



LONDON BOROUGH OF CROYDON MANAGING REVENUE BUDGETS

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1. Introduction and Summary

In July 2022, Worth Technical Accounting Solutions Limited were engaged by the London Borough of Croydon to support the Council's "Opening the Books" initiative. This aspect of our work is focussed on:

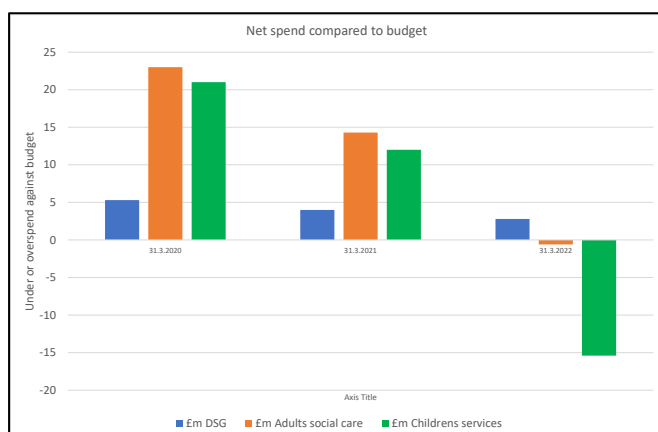
- the management of social care budgets and the Dedicated Schools High Needs Block, and
- risks associated with delivery of financial savings targets included in the current MTFS for 2021- 25.

It supplements our high-level review of the Council's budget setting and financial management arrangements issued on 12th September 2022.

Between them adults and children's services account for almost two-thirds of the Council's net revenue budget requirement for 2022/23. Effective management of these budgets, and successful delivery of identified savings, is key to the Council's financial recovery.

In summary, we found that:

- historically, there has been a disconnect between corporate budget setting arrangements and the day-to-day management of social care services. Many of the previous budgets and savings targets were based on incorrect or out-of-date assumptions which has contributed to, but is not the sole cause of, the Council's current financial challenges
- since April 2021 there has been a systematic improvement in financial management within both adults and children's services. Budgets have been realigned and reset where necessary. As shown below, reported overspending in these services has significantly reduced over the past three years:



Source: LB Croydon published Statement of Accounts and budget monitoring reports

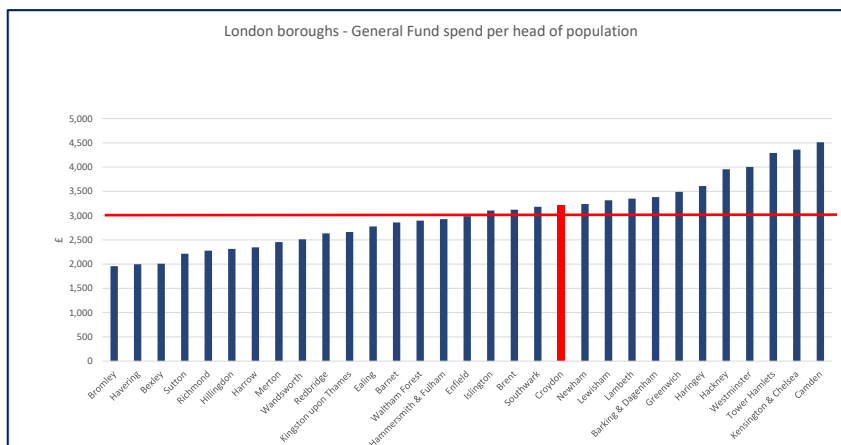
- plans are in place to reduce the annual deficit on High Needs education to zero over time, and DfE have agreed to pay Croydon additional grant funding in relation to accumulated deficits,
- good progress has also been made to date in delivering the current savings requirement for both adult and children's social care.

Whilst there are good reasons for the Council to feel positive about improvements made in these areas since 2021, some new skills and processes still need to become fully embedded in day-to-day service management.

The Council also needs to remain cautious about the potential impact of activity and cost increases and make sure that future years' budgets are based on realistic assumptions about demand levels and unit costs. For example:

- forecast reductions in children looked after placement costs are not in line with national trends across the rest of the UK,
- joint work on demand modelling with NHS services should continue to ensure that current predictions of demand and activity levels in areas such as hospital discharge arrangements and services for children with disabilities are robust, and
- financial modelling is being used to predict the impact of proposed Government changes to adult social care and the Council's progress in this regard is in line with neighbouring local authorities, but current estimates will need to be kept under review and updated as further information becomes available.

