

REPORT TO:	Cabinet 7 June 2021
SUBJECT:	Financial Performance Report – Month 1 April 2021
LEAD OFFICER:	Chris Buss, Interim Director of Finance , Investment and Risk (S151 Officer)
SUMMARY OF REPORT: This report provides the Council's annual forecast as at Month 1 (April 2021) for the Council's General Fund (GF) and Housing Revenue Account (HRA). The report forms part of the Council's financial management process of publically reporting financial performance against its budgets.	
FINANCIAL IMPACT This report provides the Council's annual forecast as at Month 1 (April 2021) for the Council's General Fund and Housing Revenue Account. The Month 1 position is currently indicating a nil variance against budget, however this is before taking into account further risks and compensating mitigations which may materialise if not managed. In total, £12.407m of further risks (of which £1.491m relates to approved savings) are identified against which £8.748m of potential risk mitigations are identified and set out in the body of the report. Section 3 provides for these risks and risk mitigations and further discusses the impact on the General Fund if these were to materialise. The HRA is indicating an overspend of £2.117m against budget. This overspend is further detailed within Section 3 of the report.	
FORWARD PLAN KEY DECISION REFERENCE NO.: This is not a key decision	

1. RECOMMENDATIONS

- 1.1 Cabinet are asked to note the General Fund is projecting a net nil variance as at Month 1. Service departments are indicating a £3.451m overspend with this being netted off against £3.451m underspend from a one off Covid Grant confirmed to Croydon Council for 21/22 by MHCLG as part of the Local Government Finance Settlement.
- 1.2 Note that a further number of risks and compensating opportunities may materialise which would see the year-end variance change and these are reported within Section 3 of this report. Should these risks materialise or the mitigations not be effective the Council could overspend by £3.659m.

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| <ul style="list-style-type: none">1.3 Note the Housing Revenue Account (HRA) is projecting a £2.117m overspend for 21/22. If no further mitigations are found to reduce this overspend the HRA will need to drawdown funding from the HRA Reserve account.1.4 Note, the above figures are predicated on forecasts from Month 1 to the year end and therefore could be subject to change as forecasts are refined and new and updated information is provided on a monthly basis. Forecasts are made based on the best available information at this time.1.5 Note that whilst the Section 114 notice has been lifted a, the internal controls established as part of the S114, such as the Spend Control Panel remain. However, restrictions have been lifted for ring-fenced accounts such as the Pensions Fund, Housing Revenue Account and Coroner's Costs as these do not impact on the financial position of the General Fund. The Spending Control Panel which was set up at the beginning of November 2020 continues to meet on a daily basis. |
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2. EXECUTIVE SUMMARY

- 2.1. This reports sets out the Council's current General Fund revenue budget projected outturn as at Month 1, April 2021.
- 2.2. This is the first financial monthly Cabinet update report for the 2021/22 financial year 114. This is the first time the Council is reporting on a monthly basis to Cabinet and more so one of the very few local authorities in the country that is providing an update at Month 1. Most authorities do not normally produce a month 1 forecast due to the low level of transactions and the fact that finance staff are engaged in closing the council's accounts at this time.
- 2.3. The Financial Performance Report (FPR) will be presented to each Cabinet meeting and provides a detailed breakdown of the Council's financial position and the challenges it faces. It covers the GF and HRA and ensures there is transparency in our financial position, enables scrutiny by both members and the public, and hopefully offers reassurance as regards the commitment by chief officers to more effective t financial management and disciplines.
- 2.4. The 2020/21 financial year was a very difficult year for the Council. The former Director for Finance, Risk and Insurance (Section 151 Officer) had to issue the Council's very first S114 notice in November 2020.
- 2.5. A further S114 notice was issued on the 2 December 2020 as the budget remained unable to be balanced. Since 8th March 2021 the S114 notice has been lifted as the Council received confirmation of a Capitalisation Direction from MHCLG of up to £70m for 2020/21 and £50m for 2021/22.
- 2.6. The Council has had the benefit of a number of recommendations from various stakeholders and scrutiny panels such as the external auditor's Report in the Public Interest. These recommendations have been taken on board and the Croydon Renewal Plan has been developed which will over the medium term

financial strategy period restore the Council's finances to balance and develop a more effective system of internal control.

