitoring and reporting arrangements with both Brick by Brick Ltd and Croydon Affordable Housing.	This will be the subject of a further report following detailed consideration of the financial monitoring and reporting arrangements with both Brick by Brick Ltd and Croydon Affordable Housing.

## Best Practice Approach

BP 37 - The right skills and capacity to manage the relationship with the arm's-length body are in place.

BP 38 - Provisions are made for the authority and its external auditors to have access to the records of the funded body.

BP 39 - The authority has carefully considered the question of their representation in the arm's-length body

## Current Practice

This will be the subject of a further report following detailed consideration of the arrangements with both Brick by Brick Ltd and Croydon Affordable Housing.

The individual funding agreements with Brick by Brick stipulate that the arm's length body is required to provide financial or other information requested by the council promptly. There is no provision for access to the records of Croydon Affordable Homes, which is an independent charity. In relation to Croydon Affordable Homes LLP the council has input to the appointment of its auditors through its 100% owned holding company, London Borough of Croydon Holdings LLP, but no provisions exist for direct access by the council and its auditors to its records.

The authority's representative on the board of Brick by Brick is the Executive Director of Place. The authority's representation on the board of Croydon Affordable Homes LLP is through London Borough of Croydon

## Recommendations

This will be the subject of a further report following detailed consideration of the arrangements with both Brick by Brick Ltd and Croydon Affordable Housing.

Agreements with arm's length bodies should contain provision for the authority and its external auditors to have access to the records of the funded body.

The authority should ensure its representatives on boards are adequately supported to drive the authority's strategic objectives through the activities of the arm's length body.

Best Practice Approach	Current Practice	Recommendations
	Holdings LLP. Training is provided to authority representatives on their role and responsibilities.	The authority should ensure that in relation to its representation on the boards of arm's length companies, any conflicts of interests are identified and avoided or escalated and resolved.
BP 40 - The authority has established limitations in the funding relationship and an 'exit' strategy.	This will be the subject of a further report following detailed consideration of the arrangements with both Brick by Brick Ltd and Croydon Affordable Housing.	This will be the subject of a further report following detailed consideration of the arrangements with both Brick by Brick Ltd and Croydon Affordable Housing.

Source: COSLA/Accounts Commission 'Following the Public Pound' Code

## 6 The Annual Budget

### 6.1 The Annual Budget - Standards

- 6.1.1 Key elements of the budget setting process of UK local authorities are governed by statute, including the timetable, and tax-setting and billing. Leading members and senior officers must understand the statutory processes and timetable necessary to set a legal budget, and ensure that the authority complies with those **statutory obligations**.
- 6.1.2 The **budget report** is produced annually and sets out the financial plan for the coming year. Its contents should demonstrably flow from the long term financial strategy and medium term financial plan. It should be owned and articulated by the whole leadership team and senior managers.
- 6.1.3 The budget report should include an **analysis of the successes/failures** in achieving the spending plans of the previous year and of departures from the planned use of reserves and balances. Demonstrating that the causes of failure have been understood and addressed informs any assessment of the robustness of the proposals.
- 6.1.4 The Chief Finance Officer is required by statute to give a **statement on the robustness of the estimates and the**

**adequacy of the proposed financial reserves.** The council is required to take this statement into account when making its budget and taxation decisions. This should take into account any objective measures of financial resilience, such as the CIPFA financial resilience index. The statement of reserves should list those earmarked reserves that are material for assessing the financial resilience of the authority, setting out transparently the purposes for which the reserves are held and showing the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

- 6.1.5 In assembling the budget a focus on the detail of execution is essential to turning policy goals into savings and growth proposals. For this reason a 'bottom up' approach, starting from a detailed understanding of current costs and business practices, is the preferred means of identifying savings. A clear distinction should be made between those savings for which there is a clear delivery plan, those which have been agreed in principle but do not yet have a clear implementation plan and those that are simply ideas. Only the first should feature in the annual budget; and the success (or failure) of these needs to be tracked over the medium term if the lessons learnt are to inform decision making.

## 6.2 The Annual Budget - Analysis of Current Practice

6.2.1 Best practice concerning the Annual Budget is set out in the following table. Current practice is presented alongside.

6.2.2 Annual Budget – Analysis of Current Practice.

Best Practice Approach	Current Practice	Recommendations
BP 41 - The authority complies with its statutory obligations in respect of the budget setting process.	Based on a review of the authority's recent budget reports to Council, there is evidence that the authority has consistently complied with statutory obligations concerning tax setting and setting a balanced budget before the statutory deadline of 11 March. The 2020/21 budget was set by Council on 2 March 2020 and the 2019/20 and 2018/19 budgets were set on 4 March 2019 and 27 February 2018 respectively. The legal duties are stated in the Legal Considerations sections of each report.	None
BP 42 - The budget report includes an assessment of its consistency with the current medium term financial plan and long term financial strategy.	The budget report for 2020/21 includes a section on the MTFS, noting that the current MTFS was approved in September 2018 and covers the period 2018-2022, and that it will be updated later in the year, and that a full MTFS refresh will be done once	The budget report should update the MTFS each year, reconciling the budget proposals to the previous MTFS forecast, to ensure that the proposed budget and the medium term financial plan are in step and based on

## Best Practice Approach

## Current Practice

## Recommendations

there is greater clarity concerning government funding. The report states the budget gap identified in the 2018 MTFS for 2020/21 and 2021/22. It goes on to consider and revise corporate and departmental assumptions as the basis for the calculation of the budget requirement for the financial year 2020/21. In relation to the Long Term Financial Strategy, the report discusses the capital budget and references the Capital Strategy in section 11. It also refers to the Asset Investment Strategy in paragraph 7.19.2, and the 40 year business plan for the HRA in paragraph 12.3. The Treasury Management Strategy is referenced in section 13.

the latest information. The MTFS should be revised in full in July each year.

The authority should bring together the elements of its long term financial plans in a Long Term Financial Strategy document (see BP 5 above). The budget report should evidence consistency with the long term financial strategy.

BP 43 - Savings and growth proposals are built from the 'bottom up' and have a clear delivery plan.

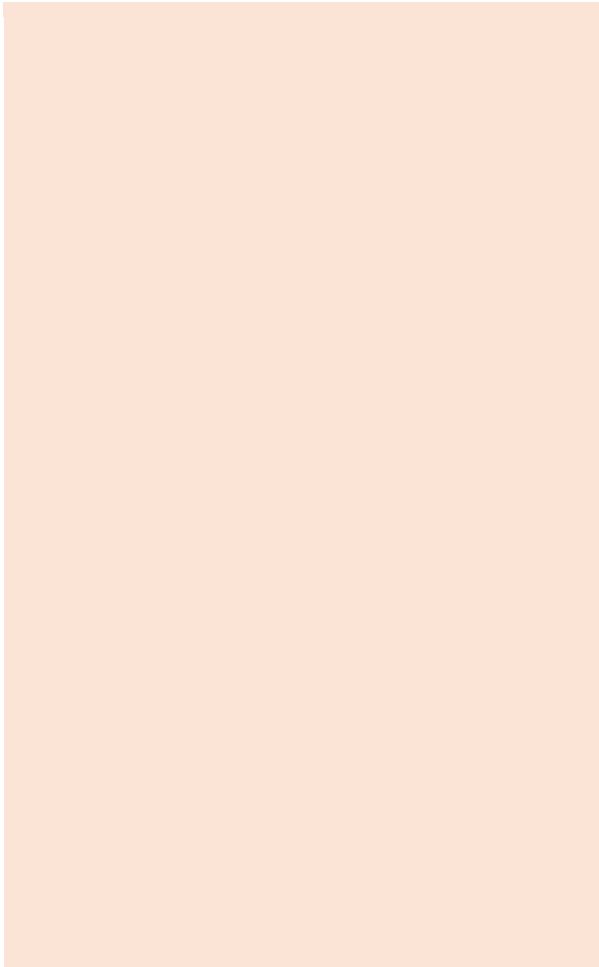
The budget report of 2nd March 2020 sets out the 2020/21 savings and growth proposals with a brief line by line description in Appendix A. The report of 4th March 2019 presents the 2019/20 proposals in a similar way. In relation to 2020/21 the process for developing budget proposals included a call for growth and

Departments should have clear financial targets to work to in developing budget options.

In order to allow sufficient time for departments to develop robust proposals for growth and savings to feed into the budget decision-making process,



## Best Practice Approach



## Current Practice

savings proposals from departments and these being presented to and reviewed by members in a series of policy development type meetings held in the autumn. There is evidence that a number of proposals did not go forward following that process and that further proposals were brought forward later in the process to close the gap.

## Recommendations

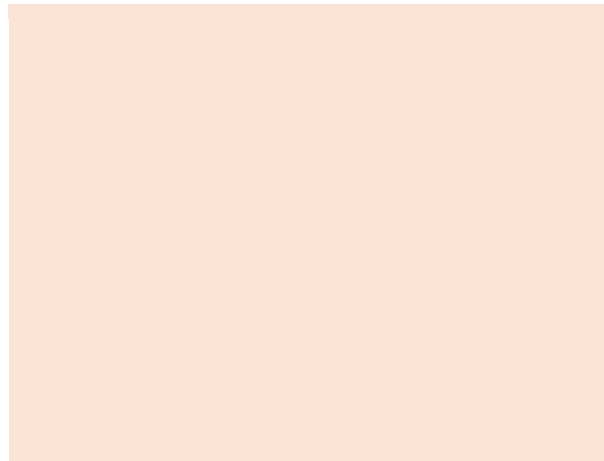
departments should start work as early as possible in the cycle. This means not waiting until the MTFS has been revised but working to provisional targets beginning as early as May.

The budget process should enable budget proposals to be built from the bottom up, so that they are underpinned by the expertise of practitioners.

As part of the budget development process departments should collaborate across departmental boundaries to develop robust and deliverable cross-cutting savings proposals.

Budget proposals should be evidenced by performance data and modelling to demonstrate robustness and deliverability, with performance and value for money benchmarked over time and against other organisations.

## Best Practice Approach



BP 44 - The budget is owned and articulated by the whole leadership team (i.e. Cabinet and ELT) and senior managers, not simply the Chief Finance Officer.

## Current Practice

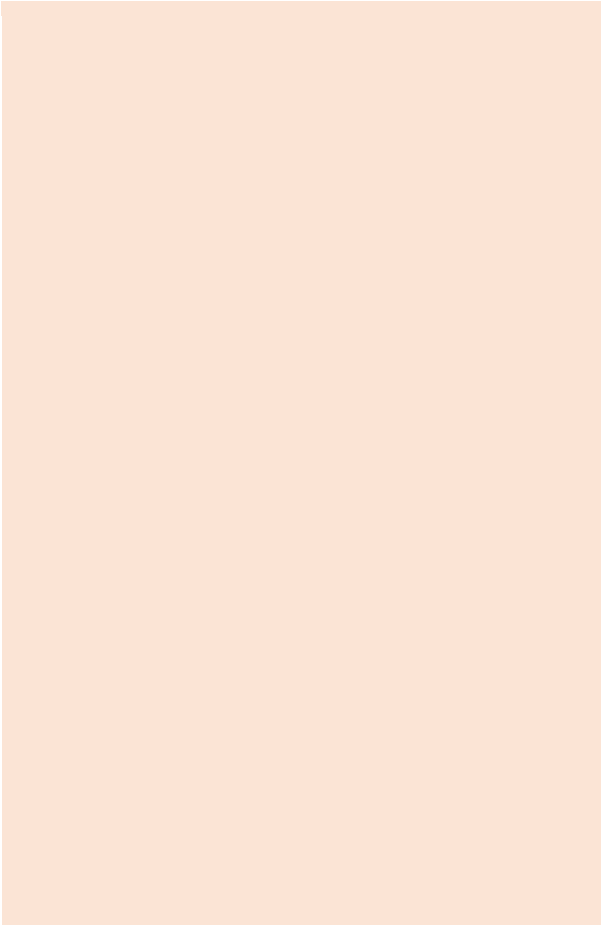
Meetings between officers and leading members to discuss 2020/21 budget proposals were held in the autumn and winter of 2019 following a call for departmental proposals. The meetings did not include all members of ELT and the Cabinet.