Croydon's General Fund Net Cost of Services is, in overall terms, in line with other London authorities. Achieving a sustainable position primarily through efficiency savings might therefore be difficult to achieve:



Source: published Statement of Accounts for 2020/21. Red line denotes the London average.

The services we reviewed had already recognised these challenges and were developing a more transformational approach, by challenging established ways of doing things and current levels of service delivery. For example, the Council has reduced adolescent services, reviewed SEN provision, and is implementing new eligibility criteria for adult social care.

This approach is to be welcomed and should be further developed across all service areas. Longer-term changes will take time to implement but have the potential to generate more significant financial savings in future.

Adult Social Care

After the Section 114 notice was issued in November 2020, significant analysis was undertaken on adult social care services in the borough, supported by the Local Government Association (LGA). This analysis showed that:

- the volumes of activity and the unit cost of adult social care services in Croydon was higher than the average for other London Boroughs, and that
- this was not specifically due to need or demography, but to a combination of historically overly generous care packages (in particular for working-age adults), inconsistent use of eligibility criteria, and a lack of acumen in relation to providers.

The biggest challenge for adults' social care services since then has been to change this historic culture of overprovision, and to set challenging but achievable targets for activity and cost reductions. This cultural change is significant and will take time to implement successfully, but the current aim is to reduce caseload activity to the London Borough average for the 18-65 age range and to the national average for over-65's by 2025.

Continuing caseload analysis and modelling work from 2020 onwards has enabled the Council to arrive at a better understanding of current care costs and to forecast future spending pressures more accurately. Work has also been undertaken to realign social care budgets with current spending patterns, and the Council "reset" the revenue budget with an additional investment of £23m in 2021/22. This has put adult services on a much sounder footing.

Governance arrangements have also been strengthened to improve value for money:

- eligibility criteria have been reviewed to make sure that they are consistent with legislative requirements
- the assessment model has moved to a strengths-based approach, by establishing "what can you do for yourself, and what can family and friends do to help", before considering what should be provided by the Council (rather than the previous starting point of "what support is available")
- the cost of care packages is now agreed at a daily challenge panel, made up of operational heads of service, finance leads, commissioners and brokerage leads
- there is more joint funding in place with the NHS.

We found a strong commitment within the adult services' senior leadership team to delivering MTFS savings. Arrangements put in place include the following:

- a formalised "star chamber" process which is helping to develop a more widespread understanding on efficiencies and savings,
- new methodologies for benchmarking and financial modelling, introduced by the Council but supported and validated by the LGA, have underpinned savings delivery to date and, perhaps even more importantly, have helped to identify where planned savings might not be achieved in practice
- where expected savings have not been delivered, alternative savings plans are being identified and put in place.

Officers commented that there is now greater trust, enabling service departments and finance teams to have difficult conversations but still find ways forward, which has not always been the case in the past.

However, some process weaknesses still need to be addressed. For example:

- new systems introduced since 2020 have brought about a much better understanding of the cost component of social care revenue budgets, but the Council needs to embed the consistent use and application of these systems. This will help to minimise the use of inconsistent datasets and support a better collective understanding of how care charges and service-based grant income affects the net revenue budget and saving requirements.
- corporately delivered performance on invoicing and collecting adult social care recharges needs to be improved.

Good progress has been made to date in delivering the savings targets set out in the 2021-2025 MTFs. At the end of 2021/22 the directorate delivered savings of £11m and underspent against budget by £0.6m. This was largely due to staffing vacancies and savings from reviews of complex care packages (over 10 hours per week).

Other actions taken to date have included the following:

- expiring contracts have been reviewed and renegotiated.
- service delivery has been diversified to ensure residents can access services provided by the voluntary and community sector
- there has been an increased use of Direct Payments (currently 16%), and
- there has been more challenge around who pays for health-related costs and on assessing eligibility for continuing health care funding.

Saving requirements for 2022/23 are predominantly expected to come from reducing demand for services in three key areas – services for older people, for people with disabilities and for people with mental health needs. All existing care packages for these client groups are now being assessed and reviewed.

