

## Scrutiny & Overview Committee

Meeting held virtually on Tuesday, 25 August 2020 at 6.30 pm via Microsoft Teams

This meeting was webcast and is available to view on the Council website

### MINUTES

**Present:** Councillor Sean Fitzsimons (Chair), Robert Ward (Vice-Chair), Leila Ben-Hassel (Deputy-Chair), Jeet Bains, Jerry Fitzpatrick and Joy Prince

**Also Present:** Councillor Simon Hall (Cabinet Member for Finance & Resources)

### PART A

33/20 **Disclosure of Interest**

There were no disclosures of interest made at the meeting.

34/20 **Urgent Business (if any)**

There were no urgent items of business for the meeting.

35/20 **CALL-IN: Key Decisions set out in Cabinet Reports 'Responding to the Local Government Funding Challenge' and 'July Financial Review'**

The Chair of the Scrutiny & Overview Committee, Councillor Sean Fitzsimons, introduced the call-in item outlining the reasons why the key decisions set out in the two Cabinet reports, namely 'Responding to the Local Government Funding Challenge' and the 'July Financial Review' had been called in. It was confirmed that the reason for the call-in related to an insufficiency of detail in the reports to allow the Committee (see Scrutiny & Overview Committee – 22 July 2020) to reach a conclusion on whether the measures proposed were the right course of action or not. As such the call-in submission had requested a range of additional information to aid the Committee's consideration of the call-in.

The Chair explained the process for considering a call-in, confirming that the Committee needed to agree whether to review the decision and, if it decided to proceed, confirm how much time it wished to allocate for the item. The Committee agreed that it would review the decision and allocated two hours for consideration of the item.

The Chair went on to explain that there were three outcomes the Committee could reach as a result of the review. These were:-

1. That no further action was necessary and the decision could be implemented as originally intended.

2. To refer the decision back to the decision maker for reconsideration, outlining the nature of the Committee's concerns
3. To refer the decision to Council, if the Committee considered that the decision taken was outside of the Budget and Policy Framework.

The Cabinet Member for Finance & Resources, Councillor Simon Hall and the Council's Section 151 Officer, Lisa Taylor, were in attendance at the meeting to address the call-in and answer any questions arising.

The Cabinet Member was given the opportunity to respond to the call-in request and in doing so highlighted to the Committee that the current situation was unprecedented with the Council having to manage the covid-19 pandemic on top of an already challenging budget situation following ten years of austerity.

The Section 151 Officer confirmed to the Committee that at present the Council did not have a balanced budget. Although the Cabinet, the Executive Leadership Team (ELT) and the Ministry for Housing, Communities and Local Government were working together to address the budget shortfall, it could not be guaranteed that a Section 114 notice would not be issued.

The first question from the Committee related to media rumours about changes to the senior management of the Council and how any such change would impact upon the staff restructure process. In response it was advised that the Cabinet, ELT and the Corporate Leadership Team (CLT) were working together to deliver the necessary savings to balance the Council's budget. Although additional time had been added to the staff restructure process to allow the Trade Unions longer to respond, the timetable for the process was set. If there was any change within senior management then the process would continue along the already set timetable.

It was noted that in the commentary provided by the Section 151 Officer, in the additional information, assurance could not be given on the 2020-21 budget. However, it was questioned why greater assurance could be given for future years. It was advised that it was likely the budgetary issues that had arisen in 2020-21 would still need to be addressed in future years. As a result of the pandemic there was also a considerable amount of economic uncertainty which made it difficult to make longer term predictions on the budget. It was highlighted that the MHCLG was consulting with local authorities on changes to its spending rules, which indicated that they were aware there was likely to be a long term economic impact from the pandemic. Assumptions over the longer term were currently being worked upon and would inform the production of a new Medium Term Financial Strategy (MTFS) in the autumn.