## Recommendations

Meetings between officers and members to explore budget options (Budget Development Meetings) should focus on prioritisation of proposals. Proposals should not be screened out politically before being presented at Budget Development Meetings.

The budget report should contain only savings proposals for which there is a clear and achievable path to benefits realisation.

The budget proposals brought forward by departments should be prioritised by members. Friendly and constructive challenge has an important role to play in the development of proposals, to ensure that they are aligned with corporate priorities, are developed to their full potential, and are sufficiently robust and deliverable. For this reason budget development meetings should be held in September / October involving both members and officers. To ensure collective ownership of the financial position and

Best Practice Approach	Current Practice	Recommendations
		<p>decisions, all cabinet and ELT members should be invited to each meeting. The meetings will follow an agreed format and focus upon a particular set of proposals, grouped by theme (e.g. Capital) or by department.</p>
		<p>The budget development process should engage CLT members (i.e. directors), not only in their role as originators of budget savings and growth proposals, but collectively through regular briefings.</p>
		<p>Scrutiny should have a formal role in the process, with pre-scrutiny of proposals for significant change being feasible because of longer development timescales. Scrutiny of budget proposals should take place in the period November to February as the proposals are brought forward for Cabinet approval.</p>

## Best Practice Approach

BP 45 - The annual report proposing the budget includes an analysis of the success/failures in achieving the spending plans of the previous year and of departures from the planned use of reserves and balances.

BP 46 - The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves, supported by a financial resilience assessment.

## Current Practice

The budget report of 2nd March 2020 analyses the assumptions made in relation to departmental base budgets in section 7. *Departmental Assumptions 2020/21 Budget*. This section references the in-year performance against budget in relation to Children, Families & Education (CFE), and Health, Wellbeing & Adults (HWA), and discusses the associated pressures. The report discusses level of reserves and balances in section 14.

The budget report of 2nd March 2020 contains a section entitled *14.0 Statement of the Section 151 Officer on reserves and balances and the robustness of estimates for purposes of the Local Government Act 2003*. In the ensuing paragraphs the report describes risks to the financial plan such as the level of government funding, service need, and cost pressures. There is a section on *The Level of Reserves and Balances* (para. 14.9 – 14.18), in which the Director of Finance, Investment and Risk and S151 Officer states that “in the context of the

## Recommendations

The budget report should update the MTFS with any new assumptions arising from current financial performance as well as external factors. This should include any significant over/under-spending and an update on the delivery of planned savings and growth proposals in the current year.

The budget report should include analysis of the use of reserves and balances compared to plan.

The target level of reserves should be set by the s151 officer based on their professional judgement about the risks the council is facing, and the budget plan must prioritise maintaining the reserves at the target level above any operational considerations. The minimum level of reserves cannot be set on the basis of affordability in comparison with other priorities, but must be set on the basis of risk assessment as a fundamental requirement that underpins the stability of the organisation.

Best Practice Approach	Current Practice	Recommendations
	<p><i>financial climate and the financial risks which the Council faces my formal advice to all Members is that an appropriate level of General Fund Balances is between 3% and 5% [of the net revenue budget] for the medium term which in cash terms is between £8m and £13.8m. The current level of General Fund Balances is £10.4m. This budget makes provision to increase reserves by £5m.”</i> A similar section appears in the report of 4th March 2019 at paragraphs 19.0 to 19.17, and in the report of 27th February 2018.</p>	

Source: CIPFA Financial Management Code 2019

## 7 Monitoring Financial Performance

### 7.1 Monitoring Financial Performance - Standards

- 7.1.1 Cabinet, ELT and local management should receive reports enabling them to identify and correct emerging risks to the budget strategy and financial sustainability. These risks may take the form of significant unplanned overspends and/or carrying forward undelivered savings, but may also be detected through non-financial performance measures, such as backlogs.
- 7.1.2 The quality of information available to managers is an important factor in avoiding budgetary failure. An authority needs an effective finance system that provides all decision makers with one version of the truth. Information should be timely, accurate and succinct.
- 7.1.3 Financial and other management information should be embedded in a system of internal control that focusses on controls, probity, compliance and accountability.
- 7.1.4 Real time financial and performance information needs to be periodically collated for management review and action. Most importantly, the details of these performance monitoring arrangements must ensure that personal responsibility for each budget is established and monitor

that routine best practices are followed. High risk budgets should be monitored by the leadership team of the organisation on (as a minimum) a monthly basis. Steady state/low risk budgets should be monitored by budget holders on a monthly basis and by the leadership team on a regular basis.

- 7.1.5 Responsibility for addressing budgetary failures must in the first instance rest with budget holders. Even when the service has been subject to fundamental changes to the operational environment, budgetary discipline must be maintained and budget holders must take corrective action. However, the authority must have a mechanism for re-calibrating budgets in-year in exceptional circumstances, and clear criteria for determining when such budget flexibility is appropriate.
- 7.1.6 The forecasts presented to Cabinet and ELT should not only report upon service expenditure but should also provide information on the “below the line” non-service budgets for which expenditure is controlled corporately, so that the regular financial monitoring information is understood in its wider context.
- 7.1.7 The financial sustainability of the authority may be affected by the performance of partners and subsidiaries. Their financial and risk management should be appropriately robust to protect the financial position of the authority, and

should be reported upon as part of managing group performance. Commercial arrangements can bear new and significant risks and require commensurate attention.

- 7.1.8 Capital projects should be subject to project management and cost control to ensure that benefits are delivered in a timely and affordable way.
- 7.1.9 Cabinet and ELT should monitor the material elements of the authority's balance sheet that may give indications of a departure from financial plans and a threat to financial sustainability. This is especially important for local authorities with significant commercial asset portfolios. This would typically involve reviewing unplanned and planned use of reserves, unusable reserves, contingencies and commitments, and provisions.

## 7.2 Monitoring Financial Performance - Analysis of Current Practice

### Best Practice Approach

BP 47 - Cabinet and ELT take action using reports providing early information that enable it to identify and correct emerging risks to its budget strategy and financial sustainability

### Current Practice

The authority provides quarterly budget monitoring reports to Cabinet covering the full range of council services. This is in line with the council's financial regulations, which state: *"The Chief Financial Officer is responsible for monitoring and controlling expenditure against budget allocations and reports the actual position in comparison to the budget, projected out-turn position and any proposed action to be taken by departments to deal with any variances to the Leader and Cabinet at least quarterly; and the Executive Leadership Team"*. High risk budgets are reported on monthly to departmental management teams. The Q1 Budget Monitor for 2020/21 is on the September Cabinet agenda and was considered by ELT in August 2020. Financial regulations go on to state that: *"Executive Directors are responsible for: controlling income and expenditure within their area and monitoring performance, taking*

### Recommendations

A full budget monitor should be produced monthly and reported to departmental management teams and to ELT. Cabinet should receive its first report on budget monitoring as early as possible in the cycle, which is likely to be the July Cabinet meeting.

The budget monitoring report should not only set out the financial forecast and associated risks but should also set out any corrective action required and the associated implementation plan.

The budget monitor should incorporate a savings tracker, monitoring the realisation of savings proposals introduced through the budget setting process.

Where overspending is forecast, executive directors should set out options for bringing spending back within the agreed bounds



## Best Practice Approach

## Current Practice

## Recommendations

*account of financial information provided by the Chief Financial Officer and / or their own systems; quarterly and monthly reporting for areas of high financial risk, in accordance with the agreed corporate format and timetable, on variances within their own areas; taking any action necessary to avoid exceeding their budget allocation and alerting the Chief Financial Officer as soon as possible if this cannot be achieved."*

and these should be considered and approved without delay through the appropriate governance arrangements.

Budget managers should be held to account if they do not remain within their agreed budget plan / promptly take corrective action when overspending is forecast. Failure to take appropriate action is a serious issue and potentially a disciplinary matter.

The finance team should be increased in size to enable monthly budget monitoring.

BP 48 - Timely financial and performance information is available to managers via the appropriate systems.

The authority uses a system called MyFinance for the purpose of budget monitoring. Budget holders enter their forecast into the MyFinance system. Budget holders have commented that they find the MyFinance system difficult to use and that they cannot access the information they need. The MyFinance system accesses data from other systems, such as the staffing establishment held on the HR system and

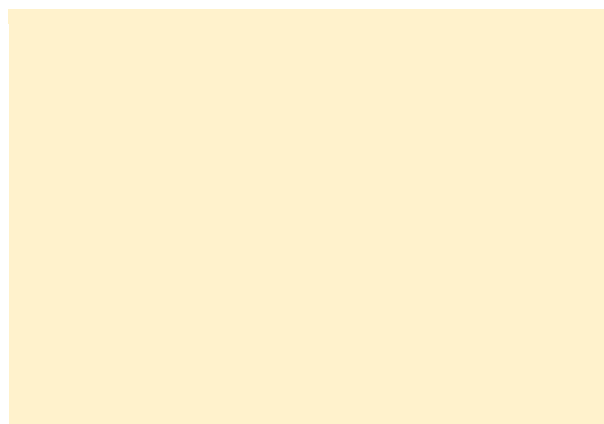
The data that budget holders rely upon to make their budget forecasts such as the staffing establishment should be corrected and kept up to date.

The authority should consider ways of improving the MyFinance system to make it more intuitive and user friendly, or consider moving to another system that more closely meets budget holder requirements.

## Best Practice Approach

## Current Practice

## Recommendations



the agency staff data held on the Adecco system, but in some cases this information is significantly out of step with budget information. The MyFinance system does not have any links to operational performance data. In practice the MyFinance system information is not used by the heads of finance in reporting the forecast. They provide their return in the form of a spreadsheet.

BP 49 - Financial and performance management systems are engineered to provide relevant data at a sufficiently accurate level.

The budget is adjusted to reflect financial plans and past performance through the annual budget setting process. Except where there are growth or savings adjustments, budgets are rolled forward from year to year. There is evidence that in some cases budgets are significantly out of line with actual spending (e.g. social care spending on placements). A recent staffing reduction exercise highlighted differences between the approved establishment, the staffing budgets, and the actual numbers employed. It is difficult to access information on the correlation between

The authority should review and correct base budgets to ensure that they represent a credible spending plan for the year, particularly where there is an ongoing pattern of significant over/underspending

Employee budgets should be reconciled to and kept in step with the staffing establishment data.

Operational performance data should be reported alongside financial performance data to enable a full understanding of the cost/income drivers.

Best Practice Approach	Current Practice	Recommendations
	financial performance and operational activity.	
BP 50 - When appropriate, budgets are profiled to support effective budgetary control through the financial year.	The MyFinance system projects spending based on a profile. Managers have the ability to override this forecast with their own and to enter their reasons for doing so. The use of profiles is not covered in the MyFinance User Manual.	The council's budgetary control systems should support the use of profiling by budget holders. The guidance for MyFinance should support the use of budget profiles.
BP 51 - The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of 'data overload'.	The MyFinance system restricts user access to the areas relevant to that budget holder and the guidance sets out the process for budget holders to follow, which is supported by some workflow in the system.	Information should be presented in a more user friendly format that supports budget holders to understand the implications and take action. Operational performance information should be presented alongside the financial information.
BP 52 - All financial monitoring reports include: - The name of the budget holder responsible for the information presented - Accruals based financial information - The approved budget against which monitoring is taking place.	The MyFinance system restricts user access to the areas relevant to that budget holder. The information is accruals based and shows the approved budgets against which monitoring is taking place. The reports produced identify the service area and its forecast for the year. The MyFinance system does not hold service performance	The MyFinance system should produce the summarised information needed by heads of finance when reporting the financial position without the need for further intervention.

## Best Practice Approach

- A forecast for the remainder of the budget period,
- Service performance information and
- A reconciliation showing they are consistent with the aggregate position for the authority.

BP 53 - Financial monitoring reports for high risk budgets are:

- Scrutinised by the leadership team of the organisation on (as a minimum) a monthly basis.
- Financial monitoring reports for steady state/low risk budgets are:
- Received by budget holders on a monthly basis
- Received (in aggregate) by the leadership team on a regular basis.

## Current Practice

information. The system ensures that reports are consistent with the aggregate position for the authority. In practice the MyFinance system information is not used by the heads of finance in reporting the forecast. They provide their return in the form of a spreadsheet.

