

Council Supplementary Agenda



6. Council Tax and Budget (Pages 3 - 10)

This second supplementary agenda pack contains budget reports from the Scrutiny & Overview Committee and General Purposes & Audit Committee.

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REPORT TO:	Council 7 March 2022
SUBJECT:	COUNCIL TAX AND BUDGET REPORT – REPORTS OF THE GENERAL PURPOSES & AUDIT COMMITTEE AND THE SCRUTINY & OVERVIEW COMMITTEE
LEAD OFFICER:	John Jones, Interim Monitoring Officer
WARDS:	All

1. BACKGROUND

- 1.1 As part of the consideration of the Council Tax and Budget Report, Council is required to consider feedback from both the Scrutiny & Overview Committee and the General Purposes & Audit Committee.
- 1.2 In accordance with the Council's Constitution, the Scrutiny & Overview Committee scrutinises the entirety of the budget proposals and reports its findings to Council as part of the budget setting process.
- 1.3 The General Purposes & Audit Committee, as part of actions detailed in the Council's renewal plan, has been asked to advise on the adequacy of the Council's reserves assessment and reserves strategy as part of the budget setting arrangements.

2. THE BUDGET SCRUTINY REPORT

- 2.1. The Scrutiny & Overview Committee is required in the procedure rules set out in the Council's Constitution to report to the Budget Council meeting the findings from its scrutiny of the budget setting process.
- 2.2. The level of scrutiny given to the process for setting 2022-23 budget has been significantly expanded in comparison to previous years and in doing so it has allowed the members of the Scrutiny & Overview Committee to have a greater understanding of the potential risks to the delivery of the budget. A summary of the budget process is set out in section 2 of this report.
- 2.3. The Scrutiny & Overview Committee had a final opportunity to review the budget proposals at its meeting on 1 March 2022. It was at this meeting that the Committee, taking account of its work over the preceding months, reached its conclusions on the budget. These conclusions are set out for the consideration of Council in section 3 of this report.

3. THE BUDGET SCRUTINY PROCESS 2022-23

- 3.1. Although the Scrutiny & Overview Committee first considered a report on the setting of the 2022-23 budget at its meeting on 7 December, the Committee had prioritised monitoring the delivery of 2021-22 budget early in the year. The Finance Monitoring Reports prepared for Cabinet have also been regularly scheduled for consideration at meetings of the Scrutiny & Overview Committee. This has allowed the Committee to identify areas of risk that it may wish to scrutinise in greater detail and provided reassurance on the financial controls of the Council.
- 3.2. In advance of the first budget scrutiny meeting on 7 December, members of the Committee received two training sessions delivered by the Centre for Governance and Scrutiny on best practice for budget scrutiny. On 23 November 2021, the Committee also received a briefing from the Council's then Section 151 Officer on the key budget principles and the approach to setting the budget.
- 3.3. At the Scrutiny & Overview Committee on 7 December consideration was given to the 2022-23 Budget and the Three Year Medium Term Financial Strategy report. From the discussion of the Committee a number of areas were identified for further investigation such as the programme management capacity of the Council to manage the delivery of the budget and the Council's financial monitoring systems. In order to gain assurance on these issues the Scrutiny Chairs met with officers informally between meetings, reporting back their findings to the meeting on 20 January 2022.
- 3.4. From these informal meetings there was reassurance that the Council had experienced staff in both the Programme Management Office (PMO) and the Finance Service who were able to deliver the improvement required to ensure the financial sustainability of the Council. There remained a concern about whether there was sufficient capacity within the wider corporate services, given the scale of the challenge to be delivered. To investigate this further, the capacity within the corporate centre was reviewed at the Committee meeting on 20 January 2022.
- 3.5. The three scrutiny Sub-Committees (Children & Young People, Health & Social Care and Streets, Environment & Homes) each had a briefing on the budget proposals for their areas of responsibility in the week of 29 November. From these meetings the Sub-Committee's identified key areas of risk to review at their meetings in January/February. The areas scrutinised were:-

Meeting	Budget Challenge Items
Children & Young People 18 January 2022	The budget for Unaccompanied Asylum Seeking Children (UASC) The reduction of care packages