Looking forward however, the Council needs to remain cautious about MTFs savings delivery. At a local level, savings risks have been identified as follows:

- the level of savings that can be achieved from reviewing less complex care packages is likely to diminish and may not match the level of savings currently estimated or required. What is now being put in place, and what is normal at most authorities, is a strong focus on value for money and an assessment based on need based on reablement, maintaining independence and on providing a level of care which is in line with, but does not go beyond, legislative requirements.
- there are difficulties in the recruitment and retention of all social care staff (including social workers, occupational therapists, commissioners, health and wellbeing assessors). This has led to a significant reliance on agency staff. Although the shortage of experienced social care staff is a national problem it is particularly acute at Croydon where the reputation of the borough is a disincentive when recruiting. Instability in the workforce and capacity issues will potentially impact on both savings delivery and the quality of the service in general, therefore the Council should review its current workforce strategy and aim to become an employer of choice for workers in adult social care. Some of the arrangements put in place by exemplar authorities in this respect are listed in Appendix 1.

- financial modelling is being used to predict the impact of proposed Government changes to adult social care and the Council's progress in this regard is in line with neighbouring local authorities, but current estimates will need to be kept under review and refined and updated as further information becomes available.

External challenges could also lead to increased demand for services and cost increases which are not in the direct control of the Council. For example:

- a new national hospital discharge model is needed but has not yet been agreed or developed. In the meantime, the Council is part of a national pilot on this issue and is working to put local arrangements in place which will provide greater clarity on responsibility for discharge costs and processes
- waiting lists for Occupational Therapy are increasing and this is impacting on hospital discharges and reablement
- there is a national disconnect between care services and the NHS which results in cost shifting and disputes about who pays for continuing health care needs. The Council needs to ensure that healthcare providers and commissioners are fully engaged in caseload modelling and predictions of future demand and make appropriate contributions both to the funding of individual care packages and to the more strategic aspects of service delivery.
- higher than expected rates of inflation, coupled with cost-of-living increases, are likely to significantly increase the cost of both in-house and commissioned care services.

These external challenges will affect all local authorities but given the specific circumstances that exist in Croydon demand modelling and financial planning in these areas needs to be especially robust. Financial modelling needs to be integrated across the Council so that budget planning adequately considers the potential impact that savings in other service areas, particularly housing, might have on the demand for adult social services.

The current MTFs recognises that there is a limit to what efficiency savings are likely to achieve, and that there needs to be a more fundamental examination of the way the Council delivers social care services. This approach has already commenced with the review of eligibility criteria for adult social care, but may well need to be extended. Three other areas in particular have been identified where other local authorities have managed to identify and deliver significant cost savings:

- use of assistive care technology has increased but is still very limited. Extending this approach with an improved reablement offer could generate savings but will need upfront investment
- the Council has increased Direct Payments take-up to 16% which is line with the national average, but some local authorities have managed to increase take-up to over 25% and have found this to be a flexible and cost-effective way of providing care services.
- not much work has been done to date on comparing the cost and quality of different care provider models. Currently care management, hospital discharge and disability services are provided mainly in-house whereas home-based care, residential and nursing care are commissioned. Other local authorities have realised significant

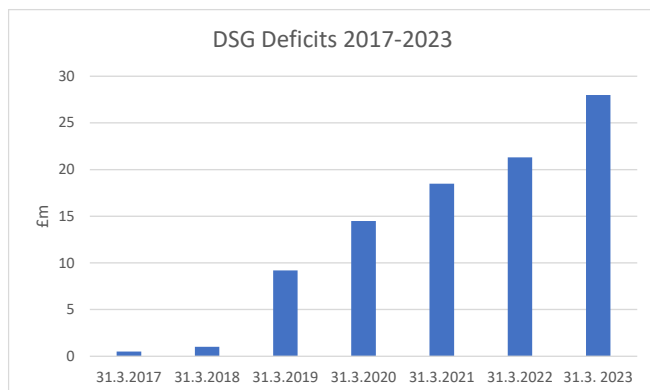
financial savings by changing their commissioning models, although it does take time to evaluate different options and to successfully implement change.

Recommendations

- R1 Improvements to the processes that support budget planning and management in adult social care services should be prioritized, to embed a consistent knowledge and use of systems; therefore minimizing inconsistent datasets, to better support service management and budget setting.**
- R2 Collective understanding about the cost components of adult social care budgets has significantly improved since 2021. This approach should now be extended so that the income element of the budget, particularly care charges and service-based grant income are equally well understood.**
- R3 Financial modelling used to predict the unit cost and demand for social care need to be kept under review to reflect Government changes and should be refined and updated as further information becomes available.**
- R4 Further work on demand modelling also need to be carried out across health and social services to ensure that current predictions of demand and future activity levels are robust.**
- R5 The Council needs to ensure that healthcare providers and commissioners make appropriate contributions both to the funding of individual care packages and to the more strategic aspects of service delivery.**
- R6 Financial modelling should be integrated across the Council, to recognize the potential impact that MTFS savings in other areas of spending (particularly housing) might have on the demand for adult social services.**
- R7 The Council should review its current workforce strategy and ensure that it becomes an employer of choice for adult services.**
- R8 Going forward, the MTFS may need to develop a more transformational approach which builds on the approach already adopted in the recent review of eligibility criteria for adult social care.**