Formal monthly monitoring is carried out for areas that are deemed high-risk - i.e. those which are currently overspending significantly, are volatile or demand led. This is reported to departmental management teams. There is formal quarterly monitoring across all budgets, with outturn estimates and explanations collated and reported to ELT and Cabinet each quarter. The position is reported by department, with explanations for variances within services and directorates over £100k and £500k. There is no single formal template for reporting financial performance internally.

## Recommendations

Operational performance information should be presented alongside the financial information.

High risk budgets should be scrutinised by ELT and Cabinet monthly as a minimum.

ELT should receive a monthly budget monitoring report, which should also be shared with cabinet members. Formal quarterly reporting to Cabinet should continue.

The authority should standardise the presentation of financial performance information

Best Practice Approach	Current Practice	Recommendations
BP 54 - The authority has arrangements that allow annual service budgets to be recalibrated in response to unforeseen developments.	The authority has established a contingency budget that is available to recalibrate service budgets in year if required. It also has a general fund balance that exists to enable it to manage such risks. The annual budget setting process is the main process by which an ongoing response to unforeseen developments is reflected in base budgets.	The authority should review the level of contingency and also the level of the general fund balance to ensure these are at an appropriate level to manage the risks the authority is facing. On the basis of current overspending both are too low.
BP 55 - At the financial monitoring period end the leadership team receives a set of financial statements with forecast outturn for the year ahead	ELT and Cabinet are provided with a set of financial statements with the forecast outturn for the year ahead on a regular basis.	None (but see BP 53).
BP 56 - There are appropriate arrangements in place for reporting and managing the financial performance of each of the organisation's delivery partnerships and collaborative arrangements.	The authority has a number of delivery partnerships and collaborative arrangements including those with the GLA, Coast 2 Capital Local Economic Partnership, Croydon Health Services NHS Trust, Croydon BME Forum, Croydon Business Improvement District (BID), a range of contractors delivering services to residents, and arm's length companies. The financial performance of these entities in relation to	The authority should consider identifying and monitoring specific budget risks in relation to partnerships and collaborative ventures as part of its routine budget monitoring.

Best Practice Approach	Current Practice	Recommendations
	<p>the authority is embedded in budget monitoring. In addition, the authority reports upon the individual relationships to ELT and Cabinet at key decision points</p>	
<p>BP 57 - There are appropriate arrangements in place for the project management and cost control of capital projects.</p>	<p>Capital budgets are monitored on a quarterly basis. Slippage levels of 50% or more have been observed in past years. Project management of capital projects is led departmentally. The Growth Board which has the responsibility for overseeing the capital programme no longer meets.</p>	<p>The authority should profile capital budgets accurately, aligning spend with the project delivery plan.</p> <p>A standard programme/project methodology should be applied to all capital projects.</p> <p>Capital underspends should be returned for reallocation to other priorities and not retained by departments.</p> <p>Appropriate governance arrangements should be in place to oversee the delivery of the capital programme at a detailed level – this may be the Growth Board or a new arrangement.</p>

### Best Practice Approach

BP 58 - The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

Source: CIPFA Financial Management Code 2019

### Current Practice

The focus of budget monitoring is departmental spending. Collection of council tax and business rates is also covered.

### Recommendations

The authority should monitor balance sheet risks such as the collection of sundry debtors, and use of provisions and reserves against plan, as part of the monthly budget monitoring arrangements.

## 8 Council Documents Referred To In Report:

Corporate Plan 2018-2022

Council Tax and Budget Report – Council 2 March 2020

Treasury Management Strategy Statement, Capital Strategy, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2020/2021 – Cabinet 24 February 2020

Council Tax and Budget Report – Council 4 March 2019

Treasury Management Policy Statement, Minimum Revenue Provision Policy Statement, Capital Strategy & and Annual Investment Strategy 2019/2020 – Cabinet 24 February 2020

Housing Asset Management Plan 2019-2028 – Cabinet 25 February 2019

Council Tax and Budget Report – Council 27 February 2018

Medium Term Financial Strategy 2018/22 – Cabinet 24<sup>th</sup> September 2018

Brick by Brick Business Plan 2020/21 – Cabinet 24<sup>th</sup> February 2020

Q3 Financial Performance 2019/20 – Cabinet 24<sup>th</sup> February 2020

Housing Asset Management Plan 2019-2028

Highways Asset Management Plan May 2015

The Education Estates Strategy - Cabinet January 2020

Asset Investment Strategy 2018 – Cabinet 24<sup>th</sup> September 2018

Financial Regulations



Wholly Owned Housing Company – an Option for Tackling the Shortage of Homes in Croydon - Cabinet 29th September 2014

Homes – Our Ten Priorities - Cabinet 16 March 2015

The Delivery of Affordable Housing - Cabinet 19th June 2017

Increasing Housing Supply – Cabinet 17th July 2017

## Appendix 1 - Croydon Finance Review - Activity Plan June 2020

Heading	Brief Description	Review Activity	Estimated Time Requirement (days)	Sequence Priority 1-5 (1 = Urgent, 5 = Low)	Status	Priority 1 (days)	Priority 2 (days)	Priority 3 (days)	Priority 4 (days)	Priority 5 (days)	Actual (days)
<b>Undertake a full review of the Council's financial systems and processes and produce a report with recommendations specifying areas for strengthening and improvement.</b>											
Financial Leadership	The role of Cabinet and the officer leadership team in good financial management and ensuring services provide VFM;	Review cabinet reports on financial issues (MTFS, budget, treasury management, capital strategy, July Review, HRA budget; major financial decisions	2	3	In progress	0	0	2	0	0	1
		Review cabinet member activities re financial management. Interview EDs and lead Cabinet members.	1	3		0	0	1	0	0	
		Review access of cabinet members to information.	1	3		0	0	1	0	0	
		ELT: review financial agenda items.	1	3		0	0	1	0	0	
		Sample ELT reports for financial content.	2	3		0	0	2	0	0	
		Review departmental management team agenda	2	5		0	0	0	0	2	

Heading	Brief Description	Review Activity	Estimated Time Requirement (days)	Sequence Priority 1-5 (1 = Urgent, 5 = Low)	Status	Priority 1 (days)	Priority 2 (days)	Priority 3 (days)	Priority 4 (days)	Priority 5 (days)	Actual (days)
		items for finance content and sample.									
	The role of the s.151 officer;	s.151: consider senior management structure and s151 access and influence. Degree of sharing of financial information with ELT.	0.5	2		0	0.5	0	0	0	
	Finance staffing capability and capacity;	Review structure, benchmark against comparable organisations (use CIPFA / London Councils / SLT).	2	4		0	0	0	2	0	
		Review talent management, professional training and skills training arrangements. Interview sample of finance staff.	2	4		0	0	0	2	0	
Financial Governance	Framework for financial accountability;	Review scheme of delegation	1	5		0	0	0	0	1	
		Review financial standing orders	1	5		0	0	0	0	1	

Heading	Brief Description	Review Activity	Estimated Time Requirement (days)	Sequence Priority 1-5 (1 = Urgent, 5 = Low)	Status	Priority 1 (days)	Priority 2 (days)	Priority 3 (days)	Priority 4 (days)	Priority 5 (days)	Actual (days)
		Review any other financial rules; and how they work in practice.	1	5		0	0	0	0	1	
	Financial risk management;	Risk: review finance risk register and surrounding process.	1.5	4		0	0	0	1.5	0	
		Review reporting of risk in cabinet reports and reports to ELT, budget process, budget monitoring, option appraisal, by sampling.	1	4		0	0	0	1	0	
	Financial literacy of organisation;	Review quality of reports in relation to financial matters.	1	2		0	1	0	0	0	
		Assess budget holder capability.	3	2		0	3	0	0	0	
	Supporting strategic and operational planning;	Review extent to which Finance works with policy team, departmental management teams on strategy development by interview	2	4		0	0	0	2	0	
		Assess quality of strategic documents on financial	2	4		0	0	0	2	0	

Heading	Brief Description	Review Activity	Estimated Time Requirement (days)	Sequence Priority 1-5 (1 = Urgent, 5 = Low)	Status	Priority 1 (days)	Priority 2 (days)	Priority 3 (days)	Priority 4 (days)	Priority 5 (days)	Actual (days)
		issues - corporate plan, departmental service plans									
	Financial advice to members	Review quality of financial comments in sample of cabinet reports.	1	3		0	0	1	0	0	
		Review Finance attendance at committee meetings	0.5	3		0	0	0.5	0	0	
	Audit committee	Out of scope		N/A		0	0	0	0	0	
	Activities of Internal Audit	Out of scope		N/A		0	0	0	0	0	
Long to Medium Term Financial Management	Medium term financial strategy (MTFS)	Review process for assembling MTFS, completeness and quality, frequency	2	1	In progress	2	0	0	0	0	2
	Alignment of MTFS with service planning	Analysis of MTFS alignment with service plans	2	1		2	0	0	0	0	
	Financial resilience assessment	Frequency and quality of resilience assessment, reporting	1	1		1	0	0	0	0	
	Capital strategy	Review fitness for purpose, how often updated, alignment with service plans	3	3		0	0	3	0	0	

## Croydon Finance Review – Phase 1 V.1.1

Heading	Brief Description	Review Activity	Estimated Time Requirement (days)	Sequence Priority 1-5 (1 = Urgent, 5 = Low)	Status	Priority 1 (days)	Priority 2 (days)	Priority 3 (days)	Priority 4 (days)	Priority 5 (days)	Actual (days)
	Compliance with prudential code on borrowing	Review affordability of borrowing, compliance, reporting	2	3		0	0	2	0	0	
	Use of reserves	Review plan for use of reserves, reporting of variances	1	1		1	0	0	0	0	
	Group and company structures	Review fitness for purpose, effectiveness	10	1		10	0	0	0	0	
	Recharges and internal trading	Recharges - review compliance with code of practice	0.5	5		0	0	0	0	0.5	
		Review mechanisms and effectiveness of internal trading arrangements	1	5		0	0	0	0	1	
The Annual Budget	Budget Setting	Review process for setting annual revenue and capital budgets. Fitness for purpose. Compliance with statutory requirements.	4	1	In progress	4	0	0	0	0	3
	Alignment with MTFS	Review budget alignment with MTFS	1	1		1	0	0	0	0	
	Robustness of estimates and adequacy of reserves	Analysis of historic robustness	1	1	In progress	1	0	0	0	0	0.5

Heading	Brief Description	Review Activity	Estimated Time Requirement (days)	Sequence Priority 1-5 (1 = Urgent, 5 = Low)	Status	Priority 1 (days)	Priority 2 (days)	Priority 3 (days)	Priority 4 (days)	Priority 5 (days)	Actual (days)
		Basis for calculating reserve requirements, review process.	1	1		1	0	0	0	0	
Stakeholder Engagement	Option appraisals;	Review engagement with stakeholders on financial aspects of decisions, sample cabinet reports	3	3		0	0	3	0	0	
	Development of business cases;	Review transparency of decision making, use of costing and estimation techniques, sample business cases	2	3		0	0	2	0	0	
Monitoring Financial Performance	Budget monitoring	Budget monitoring: Review process, presentation of data to budget holders, senior management oversight	3	1	In progress	3	0	0	0	0	1
		Review underlying quality of financial data	4	1		4	0	0	0	0	
		Finance team support to departments/budget holders on budget monitoring	3	1		3	0	0	0	0	

## Croydon Finance Review – Phase 1 V.1.1

Heading	Brief Description	Review Activity	Estimated Time Requirement (days)	Sequence Priority 1-5 (1 = Urgent, 5 = Low)	Status	Priority 1 (days)	Priority 2 (days)	Priority 3 (days)	Priority 4 (days)	Priority 5 (days)	Actual (days)
	Use of financial systems and technology	Review use of technology to automate processes and speed up availability of information	4	4		0	0	0	4	0	
		User friendliness and accessibility of information	2	4		0	0	0	2	0	
	Use of financial data, modelling	Review accessibility of data, delivery of business insights, alignment of financial forecasting with operational performance and throughputs	3	1		3	0	0	0	0	
	Revenue and capital projects	Sample project documentation, interviews	3	3		0	0	3	0	0	
	Key controls and reconciliations;	Review operation of key controls and reconciliations	3	2		0	3	0	0	0	
	Responding to unforeseen developments	Review recent financial responses to unforeseen changes.	2	3		0	0	2	0	0	
						0	0	0	0	0	
External Financial Reporting	Statutory accounts and other returns	Review arrangements designed to ensure personal responsibilities of s151 officer are complied with	3	4		0	0	0	3	0	