As the commentary from the Section 151 Officer had changed since the Cabinet report prepared in early July, it was questioned what had happened in the interim to lead to a more cautious view on the Council's financial challenges. It was advised that the Council's financial situation was moving all the time and in the two months since the original report was prepared, factors

such as business rate and council tax returns worsening increased the risk of the Council not being able to deliver a balance budget. As such this had been reflected in the latest commentary on the budget from the Section 151 Officer, which highlighted that the risk of the Council issuing a Section 114 notice increased as the year progressed without the shortfall being found

It was questioned whether there was any link between the key savings objectives and the Corporate Plan. It was confirmed that the key principles and objectives of the Corporate Plan remained the same, but due to the urgent need for savings there would be areas that did not progress at the speed originally intended or were reduced in scope to address priorities elsewhere. It was confirmed that future reports on the budget could include a high level summary of the impact identified savings would have upon the Corporate Plan.

In response to a question about the relatively low level of reserves held by Council and how this could be addressed, it was highlighted that the General Fund Reserve had remained at £10.4m throughout the whole of austerity despite a £105m reduction in Government funding. It had been agreed in the 2020-21 budget to add £5m to the reserve this year and for the next three years. However, it was unlikely to be achieved this year given the unforeseen cost of the covid-19 pandemic, but it was still planned for the following three years which would be reflected in the MTFs. The contingency in the budget had been increased this year to £3.7m to account for normal period risks, but it was difficult to plan a contingency for an event on the scale of a global pandemic.

It was noted that the work of Financial Review Panel in helping to identify savings was an important part of the process and as such higher levels of transparency on the work of the Panel were requested. In response it was advised that the purpose of the Panel was to provide challenge to Officers and the Cabinet during the shaping of proposals, so this part of the process would not be made public. However, there had been public transparency over decisions made with reasoning provided and those affected being informed.

As a follow up it was questioned whether there could be a commitment to provide more information on the Council's website to inform the public on the ongoing financial challenge. It was advised that the website was currently being improved which made it difficult to give exact timings on when this will happen, but the provision of further information through this medium would be explored. In general, the principle of making the process more transparent for the public was accepted.

It was highlighted that the additional information provided did not give any clarity on the appraisal of options which had been requested. It was confirmed that all options considered acceptable were being implemented with the logic for these decisions provided.

As a follow up it was highlighted that the Council had undertaken transformation programmes in the past and as such what had learning from these be used to inform the current programme. It was advised that by

necessity the Council was good at delivering transformation due to its lack of reserves. One of the key lessons learnt from previous projects was to undertake the process in bite sized chunks as tackling it as a whole often led to an overly extended process.

In response to a question about the role of the Council's auditors, Grant Thornton, in the process it was advised that the Council had been working closely with them for a number of years and they had been invited to attend the Financial Review Panel as observers. The Section 151 Officer had regular conversations with the auditors throughout the year as part of the accounts process and since the covid-19 pandemic began earlier in the year there had been regular conversations about the financial pressures it had created.

It was noted that the Terms of Reference for the Financial Review Panel made reference to a letter dated 22 April 2020 sent by the auditors, Grant Thornton, to the Chief Executive. It was requested that a copy of this letter be shared with the Committee. It was confirmed that legal advice would be needed to confirm that the letter could be shared with Members.

A Member highlighted that they had been contacted by a charity in their Ward, who provided services on behalf of the Council for disabled adults, as they had received a request from the Council to repay a substantial proportion of the fee they had received for their services. It was questioned whether the Council was looking to clawback money from service providers wherever possible? In response it was advised that as part of the contract work stream the Council was looking at cases where suppliers had not provided contracted services during the lockdown to review how much was being paid. Under the Council's contracts with service providers it was often the case that the Council would not need to pay anything if contracted services were not provided. However, there had been an ongoing conversation with providers to manage this as it was importance not to destabilise the businesses involved.

Given a significant proportion of the Council's budget was spent on the Children and Adults Services, it was questioned what demand management meant for these services. It was advised that a key aim of the Localities Programme was to prevent people getting into crisis and providing step down services. Another example was the expansion of the amount of affordable housing available to keep people out of homelessness.

In response to a query about the proposed 15% staffing reduction it was confirmed that this was a 15% reduction in staff cost and not head count.