- 2.7. This report forms a part of the reporting on the delivery of the Croydon Renewal Plan by ensuring the delivery of the council's budget is reported monthly and transparently. As indicated in paragraph 2.2 this is the first FPR report for 2021/22.
- 2.8. The Council is still working with the external auditors on finalising the 2019/20 audit of accounts and is in the process of completing the 2020/21 outturn position. The 2020/21 outturn will be reported to Cabinet in July 2021. Both of these events are not likely to affect the financial position of the Council as indicated in this report however, it may impact on the Council's balance sheet and reserves position. Members will be advised of any matters at the time of reporting.

3. FINANCIAL POSITION

- 3.1. The FPR shows that the Council is forecast to have a nil variance on its General Fund (after utilisation of an earmarked reserve before additional risks and mitigations, whilst the HRA is projecting a £2.117m overspend before risks mitigations. The current financial forecast is based on the known position at the time of writing this report.
- 3.2. In 2020/21 the monitoring forecasts presented details of Covid funding that the Council had received from Central Government, however the Government has not provided any further indication that it seeks to continue to fund Local Government in relation to Covid pressures and thus this section has been removed from Month 1 of 2021/22.
- 3.3. The position of the General Fund is shown below in Table 1.

Table 1 – Month 1 Projection per Directorate

Month 1 2021/22	Forecast Variance		Change from previous month		Non-Delivery of Savings	Other Pressures
Service Units	(£,000's)		(£,000's)		(£,000's)	(£,000's)
Children's Families and Education	-		-		-	-
Health, Wellbeing and Adults	1,600		-		-	1,600
Place	1,043		-		-	1,043
Resources	808		-		-	808
Departmental Total	3,451		-		-	3,451
Corporate Items	(3,451)		-		-	(3,451)
Total General Fund	-		-		-	-

- 3.4. Overspends within the services budgets have been further broken down into savings non-delivery and other pressures. Non-delivery of savings relates to non-achievement of the approved MTFS Savings whilst other pressures are as a result of new and external pressures not previously provided for within the Council's 21/22 Budget. Further explanations of these over spends are provided within Section 4 of this report.

Risks and Risk mitigations

- 3.5. As mentioned within paragraph 3.1 the forecast has been reported excluding further potential risks and risk mitigations. Risks and Risk mitigations are split into quantified and unquantified items.
- 3.6. As with the forecast set out in Table 1 and paragraph 3.5, risks are separately reported for those elements that relate to potential under-delivery of approved savings, and those that are new and not directly related to agreed savings plans.
- 3.7. Table 2a below provides for details of MTFS savings risks with a brief commentary of the projects that are at risk of delivery and Table 2b provides a list of quantified and unquantified other risks. Where risks are quantified currently these are based on high level information and departmental experiences of the service. At this stage, services are sufficiently confident in being able to manage or mitigate these risks that they are not included as part of the present forecast year-end position. However, the figure has been provided to indicate to Cabinet the likely financial impact on the budget and therefore the need to take action to deal with the risk.

Table 2a – MTFS Savings Risk

MTFS Savings Ref	MTFS Savings Description	Savings at risk
		(£,000's)
CFE Sav 03	Reconfiguration of Adolescent Services	200
CFE Sav 07	Improve Practice System Efficiency	177
CFE Sav 09	Review Children's Centres Delivery Model	223
CFE Sav 10	Additional Education Savings	16
CFE Sav 14	Cease Family Group Conference Service	60
CFE Total		676
HWA Total		-
PLA Sav 08	Public Protection and Licensing Highways & Parking Services merger	50
PLA Sav 09	Reviewing provision of Household Reuse and Recycling Centres (HRRCs)	11
PLA Sav 24	Parking charges increase 30p/30min	754
Place Total		815
Resources Total		-
Total Savings at Risk		1,491

- 3.8. Table 2a indicates that there are potential £1.491m worth of savings that may not be achieved, however services are currently carrying out further work to ensure these can be delivered or otherwise mitigated. So far no specific mitigations have been identified. Directorates are working up proposals to bring these savings at risk back on track.
- 3.9. Future FPR reports will update progress of these at risk savings. If these savings are deemed to be definitely non-deliverable they will be factored into the monthly forecast and incorporated into the forecast outturn position provided in Table 1. The services have been instructed to find mitigations for all savings that cannot be delivered to meet their budgetary total per directorate. .