2. Dedicated Schools Grant and High Needs services

In common with many other local authorities, the Council's Direct Schools Grant (DSG) funding position is in deficit, by overspending against DfE grant allocations. This deficit has been increasing over several years, rising from just under £0.5m at 31 March 2017 to (it is currently estimated) over £28m by 31 March 2023.



Source: LB Croydon, published Statement of Accounts plus officers' estimates

This deficit has arisen due to increasing demand for High Needs services, coupled with increasing unit costs for each pupil, not matched in recent years by additional grant funding. However, the Council is starting from a reasonably strong base in terms of service quality. In December 2021, services for children with special education needs (SEND) were inspected by OFSTED, with no serious weaknesses identified. The inspection concluded that *“leaders have a coherent and ambitious plan and are doing the right things in the right order...know what is working and what needs to improve”*.

This is a significant achievement and is an indication that leadership in SEND services is effective. On this basis the Council can be reasonably confident that plans put in place to reduce costs can, in principle, be delivered once they have been agreed.

A plan to reduce the annual deficit to zero has been put in place and DfE have now agreed additional grant funding, via the Safety Valve programme, to fund the accumulated deficit. The existence of a grant funding agreement means that Croydon is better placed than many of its neighbouring authorities. However, it should be also remembered that the current statutory over-ride mechanism, which allows DSG deficits to be carried forward as debit balances on unusable reserves, will expire at 31 March 2025 so any remaining overspends at that point will need to be charged to the General Fund.

To ensure that deficits do not recur in future, the Council has put in place a High Needs Management Recovery Plan. This is based on four key principles, namely:

- introducing peer challenge meetings, regular case reviews and improved authorisation processes to confirm that support packages represent good value for money,
- increasing capacity. Addington Valley Academy is a new school in Croydon which by September 2023 will be offering places for up to 150 local children with autism and other complex needs. The Council is also increasing its take-up of placements at St Nicholas School in Chippenham, by at least 40 and potentially up to 55 additional places over the next five years
- ensuring that where possible, excluded students return to mainstream education, and

- improving educational opportunities for over-16 students through development of the Pathways Programme, in partnership with Coulsdon College.

These initiatives in total are expected to realise savings of up to £4m per annum but require upfront investment of over £2.5m over the next two years.

Detailed implementation plans are a requirement of the Safety Valve funding agreement and are necessary to clarify important issues such as:

- lead officers and accountability
- key tasks and project milestones
- key resource requirements (financial, staffing, IT, and other support requirements)
- expected timescales for delivery of savings and upfront investment.

Other local authorities which have successfully reduced High Needs spending have also found it beneficial to review the following areas:

Accuracy of data systems	The Council has significantly improved data on pupil cohorts, and this has been commended in the recent SEND inspection. Shortcomings in other IT systems are also being addressed.
Improved commissioning	Especially for speech and language therapies (SALT) and non-statutory Alternative Provision (AP) placements
Better contract management	To ensure that: <ul style="list-style-type: none"> • commissioning agreements set out eligibility criteria and the cost and quality of services to be provided, • regular contract monitoring takes place with all service providers

Recommendations

- R1 Implementation of the High Needs Management Recovery Plan (HNMRP) needs to be kept under regular review.**
- R2 Corporate budgets and High Needs Management Recovery Plan implementation plans need to reflect the upfront investment required to realise longer term savings in High Needs provision.**
- R3 Commissioning processes and contract monitoring arrangements should be sufficiently challenging for all service providers, with contract documentation that clearly sets out:**
- the cost and quality of service the Council expects,
 - eligibility criteria, and
 - contract monitoring arrangements.

4. Children's Services

The quality of children's services in Croydon has improved significantly since it was judged inadequate by Ofsted in 2017. In March 2020 these services were reinspected and judged to be Good. It is relatively rare for a children's services department to move from Inadequate to Good in less than three years and this provides a strong indication that leadership in children's services is now effective. Change has been achieved through a combination of factors, including:

- additional financial investment (c£30m)
- changes at senior management level
- establishment of an externally chaired improvement board, and
- responding positively to OFSTED recommendations.

