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## Scrutiny & Overview Committee

Meeting held on Tuesday, 16 January 2024 at 6.30 pm in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

### MINUTES

**Present:** Councillors Rowenna Davis (Chair), Councillor Richard Chatterjee (Vice-Chair), Leila Ben-Hassel (Deputy-Chair), Sue Bennett, Simon Fox and Eunice O'Dame

**Also Present:** Councillor Jason Cummings – Cabinet Member for Finance

### PART A

#### 1/24 **Minutes of the Previous Meeting**

The minutes of the meeting held on 21 November 2023 were agreed as an accurate record.

#### 2/24 **Disclosure of Interests**

There were no disclosures of interest made at the meeting.

#### 3/24 **Urgent Business (if any)**

There were no items of urgent business for the consideration of the Scrutiny & Overview Committee at this meeting.

#### 4/24 **2023-24 Period 6 & 7 Financial Performance Reports**

The Committee considered a report on pages 5 to 42 of the agenda that provided an overview of the latest budget position for 2023-24 up until the end of Period 6 (September 2023). This report was included on the agenda as part of the Committee's ongoing scrutiny of the delivery of 2023-24 budget.

The Cabinet Member for Finance, Councillor Jason Cummings, Section 151 Officer, Jane West, Director of Finance, Allister Bannin and Head of Strategic Procurement, Scott Funnell were in attendance for this item at the meeting.

The Chair advised the meeting that it had been hoped the Period 7 (October 2023) report would be available for the Committee's consideration, but unfortunately it had not been cleared in time. As such the Chair had asked the Director of Finance, Allister Bannin to provide an update on the key changes to the Budget since the Period 6 report. During this update, the following was noted.

- The projected year end overspend across service directorates had been reduced from £5.7m in Period 6 to £1.5m in Period 7.
- The forecasted budget for the Adult Social Care & Health service had moved from a £0.2m overspend to a £1m underspend due to continuing work on pricing and placement costs.
- The projected overspend with the Childrens service had been reduced from £5.8m to £5.4m due to its ongoing work on high-cost placements.
- The projected underspend within the budget for the Assistant Chief Executive's Directorate had moved from £0.5m to £0.9m due to an underspend within IT.
- The budget forecast for the Housing service had moved from a £2.2m overspend to a balanced position due to the transfer of funds from the Corporate economic demand pressures budget to address the additional emergency accomodation pressures.
- It was anticipated that the forecasted overspend of £1.5m could be offset from the Corporate Contingency fund.
- The Housing Revenue Account (HRA) revenue budget forecast remained at a £12m overspend due to the backlog of historic legacy repair work, reducing voids and the need to resolve issues experienced nationally including damp and mould and fire safety. The HRA capital budget forecast remained at £5.8m, which could be attributed to the cost for undertaking bigger repairs to properties.

As the Period 7 report had not been available, the Committee agreed to only allocate a short period for questioning the information provided. The first question asked whether the savings within the Adult Social Care and Health service could in part be attributed to staff vacancies. It was advised that the forecasted budget for staffing within the service had remained the same since Period 6 and it was the budget for placements that had improved. It was highlighted that there were a number of areas across the Council where it was a challenge to attract staff, including social care, which was a national issue and not unique to Croydon.

An update was requested on the conversations with the Government to find a solution to the Council's debt burden. It was advised that the discussions had not progressed to the stage where a solution had been identified and the Council was still having to manage its own finances, with the extraordinary support provided through the Government granting permission for capitalisation. There was an ongoing conversation about possible options for the debt which included restructuring and providing lower interest rates on the borrowing, as well as the debt write-off that had been requested. The challenge for the Government was to find a solution that would also work for other boroughs that were experiencing financial difficulty.

At the conclusion of this item, the Committee agreed to defer its conclusions on the item, until it had the opportunity to review the full report at its next meeting on 12 February 2024.