Heading	Brief Description	Review Activity	Estimated Time Requirement (days)	Sequence Priority 1-5 (1 = Urgent, 5 = Low)	Status	Priority 1 (days)	Priority 2 (days)	Priority 3 (days)	Priority 4 (days)	Priority 5 (days)	Actual (days)
		Review relationship with external auditor	2	2		0	2	0	0	0	
		Review presentation of outturn and other annual financial data to organisation	2	1	In progress	2	0	0	0	0	0.5
<b>Other Activities from PID</b>											
Support the design and implementation of any measures immediately required to stabilise and secure the council's financial position.	Design and implement programme of 24 short term savings measures and provide ongoing support		20	1	In progress	20	0	0	0	0	22
Respond to concerns raised by the council's external auditor.			2	1	In progress	2	0	0	0	0	1

Croydon Finance Review – Phase 1 V.1.1

Heading	Brief Description	Review Activity	Estimated Time Requirement (days)	Sequence Priority 1-5 (1 = Urgent, 5 = Low)	Status	Priority 1 (days)	Priority 2 (days)	Priority 3 (days)	Priority 4 (days)	Priority 5 (days)	Actual (days)
Support preparatory work on a revised Medium Term Financial Strategy for the council			5	1	In progress	5	0	0	0	0	1
Programme management	Design, plan and manage review, support and attend Panel		6	1	In progress	6	0	0	0	0	2
		Total days	130			38	9.5	23.5	19.5	6.5	34

## Appendix 2 - Full List of Recommendations

Recommendation	Action Taken
1 The authority should conduct a scenario based financial resilience assessment to support the Medium Term Financial Strategy [BP 1].	
2 The authority should make greater use of independently verified comparative data in assessing its financial resilience and ongoing financial sustainability. [BP 2]	
3 Risks identified in relation to strategic partners (and captured on the corporate risk register) should be explicitly considered when taking decisions in connection with those strategic partnerships. [BP 3]	
4 The authority should bring together the elements of its long term financial plans – i.e. the Capital Strategy, the Asset Management Plan, the Asset Investment Strategy, the 40 year business plan for the HRA, and the Treasury Management Strategy together with any other relevant long term financial planning information – in a Long Term Financial Strategy document [BP 5].	
5 Transformation activity should be supported by the council’s strengthened programme management function to provide assurance that risks are managed and projects are delivered on time. [BP 6]	
6 The authority should review its MRP policy to ensure that it adequately provides for debt repayment and matches its appetite and capacity for managing risk, particularly in relation to arm’s length entities and commercial investments. [BP 10].	
7 The authority should manage its capital programme and associated funding arrangements within the forecast prudential indicators. [BP 10]	

Recommendation	Action Taken
8 The authority should consider the affordability of its borrowing plans in the context of its overall budget risk and in particular the ongoing impact on the general fund of social care pressures. [BP 10]	
9 The Capital Strategy should have a time horizon of 20 to 30 years [BP 11].	
10 The Capital Strategy should explore external influences in more depth and consider how these affect the requirement and scope for capital investment over the long term (20-30 years). [BP 12]	
11 The Capital Strategy should consider and model the long term (20-30 year) impact of internal influences such as the Asset Management Plan, the Education Estates Strategy, the Asset Investment Strategy, Digital Strategy, and other strategic documents and plans that concern the acquisition, disposal or use of assets. [BP 13]	
12 The Capital Strategy should include consideration of all of the council's capital-related strategies and plans including the HRA. [BP 13]	
13 The Capital Strategy should include consideration of risks and mitigations in relation to the council's asset investment strategy. [BP14]	
14 The Capital Strategy should consider the long term financial implications of capital investment decisions (i.e. modelled over a 20-30 year period). [BP 15]	
15 The Capital Strategy should include consideration of the organisation's capacity to secure the forecast funding (e.g. capital receipts) and the associated risks, with particular regard to arm's length bodies. [BP 17]	

Recommendation	Action Taken
16 The Capital Strategy should consider the organisation's capacity to deliver the planned capital programme and evaluate the associated risks (e.g. impact and likelihood of slippage) [BP 17]	
17 Assessment of affordability should take into account the council's revenue position and the full range of risks associated with the proposed capital programme. [BP 18]	
18 The authority should produce a 10-year capital investment plan (i.e. capital programme) – with actions, timescale, outputs and outcomes [BP 21]	
19 The Capital Strategy should capture the significant risks and mitigations in relation to the capital programme. [BP 22]	
20 The authority should ensure that its governance arrangements concerning capital are fit for purpose and clearly set out in the Capital Strategy and the council's Financial Regulations. [BP 23]	
21 The authority should ensure that capital decisions are made in compliance with the agreed governance arrangements. [BP 23]	
22 The authority should maintain an up to date asset management plan for operational property [BP 8, BP 24]	
23 The authority's asset management plan for operational property should meet best practice standards. [BP25]	
24 The MTFS should be rolled forward annually in July and updated in February as part of the budget setting process. [BP 26]	Report to Cabinet planned
25 The MTFS should forecast 3-5 years ahead. [BP 27]	

Recommendation	Action Taken
26 The council's budget setting process should bring together well-evidenced proposals for savings and growth that are based on a detailed understanding of costs and business practices and have clear delivery plans. [BP 28]	
27 The budget report should update the MTFS, reconciling the previous MTFS forecast budget gap to the proposed budget. [BP 29]	
28 Service plans should be kept up to date and linked to the MTFS, in particular with regard to significant savings, growth, demand management and cost control matters. [BP 30]	
29 The authority should introduce systematic benchmarking of service performance with other organisations and with its own performance over time as part of its performance regime. [BP 31]	
30 The authority should track progress in delivering planned savings through a savings tracker that should be reported with the monthly budget monitoring statement. [BP 32]	
31 The MTFS should contain analysis of the use of reserves against plan in the recent past, and the planned use of reserves over the MTFS period. The analysis should be underpinned by an analysis of financial risk. [BP 33]	
32 The council should review group and company structures to ensure they are necessary and fit for purpose at regular intervals or when there is a significant change in the regulatory or funding framework. [BP 34]	
33 Agreements with arm's length bodies should contain provision for the authority and its external auditors to have access to the records of the funded body. [BP 38]	

Recommendation	Action Taken
34 The authority should ensure its representatives on boards are adequately supported to drive the authority's strategic objectives through the activities of the arm's length body. [BP 39]	
35 The authority should ensure that in relation to its representation on the boards of arm's length companies, any conflicts of interests are identified and avoided or escalated and resolved. [BP 39]	
36 The budget report should update the MTFS each year, reconciling the budget proposals to the previous MTFS forecast, to ensure that the proposed budget and the medium term financial plan are in step and based on the latest information. The MTFS should be revised in full in July each year. [BP 42]	
37 The authority should bring together the elements of its long term financial plans in a Long Term Financial Strategy document (see BP 5 above). The budget report should evidence consistency with the long term financial strategy. [BP 42]	
38 Departments should have clear financial targets to work to in developing budget options. [BP 43]	
39 In order to allow sufficient time for departments to develop robust proposals for growth and savings to feed into the budget decision-making process, departments should start work as early as possible in the cycle. This means not waiting until the MTFS has been revised but working to provisional targets beginning as early as May. [BP 43]	Budget Process redesign reported to July Cabinet following report to Finance Review Panel
40 The budget process should enable budget proposals to be built from the bottom up, so that they are underpinned by the expertise of practitioners. [BP 43]	

Recommendation	Action Taken
41 As part of the budget development process departments should collaborate across departmental boundaries to develop robust and deliverable cross-cutting savings proposals. [BP 43]	
42 Budget proposals should be evidenced by performance data and modelling to demonstrate robustness and deliverability, with performance and value for money benchmarked over time and against other organisations. [BP 43]	
43 Meetings between officers and members to explore budget options (Budget Development Meetings) should focus on prioritisation of proposals. Proposals should not be screened out politically before being presented at Budget Development Meetings. [BP 43]	Proposed protocol reported to Finance Review Panel
44 The budget report should contain only savings proposals for which there is a clear and achievable path to benefits realisation. [BP 43]	
45 The budget proposals brought forward by departments should be prioritised by members. Friendly and constructive challenge has an important role to play in the development of proposals, to ensure that they are aligned with corporate priorities, are developed to their full potential, and are sufficiently robust and deliverable. For these reasons budget development meetings should be held in September / October involving both members and officers. To ensure collective ownership of the financial position and decisions, all cabinet and ELT members should be invited to each meeting. The meetings will follow an agreed format and focus upon a particular set of proposals, grouped by theme (e.g. Capital) or by department. [BP 44]	



Recommendation	Action Taken
46 The budget development process should engage CLT members (i.e. directors), not only in their role as originators of budget savings and growth proposals, but collectively through regular briefings. [BP 44]	
47 Scrutiny should have a formal role in the process, with pre-scrutiny of proposals for significant change being feasible because of longer development timescales. Scrutiny of budget proposals should take place in the period November to February as the proposals are brought forward for Cabinet approval. [BP 44]	
48 The budget report should update the MTFS with any new assumptions arising from current financial performance as well as external factors. This should include any significant over/under-spending and an update on the delivery of planned savings and growth proposals in the current year. [BP 45]	
49 The budget report should include analysis of the use of reserves and balances compared to plan. [BP 45]	
50 The target level of reserves should be set by the s151 officer based on their professional judgement about the risks the council is facing, and the budget plan must prioritise maintaining the reserves at the target level above any operational considerations. The minimum level of reserves cannot be set on the basis of affordability in comparison with other priorities, but must be set on the basis of risk assessment as a fundamental requirement that underpins the stability of the organisation. [BP 46]	

Recommendation	Action Taken
51 A full budget monitor should be produced monthly and reported to departmental management teams and to ELT. Cabinet should receive its first report on budget monitoring as early as possible in the cycle, which is likely to be the July Cabinet meeting. [BP 47]	Decision to move to monthly budget monitoring reported to Cabinet in July.
52 The budget monitoring report should not only set out the financial forecast and associated risks but should also set out any corrective action required and the associated implementation plan. [BP 47]	
53 The budget monitor should incorporate a savings tracker, monitoring the realisation of savings proposals introduced through the budget setting process. [BP 47]	
54 Where overspending is forecast, executive directors should set out options for bringing spending back within the agreed bounds and these should be considered and approved without delay through the appropriate governance arrangements. [BP 47]	
55 Budget managers should be held to account if they do not remain within their agreed budget plan / promptly take corrective action when overspending is forecast. Failure to take appropriate action is a serious issue and potentially a disciplinary matter. [BP 47]	
56 The finance team should be increased in size to enable monthly budget monitoring. [BP 47]	
57 The data that budget holders rely upon to make their budget forecasts such as the staffing establishment should be corrected and kept up to date. [BP 48]	

Recommendation	Action Taken
58 The authority should consider ways of improving the MyFinance system to make it more intuitive and user friendly, or consider moving to another system that more closely meets budget holder requirements. [BP 48]	
59 The authority should review and correct base budgets to ensure that they represent a credible spending plan for the year, particularly where there is an ongoing pattern of significant over/underspending . [BP 49]	
60 Employee budgets should be reconciled to and kept in step with the staffing establishment data. [BP 49]	
61 Operational performance data should be reported alongside financial performance data to enable a full understanding of the cost/income drivers. [BP 49]	
62 The council’s budgetary control systems should support the use of profiling by budget holders. The guidance for MyFinance should support the use of budget profiles. [BP 50]	
63 Information should be presented in a more user friendly format that supports budget holders to understand the implications and take action. Operational performance information should be presented alongside the financial information. [BP 51]	
64 The MyFinance system should produce the summarised information needed by heads of finance when reporting the financial position without the need for further intervention. [BP 52]	
65 Operational performance information should be presented alongside the financial information. [BP 52]	