Meeting	Budget Challenge Items
	Support for adolescents
Scrutiny & Overview 20 January 2022	The capacity within Corporate Services to support the budget delivery Preparation for the Mayoral System of governance and wider support for Members
Health & Social Care 25 January 2022	The reduction in care packages and managing demand within Adult Social Care.
Streets, Environment & Homes 1 February 2022	The Independent Travel Service Temporary/Emergency Accommodation Growth within the Grounds Maintenance budget

- 3.6. The Chairs of the Sub-Committees reported back the findings from the budget challenge items to the main Committee at the meeting on 1 March 2022. In the main, there had been a large amount of reassurance taken that both Cabinet Members and officers had a good understanding of the potential risks to their budgets. The savings proposed had been subject to robust testing through the Star Chamber process and as such there could be confidence that what was proposed was deliverable. However, it was agreed that the items identified would be monitored by the respective Sub-Committee's in the forthcoming year as these remained key risks in the delivery of the 2022-23 budget.
- 3.7. At its meeting on 1 February 2022, the Streets, Homes and Environment Sub-Committee also had the opportunity to review the Housing Revenue Account (HRA) Budget and Rent Setting report ahead of its consideration by Cabinet on 7 February. The findings from the Sub-Committee can be found [here](#). The main concern of the Sub-Committee related to the potential impact of the proposed rent increase, particularly in light of the required improvement within the service, with it agreed that resident engagement needed improvement.
- 3.8. As previously mentioned, the final meeting in the budget scrutiny cycle was held on 1 March 2022. At this meeting the Committee considered the budget report presented before Council to finalise its conclusions on what was proposed. The conclusions of the Committee are set out in the next section of this report.

4. CONCLUSIONS OF THE SCRUTINY & OVERVIEW COMMITTEE ON THE BUDGET 2023-23 PROPOSALS

- 4.1. Taking account of the evidence heard by the Committee at its previous meetings and from the discussion at the meeting on 1 March 2020, it was agreed that significant weight could be given to the Section 25 report of the Section 151 Officer and the robust advice provided in the report was welcomed. The Committee was pleased to note that the preparation of the report had been coordinated between the previous and the new Section 151 Officers to agree the content.
- 4.2. The Committee welcomed confirmation that the 2021-22 budget was currently projecting a slight underspend at month 9, which could be seen as a reason for greater confidence in the Council's ability to deliver the £55m savings required in 2022-23 budget. However, there should be no underestimation of the scale of the challenge facing the Council in the forthcoming year, which was even greater than the one in 2021-22.
- 4.3. The Committee felt that the political and corporate management of the Council had a good understanding of the key risks to the 2022/23 budget, which are outlined within the report. It was agreed that the risk relating to the accounting treatment of Croydon Affordable Homes was significant and if poorly handled and could derail the Council's budget for 2022-23 and even result in the need for another Section 114 notice to be issued due to potential financial impact should there be a negative resolution. However, a level of reassurance could be taken from the Section 25 report that this risk could be managed if appropriate mitigation was put in place.

The Scrutiny and Overview Committee would request that Members are kept informed on the progress made in the negotiations with the auditors to resolve the issues concerning the signing-off 2019-20, 2020-21 accounts.

- 4.4. Given the volatile world economy, the Committee highlighted that potential interest rate increases were likely and as such there was a risk that this would impact upon the Council's short term debt. It was agreed that this should be considered a risk to the delivery of the budget and requested that a hedging strategy is developed to manage this risk and minimise the cost of increased interest payments.

The Scrutiny and Overview Committee would recommend to the Council that a hedging strategy is put in place to manage the possible negative impact of interest rate increases upon the Council's debt repayments.

- 4.5. The Committee agreed that it was prudent for the Council to have budgeted 5% for the potential cost of inflation in the forthcoming year. However, there was also a realisation that inflation could rise even higher, with the impact of the war in Ukraine not known at this stage. As such it was agreed that managing the

impact of inflation was likely to be one of the key risk to the delivery of the budget.

The Scrutiny and Overview Committee agreed that scrutiny of the delivery of the 2022-23 budget would continue to be a significant part of its work programme in the forthcoming year and would request that the Committee is kept informed of any changes in the status of the key risks identified in the Section 25 report.