## 5/24 **2024-25 Budget Setting Update**

The Committee received a presentation from the Corporate Director of Resources & Section 151 Officer, Jane West, on the progress made with setting the 2024-25 budget. This report was included on the agenda as part of the Budget Scrutiny process. A copy of the presentation delivered can be found on the following link: -

<https://democracy.croydon.gov.uk/documents/s53260/2024-25%20Budget%20Setting%20Update%20-%20Presentation.pdf>

The Cabinet Member for Finance, Councillor Jason Cummings, Section 151 Officer, Jane West, Director of Finance, Allister Bannin and Head of Strategic Procurement, Scott Funnell were in attendance for this item at the meeting.

The Cabinet Member for Finance highlighted to the Committee that there had been advice from the Government to local authorities to use existing reserves

to manage any current financial difficulties. However, given the ongoing financial challenges facing the Council from its debt burden, the reserves held would not address the problem, and as such the guidance was not thought to be applicable in Croydon's circumstances. It was also highlighted that it was unlikely the financial situation for local government would improve dramatically, whoever won the forthcoming general election, as such there was a need to address these challenges across the sector.

The first question on this item asked for more information on the work to close the identified £6m gap in the 2024-25 budget. It was advised that there were several different factors to be resolved before the budget report was produced in early February that may help to address the gap. Final confirmation of the Government settlement was expected on 5 February, the Council Tax and Business Rate base was still being reviewed, there was likely to be a saving on Freedom Passes and it was hoped that capital charges would reduce as interest rates started to come down.

As a follow-up, it was questioned whether the previously indicated 4.99% increase in Council Tax could potentially rise to help meet any remaining gap. It was confirmed that no change to the proposed Council Tax was expected and it was highlighted that the Mayor had given a public commitment to not increasing Council Tax above the referendum rate.

It was noted that £20m savings had been included in the budget for each year from 2025-26 onwards, with the basis of this figure questioned. It was acknowledged that delivering savings of £20m each year would be difficult and it was a reason why the Council was investing in its transformation programme. Given the challenging financial landscape for local government it was essential for councils to modernise and manage demand. There were ongoing discussions with both the Improvement & Assurance Panel and the Government on how far the Council could go in reshaping itself. It was highlighted that even with £20m of savings, the Council would still have a budget shortfall of £38m, that based on current projections would need to be met through capitalisation.

It was questioned whether there would be any further contingency built into the 2024-25 budget to mitigate against the risk of a potential inflationary spike as a result of recent events in the Middle East. In response, it was advised that a contingency fund had been built into the previous year's budget and at this stage it was thought that this would provide adequate provision for the forthcoming year and it was not expected that any further contingency would be added.

An update on the work to close the outstanding accounts from previous years back to 2019-20 was requested. It was acknowledged that the outstanding accounts would continue to be a risk over the next couple of years as work continued towards closure. There appeared to be less issues being raised by the Council's External Auditor, but until the accounts were closed the risk remained. The accounts for 2019-20 were almost complete, with one final issue to resolve before they could be taken to the Audit & Governance Committee to sign off.

Regarding the Oracle Project it was noted that a report on the business case was due to be presented to Cabinet in March. The project was included in the capital programme for 2024-25, but until work on the business case had been completed it was not possible to confirm the cost. It was also confirmed that the project to replace Council laptops was progressing and could be met within existing budgets.

## **Conclusions**

Following its discussion of the Budget Setting update, the Committee reached the following conclusions: -

1. The Committee agreed that the financial challenges of the Council would continue to be extremely concerning until a solution could be found to manage its historic £1.3b debt.
2. The Committee was supportive of the Administration's position that Government advice to local authorities to use reserves to manage budget difficulties was not applicable in the case of Croydon given its severe financial challenge.
3. Although there was a £6m budget gap still to be identified in the 2024-25 budget, the Committee was reassured that both officers and the Cabinet Member for Finance were cognisant of the gap and were exploring options to close it.

The Committee considered a report on pages 43 to 98 of the agenda that provided an update on the capital programme and capital strategy covering the period 2023 to 2029. This report was included on the agenda at the request of the Committee to help inform its discussion on the forthcoming budget.