Recommendation	Action Taken
66 High risk budgets should be scrutinised by ELT and Cabinet monthly as a minimum. [BP 53] see also BP 52	
67 ELT should receive a monthly budget monitoring report, which should also be shared with cabinet members. Formal quarterly reporting to Cabinet should continue. [BP 53]	
68 The authority should standardise the presentation of financial performance information. [BP 53]	
69 The authority should review the level of contingency and also the level of the general fund balance to ensure these are at an appropriate level to manage the risks the authority is facing. On the basis of current overspending both are too low. [BP 54]	
70 The authority should consider identifying and monitoring specific budget risks in relation to partnerships and collaborative ventures as part of its routine budget monitoring. [BP 56]	
71 The authority should profile capital budgets accurately, aligning spend with the project delivery plan. [BP 57]	
72 A standard programme/project methodology should be applied to all capital projects. [BP 57]	
73 Capital underspends should be returned for reallocation to other priorities and not retained by departments. [BP 57]	
74 Appropriate governance arrangements should be in place to oversee the delivery of the capital programme at a detailed level – this may be the Growth Board or a new arrangement. [BP 57]	

Recommendation

Action Taken

- |    |  |
|----|--|
| 75 | The authority should monitor balance sheet risks such as the collection of sundry debtors, and use of provisions and reserves against plan, as part of the monthly budget monitoring arrangements. [BP 58] |
|----|--|

## Appendix 3 - Project Initiation Document

### Project Initiation Document Croydon Finance Review

Release	Draft 1.3
Date	19 May 2020
Author	Ian O'Donnell
Approved by	Chief Executive

- Document History

Revision Date	Version	Summary of Changes	Approval
15 May 2020	1.0	First draft	
18 May 2020	1.2	Revised draft incorporating comments from team	
19 May 2020	1.3	Final draft incorporating comments from team	19 May 2020

- Approval

This document requires the following approvals:

Name and title of person, group or committee
Chief Executive
Monitoring Officer
Director of Finance, Investment and Risk and S151 Officer

- Distribution

The approved document will be distributed to the following people:

Name	Role / Job Title
Tony Newman	Leader of the Council
Duncan Whitfield	Independent Chair, Croydon Finance Review Panel
Jo Negrini	Chief Executive
Lisa Taylor	Director of Finance, Investment & Risk and s151 Officer
Jacqueline Harris Baker	Executive Director of Resources and Monitoring Officer
Cllr Simon Hall	Lead member for Finance and Resources
Cllr Alison Butler	Deputy Leader
Matthew Kershaw	CEO (NHS Place Leader)
Debbie Warren	Chief Executive – Royal Borough of Greenwich
Guy Van Dichele	Executive Director Health, Wellbeing & Adults
Robert Henderson	Executive Director Children, Families and Education
Shifa Mustafa	Executive Director of Place
Sabrina Cummings	Executive Officer Support

- Purpose of Document

This document sets out why and how the Croydon Finance Review should proceed, who is involved and their responsibilities. It will provide the baseline for the management of the project and for an assessment of its overall success.

- Project Description

A full root and branch review of the council's financial governance, strategy and planning, leadership, decision making, management and group company structures.

- Background

The review has been commissioned by the council in response to the Covid19 pandemic, the Council's budget priorities moving forward, and integration with health partners. A finance consultant has been appointed to support the review.

#### Historical Factors

This is within a wider context of historical underfunding of Croydon over the last 15-20 years. Croydon Council remains under significant financial pressure, deriving notably from:

- Cumulative cuts of more than 75% of government funding between 2010/11 and 2019/20
- Inflation
- Growing demand for services and complexity of need, particularly in social care services
- Increasing population and changing demographics
- Homelessness
- Public Health funding reductions
- The impact of welfare reform
- New duties not fully funded (e.g. Health Visiting, Deprivation of Liberty assessments, the Homelessness Reduction Act, extension of responsibility for care leavers to 25).
- Historic and continued underfunding of the cost of Unaccompanied Asylum Seeking Children
- Impact of the underfunding of the health economy
- High Needs underfunding through the Dedicated Schools Grant
- Restrictions on council housing, including rent restrictions and rules on right-to-buy receipts.
- Delivering improvement as a result of the recent Ofsted inspection findings in Children's Social Care.

At the time of writing, the outturn for 2019/20 is not available. However, as a result of these pressures, at Q3 2019 the council reported significant overspending in the following areas:

<b>Underlying Budget Pressures at Q3 2019/20</b>	
LAC Placements	£1.8m
SEN Transport	£2.9m
Adult Social Care	£11.3m
Non-delivery of savings in social care services	£2.0m
Unaccompanied Asylum Seeking Children	£8.2m
<b>Total Underlying Service Pressures</b>	<b>£26.2m</b>
Offsetting underspends & use of corporate/transformation funding	(£23.8m)
<b>Reported position Q3 2019/20</b>	<b>£2.4m</b>

### 2020/21 Budget Position

The budget for 2020/21 sought to address these pressures and committed budget growth as follows:

<b>Service Budget Growth in 2020/21</b>	
Children, Families and Education	(£10.1m)
Health, Wellbeing and Adults	(£21.2m)
Place	(£6.8m)
Resources	(£7.2m)
<b>Total Service Budget Growth</b>	<b>(£45.3m)</b>
Underlying pressures (excluding effects of inflation)	26.2m
<b>Net Service Budget Growth (excluding effects of inflation)</b>	<b>£19.1m</b>

However, it should be noted that this growth is underpinned by service savings and income totalling £40.3m, of which £8.0m relates to Children, Families and Education and £16.2m relates to Health, Wellbeing and Adults. There are early indications of very significant difficulties in delivering the service savings and income in the current year due to Covid19 and other factors.

The second return to MHCLG in relation to spending pressures arising from Covid19 places the council's current year forecast overspend at £82.6m gross, which after allowing for £19.9m of emergency funding received from the government through the two £1.6bn tranches of additional funding for local government announced so far, leaves a **net forecast overspend of £62.7m**.

<b>Forecast Overspend in 2020/21 (General Fund) – MHCLG Return May 2020</b>	
Adult social care	£6.6m
Children's social care	£2.4m
Housing	£2.2m
Culture	£0.2m
Environment	£0.5m
Corporate	£1.5m
Unachieved savings / delayed projects	£34.3m



Other	£0.9m
<b>Total spending pressures</b>	<b>£48.6m</b>
Estimated loss of income	£34.0m
<b>Total General Fund overspend</b>	<b>£82.6m</b>
Covid19 Funding from MHCLG	(£19.9)
<b>Net forecast overspend in 2020/21</b>	<b>£62.7m</b>

The council's current level of spending is very substantially outside the envelope of what can be paid for with its 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 has a comparatively low level of general and earmarked 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 and avoid the issuance of s.114 notice by the s151 officer, the council must take immediate action to reduce revenue expenditure (or increase income).**

#### Looking Forward: 2021/22 – 2023/24

The Medium Term Financial Strategy (MTFS) was last revised for the 2019/20 budget, and reported a forecast budget gap for 2021/22 of £7.7m. This is now out of date and the gap is likely to be very considerably higher. The MTFS needs to be refreshed urgently to allow the council to plan a sustainable recovery from the current position and ensure that vital services can continue to be delivered.

### • Objectives

#### Phase 1

Undertake a full review of the Council's financial systems and processes and produce a report with recommendations specifying areas for strengthening and improvement.

Support the design and implementation of any measures immediately required to stabilise and secure the council's financial position.

Respond to concerns raised by the council's external auditor.

Support preparatory work on a revised Medium Term Financial Strategy for the council.

#### Phase 2

Implement the report's recommendations across the organisation through a well-planned and properly resourced programme of change.

- Deliverables

Phase 1

**Deliverable 1:** Final report with recommendations to be signed off by the Croydon Finance Review Panel. The report will address the following key areas of enquiry:

- Refreshed savings proposals for 2020/21.
- The generation and implementation of additional options to minimise spend and where possible generate income in order to address in year overspending.
- Review of all financial systems, structures, processes and decision-making.
- Review all group and company structures to ensure that they are fit for purpose.
- Revised medium term financial strategy in light of new normal, Covid19 implications, health integration work and state of property and commercial markets.
- Any other issues emerging from the review.

**Deliverable 2:** A full and detailed response to external auditor concerns

**Deliverable 3:** Any interim measures required in order to secure and stabilise the council's financial position in light of the Covid19 emergency and associated financial pressures.

**Deliverable 4:** Preparatory work on a revised Medium Term Financial Strategy for the council

Phase 2

**Deliverable 1:** A council-wide change programme to implement the recommendations that includes:

- Appropriate governance and accountability
- A prioritised approach
- Appropriate resourcing
- An agreed timetable for delivery
- Developing the business case for change where investment is required
- Progress and risk reporting
- Post implementation review

- Timescales

The delivery of review recommendations is tied into the operation of the council's budget cycle. It is also affected by the council's circumstances, and some actions have been prioritised for early delivery for these reasons.

Full delivery of all recommendations will take approximately 18 months. However, the most significant tasks will be prioritised for early delivery. The following table sets out the indicative timetable.

It is proposed that the Croydon Finance Review Panel will meet every 2 weeks to receive

progress reports and provide input to the programme.

Deliverable	Delivery date
Project initiation document	21 May 2020
A full and detailed response to external auditor concerns	May/June 2020
A detailed recovery plan addressing in year savings required to remain within bounds of resources and refreshed 20/21 savings proposals (see separate report to Panel 21/5/2020)	May/June 2020, to be reported to Cabinet in July
Review of MTFS process	June 2020
Outturn and Budget Remit, review of budget and MTFS process to Cabinet	13 July 2020
Review of group and company structures	June/July 2020
Review of other systems, processes and procedures	June/July 2020
Review of finance structures and staffing	June/July 2020
Diagnostic report making recommendations for change	August/September 2020
Revised 3 year MTFS to Cabinet	14 September 2020
Budget challenge process / informal Cabinet	October 2020
Savings proposals approved by Cabinet	16 Nov/ 14 Dec 2020
Budget report to Cabinet	22 February 2021
Budget report to Council	1 March 2021

## • Outcomes

The purpose of the review is to enable the council to deliver the following outcomes:

- The council plans and operates within the bounds of available resources.
- Financial governance enables the best possible financial decisions.
- Finance strategy accurately anticipates and responds to external conditions and enables the delivery of the corporate plan.
- Financial leadership and culture is embedded in corporate leadership and in each department.
- Financial management is effective in all areas of the council.
- Group company structures are fit for purpose.
- Recognition of improvement and a sound and stable financial platform by the external auditor

## • Out of Scope

The following finance areas are out of scope for the review:

- Technical review of financial reporting / final accounts
- Treasury Management (with the exception of borrowing)

- Pension fund management
- Financial ICT systems/ERP
- Local taxation
- Internal Audit and Fraud

- **Constraints**

There is an immediate requirement to address the financial and operational impact of Covid19 on the council's plans. This is urgent and of the highest priority. In order to bring the council's spending within the envelope of available resources and avoid a s114 notice a programme of spending reductions must be set in place without delay.

A further immediate requirement is to address concerns raised by the external auditor in recent correspondence.

The review will work within and dovetail with the council's annual financial cycle and statutory budget-setting constraints.

The cost of the review and the implementation of the recommendations will be managed in an environment of strict cost control, and value for money will be an important factor.

- **Assumptions**

The following assumptions are made:

- The review covers all areas of the council's finances and operations, with the exception of the areas designated 'out of scope' in this document, and will receive full co-operation and be treated as a top priority by all council employees and members.
- There is collective ownership of the financial situation and the need for action to address it on the part of cabinet members and members of ELT
- The timescales for the review are dependent upon the government continuing to follow its prescribed timetable and statutory framework for budget setting and announcements concerning local government funding

- **Project Delivery Costs**

The budget for the Croydon Finance Review Phases 1 and 2 is £250k, which will be funded from transformation (capital). The estimated costs of the review are as follows:

**Phase 1**

Consultancy (estimated 12 weeks at £800 / day) £48,000

**Phase 2**

Consultancy (not yet commissioned) – TBC

All other costs to be absorbed within existing budgets as business as usual.