Table 2b – Other quantifiable and unquantifiable risks

Quantified Risks	£'000	
CFE	5,113	<p>£0.099m To attract more Social Workers (SW) to Croydon (to cover the increasing vacancy rate), possible increase to SW rate for 20 SWs to £40 / hour for six months, at an additional cost (over and above the current number of agency SW at £35 / hour)</p> <p>£4.571m Asylum Seekers increase in children in Croydon care. (PLEASE NOTE: there is a report @ the same Cabinet – June on Asylum Seekers and this estimated risk quantum may need to be updated to ensure consistency across the two reports)</p> <p>£0.133m Emergency Duty Team – unsocial hours payments and contribution from Adults and Housing</p> <p>£0.150m Children with Disabilities, based on budget disaggregation proposals</p> <p>£0.160m Education Psychologist – traded services</p>
HWA	3,260	<p>Housing £1.8m increase in homeless accommodation costs above inflationary increases due to increased demand</p> <p>Housing £0.76m Increase in bad debt provision on arrears due to adverse economic climate</p> <p>Adults Social Care £0.7m further costs in relation to transitions care package costs of 18-25 aged clients – the budget for which has recently transferred from CFE.</p>
Place	2,253	Environmental Health, Trading Standards & Licensing RISK £2.253m Covid related as delay in the Secretary of State not approving the new Selective Licensing 5 year Landlord Scheme in Jan 2021. For 2021/22 this scheme has not yet been approved by MHCLG.
Resources	290	Revs and Benefits - Complaints recharge of £0.290m in Revenue and Benefits team due for which the budget in service areas is insufficient to fully recharge.
Total Quantified Risks	10,916	
Un-Quantified Risks		
CFE		Children Social Care -Placement costs – validation of growth approved currently being completed
HWA		<p>Housing - Additional unquantified risk related to landlord eviction ban being lifted at the end of May 2021 leading to a significant increase in demand for homeless services.</p> <p>Adult Social Care - The effects of Covid on the provider market. The effects of long Covid on the residents of Croydon</p>

Place		<p>Waste Collection and Street Cleansing. We have not received April's invoice yet from Veolia and it is expected that the pressure will relate to inflation which is likely to be above the corporate inflationary provision</p> <p>SEN Pressure- Some routes split due to Covid social distancing role, No Travel Training occurring over the last 12 months, this potentially has an impact of around £1million/year, Addington Valley Academy additional students, Single students attending schools, Changes to contractors providing services in year, due to performance issues.</p>
Resources		None

3.10. Table 3 provide a list of quantified and unquantified risk mitigations. These are potential risk mitigations that will require further assurance to be included within the forecast. Services managers have identified these as potential mitigations to the risks identified in paragraphs 3.8 to 3.10. Any additional risk mitigations also help the overall financial position of the Council as these would help generate a larger underspend that can be put away into reserves to support future MTFS gaps.

Table 3 - Quantifiable and unquantifiable risk mitigations

Quantified Risk mitigations	£'000	
CFE	(312)	Staffing underspend due to reduction in posts identified as part of the January VR scheme. Exits were not confirmed until after the Budget for 2021/22 was set.
HWA	(73)	Staffing underspend due to reduction in posts identified as part of the January VR scheme. Exits were not confirmed until after the Budget for 2021/22 was set.
Place	(422)	Staffing underspend due to reduction in posts identified as part of the January VR scheme. Exits were not confirmed until after the Budget for 2021/22 was set.
Resources	(142)	Staffing underspend due to reduction in posts identified as part of the January VR scheme. Exits were not confirmed until after the Budget for 2021/22 was set.
Corporate	(7,799)	Underspend due to Covid pressure that were provided within corporate not materialising as forecasted.
Total Quantified Risk mitigations	(8,748)	
Un-Quantified Risk mitigations		
CFE		None
HWA		None
Place		Highways –Street Lighting Team liaising with Commissioning & Procurement to consider options to mitigate the risks from increased rates.
Resources		Revs and Benefits - Recharge to HRA for some Complaints costs to bring income to GF.
Corporate		None

3.11. As at Month 1, if all risks and risk mitigations were taken into account, along with the forecast reported in Table 1 the Council would be overspending by £3.659m. However, budget holders at this stage of the financial year tend to be over cautious in terms of identifying potential under-expenditure whilst being more aware of budget pressures. The situation will be clarified as the year progresses and the monthly budget reports show more detail on the patterns of income and expenditure and the longer term impact of Covid on Council services becomes clearer. Service managers have been instructed to identify and implement mitigations to spend within their approved funding envelopes. As such compensating measures are developed the impact of the net risks is expected to decline.