The Cabinet Member for Finance, Councillor Jason Cummings, Section 151 Officer, Jane West, Director of Finance, Allister Bannin and Head of Strategic Procurement, Scott Funnell were in attendance for this item at the meeting.

During the introduction to the report, the following points were noted: -

- The principal driver for the capital programme was cost reduction and the Council was not in a position to be making choices on investment, unless it would deliver a saving.
- It had also been decided not to cut back on areas that could lead to further costs down the line, such as highways maintenance.
- The capital budget for 2023-24 and 2024-25 would be balanced through the use of income capital receipts from asset disposal. At present, it was projected that the capital budget in subsequent years would require additional borrowing.

Following the introduction, the first question of the Committee asked how the capital programme aligned with the Mayor's Business Plan and the Improvement & Assurance Panel's Exit Strategy. In response, it was highlighted that the Mayor's Business Plan did not include any significant capital promises, as it was known that the Council was not in a position to deliver these. The Exit Strategy did not have a significant focus on capital spend, beyond the Council managing its debt burden and asset disposal. It was also highlighted that the capital budget was funded to a far higher percentage from external sources than other local authorities, given the need to do as much as possible without costing the Council.

It was questioned what percentage of the capital budget was derived from external funding sources. In response, it was advised that external funded equated to approximately 28% of the total income when taking account of capitalisation, but if capitalisation was not included, it was a much higher percentage. It was also asked whether a breakdown could be provided on the funding allocated to meet statutory requirements and proportion that was discretionary. It was advised that this was difficult to define as what was

required to meet statutory need was a matter of judgement. In general, areas such as school funding would be considered as statutory, while other areas such as IT would be considered discretionary.

It was questioned whether the capital budget presented in the report was in breach of the Prudential Code. It was acknowledged that although the Council was in compliance with many of the indicators within the Code, it was not in overall compliance. It would be difficult to achieve compliance unless a solution was found for the Council's debt burden.

It was noted that 49% of the capital budget was being spent on capitalisation and as such it was questioned whether this was having a long term impact. It was advised that it was difficult to foresee the potential impact for Croydon as there was no precedent across the local government sector. The Council's currently had a £38m annual gap in its revenue budget, with the only solution for closing this being further capitalisation, which increased the debt burden. Without capitalisation as a solution, it would potentially be dangerous to take £38m from the budget. As mentioned above, it was projected that the capital programme for 2023-24 and 2024-25 could be delivered without further borrowing, with capital receipts being used. The Council had a four year asset disposal programme, but if disposals continued beyond that point, then the Council would be asset less, which was not a position any local authority should be in.

It was noted that the projected capital spend for the Housing Revenue Account (HRA) for 2024-15 was £57m, half of which would be met through borrowing. It was questioned whether this level of borrowing was prudent and how it compared to other local authorities. It was confirmed that borrowing within the HRA was actually less than that of other local authorities due to previous underinvestment. It was highlighted that there would be an updated report coming before Cabinet in February which would specify the use of reserves to fund the HRA capital programme in 2024-25 rather than borrowing. It was confirmed that the transfer from the General Fund to the HRA, to correct a previous error over the accounting treatment of Croydon Affordable Homes, had been a contributing reason as to why borrowing was not required next year.

As a follow-up, it was questioned whether it would be sustainable to have the amount of borrowing projected in the HRA over the length of the current Medium Term Financial Strategy (MTFS) period. It was advised that additional borrowing would be okay in the short term but would need to be reviewed annually to ensure the right level of investment was being made in resident's properties and to consider the future provision of new properties. As a result

of the Government capping rent increases, some boroughs, who had been borrowing consistently, were experiencing difficulties within their housing revenue accounts, but as a result of the low level of HRA borrowing in Croydon, the rent cap was not having the same impact locally.

Further information was requested on the work of the Council to improve its management of the capital account. It was highlighted that a report had been considered by the Audit and Governance Committee in November on both the revenue and capital fund improvements, which included the Capital Internal Control Board being set up to oversee the capital programme. The Board met monthly to review new capital bids and to monitor delivery of the programme. A revised process for seeking approval for new capital bids was being developed in line with best practice. In doing so, a balance would be found to reduce the reporting requirements for smaller projects in comparison to a higher level of information expected for larger projects.