- **Ongoing costs after Project Completion**

The project is concerned with improving the council's financial position and providing a financial framework that will maintain financial stability. It is anticipated that the project will drive significant cost reductions across the council, although not necessarily within the Finance function directly. All ongoing costs after project completion will be contained within existing budgets or will be the subject of growth bids within the revised annual budget setting process.

- **Approach**

The review will:

- Operate within the agreed programme governance framework, under the leadership of the chief executive and the S151 officer.
- Report regularly to the Croydon Finance Review Panel.
- Feed into the established governance framework of the council, including cabinet, scrutiny, and audit committee, ELT and CLT.
- Conduct interviews with council staff and where appropriate partner organisation staff to gather information and views
- Carry out analysis of documents and information provided including cabinet reports, internal reports and presentations, benchmarking data, and best practice guidance
- Provide a report that diagnoses issues and set out a plan for addressing them.
- Work with council officers to develop or design new or modified systems, processes and procedures

- **Governance**

This project will be led by the Chief Executive in conjunction with the S151 Officer and the Monitoring Officer, supported by the Finance Consultant.

The Croydon Finance Review Panel has been established to oversee the review work and is governed by the agreed terms of reference. It will act as an advisory board for the duration of the commission. It will meet every 2 weeks. The Croydon Finance Review Panel will comprise of:

Name	Role / Job Title
Duncan Whitfield	Independent Chair, Croydon Finance Review Panel
Jo Negrini	Chief Executive
Lisa Taylor	Director of Finance, Investment & Risk and s151 Officer
Jacqueline Harris Baker	Executive Director of Resources and Monitoring Officer
Cllr Simon Hall	Lead member for Finance and Resources

CLlr Alison Butler	Deputy Leader
Matthew Kershaw	CEO (NHS Place Leader)
Debbie Warren	Chief Executive – Royal Borough of Greenwich
Guy Van Dichele	Executive Director Health, Wellbeing & Adults
Robert Henderson	Executive Director Children, Families and Education
Shifa Mustafa	Executive Director of Place
Sabrina Cummings	Executive Officer Support

The Panel will be supported by Grant Thornton, the council’s auditors, as part of their VFM work.

The recommendations of the Panel will feed into the council’s established decision-making processes. This will include reports to Cabinet, and to scrutiny and to Audit Committee as appropriate, as part of the natural reporting cycle for these committees.

#### • Team

The officer team for the project will be:

- Jo Negrini – Chief Executive
- Jacqueline Harris-Baker - Executive Director of Resources and Monitoring Officer
- Lisa Taylor – Director of Finance, Investment & Risk and s151 Officer
- Ian O’Donnell – Finance Consultant
- Sabrina Cummings – Executive Officer Support
- Annette Wiles - Democratic team support manager
- A dedicated programme manager from the council’s programme management team

#### • Communication

A communications plan covering both external and internal communications requirements in relation to the review and the work of the Panel will be developed. This work will be led by Helen Parrott, Head of Communications and Engagement

#### • Risk Log

A risk log will be maintained for the project. The following table sets out the risks initially identified together with suggested mitigation action:

Risk	Mitigation
Short timescales for some activities	Adequate resourcing and prioritisation, realistic expectations
Unavailability of resources (BAU and Covid19 priorities v project)	Clear governance and accountability, clear priorities, additional resources where needed
Inertia / resistance to change	Demonstrate benefits, manage change

	curve
Lack of departmental sign-up / commitment	Ensure need for action is clearly understood, consultation
Damage to the council's reputation	Communications plan
Ability to actually reduce costs / manage the budget / overspend based on track record	Strong programme management and accountability
Political buy in to measures that may compromise ability to deliver corporate plan / manifesto commitments	Clear basis for action, enhanced officer support, a range of options / solutions brought forward for consideration, robust communications plan

## Appendix 4 - Statutory and Professional Standards: Source Documents

CIPFA, Code of Practice on Local Authority Accounting in the United Kingdom 2018/19  
CIPFA, The Prudential Code for Capital Finance in Local Authorities (2017 Edition)  
CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)  
CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2013 Edition)  
CIPFA Pensions Finance Knowledge and Skills framework: Technical Guidance for Pensions Practitioners in the Public Sector (2010)  
CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2018  
CIPFA/IFAC International Framework: Good Governance in the Public Sector  
CIPFA, The Role of the Chief Financial Officer in Local Government  
CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016 Edition)  
CIPFA/SOLACE Delivering Good Governance in Local Government: Framework Review of annual governance statements 2016/17  
CIPFA (Insight) Looking Forward: Medium-term financial strategies in the UK public sector  
CIPFA (Insight) Building Financial Resilience Managing Financial Stress in Local Authorities  
CIPFA (Insight) Accountability, performance and transformation, Learning from the CIPFA FM Model  
CIPFA (Insight) Balancing Local Authority Budget  
CIPFA Financial reporting in the public sector An Introductory Guide to in the United Kingdom  
CIPFA Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)  
CIPFA Delivering Excellent Public Finance: CIPFA's Whole System Approach to Public Financial Management Volumes 1 and 2  
IASAB Public Sector Internal Audit Standards  
National Audit Office, Financial Management Maturity Model Capital Strategy  
Local Government Act 2003: S1 – power to borrow; S3 – affordable borrowing limit; S12 – power to invest; S15 – regard to Guidance issued  
CLG Guidance on Capital: Investment Guidance (2018); MRP Guidance (2018)  
CIPFA Financial Management Code (2019)  
CIPFA Strategic Property Asset Management Framework (August 2018)  
Government Functional Standard GovS 004: Property  
RICS Public Sector Property Asset Management Guidelines, 2nd Edition



## GPAC Appendix B

### Croydon Finance Review Phase1 Report – Action Plan in Priority Order

#### Implementation Timescale Key

Implementation Timescale	Description
1	Urgent and Critical – For immediate implementation
2	Critical - Within next 3 months
3	In time for budget report Feb 2021
4	Important - By the end of the financial year (1/4/21)
5	Within 1 year (by 31/8/21)
6	Within 3 year MTFS period

Recommendation	Priority	Lead Officer	Type of Activity	Action Required	Progress to date
3 Risks identified in relation to strategic partners (and captured on the corporate risk register) should be explicitly considered when taking decisions in connection with those strategic partnerships. [BP 3]	1	Lisa Taylor	Written instruction	(i) Instruction to Finance Business Partners re cabinet reports – immediate.	
8 The authority should consider the affordability of its borrowing plans in the context of its overall budget risk and in particular the ongoing impact on the general fund of social care pressures. [BP 10]	1	Felicia Wright	Project - reviewing affordability	Immediate review of capital programme. Reductions agreed by Cabinet.	Completed

8	The authority should consider the affordability of its borrowing plans in the context of its overall budget risk and in particular the ongoing impact on the general fund of social care pressures. [BP 10]	1	Lisa Taylor	Cabinet report		Cabinet meeting 21/9/20
17	Assessment of affordability should take into account the council's revenue position and the full range of risks associated with the proposed capital programme. [BP 18]	1		(See 8) Financial analysis of affordability of programme (10 years) taking into account risks – including sensitivity analysis	The council's assessment of the affordability of the capital programme takes into consideration the risks associated with the proposed capital programme in the context of the council's immediate overall financial position as well as short, medium and long term financial prospects.	
24	The MTFS should be rolled forward annually in July and updated in February as part of the budget setting process. [BP 26]	1	Matt Davies	Financial modelling	MTFS is refreshed immediately.	Reports to Cabinet planned for September and October 2020.
25	The MTFS should forecast 3-5 years ahead. [BP 27]	1	Matt Davies	(See 24) Financial modelling	MTFS is refreshed immediately with time horizon of at least 3 financial years.	Reports to Cabinet planned for September and October 2020.

26	The council's budget setting process should bring together well-evidenced proposals for savings and growth that are based on a detailed understanding of costs and business practices and have clear delivery plans. [BP 28]	1		Project - Design new budget setting process	New budget setting process is adopted and implemented effectively.	Budget setting process approved
26	The council's budget setting process should bring together well-evidenced proposals for savings and growth that are based on a detailed understanding of costs and business practices and have clear delivery plans. [BP 28]	1		BAU – implement budget process	Budget development meetings are held successfully.	
30	The authority should track progress in delivering planned savings through a savings tracker that should be reported with the monthly budget monitoring statement. [BP 32]	1	Matt Davis	Design savings tracker and incorporate in monthly budget monitoring	Savings tracker put in place immediately.	
32	The council should review group and company structures to ensure they are necessary and fit for purpose at regular intervals or when there is a significant change in the regulatory or funding framework. [BP 34]	1		Project including external commissions	Review of group and company structures is commenced immediately	Work commissioned on Croydon Affordable Homes from external finance consultant.
33	Agreements with arm's length bodies should contain provision for the authority and its external auditors to have access to	1		Shareholder letter	Write to arm's length companies requesting amendment to arrangements, granting	

the records of the funded body. [BP 38]				access.	
41 As part of the budget development process departments should collaborate across departmental boundaries to develop robust and deliverable cross-cutting savings proposals. [BP 43]	1		ELT agenda items booked	Cross cutting ideas are discussed at ELT during early budget development phase May to July 2021	
43 Meetings between officers and members to explore budget options (Budget Development Meetings) should focus on prioritisation of proposals. Proposals should not be screened out politically before being presented at Budget Development Meetings. [BP 43]	1		Project – new budget setting process	Budget development meetings follow agreed protocol	Proposed protocol reported to Finance Review Panel. Budget Meetings commenced
43 Meetings between officers and members to explore budget options (Budget Development Meetings) should focus on prioritisation of proposals. Proposals should not be screened out politically before being presented at Budget Development Meetings. [BP 43]	1		Instruction	Clear instructions are issued	
44 The budget report should contain only savings proposals for which there is a clear and achievable path to benefits realisation. [BP 43]	1		Instruction	Clear instructions are issued	

45	<p>The budget proposals brought forward by departments should be prioritised by members. Friendly and constructive challenge has an important role to play in the development of proposals, to ensure that they are aligned with corporate priorities, are developed to their full potential, and are sufficiently robust and deliverable. For these reasons budget development meetings should be held in September / October involving both members and officers. To ensure collective ownership of the financial position and decisions, all cabinet and ELT members should be invited to each meeting. The meetings will follow an agreed format and focus upon a particular set of proposals, grouped by theme (e.g. Capital) or by department. [BP 44]</p>	1		Project – new budget setting process	Budget development meetings follow agreed protocol	
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45	The budget proposals brought forward by departments should be prioritised by members. Friendly and constructive challenge has an important role to play in the development of proposals, to ensure that they are aligned with corporate priorities, are developed to their full potential, and are sufficiently robust and deliverable. For these reasons budget development meetings should be held in September / October involving both members and officers. To ensure collective ownership of the financial position and decisions, all cabinet and ELT members should be invited to each meeting. The meetings will follow an agreed format and focus upon a particular set of proposals, grouped by theme (e.g. Capital) or by department. [BP 44]	1		Instruction	Clear instructions are issued	
46	The budget development process should engage CLT members (i.e. directors), not only in their role as originators of budget savings and growth proposals, but collectively through regular briefings. [BP 44]	1		Internal Comms Plan	Internal comms plan is developed concerning budget issues	

46	The budget development process should engage CLT members (i.e. directors), not only in their role as originators of budget savings and growth proposals, but collectively through regular briefings. [BP 44]	1		Briefings	CLT members are briefed on the budget development process at appropriate intervals	
50	The target level of reserves should be set by the s151 officer based on their professional judgement about the risks the council is facing, and the budget plan must prioritise maintaining the reserves at the target level above any operational considerations. The minimum level of reserves cannot be set on the basis of affordability in comparison with other priorities, but must be set on the basis of risk assessment as a fundamental requirement that underpins the stability of the organisation. [BP 46]	1	Matt Davis	Analysis	MTFS contains a section on risk-based justification of target level of reserves.	
51	A full budget monitor should be produced monthly and reported to departmental management teams and to ELT. Cabinet should receive its first report on budget monitoring as early as possible in the cycle, which is likely to be the July Cabinet meeting. [BP 47]	1		Project – move to monthly budget monitoring	Decision to move to monthly budget monitoring reported to Cabinet.	Decision to move to monthly budget monitoring reported to Cabinet in July.