The Committee also recommends earlier engagement by the Council on the budget setting process, which should be a year round process, and would provide more opportunities for councillors and the public to engage in in the formation of future budgets, before choices are locked in.

- 4.6. The Committee welcomed the continued drive to increase the level of earmarked and general fund reserves held by the Council. It was agreed that this should continue to a priority in future budgets to ensure that the Council was in a strong position to manage any future, unforeseen risks.
- 4.7. Finally, the Committee concluded that there had been a robust process to set the budget and that the budget proposed reflected the two priorities identified by residents, which were adult and children's social care and prioritising services for the most vulnerable.

5. REPORT FROM THE GENERAL PURPOSES & AUDIT COMMITTEE

- 5.1 Following the publication of the Report in the Public Interest by the Council's External Auditors in November 2020, an Action Plan was agreed that requires the General Purposes & Audit Committee to review the adequacy of the Reserves Assessment, ensuring that all risk and reliabilities have been properly considered, and to advise Council on the adequacy of the Reserves Strategy and its relationship to the Medium Term Financial Strategy.
- 5.2 This assessment was undertaken by the Committee at its meeting on 3 March 2022, which considered the General Fund and HRA Budget 2022/23 – 2024/25 report and the Treasury Management Strategy Report. The Committee's consideration focussed on:
 - i) Risk Identification;
 - ii) Risk Mitigation;
 - iii) Reserve Strategy; and
 - iv) MTFS Direction of Strategy
- 5.3 During consideration of these reports at the meeting, the Committee noted that there are a number of risks that the Council is aware of and has factored into its financial planning, which are included within the budget proposals for 2022/23.

- 5.4 However, the Committee also noted there are a number of unknown risks that could materialise that may have a financial impact on the Council and its reserves.
- 5.5 The Committee also noted that the Council was planning to contribute £22m into its reserves by the end of 2021/22. During the meeting Members explored whether the level of reserves held were adequate.
- 5.6 Members were advised by finance officers that the proposed level of reserves was adequate to an extent. The Committee was further advised that the additional £22m budgeted for earmarked reserves would mean Croydon's overall reserve position was broadly in line with other London Boroughs. The Committee noted that the General Reserve balance would remain at £27.5m.
- 5.7 Council will be further updated at its budget setting meeting on 7 March 2022 by the Independent Chair of the General Purposes & Audit Committee, Dr. Olu Olasode.

REPORT AUTHOR: Simon Trevaskis – Senior Democratic Services & Governance Officer

APPENDICES: Appendix A – Budget Documents Reviewed by Scrutiny

BACKGROUND DOCUMENTS: None

APPENDIX A: BUDGET DOCUMENTS REVIEWED BY SCRUTINY

As a reference for Members, a series of links are provided below to agenda papers and minutes (where available at the time of publication) consider over the past couple of months by Scrutiny as part of the Budget Scrutiny process.

[Scrutiny & Overview Committee – 7 December 2021](#)

- Items Considered:
1. Finance Performance Report – Month 7
 2. 2022-23 Budget & Three Year Medium Term Financial Strategy

[Agreed Minutes](#)

[Children & Young People Sub-Committee – 18 January 2022](#)

- Items Considered:
1. Children, Young People & Health Budget Scrutiny Challenge
 2. Education Estates Budget 2022-23

[Scrutiny & Overview Committee – 20 January 2022](#)

- Items Considered:
1. Budget 2022-23 (Including the following Cabinet reports: Financial Performance Report – Month 8, MTFS 2022-23 to 2024-25 Update on position, General Fund Capital Programme 2022-23 to 202425)
 2. Scrutiny Budget Challenge

[Agreed Minutes](#)

[Health & Social Care Sub-Committee – 25 January 2022](#)

- Items Considered: Budget Scrutiny Challenge: Adult Social Care & Health Directorate

[Draft Minutes](#)

[Streets, Environment & Homes Sub-Committee – 1 February 2022](#)

- Items Considered:
1. Budget Scrutiny Challenge
 2. [HRA Rent Setting and Draft Budget 2022-23 Sub-Committee Recommendations to 7 February Cabinet on HRA Rent Setting & Draft Budget](#)

[Scrutiny & Overview Committee – 1 March 2022](#)

- Items
1. Budget Scrutiny 2022-23

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