The Capital Internal Control Board was chaired by the Director of Finance and its membership included key officers from across services. The Board monitored the financial position of projects at its meeting which included information such as forecasts on possible slippage and overspends. The Board also looked at project delivery risks and sought further reassurance through deep dives when there were areas of concern.

Although given the Council was delivering a reduced capital programme, the Board had less demonstrable impact than in normal circumstances, it had led to the better use of intelligence in deciding on projects, reduced capital expenditure through increased rigour and ensured departments were regularly reporting on project risks.

It was questioned whether there was a robust process in place to manage potential project overspends. It was advised that the monthly project status reports to the board provided the opportunity to review the risk of a potential overspend, so they could be identified at an early stage and managed accordingly. However, if further funding was required, the project lead would have to provide an updated business plan to explain why. If the additional funds were not required in year, it would go through the normal approval process for capital funding. If the additional amount was required in-year, the Section 151 Officer had delegated authority to increase a budget by up to £500,000. If a larger amount was required, it would need to be presented as a report to Cabinet for a decision by the Mayor.

In response to a follow-up question about the information required in a business case, it was advised that it would capture feasibility costs, capital



costs including material, labour costs including internal staff time to manage the project, any one-off or ongoing revenue costs, the expected profiling on when expenditure would happen, any external funding and any legal advice.

As it was noted that the Growth Zone provided an income for further investment through the retention of a higher proportion of those business rates generated as a result of the Growth Zone, it was questioned whether the current Town Centre Growth Zone could be extended or an additional Growth Zone set up in the borough. It was advised that a new Growth Zone could potentially be set up, but further work would be needed to establish the requirements and cost of doing so.

It was noted that there was a risk from delivering a pared back capital programme, that it could lead to further issues in the future particularly in areas that required regular maintenance such parks and highways. As such it was questioned whether there were areas of risk identified in which it was important to maintain a certain level of funding to prevent higher costs in the future. It was advised that it was important to have a balance between upfront investment and later remedial costs, with Highways being one area where it was important to balance long and short term repairs. Funding was provided by both the Government and Transport for London for highways maintenance, but it was not sufficient to cover the full cost of the work needed. It was advised that Croydon benchmarked well against other local authorities on core maintenance spend, but its focus was on ensuing health and safety was maintained rather than more cosmetic considerations.

It was previously noted that the capital receipts delivered in the past year were being used to fund the capital programme without further borrowing, which raised concern as this meant that the Council was reducing the number of assets held without reducing its overall debt burden. It was confirmed that as a result of the need for capitalisation to balance the budget it was necessary to use the capital receipts to prevent further borrowing. When deciding on whether to proceed with a capital project, if external funding could be utilised it was more likely to proceed, whereas if it needed to be funded through capital receipts or borrowing, it would be more challenging to justify.

In response to a question about the Digital Strategy, it was advised that a new strategy would be produced as part of the work on the transformation programme which would come forward later in the year. In the meantime, urgent projects, such as Oracle Improvement project and the laptops refresh would continue to be progressed.

At the conclusion of the item, the Chair thanked the Cabinet Member and the officers for their engagement with the questions of the Committee.

## **Actions**

Following its discussion of the Capital Programme and Capital Strategy report, the Committee agreed the following actions to follow-up outside of the meeting:-

1. That the development of a Digital Strategy would be raised with the Director of Transformation at a forthcoming briefing.
2. That the Streets & Environment Sub-Committee be asked to review the use of Community Infrastructure Levy funding within the capital programme.

## **Conclusions**

Following its discussion of the Capital Programme and Capital Strategy report, the Committee reached the following conclusions: -

1. The Committee acknowledged that both transparency and the governance processes of the Council have been improved due to the hard work of officers and the Cabinet. However, despite this hard work, the financial situation remained dire and potentially dangerous with the £38m budget gap remaining unresolved without further capitalisation and the Council being in breach of the Prudential Code.
2. The Committee also acknowledged that the financial situation for the Housing Revenue Account capital budget was much healthier than the General Fund capital budget and was supportive of the proposal to use reserves, rather than borrowing, to fund capital works in 2024-25.