54	Where overspending is forecast, executive directors should set out options for bringing spending back within the agreed bounds and these should be considered and approved without delay through the appropriate governance arrangements. [BP 47]	1		See 52.	Options for bringing spending back within budget are brought promptly to ELT for approval and taken through appropriate governance process.	
56	The finance team should be increased in size to enable monthly budget monitoring. [BP 47]	1		Project – recruit short term capacity	Additional short term capacity recruited to finance teams	
66	High risk budgets should be scrutinised by ELT and Cabinet members monthly as a minimum. [BP 53] see also BP 52	1		Analysis	The monthly budget monitor contains a section on high risk budgets	
66	High risk budgets should be scrutinised by ELT and Cabinet members monthly as a minimum. [BP 53] see also BP 53	1		ELT agenda	Additional (weekly or fortnightly) reporting is considered by ELT for high risk budgets.	
67	ELT should receive a monthly budget monitoring report, which should also be shared with cabinet members. Formal quarterly reporting to Cabinet should continue. [BP 53]	1		ELT agenda	The monthly budget monitoring report receives significant attention at ELT	
67	ELT should receive a monthly budget monitoring report, which should also be shared with cabinet members. Formal quarterly reporting to Cabinet should continue.	1		Report Distribution	The monthly budget monitoring is shared with and discussed with Cabinet members.	



[BP 53]					
67 ELT should receive a monthly budget monitoring report, which should also be shared with cabinet members. Formal quarterly reporting to Cabinet should continue. [BP 53]	1		Cabinet agenda	Cabinet receives quarterly budget monitoring reports	
5 Transformation activity should be supported by the council's strengthened programme management function to provide assurance that risks are managed and projects are delivered on time. [BP 6]	2	Gavin Handford	Service planning and prioritisation	Refocus PMO activity on delivery of transformation and budget savings	
7 The authority should manage its capital programme and associated funding arrangements within the forecast prudential indicators. [BP 10]	2	Nigel Cook, Head of Pensions & Treasury and Felicia Wright, Head of Finance	Review	Review process for monitoring treasury indicators and taking treasury decisions.	
47 Scrutiny should have a formal role in the process, with pre-scrutiny of proposals for significant change being feasible because of longer development timescales. Scrutiny of budget proposals should take place in the period November to	2		Project - Agree approach with Scrutiny Chair	Scrutiny meetings are held to consider budget options as they are brought forward to Cabinet.	

February as the proposals are brought forward for Cabinet approval. [BP 44]					
51 A full budget monitor should be produced monthly and reported to departmental management teams and to ELT. Cabinet should receive its first report on budget monitoring as early as possible in the cycle, which is likely to be the July Cabinet meeting. [BP 47]	2			Additional Finance staff recruited.	
51 A full budget monitor should be produced monthly and reported to departmental management teams and to ELT. Cabinet should receive its first report on budget monitoring as early as possible in the cycle, which is likely to be the July Cabinet meeting. [BP 47]	2			Full budget monitor produced monthly	First budget monitoring report was for M3, received by Cabinet in September 2020
52 The budget monitoring report should not only set out the financial forecast and associated risks but should also set out any corrective action required and the associated implementation plan. [BP 47]	2		Project -Budget monitoring process updated	Budget monitoring report sets out any corrective action required and tracks implementation	

59	The authority should review and correct base budgets to ensure that they represent a credible spending plan for the year, particularly where there is an ongoing pattern of significant over/underspending . [BP 49]	2		Project – review high risk budgets and align with activity	A review of high risk base budgets is undertaken aligning budget with planned activity cost.	
1	The authority should conduct a scenario based financial resilience assessment to support the Medium Term Financial Strategy [BP 1].	3	Matt Davis	External Commission	Undertake scenario based financial resilience assessment for incorporation into budget report Feb 2021	Commissioned from EY Aug 2020
2	The authority should make greater use of independently verified comparative data in assessing its financial resilience and ongoing financial sustainability. [BP 2]	3	Matt Davis	External Commission	Identify and access data and incorporate in financial resilience assessment for budget report Feb 2021	Commissioned from EY Aug 2020
7	The authority should manage its capital programme and associated funding arrangements within the forecast prudential indicators. [BP 10]	3	Nigel Cook, Head of Pensions & Treasury and Felicia Wright, Head of Finance	BAU	Monitor performance on regular ongoing basis. Take action to avoid breaching prudential limits.	
24	The MTFS should be rolled forward annually in July and updated in February as part of the budget setting process. [BP 26]	3	Matt Davies	Cabinet report	MTFS is updated alongside 2021/22 budget report	

26	The council's budget setting process should bring together well-evidenced proposals for savings and growth that are based on a detailed understanding of costs and business practices and have clear delivery plans. [BP 28]	3		Plans approved	Savings approved have clear implementation plans.	
27	The budget report should update the MTFS, reconciling the previous MTFS forecast budget gap to the proposed budget. [BP 29]	3	Matt Davis	Financial Modelling	MTFS is updated alongside 2021/22 budget report.	
31	The MTFS should contain analysis of the use of reserves against plan in the recent past, and the planned use of reserves over the MTFS period. The analysis should be underpinned by an analysis of financial risk. [BP 33]	3	Matt Davis	Analysis	Reserves and risk analysis are added to the next iteration of the MTFS and remain an ongoing component.	
36	The budget report should update the MTFS each year, reconciling the budget proposals to the previous MTFS forecast, to ensure that the proposed budget and the medium term financial plan are in step and based on the latest information. The MTFS should be revised in full in July each year. [BP 42]	3	Matt Davis	(See 27) Financial modelling	Budget report contains a section updating the MTFS and revising key assumptions based on new information.	

44	The budget report should contain only savings proposals for which there is a clear and achievable path to benefits realisation. [BP 43]	3		Project – new budget setting process	Savings proposals are supported by robust delivery plans	
48	The budget report should update the MTFS with any new assumptions arising from current financial performance as well as external factors. This should include any significant over/under-spending and an update on the delivery of planned savings and growth proposals in the current year. [BP 45]	3	Matt Davis	Analysis	Budget report includes section on current financial performance including delivery of planned savings and growth, and implications for MTFS	
49	The budget report should include analysis of the use of reserves and balances compared to plan. [BP 45]	3	Matt Davis	Analysis	Budget report includes section on user of reserves and balances compared to plan	
50	The target level of reserves should be set by the s151 officer based on their professional judgement about the risks the council is facing, and the budget plan must prioritise maintaining the reserves at the target level above any operational considerations. The minimum level of reserves cannot be set on the basis of affordability in comparison with other priorities, but must be set on the basis of risk assessment as a fundamental	3	Matt Davis	Analysis	Budget report contains a section on the level of reserves and any contributions needed to meet the target level	

requirement that underpins the stability of the organisation. [BP 46]					
53 The budget monitor should incorporate a savings tracker, monitoring the realisation of savings proposals introduced through the budget setting process. [BP 47]	3		Project - Savings tracker developed	Savings tracker is reported as part of monthly budget monitoring	
53 The budget monitor should incorporate a savings tracker, monitoring the realisation of savings proposals introduced through the budget setting process. [BP 47]	3		Savings tracker incorporated in monthly budget monitoring report		
69 The authority should review the level of contingency and also the level of the general fund balance to ensure these are at an appropriate level to manage the risks the authority is facing. On the basis of current overspending both are too low. [BP 54]	3	Matt Davis	Analysis	The budget report includes a risk based justification for the level of contingency	

69	The authority should review the level of contingency and also the level of the general fund balance to ensure these are at an appropriate level to manage the risks the authority is facing. On the basis of current overspending both are too low. [BP 54]	3	Matt Davis	Analysis	The budget report includes a risk based justification for the level of the general fund balance	
74	Appropriate governance arrangements should be in place to oversee the delivery of the capital programme at a detailed level – this may be the Growth Board or a new arrangement. [BP 57]	3		Project – review of capital governance	A review of capital governance is conducted to establish the appropriate arrangements, and these are implemented.	
6	The authority should review its MRP policy to ensure that it adequately provides for debt repayment and matches its appetite and capacity for managing risk, particularly in relation to arm's length entities and commercial investments. [BP 10].	4	Matt Davis	External Commission	Revised MRP policy approved to take effect in current year, in time for annual accounts.	Link Asset Management commissioned in July 2020, due to report Sept/October 2020.
20	The authority should ensure that its governance arrangements concerning capital are fit for purpose and clearly set out in the Capital Strategy and the council's Financial Regulations. [BP 23]	4		Project	(i) A review is conducted to determine the appropriate governance arrangements for capital decisions and bring them in line with best practice.	

28	Service plans should be kept up to date and linked to the MTFS, in particular with regard to significant savings, growth, demand management and cost control matters. [BP 30]	4	Gavin Handford	Project – design and implement service planning process	Process for aligning service/delivery plans to budgets is published to organisation.	
40	The budget process should enable budget proposals to be built from the bottom up, so that they are underpinned by the expertise of practitioners. [BP 43]	4	Lisa Taylor	Instruction	Reminder to departments about new budget setting process requirements in April 2021.	
40	The budget process should enable budget proposals to be built from the bottom up, so that they are underpinned by the expertise of practitioners. [BP 43]	4		Compliance	New budget setting process is followed by departments	
55	Budget managers should be held to account if they do not remain within their agreed budget plan / promptly take corrective action when overspending is forecast. Failure to take appropriate action is a serious issue and potentially a disciplinary matter. [BP 47]	4		See 52.	The budget setting process verifies that that budgets are appropriate for the planned level of activity and budget holders sign off budget to this effect.	
55	Budget managers should be held to account if they do not remain within their agreed budget plan / promptly take corrective action when overspending is forecast. Failure to take appropriate action is a	4		Training	Budget holders receive the appropriate training and this is refreshed on a regular basis.	



serious issue and potentially a disciplinary matter. [BP 47]					
57 The data that budget holders rely upon to make their budget forecasts such as the staffing establishment should be corrected and kept up to date. [BP 48]	4		Project – establishment and staffing budget alignment	A project is undertaken to set in place systems so that staffing data is aligned with staffing budgets on an ongoing basis	
59 The authority should review and correct base budgets to ensure that they represent a credible spending plan for the year, particularly where there is an ongoing pattern of significant over/underspending . [BP 49]	4		Project – review fees and charges budgets to align with activity	A review of fees and a charges is undertaken aligning budget with planned income.	
60 Employee budgets should be reconciled to and kept in step with the staffing establishment data. [BP 49]	4		See 57	(See 57) A project is undertaken to set in place systems so that staffing data is aligned with staffing budgets on an ongoing basis	
64 The MyFinance system should produce the summarised information needed by heads of finance when reporting the financial position without the need for further	4		See 62	MyFinance system outputs are reviewed to ensure they are fit for purpose.	

intervention. [BP 52]					
64 The MyFinance system should produce the summarised information needed by heads of finance when reporting the financial position without the need for further intervention. [BP 52]	4		See 62	Issues with accuracy of underlying data are resolved (see 57, 59, 60)	
68 The authority should standardise the presentation of financial performance information. [BP 53]	4		Project – standardise financial performance format	A template for financial performance information is agreed and is used by all departments	
71 The authority should profile capital budgets accurately, aligning spend with the project delivery plan. [BP 57]	4		Project – improve capital budget monitoring (inc. training)	Capital budgets are profiled accurately.	
73 Capital underspends should be returned for reallocation to other priorities and not retained by departments. [BP 57]	4		Analysis	A review of the capital programme is conducted annually to identify and capture underspends for reallocation.	
73 Capital underspends should be returned for reallocation to other priorities and not retained by departments. [BP 57]	4		Update Financial Regulations	Financial Regulations are updated to include this principle concerning capital underspends.	