Further explanation was requested on the drivers and considerations taken into account when deciding upon the services that would be within the scope of the staffing restructure. It was advised that in the first instance the focus had been on vacancies and agency posts to reduce the impact on permanent staff. Following this the directors had reviewed their services to identify where cuts could be made, focussing on specialist roles and on areas where service demand had reduced. The process had also taken into account future demand for services as it was important not to reduce staffing to the point where the Council was unable to deliver its core functions. The core principle

behind the process had been the need to maintain core and frontline services. All staff affected had been given a number of opportunities to discuss the proposals with their line managers, there was voluntary redundancy available for those within scope and a redeployment pool had been opened for staff.

As the information provided emphasised that future capital acquisitions would be focussed towards those that provided an in-year financial benefit, it was questioned whether the Council would still be pursuing an asset investment policy. In response it was advised that given the uncertainty of the current property market it was unlikely that new transactions would be made at the present time, although it was not possible to rule it out totally.

An assessment was requested on the impact of the Council's debt, with it questioned whether the view on the debt had changed in the past few months. In response it was highlighted that the Council had an outstanding record on managing its debt, with fixed low rate loans and manageable repayments giving Croydon the lowest cost of borrowing of all London boroughs. There was also a focus on what the debt was for, with over half of it linked to specific income streams which serviced the debt. It was highlighted that there would need to be a clear purpose for any future borrowing.

It was confirmed that in the current circumstances it was important to ensure that the best return was delivered on any new borrowing, with one of the immediate measures identified being a review of the capital programme. This purpose of this would be to determine whether projects would continue, be delayed or whether funding could be found from other sources. A request was made for the Committee to be kept informed of the outcomes from the review of the capital programme.

It was questioned why the full MHCLG return had not been provided as requested by the Committee and whether the return could be subject to a Freedom of Information (FOI) request. In response it was advised that given the length of the return and how the information was provide it had been decided it would be more helpful for it to be presented as a summary. The Committee agreed that it would submit another request for copies of the full returns using the statutory access to information powers available to Scrutiny. It was advised that it would be checked with the Monitoring Officer whether the MHCLG return was subject to an FOI request and confirmed to the Committee.

It was noted in the summary of the MHCLG return that the amount recorded for unachieved savings had decreased since June from £31m to £25.1m and as such it was questioned what this could be attributed to. In response it was advised that contributions from healthcare partners to address the extra cost to the Council for the integration programme was the main reason for the reduction in the unachieved savings in the MHCLG returns. Furthermore, as the year progressed it may be possible to achieve more savings, although it would be unlikely all of the savings identified in the 2020-21 budget could be achieved, as some were based on being introduced from the start of the Council year in April. It was confirmed that the net saving to be delivered from

staff reductions after redundancy costs had been accounted for would be £2m.

As it was confirmed that the Council's risk register had not taken account of an unforeseen event such as a pandemic, it was whether the experience of recent events would be used to inform future risk management processes. It was advised that having experienced a pandemic would lead to the Council's risk management processes being re-examined, although it would always be difficult to plan for unforeseen events. It was agreed that a column could be added to the risk registers to show the interdependencies between the Corporate Risk Register and the Programme Level Register.

In response to a question about whether it would be possible to mount a legal challenge to the Government on the basis of them not providing funding for covid-19 related costs that had originally been promised, it was advised this could be explored, but it was likely to be too vague to be successful. It was confirmed that the Council had been lobbying the Government to provide extra support, as well as joining with other local authorities through the Local Government Association and London Councils.

At the conclusion of item, the Committee reviewed the discussion with a view to reaching a conclusion on which of the three outcomes (detailed above) they wanted to agree for the call-in. In this instance, although the Committee agreed that they wished to make a number of recommendations to the Cabinet (detailed below) the following outcome was reached:-

**RESOLVED:** That no further action was necessary and the decision could be implemented as originally intended.

### **Information Requests**

The Scrutiny and Overview Committee formally requests, under its rights to access information, as set out in the constitution and in Government guidance that the following information is provided to the Committee to enable them to carry out their function:

1. Copies of the most recent full return provided to the MHCLG on the Council's covid-19 related costs, and future returns.
2. A copy of the letter from the Council auditors, Grant Thornton, to the Chief Executive dated 22 April 2020.
3. To be provided, on an ongoing basis, with the financial tracker and dashboard created for the Financial Review Panel by the Programme Management Office.
4. Confirmation of how much to date had been clawed back from Council contractors due to their not being able to provide services during the pandemic.
5. In the event that the Executive do not feel able to comply with one or both of the first and second requests set out above, an email setting

out the reason for the inability to comply by close of business on 4 September.