4. SERVICE VARIANCE DETAIL

4.1. Children, Families and Education (CFE)

Summary

The CFE directorate is forecasting a nil variance for Month 1. This is a net position after factoring all budgeted income and expenditure within the directorate.

Whilst the forecast is nil the Directorate is indicating potential risks that could result in an overspend. Table 2a details 5 MTFS savings, totalling £0.676m, that are at risk of non-delivery. Furthermore, Table 2b indicates that there is a further £5.113m of other risks which could materialise through this financial year and Table 3 is projecting an opportunity of £0.312m.

4.2. Health, Wellbeing and Adults (HWA)

Summary

The HWA directorate are forecasting an overspend of £1.60m. This overspend entirely relates to the transitions service within Adult Social Care. This service moved from Children's, Families and Education to Adult Social Care on 1 April 2021. The forecast is based on the 2020/21 outturn, with adult social care projecting the same level of demand but this is higher than the available budget. The service is working to reduce demand and costs to bring this area to budget as a priority. The housing service, which is also part of HWA is reporting a nil variance.

In addition to the overspend and as identified in Table 2b the service is projecting other risks of £3.260m. These risks relate to housing services and a further potential pressure for Transitions services within adult social care. The Housing services is registering a risk of £2.560m from higher demand for temporary and emergency accommodation due to the adverse economic impact from the pandemic, the ban on evictions being lifted and increased bad debt from tenants that need to contribute towards their rent.

HWA also have a potential other opportunity of £0.073m in relation to staff underspend due to the January VR scheme.

4.3. Place

Summary

The Place directorate is forecasting an overspend of £1.043m. This overspend relates to a number of items which are further detailed below:

- **Highways overspend of £0.400m** - Street Lighting additional electricity charges due to revised rates within the new contract above inflationary increases projected.

- **Waste overspend of £0.355m** - Disposal Contract due to an increase in Residual Waste Tonnage & property growth not factored in budget.
- **Licensing overspend of £0.210m** - Shortfall in Surrey Street Market income historic pressure due to vacant plots on market
- **Licensing fees £0.066m**- Shortfall in various licenses and associated fees due to premises closing during COVID (ie. street trading, temporary event notices, personal licenses and other LA03 related applications and Skips & Scaffolding Licenses) £144k.
- **Neighbourhood Safety Officers underspend £0.090m** - Public Conveniences (£55k) saving with new Cleansing Service contract. Other minor savings (£35k). Savings due to contractual re-negotiations and £35k savings due to various minor staff underspends.

In addition to the forecasted overspend the Place directorate, as indicated in Table 2a and 2b, have provided for additional risks due to non-delivery of MTFS savings of £0.815m as well as other risks of £2.253m.

Place also have a potential other opportunity of £0.422m in relation to staff underspend due to the January VR scheme.

4.4. Resources

Summary

The Resources directorate is forecasting an overspend of £0.808m. This overspend relates to the following items

- **Legal and Governance overspend of £0.533m** - establishment budget shortfall
- **Additional Costs of £0.150m** – for the Council's proportion of additional costs recharged from the Coroner's service in relation to the Sandilands Inquest.
- **Digital Service overspend of £0.125m** – less than budgeted income for digital advertising income due to a delay in the implementation of the proposed scheme

In addition to the forecasted overspend the Resources directorate, as indicated in Table 2b, are indicating further risks of £0.290m and further risk mitigations of £0.142m.