74	Appropriate governance arrangements should be in place to oversee the delivery of the capital programme at a detailed level – this may be the Growth Board or a new arrangement. [BP 57]	4		Update Financial Regulations	The arrangements are incorporated in the council's Financial Regulations	
75	The authority should monitor balance sheet risks such as the collection of sundry debtors, and use of provisions and reserves against plan, as part of the monthly budget monitoring arrangements. [BP 58]	4		Analysis	The monthly budget monitor is redesigned and contains a section on balance sheet items such as debtors, provisions and reserves	
3	Risks identified in relation to strategic partners (and captured on the corporate risk register) should be explicitly considered when taking decisions in connection with those strategic partnerships. [BP 3]	5	Lisa Taylor		(ii) Review in 12 months	
4	The authority should bring together the elements of its long term financial plans – i.e. the Capital Strategy, the Asset Management Plan, the Asset Investment Strategy, the 40 year business plan for the HRA, and the Treasury Management Strategy together with any other relevant long term financial planning information – in a Long Term Financial Strategy document [BP 5].	5	Matt Davis	Project	Long Term Financial Strategy to Cabinet by July 2021	

9	The Capital Strategy should have a time horizon of 20 to 30 years [BP 11].	5		Project – write new capital strategy	New capital strategy approved by Cabinet looks ahead 20-30 years – i.e. 20-30 year financial model	
10	The Capital Strategy should explore external influences in more depth and consider how these affect the requirement and scope for capital investment over the long term (20-30 years). [BP 12]	5		(See 9) Financial modelling	New capital strategy approved by Cabinet includes modelling of external influences on requirement for capital investment.	
11	The Capital Strategy should consider and model the long term (20-30 year) impact of internal influences such as the Asset Management Plan, the Education Estates Strategy, the Asset Investment Strategy, Digital Strategy, and other strategic documents and plans that concern the acquisition, disposal or use of assets. [BP 13]	5		(See 9) Financial modelling	New capital strategy approved by Cabinet includes modelling of internal influences on requirement for capital investment.	
12	The Capital Strategy should include consideration of all of the council's capital-related strategies and plans including the HRA. [BP 13]	5	Sarah Attwood	(See 9) Financial modelling – HRA 40 year plan)	HRA requirements (40 year plan) included in new capital strategy approved by Cabinet	In progress
13	The Capital Strategy should include consideration of risks and mitigations in relation to the council's asset investment strategy. [BP14]	5		(See 9) Review of risks in relation to commercial investment	New capital strategy considers risks in relation to investments	

			plans		
14 The Capital Strategy should consider the long term financial implications of capital investment decisions (i.e. modelled over a 20-30 year period). [BP 15]	5		(See 9) Financial modelling	New capital strategy models worst case scenario as well as expected return over lifetime	
15 The Capital Strategy should include consideration of the organisation's capacity to secure the forecast funding (e.g. capital receipts) and the associated risks, with particular regard to arm's length bodies. [BP 17]	5		(See 9) Financial modelling	New capital strategy models and considers risks in relation to planned capital receipts.	
16 The Capital Strategy should consider the organisation's capacity to deliver the planned capital programme and evaluate the associated risks (e.g. impact and likelihood of slippage) [BP 17]	5		(See 9) Analysis of capacity and associated risks	The new capital strategy includes an honest appraisal of the organisation's capacity to deliver based on past performance and models the impact.	
18 The authority should produce a 10-year capital investment plan (i.e. capital programme) – with actions, timescales, outputs and outcomes [BP 21]	5		Project - review capital budget setting process, documentation etc.	(i) The new capital programme has a 10 year time horizon.	

18	The authority should produce a 10-year capital investment plan (i.e. capital programme) – with actions, timescales, outputs and outcomes [BP 21]	5		Move to BAU - Capital budget setting as part of wider budget setting process	(ii) The new capital programme specifies the actions, timescales, outputs and outcomes in relation to each project.	
19	The Capital Strategy should capture the significant risks and mitigations in relation to the capital programme. [BP 22]	5		(See 9 and 17) Analysis of risks in relation to capital programme	The new capital strategy sets out the risks and mitigations in relation to the capital programme.	
20	The authority should ensure that its governance arrangements concerning capital are fit for purpose and clearly set out in the Capital Strategy and the council's Financial Regulations. [BP 23]	5		Council decision	(ii) The review recommendations are adopted by the council and incorporated in Financial Regulations.	
21	The authority should ensure that capital decisions are made in compliance with the agreed governance arrangements. [BP 23]	5	(i)	Project – review capital elements of scheme of delegation	(i) Review scheme of delegation to align with capital governance arrangements.	
21	The authority should ensure that capital decisions are made in compliance with the agreed governance arrangements. [BP 23]	5	(ii) Simon Maddocks	Audit is added to audit plan	(ii) Audit of capital decision making and capital programme is carried out at appropriate intervals.	
22	The authority should maintain an up to date asset management plan for operational property [BP 8, BP 24]	5	Ozay Ali	Project – new Asset Management Plan culminating in approval by	New asset management plan for operational property is approved by Cabinet	

			Cabinet		
23 The authority's asset management plan for operational property should meet best practice standards. [BP25]	5	Ozay Ali	Project – review plan and practice against standards	The asset management plan complies with best practice guidance: CIPFA Strategic Property Asset Management Framework (August 2018) ; Government Functional Standard GovS 004: Property; RICS Public Sector Property Asset Management Guidelines, 2nd Edition	
24 The MTFS should be rolled forward annually in July and updated in February as part of the budget setting process. [BP 26]	5	Matt Davies	Cabinet report	New full MTFS to Cabinet in July 2021	
28 Service plans should be kept up to date and linked to the MTFS, in particular with regard to significant savings, growth, demand management and cost control matters. [BP 30]	5		Publication	Service/Delivery Plans aligned with budget are published by July 2021	

29	The authority should introduce systematic benchmarking of service performance with other organisations and with its own performance over time as part of its performance regime. [BP 31]	5	Head of Performance	Project – benchmark council services	Service benchmarking incorporated in regular performance management information	
34	The authority should ensure its representatives on boards are adequately supported to drive the authority's strategic objectives through the activities of the arm's length body. [BP 39]	5		External commission – review	Review of group and company structures should include review of council representatives' skills and experience.	
34	The authority should ensure its representatives on boards are adequately supported to drive the authority's strategic objectives through the activities of the arm's length body. [BP 39]	5		Project - Design and implement training	Council representatives onboards receive training	
35	The authority should ensure that in relation to its representation on the boards of arm's length companies, any conflicts of interests are identified and avoided or escalated and resolved. [BP 39]	5		External commission - review	Review of group and company structures should include review of council representatives and any potential conflicts of interest.	



37	The authority should bring together the elements of its long term financial plans in a Long Term Financial Strategy document (see BP 5 above). The budget report should evidence consistency with the long term financial strategy. [BP 42]	5	Matt Davis	(See 5) Project	Long Term Financial Strategy to Cabinet by July 2021	
38	Departments should have clear financial targets to work to in developing budget options. [BP 43]	5	Matt Davis	Financial modelling and report	Targets set based on corporate plan priorities and MTFS	
39	In order to allow sufficient time for departments to develop robust proposals for growth and savings to feed into the budget decision-making process, departments should start work as early as possible in the cycle. This means not waiting until the MTFS has been revised but working to provisional targets beginning as early as May. [BP 43]	5	Matt Davis	(See 38) Financial modelling and report	Targets set in May 2021	Budget Process redesign reported to July Cabinet following report to Finance Review Panel
42	Budget proposals should be evidenced by performance data and modelling to demonstrate robustness and deliverability, with performance and value for money benchmarked over time and against other organisations. [BP 43]	5	Exec Directors and Head of Performance	Project - Research	Departments and performance team conduct research.	

42	Budget proposals should be evidenced by performance data and modelling to demonstrate robustness and deliverability, with performance and value for money benchmarked over time and against other organisations. [BP 43]	5	Exec Directors and Head of Performance	Analysis	Budget proposals incorporate appropriate performance information.	
43	Meetings between officers and members to explore budget options (Budget Development Meetings) should focus on prioritisation of proposals. Proposals should not be screened out politically before being presented at Budget Development Meetings. [BP 43]	5		Training	Officers and members receive training	
44	The budget report should contain only savings proposals for which there is a clear and achievable path to benefits realisation. [BP 43]	5		Training	Officers receive training	

45	The budget proposals brought forward by departments should be prioritised by members. Friendly and constructive challenge has an important role to play in the development of proposals, to ensure that they are aligned with corporate priorities, are developed to their full potential, and are sufficiently robust and deliverable. For these reasons budget development meetings should be held in September / October involving both members and officers. To ensure collective ownership of the financial position and decisions, all cabinet and ELT members should be invited to each meeting. The meetings will follow an agreed format and focus upon a particular set of proposals, grouped by theme (e.g. Capital) or by department. [BP 44]	5		Training	Officers receive training	
52	The budget monitoring report should not only set out the financial forecast and associated risks but should also set out any corrective action required and the associated implementation plan. [BP 47]	5		Budget holders trained	Budget holders understand and are able to perform requirements	

52	The budget monitoring report should not only set out the financial forecast and associated risks but should also set out any corrective action required and the associated implementation plan. [BP 47]	5		Section added to standard budget monitoring report		
55	Budget managers should be held to account if they do not remain within their agreed budget plan / promptly take corrective action when overspending is forecast. Failure to take appropriate action is a serious issue and potentially a disciplinary matter. [BP 47]	5		Compliance	If budget holders fail to take appropriate action, they are held to account through the performance management arrangements.	
56	The finance team should be increased in size to enable monthly budget monitoring. [BP 47]	5		Project – restructure finance team	Restructure Finance team to meet demands of monthly budget monitoring	
58	The authority should consider ways of improving the MyFinance system to make it more intuitive and user friendly, or consider moving to another system that more closely meets budget holder requirements. [BP 48]	5		Project – improve MyFinance user interface to make more user friendly and fit for purpose.	A project is undertaken to improve user interface of budget monitoring system	
59	The authority should review and correct base budgets to ensure that they represent a credible spending plan for the year, particularly where there is an ongoing	5		Project – review other base budgets to align with activity.	A review of other base budgets is undertaken aligning budget with planned activity cost.	

pattern of significant over/underspending . [BP 49]					
61 Operational performance data should be reported alongside financial performance data to enable a full understanding of the cost/income drivers. [BP 49]	5		Project – combine budget monitoring report with performance report	The budget monitor is redesigned to contain the relevant monthly performance information to support understanding of the position.	
62 The council’s budgetary control systems should support the use of profiling by budget holders. The guidance for MyFinance should support the use of budget profiles. [BP 50]	5		Project – improvements to MyFinance	Budget holders have access to a range of budget profiles in MyFinance.	
62 The council’s budgetary control systems should support the use of profiling by budget holders. The guidance for MyFinance should support the use of budget profiles. [BP 50]	5		Training	Budget holders receive training in using profiles in MyFinance	
62 The council’s budgetary control systems should support the use of profiling by budget holders. The guidance for MyFinance should support the use of budget profiles. [BP 50]	5		Project - update guidance	The guidance on MyFinance is updated	

63	Information should be presented in a more user friendly format that supports budget holders to understand the implications and take action. Operational performance information should be presented alongside the financial information. [BP 51]	5		See 62	The MyFinance system presents information in a user friendly format.	
70	The authority should consider identifying and monitoring specific budget risks in relation to partnerships and collaborative ventures as part of its routine budget monitoring. [BP 56]	5		Analysis	The budget monitor contains a section on budgets relating to partnerships and collaborative ventures	
72	A standard programme/project methodology should be applied to all capital projects. [BP 57]	5		See 71	A standardised approach is agreed.	
72	A standard programme/project methodology should be applied to all capital projects. [BP 57]	5		Analysis	Budget monitoring on the capital programme includes a report on the progress with the project alongside the financial spend.	

47	Scrutiny should have a formal role in the process, with pre-scrutiny of proposals for significant change being feasible because of longer development timescales. Scrutiny of budget proposals should take place in the period November to February as the proposals are brought forward for Cabinet approval. [BP 44]	6		Meetings diarised	Pre-scrutiny of proposals takes place over summer months	
63	Information should be presented in a more user friendly format that supports budget holders to understand the implications and take action. Operational performance information should be presented alongside the financial information. [BP 51]	6		See 62	The system presents performance data alongside financial data.	
65	Operational performance information should be presented alongside the financial information. [BP 52]	6		See 61	(See 61) The budget monitor is redesigned to contain the relevant monthly performance information to support understanding of the position.	