## **Recommendations**

Following its discussion of the Capital Programme and Capital Strategy report, the Committee agreed to submit the following recommendations for the consideration of the Mayor: -

1. The Scrutiny & Overview Committee recommends that organisations including the LGA or London Councils are approached to review whether there is any currently untapped external funding sources available to the Council for capital projects, to provide reassurance that every avenue for inward funding was being explored.
2. The Scrutiny & Overview Committee recommends that the potential business case for either extending the existing Growth Zone or establishing a new Growth Zone are explored, which would give Croydon the change to keep a higher proportion of any new business rates generated as a result, rather than passing them to central government.

7/24

### **Quarterly Procurement Plan Update**

The Committee considered a report on pages 99 to 108 of the agenda which provided the latest quarterly update on the progress with delivering the Procurement Plan, which had been considered by the Mayor at the Cabinet meeting on 6 December 2023. This report had been included on the agenda as procurement was identified as an area of focus for the Committee.

The Cabinet Member for Finance, Councillor Jason Cummings, Section 151 Officer, Jane West and Head of Strategic Procurement, Scott Funnell were in attendance at the meeting for this item.

During the introduction to the report, the following points were noted: -

- Procurement had been a key target for the Administration since its election in 2022.
- Progress had been made, but there was still a lot to do. Both the quarterly and annual reports were a key part of the improvement journey.
- It was essential to ensure that the Council was being transparent over its contracts, as it allowed companies to see what contracts were coming up for procurement and prepare bids.

- There had been improvement in identifying the reprocurement window when contracts were coming to an end, but some were still being missed which was reflected in the report.
- A current focus for the Procurement service was ensuring officers across the Council had the right skills to deliver procurement projects and that the end to end procurement process was joined-up.

Following the introduction, the first question from the Committee asked whether it would be possible to reflect in future reports where values had been amended from previous reports. It was explained that the types of contracts the Council procures varied. Some, such as the contracts for emergency accommodation, showed the maximum value spend a contract could go up to. An alternative option the Council was progressing was using a dynamic purchasing system, which allowed a lot of different smaller providers to bid for contracts. It was agreed that where contract variations have been agreed, these could be included, although further exploration was needed to confirm the exact format for this.

It was questioned whether the Council had the right balance between the number of long and short term contracts it held. It was advised that the length of a contract would depend on the nature of the service provided. For instance, if a contractor needed to invest a significant amount of money upfront, a contract would usually need to be over a longer period. It was quite common in local government to use a contract with an initial three year term followed by two single year extensions (3+1+1), but there was an intention to move away from this towards using five year contracts as needed. A targeted improvement was to ensure that any decision to extend a contract was based on sound contract management, rather than convenience.

It was questioned whether reassurance could be given that the Council now had a complete list of its contracts and what work was being done to reduce the risk of contracts automatically extending. It was advised that at present all known contracts were listed accurately, but there could not be total confidence that the list was complete as the Council continued to be on an improvement journey. The list continued to be refined and was getting better with each iteration, to the point that Croydon was likely to be slightly ahead of other boroughs in not being far off having a complete list of its contracts. The Council had introduced a contract register which fed into the procurement pipeline that was constantly being updated and staff were starting to see the benefit of this approach. Reassurance was given that all contracts listed within the Quarterly Update had its own report sitting behind it with an audit trail signed off by the relevant cabinet member and director. Automatic renewal

should be avoided as it increased the risk challenge and meant the Council was potentially missing best value.

There was concern raised about the quality of data available at the Council and whether it was good enough to ensure there was a clear understanding of what was required from a contract at the start of the procurement process. It was advised that the Council was improving its use of data, but it was not where it should be at the moment. There was a need to ensure officers were able to step back and assess what was being procured rather than simply renewing a contract. This would be facilitated by an improved contract management process which would provide a clear understanding of what was needed when it was time to reprocure a contract. As part of this, the Council needed to improve how it worked with its contractors to design and specify what data was expected in its contract to support wider improvement.