## **Conclusions**

Following discussion of the call-in, the Committee reached the following conclusions:-

1. The Committee welcomes the frank assessment of the scale of the challenge facing the Council provided by the Section 151 Officer and the Cabinet Member and agrees that it would not be realistic for the Finance Director to offer a guarantee that a Section 114 Notice will not be served given the continued financial uncertainty.
2. As scrutiny of the Council's finances is a key role for Scrutiny (set out in the Scrutiny Guidance published in 2019) and in light of the ongoing risk of a Section 114 Notice being served, the Committee agrees that both itself and its Sub-Committees will keep a watching briefing on this year's budget for the remainder of the financial year, and will take a more active role in scrutinising the development and setting of the 2021-22 Budget.
3. The Committee concludes that the current funding gap cannot be met by in-year savings and use of balances, and will only be met through the provision of additional Government support, in conjunction with the robust savings programme being developed.
4. The Committee recognises that the Government's plans to confirm its funding settlement intentions in November at the earliest for this and future years, continues to extend the period of uncertainty for local authorities and their ability to plan or respond in year accordingly. The Committee encourages that all avenues for lobbying are explored.
5. Although the Committee recognises that the Staffing Review was needed to help address the funding gap, the Committee urges extra caution to be taken not to destabilise services provided to the most vulnerable in the community, especially in light of the Children's Service having only recently received a rating of 'Good' from Ofsted.
6. The Committee welcomes the additional time included in the process to allow the Trade Unions the opportunity to develop proposals.
7. Although it was difficult to plan for unforeseen events, such as the covid-19 pandemic, the Committee agrees that there are lessons to be learnt from the crisis which should inform the Council's future risk management processes.
8. The Committee agrees that transparency about decisions made to address the funding gap was essential for both Council staff and the

wider public to retain confidence in the Council and its ability to deliver essential services.

9. The Committee welcomes the greater financial controls introduced to address the funding gap and agreed that a robust approach to new spending will be needed on an ongoing basis going forward if the Council is to address historic underfunding and increase the level of reserves held.
10. Given the severity of the financial crisis facing the Council, the Committee was disappointed that there was no representation from the Executive Leadership Team at the meeting, notwithstanding the promise that a representative would be attending.

### **Recommendations**

The Committee resolved to recommend to the Cabinet Member for Finance & Resources

1. To enable greater transparency, the Committee requests that the Cabinet endorses the approach of the Scrutiny & Overview Committee, and its sub-committees, to keep a watching brief over the Council's finances for the remainder of the financial year, and on the budget setting process for 2021-22, and requests the allocation of sufficient support to ensure that the scrutiny of the budget is both timely and meaningful.
2. The Committee requests that they are kept informed of progress made with the Capital Programme Review, including any policy changes made as part of the review.
3. To ensure lessons are learnt the Council's risk management processes and the risk register are reviewed in light of the covid-19 pandemic to ensure that greater allowance is made for unforeseen events. The outcomes from this review should feed into the revision of the Medium Term Financial Strategy and the setting of new targets for general fund balances. As the Council is undertaking a fundamental restructuring of the organisation to aid delivery of its locality strategy, the Council should also take this opportunity to re-evaluate its organisational culture, to ensure its fitness going forward during a period of financial uncertainty.
4. That a Communications Plan is developed to ensure that there is a greater level of transparency with the general public over the budget challenges facing the Council and the action needed to address the shortfall. This should include, as a minimum, an easily accessed section on the Council's website outlining the issues facing the Council and regular updates on progress made in addressing the shortfall.



5. That the Cabinet continues to explore all avenues to lobby the Government to provide earlier and greater financial certainty for local authorities, and that regular updates on the results of lobbying are provided for the Committee.

36/20 **Exclusion of the Press and Public**

This motion was not required.

The meeting ended at 9.20 pm

**Signed:**

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**Date:**

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