These improvements have been sustained and, in some areas, accelerated in response to the council's financial challenges.

However, this operational improvement has not always been accompanied by transparent financial reporting. Children's Services overspent by £21m in 2019/20 and by over £12m in 2020/21, but in 2021/22 the same services delivered £9m savings and reported an end-of-year underspend of £15.4m against the revised budget.

Since April 2021, the appointment of a DfE-funded accountant with extensive experience in children services, together with significant work undertaken by the finance team and service leads, has led to:

- a better understanding of savings targets and of how delivering these savings might impact on operational service delivery
- a better understanding of how revenue budgets are arrived at, and an enhanced appreciation of the need to provide accurate and up-to-date information for budget setting purposes, and
- an improved approach to modelling and costing current and forecast case numbers. As previously mentioned, there is a need to integrate financial modelling across the Council to recognize the potential impact that savings in other service areas might have on the demand for social care.

Children's services now have more robust performance management arrangements which include a continuous improvement plan, an improvement board, and an annual self-assessment process. However:

- much of the detailed understanding of the revenue budget and savings plans still rests with a small number of individuals so if they leave, there is a risk that future savings may not be delivered in practice. To address this risk, the Council has recently put in place arrangements for the DfE Finance Adviser to provide an additional 12 months to support, to embed their expertise into the Children's Services team,
- some process improvements are only recently established and not yet fully embedded in day-to-day service management.

The CYPE Finance Team (supported by a DFE Finance Adviser) has completed a full rebasing exercise of the children's social care budget in October 2022. This exercise identified that baseline information used to calculate 2021/22 savings targets were not robust, however this exercise has provided a much improved platform for:

- accurately identifying further in-year savings for 2022/23, and
- to inform savings proposals for 2023/2.

The service is currently on track to deliver agreed savings for 2022/23, but 2023/24 savings targets are still being discussed and challenged. For example, the £2m savings target in relation to reductions in care costs may not be achievable, and there may be some double counting between savings already delivered in relation to care costs and services for children with disabilities.

Savings achieved to date have in some cases come from reducing or ending established patterns of service provision. For example, both adolescent services and early help services were reduced significantly between 2021 and 2023. The MTFs for 2021-25 is largely focused however on addressing previous weaknesses in setting and managing the budget, and on delivering savings by:

- reducing placement costs for children in care
- reducing payroll costs by removing a tier of management
- reducing the cost of children's disability services and
- reducing the number of unaccompanied asylum seeker children (UASC).

Each of these four areas has been considered in detail below:

- in 2021/22 the Children Looked After placement budget was increased by £7.4m to offset historic cost pressures, but at the same time the MTFs set a savings target of £3m to be achieved by 2025. The number of children in care has fallen significantly since 2019 and the weekly cost of care placements is now well managed, so officers are confident at present that this level of saving can be maintained. However, the number of children in care in England is increasing so the current assumption, that the costs relating to childcare placements in Croydon will drop by almost 10% between now and 2025 may be unrealistic.
- the Council is heavily dependent on the independent foster care market and there is a strong likelihood that the cost of these placements will increase. Typically, independent foster care costs 40-50% more than in-house care. The Council has a good sufficiency strategy in place for foster carers and a transformation project to increase in-house foster care is planned for 2023-24.
- a workforce modelling exercise in 2021 revealed that revenue budgets were not aligned to the current staffing establishments for Children's social care services. Work is underway to review all current posts, remove those that are no longer needed, and adjust budgets to actual salary levels rather than assuming that all staff are paid at the top of the relevant grade. Going forward, the Council needs to ensure that staffing this data, most of which is currently maintained on spreadsheets is securely stored and updated regularly so that HR, payroll, finance and children's

services all use accurate and consistent data on staffing structures, pay rates and salary costs

- At the end of 2020/21 the Transition Service for young people aged 18-25 was transferred to Adult Services and the budget for the 0-17 CWD service was increased by £2.4m. The MTFs requires the service to achieve a total saving of £0.4m by 2025, mainly by providing more home-based care and reducing residential spend. The current Short Breaks service is also under review but as CWD numbers are increasing nationally, the Council needs to take account of the potential impact this will have on future demand for services. Further work on demand modelling needs to be carried out across both health and social care services so that a joint approach with the NHS can be developed.
- Croydon has had historic challenges in relation to UASC which resulted in significant budget pressures in recent years. One of the national asylum intake units is situated in the Borough, and the Council has a statutory responsibility for the care and support of unaccompanied children arriving there. Dispersal is now mandated nationally, with most UASC now placed in other parts of the country, so in future Croydon should only have the same scale of challenge as everywhere else, but currently 58% of looked after children are former UASCs and it will take some years before this level reduces that of other local authorities. Following receipt of a one-off grant from Government during 2021/22 and a reduction in UASC clients in 2022/23, however, budget pressures arising from new (as opposed to existing) UASC should now be reduced.