It was questioned whether there was sufficient specialism within the Procurement team to support directorates with the technical detail of any procurement processes within their respective areas. It was advised that the team had moved in 2022 from a category management model to a central resource split into three teams, namely Social Care, Housing & Sustainable Communities and back office services. This approach was based on services providing the area specific expertise and supported by the procurement expertise of the central team. It was recognised that the team needed to provide additional support for high profile contracts, particularly around pre-procurement and contract management. In comparison to other local authorities the team was getting involved in more lower value contracts which was stretching resources and as such there was an intention going forward to prioritise higher value contracts, given these provided a greater opportunity to deliver savings for the Council.

In response to a follow-up question about whether departmental specialisms could be offered in the future, it was advised that it had been found that contract management rather than service specific skills were lacking. The preferred model was to have a concentrated corporate team providing support as needed, with the contract management process led within services, as they were managing the contract on a daily basis. Given the volume of work within the Housing directorate, additional resource had been provided, but in the longer term the service would need to build contract management skills within its structure.

It was advised that a key priority was to address the number of contracts not being reprocured in time, as this was creating a backlog that affected capacity. Once this had been addressed, it would provide additional scope

toward ensuring best value was being delivered. A new Procurement Act 2023 was due to come into effect from October 2024. Whereas there was previously a requirement to produce four procurement notices, the Act brought in 17 separate notices. It also made the publication of the procurement pipeline and key performance indicators mandatory.

At the conclusion of this item the Chair thanked both the Cabinet Member and the officers present for their open and honest responses to the questions of the Committee.

### **Actions**

Following its discussion of the Quarterly Procurement Plan update, the Committee agreed the following actions to follow-up outside of the meeting: -

3. The Committee agreed that it would revisit procurement later in the year to check on the progress being made in delivering improvement.

### **Conclusions**

Following its discussion of the Quarterly Procurement Plan update, the Committee reached the following conclusions: -

3. The Committee agreed that it was unable at this stage to provide reassurance that procurement process was as good as should be expected. However, it was acknowledged that significant progress had been made with improving the service.
4. The Committee was reasonably reassured that both council officers and the Cabinet Member for Finance were aware of the issues to be resolved and were taking steps to continue the improvement journey.

### **Recommendations**

Following its discussion of the Quarterly Procurement Plan update, the Committee agreed to submit the following recommendations for the consideration of the Mayor: -

3. The Scrutiny & Overview Committee recommends that a method for publishing further information on agreed contract variations is explored through the procurement reporting process.

## 8/24 **Scrutiny Recommendations**

The Committee considered a report set out on pages 109 to 116 of the agenda which presented the response of the Mayor to previous recommendations submitted by the Scrutiny & Overview Committee for his consideration.

The Committee noted its disappointment that the Mayor had rejected two recommendations made following its consideration of the Asset Disposal Strategy relating to notifying ward members and community groups ahead of the publication of the next tranche of assets identified for disposal. Although the reason for rejection given was due to a process already being in place, the Committee noted it had heard from community groups at its previous meeting where this had not been the case. It was agreed that communication around future disposals would be revisited when the Committee next looked at subject.

**Resolved:** The Scrutiny & Overview Committee agreed to note the response provided by Mayor to recommendations made by the Scrutiny & Overview Committee.

## 9/24 **Scrutiny Work Programme 2022-23**

The Committee considered a report set out on pages 117 to 142 of the agenda which presented the most recent version of the work programme for the Scrutiny & Overview Committee and its Sub-Committees.

It was noted that there may be an additional meeting scheduled in March 2024 to provide the Committee to specifically look at crime and disorder. A request was made a review of the Borough of Culture programme to be brought to the Committee later in the year.

Borough of Culture t scheduled.

**Resolved:** The Scrutiny & Overview Committee agreed to note the most recent version of the Scrutiny Work Programme 2023-24.

10/24 **Exclusion of the Press and Public**

This motion was not required.

The meeting ended at 9.25 pm

**Signed:**

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**Date:**

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