4.5. Corporate

The Council received a non-fenced grant of £11.250m from Central Government in relation to additional costs that may be incurred in the current

financial year as a result of Covid 19 and was announced in the December Local Government Finance Settlement. Any costs incurred by departments are expected to be met from existing service budgets and the grant is available to meet any additional service costs over expenditure. Where practicable additional costs including lost income arising from Covid will be identified and reported separately in future reports. The forecast General Fund variance of £3.451m is currently offset by utilising part of this grant – the balance being reflected as a potential opportunity to mitigate risks.

5. Housing Revenue Account (HRA)

- 5.1. Table 4 provides a summary of the HRA Month 1 monitor, which is currently indicating a £2.117m overspend. The HRA is a self-financing ring-fenced account and will need to ensure it remains within the resources available, taking into account levels of reserves.
- 5.2. The Service Finance team are currently working on the HRA business plan that will be presented to Cabinet in July 2021.
- 5.3. The forecast overspend reported in Table 4 can be contained within HRA reserves provisionally forecast at £15.4m as at 31st March 2021.

Table 4 – Housing Revenue Account (HRA) at P1

SERVICES	Projected Variance	Explanation of Variations
	£'000	
Responsive Repairs	719	<p>£119k - Higher volume of uncompleted PPP repairs work carried over from last year</p> <p>£250k - Increase in average costs due to higher value voids, due to their condition when vacated.</p> <p>£350k - Additional spend particularly linked to disrepair cases relating to damp and mould eradication works, roofing repairs, drainage, door entry repairs and plumbing.</p>
Asset Management & Involvement	-	
Homes & Schools Improvement	-	
Regeneration Growth	-	
Neighbourhood Operations	-	
Housing Renewal	-	
Housing Solutions	500	£500k - Concord, Sycamore & Windsor estimate based on 2020/21 spend
People Centralised	-	
Service Development	-	Potential risk of pressure from increase in legal costs. No forecast provided as too early in year to determine these costs and no provision has been made for any legal matters that may arise above the norm
Income & Lettings	110	£110k - Non achievable income and recharges including Council tax pressure on void properties
Neighbourhood & Tenancy Service	488	<p>£153k - CCTV recharges to the HRA</p> <p>£20k - Salary upgrade for bulk drivers and Safeguarding officer</p> <p>£95k - weekend overtime agreed for Caretakers</p> <p>£100k - Hotel costs, last year's was £54k</p> <p>£120k - Responsive repairs, last year's was £60k</p>
Emergency Accommodation	100	£100k Gillet Road Concierge charges
Leaseholder Services	-	
Tenants Income	-	
Garage and Commercial Properties	100	<p>£80k - Rent loss through voids</p> <p>£20k - shortfall in other sources of income such as recharges for lost keys, door entry cost etc.</p>
Directorate & Centralised costs	100	£100k - Executive Director for 6 months
Statement of Movement in HRA Balance	-	
Total HRA	2,117	

6. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 6.1. Finance comments have been provided throughout this report.

Approved by Chris Buss, Interim Director of Finance, Investment and Risk (S151 Officer)

7. LEGAL CONSIDERATIONS

- 7.1. The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance that the Council is under a statutory duty to ensure that it maintains a balanced budget and to take any remedial action as required in year.
- 7.2. The Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council's Chief Finance Officer has established financial procedures to ensure the Council's proper financial administration. These include procedures for budgetary control. It is consistent with these arrangements for Cabinet to receive information about the revenue and capital budgets as set out in this report
- 7.3. The monitoring of financial information is also a significant contributor to meeting the Council's Best Value legal duty and therefore this report also complies with that legal duty.

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

8. HUMAN RESOURCES IMPACT

- 8.1. There are no immediate workforce implications as a result of the recommendations in this report. Any mitigation on budget implications that may have effect on direct staffing will be managed in accordance with relevant human resources policies and where necessary consultation with recognised trade unions.

Approved by: Sue Moorman, Director of Human Resources

9. EQUALITIES IMPACT

- 9.1. There are no equalities impacts as a result of this report.

Approved by: Yvonne Okiyo on behalf of the Director of Equalities

10. ENVIRONMENTAL IMPACT

10.1. There are no Environment implications.

CONTACT OFFICER: Matthew Davis, Deputy Section 151 Officer

APPENDICES: Appendix 1 – Service Budgets and Forecasts

BACKGROUND DOCUMENTS: None