The current MTFs is very much focussed on areas where the Council has experienced overspending in the past. Whilst it was undoubtedly sensible to tackle these issues initially, three other areas might also benefit from further review:

- early help is underdeveloped and potentially under-utilised. More focused and better resourced early help and intervention should reduce demand for care placements later.
- there is Direct Payment policy in place for the 0-17 CWD service, but current take-up is relatively low. Expanding the use of Direct Payments may lead to additional costs initially, but many authorities have found that over the longer-term these schemes do realize financial savings.
- in common with many other local authorities, the Council has a lot of agency workers, and recruiting more permanent staff would reduce the overall pay bill.

Actions taken by other authorities to recruit permanent staff and reduce their reliance agency workers for social care are set out in Appendix 1, and the Council has already taken steps to implement this approach by:

- establishing a local Social Workers academy
- offering Step Up and Social Work placements and apprenticeships, and by
- developing strong and proactive links with Kingston University.

Together with refreshing the remuneration offer, overseas recruitment and other initiatives, the service has recruited 32 new permanent posts over recent months, and the agency take-up rate reduced from 30% in September 2021 to 20% 12 months later.

Recommendations

- R1** The Council has significantly improved its understanding of how demand for services influences the revenue budgets in Children's services, but it needs to keep forecasting models under review. For example:
- forecast reductions in placement costs for children in care are not in line with national trends across the rest of the UK,
 - nationally, increases in reported numbers of children with disabilities (CWD) are also anticipated and the Council needs to work closely with local health services to model expected future demand
 - demand is also increasing for statutory child protection and safeguarding services, which needs to be recognized in future budgets
 - there needs to be a greater understanding about the impact that financial savings made in other parts of the Council, especially housing and homelessness services, might have on demand for children services.
- R2** Recent improvements made in the working relationships between Children's services and the corporate finance team, and in the processes put in place to support effective budget management, need to become fully embedded in day-to-day service delivery. To facilitate this process, the Council has contracted directly with the DfE Financial Adviser for a further 12 months' support which should facilitate embedding their expertise into the Children's Services team.
- R3** The Council should ensure that information in relation to staffing, budget management and forecasting is accurate and up-to-date, and is embedded in accessible and user-friendly systems so that common data sets can be shared between Children's services and support functions such as HR, payroll and finance.
- R4** The Council should consider strengthening early help and prevention services, to help reduce demand for care placements in the borough.
- R5** There is a well thought through sufficiency strategy for foster carers in the borough, and a transformation project to increase in-house foster care is now in place for 2023-24. A move to more in-house foster care could potentially reduce placement costs by 40 – 50%, so delivering this strategy should be a Council priority.
- R6** There is now a Direct Payment policy for the 0-17 CWD service, but take-up is relatively low and could be expanded.

Appendix 1 – Workforce Planning

Nationally, the social work profession is in crisis with more leavers than starters and more reliance on agency workers than ever before. This drives up cost and creates gaps and instability. In common with many other local authorities, Croydon is heavily dependent on agency staff. Arrangements put in place by exemplar authorities to help make them become an employer of choice include the following:

- slick practice in relation to marketing with a very flexible approach to responding to interest/applications
- having a dedicated role in the service with responsibility for attracting interest, proactive responses to any indication of interest, support in the application process,
- immediate interviewing and job offer,
- proactive pursuit of preemployment checks,
- continuous engagement with the new starter before day one to make sure they get staff newsletters, invitations to key events, and a prestart day welcome event to meet the team and their new boss,
- well organised induction on day one,
- post induction debriefs to examine "what did we do well what could we do better?"
- work protection until people are up to speed, monthly mini appraisals,
- good CPD and training arrangements.
- competitive conditions of service
- flexible working arrangements such as holiday bank and working from home,
- good use of programmes such as Step up to social work.
- proactive engagement with universities
- develop a social work academy to provide enhanced learning and recruitment opportunities.

The Council is already taking steps to implement this approach through the local Social Workers academy, by offering Step Up and Social Worker placements and apprenticeships and through strong and proactive links with Kingston University.